Inside Secure

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(For the year ended December 31, 2011)

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(For the year ended December 31, 2011)

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information presented below is the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

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' General Meeting, we hereby report to you, for the year ended December 31, 2011, on:

- the audit of the accompanying consolidated financial statements of Inside Secure;
- the justification of our assessments ; and
- the specific verification required by law.

The consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

I - Opinion on the consolidated financial statements

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 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 give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2011 and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

II - Justification of our assessment

The accounting estimates used in the preparation of the financial statements as at December 31, 2011 take into account the specific nature of the technology industry in which the Company operates. It is in this context that in accordance with the requirements of article L.823-9 of the French Commercial Code C*ode de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

Accounting principles

In particular we examined the accounting treatment used by the Company for revenue recognition, accounting for fixed assets and intangible liabilities, and share-based payments. We are confident that the note "Summary of significant accounting policies" discloses appropriate information in this regard.

Accounting estimates

The Company is required to make certain estimates and assumptions, specifically with regards to revenue recognition, the impairment of non-financial assets, particularly of goodwill and of other intangible assets and liabilities, share-based payments, the fair value of derivatives and other financial instruments and accounting for income taxes.

The policies adopted in this respect are disclosed in note 'Critical accounting estimates and judgments' to the consolidated financial statements. For all of such estimates, we reviewed the available documentation, evaluated the reasonableness of the assessments made by Management and verified that the relevant notes included appropriate disclosures of the assumptions used.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III – Specific verifications

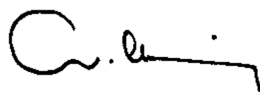
As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management.

We have no matters to report as to its fair presentation and consistency with the consolidated financial statements.

Neuilly-sur-Seine and Aix en Provence, March 29, 2012

The statutory auditors

PricewaterhouseCoopers Audit



Philippe Willemin
Partner

Antoine Olanda

Consolidated financial statements of Inside Secure Group as at December 31, 2011

Consolidated income statement

In thousands of US$	**Note**	**Year ended December 31, 2010**	**2011**
Revenue	6, 7	**78,140**	**151,468**
Cost of sales		(50,987)	(112,004)
Gross profit		**27,153**	**39,464**
Research and development expenses	24	(15,930)	(34,536)
Selling and marketing expenses		(14,051)	(18,175)
General and administrative expenses		(7,523)	(9,817)
Other gains / (losses), net	25	(2,261)	(1,398)
Operating loss		**(12,610)**	**(24,462)**
Finance income / (loss), net	28	(994)	1,503
Loss before income tax		**(13,604)**	**(22,959)**
Income tax expense	29	(194)	(74)
Loss for the year		**(13,798)**	**(23,033)**
Attributable to:			
Equity holders of the Company		(13,798)	(23,033)
Earnings per share attributable to the equity holders of the Company during the year			
Basic earnings per share	16, 30	(0.98)	(1.06)
Diluted earnings per share	16, 30	(0.98)	(1.06)

Consolidated statement of comprehensive income

In thousands of US$	**Year ended December 31,**	
	2010	**2011**
Loss for the year	(13,798)	(23,033)
Other comprehensive income:		
Actuarial loss on post employment benefit obligations	(230)	(105)
Financial instrument fair value changes	825	(1,773)
Currency translation differences	(171)	(351)
Other comprehensive income for the year, net of tax	424	(2,229)
Total comprehensive income for the year	**(13,374)**	**(25,262)**
Attributable to:		
Equity holders of the Company	(13,374)	(25,262)
Minority interests	-	-
Total comprehensive income for the year	**(13,374)**	**(25,262)**

Consolidated balance sheet - Assets

In thousands of US$	Note	As at December 31, 2010	2011
Goodwill	5	2,993	3,251
Intangible assets	8	6,641	6,877
Property and equipment	9	20,552	16,812
Other receivables	14	459	7,287
Non-current assets		**30,645**	**34,227**
Inventories	12	16,989	23,276
Trade receivables	13	30,742	18,711
Other receivables	14	9,447	10,474
Derivative financial instruments	11	1,035	216
Cash and cash equivalents	15	41,178	20,940
Current assets		**99,391**	**73,618**
Total assets		**130,035**	**107,845**

Consolidated balance sheet – Equity and liabilities

In thousands of US$	Note	As at December 31, 2010	2011
Ordinary shares	16	11,342	11,369
Share premium	16	134,873	133,021
Other reserves	18	10,001	9,772
Retained earnings	18	(59,737)	(73,535)
Income / (loss) for the year		(13,798)	(23,033)
Equity attributable to equity holders of the Company		**82,681**	**57,594**
Non-controlling interests		-	-
Total equity		**82,681**	**57,594**
Intangible liabilities - Non-current portion	5	12,579	11,711
Borrowings	20	215	963
Repayable advances	21	-	852
Retirement benefit obligations	22	897	1,183
Non-current liabilities		**13,691**	**14,708**
Intangible liabilities - Current portion	5	1,833	1,168
Financial instruments	11	246	1,348
Trade and other payables	19	30,643	29,977
Borrowings	20	256	357
Provisions for other liabilities and charges	23	685	318
Unearned revenues	6	-	2,372
Current liabilities		**33,663**	**35,542**
Total liabilities		**47,354**	**50,250**
Total equity and liabilities		**130,035**	**107,845**

Consolidated statement of changes in equity

In thousands of US$	Attributable to equity holders of the Company					Minority interest	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at January 1, 2010	**5,918**	**76,312**	**8,777**	**(59,737)**	**31,269**	**-**	**31,269**
Loss for the year	-	-	-	(13,798)	(13,798)	-	(13,798)
Actuarial loss on retirement benefit obligations	-	-	(230)	-	(230)	-	(230)
Financial instruments at fair value	-	-	825	-	825	-	825
Currency translation differences	-	-	(171)	-	(171)	-	(171)
Total other comprehensive income / (loss)	**-**	**-**	**425**	**(13,798)**	**(13,373)**	**-**	**(13,373)**
Employees share option scheme:							
Value of employee services	-	-	800	-	800	-	800
Proceeds from shares issued	-	-	-	-	-	-	-
Share capital increases during the year	5,424	58,561	-	-	63,985		63,985
Balance as at December 31, 2010	**11,342**	**134,873**	**10,002**	**(73,535)**	**82,681**	**-**	**82,681**
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 / (loss)	**-**	**-**	**(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 issued	27	419	-	-	446	-	446
Share capital increases during the year	-	-	-	-	-	-	-
External costs 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**

Consolidated cash flow statement

In thousands of US$	Notes	December 31, 2010	December 31, 2011
Loss for the year		**(13,798)**	**(23,033)**
Adjustments for:			
Depreciation of tangible assets	9	2,720	6,829
Amortization of intangible assets	8	1,433	2,089
Impairment of assets acquired as part of acquisition of business	25	-	1,713
Reversal of intangible liabilities	25	-	(829)
Impairment of receivables	13	(29)	(5)
Impairment of inventories	12	667	2,824
Impairment of grants and research tax credit		(102)	-
(Profit) / loss on disposal of property and equipment		(17)	-
Share-based payment	27	800	2,000
Change in retirement benefit obligation		84	281
Finance income, net		994	(1,879)
Unrealized exchange gains and losses, net		-	2,501
Income tax		194	74
Variation in provisions for risks		209	(354)
Cash used in operations before changes in working capital		**(6,845)**	**(7,789)**
Changes in working capital			
Inventories		(4,023)	(9,111)
Trade receivables		(22,669)	1,013
Trade receivables transferred	11	-	11,052
Other receivables		(2,090)	(1,748)
Research tax credit and grants		(709)	(6,327)
Trade and other payables		12,936	2,535
Other payables		-	(498)
Cash used in changes in working capital		**(16,555)**	**(3,083)**
Cash used in operations		**(23,400)**	**(10,872)**
Interest received, net		(105)	(128)
Income tax paid		(191)	(194)
Net cash used in operating activities		**(23,696)**	**(11,194)**
Cash flows from investing activities			-
Acquisition of business, net of cash acquired	5	(18,667)	-
Purchases of property and equipment	9	(1,670)	(4,367)
Purchases of intangible assets	8	(115)	(1,029)
Research and development capitalized costs	8	-	(1,188)
Payments corresponding to intangible liability		-	(1,409)
Disposal of assets		-	-
Net cash used in investing activities		**(20,453)**	**(7,993)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares, net of issuance costs	16	63,986	446
Direct costs paid related to the IPO	16	-	(2,039)
Repayable advance	21	-	852
Proceeds from / (Repayment of) borrowings, net of issuance costs		(173)	-
Principal repayment under finance lease		(119)	(225)
Net cash generated by / (used in) financing activities		**63,694**	**(965)**
Net increase / (decrease) in cash and cash equivalents		**19,544**	**(20,153)**
Cash and cash equivalents at beginning of year	15	23,392	41,178
Exchange gains / (losses) on cash and cash equivalents		(1,758)	(85)
Cash and cash equivalents at end of year	**15**	**41,178**	**20,940**
Elements with no cash impact:			
New finance leases		273	1,093

Notes to the consolidated financial statements

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Notes to the consolidated financial statements

1. General information

Inside Secure ("the Company") and its subsidiaries (together "the Group") is a provider of microprocessor platforms operating on a fabless production business model. The Group designs and markets chips dedicated to secured payments and other secured applications including transit, access and ID, and Near Field Communication (NFC) for mobile devices.

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.

Shares in the Company have been listed on the NYSE Euronext exchange in Paris (compartment B) under the Isin code FR0010291245 since February 17, 2012. On this date the Company realised a share capital increase of 104.5 million dollars (79.3 million euros) including share premium and before the recognition of expenses directly related to the operation on share premium.

The Company is a limited liability company ("société anonyme") incorporated and domiciled in France. The address of its registered office is 41, Parc Club du Golf, 13856 Aix-en-Provence cedex 3, France.

The Consolidated Financial Statements were authorized for issue by the Board of Directors on March 29, 2012.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 which are similar, for operations conducted by the Group, to International Financial Reporting Standards as adopted by the European Union. IFRS are available on the web site 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. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from these estimates. 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 Secure Corporation (USA) is the US Dollar, for Inside Secure (Asia) Pte Ltd the Singapore Dollar, for Inside Secure Sp.z.o.o. (Poland) the Zloty, for Vault-IC UK the Pound Sterling, and for Vault-IC France the Euro.

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, 2010 and 2011:

US Dollar / Euro	2010	2011
Closing	1.3362	1.2939
Average	1.3268	1.3917

2.1.2 New and amended standards adopted by the Group

The following new and amended standards whose application is obligatory for the current year from January 1, 2011 do not have a significant impact on the consolidated financial statements for the year ended December 31, 2011:

- Amendments to IAS 32, “Financial instruments: Presentation”, classification of rights issues
- IFRIC 19, “Extinguishing Financial Liabilities with Equity Instruments”
- Amendments to IAS 24, “Related Party Disclosures”
- Amendments to IFRIC 14, IAS 19 “The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction”
- 2010 annual improvements

The Group chose not to early adopt the following new and amended standards and interpretations which have not been adopted by the European Union or whose application is not obligatory until after December 31, 2011:

- Amendments to IFRS 7 “Financial Instruments Disclosures”
- IFRS 9 “Financial Instruments”
- IFRS 10 “Consolidated Financial Statements”
- IFRS 11 “Joint Arrangements’
- IFRS 12 “Disclosure of Interests in Other Entities”
- IFRS 13 “Fair value measurement”
- Amendment to IAS 12 “Deferred taxes – Recovery of Underlying Assets”
  Amendment to IAS 19 “Employee Benefits”
- Amendment to IAS 27 “Separate Financial Statements”

The Group considers that these texts should not have a significant impact on its results or financial situation.

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. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. 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 Segment reporting

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 Company.

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 U.S. 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 resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement in the line item "Finance income, net".

(c) Group companies

The results and financial position of all Group entities (none of which has the currency of a hyper-inflationary 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. Indeed, for each operating segment, the Group manages its customers and suppliers on a global basis.

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 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 corresponding operating segments, which constitute the lowest level for the definition of a cash-generating unit.

(b) 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.

(c) 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 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.

(d) Software licences

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful lives of the software.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

(e) 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 capitalised to the extent that the Group has the resources necessary to successfully complete certain precisely defined development programmes 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

Business premises comprise mainly the head office in Aix-en-Provence (France) and the facilities in East Kilbride (Scotland) and Rousset (France). Aix-en-Provence mainly hosts the corporate functions including Sales and marketing, and Research and Development (R&D) activities. East Kilbride hosts R&D and product engineering. Rousset is dedicated to R&D and marketing. The Group rents the building in East Kilbride under a long lease and the premises in France under operating leases.

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". Masks acquired as part of a business combination are recognized as equipment in the balance sheet. Masks that are acquired 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 allocate 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 (losses)/gains, 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 Financial assets

2.8.1 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.

2.8.2 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 Company are denominated in Euros) and which result from translation differences are recognized in the line item “Finance income, net”.

2.8.3 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.

2.9 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 10. 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, 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, 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, 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, 2010:

	Level 1	Level 2	Level 3	Total balance
Assets				
Trading derivatives	-	-	-	-
Derivatives used for hedging	-	739	296	1,035
Total assets	**-**	**739**	**296**	**1,035**
Liabilities				
Trading derivatives	-	-	80	80
Derivatives used for hedging	-	-	166	166
Total liabilities	**-**	**-**	**246**	**246**

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 balance
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 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.

2.10 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

2.11 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.

2.12 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.

Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 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.

2.14 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.

2.15 Borrowings

Borrowings comprise bank overdrafts that are classified as current liabilities. Borrowings also include finance leases.

2.16 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.

2.17 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) if there is reasonable assurance that the Company will satisfy the conditions relating to the dispensation from repaying the loan. Otherwise it is classified as a liability.

2.18 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 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 recognises 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 recognises a provision when contractually obliged or if there is a past practice that has created a constructive obligation.

2.19 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 vesting period, which is the period over 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.

2.20 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.

2.21 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. The Group values these licence agreements based on their fair value in normal market conditions. When the royalties to be paid exceed their fair value, the Group recognises 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 amortized 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.

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of product 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 and solutions.

(a) Product revenue

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) Service revenue

Revenue for services is recognized over the period when services are rendered and collectability is reasonably assured.

Certain revenues are recognized using the percentage of completion method as services are provided (according to criteria applied on a consistent basis). These services include the development of specific software platforms. 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) 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.

(d) 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.

(e) Deferred and unbilled revenue

Deferred revenue includes amounts that have been billed as per contractual terms but have not been recognized as income.

2.23 Cost of sales

Cost of sales is primarily composed of the cost of products and solutions sold, including wafer purchase costs, assembly sub-contracting expenses, tests and product engineering, royalties and other direct attributable costs.

2.24 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 30.

2.25 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 lesser) 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) 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 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, 2011 the impact in absolute terms of a variation of +10% or -10% of this rate would have been + or – US$ 220 thousand on its operating result and US$ 336 thousand on equity. 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.

During the fourth quarter of 2011, the Group implemented factoring contracts in euros and dollars with Natixis Factor for a renewable period of 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.

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 judgements

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. 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. 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 and liabilities

Intangible assets and liabilities include acquired patented technologies, backlog and the recognition of above market royalty-based intellectual property license agreements. Upon acquisition, these assets and liabilities 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 and liabilities leading to a potential adjustment of the carrying amount through an impairment charge or an accelerated amortization.

(c) 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 actual and projected

instrument holders' exercise behaviours. There is an inherent high degree of subjectivity involved when using such option-pricing models to determine share-based compensation under IFRS 2.

(d) 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.

(e) Accounting for income taxes

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.

In preparing the consolidated financial statements, the Group calculates the income tax expense based on its interpretation of the tax laws in the various jurisdictions where it conducts business. This requires the estimation of the current tax obligations and the reliability of uncertain tax positions and the assessment of temporary differences between the financial statements carrying amounts and the tax bases of assets and liabilities. These temporary differences result in deferred tax assets and liabilities.

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

There has been no acquisition or disposal of activities in 2011.

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 value of the identifiable assets and liabilities of the SMS business at the acquisition date and the acquisition price are summarized below:

	In thousands of US$
Cash contribution	31,771
Earn-out	-
Purchase price consideration (i)	**31,771**

	Net book value	Fair value adjustments	Fair Value
Intangible assets	-	7,195	7,195
Property, plant and equipment	4,699	13,003	17,702
Inventory	10,767	(999)	9,768
Other assets	944	-	944
Cash and cash equivalents	13,104	-	13,104
Intangible liabilities	-	(14,665)	(14,665)
Other liabilities	(5,271)	-	(5,271)
Net assets acquired and liabilities assumed (ii)	**24,244**	**4,534**	**28,778**
Goodwill (i) - (ii)			**2,993**

The fair value adjustments relate to the order backlog and patented technologies (intangible assets) and to masks (tangible assets assumed as part of the acquisition).

The liability on the licence agreement corresponds to the recognition, as part of the transaction, of intellectual property licences necessary to the development and production of certain existing or future products of the SMS activity which were signed under unfavourable conditions. The Group has recognised a liability on the licence agreement corresponding to the discounted value of the difference between the best estimation of the royalties to be paid based on the contract and the sales forecasted and the fair value of the licence. The liability on the licence agreement is recognized in the income statement in the line “Cost of sales”, based on the relationship between the number of units sold during the period using this intellectual property and the total estimated number of units sold. The amount recognized in “Cost of sales” for the year ended December 31, 2011 represents US$ 1,409 thousand. This amount is presented in the consolidated statement of cash flows as part of “Cash flows related to investing operations”.

The goodwill has been wholly allocated to the “Digital security” segment. Bearing in mind the financial performance of the segment, Group management considers that there is no indication of impairment on the goodwill for potential losses in value.

The variation of goodwill from US$ 2,993 thousand as at December 31, 2010 to US$ 3,251 thousand as at December 31, 2011 is exclusively due to exchange rate fluctuations as a part of the assets acquired and liabilities assumed related to entities with functional currencies other than the US dollar.

The impact of the depreciation expense and reversals on the 2011 income statement is as follows:

Item	Income statement line item	2010	2011
Depreciation of masks	Cost of sales	(725)	(2,835)
Depreciation of masks	Research and development expenses	(125)	(552)
Amortization of patented technologies	Research and development expenses	(280)	(909)
Amortization of backlog	Selling and marketing expenses	(828)	(716)
Reversal of intangible liabilities	Cost of sales	449	1,409
Impact on operating loss		**(1,509)**	**(3,603)**
Undiscounting of intangible liabilities	Finance income, net	(178)	(625)
Impact on loss for the year		**(1,687)**	**(4,228)**

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.

The Group operates in three complementary business segments, which target different markets, products, solutions and customers leveraging the Group's secure silicon and software platforms:

- Mobile NFC: Designs and markets microprocessor chips and software stacks to mobile handset makers and more generally the wireless space.

- Digital security: Designs and markets memory and microprocessor platforms, pay TV, identification, access control, and other secure systems for anti-counterfeiting, intellectual property protection and machine-to-machine communication

- Secure payments: Designs and markets microprocessor chips with embedded memory, modules and inlays, and software stacks for payment, transit fare collection, and loyalty applications.

The segment information provided to the Management Board for the reportable segments for the year ended December 31, 2010 is as follows:

(in thousands of US$) As at December 31, 2010	Mobile NFC	Secure Payments	Digital Security	Common unallocated	Total per management reporting	Reconciliation to IFRS	Consolidated IFRS reporting (audited)
Revenue	2,336	57,064	18,740	-	78,140	-	78,140
Operating profit/(loss) (*)	(13,735)	3,404	274	(2,553)	(12,610)	-	(12,610)
Adjusted operating result	(12,602)	4,832	1,454	(442)	(6,758)		Not an IFRS measure
Adjusted EBITDA	(11,970)	6,027	1,821	(442)	(4,564)		Not an IFRS measure
Financial income / (loss), net				(994)	(994)	-	(994)
Income tax				(194)	(194)	-	(194)
Net income/(loss)	-	-	-	**(3,741)**	**(13,798)**	**-**	**(13,798)**

(*) Unallocated amount corresponds to industrial variances (US$ 442 thousand) and to direct transaction costs related to the acquisition of SMS activity (US$ 2,100 thousand).

The segment information provided to the Management Board for the reportable segments for the year ended December 31, 2011 is as follows:

(in thousand of US$) As at December 31, 2011	Mobile NFC	Secure Payments	Digital Security	Common unallocated	Total per management reporting	Reconciliation to IFRS	Consolidated IFRS reporting (audited)
Revenue	47,961	43,246	60,261	-	151,468	-	151,468
Operating profit/(loss) (*)	(18,251)	(11,489)	8,674	(3,396)	(24,462)	-	(24,462)
Adjusted operating result	(17,258)	(9,271)	13,153	(2,676)	(16,052)		Not an IFRS measure
Adjusted EBITDA	(16,762)	(7,858)	15,054	(2,676)	(12,242)		Not an IFRS measure
Financial income / (loss), net				1,503	1,503	-	1,503
Income tax				(74)	(74)	-	(74)
Net income/(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).

Adjusted operating result and Adjusted EBITDA are not measures of operating performance or liquidity under IFRS.

The Group presents Adjusted operating result and Adjusted EBITDA because management believes they are useful measures of the Group's operating performance and operating cash flow generation. Adjusted operating result is defined as operating profit/(loss) revised to exclude the effects of share based payment and nonrecurring items of revenue or gain and expense or loss such as acquisition, restructuring, amortization and depreciation of acquired assets. Adjusted EBITDA is defined as operating profit/(loss) before interest, taxes, depreciation, and amortization revised to exclude the effects of share based payment and nonrecurring items of revenue or gain and expense or loss such as acquisition and restructuring.

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$)	2010	2011
Operating income / (loss) as per IFRS	**(12,610)**	**(24,462)**
Share based payments	800	2,000
Amortization and depreciation of acquired assets	1,958	5,012
Impairment of assets acquired as part of acquisition of business	2,100	1,713
Reversal of intangible liabilities		(829)
Direct transaction costs related to acquisition of business	816	-
Restructuring expenses	178	514
Adjusted operating result	**(6,758)**	**(16,052)**
Depreciation of tangible and intangible assets	2,194	3,810
Adjusted EBITDA	**(4,564)**	**(12,242)**

The revenue by geographical region for the years ended December 31, 2011 and 2010 is as follows:

(in thousands of US$)	Asia	Europe, Middle East Africa, Latin America	North America	Total
2010	4,405	34,206	39,530	78,140
2011	14,148	73,548	63,772	151,468

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 78% and 85% of the total consolidated turnover in 2011 and 2010 respectively.

Two customers each represented more than 10% of the total consolidated turnover in 2011 and 2010:

As of December 31, 2010 (in thousands of US$)	Invoiced amount	Segment
Client 1	25,552	Secure Payments
Client 2	10,899	Secure Payments
Client 3	10,375	All segments

As of December 31, 2011 (in thousands of US$)	Invoiced amount	Segment
Client 1	45,793	Mobile NFC
Client 2	16,109	All segments

7. Revenue

Revenue for the years 2011 and 2010 breaks down as follows:

	Year ended December 31,	
(in thousands of US$)	2010	2011
Revenue on products sold	78,140	150,689
Revenue from development and licence agreements	-	779
Total	**78,140**	**151,468**

The Group signed an NFC technology development and licence agreement with Intel Corporation, taking effect August 23, 2011. The agreement includes a non exclusive and non transferable licence 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 are recognized using the percentage of completion method based on the specific costs incurred on the project. The corresponding direct development costs are recorded in "Cost of sales". The Group recorded US$ 779 thousand in revenue based on the progress of the work performed.

8. Intangible assets

Intangible assets break down as follows:

(in thousands of US$)	Backlog	Patented technologies	Software licenses	Capitalized development costs	Total
Year ended December 31, 2010					
Opening net book amount	-	-	762	-	**762**
Additions	-	-	115	-	**115**
Acquisition of business	1,545	5,652	-	-	**7,196**
Amortization charge	(828)	(280)	(324)	-	**(1,432)**
			-	-	
Closing net book amount	**717**	**5,372**	**553**	**-**	**6,641**
At December 31, 2010					
Cost or valuation	1,545	5,652	3,409	-	**10,605**
Accumulated amortization and impairment	(828)	(280)	(2,856)	-	**(3,964)**
Net book amount	**717**	**5,372**	**553**	**-**	**6,641**
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**

Amortization expenses of US$ 2,088 thousand have been charged in 2011 within research and development, selling and marketing, and general administration expenses according to the assets allocation (US$ 1,432 thousand in 2010).

In 2011, development expenses related to two research projects for a total amount of US$ 1,188 thousand were capitalized. These two projects, both lasting three years, are financed through repayable advances (see note 21) and through classic grants. Capitalized research expenses correspond only to the part of the project financed through repayable advances.

Finance leases included within intangible assets corresponding to software break down as follows:

(in thousands US$)	2010	2011
Gross book value	-	719
Accumulated amortization	-	(349)
Net book value	**-**	**371**

9. Property and equipment

Property and equipment break down as follows:

(in thousand of US$)	**Leasehold improvement**	**Equipment**	**Furniture and other office equipment**	**Masks**	**Total**
Year ended December 31, 2010					
Opening net book amount	**810**	**1,790**	**1,142**	**-**	**3,742**
Additions	-	1,468	202	-	**1,670**
Acquisition of business	3,003	906	790	13,003	**17,702**
Impairment	-	-	-	-	**-**
Retirement	-	(9)	(26)	-	**(36)**
Work in progress	-	313	(138)	-	**175**
Depreciation charge	(405)	(958)	(507)	(850)	**(2,720)**
Depreciation retirement	-	8	9	-	**17**
Closing net book amount	**3,408**	**3,518**	**1,473**	**12,153**	**20,552**
At December 31, 2010					
Cost or valuation	4,329	6,606	2,900	13,003	**26,839**
Accumulated depreciation	(921)	(3,089)	(1,428)	(850)	**(6,287)**
Net book amount	**3,408**	**3,518**	**1,473**	**12,153**	**20,552**
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**

Depreciation expenses of US$ 6,829 thousand have been charged in 2011 within cost of sales, research and development expenses, selling and marketing expenses, and general and administrative expenses according to the assets' allocation (US$ 2,720 thousand in 2010).

Lease rentals amounting to US$ 2,528 thousand (US$ 1,491 thousand in 2010) relating to the lease of buildings and furniture are included in the income statement.

Finance leases included in property and equipment above, are as follows:

(in thousand of US$)	**2010**	**2011**
Gross book value	276	1,412
Accumulated depreciation	(39)	(155)
Net book value	**237**	**1,257**

10. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

December 31, 2010 Assets as per balance sheet	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available for sale	Total
Derivative financial instruments	-	-	1,035	-	1,035
Trade and other receivables	40,648	-	-	-	40,648
Cash and marketable securities	16,885	24,293	-	-	41,178
Total	**57,533**	**24,293**	**1,035**	**-**	**82,861**

Liabilities as per balance sheet	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Bank overdrafts	-	-	-	-
Finance lease liabilities	-	-	471	471
Derivative financial instruments	80	166	-	246
Trade and other payables	-	-	30,643	30,643
Total	**80**	**166**	**31,114**	**31,360**

December 31, 2011 Assets as per balance sheet	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**	**-**	**57,629**

Liabilities as per balance sheet	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**	**31,298**	**32,646**

11. Derivative financial instruments

Derivative financial instruments break down as follows:

	2010		2011	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Currency forward contracts - cash flow hedges	739	-	-	602
Currency forward contracts - held for trading	-	-	-	-
Currency options - cash flow hedges	296	166	216	396
Currency options - held for trading	-	80		350
Total	**1,035**	**246**	**216**	**1,348**
Of which current portion	**1,035**	**246**	**216**	**1,348**
Of which non-current portion	**-**	**-**	**-**	**-**

The full 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 loss of US$ 57 thousand in 2010 (US$ 68 thousand in 2010).

(a) Currency forward contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at December 31, 2011 were US$ 17,159 thousand (US$ 11,239 thousand in 2010).

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 of December 31, 2011 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, 2011 were US$ 8,410 thousand (US$ 7,500 thousand in 2010).

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 of December 31, 2011 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.

12. Inventories

Inventories break down as follows:

(in thousands of US$)	2010	2011
Semi-finished and finished goods	18,052	27,163
Less: provision for impairment of obsolete items	(1,063)	(3,887)
	16,989	**23,276**

Movements on the Group provision for impairment of obsolete inventories are as follows:

(in thousands of US$)	2010	2011
At January 1	(396)	(1,063)
Impairment of obsolete items	(904)	(4,624)
Inventory written off during the year	154	955
Unused amounts reversed	84	845
At December 31	**(1,063)**	**(3,887)**

The increase in the provision for impairment of inventories over 2011 is related to the falling rotation, the increase in inventories regarded as surplus given the unfavourable evolution of the activity and the backlog for the secure payments segment and obsolescence. The Group recognised the provision for inventory depreciation in "Cost of sales".

13. Trade and other receivables

Trade and other receivables break down as follows:

(in thousands of US$)	2010	2011
Trade receivables	30,795	18,760
Less: provision for impairment of trade receivables	(53)	(49)
Trade receivables, net	**30,742**	**18,711**

Trade receivables break down as follows:

(in thousands of US$)	2010	2011
Trade receivables invoiced	31,727	20,824
Trade receivables accrued invoices	102	779
Credit notes to be issued	(1,034)	(2,843)
Trade receivables	**30,795**	**18,760**

Trade receivables that are less than three months past due are not considered impaired. As of December 31, 2011, trade receivables of US$ 4,343 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**	**30 to 60**	**60 to 90**	**90 to 120**	**Above 120**
2010	31,727	26,794	4,545	127	261	-	-
2011	20,824	16,481	2,938	281	5	832	287

As at December 31, 2011, trade receivables of US$ 49 thousand (US$ 53 thousand as of December 31, 2010) were provided for. The individually impaired receivables mainly relate to one customer.

Movements concerning the provision for impairment of receivables break down as follows:

(in thousands of US$)	**2010**	**2011**
At January 1	(83)	(54)
Provision for receivables impairment	(53)	-
Receivables written off during the year as uncollectible	35	-
Unused amounts reversed	47	5
At December 31	**(54)**	**(49)**

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 charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

(in thousands of US$)	**2010**	**2011**
US dollar	20,574	21,625
Euro	17,781	6,019
Other currencies	1,830	1,590
	40,185	**29,235**

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.

During the fourth quarter of 2011, the Group entered into factoring agreements whereby it transferred certain receivables in euros and dollars to Natixis Factor for a renewable period of 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.

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$)	2010	2011
Accounts receivable transferred	-	11,052
Warranty deposit	-	(442)
Cash received as at December 31,	**-**	**10,610**

As at December 31, 2011, the total amount of transferred receivables is US$ 11,052 thousand.

14. Other receivables

Other receivables break down as follows:

(in thousands of US$)	2010	2011
Research tax credit	4,967	10,952
VAT receivables	3,564	2,946
Pre-payments	533	1,145
Factoring reserve	-	442
Other receivables	842	2,276
Other receivables	**9,906**	**17,762**
Other receivables - Non-current portion	*459*	*7,287*
Other receivables - Current portion	*9,447*	*10,475*

Given its activity, the Group is eligible and accounts for research tax credits and VAT receivables. The timing for these repayments can vary and is very dependent on the authorities' constraints.

The 2011 research tax credit is offset against the income tax payable by the Group or paid at the end of the third year once the tax return has been filed. Given that it runs a tax loss, the Group recorded the corresponding research tax credit of US$ 6,802 thousand in "Other receivables – Non-current portion" considering that the tax credit would not be reimbursed within the one year timeframe and that the Group no longer meets the criteria to request early payment of the research tax credit.

15. Cash and cash equivalents

Cash and cash equivalents break down as follows:

(in thousands of US$)	2010	2011
Cash at bank and on hand	16,885	20,550
Marketable securities	24,293	390
Cash and cash equivalents	**41,178**	**20,940**

Marketable securities correspond to collective investment undertakings measured at fair value through profit and loss. These negotiable instruments are considered cash equivalents given their high liquidity, their sensitivity to interest rates of under 0.25, their volatility of almost 0 and the companies investment strategy which excludes shares.

16. 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, 2010	**2,798,458**	**5,918**	**76,312**	**82,230**
Share capital increases	2,620,947	5,424	58,561	63,985
Warrants subscription	-	-	-	-
As at December 31, 2010	**5,419,405**	**11,342**	**134,873**	**146,215**

(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
Warrants subscription	-	-	181	181
Direct costs related to the IPO	-	-	(2,271)	(2,271)
As at December 31, 2011	**21,724,324**	**11,369**	**133,021**	**144,390**

In 2010, the Company carried out seven share capital increases, taking the number of shares from 2,798,458 to 5,419,405 through the issue of 2,620,947 new shares including 210 shares issued to be allocated to management and employees. These operations led to an increase of US$ 5,424 thousand in the share capital and US$ 58,561 thousand in share premium.

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 finalised post closing in February 2012.

17. Share-based payments

Share options, free shares and stock purchase warrants (BSA) are granted to management, employees and third parties (service providers). As of December 31, 2011, the following share options, free shares and stock purchase warrants (BSA) were granted by the Company.

Plan	Date of allocation	Exercise price in $ per share	Vesting / Conditions	Number of instruments	Expiration date
BSA 2007-01	30/08/2007	38.41	No vesting period, it can be exercised at the date of allocation.	12,392	31/07/2009
BSA 2007-02	30/08/2007	38.41	3 years - graded vesting	2,300	10/10/2017
BSA 2007-4	30/08/2007	38.41	1 year - graded vesting	750	30/08/2017
BSA 2007-4 (2nd tranche)	18/12/2008	41.25	1 year - graded vesting	750	18/12/2018
BSA 2006-1	20/11/2006	20.25	1 year - graded vesting	11,676	20/11/2016
BSA 2005-5	17/02/2006	18.71	No vesting period, it can be excercised at the date of allocation.	3,933	20/10/2015
BSA 2006-2	20/11/2006	20.25	4 years - graded vesting	4,600	20/11/2016
BSA 2007-3	21/09/2007	39.65	2 years - graded vesting and need to be part of the Advisory Board	1,000	21/09/2017
BSA 2007-3 (2nd tranche)	21/09/2007	39.65	2 years - graded vesting and need to be part of the Advisory Board	1,000	21/09/2017
BSA 2007-5	21/12/2007	57.82	1 year - graded vesting and need to be part of the Advisory Board	2,000	21/12/2010
BSA 8	02/10/2008	55.90	3 years - graded vesting	3,200	02/10/2018
BSA 2005-1	15/06/2006	29.10	No vesting period, it can be excercised at the date of allocation.	10,833	15/06/2016
BSA 2005-3	15/06/2006	29.10	No vesting period, it can be excercised at the date of allocation.	13,000	15/06/2016
BSA 12	01/10/2010	26.08	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)	50,000	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))	28,300	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))	34,566	NA
Addition 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))	17,274	NA
Other free shares	17/02/2006	-	4 years - graded vesting	20,773	NA
Other free shares - Pool A	02/06/2006	-	2 years - graded vesting and to be member of the board	9,512	NA
Other free shares - Pool B	02/06/2006	-	3 years - graded vesting and to be member of the board	4,756	NA
Other free shares - Pool C	02/06/2006	-	4 years - graded vesting and to be member of the board	4,756	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	5,000	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	279,000	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	27,500	NA
SO 2005 - 1 Pool 3	28/07/2005	1.94	4 years - graded vesting, minimum share price of €100 ($137) at exit date.	28,300	16/06/2015
SO 2005 - 1 Pool 4	28/07/2005	1.94	4 years - graded vesting, minimum share price of €120 ($164) at exit date.	25,560	16/06/2015
SO 2005 - 02 first	17/02/2006	18.71	4 years - graded vesting.	24,227	20/10/2015

Plan	Date of allocation	Exercise price in $ per share	Vesting / Conditions	Number of instruments	Expiration date
grant					
SO 2005 - 02 second grant	02/06/2006	20.21	4 years - graded vesting.	12,976	12/09/2016
SO 2006 - 01	02/06/2006	20.21	4 years - graded vesting.	68,300	02/06/2016
Options 2007-1-A	04/08/2007	38.64	5 years - graded vesting or exit	79,562	19/06/2017
Options 2007-1-B	04/08/2007	38.64	5 years - graded vesting and to be member of the board	47,458	19/06/2017
Options 2007-1-C	22/02/2008	59.70	4 years - graded vesting or exit	13,000	19/06/2017
Options 2007-1-D	25/02/2008	59.58	4 years - graded vesting or exit	12,700	25/02/2018
Options 2007-1-E	03/11/2008	51.56	5 years - graded vesting and to be member of the board	5,000	19/06/2017
Options 2007-1-F (15 200) and Options 2006-1-B (5 400)	03/11/2008	51.56	5 years - graded vesting and to be member of the board	20,600	19/06/2017
Options 2008-1	03/11/2008	51.56	5 years - graded vesting and to be member of the board	7,500	30/06/2018
Options 2006-1	02/02/2007	36.74	4 years - graded vesting and to be member of the board	26,300	16/04/2017

Options are conditional on the holder completing a certain number of years of service (the vesting period). Certain options 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 options in cash.

The number of stock purchase warrants outstanding and their related weighted average exercise prices are as follows:

	2010		**2011**	
	Average exercise price in $ per share	**Number of financial instruments (thousands)**	**Average exercise price in $ per share**	**Number of financial instruments (thousands)**
At 1 January	30	55	28	87
Granted	26	32	-	-
Forfeited	-	-	-	-
Can be exercised	29	54	29	54
Exercised	-	-	-	12
Expired	-	-	-	-
At 31 December	**28**	**87**	**28**	**75**

No stock purchase warrants were granted in 2011. 11,676 purchase warrants were exercised leading to the subscription of 46,704 ordinary shares.

The number of options outstanding and their weighted average exercise price is as follows:

	2010		**2011**	
	Average exercise price in $ per share	**Number of financial instruments (thousands)**	**Average exercise price in $ per share**	**Number of financial instruments (thousands)**
At 1 January	31	321	31	293
Granted	-	-	-	-
Forfeited	42	28	42	10
Can be exercised	25	229	25	219
Exercised	19	-	-	-
Expired	-	-	-	-
At 31 December	**30**	**293**	**30**	**283**

Out of the 283,000 stock options outstanding (293,000 in 2010), 219,000 stock options (229,000 in 2010) were exercisable. No stock options were exercised in 2011 (210 in 2010).

The number of free shares outstanding and their weighted average exercise price is as follows:

	2010		2011	
	Average exercise price in $ per share	**Number of financial instruments (thousands)**	**Average exercise price in $ per share**	**Number of financial instruments (thousands)**
At 1 January	-	79	-	371
Granted	-	307	-	-
Can be sold	-	84	-	-
Acquired	-	14	-	-
Forfeited	-	-	-	-
At 31 December	**-**	**371**	**-**	**371**

In 2011, no free shares were granted (307,000 in 2010) or acquired (14,000 in 2010).

The valuation of share options, free shares and stock purchase warrants can be summarized as follows:

Plan	Valuation model	Share price at grant date ($) (**)	Annual free-risk interest rate	Expected volatility	Expected maturity(*)
BSA 2007-01	B&S	38.4	4.5%	51%	2
BSA 2007-02	B&S	38.4	4.5%	51%	3
BSA 2007-4	B&S	41.1	4.5%	51%	3
BSA 2007-4 (2nd tranche)	B&S	37.3	1.6%	71%	2
BSA 2006-1	B&S	21.2	4.5%	51%	5
BSA 2005-5	B&S	20.0	3.3%	49%	3
BSA 2006-2	B&S	20.7	3.5%	49%	5
BSA 2007-3	B&S	44.4	4.5%	51%	5
BSA 2007-3 (2nd tranche)	B&S	43.3	3.0%	71%	4
BSA 2007-5	B&S	59.5	3.0%	71%	4
BSA 8	B&S	53.5	1.2%	71%	4
BSA 2005-1	B&S	29.1	4.0%	49%	4
BSA 2005-3	B&S	29.1	4.0%	49%	4
BSA 12	B&S	26.1	1.5%	57%	4
BSA 13	B&S	26.1	1.5%	57%	4
SO 2005 - 1 Pool 3	B&S	1.9	3.3%	49%	10
SO 2005 - 1 Pool 4	B&S	1.9	3.3%	49%	10
SO 2005 - 02 first grant	B&S	18.7	3.5%	49%	6
SO 2005 - 02 second grant	B&S	20.2	4.0%	49%	7
SO 2006 - 01	B&S	20.2	4.5%	51%	7
Options 2007-1-A	B&S	39.0	4.5%	51%	7
Options 2007-1-B	B&S	39.0	4.5%	51%	7
Options 2007-1-C	B&S	59.7	3.6%	51%	6
Options 2007-1-D	B&S	59.6	3.6%	51%	7
Options 2007-1-E	B&S	51.6	3.2%	51%	7
Options 2007-1-F (15 200) and Options 2006-1-B (5 400)	B&S	51.6	3.2%	51%	4
Options 2008-1	B&S	51.6	3.2%	71%	7
Options 2006-1	B&S	36.7	4.5%	51%	7
Free shares Pool 1	Share price at grand date	1.9	NA	NA	NA
Free shares Pool 2	Share price at grand date	1.9	NA	NA	NA
Addition to pool 2	Share price at grand date	18.8	NA	NA	NA
Other free shares	Share price at grand date	18.8	NA	NA	NA
Other free shares	Share price at grand date	19.9	NA	NA	NA
Pool A	Share price at grand date	19.9	NA	NA	NA
Pool B	Share price at grand date	19.9	NA	NA	NA
Pool C	Share price at grand date	19.9	NA	NA	NA
Other free shares	Share price at grand date	51.6	NA	NA	NA
Pool A	MC	25.2	NA	NA	NA
Pool B	MC	25.2	NA	NA	NA

MC: Monte-Carlo option pricing model
B&S: Black & Sholes option pricing model
(*) Determined based on a peer group analysis
(**) Determined before reduction of the nominal value by 4

18. Retained earnings and other reserves

Retained earnings and other reserves break down as follows:

(in thousands of US$)	2010	2011
As at January 1	(50,960)	(63,533)
Loss for the year	(13,798)	(23,033)
Employee share option expense for the year	800	2,000
Actuarial loss on retirement benefit obligations	(230)	(105)
Financial instruments at fair value	825	(1,773)
Contribution to restricted reserve	-	-
Currency translation differences	(171)	(351)
As at December 31	**(63,533)**	**(86,795)**
Of which:		
Retained earnings	(73,535)	(96,567)
Legal reserve	-	-
Restricted reserves	2,435	2,553
Other comprehensive income	329	(1,205)
Employee share option expense	7,237	8,424
As at December 31	**(63,533)**	**(86,795)**

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.

19. Trade and other payables

Trade and other payables break down as follows:

(in thousands of US$)	2010	2011
Trade payables	14,118	16,205
Accrued expenses	10,485	10,910
Social security and other taxes	1,791	2,596
Advances from customers	4,250	266
Total	**30,644**	**29,977**

20. Borrowings

Borrowings break down as follows:

(in thousands of US$)	2010	2011
Non-current		
Obligations under finance lease	215	963
	215	**963**
Current		
Obligations under finance lease	256	357
Bank overdrafts	-	-
Total	**471**	**1,320**

Obligations under finance leases are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

21. Repayable advances

As at December 31, 2011, other debts break down as follows:

(in thousands of US$)	2010	2011
Repayable advances – OSEO	-	852
Total	**-**	**852**
Other payables - Non-current portion	*-*	*852*
Other payables - Current portion	*-*	*-*

The Company benefits from repayable advances from OSEO for research and innovation programs. These advances are repayable if and only if the contractually defined commercial objectives are achieved. The amount of US$ 852 thousand corresponds to the first amount received by the Company.

22. 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 employee pensionable 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$)	2010	2011
Present value of unfunded obligations	897	1,183

The movement in the defined obligation over the year is as follows:

(in thousands of US$)	**2010**	**2011**
As at January 1	200	897
Current service cost	66	121
Interest cost	18	46
Actuarial (losses)/gains	(230)	109
Exchange differences	(33)	10
Liabilities assumed as part of a business combination	876	-
As at December 31	**897**	**1,183**

The amounts recognized in the income statement are as follows:

(in thousands of US$)	**2010**	**2011**
Current service cost	66	121
Interest cost	18	46
As at December 31	**84**	**167**

The principal actuarial assumptions used were as follows:

	2010	**2011**
Discount rate	4.61%	4.30%
Future salary increases	3%	3%
Inflation rate	2%	2%

Assumptions regarding future mortality expectations are set based on actuarial advice in accordance with published statistics and experience in France.

The liability recognized as of December 31, 2010 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 by 0.5%	Decrease/Increase by 4%

23. 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**	**Others**	**Total**
At January 1, 2010	**213**	**170**	**93**	**476**
Charges / (credited) to the income statement:				
- Provisions assumed as part of a business combination	-	227	-	**227**
- Additional provisions	-	-	79	**79**
- Unused amounts reversed	-	-	(102)	**(102)**
- Used during the year	-	-	-	**-**
Exchange differences	-	-	5	**5**
At December 31, 2010	**213**	**397**	**75**	**685**

(in thousand dollars)	**Employee related litigations**	**Customer claims**	**Others**	**Total**
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)**
At December 31, 2011	**205**	**100**	**13**	**318**

(a) Employee 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.

(b) Customer claims

Customer claims relate to matters which may result in credit notes to be issued.

(c) 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, when the research and development is performed in a foreign subsidiary, 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. The provision is released when the full documentation is available to the tax authorities.

24. Research and development expenses

Research and development expenses break down as follows:

(in thousands of US$)	2010	2011
Research and development expense	21,025	41,833
Share base payment	533	328
Research tax credit	(4,832)	(7,054)
Grants	(796)	(571)
Total	**15,930**	**34,536**

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.

25. Other (losses)/gains, net

Other (losses)/gains, net break down as follows:

(in thousands of US$)	2010	2011
Transaction costs related to the acquisition of SMS	(2,100)	-
Restructuring program linked to the acquisition of SMS	(178)	(514)
Impairment of assets acquired as part of acquisition of SMS business	-	(1,713)
Reversal of intangible liabilities	-	829
Gain on the disposal of assets	17	-
Total	**(2,261)**	**(1,398)**

In 2010, the Group completed the acquisition of the SMS division of Atmel. In accordance with IFRS 3 Revised, the related transaction costs were expensed.

Group management regularly reviews its activity forecasts and can be led to record potential impairment charges on assets when their value in use resulting from expected future cash flows is less than their net book value. In 2011, the Group recorded impairment charges during the acquisition of SMS corresponding to certain masks (US$ 1,100 thousand) and a clean room not used as such (US$ 613 thousand). At the same time, the Group adjusted the liability on licence agreements whose value depends on future activity (US$ 829 thousand).

26. Expenses by nature

Expenses by nature break down as follows:

(in thousands of US$)	2010	2011
Purchase of wafers including inventory variation	14,474	71,116
Semi finished goods and consumables used	27,671	21,649
Depreciation, amortization, impairment charges and write offs	4,152	4,468
Employees and compensation benefits	26,129	45,461
Subcontracting and temporary work force	2,569	10,318
External services	3,311	7,030
Travel expenses and entertainment	2,042	4,103
Buildings and office leases	1,636	2,950
Advertising, promotion and trade shows	774	1,112
Fees, commissions and royalties	5,959	5,349
Grants and research tax credit	(5,628)	(7,625)
External transaction costs related to acquisition	2,100	436
Amortization and depreciation of acquired assets	1,687	6,273
Others	3,874	3,292
Total	**90,750**	**175,930**

27. Employee benefit expense

Employee benefit expense breaks down as follows:

(in thousands of US$)	2010	2011
Wages and salaries including termination benefits	19,127	30,207
Social security costs	6,124	11,063
Share options granted to management and employees	800	2,000
Pension costs - defined benefit plan	78	190
Total	**26,129**	**43,461**

28. Finance income / (loss), net

Finance income / (loss), net breaks down as follows:

(in thousands of US$)	2010	2011
Foreign exchange loss on operating and financing activities	(4,903)	(4,628)
Interest expense	(242)	(876)
Finance loss	**(5,145)**	**(5,504)**
Foreign exchange gain on operating and financing activities	4,014	6,936
Interest income	137	71
Finance income	**4,151**	**7,007**
Finance income / (loss), net	**(994)**	**1,503**

Foreign exchange gains mainly correspond to exchange gains on operations completed during the period as well as the impact of the revaluation in dollars at the closing rate of assets denominated in euros or pounds sterling, including the research tax credit, VAT and a part of cash and cash equivalents.

29. Income tax expense

The income tax expense breaks down as follows:

(in thousands of US$)	2010	2011
Tax calculated at domestic tax rates applicable to profits in the respective countries		
- United Kingdom	-	-
- USA	(186)	(69)
- Singapore	(3)	-
- Poland	(5)	(5)
	(194)	**(74)**

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:

	2010	2011
Loss before income tax	(13,604)	(22,959)
Tax calculated at the income tax rate of the parent company (34.43%)	4,684	7,905
Income tax rate differences	-	(44)
Tax effect of		
Unrecognized tax losses during the period	(5,900)	(9,369)
Research tax credit not liable to income tax	1,664	2,302
Non tax deductible share based payment	(275)	(689)
Other permanent differences	(366)	(178)
Effective income tax	**(194)**	**(74)**

The unrecognized deferred tax assets as at December 31, 2011 amount to US$ 40,851 thousand 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.

30. Earnings per share

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year:

	2010	2011
Loss attributable to equity holders of the Company (in thousands of US$)	(13,798)	(23,033)
Weighted average number of ordinary shares in issue	14,124,405	21,703,410
Basic loss per share ($ per share)	**(0.98)**	**(1.06)**

The weighted average number of outstanding shares as at December 31, 2010 was recalculated by applying the same method of division of the nominal value of a share by four as for the year ended December 31, 2011 (see note 16).

The variation in earnings per share mainly results from the share capital increases performed over the year which 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. The Group has three categories of dilutive potential ordinary shares: 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 exercise of the share options.

	2010	2011
Weighted average number of ordinary shares in issue	14,124,405	21,703,410
Adjustments for:		
- Free shares	-	-
- Warrants	34,132	34,132
- Stock options	187,620	187,620
Adjustments for treasury method	(146,092)	(157,506)
Weighted average number of ordinary shares for diluted earnings per share	14,200,065	21,767,656
Diluted loss per share ($ per share)	**(0.97)**	**(1.06)**

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

During the periods presented, instruments granting future access to the Company's share capital are considered anti-dilutive as they lead to a reduction in the loss per share. As such, the diluted earnings per share are identical to the basic earnings per share.

31. Commitments

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

(in thousands of US$)	2010	2011
Equipment	72	-
Intangible assets - Licenses	-	-
Total	**72**	**-**

(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$)	2010	2011
Gross finance lease liabilities - minimum lease payment		
No later than 1 year	2,089	1,356
Later than 1 year and no later than 5 years	8,946	1,932
Later than 5 years	3,794	-
Total	**14,829**	**3,288**

(c) Other commitments

(in thousands of US$)	2010	2011
Raw material purchasing	77,668	48,690
Committed finance lease - Material not yet received	416	-
Security bonds	1,386	390
Total	**79,470**	**49,080**

A Wafer purchase agreement between Atmel Corp. and the Company was signed as part of the acquisition of the SMS division of Atmel 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 36 months beginning on the acquisition date and on a declining basis, at prices predetermined in the contract. On the assumption that the Company does not either partially or fully purchase the minimum level to which it is committed, the Company would have to compensate Atmel Corp. for the difference between the commitment and the quantity actually ordered during the period concerned. In exchange for this commitment, the Company benefits from a priority access commitment from Atmel and LFoundry regarding the production capacity of

LFoundry. An amendment was signed in March 2012 taking the length of the engagement to 48 months for an unchanged overall volume, and making it possible to delay or bring forward the annual volumes.

Management considers that this contract provides wafers at market price and that the commitment is in line with anticipated needs.

32. 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 2010 and 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.

One member of the Company's Management Board is also a board member of Mobile Distillery. In 2010 Mobile Distillery provided limited services to the Company for a non-significant amount which were negotiated without the personal involvement of the Management Board member 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 under normal market conditions, without the involvement of the common shareholder, and amounted to US$ 227 thousand and US$ 330 thousand for 2011 and 2010 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$)	2010	2011
Salaries and other short-term employee benefits	1,779	1,451
Share-based payments	530	1,184
Total	**2,309**	**2,635**

33. Events after the reporting period

Since February 17, 2012, the Company's shares have been listed on the regulated exchange NYSE Euronext in Paris (compartment B) under the Isin code FR0010291245. On that date, the company realised a share capital increase of US$ 104.5 million (€ 79.3 million), including share premium but before recording expenses directly attributable to the operation against share premium.

There are no other significant events occurring since December 31, 2011 to report.

34. Consolidated entities

The consolidated financial statements as of December 31, 2011 include the accounts of the Company and the following entities:

Country of incorporation	**Company name**	**2010**	**2011**
United States	Inside Secure Corporation	100%	100%
Singapore	Inside Secure (Asia) Pte LTD	100%	100%
Poland	Inside Secure Sp.z.o.o.	100%	100%
France	Vault-IC France	100%	100%
United Kingdom	Vault-IC UK	100%	100%

As disclosed above, the Group acquired the SMS division of Atmel on September 30, 2010. As part of the transaction which was a combination of an asset deal and a shares purchase, the Group acquired 100% of the shares of Vault-IC UK Ltd, a company dedicated to R&D and product engineering and those of Vault-IC France SAS, a company dedicated to R&D and marketing which was created by Atmel for the purposes of the transaction.