



driving trust

**Mobile Near Field
Communication**

Digital Security

Secure Payments

INSIDE Secure

First Half 2012 Financial Results

August 3, 2012

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inside
SECURE



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H1 2012 key highlights

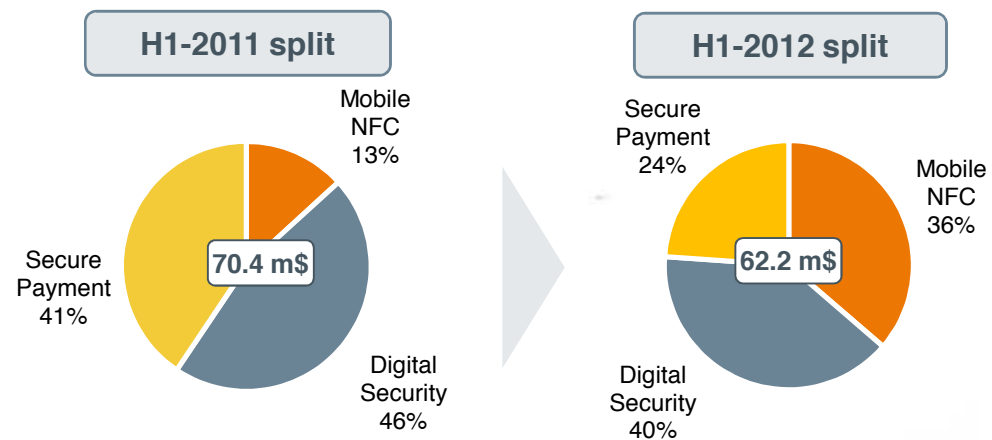
- Consolidated revenues of \$62.2 million for the first half of 2012, affected in particular by the unfavorable change in RIM mobile handsets deliveries
- Adjusted operating loss of \$16.2 million
- Solid cash position of \$95.5 million as of 30 June 2012
- Intel strategic partnership on track with program plan
- NFC Booster and own Secure element developments on track
- Launch of a NFC patent licensing program managed by France Brevets to drive forward the roll-out of NFC technology
- On-going marketing and sales efforts to broaden digital security product and service offering to serve promising markets (such as anti-counterfeiting, smart metering and machine-to-machine). Strong pipe of opportunities
- Continued preparation of the US market migration towards a new EMV type standard in Secure Payments

Revenue Q2-2012

in thousands of US\$	Q2-2012 consolidated	Q2-2011 consolidated	Q1-2012 consolidated	% Change annual	% Change sequential
Mobile NFC	8 348	6 700	14 258	25%	-41%
<i>Mobile NFC</i>	<i>8 348</i>	<i>6 694</i>	<i>14 258</i>	<i>25%</i>	<i>-41%</i>
<i>SIM cards</i>	<i>-</i>	<i>6</i>	<i>-</i>	<i>-100%</i>	<i>-</i>
Digital Security	12 789	14 930	11 938	-14%	7%
Secure Payment	7 038	10 183	7 828	-31%	-10%
Total Revenue	28 176	31 813	34 024	-11%	-17%
<i>Total excl. SIM cards</i>	<i>28 176</i>	<i>31 807</i>	<i>34 024</i>	<i>-11%</i>	<i>-17%</i>

Revenue H1-2012

in thousands of US\$	H1-2012 consolidated	H1-2011 consolidated	H2-2011 consolidated	% Change annual	% Change sequential
Mobile NFC	22 606	9 304	38 657	143%	-42%
<i>Mobile NFC</i>	<i>22 606</i>	<i>8 434</i>	<i>38 524</i>	<i>168%</i>	<i>-41%</i>
<i>SIM cards</i>	<i>-</i>	<i>870</i>	<i>133</i>	<i>-100%</i>	<i>-</i>
Digital Security	24 728	32 481	27 779	-24%	-11%
Secure Payment	14 866	28 575	14 672	-48%	1%
Total Revenue	62 200	70 360	81 108	-12%	-23%
<i>Total excl. SIM cards</i>	<i>62 200</i>	<i>69 490</i>	<i>80 975</i>	<i>-10%</i>	<i>-23%</i>



Income statement H1-2012

in thousands of US\$	H1-2012 consolidated	H1-2011 consolidated
Revenue	62 200	70 360
Cost of sales	(47 726)	(50 489)
Gross margin	14 473	19 871
<i>in % of revenue</i>	23,3%	28,2%
R&D expenses	(19 314)	(16 382)
<i>in % of revenue</i>	-31%	-23%
Selling & marketing expenses	(9 045)	(9 535)
<i>in % of revenue</i>	-15%	-14%
General & administrative expenses	(4 729)	(5 054)
<i>in % of revenue</i>	-8%	-7%
Other (losses)/gains, net	(603)	(49)
Operating income	(19 218)	(11 149)
<i>in % of revenue</i>	-30,9%	-15,8%
Adjusted operating income	(16 178)	(7 293)
<i>in % of revenue</i>	-26,0%	-10,4%

Transitional items impacting gross margin

- Outsourcing of Secure Element
- Evolving business mix
- Absence of design wins during Atmel's division sale process (Secure Payment and ID)
- Increase in inventory reserves

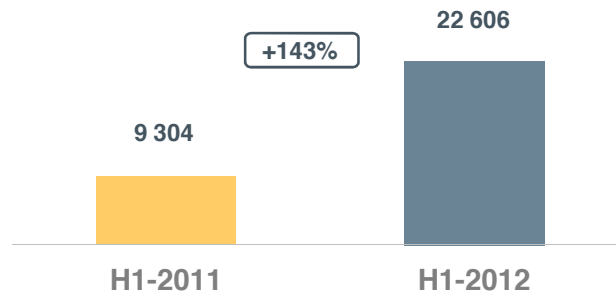
- Sizeable R&D staffing effort to support new NFC products.
- Secure payment R&D downsized

- Tight control on SG&A

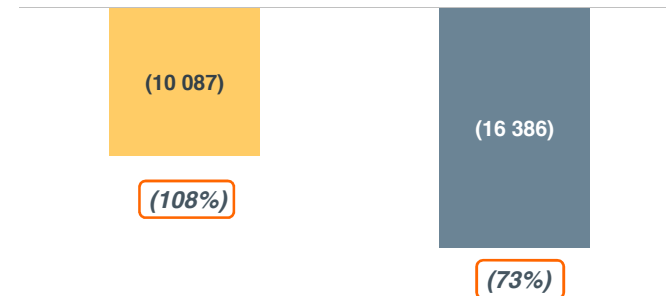
- 2012 composed of:
- \$(166)K restructuring expenses (end of SMS integration)
- \$(437)K exchange gains and losses on operational items.

Mobile NFC

Revenue (in \$m)



Adjusted operating income (in \$m)

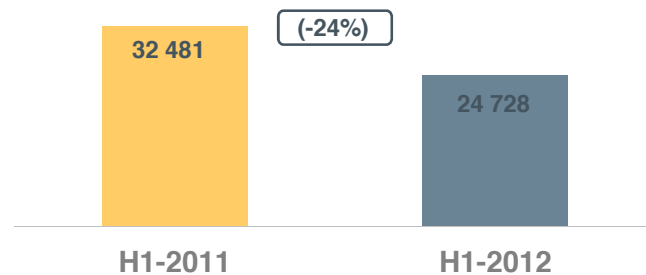


■ H1-2011 ■ H1-2012 x % Adjusted operating income in % of revenue

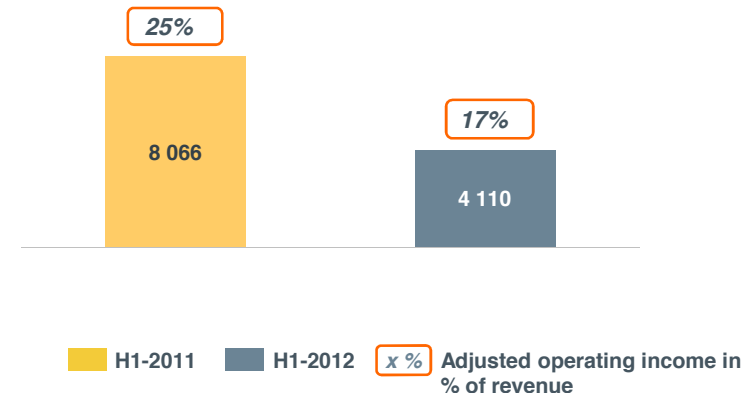
- H1-12 revenue increase by 143% year-over-year to \$22.6 million but H1-12 decreased vs. H2-12, mainly affected by the unfavorable change in RIM mobile handsets deliveries
- R&D efforts increased in H1-12 to support development of new products
- NFC Booster and own secure element developments on track
- Adjusted operating loss of \$16.4 million as a result of accelerated R&D efforts and investment in NFC business development efforts

Digital Security

Revenue (in \$m)



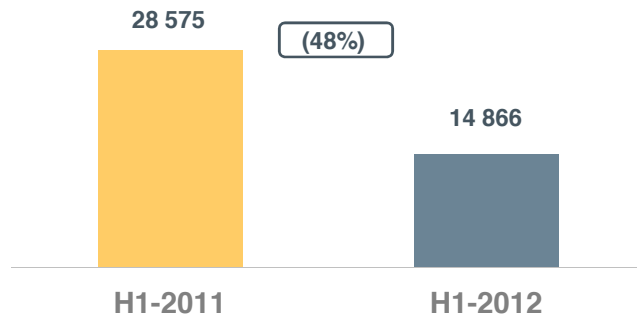
Adjusted operating income (in \$m)



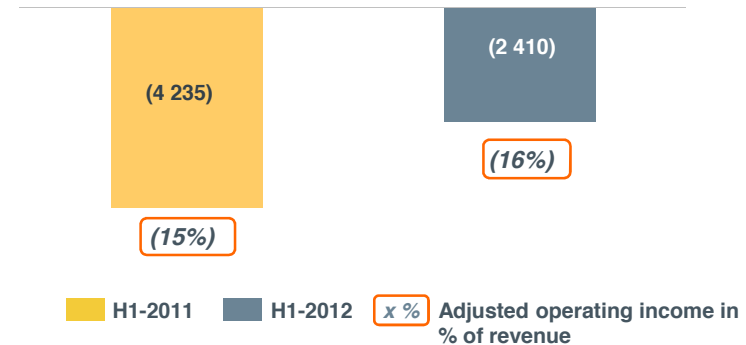
- Revenue of \$24.7 million: new accounts (eg. Pay-TV) only partly balancing non recurring businesses and decrease in ID products
- Lower margin ID segment: lack of design-wins from card manufacturers during the period before the acquisition of SMS by INSIDE
- Adjusted operating income at 17% of revenue. 8pts below H1-2011 mainly due to lower revenue (and thus gross profit)
- Investment in marketing and sales channels to leverage security expertise; strong pipe of opportunities

Secure Payment

Revenue (in \$m)

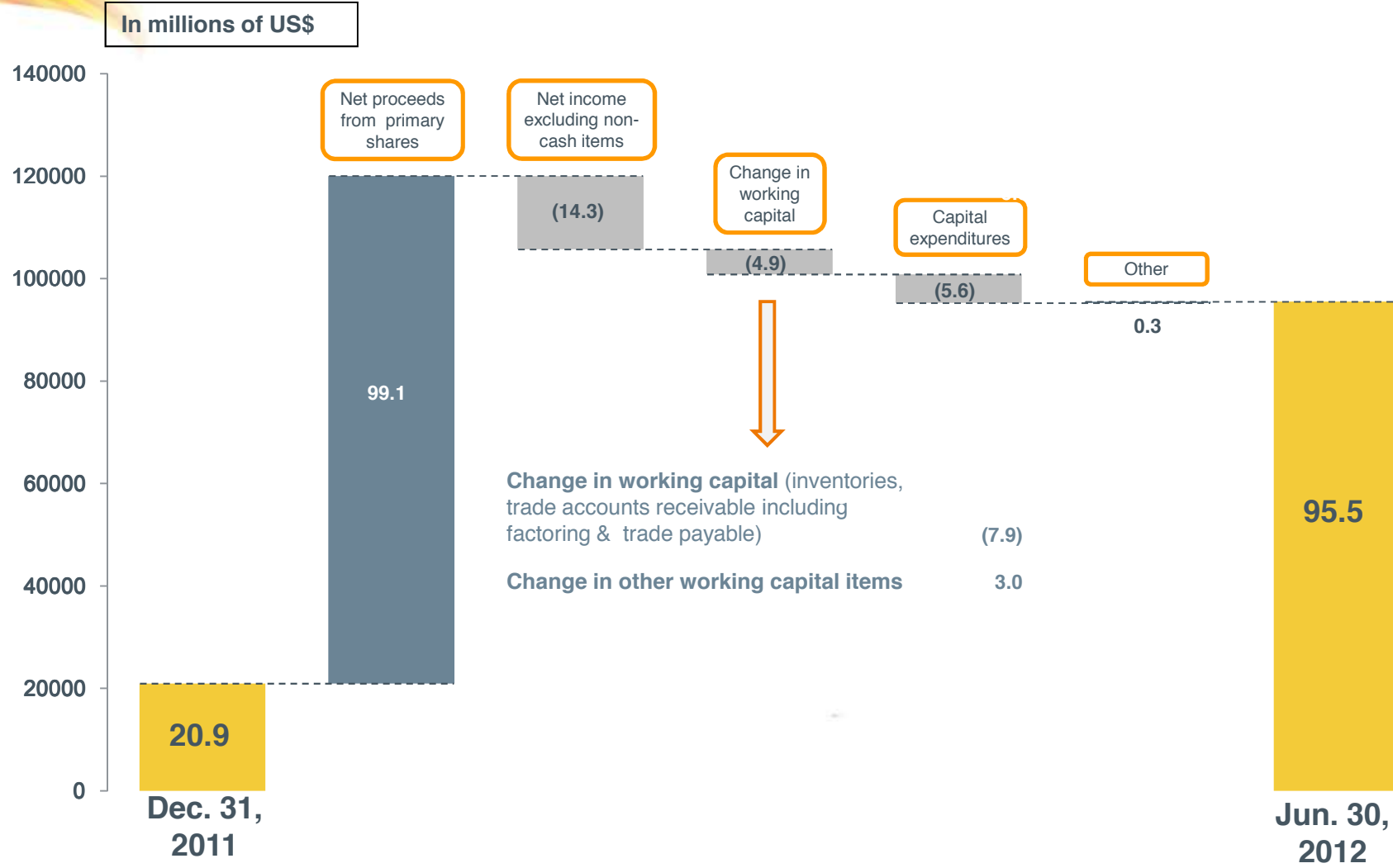


Adjusted operating income (in \$m)



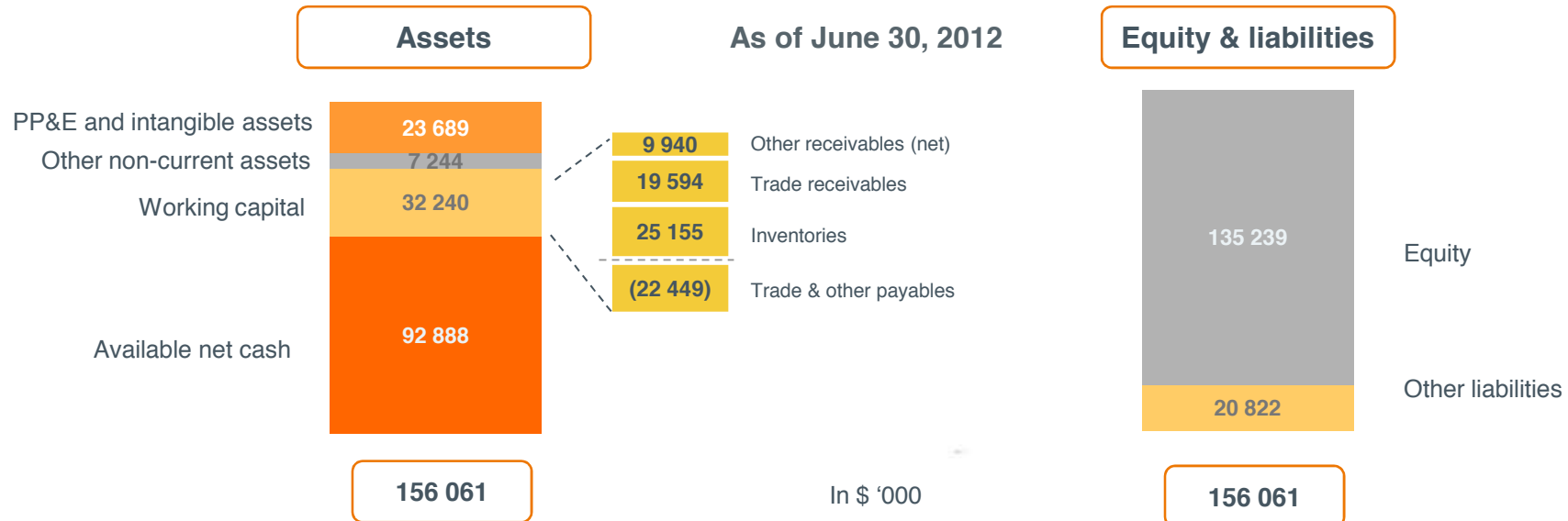
- Revenue down 48% due to the downturn in the US market contactless payment solutions and lack of design wins in 2009 and 2010 during the period before the acquisition of SMS by INSIDE
- Focus on development of semiconductor platforms for the future US EMV roll-out
- Internal resources (mainly R&D and sales) redeployed from Secure Payment to other projects. As a consequence, adjusted operating loss was reduced significantly in H1-12

Cash flow H1-2012




Sound balance sheet to support growth

Available cash of \$95.5m as of June 30, 2012





2012 Outlook

- INSIDE Secure remains focused on:
 - consolidating its position as a pioneer in the NFC market
 - diversifying its customer base
 - stepping up its innovation efforts to obtain design wins with tier-one mobile handset manufacturers
 - Confirmation of target of achieving the first sales of "NFC booster" on a SIM card during the fourth quarter of 2012
 - Confirmation of the launch of its own secure element in the fourth quarter of 2012, with impact on gross margin which should be felt by the end of the third quarter of 2013
 - Confirmation of revised objectives as announced on 25 May 2012
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APPENDICES

P&L reconciliation from IFRS to Adjusted H1-2012

in thousands of US\$	H1-2012 IFRS	Business combination	Sharebased payments	Other non- recurring costs	H1-2012 adjusted
Revenue	62 200	-	-	-	62 200
Cost of sales	(47 726)	1 077	69	-	(46 581)
Gross margin	14 473	1 077	69	-	15 619
<i>in % of revenue</i>	23,3%				25,1%
R&D expenses	(19 314)	835	182	-	(18 297)
Selling & marketing expenses	(9 046)	-	264	-	(8 782)
General & administrative expenses	(4 729)	-	448	-	(4 281)
Other (losses)/gains, net	(603)	-	-	166	(437)
Operating income	(19 218)	1 912	963	166	(16 178)
<i>in % of revenue</i>	-30,9%				-26,0%
Finance income, net	(1 846)	-	-	-	(1 846)
Income tax expense	(49)	-	-	-	(49)
Net income	(21 113)	1 912	963	166	(18 073)
<i>in % of revenue</i>	-33,9%				-29,1%

Business combination: Amortization and Depreciation of acquired assets (SMS-Atmel)

Other non-recurrent costs: restructuring expenses essentially for moving probing activity from Atmel to new subcontractors.

P&L reconciliation from IFRS to Adjusted H1-2011

in thousands of US\$	H1-2011 IFRS	Business combination	Sharebased payments	Other non- recurring costs	H1-2011 adjusted
Revenue	70 360	-	-	-	70 360
Cost of sales	(50 489)	1 268	93		(49 128)
Gross margin	19 871	1 268	93	-	21 232
<i>in % of revenue</i>	28,2%				30,2%
R&D expenses	(16 382)	797	137		(15 447)
Selling & marketing expenses	(9 535)	716	514		(8 305)
General & administrative expenses	(5 054)	-	281		(4 773)
Other (losses)/gains, net	(49)	-		49	-
Operating income	(11 149)	2 781	1 025	49	(7 293)
<i>in % of revenue</i>	-15,8%				-10,4%
Finance income, net	2 732				2 732
Income tax expense	(279)				(279)
Net income	(8 696)	2 781	1 025	49	(4 841)
<i>in % of revenue</i>	-12,4%				-6,9%

Business combination: Amortization and Depreciation of acquired assets (SMS-Atmel)

Other non-recurrent costs: restructuring expenses essentially for moving probing activity from Atmel to new subcontractors.