inside secure

Inside Secure announces strong 2016 results following completion of strategic transformation

Aix-en-Provence, France, February 20, 2017 – Inside Secure (Euronext Paris: INSD), at the heart of security solutions for mobile and connected devices, is today reporting its consolidated results[1] prepared in accordance with IFRS, for the year ended December 31, 2016.

- **Strategic transformation completed: sale of the semiconductor business and focus on security software and silicon IP**
- **Consolidated revenue[2]: $49.9 million for FY2016, up 86% vs. 2015:**
    - **Revenue from the core software and silicon IP business[3] of $35.8 million for FY2016, up 35% vs. 2015, driven by exceptionally high royalties,**
    - **NFC patent license revenue of $14.2 million in 2016 (compare to nil in 2015)**
- **Adjusted[4] operating income from continuing operations[5]: $10.9 million in FY2016, vs. a loss of $7.4 million in 2015**
- **EBITDA from continuing operations: $12.3 million in FY2016, vs. a loss of $6.1 million in 2015**
- **Net consolidated income (IFRS): $12.3 million in FY2016, vs. a loss of $44.6 million in 2015, explained by the operating income from continuing business, the profit on the sale of the semiconductor business, and despite restructuring expenses**
- **Strengthened liquidity and solid financial position: $27.1 million in cash at December 31, 2016, due to improved operating performance**
- **2017 objective: continued profitability while investing in sustainable long-term growth on software and silicon IP**

Commenting on these results, Amedeo D'Angelo, president and chief executive officer of Inside Secure, stated: "*We are pleased with our achievements in 2016. Notably we have started to see the benefits of sole focus on security software and IP, as seen by the growth and improved margins. With our broad industry-leading product portfolio, we see concrete opportunities where we can play a key role in helping advance the market adoption of mobile payments and banking, content protection, enterprise and the Internet of things by making mobile and connected device s more secure. And with our strengthened liquidity and solid financial position, we want to take advantage of these opportunities to further grow software and silicon IP new license revenue while sustaining profitability.*"

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1 The consolidated financial statements were prepared by the management board and reviewed by the supervisory board on February 17, 2017; the audit procedure has been completed by the statutory auditors.
2 Prepared in accordance with IFRS, thus excluding the discontinued semiconductor business
3 Excluding the semiconductor business and the NFC patent licensing program
4 Some financial measures and performance indicators are presented on an adjusted basis as defined in Appendix 2 hereof. They should be considered additional information, which cannot replace any other strictly accounting-based operating or financial performance measure as presented in the consolidated financial statements prepared in accordance with IFRS in Appendix 1. The reconciliation of adjusted financial measures with IFRS is presented in Appendix 2.
5 Pursuant to Inside Secure's decision to exit from the semiconductor business and in accordance with IFRS 5, income and expense items for this discontinued operation are recognized directly in "net income from discontinued operations" and thus excluded from revenue, adjusted operating income, and EBITDA. Figures for 2015 have been restated in a similar manner to allow comparisons with the corresponding 2016 figures.

2016 Financial Results – Key Figures

(in thousands of US$)	Adjusted 2016	Adjusted 2015	IFRS 2016	IFRS 2015
Revenue	**49 944**	**26 920**	49 944	26 920
Gross profit	**44 523**	**24 137**	40 993	14 985
As a % of revenue	***89,1%***	***89,7%***	*82,1%*	*55,7%*
Operating expense	**(33 628)**	**(31 551)**	(38 879)	(33 492)
Operating income from continuing operations	**10 895**	**(7 414)**	2 114	(18 507)
As a % of revenue	***21,8%***	***-27,5%***	*4,2%*	*-68,7%*
Net income/(loss) from continuing operations (i)	**-**	**-**	(265)	(19 650)
As a % of revenue	-	-	*-0,5%*	*-73,0%*
Net income/(loss) from discontinued operations (ii)	-	-	12 609	(24 933)
Net income/(loss) (i) + (ii)	-	-	12 344	(44 583)
EBITDA from continuing operations	**12 264**	**(6 126)**	-	-
As a % of revenue	***24,6%***	***-22,8%***	-	-

The reconciliation of adjusted financial measures with IFRS is presented in Appendix 2 hereof.

Foreword: Pursuant to Inside Secure's decision to exit from the semiconductor business and in accordance with IFRS 5, income and expense items for the discontinued operation are recognized directly in "net income from discontinued operations" and thus excluded from revenue, adjusted operating income, and EBITDA. Accordingly, results from continuing operations reflect the performance of the software and silicon IP business, the NFC patent licensing program, and corporate costs not transferred or discontinued with the sale of the semiconductor business (mostly general and administrative expenses and, to a lesser extent, selling & marketing expenses, and research & development expenses). Figures for 2015 have been restated in a similar manner to allow comparisons with the corresponding 2016 figures.

Fourth-quarter and full-year 2016 revenue

(in thousands of US$)	12-month 2016	12-month 2015	2016 vs. 2015	Q4-2016	Q4-2015	Q4-2016 vs. Q4-2015
Licences	6 573	9 906	-34%	2 889	2 223	30%
Royalties	24 160	12 304	96%	5 982	2 827	112%
Maintenance, development agreements, and other	5 021	4 364	15%	1 138	1 027	11%
Total revenue from software and silicon IP	**35 754**	**26 575**	**35%**	**10 009**	**6 077**	**65%**
Unallocated revenue (*)	14 190	345	-	323		-
Total consolidated revenue	**49 944**	**26 920**	**86%**	**10 332**	**6 077**	**70%**

(*) unallocated amounts correspond to non-recurring revenue, in particular patent licenses

Fourth-quarter 2016 revenue

Consolidated revenue in 4Q 2016 was $10.3 million, up 70% from the fourth quarter of 2015, due in particular to growth in royalties, and to a lesser extent to growth in new licenses.

Core software and silicon IP business revenue (excluding semiconductors and NFC patent licensing) was $10.0 million in Q4 2016, up 65% year-on-year. As in Q3 2016, the company again recorded exceptionally high level of revenue from royalties in Q4 2016 due largely to an historical customer of silicon intellectual property products in the U.S. and, consequently, these strong royalty revenues may not be repeated in Q1 2017 and potentially Q2 2017.

New license revenue grew significantly in Q4 2016 to $2.9 million, 4.2 times greater than Q3 2016. This was due to sales performance, and as anticipated, the result of some contracts having shifted from September to October. Q4 2016 license revenue was up 30% compared with Q4 2015.

Maintenance and development agreements revenue in Q4 2016 was $1.1 million, in line with expectations, and $5.0 million for the full year 2016, up 15% from the previous year.

Inside Secure also recorded revenue during Q4 2016 related to the license signed by France Brevets with HTC under the NFC patent licensing program managed by France Brevets.

Full-year 2016 revenue

Consolidated revenue for FY2016 was $49.9 million, up 86% vs. 2015, explained by the combination of strong software revenue, in particular, royalties and strong, however non-recurring, revenue from the NFC patent portfolio monetization program managed by France Brevets (Sony, Samsung, and HTC).

Revenue from core business (excluding semiconductors and NFC patent licensing) was $35.8 million for FY2016, up 35% vs. 2015, driven in particular by strong royalty revenue which almost doubled compared to last year (see above), and robust performance of the content protection business line. Around 70% of these revenues relate to contracts signed prior to 2016 demonstrating the Company's ability to generate strong recurring revenue.

For the Silicon IP business, on top of its traditional networking for data-centers market, the Company sees traction in the Internet of Things market and scored 8 design wins globally on its VaultIP product and in particular signed in Q4 2016 a comprehensive license with a large semiconductor company for its home automation division.

In the content protection market, traction remains strong with high quality digital contents requiring always more protection, together with an increasing number of devices and file formats to support. In 2016, on top of direct sales, the Company added new reseller agreements and extended existing ones, enabling to generate additional revenue in 2016 and beyond through recurring revenue.

In the application protection market, the Company focuses on providing vertical solutions to secure and enable applications for mobile banking and mobile payments. The Company sees strong traction on these markets in North America, Europe and more recently in Latin America, but sales cycle remain long.

In 2016, Inside Secure's NFC patent revenue totaled $14.2 million, driven largely by the license with Samsung in Q2 2016 under the NFC patent licensing program managed by France Brevets.

Strong growth of the adjusted gross profit

In 2016, adjusted gross profit increased by $20 million to $ 44.5 million, as a result of strong growth in core software and silicon IP business and high non-recurring NFC patent licensing revenue.

In particular, the core software and silicon IP business generated a gross profit of $34.7 million in 2016, i.e. a gross margin of 97.1% of the revenue, compared with a gross profit of $24.6 million in 2015 (92.4% gross margin).

NFC patent licensing business agreements entered into by France Brevets and three handset makers, contributed to the adjusted gross profit for $9.8 million in 2016 compared to $0 in 2015.

Tight management of operating expense

The 6.6% increase in operating expenses from continuing operations in 2016 was primarily driven by:
- The reallocation of certain company's resources from the semiconductor business to the continuing core software and technology license business, mainly research and development personnel (in particular for the silicon IP product line), and
- An increase in sales and marketing expense, including sales commissions, while the company managed to reduce general and administrative expenses.

Inside Secure's second-half 2016 showed the expected benefits of the cost reduction under its restructuring plan, with operating expense going from 18.4 million in first-half 2016 down to $15.3 million in the second-half (please also refer to table in Appendix 3 hereto).

For 2017, the Company anticipates net increase of its operating expense of 11% compared to H2 2016, primarily due to investments in sales and marketing.

Strong improvement of adjusted operating income

In 2016, the Company saw a substantial improvement in it its operating profitability, due to the combination of increased revenue and tight management of operating expenses.

Adjusted operating income from continuing operations was $10.9 million in 2016: $1.6 million coming from the core software and silicon IP business and the balance coming from the contribution of the non-recurring NFC patent license business, compared with a loss of $7.4 million in 2015, due to lower software revenue and no NFC patent license revenue.

(in thousands of US$)	2016	2015	2016 vs. 2015
EBITDA from continuing operations	**12 264**	**(6 126)**	**18 390**
Amortization and depreciation of assets (*)	1 369	1 288	81
Adjusted operating income/(loss) from continuing operations	**10 895**	**(7 414)**	**18 309**
Business combinations (**)	(3 818)	(9 714)	5 896
Other non recurring costs (***)	(4 331)	(902)	(3 429)
Share based payments	(632)	(477)	(155)
Operating income/(loss) from continuing operations	**2 114**	**(18 507)**	**20 621**
Finance income/(losses), net	(684)	(808)	124
Income tax expense	(1 695)	(335)	(1 360)
Net income/(loss) from continuing operations (i)	**(265)**	**(19 650)**	**19 385**
Net income/(loss) from discontinued operations (ii)	**12 609**	**(24 933)**	**37 542**
Net income/(loss) (i) + (ii)	**12 344**	**(44 583)**	**56 927**

(*) excluding amortization and depreciation of assets acquired through business combinations. Items without cash impact.

(**) amortization and depreciation of assets acquired through business combinations and acquisition related external expenses. Items without cash impact.

(***) Restructuring expenses

Sums may not equal totals due to rounding.

EBITDA from continuing operations

In 2016, EBITDA showed a profit of $12.3 million, compared with a loss of $6.1 million in 2015, as a result of the adjusted operating profitability, while the depreciation expense remained flat overall.

Strong improvement of the operating income from continuing operations (IFRS)

Operating income from continuing operations was $2.1 million in 2016, compared with a loss of $18.5 million in 2015.

Operating income for 2016 was impacted mainly by:
- The recognition of a $4.3 million net non-recurring charge arising from the company's restructuring;
- Amortization expense (non-cash item) related to assets arising upon the company's acquisitions in recent years (ESS in 2012 and Metaforic in 2014) for $3.8 million, showing a strong drop compared to $9.7 million in 2015 though the ESS acquired intangible assets which are now almost completely amortized. The Company did not recognize any impairment expense of the goodwill in relation with these two acquired businesses.

Financial income (net) from continuing operations

Net financial loss was $ 0.7 million in 2016 vs. a loss of 0.8 million dollars in 2015, primarily due to the impact of the evolution of the EUR / USD exchange rates.

Income tax expense

Income tax expense of $1.7 million in 2016 consisted primarily of withholding taxes paid when licenses are signed with customers in certain Asian countries.

Consolidated net income

In 2016, Company generated consolidated net income (IFRS) of $12.3 million as a result of:
- Net loss from continuing operations of $0.3 million; and
- Net income from discontinued operations of $12.6 million including $17.0 million of net profit from the sale of the semiconductor business in September 2016 (including assumption of intercompany debts by acquirer).

As a reminder, consolidated net loss (IFRS) in 2015 was $44.6 million explained by:
- The adjusted operating loss from the continuing business of $19.7 million, including a non-cash amortization expense related to intangible assets arising from the Company's recent acquisitions of $9.7 million; and
- The net loss from discontinued operations of $24.9 million, which included, on top of the operating loss, a non-recurring, non-cash net charge of $2.7 million for the impairment of long-term assets related to the semiconductor business; and the recognition of a $7.0 million charge in connection with the implementation of a partnership agreement for the outsourcing of the company's engineering and semiconductor supply chain activities to a partner on June 30, 2015.

Strong increase in cash position

Summary of cash flows

(in thousands of US$)	Continuing operations	Discontinued operations	Total
Net Cash generated by / (used in) operations	7 633	(3 575)	4 059
Change in working capital (*)	454	6	460
Interest and income tax	(289)	-	(289)
Net Cash generated by / (used in) operating activities	**7 799**	**(3 568)**	**4 231**
Cash flows used in investing activities	(196)	2 082	1 886
Cash flow from financing activities	4 821	-	4 821
Net increase / (decrease) in cash and cash equivalents	**12 424**	**(1 487)**	**10 937**
Cash and cash equivalents at beginning of the period			16 434
Foreign exchange impact			(290)
Cash and cash equivalents at end of the period			**27 081**

(*) including the financing of the 2015 research tax credit

At December 31, 2016, the Company's consolidated available cash stood at $27.1 million, up from $16.4 million at December 31, 2015 and $20.4 million at June 30, 2016.

Net cash[6] stood at $27.0 million at December 31, 2016, compared with $12.5 million at December 31, 2015 and $16.6 million at June 30, 2016.

[6] Net cash consists of cash on hand, cash equivalents and short-term investments, the net amount of derivatives, less obligations under finance leases, bank overdrafts, bank loans, cash received in return for the assignment of trade receivables under factoring agreements, and any deferred payments due in connection with business combinations. Debt related to the financing of research tax credit claims in relation with non-deconsolidatiing agreements is not taken into account because it will be extinguished when the research tax credit claims are repaid by the French government.

The increase in net cash position in 2016 notably reflects:

- The improved operating performance ($7.8 million net generated by continuing operations),
- The divestiture from the semiconductor business (upon completion of the sale of its semiconductor business to WISeKey in September 2016, Inside Secure received CHF2 million ($2.1 million) in cash), and
- The $5.5 million capital increase completed in April 2016.

In particular:

- Operating activities of continuing operations, excluding the change in working capital requirement, generated $7.6 million in cash, while working capital requirement of the continuing business (including financing for the research tax credit for 2015), decreased by $0.5 million.
- Discontinued business absorbed $3.6 million; and
- The restructuring plan triggered a cash outflow of $5.7 million in 2016 (including $2.9 million in relation with the continuing operations).

In the fourth quarter of 2016, Inside Secure did not convert or sell any part of the bonds redeemable in shares received at the closing of the sale of the semiconductor business to WISeKey on September 20, 2016, fair value of which was $11.6 million as at December 31, 2016. Consequently, cash should further increase in 2017 as a consequence to the monetisation of the bonds which the company started in mid-January 2017.

Strong balance-sheet and increased financial flexibility

At December 31, 2016, consolidated shareholders' equity amounted to $63.7 million, compared with $48.8 million at December 31, 2016.

As part of the sale of its semiconductor business, the Company transferred to buyer intangible and tangible assets and liabilities, working capital items (inventories, trade receivables and payables) and other liabilities. As a result, the Company managed to significantly simplify and lighten its balance-sheet and is now operating with a lighter working capital.

In July 2016, Inside Secure terminated its factoring agreement, as this type of financing had become marginal and was no longer relevant to the Company's software and technology licensing business. The corresponding financing amounted to $3.0 million as at December 31, 2015.

In Q4 2016, Inside Secure renegotiated the terms and conditions of the three on-going financing agreements in relation with research tax credit for the years 2013, 2014, and 2015. As a result, these agreements have been deconsolidated from the balance-sheet, together with the corresponding tax receivables; the transaction having no cash impact though. Consequently, the Company does not show any material indebtedness at year-end 2016.

Outlook for 2017

The Company achieved profitability[7] in 2016 through a strategic transformation, the refocusing of its activities and the rightsizing of its operating cost base. In 2017, the Company intends to keep on growing the new license revenue, maintain a strong discipline on operating expenses and sustain profitability[7] of its core software and silicon IP business on a full year basis, while investing in sustainable long-term growth.

Conference call

The Company will hold a conference call to discuss its earnings results at 10:00 CET on February 20, 2016. Access to the call will be by dial-in on one of the following numbers: +33 (0)1 70 77 09 40 (France) or +44 20 33 679 461 (UK). The presentation will be available online at www.insidesecure-finance.com. An audio webcast of the presentation and the Q&A session will be available on the Inside Secure website approximately three hours after the end of the presentation and will remain posted there for one year.

[7] on an EBITDA and adjusted operating income basis

Financial calendar

First-quarter 2017 revenue:	April 20, 2016 (after market closing)
First-half 2017 earnings:	July 26, 2017 (before market opening)
Third-quarter 2017 revenue:	October 20, 2017 (before market opening)

Press and investor contacts

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About Inside Secure

Inside Secure (Euronext Paris – INSD) is at the heart of security solutions for mobile and connected devices, providing software, silicon IP, tools and know-how needed to protect customers' transactions, content, applications, and communications. With its deep security expertise and experience, the company delivers products having advanced and differentiated technical capabilities that span the entire range of security requirement levels to serve the demanding markets of network security, IoT security, content & application protection, mobile payment & banking. Inside Secure's technology protects solutions for a broad range of customers including service providers, content distributors, security system integrators, device makers and semiconductor manufacturers. For more information, visit www.Insidesecure.com

Forward-looking statements

This press release contains certain forward-looking statements concerning the Inside Secure group. Although Inside Secure believes its expectations to be based on reasonable assumptions, they do not constitute guarantees of future performance. Accordingly, the Company's actual results may differ materially from those anticipated in these forward-looking statements owing to a number of risks and uncertainties. For a more detailed description of these risks and uncertainties, please refer to the "Risk Factors" section of the registration document approved by the French financial market authority (the Autorité des marchés financiers – the "AMF") on March 30, 2016 under number R. 16-014, available on www.Insidesecure.com

Supplementary non-IFRS financial information

The supplementary non-IFRS financial information presented in this press release are defined within the press release. These indicators are not defined under IFRS, and do not constitute accounting elements used to measure the Company's financial performance. They should be considered in addition to, and not as a substitute for, any other operating and financial performance indicator of a strictly accounting nature, as presented in the Company's Consolidated Financial Statements and the corresponding notes. The Company uses these indicators because it believes they are useful measures of its activity. Although they are widely used by companies operating in the same industry around the world, these indicators are not necessarily directly comparable to those of other companies, which may have defined or calculated their indicators differently to the Company, even though they use similar terms.

Appendix 1 - Consolidated income statement, balance sheet and cash flow statement (IFRS)

The following tables are an integral part of the consolidated financial statements prepared in accordance with IFRS.

Consolidated income statement

(In thousands of US$)	as at December 31, 2015	2016
Revenue	26 920	49 944
Cost of sales	(11 935)	(8 951)
Gross profit	**14 985**	**40 993**
Research and development expenses	(10 646)	(15 257)
Selling and marketing expenses	(10 657)	(11 348)
General and administrative expenses	(9 781)	(8 058)
Other gains / (losses), net	(2 407)	(4 216)
Operating profit (loss)	**(18 507)**	**2 114**
Finance income / (loss), net	(808)	(684)
Profit (Loss) before income tax	**(19 315)**	**1 430**
Income tax expense	(335)	(1 695)
Net income/(loss) from continuing operations	**(19 650)**	**(265)**
Net income/(loss) from discontinued operations	**(24 933)**	**12 609**
Net income/(loss)	**(44 583)**	**12 344**

Consolidated balance sheet

Assets

In thousands of US$	December 31, 2015	December 31, 2016
Goodwill	20 873	18 773
Intangible assets	15 760	6 534
Property and equipment	1 744	1 523
Other receivables	19 022	5 361
Non-current assets	**57 399**	**32 191**
Inventories	7 943	65
Trade receivables	8 282	8 630
Other receivables	12 765	4 845
Bonds reedemable in shares	-	11 648
Derivative financial instruments	275	90
Cash and cash equivalents	16 434	27 081
Current assets	**45 699**	**52 358**
Total assets	**103 097**	**84 549**

Equity and liabilities

In thousands of US$	December 31, 2015	December 31, 2016
Ordinary shares	18 218	22 023
Share premium	226 518	228 029
Other reserves	15 250	12 493
Retained earnings	(166 635)	(211 218)
Income / (loss) for the period	(44 583)	12 344
Equity attributable to equity holders of the Company	**48 767**	**63 670**
Non-controlling interests	-	-
Total equity	**48 767**	**63 670**
Intangible liabilities - Non-current portion	1 907	-
Borrowings	11 806	128
Repayable advances	5 056	-
Retirement benefit obligations	993	336
Non-current liabilities	**19 762**	**464**
Intangible liabilities - Current portion	6 486	-
Financial instruments	324	193
Trade and other payables	17 232	11 524
Borrowings	6 558	670
Provisions for other liabilities and charges	689	4 308
Unearned revenues	3 278	3 719
Current liabilities	**34 568**	**20 414**
Total liabilities	**54 330**	**20 878**
Total equity and liabilities	**103 097**	**84 549**

Consolidated cash flow statement

In thousands of US$	December 31, 2015	December 31, 2016
Income / (loss) for the period from continuing operations	**(19 650)**	**(265)**
Adjustments for:		
Depreciation of tangible assets	1 097	1 190
Amortization of intangible assets	10 590	3 997
Impairment of receivables	(311)	(136)
Financial result	808	493
Profit / (loss) on disposal of assets	617	-
Share-based payments	478	627
Change in retirement benefit obligation	(104)	(793)
Income tax	335	1 694
Variation in provisions for risks	(26)	828
Cash generated by / (used in) continuing operations	**(6 166)**	**7 633**
Cash generated by / (used in) discontinued operations	(11 110)	(3 575)
Cash generated by / (used in) operations before changes in working capital	**(17 276)**	**4 059**
Changes in working capital		
Inventories	58	41
Trade receivables	3 197	(1 557)
Other receivables	570	(194)
Research tax credit and grants	(3 405)	(2 918)
Trade and other payables	1 081	1 160
Other payables	(3 177)	(1 911)
Cash generated by / (used in) changes in working capital from discontinued operations	(6 097)	6
Cash generated by / (used in) changes in working capital	**(7 773)**	**(5 373)**
Cash generated by / (used in) operations	**(25 049)**	**(1 314)**
Interest received, net	(32)	(95)
Income tax paid	(18)	(194)
Net cash generated by / (used in) operating activities	**(25 099)**	**(1 603)**
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(225)	-
(Disposal)/Acquisition of equity investments accounted for under the equity method	165	-
Purchases of property and equipment	(438)	(164)
Purchases of intangible assets	(98)	(32)
Cash flows used in investing activites from discontinued operations	(592)	2 082
Cash flows used in investing activities	**(1 187)**	**1 886**
Cash flows from financing activities		
Proceeds from issuance of ordinary shares, net of issuance costs	870	5 494
Repayable advance	(263)	(273)
Financing of the research tax credit	5 946	5 833
Principal repayment under finance lease	(330)	(346)
Treasury shares	28	(54)
Cash flows from financing activities from discontinued operations	-	-
Cash flows from financing activities	**6 252**	**10 654**
Net increase / (decrease) in cash and cash equivalents	**(20 034)**	**10 937**
Cash and cash equivalents at beginning of the period	36 315	16 434
Effect of exchange rate fluctuations	125	(115)
Effect of exchange rate fluctuations on discontinued operations	24	(176)
Cash and cash equivalents at end of the period	**16 430**	**27 081**

Appendix 2 - Non-GAAP measures - Reconciliation of IFRS results with adjusted results

The performance indicators presented in this press release that are not strictly accounting measures are defined below. These indicators are not defined under IFRS, and do not constitute accounting elements used to measure the Company's financial performance. They should be considered as additional information, which cannot replace any other strictly accounting-based operating or financial performance measure, as presented in the Company's consolidated financial statements and their related notes. The Company uses these indicators because it believes they are useful measures of its recurring operating performance and its operating cash flows. Although they are widely used by companies operating in the same industry around the world, these indicators are not necessarily directly comparable to those of other companies, which may have defined or calculated their indicators differently than the Company, even though they use similar terms.

Adjusted gross profit is defined as gross profit before (i) the amortization of intangible assets related to business combinations, (ii) any potential goodwill impairment, (iii) share-based payment expense and (iv) non-recurring costs associated with restructuring and business combinations and divestiture carried out by the Company.

Adjusted operating income/(loss) is defined as operating income/(loss) before (i) the amortization of intangible assets and masks related to business combinations, (ii) any potential goodwill impairment, (iii) share-based payment expense and (iv) non-recurring costs associated with restructuring and business combinations and divestiture carried out by the Company.

EBITDA is defined as adjusted operating income before depreciation, amortization and impairment losses not related to business combinations.

The following tables show the reconciliation between the consolidated income statements and the adjusted financial indicators, as defined above, for the years ended December 31, 2016 and 2015 respectively:

(in thousands of US$)	2016 adjusted	Business combinations	Share-based payment	Other non-recurring costs (*)	2016 IFRS
Revenue	49 944	-	-	-	49 944
Cost of sales	(5 421)	(3 529)	(1)	-	(8 951)
Gross profit	**44 523**	**(3 529)**	**(1)**	**-**	**40 993**
As a % of revenue	*89,1%*				*82,1%*
R&D expenses	(14 352)	(289)	(134)	(482)	(15 257)
Selling & marketing expenses	(11 152)	-	(196)	-	(11 348)
General & administrative expenses	(7 757)	-	(301)	-	(8 058)
Other gains/(losses), net	(367)	-	-	(3 849)	(4 216)
Total operating expense	(33 628)	(289)	(631)	(4 331)	(38 879)
Operating income from continuing operations	**10 895**	**(3 818)**	**(632)**	**(4 331)**	**2 114**
Amortization and depreciation of assets (**)	1 369	-	-	-	-
EBITDA	**12 264**				

(in thousands of US$)	2015 adjusted	Business combinations	Share-based payment	Other non-recurring costs (*)	2015 IFRS
Revenue	26 920	-	-	-	26 920
Cost of sales	(2 783)	(9 151)	(1)	-	(11 935)
Gross profit	**24 137**	**(9 151)**	**(1)**	**-**	**14 985**
As a % of revenue	*89,7%*				*55,7%*
R&D expenses	(9 874)	(563)	(209)	-	(10 646)
Selling & marketing expenses	(10 516)	-	(141)	-	(10 657)
General & administrative expenses	(9 655)	-	(126)	-	(9 781)
Other gains/(losses), net	(1 505)	-	-	(902)	(2 407)
Total operating expense	(31 551)	(563)	(476)	(902)	(33 492)
Operating loss from continuing operations	**(7 414)**	**(9 714)**	**(477)**	**(902)**	**(18 507)**
Amortization and depreciation of assets (**)	1 288	-	-	-	-
EBITDA	**(6 126)**				

(*) the amounts correspond mainly to restructuring expenses.

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

Sums may not equal totals due to rounding.

Appendix 3 - Adjusted operating income – continuing operations (unaudited)

(in thousands of US$)	**2015**	**2016**	**H1 2015**	**H2 2015**	**H1 2016**	**H2 2016**
Revenue	26 920	49 944	11 102	15 818	27 699	22 245
Adjusted gross profit	**24 137**	**44 523**	**9 963**	**14 174**	**23 051**	**21 472**
As a % of revenue	*89,7%*	*89,1%*	*89,7%*	*89,6%*	*83,2%*	*96,5%*
Research and development expenses	(9 874)	(14 352)	(5 005)	(4 869)	(6 907)	(7 445)
Selling and marketing expenses	(10 516)	(11 152)	(5 079)	(5 437)	(5 922)	(5 230)
General and administrative expenses	(9 655)	(7 757)	(4 840)	(4 815)	(5 091)	(2 666)
Other gains/(losses), net	(1 505)	(367)	(1 445)	(60)	(434)	67
Total adjusted operating expenses	**(31 551)**	**(33 628)**	**(16 370)**	**(15 181)**	**(18 353)**	**(15 275)**
Adjusted operating income/(loss) from continuing operations	**(7 414)**	**10 895**	**(6 407)**	**(1 007)**	**4 698**	**6 197**
As a % of revenue	-27,5%	21,8%	-57,7%	-6,4%	17,0%	27,9%

Note: Sums may not equal totals due to rounding.