That’s how the Brazilian Environmental Protection Agency is fighting illegal deforestation in the Amazon rainforest – using Gemalto’s Cinterion M2M technology.

RUGGED, DISCREET SENSORS WITH HIGH-PERFORMANCE WIRELESS CONNECTIVITY ARE INSTALLED IN TREES AND SEND ALARMS IF REMOVED FROM PROTECTED AREAS, ENABLING OFFICIALS TO TRACK THEM BEFORE THEY ARE SOLD.

CONFIRMING OUR EXPERTISE IN THE INTERNET OF THINGS, THE SOLUTION WON A ‘SEASAME’ AWARD FOR ITS IMPACTFUL INNOVATION AT THE 2013 CARTES INTERNATIONAL TRADESHOW.
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overview</td>
<td>01</td>
</tr>
<tr>
<td>How we create value</td>
<td>04</td>
</tr>
<tr>
<td><strong>Segmental review</strong></td>
<td></td>
</tr>
<tr>
<td>Our four segments</td>
<td>p16</td>
</tr>
<tr>
<td>Ten major opportunities</td>
<td>p17</td>
</tr>
<tr>
<td>Mobile Communication</td>
<td>p18</td>
</tr>
<tr>
<td>Machine-to-Machine</td>
<td>p20</td>
</tr>
<tr>
<td>Secure Transactions</td>
<td>p22</td>
</tr>
<tr>
<td>Security</td>
<td>p24</td>
</tr>
<tr>
<td>Sustainability</td>
<td>26</td>
</tr>
<tr>
<td>Financial review and Risk management</td>
<td>32</td>
</tr>
<tr>
<td>Governance</td>
<td>46</td>
</tr>
<tr>
<td>Financial statements</td>
<td>68</td>
</tr>
<tr>
<td>Other information</td>
<td>120</td>
</tr>
</tbody>
</table>
In 2013, our four main segments saw **strong growth**

We report our performance in four main business segments, each of which contains Embedded software & Products and Platforms & Services activities. Since our markets and technologies are inter-related, some products, platforms or services can potentially be sold in more than one segment. In such cases, it is the market of the primary client that determines the attribution of the activity to a segment.

1 In the segmental review, revenue variations are at constant exchange rates and all other figures are at historical exchange rates except where otherwise noted.
And their future is driven by **ten major opportunities**

### Embedded software & Products

**SIM cards and embedded secure clients**

**Mobile connections are proliferating**
Mobile penetration continues to grow in developing countries, and in the developed world people often have several mobile devices using our secure technology. Multi-tenant SIMs and built-in secure elements mean more embedded software and multiple opportunities per device, and rapid innovation encourages regular upgrades.

**M2M modules and MIMs**

**Things are getting connected too**
The next decade will see a huge upsurge in machines using wireless networks to communicate with one another, e.g. in the health, energy and automobile sectors. We have market-leading solutions for both ends of the connection, and for managing both operators’ and industrial customers’ systems.

### Platforms & Services

**Trust infrastructure**

**Digital interactions need trusted connections**
A new shared and trusted global infrastructure, the Trusted Service Manager (TSM) network, is enabling consumers to connect securely to all sorts of online services – and we are at the heart of it. In ten years, TSM could be linking 5 billion consumers to at least two services each.

**Core back-end services**

**More users, more usage, more services**
Our secure management services to mobile network operators continue to grow, boosted by new capabilities like activating 4G subscriptions and enabling consumers to pay for online purchases via their phone bill – particularly valuable in developing countries where many subscribers lack bank accounts.

**Payment platforms and services**

**Consumers want more ways to pay**
Today there are 9 billion card-based payment accounts. And increasingly, consumers want more ways to pay using at least two other connected devices. Potentially that’s 27 billion payment credentials to issue, secure and manage, with contactless and NFC technologies as further growth drivers.

**Accessing online services**

**We’re taking our own devices to work**
The strong authentication technology we use for banks works just as well for enterprises. They’re moving more of their data to the cloud, and letting employees access corporate networks from their own personal devices. In ten years we foresee a tenfold increase in demand for cloud authentication services.

**eGovernment platforms and services**

**eID opens the door to new services for citizens**
Behind eDocuments we build automated systems. These can enable you to complete and digitally sign forms as well as access government services online conveniently and securely. They can also check your passport ID against relevant databases and automatically open border gates, for example, or allow online issuance and management of visas. We are leaders in this industry.

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1. Gemalto
2. Nilson Report, National Gold Card Foundation, EMVCo
3. Cisco VNI
4. Moody’s Analytics, Euromonitor International Merchant Segment Study 2012
5. Gemalto
6. ICAD, ABI Research
“Mobile Communication recorded annual revenue of €1.09 billion, up +5% at constant exchange rates, posting another solid performance on top of the +10% year-on-year expansion recorded the previous year.”

### Performance review

Mobile Communication recorded annual revenue of €1.09 billion, up +5% at constant exchange rates, posting another solid performance on top of the +10% year-on-year expansion recorded the previous year. Both Embedded software & Products and Platforms & Services activities contributed to revenue growth.

In Embedded software & Products (E&P), deployment of LTE and multi-tenant secure elements drove mix improvement. Revenue grew by +1% after the +6% increase recorded in 2012. The revenue decrease in entry-range Qipso prepaid 2G products lowered the growth of this E&P activity by 3 percentage points, as the Company intentionally limited its market presence in this segment particularly affected by a strong market contraction in India. At the other end of the product portfolio, the increasing penetration of LTE networks and the roll-outs of multi-tenant SIM cards designed to secure third-party mobile services drove a strong sales increase of the Company’s UpTeq high-end products.

Platforms & Services (P&S) grew by +19% year-on-year on the back of the continuing deployment of LTE subscription management platforms, trust infrastructure, and other remote management services. In the fourth quarter, a lower growth in this activity was observed, resulting from a change in the revenue accounting methodology in the Netsize/IPX consolidated entity, which reduced Platforms & Services and the total segment revenue by (€8) million net. Activity remained intense throughout the entire year with the ongoing deployment phase of secure mobile services and the number of signed contracts covering Trusted Service Management services and Gemalto Mobile Payment Platforms increased faster than the number of contracts delivered, maintaining a solid delivery pipeline.

Gross margin improved by +2.3 percentage points to 46%, supported by the improved product mix and despite the extensive system integration work engaged in the P&S activity to deploy large-scale high-availability service platforms.

Operating expenses, higher by +5% on the previous year, accounted for 27% of the revenue, a figure up by +1.2 percentage points on the previous year, now including the year-on-year impact of investments made in the second part of 2012 to accompany the strong expansion in the Platforms & Services activity.

As a result of the above, the segment’s profit from operations rose by +€12 million to €205 million, up by +6% and accounting for 19% of the segment’s revenue.
Opportunities continue to expand

Although the number of mobile subscriptions now nearly equals the world population\(^1\), the mobile market still offers numerous opportunities. In developing countries, many people are still buying their first handsets or are beginning to exchange their basic phones for low-priced smartphones\(^2\). Elsewhere — particularly in three of the high-growth BRIC\(^3\) markets — consumers increasingly own multiple devices\(^4\). For Gemalto, this is particularly significant when the average replacement cycle of our products is two years\(^5\). These include secure operating systems embedded in SIM and UICC cards, authenticating every user and opening the door to mobile services.

Beyond this, smart devices with internet browsers, and the initial deployment of multi-tenant SIMs, are enabling users to benefit from new kinds of service from a wide range of providers. All this is driving strong growth in mobile data volumes\(^6\) and contributing to the demand for next generation LTE/4G networks. New technologies such as Near-Field Communication (NFC) are also creating new possibilities for secure value-added services using mobile devices.

Increasing need for trust

For Gemalto, this means sustained demand for our portfolio of Embedded software & Products as well as our Platforms & Services offers. The proliferation of always-connected devices performing valuable transactions is also increasing the requirement for trust infrastructures — a market in which our Trusted Service Management (TSM) and Mobile Payment services are pre-eminent. In Japan, for example, network operator SoftBank Mobile recently chose Gemalto technology for the commercial launch of its NFC payment offering.

CASE STUDY

NFC payment Brazil

Paying with a wave? Trust us to make it happen

NFC technology offers a new level of convenience for on-the-go payments like buying a coffee or a bus ticket. Just wave your NFC-equipped device close to a payment terminal, and the bill’s paid.

We’re bringing NFC payment to Brazil with our SIM technology and Trusted Services Management platform. Our clients include mobile operator TIM Brasil, with 70 million subscribers, and Banco Itaú, one of the world’s largest banks.

They’re piloting the system with over 100 popular restaurants, coffee shops and local stores. As the program expands we’ll use over-the-air technology to securely install a wide range of NFC services – including public transport ticketing – onto users’ devices.

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\(^1\) 6.6 billion mobile subscriptions Q3 2013: Ericsson Mobility Report Nov 2013
\(^2\) Ericsson Mobility Report Nov 2013
\(^3\) BRIC: Brazil, Russia, India, China
\(^5\) Gemalto
Segmental review

Machine-to-Machine

“Machine-to-Machine posted revenue of €200 million, an increase of +7% compared to the previous year, a solid performance.”

Performance review

Machine-to-Machine posted revenue of €200 million, an increase of +7% compared to the previous year, evidencing a solid performance since the global industrial sectors’ growth was limited. The automotive sector, a wider usage of secure elements dedicated to machine identification, and new service contracts drove the annual sales increase.

The segment’s gross profit was up by +13%, due to the increase in sales and a temporary uplift in gross margin of +2.8 percentage points.

Operating expenses remained under tight control and internal efficiency improved through a better alignment of resources on targeted end-markets.

Consequently, profit from operations rose sharply to €22 million, up +57% on the previous year, to account for 11% of the segment’s revenue.

Things get connected

Personal phones and tablets are not the only devices connected to mobile networks. Secure mobile communication is now playing a major role in the ‘internet of things’ – a role that is set to grow exponentially over the next decade. Machine-to-Machine (M2M) communication turns objects into manageable assets and it already has thousands of industrial applications, bringing improved efficiency and new business opportunities to sectors including automotive, utilities, healthcare, payment, security, logistics and transport.

Machine-to-Machine highlights (€m)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>€200m</td>
<td>€192m</td>
</tr>
<tr>
<td>2012: €192m</td>
<td>2012: €64m</td>
</tr>
<tr>
<td>Gross profit</td>
<td>Gross margin</td>
</tr>
<tr>
<td>€72m</td>
<td>36.0%</td>
</tr>
<tr>
<td>2012: €64m</td>
<td>(up 280 basis points)</td>
</tr>
<tr>
<td>Profit from operations</td>
<td>Profit margin from operations</td>
</tr>
<tr>
<td>€22m</td>
<td>11.0%</td>
</tr>
<tr>
<td>2012: €14m</td>
<td>(up 370 basis points)</td>
</tr>
</tbody>
</table>

1 M2M shipments to grow 24% CAGR to 2018: Berg Insight The Global Wireless M2M Market Oct 2013
Positioned for growth

Often, mobile networks are the simplest way to make connections between things. To use them for machines and objects, they need an M2M module – similar to the electronics in a cellphone – plus a SIM-like chip, known as a MIM. These connections need to be highly secure – given the critical nature of the data involved from power grids, medical services and so on. Gemalto’s expertise in secure embedded software is vital to our clients, and we are the leader in this growing market.

In addition, our back-end services ensure our solutions are not only secure but simple to use. For a company such as an auto manufacturer managing the subscriptions of hundreds of thousands of M2M-equipped vehicles around the world could potentially be a complex task. Alongside our cloud-based M2M application enablement platform, our installed base of Trusted Service Manager and Over-the-Air subscription management systems enables us to provide solutions which considerably simplify the undertaking for our clients. As a result, both our Products and also our Platforms & Services businesses are well positioned to benefit as mobile M2M takes off globally.

CASE STUDY
Personal locator US/global

**Trusted to safeguard vulnerable people**

People who care for sufferers of autism, dementia and Alzheimer’s can’t supervise them all the time. Keeping tabs on them is a challenge – unless they’re wearing the innovative new TRiLOC™ GPS personal locator wristwatch.

This uses an ultra-slim Gemalto M2M module to provide 24/7 GPS tracking and communication with a carer’s PC or cellphone. It can also connect to medical monitoring equipment and has an SOS button to call for help.

So now people with special needs can be safeguarded while increasing their independence – an attractive prospect for over 60 million carers worldwide.¹

¹ IHS Cellular M2M Market Tracker May 2013
² Autism Wandering Awareness Alerts Response Education (AWAARE) and American Health Assistance Foundation (AHAF)
Secure Transactions
Financial Services, Transport

“Secure Transactions posted revenue of €660 million, expanding by a remarkable +20% at constant exchange rates in comparison to 2012.”

Performance review
Secure Transactions posted revenue of €660 million, expanding by a remarkable +20% at constant exchange rates in comparison to 2012. The segment’s growth was driven by the increasing adoption of dual interface payment cards – adding the benefit of NFC contactless tap-and-pay to the traditional chip-based secure payment card experience – and by the accelerating migration to EMV in Asian countries. The multiple ongoing initiatives at financial institutions and retailers for mobile payment also contributed to the expansion of the segment’s Platforms & Services activities revenue to €122 million, up by +9%.

Gross profit increased by +13%, to €206 million representing a gross margin of 31%. Improvement over the course of the year in operational efficiency of new facilities built to support high growth regions offset the increasing integration work related to mobile payment projects. This led to a slight increase in gross margin year-on-year in the second semester after a lower performance in the first semester.

Operating expenses increased by +7% to support expanding operations and they reduced by (2) percentage points in proportion to sales to represent 20% of revenue.

Significant gross profit expansion and controlled development of the segment’s operating costs led to further profit margin improvement, which reached 12% of sales, and increased profit from operations to €77 million, up by +23% versus 2012.
More ways to pay

The world’s preferred payment method looks set to become digital. Card payment, at some $10 trillion annually\(^1\), already accounts for about a third of all payments globally\(^2\) and is itself growing faster than the overall payments market. And the emerging mobile payments market is spreading even more rapidly\(^3\) with strong growth forecast for the coming years.

Card issuers worldwide are continuing to adopt EMV\(^4\), the global standard for chip-based cards. With some major nations now starting their migration to EMV, we expect this market to grow substantially by 2017. Meanwhile, banks have begun to issue cards with contactless technology pushing total shipments up 41% against 2012\(^5\) such that by 2017 we expect half of all cards shipped to be contactless\(^6\). In this context, consumers’ payment options continue to proliferate and Gemalto is a major and innovative supplier to this market, securing digital transactions across many different interfaces including cards, cellphones and other devices.

Mobile opportunities multiply

As mobile payment opportunities multiply, the number of credentials needing to be secured is growing exponentially. This is a major driver for our Platforms & Services business. And with the arrival of NFC\(^7\) technology, mobile devices are going contactless too with some 500 million NFC-enabled devices expected to be in use in early 2014\(^8\). As well as securing payments, we also secure online banking services – a market expected to be well over 1 billion users by 2017\(^9\).

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\(^1\) Moody’s Analytics: The Impact of Electronic Payments on Economic Growth February 2013
\(^2\) Moody’s Analytics (idem)
\(^3\) Global mobile transaction volume/value to grow 35% p.a. 2012–2017: Gartner
\(^4\) EMV: Europay, MasterCard, Visa
\(^5\) Eurosmart PR Nov 2013
\(^6\) Gemalto
\(^7\) NFC: Near-Field Communication
\(^8\) ABI Research: Tapping in to NFC Growth September 2013
\(^9\) Gemalto
Security
Government, Identity & Access Management

“Security recorded +11% growth at constant exchange rates on top of the +19% growth delivered the previous year, to reach €416 million. Both Government Programs and Identity & Access Management posted double-digit expansion in sales.”

### Security highlights (€m)

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<tr>
<th></th>
<th>Revenue</th>
<th>Gross profit</th>
<th>Profit from operations</th>
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<tbody>
<tr>
<td><strong>2013</strong></td>
<td>€416m</td>
<td>€148m</td>
<td>€41m</td>
</tr>
<tr>
<td><strong>2012</strong></td>
<td>€384m</td>
<td>€142m</td>
<td>€45m</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th></th>
<th>Gross margin</th>
<th>Profit margin from operations</th>
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<tbody>
<tr>
<td></td>
<td>35.5% (down 160 basis points)</td>
<td>9.8% (down 190 basis points)</td>
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### Performance review

Security recorded +11% growth at constant exchange rates on top of the +19% growth delivered the previous year, to reach €416 million. Both Government Programs and Identity & Access Management posted double-digit expansions in sales.

Across the segment, Platforms & Services revenue rose by +42% to €93 million, representing 22% of total segment revenue, driven by the delivery of larger global projects to governments and by the growing sales of strong authentication servers to enterprises and banking institutions.

In Government Programs, business activities developed well, with multiple global projects related to border management and integration of electronic identity into governmental services. Passports, national IDs and driving licenses further supported the increase in sales.

Identity & Access Management continued to expand with organizations that realize how critical cloud and network users’ identification has become to their business and reputation. The investment made towards reinforcing Gemalto’s portfolio of strong authentication solutions for on-premise and outsourced cloud infrastructures led to a particularly strong growth in Platforms & Services, complementing the expansion in authentication products for online banking security.

Gross profit increased to €148 million, up +4%. As planned, operational performance steadily improved throughout the year in newly opened facilities to support growth in Government Programs and in the second semester, gross margin returned to about the same level as the previous year.

In order to accompany the segment growth, investments in operations were sustained. The increase in operating expenses was slightly higher in the second semester compared to 2012 since the second semester of 2012 benefited from a €2 million gain in Other income. Operating expenses grew this year essentially in line with sales, adding +10% to 2012 figures.

As a result of these investments, profit from operations was €41 million for the full year 2013 compared to €45 million in 2012, and represented 10% of the segment’s revenue.
Governments broaden eDocumentation
Governments are embracing eDocuments to enhance security, cut costs, combat document and benefit fraud, and improve services. Penetration of ePassports is expected to rise from 40% today to some 50% by 2017, with Gemalto providing both products and back-end services. By then we also expect to see 2.7 billion other eDocuments in circulation including drivers’ licenses and eID, eHealth and eVoter cards. We are also working with 20 governments to put such documents onto mobile devices. In addition, we offer an extensive portfolio of eGovernment applications including online voting, tax payment, vehicle registration and so on. Procurement in this sector is reference driven and our leadership, with over 80 projects worldwide, is a major competitive advantage.

In 2013, for example, we were appointed as prime contractor by Ghana Immigration Service to supply a secure electronic visa and border management solution. This is part of ‘eGhana’, a project backed by the World Bank to create a modern IT infrastructure able to support the country’s sustainable development plans.

Cloud drives corporate need for ID
Two trends in the way enterprises work are increasing demand for strong authentication. First, applications are moving to the Cloud, allowing employees to access them from anywhere. Second, employees increasingly want to access corporate resources from their own mobile devices – at work, at home and on the move (BYOD). Our existing technical architecture enables us to meet this demand and develop specialized vertical market offers for groups such as doctors, financial traders and security forces. Now smaller companies are also able to adopt this technology that has traditionally been reserved for ‘big enterprise’, opening up a significant new market.

CASE STUDY
Electronic ID South Africa
Consolidating trust in citizenship
Citizenship and identity matter deeply in South Africa. So it was a significant moment when the surviving defendants of the historic Rivonia trial – Nelson Mandela, Denis Goldberg, Ahmed Kathrada and Andrew Mlangeni – were among the first people to receive the country’s new ‘smart’ ID cards in 2013.

The Department of Home Affairs says that the card program is part of efforts by the government to consolidate the restoration of national identity, citizenship and dignity.

Gemalto was chosen because of its ability to provide the smart ID cards with secure embedded software, its expertise in contactless technology, and its capacity to deliver the durable polycarbonate documents within an ambitious schedule.