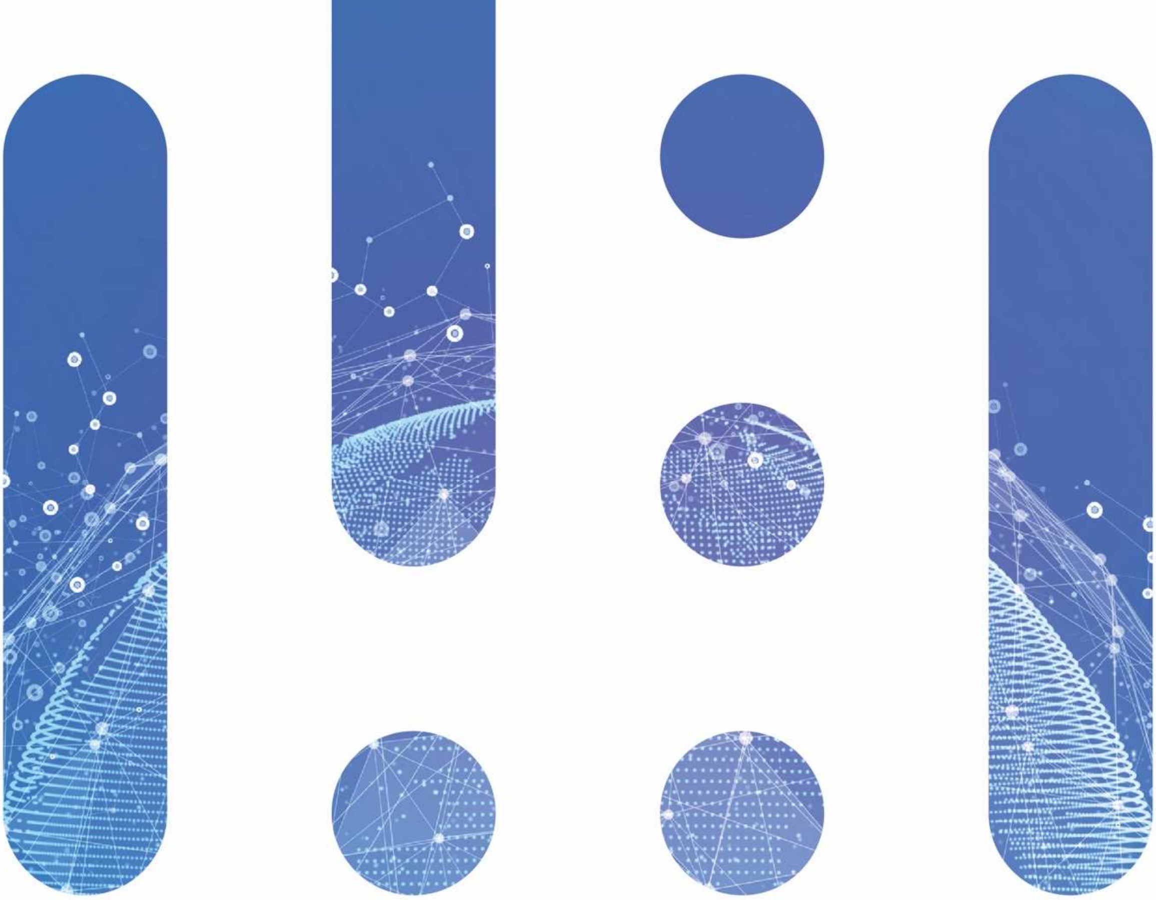

Half Year Financial Report

June 30, 2017

1. Management report for the six-month period ending June 30, 2017

1.1. Summary presentation of Inside Secure

Inside Secure (the "Company" and, together with its subsidiaries, the "Group") provide embedded security solutions and technology licensing for mobile and connected devices, to secure digital identity, content, applications and transactions.

1.2. Accounting policies, presentation of financial statements

The consolidated interim financial statements (see section 2 of this report) have been prepared in accordance with IAS 34, 'Interim financial reporting'. The consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS. Main accounting policies are detailed in note 3 of the notes to the interim consolidated financial statements as of June 30, 2017 and critical accounting estimates and judgments are detailed in note 4 of the notes.

Presentation currency of the consolidated financial statements

The Group has elected the U.S. dollar as presentation currency of its consolidated financial statements. The U.S. dollar is the functional currency of the Company, and the currency in which most its transactions are denominated. It is the main currency used for the Group's transactions and within the semiconductor industry in transactions between clients and suppliers.

The exchange rates for the euro, the Group's second most employed currency after the U.S. dollar, for the six-month periods ended June 30, 2016 and 2017 and December 31, 2016, are as follows:

Euro/ US Dollar	June, 30 2016	December 31, 2016	June 30, 2017
Closing Rate	1.1102	1.0541	1.1412
Mean Rate	1.1229	1.1066	1.1229

Scope of consolidation

The Group's scope of consolidation as of June 30, 2017 is detailed in note 29 to the interim consolidated financial statements. It did not change during the first six-month period ended June 30, 2017.

Complementatry non-GAAP measures

The Groupe uses performance indicators that are not strictly accounting measures and that are defined below. These indicators are not defined under IFRS and do not constitute accounting elements used to measure the Group'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 Group's consolidated financial statements and their related notes. The Group 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 Group, 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 carried out by the Company.

Adjusted operating income/(loss) is defined as operating income/(loss) 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 carried out by the Company.

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

The reconciliation from adjusted financial measures to consolidated IFRS reporting can be found in appendix to this report.

1.3. Review of the consolidated interim financial statements

The condensed consolidated interim financial statements presented herein were prepared by the Management Board and examined by the Supervisory Board. They have been subject to a limited review by auditors. It should be recalled that the Group's half-year results are not representative of all the fiscal year.

Key figures

(in thousands of US$)	**H1 2017**	**H1 2016**
Revenue	14 699	27 699
Adjusted gross profit	**13 973**	**23 051**
As a % of revenue	*95,1%*	*83,2%*
Research and development expenses	(5 594)	(6 907)
Selling and marketing expenses	(6 091)	(5 922)
General and administrative expenses	(2 927)	(5 091)
Other gains / (losses), net	940	(434)
Total adjusted operating expenses	**(13 672)**	**(18 353)**
Adjusted operating income from continuing operations	**301**	**4 698**
EBITDA	**824**	**5 320**
Net income (IFRS)	**(3 655)**	**(675)**
Net cash	**43 845**	**15 937**

Note: Sums may not equal totals due to rounding.

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

Second quarter 2017 and first half 2017 revenue

(in thousands of US$)	Q2-2017	Q2-2016	Q1-2017	Q2-2017 vs. Q2-2016	Q2-2017 vs. Q1-2017	H1-2017	H1-2016	H1-2017 vs. H1-2016
Licences	2 040	1 708	2 175	19%	-6%	4 215	3 034	39%
Royalties	4 164	4 690	3 415	-11%	22%	7 578	8 094	-6%
Maintenance, development agreements, and other	1 551	1 296	1 354	20%	15%	2 905	2 704	7%
Total revenue from software and silicon IP	**7 755**	**7 694**	**6 944**	**1%**	**12%**	**14 699**	**13 831**	**6%**
Unallocated (*)	-	12 577	-	-	-	-	13 868	-
Total	**7 755**	**20 271**	**6 944**	**-62%**	**12%**	**14 699**	**27 699**	**-47%**

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

In the first half of 2017, consolidated revenue was $14.7 million with no NFC-related revenue as compared to $27 million in the first half of 2016, including $13.9 million derived from the NFC patent license agreement signed by France Brevets with Samsung and Sony.

Revenue from the core secure software and technology licensing business for the first half of 2017 increased 6 percent compared with the first half of 2016, thanks to strong new license revenue which was up 39 percent. The Company experienced continued traction in mobile payments, including a design win at a major card association. On the technology licensing front, Inside Secure is demonstrating itself as a pioneer in the networking chip market with the release of the first MACsec engine offering more than 400Gbps and seeing its first customer wins for this new engine.

Consolidated revenue in the second quarter of 2017 was $7.8 million, up 12 percent compared with first quarter of 2017 thanks to higher royalty collection.

As expected, the second quarter of 2017 revenue is down compared with the second quarter of 2016 which included $12.6 million related to the NFC patent license agreement signed by France Brevets with Samsung (compared to $0 in NFC-related revenue in Q2 2017).

Strong growth of adjusted gross margin

In the first half of 2017, adjusted gross profit stood at $14.0 as compared to $23.1 in the first half of 2016. The Company's gross margin increased by 11.8 points to 95.1% in the first half of 2017 against the first half of 2016 because of product mix. In the first half of 2017, company generated all its revenue from the core software and silicon IP business which generates higher-margins than NFC patent licensing revenue (due to the agent commission payable to France Brevets).

Tight management of operating expenses

As expected, the first half of 2017 operating expenses decreased by $4.7 million to $13.7 million with the benefits of the cost reduction derived from the company's 2016 restructuring plan.
The evolution was primarily driven by:

- A decrease in research and development expense due to the rightsizing of the organization conducted in 2016 while preserving the product development capability.
- An increase in sales and marketing expenses, with the addition of sale resources, and a decrease in general and administrative expenses.
- Other net non-recurring income and foreign exchange gains on operating activities of $0.9 million.

For the second-half of 2017, the Company anticipates operating expenses between $17.0 million to $17.5 million with an increase vs. the first half of 2017 primarily due to investments in research and development, sales and marketing, in line with the Company's operating plan.

Substantial improvement of adjusted operating income on core software and silicon IP business

Adjusted operating income stood at $0.3 million in the first half of 2017 with $0 revenue generated from NFC patent licensing program, as compared to $4.7 million in the first half of 2016 with $13.9 million revenue from the NFC patent licensing program ($10.2 million contribution to the adjusted operating income).

In the first half of 2017, the Company substantially improved profitability on its core software and silicon IP business due to an increase in new license revenue and tight management of expenses and overall operations.

Adjusted operating income of the core software and silicon IP business (i.e. excluding the contribution of the non-recurring NFC patent license business) was +$0.3 million in the first half of 2017, compared with a loss of $5.3 million in the first half of 2016.

(in thousands of US$)	H1 2017	H1 2016	2017 vs. 2016
EBITDA from continuing operations	**824**	**5 320**	**(4 496)**
Amortization and depreciation of assets (*)	(523)	(622)	99
Adjusted operating income from continuing operations	**301**	**4 698**	**(4 397)**
Business combinations (**)	(1 099)	(1 915)	816
Other non recurring costs (***)	(1 698)	(2 400)	702
Share based payments	(616)	(363)	(253)
Operating income from continuing operations	**(3 112)**	**20**	**(3 131)**
Finance income / (losses), net	(279)	386	(665)
Income tax expense	(264)	(1 413)	1 149
Net income/(loss) from continuing operations (i)	**(3 655)**	**(1 007)**	**(2 648)**
Net income/(loss) from discontinued operations (ii)	**-**	**332**	**(332)**
Net income/(loss) (i) + (ii)	**(3 655)**	**(675)**	**(2 980)**

(*) 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

In the first half of 2017, EBITDA was $0.8 million, compared with $5.3 million in the first half of 2016 or a loss of $4.7 million excluding the strong contribution of non-recurring NFC patent licensing program.

Operating income (IFRS) impacted by non-cash items

Operating income from continuing operations showed a loss $3.0 million in the first half of 2017, compared with breakeven in the first half of 2016. The operating loss is explained by:
- the adjusted operating income of $ 0.3 million;
- the recognition of a $1.5 million net non-recurring charge arising from the company's restructuring plan;
- 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 $1.1 million, showing a strong decrease compared 2016, the acquired intangible assets being now almost completely amortized according to plan;
- share-based payment expense (non-cash item) for $0.6 million which increased in 2017 in relation with the grant of performance shares and stock-options in December 2016.

Consolidated net income

In the first half of 2017, the Company generated a consolidated net loss (IFRS) of $3.7 million, mainly explained by the operating income (loss $3.1 million) and by net financial expense for $0.3 million, and income tax expense for $0.3 million.

Strong increase in cash position and solid balance-sheet

As of June 30, 2017, the Company's consolidated available cash stood at $43.9 million, significantly up from $27.1 million at December 31, 2016 and $20.4 million at June 30, 2016.

Net cash[1] stood at $43.8 million at June 30, 2017, compared with 26.9 million at December 31, 2016 and $15.9 million at June 30, 2016.

[1] Net cash consists of cash on hand, cash equivalents and short-term investments, the net current amount of derivatives, less bank overdrafts and the current portion of the financial debt including notably obligations under finance leases, bank loans, the

The increase in cash position in the first half of 2017 notably reflects:
- the operating performance ($0.7 million generated by operations (before changes in working capital and excluding restructuring payments));
- the $4.4 million sale of listed WISeKey shares (see below);
- the $17.1 million (€15 million) convertible bond issue completed in June 2017 (see below);
- despite payments in relation with the completion of the 2016 restructuring plan during Q1 2017 for $2.2 million.

During the period, the Company converted 40 percent of the $11 million bond redeemable in shares received at the closing of the sale of the semiconductor business to WISeKey on September 20, 2016, and sold the shares on the Swiss stock market. The balance of 60 percent of the loan was converted into shares on July 20, 2017, and is freely tradeable on the stock market.

Successful convertible bond issue

On June 29, 2017, the Company issued bonds convertible into and/or exchangeable for new or existing shares for a nominal amount of €15 million. The 4,021,447 bonds issued mature on June 29, 2022, and bear interest at a nominal annual rate of 6.00%. The issue price was € 3.73 per bond.

This convertible bond issue provides Inside Secure with enhanced financial capacity and flexibility to contemplate acquisitions to further enrich its security solutions offering while optimizing the financing cost and the shareholders' dilution.

1.4. Significant events of the period

Inside Secure generated revenue of $14.7 million in the first half 2017 vs. $13.9 million in first-half 2016 excluding NFC patent license revenue.

New license revenue from security software and silicon IP in first-half 2017 vs. first-half 2016 grew by 39%.

Inside Secure generated $0.8 million in EBITDA for core software and silicon IP business profitable in first-half 2017 vs. loss of $4.6 million[2] in first-half 2016.

The Company made important progress we made during the first half of the year on its core security software and technology licensing business on both revenue and profitability[3], while moving forward on its strategic development and roadmap. It saw continued traction in its mobile payments business, including a design-win at a major credit card association. It is also leading the way in the networking chip market with the release of the very first MACsec engine offering more than 400Gbps to secure the Cloud, with first customer wins.

Inside Secure's strong cash balance, thanks to its operating performance and the successful issue of a EUR 15 million convertible bond in June 2017, gives it the flexibility to consider acquisition opportunities that would strengthen the portfolio of technologies, products and solutions, in important markets such as IoT and banking and payment.

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debt component of the convertible bonds, and any deferred payments due in connection with business combinations. Debt related to the financing of research tax credit is not taken into account because it will be extinguished when the research tax credit claims are repaid by the French government.

[2] Excluding contribution of NFC patent licensing program

[3] On an EBITDA and adjusted operating income basis

1.5. Risk factors

Risk factors are similar in nature to those outlined in section 4 of the registration document ("Document de référence") dated March 28, 2017 (D. 17-0244). They show no significant changes in the first half of 2017 and are still valid. Financial risks at June 30, 2017 are set out in note 5 of the notes to the condensed consolidated interim financial statements included in this report.

1.6. Related parties transactions

Transactions with related parties are described in note 24 to the consolidated interim financial statements.

1.7. Outlook

The Company achieved profitability[4] in H1 2017 thanks to growth in the core security software and technology licensing business and as a consequence of refocusing its activities and rightsizing its operating cost base in 2016. For the second half 2017, the Company expects to benefit from a strong royalty stream and reiterates its intention to continue growing license revenue. It should sustain the profitability[5] of its core security software and technology licensing business[5] on a full-year basis.

Looking further ahead, Inside Secure is well positioned, with its products and technology and roadmap, to continue expand in growing and important areas such as IoT and banking and payment markets while generating profitability[5].

1.8. Events after the reporting period

Significant events that occurred between June 30, 2017 and the date at which the consolidated interim financial statements were prepared are described in note 25 to the consolidated interim financial statements.

[4] On an EBITDA and adjusted operating income basis.

[5] i.e. even excluding any additional potential revenue from the Company's NFC patent licensing program.

2. Condensed consolidated interim financial statements

Interim consolidated income statement

In thousands of US$	Note	Six-month period ended June 30, 2016	June 30, 2017
Revenue	9	27 699	14 699
Cost of sales		(6 413)	(1 507)
Gross profit		**21 286**	**13 192**
Research and development expenses	18	(7 130)	(6 157)
Selling and marketing expenses		(6 060)	(6 359)
General and administrative expenses		(5 241)	(3 199)
Other gains / (losses), net	19	(2 834)	(589)
Operating profit / (loss)		**22**	**(3 112)**
Finance income / (loss), net	20	386	(279)
Profit / (loss) before income tax		**407**	**(3 391)**
Income tax expense		(1 413)	(264)
Income / (loss) from discontinued operations	22	329	-
Profit / (loss) for the period		**(676)**	**(3 655)**
Attributable to:			
Owners of the parent		(676)	(3 655)
Non-controlling interests		-	-
Earnings per share (in US$)	21		
Basic earnings per share		(0,018)	(0,085)
Diluted earnings per share		(0,018)	(0,085)
Basic earnings from continuing operations per share		(0,026)	(0,085)
Diluted earnings from continuing operations per share		(0,026)	(0,085)
Basic earnings from discontinued operations per share		0,009	-
Diluted earnings from discontinued operations per share		0,008	-

Interim consolidated statement of comprehensive income

In thousands of US$	Six-month period ended June 30, 2016	Six-month period ended June 30, 2017
Income / (loss) for the period	(676)	(3 655)
Actuarial gain / (loss) on retirement benefit obligations	(91)	(76)
Non-reclassifiable components of other comprehensive income	(91)	(76)
Financial instrument fair value changes	4	115
Currency translation differences	(1 409)	(654)
Reclassifiable components of other comprehensive income	(1 405)	(539)
Other comprehensive income / (loss), net of tax	(1 496)	(615)
Other comprehensive income / (loss) from discontinued operations, net of tax	(18)	-
Total comprehensive (loss) for the period	**(2 190)**	**(4 270)**
Attributable to:		
Owners of the parent	(2 190)	(4 270)
Non-controlling interests	-	-
Total comprehensive (loss) for the period	**(2 190)**	**(4 270)**

Interim consolidated balance sheet – Assets

In thousands of US$	Note	December 31, 2016	June 30, 2017
Goodwill		18 773	19 089
Intangible assets	10	6 534	4 904
Property and equipment	11	1 523	1 480
Other receivables	14	5 361	1 218
Non-current assets		**32 191**	**26 691**
Inventories		65	47
Trade receivables	12	8 630	7 620
Other receivables	14	4 845	6 096
Bonds redeemable in shares	13	11 648	7 374
Derivative financial instruments		90	39
Cash and cash equivalents		27 081	43 878
Current assets		**52 358**	**65 054**
Total assets		**84 549**	**91 745**

Interim consolidated balance sheet – Equity and liabilities

In thousands of US$	Note	December 31, 2016	June 30, 2017
Ordinary shares	15	22 023	22 046
Share premium	15	228 029	228 156
Other reserves		12 493	12 671
Retained earnings		(211 218)	(198 875)
Income / (loss) for the period		12 344	(3 655)
Equity attributable to equity holders of the Company		**63 670**	**60 343**
Non-controlling interests		-	-
Total equity		**63 670**	**60 343**
Derivative financial liability		-	4 589
Bonds redeemable in shares	16	-	11 970
Other borrowings	16	128	204
Other non-current liabilities		-	492
Retirement benefit obligations		336	278
Non-current liabilities		**465**	**17 533**
Financial debt - short term portion	16	193	4
Derivative instruments		11 524	7 365
Trade and other payables		670	653
Provisions for other liabilities and charges	17	4 308	3 387
Deferred income		3 719	2 460
Current liabilities		**20 414**	**13 869**
Total liabilities		**20 879**	**31 402**
Total equity and liabilities		**84 549**	**91 745**

Interim consolidated statement of changes in equity

In thousands of US$	Attributable to owners of the parent					Non controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at January 1, 2016	**18 218**	**226 518**	**15 250**	**(211 218)**	**48 768**	**-**	**48 767**
Loss for the period	-	-	-	(676)	(676)	-	(676)
Actuarial loss on retirement benefit obligations	-	-	(91)	-	(91)	-	(91)
Financial instruments at fair value	-	-	4	-	4	-	4
Currency translation differences	-	-	(1 409)	-	(1 409)	-	(1 409)
Total other comprehensive income	**-**	**-**	**(1 496)**	**(676)**	**(2 172)**	**-**	**(2 172)**
Share capital increase (Note 15)	3 800	1 575	-	-	5 375	-	5 375
Employees share option scheme :							
Share-based payments	-	-	363	-	363	-	363
Treasury shares	-	-	58	-	58	-	58
Balance as at June 30, 2016	**22 019**	**228 093**	**14 174**	**(211 894)**	**52 391**	**-**	**52 391**
Balance at January 1, 2017	**22 023**	**228 029**	**12 493**	**(198 875)**	**63 670**	-	**63 670**
Loss for the period	-	-	-	(3 655)	(3 655)	-	(3 655)
Actuarial loss on retirement benefit obligations	-	-	76	-	76	-	76
Financial instruments at fair value	-	-	115	-	115	-	115
Currency translation differences	-	-	(654)	-	(654)	-	(654)
Stock options exercised	-	127	-	-	127		127
Total other comprehensive income	**-**	**127**	**(462)**	**(3 655)**	**(3 990)**	-	**(3 990)**
						-	
Share capital increase (Note 15)						-	-
Employees share option scheme :	23	-	-	-	23	-	23
Share-based payments			615	-	615	-	615
Treasury shares	-	-	25	-	25	-	25
Balance as at June 30, 2017	**22 046**	**228 156**	**12 671**	**(202 530)**	**60 343**	**-**	**60 343**

Interim consolidated statement of cash-flow

In thousands of US$	Note	Six-month period ended June 30, 2016	June 30, 2017
Income / (loss) for the period from continuing operations		**(1 005)**	**(3 655)**
Adjustments for:			
Depreciation of tangible assets	10	779	147
Amortization of intangible assets	11	1 860	1 475
Impairment of receivables	12	(188)	3
Impairment of inventories		-	-
Financial result	20	(386)	279
Profit / (loss) on disposal of assets		(245)	-
Share-based payments		363	615
Change in retirement benefit obligation		(103)	(59)
Income tax		1 209	51
Variation in provisions for risks	17	1 598	(429)
Cash generated by / (used in) continuing operations		**3 883**	**(1 573)**
Cash generated by / (used in) discontinued operations		(792)	-
Cash generated by / (used in) operations before changes in working capital		**3 091**	**(1 573)**
Changes in working capital			
Inventories		41	(18)
Trade receivables	12	(13 673)	2 329
Trade receivables transferred or derecognized		3 141	-
Other receivables	14	94	1 038
Research tax credit and grants	18	(2 265)	(294)
Trade and other payables		3 586	(1 715)
Other payables		1 243	(3 615)
Cash generated by / (used in) changes in working capital from discontinued operations	22	(2 428)	-
Cash generated by / (used in) changes in working capital		**(10 259)**	**(2 276)**
Cash generated by / (used in) operations		**(7 168)**	**(3 849)**
Interest received, net		(26)	(13)
Income tax paid		-	(141)
Net cash used in operating activities		**(7 194)**	**(4 002)**
Cash flows from investing activities			
Wisekey bonds sales	13	-	4 377
Purchases of property and equipment	11	(129)	(253)
Cash flows used in investing activites from discontinued operations	22	(102)	-
Cash flows used in investing activities		**(231)**	**4 124**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares, net of issuance costs	15	5 375	127
Convertible bonds	16	-	16 276
Financing of the research tax credit	18	5 833	-
Principal repayment under finance lease		(58)	-
Treasury shares		58	25
Cash flows from financing activities		**11 207**	**16 427**
Net increase / (decrease) in cash and cash equivalents		**3 782**	**16 550**
Cash and cash equivalents at beginning of the period		16 434	27 081
Effect of exchange rate fluctuations		154	247
Effect of exchange rate fluctuations on discontinued operations		50	-
Cash and cash equivalents at end of the period		**20 420**	**43 878**

Notes to the interim consolidated financial statements

1. General Information and Significant events of the period

Inside Secure ("the Company") and its subsidiaries (together "the Group") provide embedded software-based security solutions and technology licenses for mobile and connected devices, to secure digital identity ans content, applications and transactions.

Shares in the Company are listed on the Euronext Paris exchange under the Isin code FR0010291245.

The Company is a limited liability company ("société anonyme"). The address of its registered office is Arteparc Bachasson, rue de la carrière de Bachasson, Meyreuil (13590), France.

The interim consolidated financial statements of the Group as at June 30, 2017 were authorized for issue by the Management Board on July 25, 2016. Interim consolidated financial statements were the subject of a limited review by the statutory auditors.

Discontinued operations

On September 20, 2016, the Company completed the sale of its semi-conductor business. The scope of the transaction includes the sale of certain products, technologies, customer agreements and certain patents. More generally, the scope corresponds to the semiconductor activity of Inside Secure based on the Internet of things, anti-counterfeiting, trademark protection, EMV smart payment cards and secured access.

Pursuant to IFRS 5, since June 30th, 2016 this activity is accounted for in a separate line item of the income statement: "Net Income (Loss) from discontinued operations".

Bonds convertible into Inside Secure shares

On June 29, 2017, the Company issued bonds convertible into and/or exchangeable for new or existing shares (the "Convertible Bonds") for a nominal amount of €15 million. This convertible bond issue provides Inside Secure with enhanced financial capacity and flexibility to contemplate acquisitions to further enrich its security solutions offering while optimizing the financing cost and the shareholders' dilution. The Convertible Bonds' nominal value has been set at €3.73 per Convertible Bonds, representing an issue premium of 30% above Inside Secure reference share price.

In case all bonds are converted into shares, the issue would result in a dilution of 9.3% of the current share capital of Inside Secure.

The Convertible Bonds will bear interest at an annual nominal rate of 6% payable semi-annually in arrears on June 29th and December 29th of each year from December 29, 2017. The Convertible Bonds were issued at par on June 29, 2017, the expected date for the settlement and delivery of the Convertible Bonds, and will be redeemed at par on June 29, 2022.

The Convertible Bonds will entitle their holders to receive new and/or existing Inside Secure shares at a ratio of one share per one Convertible Bonds, subject to any potential subsequent adjustments. The Convertible Bonds may be redeemed prior to maturity at the option of the Company, under certain conditions.

The embedded conversion option of the convertible bond is accounted for separately under IFRS. As the Convertible Bonds are denominated in a currency other than the Company's functional currency, the exercise of the bonds' option will consist in the conversion of a variable amount of cash into a fixed number of shares. As such, according to IFR, the option qualifies as a derivative financial liability and not as an equity instrument.

All the Convertible Bonds are recorded as liabilities on the balance sheet:

- A "derivative financial liability" component estimated at fair value through profit and loss (financial income or expense). This component was first evaluated based on the characteristics of the option. The main assumptions having an impact on the value of the options are:

  - Inside Secure's share price at valuation date,

  - The historical volatility of the share price: the reference period used to determine the volatility for the initial split accounting was nine months, corresponding to the period following the sale of the semi-conductor business in September 2016.

  On these bases, the fair value of the derivative financial liability component was evaluated at $4,452 thousand at issuance date of the Convertible Bonds. The change in fair value as at June 30, 2017 resulted in an expense amounting to $137 thousand.

  The portion of issue costs allocated to the derivative financial liability on a pro rata basis was accounted for as a financial expense for §245 thousand as at June 30, 2017.

- A financial debt component for which the currency exchange variations (calculated based on the spot price) are recorded as a financial income or expense. The fair value of this component corresponds to the difference between the fair value of the option and the issuance price of the bonds, i.e. $12,666 thousand at issuance date. In accordance with IAS 39, this debt component is recorded at amortized cost using the effective interest rate which takes into account:

  - Interest coupons,

  - The allocated portion of issue costs,

  - The redemption value of the Convertible Bonds.

The portion of issue costs allocated to the financial debt component on a pro rata basis was accounted for as a financial expense for §696 thousand as at June 30, 2017.

The value of this debt component on the balance sheet progressively increases to correspond to its redemption value at maturity date. The interest charge as at June 30, 2017 is not significant.

Bonds redeemable in WISeKey shares

As of the closing of the sale of its semiconductor business to WISeKey on 2September 20, 2016, Inside Secure received 2,000 thousand Swiss francs ($2,082 thousand) in cash as well as bonds redeemable in WISeKey shares, listed on the Zurich Stock Exchange, for an amount of 11,000 thousand Swiss francs ($ 11,287 thousand). The bonds may be converted after a period of two months following their allocation into WISeKey shares, freely tradeable, at a discount of at least 10% on the volume weighted average price of the fifteen trading days preceding the date of conversion. The bonds had an initial maturity of nine months, extended to ten months what corresponds to July 20, 2017. 60% of remaining bonds have been converted into shares on July 20, 2017 and can be traded freely on the stock exchange in Zurich.

In accordance with IAS 39, these obligations are hybrid instruments (including a host contract and multiple embedded derivatives). The Group has chosen the option offered by the standard to recognize the entire instrument at fair value through profit or loss, without the need to distinguish embedded derivatives from the host contract. As a result, the Group assesses and recognizes at each balance sheet date the convertible bonds based on their fair value, with changes in fair value from one period to another being recognized in the income statement under the heading "Other gains/ (losses), net ". To the extent that these instruments have been subscribed for in exchange for an business and to the extent that such convertible bonds are not quoted in an active market, the Group measures the fair value of these convertible bonds using an option pricing model (level 2 of the fair value hierarchy according to IFRS 13). For the impact on the Group's financial performance, see note 13 « Convertible bonds redeemable in shares ».

2. Basis of preparation

These interim condensed consolidated financial statements for the six months ended June 30, 2017 have been prepared in accordance with IAS 34, `Interim financial reporting'.

The interim consolidated financial statements should be read in conjunction with the annual financial statements for the semester ended June 30th, 2017, which were prepared in accordance with IFRS.

Presentation currency

The Group has elected to present its consolidated financial statements in US Dollars. The US Dollar is the functional currency of the Company, and the currency in which most transactions within the Group are denominated.

The exchange rates of the US Dollar against the Euro, the main currency used by the Group after the US Dollar, for the six months ended June 30, 2016 and 2017 and the year ended December 31, 2016 are as follows:

Euro/ US Dollar	**June, 30 2016**	**December 31, 2016**	**June 30, 2017**
Closing Rate	1,1102	1,0541	1,1412
Mean Rate	1,1229	1,1066	1,1229

3. Accounting policies

The accounting policies adopted by the Group in the interim consolidated financial statements as at June 30, 2017 are consistent with those of the previous financial year as at December 31, 2016, except for taxes on income in interim periods which are accrued using the tax rate that would be applicable to expected total annual profit or loss.

Standards, amendments and interpretations whose application is not mandatory as at January 1st, 2017, but anticipated are as follows:

- IFRS 9, Financial instruments – classification in liabilities or assets

The Group has assessed that (i) the transition to the classification and measurement model under IFRS 9 will have no impact, (ii) there can be a limited impact on the valuation allowance for trade receivables, while the Group has not yet assessed in detail the impact of the new impairment model. In terms of hedge accounting, the Group still has to evaluate the opportunity to adopt the new IFRS 9 model that could reduce profit and loss volatility related to the management of its foreign currency exposures.

- IFRS 15, Revenue from contracts with customers

The Group has started to analyze contracts with customers under IFRS 15 requirements. Under some license transfer contracts, revenue could be recorded earlier at a point in time instead of overtime. The Group continues to assess all potential impacts of IFRS 15.

The Group is currently evaluating whether the application will be full retrospective or modified retrospective method, both permissible under the new standard.

- IFRS 16, Leases

The Group has not yet started to analyze the impact of this new standard. As a reminder, as of December 2016, the Group has non-cancellable operating lease commitments of US$ 4 172 thousands.

4. Significant judgments and estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2016, with the exception of changes in estimates that are required in determining the provision for income taxes (see note 3) and the impact of IFRS 5 regarding discontinued operations (see note 3).

5. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk and risks on bonds.

The interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2016.

There have been no changes in the risk management policies since December 31, 2016.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from transactions denominated in currencies other than the US dollar, the Company’s functional and presentation currency.

Given that almost all revenue is generated in Dollars, currency exchange fluctuations have no significant effect on revenue. However, a significant portion research and development costs, selling and marketing expenses, and general and administrative expenses are denominated in Euros. The operating result, equity and Group cash are therefore subject to currency fluctuations and, essentially, to fluctuations in the Euro / Dollar exchange rate.

The Group mitigates its exposure to foreign currency fluctuations by matching its cash inflows and outflows denominated in the same currency to the extent possible, resulting in a natural hedge. The Group also uses derivative financial instruments such as currency forward contracts and options to hedge against foreign currency fluctuations.

Credit risk

Credit risk is managed on a Group wide basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Liquidity risk

Cash flow forecasting is performed by the Finance department. Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.

Risks on bonds

As at June 30, 2017 the Company owns bonds redeemable in listed shares of WISeKey International Holding Ltd for an amount of US$ 7 374 thousand (see Note 13) and issued bonds convertible into shares (see note 16).

The bond agreement includes provisions to reduce the volatility of the stock price before conversion (upwards and downwards).

Nevertheless, the WISeKey share remains illiquid to date, which may extend the holding period of the shares after conversion and expose the Group to a post-conversion equity risk.

Regarding the bonds convertible into shares, based on the accounting point of view, the option was classified as a derivative financial liability. The fair value of the derivative, based on the stock price of the Company, is recorded in the income statement

6. Seasonality

The analysis of the data relating to the period ended December 31, 2016 and the period ended June 30, 2017 does not show any clear patterns in terms of seasonality aside from a slight structural overweighting in the second half of the year compared to the first. As such, the financial information relating to the interim periods presented are not necessarily representative of those which are expected for the whole year.

7. Business combinations

In the first half of 2017, no acquisition was completed by Inside Secure.

8. Operating segment information

Following the sale of the semiconductor business in September 2016, which one of the two operating segments, the Group operates only under the segment “Mobile Security”.

The Mobile Security division gathers the Group’s offer in all mobile communication matters, to provide a comprehensive suite of embedded security solutions for all mobile and connected devices. The offer includes IPs, software solutions and marginally semi-conductors capable of addressing the growing needs for a full range of security solutions on all mobile platforms, securing M-payments, content, data communications and data storage.

The adjusted gross margin, adjusted operating result and adjusted EBITDA are not measures of operating performance or liquidity under IFRS.

Adjusted gross margin is defined as gross profit before (i) amortization of intangible assets relating to business combinations, (ii) potential impairment of goodwill, (iii) expense linked to share-based payments and (iv) non-recurring costs relating to restructuring programs and acquisitions by the Group.

Adjusted operating result is defined as operating result before (i) amortization of intangible assets relating to business combinations, (ii) potential impairment of goodwill, (iii) expense linked to share-based payments and (iv) non-recurring costs relating to restructuring programs and acquisitions by the Group.

Adjusted EBITDA is defined as operating result before amortization and depreciation expenses not relating to business combinations.

Adjusted gross margin, 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:

(In thousands of US$)	6-month period ended June 30, 2016	6-month period ended June 30, 2017
Gross profit from continuing operations	21 286	13 192
Gross profit from discontinued operations	11 598	-
Gross profit as per IFRS	**32 884**	**13 192**
Share based payments	-	-
Amortization and depreciation of acquired assets	1 764	781
Adjusted gross profit	**34 649**	**13 973**

(In thousands of US$)	6-month period ended June 30, 2016	6-month period ended June 30, 2017
Operating result from continuing operations	22	(3 112)
Operating result from discontinued operations	329	-
IFRS operating result	**351**	**(3 112)**
Charges related to share based payments	363	616
Amortization and depreciation of acquired assets	1 074	1 099
Interests of research tax credit financing	-	169
Restructuring expenses	6 308	1 529
Adjusted operating income / (loss)	**8 096**	**301**

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 of the semiconductor business, which were allocated based on the location of their head offices.

As at June 30, 2017, the revenue achieved in the United States of America amounted to 6,882 thousand of dollars (20,308 thousand of dollars for the same period in 2016). In France, the revenue amounted to 145 thousand of dollars in 2017 (368 thousands of dollars for the same period in 2016).

The top ten customers represented 71% of the total revenue for the Group for the period ended June 30, 2017, and 51% of revenue for the period ended June 30, 2016.

The distribution of the Group's total revenue (including discontinued operations) by geographical area for the six months ended June 30, 2016 and 2017 is as follows:

(In thousands of US$)	Asia	Europe, Middle East Africa, Latin America	North America	Total
6-month period ended June 30, 2016	2 966	16 911	7 822	27 699
6-month period ended June 30, 2017	3 063	4 024	7 612	14 699

Customers individually representing more than 10% of the total consolidated turnover for these two periods break down as follows:

6-month period ended June 30, 2017 (In thousands of US$)	Invoiced amount	% of total sales
Customer 1	1 405	11%

6-month period ended June 30, 2016 (In thousands of US$)	Invoiced amount	% of total sales
Customer 2	13 868	50%

9. Revenue

The consolidated revenue corresponds exclusively to income from licenses, royalties, development agreements, maintenance and other services. The detail is presented below:

	Six-month period ended	
(in thousands of US$)	**June 30, 2016**	**June 30, 2017**
Licences	3 034	4 215
Royalties	8 094	7 578
Maintenance, development agreements, and other	2 704	2 905
Total revenue from software and silicon IP	**13 831**	**14 699**
Unallocated (*)	13 868	-
Total	**27 699**	**14 699**

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

The Group relies on its expertise in research and development, on intellectual property developed internally and on its patents to generate revenue from licenses, royalties and services (mainly maintenance and development agreements).

10. Intangible assets

Intangible assets break down as follows:

(In thousands of US$)	Patented technologies	Software licenses	Royalties on intellectual property	Technologies in development	Total
As at December 31, 2016					
Opening net book amount	**7 327**	**451**	**3 464**	**4 519**	**15 760**
Acquisitions	-	166	-	-	166
Exchange differences	(377)	135	-	-	(242)
Disposal (net book value)	-	(27)	-	(4 519)	(4 546)
Amortization charge	(1 964)	(106)	(2 534)	-	(4 604)
Closing net book amount	**4 986**	**619**	**930**	**-**	**6 534**
As at December 31, 2016					
Gross value	16 070	6 280	31 576	969	54 895
Accumulated amortization and impairment	(11 084)	(5 661)	(30 646)	(969)	(48 360)
Net book amount as at December 31, 2016	**4 986**	**619**	**930**	**-**	**6 535**

(In thousands of US$)	Patented technologies	Software licenses	Royalties on intellectual property	Technologies in development	Total
6-month period ended June 30, 2017					
Opening net book amount	**4 986**	**619**	**930**	**-**	**6 535**
Acquisitions	-	-	-	-	-
Exchange differences	-	-	-	-	-
Impairment	-	-	-	-	-
Disposal (net book value)	-	-	-	-	-
Amortization charge	(855)	(311)	(465)	-	(1 631)
Closing net book amount	**4 131**	**308**	**465**	**-**	**4 904**
As at June 30, 2017					
Gross value	10 187	4 331	31 576	969	47 063
Accumulated amortization and impairment	(6 056)	(4 024)	(31 111)	(969)	(42 160)
Net book amount as at June 30, 2017	**4 131**	**308**	**465**	**-**	**4 904**

As at June 30, 2017, no leasing costs have been booked in the intangible assets.

11. Property and equipment

Property and equipment break down as follows:

(In thousands of US$)	Fixtures and fittings	Equipment	Furniture and other office equipment	Masks	Total
As at December 31, 2016					
Opening net book amount	**1 041**	**82**	**620**	**-**	**1 744**
Acquisitions	121	165	87	-	**374**
Exchange differences	(8)	(11)	(12)	-	**(31)**
Impairment	-	-	-	-	**-**
Disposals (net book value)	(159)	33	(72)	-	**(198)**
Work in progress	214	-	-	-	**214**
Depreciation charge	(156)	(107)	(317)	-	**(580)**
Closing net book amount	**1 053**	**163**	**307**	**-**	**1 523**
As at December 31, 2016					
Gross value	1 749	271	1 341	-	**3 362**
Accumulated depreciation	(697)	(107)	(1 035)	-	**(1 839)**
Net book value as at December 31, 2016	**1 053**	**163**	**307**	**-**	**1 523**

	Agencements et aménagements	Equipements	Matériel de bureau et informatique	Masques	Total
As at June 30, 2017					
Opening net book amount	**1 053**	**163**	**307**	**-**	**1 523**
Acquisitions	-	-	213	-	**213**
Exchange differences	4	8	1	-	**13**
Disposal (net book value)	-	-	-	-	**-**
Scrapping (net book value)	-	(4)	(117)	-	**(121)**
Reclassification	(15)	-	15	-	**-**
Work in progress	29	-	-	-	**29**
Depreciation charge	(85)	(18)	(74)	-	**(177)**
Closing net book amount	**986**	**149**	**345**	**-**	**1 480**
-	1	-	-	-	-
As at June 30, 2017					
Gross value	1 548	168	1 036	-	**2 752**
Accumulated depreciation	(563)	(18)	(691)	-	**(1 272)**
Net book value as at June 30, 2017	**986**	**150**	**345**	**-**	**1 480**

Depreciation expenses of US$ 177 thousand have been recognized on the lines “cost of sales”, “research and development expenses”, “selling and marketing expenses”, and “general and administrative expenses” according to the corresponding assets’ allocation” (US$ 580 thousand for the six months ended June 30, 2016).

12. Trade receivables

Net Trade receivables, break down as follows:

(In thousands of US$)	December 31, 2016	June 30, 2017
Trade receivables	8 682	7 674
Less: provision for impairment of trade receivables	(52)	(54)
Trade receivables, net	**8 630**	**7 620**

13. Convertible bonds redeemable in WISeKey shares

The convertible bonds amounted to 11,648 thousand of dollars, based on its fair value as at December 31, 2016.

During this period, the Group has converted 40% of the nominal value and has sold all related shares amounted to 4,377 thousand of dollars.

As at June 30, 2017, the fair value amounts to 7,374 thousand of dollars. The variation between December 31, 2016 and June 30, 2017 is presented below:

Movements of the period	In thousand dollars
Bonds as at December 31, 2016	11 648
Conversion of bonds	(4 659)
Fair value variation	(96)
Exchange rate impact	481
Bonds as at June 30, 2017	**7 374**

The remaining 60% of bonds have been converted in shares as at July 20, 2017 and are freely negotiable at Zurich Stock Exchange.

14. Other assets

Other assets can be analyzed as follows:

(In thousands of US$)	December 31, 2016	June 30, 2017
Deposits	314	337
Research tax credit	3 174	1 461
Prepaid expenses	1 094	1 381
VAT receivables	1 049	621
Other receivables	4 373	3 320
Pre-payments	202	194
Other receivables	**10 206**	**7 314**
Other receivables - Non-current portion	*4 845*	*6 096*
Other receivables - Current portion	*5 361*	*1 218*

In December 2016 and in May 2017, the Company achieved the assignment of its Research Tax Credit. All the risks and benefits attached to these receivables to be transferred to the assignee, the risk of tax adjustment retained by the group being considered marginal. The receivables sold were therefore derecognized for an amount of $ 15,776 thousand in 2016 and $ 1,981 in 2017. A receivable in respect of the transferee credit institution was recognized for an amount of 976 thousand dollars ($1,609 thousand as at December 31, 2016), corresponding in substance to a guarantee holdback, and which, considering its size and the terms of return Company, does not call into question the transfer to the assignee of all the risks and advantages of the receivables transferred. The Company recorded as operating expenses (research and development expenses) the amount of 169 thousand dollars corresponding to the portion of interest deducted over the period ending June 30, 2017 (no charge for the period ending June 30, 2016).

In accordance with generally accepted accounting principles, the RTC receivable is not discounted.

15. Share capital and premium

Variations in the number of shares, the share capital and the share premium are as follows:

(In thousands of US$ except number of shares)	Number of shares	Ordinary shares	Share premium	Total
As at January 1, 2016	**34 771 348**	**18 218**	**226 518**	**243 840**
Equity financing	8 345 118	3 800	1 575	5 375
As at June 30, 2016	**43 116 466**	**22 019**	**228 093**	**249 215**
As at January 1, 2017	**43 126 999**	**22 023**	**228 029**	**250 052**
Share capital increase	54 254	23	127	150
As at June 30, 2017	**43 181 253**	**22 046**	**228 156**	**250 202**

As at June 30, 2017, definitive acquisition of free shares has been booked for an amount of 25 thousand dollars.

16. Financial debts

Financial debts break down as follows:

(In thousands of US$)	December 31, 2016	June 30, 2017
Non-current		
Bonds redeemable in shares	-	11 970
Other borrowings	128	204
	128	**12 174**
Current		
Other borrowings	670	653
	670	**653**
Total	**798**	**12 827**

Refer to note 1 “General Information and Significant events of the period” for accounting treatment of bonds redeemable in shares.

The item “Other borrowings” includes repayable advance with a defined timetable and financing of competitiveness and employment tax credit.

17. Provisions for other liabilities and charges

Provisions for other liabilities and charges break down as follows:

(In thousands of US$)	**Employee related litigations**	**Customer claims**	**Restructuring**	**Others**	**Total**
As at January 1, 2017	**-**	**1 655**	**2 654**	**-**	**4 308**
Charges / (credited) to the income statement:					
- Additional provisions	-	-	528	-	**528**
- Unused amounts reversed	-	-	(69)	-	**(69)**
- Used during the period			(1 007)	-	**(1 007)**
Exchange differences			118		**118**
As at June 30, 2017	**-**	**1 655**	**2 225**	**-**	**3 880**

Employee related litigation

The Group is subject to legal proceedings arising in the ordinary course of business. Management does not expect that the ultimate costs necessary to resolve these matters will have a material adverse effect on the Group’s consolidated financial position, result of operations or cash flows.

Restructuring provision

On February 25, 2016, the Company announced its decision to exit the semiconductor business as well as a rightsizing of its operations through a restructuring plan. This restructuring plan included a reduction in the Inside Secure workforce, in France and in different countries where the company is operating. On December 31, 2016, the plan was executed and finalized. The provision for an amount of 2,225 thousand dollars represents the remaining payments related to this restructuring. The additional provision corresponds to onerous contracts and is linked to negotiation issues with the lessor regarding departure from unoccupied spaces.

18. Research and development expenses

Research and development expenses break down as follows:

	6-month period ended	
(In thousands of US$)	**June 30, 2016**	**June 30, 2017**
Research and development expense	8 314	6 451
Research tax credit	(1 184)	(294)
Total	**7 130**	**6 157**

19. Other (losses) / gains, net

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

(In thousands of US$)	6-month period ended June 30, 2016	June 30, 2017
Variation in the provision for restructuring	(2 400)	(1 529)
Foreign exchange gains/ (losses) on operating activities	(434)	446
Other	-	494
Total	**(2 834)**	**(589)**

Operating exchange gains and losses relate to exchange differences affecting revenue and operating expenses concluded during the period as well as the impact of the translation at closing rates of operating assets and liabilities denominated in currencies other than the functional currency of the consolidated companies.

20. Finance income and expense

Finance income and expense breaks down as follows:

(In thousands of US$)	6-month period ended June 30, 2016	June 30, 2017
Foreign exchange (loss)	(1 811)	(890)
Interest expense	(254)	(13)
Financing fees linked to bonds redeemable in shares (Note 1)	-	(245)
Variation of derivative fair value links to bonds redeemable in shares (Note 1)	-	(137)
Variation of bonds fair value and sales result of Wisekey shares (Note 13)	-	(624)
Finance costs	**(2 065)**	**(1 909)**
Foreign exchange gain	2 443	1 625
Interest income	8	6
Finance income	**2 451**	**1 630**
Finance income / (loss), net	**386**	**(279)**

Foreign exchange gains and losses relating to financial transactions settled during the period, as well as the impact of the translation at closing rates of cash denominated in Euros into US Dollars, are recognized as finance income or expenses.

21. Earnings per share

a) Basic

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

	6-month period ended	
	June 30, 2016	**June 30, 2017**
Loss attributable to equity holders of the Company (in thousand dollars)	(676)	(3 655)
Weighted average number of ordinary shares in issue	37 952 636	43 154 427
Basic loss per share (US$ per share)	**(0,018)**	**(0,085)**
Basic loss from continuing operations per share (US$ per share)	(0,026)	(0,085)
Basic income / (loss) from discontinued operations per share (US$ per share)	0,009	-

b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding with the shares which would be issued as a consequence of the exercising of dilutive financial instruments.

The Group has three categories of dilutive potential financial instruments: free shares, warrants, and stock options.

For accounting purposes, when dilutive instruments have the result that the dilutive loss per share is less than the basic loss per share, the impact of dilutive instruments is not taken into account.

22. Assets classified as held for sale and liabilities directly associated and discontinued operations

The profit / (loss) from discontinued operations are as follows:

In thousands of US$	Six-month period ended June 30, 2016	June 30, 2017
Revenue	25 903	-
Cost of sales	(14 306)	-
Gross profit	**11 597**	**-**
Research and development expenses	(3 942)	-
Selling and marketing expenses	(3 761)	-
General and administrative expenses	(785)	-
Other gains / (losses), net	(2 780)	-
Operating profit / (loss) from discontinued operations	**329**	**-**
Finance income / (loss), net	-	-
Profit / (loss) before income tax from discontinued operations	**329**	**-**
Income tax expense	-	-
Profit / (loss) for the period from discontinued operations	**329**	**-**

23. Commitments

The Group leases offices under non-cancellable operating lease agreements. Most these leases are renewable at the end of the lease period at market prices. The Group also leases certain cancellable rental equipment.

Minimum future payments for non-cancellable leases are as follows:

(In thousands of US$)	December 31, 2016	June 30, 2017
Gross finance lease liabilities - minimum lease payment		
No later than 1 period	1 593	1 661
Later than 1 period and no later than 5 periods	2 579	2 630
Later than 5 periods	-	-
Total	**4 172**	**4 291**

In August 2012, the Group entered into a lease agreement on a building that houses its headquarters (with effective date as at July 2013). The initial term of this lease is six years. Future rent payments with respect to these six years are included in the table above.

24. Related party transactions

The Company contracts consulting and audit services from Leyton & Associés; the Company and Leyton & Associés share a common shareholder (investment company GIMV). These services have been negotiated on arm's length basis, without the involvement of the common shareholder, and amounted to US$ 3 thousand and US$ 130 thousand for six months ended June 30, 2016 and 2017, respectively.

No financing has been granted by Bpifrance to the Company in the first half of 2017.

Key management compensation

Key management is composed of the members of the Management Board. The compensation paid to key management is as follows:

(In thousands of US$)	6-month period ended June 30, 2016	June 30, 2017
Salaries	582	941
Share-based compensation expenses	109	141
Total	**691**	**1 082**

25. Events subsequent to the balance sheet

None.

26. Scope of Consolidation

The consolidated financial statements as at June 30, 2017 include the accounts from Inside Secure, the parent company, as well as those of the following entities:

Country	Entity	Holding percentage December 31, 2016	Holding percentage June 30, 2017	First consolidation	Consolidation method	Acquisition/ creation
France	Inside Secure France	100%	100%	2012	Global	Creation
USA	Inside Secure Corporation	100%	100%	2002	Global	Creation
UK	Inside Secure UK Ltd.	100%	100%	2010	Global	Acquisition
Netherlands	Inside Secure B.V	100%	100%	2012	Global	Acquisition
Netherlands	Inside Secure Amsterdam B.V	100%	100%	2012	Global	Acquisition
Finland	Inside Secure Oy	100%	100%	2012	Global	Acquisition
Japan	Inside Secure K.K	100%	100%	2013	Global	Creation
UK	Metaforic Ltd	100%	100%	2014	Global	Acquisition

The scope of consolidation remained unchanged for the six-month period ended June 30, 2017.

3. Statutory Auditors’ review report on the interim consolidated financial information

This is a free translation into English of the Statutory Auditors’ review report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,
Inside Secure SA
Rue de la Carrière de Bachasson
13590 Meyreuil

In compliance with the assignment entrusted to us by your general meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (“Code monétaire et financier”), we hereby report to you on:

- the review of the accompanying condensed interim consolidated financial statements of Inside Secure SA, for the six months ended June 30, 2017;
- the verification of the information contained in the interim management report.

These condensed interim consolidated financial statements are the responsibility of the management board. Our role is to express a conclusion on these financial statements based on our review.

1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - the standard of IFRSs as adopted by the European Union applicable to interim financial information.

2. 2.Specific verification

We have also verified the information given in the interim management report on the condensed interim consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed interim consolidated financial statements.

Neuilly-sur-Seine and Aix-en-Provence, August 4, 2017

The Statutory Auditors

PricewaterhouseCoopers Audit Didier Cavanié Partner	Jérôme Magnan

4. CEO attestation

I certify, to my knowledge, the condensed consolidated financial statements for the half year are prepared in accordance with applicable accounting standards and present fairly the assets, financial condition and results of the Company and the undertakings included in the consolidation, and that this interim management report includes a fair review of significant events occurring during the first six months of the year, their impact on the interim financial statements, the main transactions between related parties and a description of the main risks and uncertainties for the remaining six months of the year.

San Jose, California, August 7, 2017

Amedeo D'Angelo
President & CEO

Appendix

Non-GAAP measures – Reconciliation of adjusted financial measures with IFRS results (continuing operations)

The following tables show the reconciliation of the adjusted financial measures, as defined above, to the consolidated income statements of the continuing operations for the six-month periods to June 30, 2017 and 2016 respectively:

(in thousands of US$)	2017 adjusted	Business combinations	Share-based payment	Other non-recurring costs (*)	2017 IFRS
Revenue	14 699	-	-	-	14 699
Cost of sales	(726)	(781)	-	-	(1 507)
Gross profit	**13 973**	**(781)**	**-**	**-**	**13 192**
As a % of revenue					
R&D expenses	(5 594)	(318)	(76)	(169)	(6 157)
Selling & marketing expenses	(6 091)	-	(268)	-	(6 359)
General & administrative expenses	(2 927)	-	(272)	-	(3 199)
Other gains/(losses), net	940	-	-	(1 529)	(589)
Operating income from continuing operations	**301**	**(1 099)**	**(616)**	**(1 698)**	**(3 112)**
Amortization and depreciation of assets (**)	523				
EBITDA	**824**				

(in thousands of US$)	2016 adjusted	Business combinations	Share-based payment	Other non-recurring costs (*)	2016 IFRS
Revenue	27 699	-	-	-	27 699
Cost of sales	(4 648)	(1 764)	(1)	-	(6 413)
Gross profit	**23 051**	**(1 764)**	**(1)**	**-**	**21 286**
As a % of revenue	*83,2%*				*76,8%*
R&D expenses	(6 907)	(151)	(74)	-	(7 132)
Selling & marketing expenses	(5 922)	-	(138)	-	(6 060)
General & administrative expenses	(5 091)	-	(150)	-	(5 241)
Other gains/(losses), net	(434)	-	-	(2 400)	(2 834)
Operating loss from continuing operations	**4 698**	**(1 915)**	**(363)**	**(2 400)**	**20**
Amortization and depreciation of assets (**)	622	-	-	-	-
EBITDA	**5 320**				

(*) 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.

Forward-looking statements

This report contains certain forward-looking statements concerning Inside Secure. 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 2016 registration document filed with the French financial market authority (the Autorité des marchés financiers – the "AMF") on March 28, 2017 under number D.17-0244, available on www.insidesecure-finance.com/en

Complementary note

This document is an English language translation of Inside Secure's 2017 Half-Year Financial Report ("rapport financier semestriel") as filed with the Autorité des Marchés Financiers (the "AMF") on August 7, 2017. This translation has been provided for convenience only. In the event there are any discrepancies or differences between this translation and the French language version of the 2017 Half-Year Financial Report, only the French language original document will be considered the official text. Inside Secure makes no representations or warranties about the accuracy or completeness of this English translation and assumes no liability for any errors, omissions or inaccuracies in this English translation.