SMARTRAC

THE RFID TECHNOLOGY PARTNER OF CHOICE

ANNUAL REPORT 2012

In thousands of EUR		Consolidated 12 months ended December 2012	Consolidated 12 months ended December 2011	Change	Change in %
Consolidated income statement					
Revenues		255,530	167,604	87,926	52.0
EBITDA [1]		23,426	15,213	8,213	54.0
Net profit after tax [2]		4,973	(41,554)	46,527	n.a.
Financial position and liquidity					
Net cash provided by (used in) operating activities		15,972	6,326	9,646	152.0
Working capital [3]		48,981	27,629	21,352	77.0
Capital expenditure [4]		28,773	19,105	9,668	51.0
Total assets		329,238	264,080	65,158	25.0
Operating figures					
Basic earnings per share	EUR	0.26	(2.54)	2.80	n.a.
Operating cash flow per share	EUR	0.83	0.39	0.44	113.0
Equity ratio	%	51.0	52.6	(1.6)	(3.0)
Headcount	at month's end	3,635	3,676	(41)	(1.0)

1) EBITDA is defined as operating profit for the period before depreciation, amortization, impairment, financial result, share of profits of associates, non-recurring items (extraordinary items) and income tax expense. The Group presents EBITDA because management believes it is a useful measure in evaluating the Group's operating performance. EBITDA is not a measure of operating performance or liquidity under IFRS. EBITDA as presented may not be comparable to measures with similar names as presented by other companies.

2) Including profits (loss) of non-controlling interest.

3) Only operating items are considered.

4) Capital expenditure (CAPEX) is defined as expenditure for property, plant and equipment, intangible assets and the change in deposits paid.

ANNUAL REPORT 2012

The information required by 2:391 of the Netherlands Civil Code is provided in the various sections of this Annual Report on pages 6 to 83 and on page 184.

LAMINATING

Many of our high-security and card inlay products are manufactured in a 'sandwich structure' with the RFID transponder at the core of the RFID inlay. We possess specialized and long-standing expertise in hot and cold lamination. The fusing together of the different layers into one homogeneous sheet seals the transponder hermetically, resulting in monobloc pre-laminates of the highest quality.

MANAGEMENT REPORTS

FROM THE LEFT TO THE RIGHT: DR. CHRISTIAN FISCHER, NIGEL SEALEY, AND CHRISTIAN UHL

DEAR SHAREHOLDERS, DEAR FRIENDS OF OUR COMPANY,

2012 was a year full of changes – for our company, for our shareholders, and for us. We started the business year with the burden of the flood disaster in Thailand, the positive momentum from acquisitions conducted at the end of 2011, and the commitment to further improve our excellence.

In today's business environment, organizational change is the rule and constancy is the exception. Companies and teams that are able to internalize this paradigm and to perceive it as a positive element will be successful. SMARTRAC has successfully managed various organizational changes over the past years and the global team has all the prerequisites to also manage future changes successfully. Therefore, we would like to start this report with a retrospective look at the past seven years.

7 YEARS OF LEADERSHIP AND SUCCESS

The past seven years have been very dynamic and eventful. We have increased revenues from EUR 25 million in 2005 to more than EUR 250 million in the 2012 fiscal year. In 2006, we successfully went public and, in 2008, our share was included in the TecDAX. In 2009, we structured our business into four business units in order to optimize resource utilization and to ensure ideal market cultivation and customer support. At the same time, we have been able to develop the company from a pure card inlay supplier to the world's leading developer, manufacturer, and supplier of RFID transponders and inlays and to expand the global reach of the company to all continents. The successful corporate development of SMARTRAC over the past several years was recognized in the form of the 2012 European Competitive Strategy Leadership Award from Frost & Sullivan.

This success would not have been possible without constant organizational change, our highly committed, passionate, and dedicated team, and the close and trusting relationships with our customers and business partners.

What has not changed over the past several years is our goal of delivering customers the best service, highest quality, greatest innovation, and top value within our proven business model as a manufacturing and technology partner for RFID transponders and inlays.

Our core values and our trusted brand are further solid pillars for future organizational development. SMARTRAC stands for trust, leadership, security, leading technology, and a passionate team with a unique spirit, which is strongly focused on the needs of our customers.

Continuity also applies to the composition of the Management Board. Dr. Christian Fischer, who resigned from his position as Chairman of the Management Board and Chief Executive Officer effective September 3, 2012, and who left SMARTRAC on December 31, 2012, hands over responsibility to Christian Uhl and Nigel Sealey. Christian Uhl, Group Chief Financial Officer (CFO) and Co-Chairman of the Management Board, joined SMARTRAC in May 2006. Nigel Sealey, Group Chief Operations Officer (COO) and Co-Chairman of the Management Board, has been working for SMARTRAC since April 1, 2012.

The appointment of Christian Uhl and Nigel Sealey as Co-Chairmen of SMARTRAC N.V. acknowledges the complementarity of their professional experiences and skills. In their new role, they will specifically concentrate on accelerating profitable revenue growth and the implementation of action plans focused on the operational and administrative cost structure of the company.

ADVANCING INTEGRATION

At the beginning of 2012, we have begun integrating the former KSW Microtec AG, former UPM RFID, Dalton, and Neology into the SMARTRAC Group.

It is part of the Group's strategy to unite its core business under the family brand 'SMARTRAC' as a sign of unification and commitment to the same values and principles. As part of this strategy and the integration, the former KSW Microtec AG and former UPM RFID companies changed their company names to SMARTRAC. Based on the fact that Dalton ID and Neology are established players, and due to their reputation in the respective market segments, both companies will continue to operate under their established company names and brands.

Along with the integration of the acquired businesses into the SMARTRAC Group, a new corporate design and Group-wide branding activities were launched in March 2012. While the integration of the former KSW Microtec AG, Dalton, and Neology has been completed, integration of the former UPM RFID is still in progress. The business activities of SMARTRAC's Tickets & Labels business and the business activities of the former UPM RFID have been combined in the new electronic Product Identification (ePI) business unit. The teams have been working on a joint product and technology roadmap of the ePI business unit and will continue to leverage synergies resulting from the new structure.

As of December 31, 2012, we can state that the acquisitions have strengthened our product portfolio, manufacturing capacity, research and development capabilities, intellectual property (IP), global sales force, and global footprint.

In the coming months, the Management Board will continue to work on the optimization of structures and processes together with the global team.

EXECUTING OUR FOCUSED INTELLECTUAL PROPERTY STRATEGY

SMARTRAC holds a strong portfolio of patents in the RFID industry. The acquisitions conducted at the end of 2011, which included some of the most experienced companies in the industry, have further strengthened SMARTRAC's strong intellectual property, research and development capabilities, and range of technology significantly. With more than 700 patents and patent applications for technology, equipment, and the production of RFID components and related processes, patent infringements and challenges to the company's patent rights are ongoing issues that SMARTRAC must face.

In our long experience with exercising intellectual property rights, SMARTRAC has experienced time-consuming and cost-intensive proceedings, which did not always lead to the intended outcome in the various jurisdictions. SMARTRAC will concentrate on adopting a case-by-case approach when monitoring and exercising, but also in filing for its intellectual property rights by taking a clear cost-benefit analysis into account.

Today, SMARTRAC's leading position in the RFID industry is based on numerous unique capabilities: The company's core competence in the manufacturing of RFID inlays has been continuously advanced by comprehensive process and engineering expertise. SMARTRAC also has extensive experience in module packaging, in technologies for connecting and assembly, broad knowledge of lamination processes, and in-house machine-building competence. The strategic approach of developing and producing our own machinery, and at the same time entering into exclusive licensing partnerships, will help to secure SMARTRAC's leadership position in the global RFID market.

KEY FINANCIAL FIGURES 2012

In 2012, SMARTRAC was able to exceed the set revenue target of EUR 250 million and achieved Group sales of EUR 256 million in the 2012 fiscal year, representing an increase of 52 percent compared to sales of EUR 168 million in 2011.

The positive results originated from the acquisitions conducted at the end of 2011 and a favorable development of the company's business activities despite the consequences of the flood disaster on the company's production capacity in the first quarter of 2012 as well as the effects of the weak automotive industry in Europe on the company's automotive transponder business. As a result, Group EBITDA increased by 54 percent to EUR 23 million, compared to EUR 15 million in 2011. EBITDA for 2012, as per definition, excludes exceptional items. The EBITDA margin amounted to 9 percent in 2012, equaling an EBITDA margin of 9 percent one year ago.
As of December 31, 2012, total assets on the consolidated balance sheet amounted to EUR 329 million, representing an increase of 25 percent compared to the previous year's figure of EUR 264 million. This increase was predominantly related to the inclusion of former UPM RFID as well as investments into property, plant, and equipment, mainly for rebuilding purposes in Thailand.

A detailed analysis of the financial figures and the two business segments – Security and Industry – is provided in the section Key Financial Figures 2012 and Business by Segments in this Annual Report.

SHARE DEVELOPMENT 2012

The development of the SMARTRAC share in 2012 was characterized by the low free float and the resulting low trading volumes. The SMARTRAC share started 2012 at EUR 10.73 and recorded its high for the year on January 13, 2012, at EUR 11.70. On June 8, 2012, the share recorded the low for the year at EUR 9.10. The SMARTRAC share closed 2012 at EUR 10.60.

Throughout the course of 2012, SMARTRAC communicated regularly with the capital markets and constantly updated the financial community on its business perspectives and operating development. It is our declared target to create added value for all of our shareholders and to focus on strategic and operating development in order to increase the shareholder value.

CAPITAL INCREASE

On March 31, 2012, the Management Board of SMARTRAC N.V. resolved to utilize SMARTRAC's authorized capital and to increase SMARTRAC's share capital by the issuance of 2,103,886 ordinary shares. Subscription rights for shareholders were excluded. The capital increase was associated with the closing of the transaction with UPM-Kymmene Corporation under which SMARTRAC took over UPM's RFID business while UPM-Kymmene Corporation obtained an indirect economic interest in SMARTRAC of 10.6 percent via OEP Technologie B.V., a holding company controlled by One Equity Partners, the major shareholder of SMARTRAC.

SMARTRAC N.V. and OEP Technologie B.V. furthermore agreed that the new shares would not be admitted to trading on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange for a period of at least twelve months following the registration of the capital increase in the commercial register.

SQUEEZE-OUT AND DELISTING

On July 20, 2012, the Management Board of SMARTRAC N.V. was informed that OEP Technologie B.V. decided to initiate squeeze-out proceedings against all minority shareholders in SMARTRAC N.V. in order to have their shares in SMARTRAC N.V. transferred to OEP Technologie B.V. pursuant to Article 2.92a of the Dutch Civil Code. The Management Board of SMARTRAC N.V. was also informed that OEP Technologie B.V. intended to request the Enterprise Chamber of the Amsterdam Court of Appeal to order the minority shareholders to transfer their shares and to set the price of the shares to be transferred at EUR 11.00 per share.

On September 12, 2012, the SMARTRAC Management Board resolved to apply for a delisting of the company's shares from the Frankfurt Stock Exchange (Prime Standard) and to propose to the general meeting a change of the company's articles of association subject to the approval of the delisting. At the Extraordinary General Meeting of shareholders held on October 29, 2012, the proposed changes of the company's Articles of Association were approved with 99.9 percent of the votes cast.

On November 30, 2012, SMARTRAC N.V. was informed about the decision of the Frankfurt Stock Exchange regarding its request for a delisting of the company's shares from the Frankfurt Stock Exchange (Prime Standard). On the company's request, the Frankfurt Stock Exchange decided to revoke the listing of the ordinary bearer shares, ISIN NL0000186633, on the regulated market. The Frankfurt Stock Exchange also informed SMARTRAC N.V. that the revocation will become effective at the end of the day on May 28, 2013.

CHANGES IN THE MANAGEMENT AND SUPERVISORY BOARDS

The 2012 Annual General Meeting of Shareholders re-appointed Mr. Wolfgang Huppenbauer and appointed Mr. Lee Gardner and Mr. Charles Scharf as members of the Supervisory Board of SMARTRAC N.V., each with 100 percent of the votes cast. Christopher von Hugo resigned as a member of the SMARTRAC Supervisory Board as of October 22, 2012, and Charles Scharf resigned as a member of the SMARTRAC Supervisory Board as of October 25, 2012.

As of December 31, 2012, the Supervisory Board consisted of six members, providing supervision and advice to the SMARTRAC Management Board.

At the SMARTRAC Extraordinary General Meeting of Shareholders on October 29, 2012, Christian Uhl was appointed Director A of the company from the date of the meeting until the SMARTRAC Annual General Meeting of Shareholders in 2016.

On December 5, 2012, Christian Uhl was appointed (Co-) Chairman of the Management Board. Subsequent to the reporting period, Nigel Sealey was appointed Director A of the company at the SMARTRAC Extraordinary General Meeting of Shareholders on January 22, 2013, from the date of the meeting until the SMARTRAC Annual General Meeting of Shareholders in 2016. Nigel Sealey was appointed Co-Chairman of the Management Board on January 22, 2013.

Both will continue to perform their functional roles as Group CFO and Group COO, respectively, in addition to their leadership roles as Co-Chairmen of the Management Board.

THANK YOU AND FAREWELL DR. CHRISTIAN FISCHER

Dear Shareholders, Dear SMARTRAC Team, Dear Friends of our Company,

It has been a great pleasure to serve the company over the past seven years and to develop SMARTRAC – together with the Group Executive Team, Supervisory Board, the global team, and our customers and business partners worldwide – into a global corporation with a sound and solid technology portfolio, strong IP, a diversified product offering, and a global presence in sales, production, research, and development.

I would like to extend my heartfelt thanks to the Group Executive Team and our team worldwide for their continued support, dedication, amazing team spirit, and strong contribution toward growing the company into the world’s leading developer, manufacturer, and supplier of RFID transponders and inlays. SMARTRAC truly has the best team in the worldwide RFID industry and I hope that the team will keep this unique SMARTRAC spirit alive.

I am convinced that Christian Uhl and Nigel Sealey will lead the company into a prosperous and successful future and wish them all the best in their new roles as Co-Chairmen of SMARTRAC and in their associated duties.

OUTLOOK

The 2012 fiscal year has been another year of growth for SMARTRAC. The integration of the acquired companies has further strengthened the company's global footprint, technology, and product range as well as its intellectual property (IP), building a strong foundation for future prosperity and success.

The SMARTRAC Management Board is committed to growing the company steadily and robustly and to creating value for employees, shareholders, customers, business partners, and additional stakeholders of the company.

Besides being one of the largest RFID transponder and inlay manufacturers in our industry, it is our aim to be the RFID technology partner of choice worldwide. We intend to achieve this target by manufacturing and delivering the best products at the highest quality and security at the best value, to stand at the forefront of innovation in our industry, and to provide our customers with excellent customer service. This will also help us to expand our leading market position to further application fields.

As RFID technology partner of choice, we want to grow business together with our partners, supporting them with best in class technology, innovative products, and added services where SMARTRAC develops additional features and services with its business partners which bring value to our customers. SMARTRAC already provides a number of additional services such as post fabrication wafer processing and will continue to broaden its range of additional features to enable our business partners to spread the use of RFID technology into new application fields. It is our firm intention to continue the fair, cooperative, and trusting collaboration with customers and business partners around the world in the future, too.

For the 2013 fiscal year, the SMARTRAC Management Board is confident that it will be able to achieve growth and improve the company's profitability. SMARTRAC Group sales are expected to come close to EUR 300 million mark in 2013. In terms of profitability, the Management Board continues to work hard to further improve Group EBITDA margins.

APPRECIATION OF THE BEST TEAM IN THE RFID INDUSTRY

We would like to cordially thank on behalf of the entire Group Executive Team our global team for their outstanding commitment, exceptional performance, and dedication in 2012. The management team would like to express their appreciation to all of our employees for the support with undiminished energy to the SMARTRAC spirit and success. We would like to express our gratitude, in particular, to the teams in Thailand and Malaysia for their tireless effort regarding the reconstruction in Thailand in record time. Sincere thanks are also given to the management and staff of the acquired companies for their immediate contribution to the success of the SMARTRAC Group. Today, SMARTRAC truly has the best team in the worldwide RFID industry and we look forward to shaping the future success of our company together with you.

We would also like to thank our customers and business partners for their unwavering trust, confidence, and cordial support as well as for excellent business relationships over the past years. It has been a great pleasure to work with you and to grow the business together with you.

Sincerely yours,

Dr. Christian Fischer
Chairman of the Management Board & CEO of SMARTRAC until September 3, 2012*

Christian Uhl
Co-Chairman of the Management Board**

Nigel Sealey
Co-Chairman of the Management Board***

Amsterdam, March 18, 2013

* Director A of SMARTRAC N.V. until December 31, 2012

** Co-Chairman of the Management Board since December 5, 2012

*** Co-Chairman of the Management Board since January 22, 2013

REPORT OF THE SMARTRAC SUPERVISORY BOARD

GENERAL

Supervision of and advice to the Management Board according to Dutch law is entrusted to the Supervisory Board. The Supervisory Board in the two-tier corporate structure under Dutch law is a separate body and fully independent of the Management Board; therefore, Dutch law prohibits members of the Management Board from simultaneously acting as members of the Supervisory Board.

As far as Dutch Corporate Governance is concerned, please refer to page 72 of this Annual Report for further information on the company's corporate governance structure including the Supervisory Board.

COMPOSITION OF THE SUPERVISORY BOARD

In 2012, the SMARTRAC Supervisory Board underwent several changes. At the SMARTRAC Annual General Meeting of Shareholders held on June 19, 2012, Wolfgang Huppenbauer was re-appointed member of the Supervisory Board until the Annual General Meeting of SMARTRAC in 2013 with 100 percent of the votes cast. Furthermore, Lee Gardner and Charles Scharf were appointed to the SMARTRAC Supervisory Board until the Annual General Meeting of SMARTRAC in 2016 each with 100 percent of the votes cast.

Christopher von Hugo resigned as a member of the SMARTRAC Supervisory Board and member of the Strategy Committee as of October 22, 2012. Charles Scharf resigned as a member of the SMARTRAC Supervisory Board as of October 25, 2012.

As of December 31, 2012, the SMARTRAC Supervisory Board consisted of six members: Prof. Dr. Bernd Fahrholz (Chairman), Manfred Rietzler (Vice Chairman), Lee Gardner, Wolfgang Huppenbauer, Tobias Reich, and Dr. Jörg Zirener. The Supervisory Board of the company consisted of male persons only, as in the majority number of boards in our Group and the industrial branch we are part of.

Subsequent to the reporting period, Tobias Reich resigned as a member of the SMARTRAC Supervisory Board and member of the Audit Committee as of January 22, 2013.

At the SMARTRAC Extraordinary General Meeting of Shareholders on January 22, 2013, Richard Smith was appointed to the SMARTRAC Supervisory Board until the Annual General Meeting of SMARTRAC in 2016 with 99.9 percent of the votes cast.

The members of the SMARTRAC Supervisory Board fulfill the requirements of independent members of the Supervisory Board as set out by the Dutch Corporate Governance Code under Best Practice Provisions III.2.2, with the exception of Lee Gardner, Tobias Reich, Dr. Jörg Zirener, Richard Smith, and Manfred Rietzler. Lee Gardner is managing director of One Equity Partners Chicago. Richard Smith is managing director of One Equity Partners New York. Dr. Jörg Zirener and Tobias Reich are managing directors of One Equity Partners Frankfurt, an affiliate of OEP Technologie B.V., the majority shareholder of SMARTRAC. Manfred Rietzler was a member of the Management Board of the company prior to his appointment to the SMARTRAC Supervisory Board. In addition, he serves as managing director of SMARTRAC TECHNOLOGY Ltd. Thailand and receives compensation for this duty.

ACTIVITIES OF THE SUPERVISORY BOARD

The SMARTRAC Supervisory Board held six meetings during the 2012 fiscal year, which were also attended by members of the SMARTRAC Management Board and Group Executive Team.

All members of the Supervisory Board attended the four plenary sessions with one exception, where one member of the Supervisory Board was not able to participate in the first day of a two-day plenary session. In addition, the majority of the members of the Management Board were present at the four plenary meetings.

Two meetings were arranged via conference call. However, not all of the members of the Supervisory Board were able to dial in. At one of the conference calls, three members of the Supervisory Board had to be excused. At the other conference call, one of the members of the Supervisory Board had to be excused. The majority of the members of the Management Board were present at the conference calls.

Important topics and upcoming decisions were also dealt with in regular discussions and meetings between the Chairman of the Supervisory Board and the Chairman of the Management Board. The Chairman of the Supervisory Board informed the other members of the Supervisory Board regularly on the outcome of his discussions and meetings.

As defined by the Dutch Corporate Governance Code, the Supervisory Board discussed issues such as company strategy and risks related to the strategy, corporate governance, risk management and control system, and the approval of major investments and acquisitions. Regular agenda items included financial and operational performance, share price development, the course of business, commercial and technical developments, and the annual financing and investment plan.

In 2012, the Supervisory Board again devoted considerable time to discussions of the company's strategy, including objectives, associated risks, and the company's financial position. In particular, the Supervisory Board discussed the integration of the acquired businesses into the SMARTRAC Group.

The Supervisory Board further reviewed the performance of the Management Board and the performance of its individual members in 2012, with and also in absence of, the members of the Management Board. The Supervisory Board also discussed its profile, composition, and competence as well as its own functioning, its committees, and that of its individual members. Evaluation of the functioning was carried out in discussions of the entire Supervisory Board. In addition, the Chairman shared common topics and conclusions in conversations with the individual members of the Supervisory Board.

Dutch Corporate Governance Code provides for the establishment of three committees when the Supervisory Board has more than four members. Due to the limited size of the company, the Supervisory Board agreed to establish two committees existing of an audit committee (the 'Audit Committee') and a strategy committee (the 'Strategy Committee'). The Strategy Committee has also the tasks of a remuneration committee and a selection and appointment committee.

PROF. DR. BERND FAHRHOLZ (65*)

CHAIRMAN OF THE SUPERVISORY BOARD

Appointment effective with the date of the admission resolution by the FSE
Re-elected at the SMARTRAC 2009 Annual General Meeting
Term of office ends in 2013
Lawyer, German citizen, home domicile is Berlin, Germany

- Former CEO of Dresdner Bank AG
- Former Deputy Chairman of the Management Board of Allianz AG
- Supervisory Board Member of Fresenius Medical Care AG

MANFRED RIETZLER (51*)

VICE CHAIRMAN OF THE SUPERVISORY BOARD

Appointment effective with the 2011 SMARTRAC Annual General Meeting
Term of office ends in 2015
Businessman, German citizen, home domicile is Bangkok, Thailand

- Former Member of the Management Board & CTO of SMARTRAC N.V.

LEE GARDNER (65*)

MEMBER OF THE SUPERVISORY BOARD

Appointment effective with the 2012 SMARTRAC Annual General Meeting
Term of office ends in 2016
Businessman, citizen of the United States, home domicile is Detroit, United States

- Managing Director of One Equity Partners Chicago
- Director of Faurecia SA
- Director of Precision Gear Holdings

WOLFGANG HUPPENBAUER (58*)

MEMBER OF THE SUPERVISORY BOARD

Appointment effective with the date of the admission resolution by the FSE
Re-elected at the SMARTRAC 2009 Annual General Meeting
Term of office ends in 2013
Businessman, German citizen, home domicile is Singapore

– President and CEO of Daimler South East Asia
– Former various management positions in Australia, Asia, and Europe for Daimler AG

TOBIAS REICH (37*)

MEMBER OF THE SUPERVISORY BOARD

Appointment effective with the 2011 SMARTRAC Annual General Meeting
Term of office ends in 2015**
Businessman, German citizen, home domicile is Frankfurt, Germany

– Managing Director of One Equity Partners Frankfurt
– Member of the Shareholders' Committee of Cereals Holding AG

DR. JÖRG ZIRENER (40*)

MEMBER OF THE SUPERVISORY BOARD

Appointment effective with the 2010 SMARTRAC Extraordinary Meeting
Term of office ends in 2014
Businessman, German citizen, home domicile is Bad Soden, Germany

– Managing Director of One Equity Partners Frankfurt
– Deputy member of the Supervisory Board of Süd-Chemie AG
– Member of the Supervisory Board of Constantia Packaging AG

* Age as of December 31, 2012

** Tobias Reich resigned as a member of the SMARTRAC Supervisory Board as of January 22, 2013.

THE AUDIT COMMITTEE

The Audit Committee consists of the following members of the SMARTRAC Supervisory Board:

– Dr. Jörg Zirener, Chairman of the Audit Committee
– Prof. Dr. Bernd Fahrholz, Member of the Audit Committee
– Tobias Reich, Member of the Audit Committee until January 22, 2013

In 2012, the Audit Committee held its meetings on March 23, 2012, and on December 12, 2012. In addition, the tasks of the audit committee were performed during regular meetings of the Supervisory Board by the whole Supervisory Board. The Supervisory Board regularly discussed the financial statements of the company. Prior to each announcement of the annual and quarterly results, the Supervisory Board was informed of the figures. The execution of internal and business risk management and the further development of internal control systems were discussed and monitored. The Supervisory Board is of the opinion that the management of SMARTRAC follows a coherent strategy and prioritizes risk management issues adequately.

With regard to the external audit, the Audit Committee reviewed the financial statements of SMARTRAC, as presented by the Management Board, and discussed the financial statements for 2012 with the external auditor at the Supervisory Board meeting held on March 18, 2013.

The Supervisory Board discussed the need for an internal audit function with the Management Board. It is the understanding that currently an internal audit function is not applicable, but that internal audits are implemented on a case-by-case basis using internal and external resources.

THE STRATEGY COMMITTEE

The Strategy Committee consists of the following members of the SMARTRAC Supervisory Board:

- Prof. Dr. Bernd Fahrholz, Chairman of the Strategy Committee
- Christopher von Hugo, Member of the Strategy Committee, until October 22, 2012
- Dr. Jörg Zirener, Member of the Strategy Committee

In 2012, the Strategy Committee met on June 18, 2012, and on December 12, 2012. The Strategy Committee devoted considerable time to discussions of the company's strategy, including objectives, associated risks, and the company's financial position. The Strategy Committee informed the Supervisory Board regularly about its discussions.

The Strategy Committee also performs the tasks of a remuneration committee and a selection and appointment committee provided for by the Dutch Corporate Governance Code. The remuneration policy of SMARTRAC is based upon the two pillars of a base salary and variable performance-based compensation, which is closely linked to the achievement of individual and company objectives. Compensation of the Management Board consists of a fixed salary and variable components. Variable compensation includes one-time and annual payments linked to business performance. A detailed remuneration report can be found on pages 81 to 83 of this report.

In order to make SMARTRAC an attractive company for skilled managers and employees both within and outside the company, the remuneration policy is continuously adjusted to cater to market developments as well as to comply with the specifications required in the Dutch Corporate Governance Code. Any deviation in the remuneration instruments from the Code is explained on pages 72 to 80 of this report under the section 'Corporate Governance Report.' The Supervisory Board is of the opinion that the further development of the SMARTRAC remuneration policy will contribute to the objective of attracting the right people and that the need to offer competitive compensation packages that have to be attractive cannot be overestimated in this context.

The Strategy Committee also performed the tasks of a selection and appointment committee provided for by the Dutch Corporate Governance Code and informed the Supervisory Board regularly about its discussions.

The term of office for Prof. Dr. Bernd Fahrholz as Chairman of the Supervisory Board is four years and ends with the Annual General Meeting of Shareholders in 2013. The term of office for Wolfgang Huppenbauer is one year and ends with the Annual General Meeting of Shareholders in 2013. The term of office for Dr. Jörg Zirener is four years and ends with the Annual General Meeting of Shareholders in 2014. The terms of office for Manfred Rietzler and Tobias Reich are four years and end with the Annual General Meeting of Shareholders in 2015. Lee Gardner and Charles Scharf were appointed to the SMARTRAC Supervisory Board at the Annual General Meeting of Shareholders held on June 19, 2012. Their terms of office are four years until the Annual General Meeting of Shareholders in 2016.

Christopher von Hugo resigned as a member of the SMARTRAC Supervisory Board and Member of the Strategy Committee as of October 22, 2012. Charles Scharf resigned as a member of the SMARTRAC Supervisory Board as of October 25, 2012.

Subsequent to the reporting period, Tobias Reich resigned as a member of the SMARTRAC Supervisory Board and member of the Audit Committee as of January 22, 2013.

At the SMARTRAC Extraordinary General Meeting of Shareholders on January 22, 2013, Richard Smith was appointed to the SMARTRAC Supervisory Board until the Annual General Meeting of SMARTRAC in 2016.

FINANCIAL STATEMENTS 2012

The Annual General Meeting of Shareholders will be asked on June 18, 2013, to adopt the financial statements of SMARTRAC for the 2012 fiscal year, as prepared by the Management Board and discussed and approved by the Supervisory Board in its meeting on March 18, 2013. The consolidated and the company financial statements on pages 86 to 179 of this Annual Report have been audited by KPMG Accountants N.V. in Amsterdam, The Netherlands. Their report with an unqualified opinion is included on pages 180 and 181.

We recommend that the Annual General Meeting of Shareholders adopt the 2012 financial statements as presented in this Annual Report. We likewise recommend to the shareholders that they discharge the members of the Management Board and the members of the Supervisory Board.

The Supervisory Board thanks SMARTRAC's Management Board, Group Executive Team and the global workforce for their dedication to and hard work for the company in 2012. The team deserves our gratitude for the effort and commitment shown regarding the integration of the new business activities into the Group and the creation of synergies from the joint business activities. The Supervisory Board, in particular, wishes to thank the team in Thailand once again for their extraordinary dedication and relentless effort regarding the reconstruction and restart of production after the severe flood. We would also like to thank business partners and customers for their support and commitment to SMARTRAC as well.

Amsterdam, March 18, 2013

Prof. Dr. Bernd Fahrholz Chairman	Manfred Rietzler Vice Chairman	Lee Gardner Member
Wolfgang Huppenbauer Member	Richard Smith Member	Dr. Jörg Zirener Member

GROUP EXECUTIVE TEAM

The SMARTRAC Group Executive Team was established at the end of 2007. It serves as a platform for discussing strategic issues across all of SMARTRAC's activities. The Group Executive Team consists of two of the members of the SMARTRAC Management Board and selected members of the senior management of the company. The non-Board members of the Group Executive Team have a consulting function and serve as a sounding board for the SMARTRAC Management Board.

The Group Executive Team is not a decision-making body. It does not affect any basic provisions regarding the tasks and responsibilities of the Management Board ('Raad van Bestuur') or the Supervisory Board ('Raad van Commissarissen') as required by the Dutch Corporate Governance Code and written down in the SMARTRAC Articles of Association.

The Group Executive Team follows the main rationale of preparing and implementing strategic decisions, supporting decision-making processes of the SMARTRAC Management Board as well as contributing to the coordination and allocation of company resources.

In 2012, the SMARTRAC Group Executive Team underwent several changes. Dr. Christian Fischer, Chairman of the Management Board and Chief Executive Officer, resigned from his position effective September 3, 2012. He continued to serve the company as Director A of SMARTRAC N.V. until December 31, 2012, to support the transition phase.

Mr. M. Gregory O'Hara, who was proposed to be appointed Director A of SMARTRAC N.V. and subsequently Chairman of the Management Board and CEO, withdrew his candidacy due to organizational and personal reasons. He will continue to provide consultancy services to One Equity Partners, the majority shareholder of SMARTRAC, and will advise SMARTRAC on the development of new business opportunities.

NEW MANAGEMENT BOARD STRUCTURE

At the SMARTRAC Extraordinary General Meeting of Shareholders on October 29, 2012, Christian Uhl, Chief Financial Officer, was appointed Director A of SMARTRAC N.V. until the annual general meeting of SMARTRAC in 2016.

On December 5, 2012, SMARTRAC announced its new Management Board structure with Christian Uhl, Group Chief Financial Officer (CFO), and Nigel Sealey, Group Chief Operations Officer (COO), serving as Co-Chairmen of the Management Board of the company.

Christian Uhl, already Director A of SMARTRAC N.V. since the Extraordinary General Meeting of Shareholders in October, was appointed Co-Chairman of the Management Board of the company on December 5, 2012.

Nigel Sealey was formally appointed Co-Chairman of the Management Board of the company following his appointment as Director A of SMARTRAC N.V. at the SMARTRAC Extraordinary General Meeting of Shareholders on January 22, 2013.

As of December 31, 2012, the SMARTRAC Management Board was composed as follows:

- Christian Uhl, (Co-) Chairman of the Management Board and Chief Financial Officer (CFO)
- Wolfgang Schneider, Member of the Management Board and Head of Business Unit ePI
- Robert Harmzen, Member of the Management Board.

The SMARTRAC Management Board consisted of male persons only, as in the majority number of boards in our Group and the industrial branch we are part of.

CHRISTIAN UHL (40*)

CO-CHAIRMAN OF THE MANAGEMENT BOARD

CHIEF FINANCIAL OFFICER (CFO)

Christian Uhl is Co-Chairman of the Management Board and holds the management position of Chief Financial Officer (CFO) of SMARTRAC. He joined the Company in May 2006 and held the management position of the Director of Corporate Accounting, Controlling and Finance until March 31, 2008. Prior to joining SMARTRAC, he was Principal at Roland Berger Strategy Consultants Competence Centre Restructuring and Corporate Finance. Christian Uhl holds a degree in business administration from the University of Bayreuth, Germany.

NIGEL SEALEY (50*)

CO-CHAIRMAN OF THE MANAGEMENT BOARD

GROUP CHIEF OPERATIONS OFFICER (COO)

Nigel Sealey is Co-Chairman of the Management Board and holds the management position of Group Chief Operations Officer (COO) of SMARTRAC. He joined SMARTRAC on April 1, 2012, from smart card manufacturer Oberthur Technologies where he held the position as Global Operations Director since 2004 and the position as Operations Director Northern Europe from 2000 to 2003. Prior to his employment with Oberthur Technologies, he was Managing Partner and Consultant at Metchem Technical Consultants specializing in operational management systems from 1988 to 1999. He started his career in the coal mining equipment industry with the Dowty Group (now part of GE) in 1978. Nigel Sealey graduated with a degree in materials science, mechanical and production engineering from GLOSCAT (now Gloucestershire University), England.

WOLFGANG SCHNEIDER (55*)

MEMBER OF THE MANAGEMENT BOARD

HEAD OF BUSINESS UNIT EPI

Wolfgang Schneider is a member of the Management Board of SMARTRAC and holds the management position of Head of Business Unit ePI. He joined SMARTRAC in 2001 and was responsible for the SMARTRAC Group's sales until the end of 2008. He became a member of the Group Executive Team upon its inception at the end of 2007 and held the management position as Head of the Business Unit Cards from the implementation of the Business Unit Structure in 2009 until December 2011. Wolfgang Schneider holds a degree in engineering and studied mechanical engineering at the Universities of Konstanz and Aalen, Germany.

MARTIN KUSCHEWSKI (45*)

MEMBER OF THE GROUP EXECUTIVE TEAM
HEAD OF BUSINESS UNIT EID

Martin Kuschewski is a member of the Group Executive Team and holds the management position Head of Business Unit eID. He has been working for SMARTRAC since the very beginning. From 2000 to 2004, he was Managing Director of the former SMARTRAC TECHNOLOGY AG and built up sales and project management in Europe. From 2004 to 2009, he held the position of Head of Business Development eID, in which he built up and organized SMARTRAC's global eID business activities. Martin Kuschewski holds a master's degree in electrical engineering from the University of Applied Sciences Munich, Germany.

MARKUS SPRENG (46*)

MEMBER OF THE GROUP EXECUTIVE TEAM
HEAD OF BUSINESS UNIT INDUSTRY & LOGISTICS

Markus Spreng is a member of the Group Executive Team and holds the management position Head of Business Unit Industry & Logistics. He joined SMARTRAC in September 2008 in the course of the acquisition of the former Sokymat Automotive GmbH from Swatch Group where he had held the position of the Managing Director since 2003. In addition, he served as Director of Microcomponents AG from 2007 to 2008. Markus Spreng holds a degree in electrical engineering.

THOMAS HITZER (50*)

MEMBER OF THE GROUP EXECUTIVE TEAM
HEAD OF BUSINESS UNIT CTA

Thomas Hitzer is a member of the Group Executive Team and holds the management position Head of Business Unit CTA. He joined SMARTRAC in December 2011 in the course of the acquisition of the former KSW Microtec AG, where he had held the position of CEO since 2007. Thomas Hitzer has a degree in electrical engineering with a focus on semiconductors from the Technical University in Ilmenau, Germany.

ENLARGEMENT OF THE GROUP EXECUTIVE TEAM

Since January 1, 2013, Francisco Martinez de Velasco Cortina, the Founder, President, and CEO of Neology, is Member of the Group Executive Team. Neology Inc., a leader in electronic vehicle registration, electronic toll collection and public safety markets, had been acquired by SMARTRAC on December 8, 2011.

* Age as of December 31, 2012

BONDING

One of our core competencies lies in the antenna-chip-interconnection. Depending on the respective product and customer requirement, we are able to offer our customers thermo-compression bonding, wire-bonding, flip-chip-technology, our proprietary and patented palladium bumping technology, and further advanced antenna-chip-interconnection technologies ensuring reliability and durability over the lifetime of the RFID product.

COMPANY PROFILE

COMPANY PROFILE

SMARTRAC® is the world's leading developer, manufacturer, and supplier of RFID transponders and inlays. Our products are used in access control, animal identification, apparel and asset tracking, automated fare collection, automated toll collection, border control, RFID-based car immobilizers, contactless payment cards, electronic product identification, industrial applications, libraries and media management, laundry tracking, logistics, medical and health care applications, mobile and smart media, public transport, retail, vehicle identification, and many more application fields.

Since the founding of SMARTRAC in 2000, the company alone has developed, produced, and sold more than 2 billion RFID transponders by the end of 2012. Taking into account the production and shipment figures for the acquired companies prior to their acquisition and integration into the SMARTRAC Group, the Group's proven track record would amount to an even higher number.

SMARTRAC – THE PREFERRED RFID TECHNOLOGY AND MANUFACTURING PARTNER

Based on the company's extensive technical competence and operating experience, SMARTRAC has been able to gain the number one position for high-security RFID inlays for electronic passports and e-national ID cards. The company is the global market leader for RFID inlays used in contactless payment cards and for label inlays used in apparel and retail applications, too.

Besides being one of the largest RFID transponder and inlay manufacturers in our industry, it is our aim to be the RFID technology partner of choice worldwide. We intend to achieve this target by manufacturing and delivering the best products at the highest quality and security at the best value, to stand at the forefront of innovation in our industry, and to provide our customers with excellent customer service. This will also help us to expand our leading market position to further application fields.

As RFID technology partner of choice, we want to grow business together with our partners, supporting them with best in class technology, innovative products, and added services where SMARTRAC develops additional features and services with its business partners which bring value to our customers. SMARTRAC already provides a number of added services such as post fabrication wafer processing and will continue to broaden its range of additional features to enable our business partners to spread use of RFID technology into new application fields.

It is our firm intention to continue the fair, cooperative, and trusting collaboration with customers and business partners around the world in the future.

THE SMARTRAC BRAND

The core elements of the SMARTRAC brand are leadership, security, high quality, a strong technology and IP portfolio, and a passionate team with a unique spirit, which is strongly focused on the needs of our customers.

Along with the integration of the acquired businesses into the SMARTRAC Group, SMARTRAC launched a new corporate design and Group-wide branding activities. The branding activities aim at reinforcing global visibility and further strengthening of the company's trusted brand.

It is part of the Group's strategy to unite its core business under the family brand 'SMARTRAC' as a sign of unification and commitment to the same values and principles. As part of this strategy and to finalize the integration, KSW Microtec AG changed its company name to SMARTRAC TECHNOLOGY Dresden GmbH, UPM RFID Inc. changed its company name to SMARTRAC TECHNOLOGY Fletcher Inc., UPM Raflatac RFID Co. changed its company name to SMARTRAC TECHNOLOGY (Guangzhou) Co. Ltd., and UPM RFID Oy changed its company name to SMARTRAC TECHNOLOGY Finland Oy.

Based on the fact that Dalton ID and Neology are established market participants, and due to their reputation in the respective market segments, both companies will continue to operate under their established company names and brands.

CORPORATE SOCIAL RESPONSIBILITY

SMARTRAC follows the definition of the European Commission, according to which Corporate Social Responsibility (CSR) is 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis'.

The SMARTRAC Management Board recognizes the strategic importance of CSR and integrates social and ecological issues within its sphere of influence and as appropriate for the company's circumstances at the corporate level. It is the firm intention of SMARTRAC to maximize creation of shared value for its stakeholders and to mitigate possible adverse impacts.

HUMAN RIGHTS, LABOR, AND EMPLOYMENT PRACTICES

SMARTRAC appreciates every single employee regardless of his or her function and position. The company respects and encourages cultural diversity among its workforce. The company's global workforce consists of around 20 nationalities. From a gender perspective, SMARTRAC is proud to employ almost as many men as women.

Maintaining a high standard of technical expertise, assuring high-quality production processes, and safety in the workplace are major priorities for SMARTRAC. For this reason, the company places emphasis on management training and has distinct development programs in place with specific technical, quality, security, and language training measures for SMARTRAC's global workforce.

The total number of employees, including the subcontracted workforce, amounted to 3,635 as of December 31, 2012, compared to 3,676 at the end of 2011. Employees from UPM RFID were included in the reporting as of April 1, 2012, after the completion of the transaction. In the course of 2012, SMARTRAC reduced its workforce in Thailand and Malaysia by approximately 20 percent in each country.

At the end of 2012, approximately 85 percent of our employees, including the subcontracted workforce, were employed at our global production facilities. Approximately 80 percent of the company's employees work in Asia, 10 percent in the Americas (North/South), and 10 percent in Europe.

ENVIRONMENT

SMARTRAC is committed to providing a production concept that guarantees economic manufacturing with minimal ecological impact. With this aim in view, ISO 14001 certification has been obtained by the company's facilities in Guangzhou, China; Pirkkala, Finland; Ayutthaya, Thailand; and Fletcher, USA. Furthermore, the company is constantly working on expanding the ISO 14001 certification to further locations and upgrading its existing certifications.

On January 27, 2003, the European Parliament and the Council adopted the directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment ('RoHS') 2002/95/EC. The specific substances in question are lead (Pb), mercury (Hg), cadmium (Cd), hexavalent chromium (Cr6+), polybrominated biphenyls (PBB), and polybrominated diphenyl ether (PBDE). SMARTRAC offers products in accordance with the RoHS Directive.

SMARTRAC products are 'halogen-free' and meet the requirements according to IEC 61249-2-21 specifications of less than 900ppm of chlorine in homogeneous materials, less than 900ppm of bromine in homogeneous materials, and a total amount of chlorine and bromine of less than 1500ppm in homogeneous materials. Furthermore, SMARTRAC products contain less than 1000ppm of antimony trioxide.

SMARTRAC products also comply with the essential health and safety requirements of the relevant Conformité Européenne / European Conformity (CE) directives.

In July 2010, the United States Congress passed legislation requiring companies to report on the use of conflict minerals in the manufacture of their products. Conflict minerals in this context refer to specific minerals originating from mines controlled by armed groups in the Democratic Republic of the Congo or adjoining countries. The specific metals in question are coltan (columbite tantalite) and its derivatives (tantalum), cassiterite and its derivatives (tin), wolframite and its derivatives (tungsten), and gold.

SMARTRAC is committed to complying with this legislation and plans to comply with forthcoming regulations to enable designation of all SMARTRAC products as 'conflict-free.' Based on the company's purchasing policy and supplier selection, it is considered highly unlikely that any conflict minerals are used in the manufacturing of the company's products. Nevertheless, SMARTRAC has defined and started an extensive due diligence program of the company's supplier base. In addition to these measures, SMARTRAC will take the appropriate actions to fully comply with the regulations regarding conflict minerals and will support efforts by its customers to reach the joint target of a socially responsible supply chain.

CODE OF CONDUCT AND BUSINESS ETHICS

SMARTRAC is committed to the highest standards of ethical business conduct and fair and honest dealings with all of its stakeholders. The SMARTRAC Code of Conduct and Business Ethics were adopted and put into practice in 2009. It sets forth standards to promote honest and ethical conduct, appropriate public disclosures and legal compliance, and includes policies related to conflicts of interest, record keeping, use of company property or resources, and policies regarding fraud, dishonesty, or criminal conduct.

The SMARTRAC Code of Conduct and Business Ethics is reviewed continuously and updated as needed. It is part of the company's constant endeavor to ensure its commitment to lawful and ethical behavior.

SMARTRAC is also in the process of implementing a compliance system, taking into account Foreign Corrupt Practices Act (FCPA) compliance. Inter alia, the company carries out FCPA due diligence and trains its personnel. In addition, SMARTRAC is establishing an online e-learning tool as part of its FCPA compliance measures.

INTELLECTUAL PROPERTY (IP)

Since the inception of SMARTRAC, the company has continuously broadened its technology base, manufacturing concepts, and product offering. The vigorous and continuous development of the company's technology range and process competence also contributed to growth in the patent portfolio. The integration of the acquired companies into the SMARTRAC Group further broadened the company's technology portfolio and intellectual property. At the end of the 2012 fiscal year, SMARTRAC held more than 700 patents and patent applications for technology, equipment, and the production of RFID components. In addition to its proprietary intellectual property (IP), SMARTRAC also has extensive knowledge and experience in processing technologies such as wafer processing, assembly, chip module packaging capabilities, antenna-chip interconnecting technologies, and lamination.

In 2012, SMARTRAC announced surpassing the milestone of one billion RFID inlays and PRELAM® products manufactured with the company's proprietary and patented wire-embedding technology. SMARTRAC's wire-embedding technology has proven itself to be the manufacturing technology of choice for contactless antennas with the highest product performance for high-profile applications. Card manufacturers and players in the high-security printing industry consider wire-embedding technology – the de facto standard for products that have to fulfill the highest quality, reliability, and durability requirements.

SMARTRAC will continue to nurture wire-embedding technology in the future in order to advance it to the next level of technological excellence. In parallel, SMARTRAC will refine its additional antenna manufacturing technologies and continue to evaluate new production technologies and processes to further broaden its technology portfolio.

SMARTRAC's technologies are legally protected by patents in numerous countries worldwide. As a result of the acquisitions, SMARTRAC's patent portfolio has grown significantly. Nevertheless, market participants have tried to circumvent or challenge the company's technologies and patents throughout the course of the company's history. SMARTRAC does not tolerate infringement of its patents and successfully enforced its patents in 2012 on a global scale. To date, SMARTRAC's patents have been recognized from numerous authorities and re-affirmed by various court rulings.

BUSINESS UNITS AND MARKETS

Since January 1, 2009, SMARTRAC's business has been structured into the four business units: eID, Cards, Industry & Logistics, and Tickets & Labels. In 2012, the company slightly adapted the business unit structure as a result of the acquisitions conducted in 2011. The Business Unit Cards was renamed to Business Unit CTA (Cards, Transport, and Access) and comprises the business of SMARTRAC's Cards business unit, part of the business activities of former KSW and access control products previously contained in the Business Unit Industry & Logistics.

The Business Unit Tickets & Labels was renamed to Business Unit ePI (electronic Product Identification) and comprises the business of SMARTRAC's Tickets & Labels business unit and the business of former UPM RFID.

The Business Unit eID did not undergo any changes. The business activities of the Business Unit Industry & Logistics also did not undergo major changes except of the aforementioned move of the access control business to the Business Unit CTA.

A new Business Unit was created in 2012 comprising the business activities of Dalton ID and Neology.

BUSINESS UNIT E-ID

The Business Unit eID covers products for electronic identity documents issued by governments and state authorities such as e-passports, e-national ID cards, electronic driver's licenses, electronic visa documents, contactless health care cards, electronic social security cards, and electronic permanent resident cards.

In 2012, the overall market development for electronic identity documents continued to progress constantly. Whereas the number of newly launched e-passport projects worldwide was moderate, the issuance of e-national ID cards, electronic permanent resident cards, and further electronic identity documents developed well.

SMARTRAC is the world's leading developer, manufacturer, and supplier of high-security RFID inlays and e-covers for electronic passports worldwide. In 2012, the company was also able to further expand its market share for high-security identity cards.

The trend towards high security documents with increased security features continued strongly in 2012. Electronic identity cards are typically manufactured in a 'sandwich structure' with the RFID inlay at the core of the ID document. In the course of the further production process, further layers are added to the RFID inlay incorporating numerous security features such as watermarks, security ink, optical security features, holographic elements, laser engraving, and similar products. With every additional layer, the security of the identity document increases. The challenge, however, lies in the overall thickness of the document, which has to comply with the ID-1 standard. To accommodate this need, SMARTRAC high-security ID card inlays are manufactured in an exceptional mono-bloc structure which allows for the incorporation of multiple security layers without compromising manufacturing requirements and international standards. The so called SMART-SL product family also maintains highest reliability and durability and is very well received on the market.

In 2012, the SMART-AC, a high-security RFID inlay equipped with a so called 'anti-crack feature,' also generated significant customer interest. Continuous mechanical stress over the lifetime of polycarbonate identity cards can cause micro cracks around the chip module. SMARTRAC realized this circumstance some years ago and introduced its SMART-AC RFID inlay, which combines mechanical robustness with the benefits of polycarbonate-based RFID inlays. The specific technological approach and the reliability of the SMART-AC inlay have convinced further players in the security printing industry to switch to SMARTRAC high-security inlays.

SMARTRAC has always been committed to the highest security standards to protect a government's highest-ranking identification documents. The company maintains a network of high-security production facilities in Asia, Europe, and the U.S., which comply with a variety of security standards. The company is also planning to equip further production facilities with site certificates and to increase the certification grade of existing ones.

In 2009, SMARTRAC was one of the first manufacturers and suppliers of e-covers and e-ID inlays to obtain an EAL 5+ site certificate for its e-passport production facility in Thailand from the German Federal Office for Information Security (BSI) covering the production environment and processes for the manufacture of electronic identification documents as well as the initialization environment for e-ID documents.

Despite the flood in Thailand, SMARTRAC was able to maintain its high security standards at the production facility in Ayutthaya. In 2012, the German Federal Office for Information Security (BSI) issued an assurance continuity maintenance report confirming the validity of the EAL 5+ site certificate.

To date, SMARTRAC is the only high security inlay and e-cover manufacturer who has two active EAL5+ site certificates.

BUSINESS UNIT CTA

The Business Unit CTA comprises card inlays for automated fare collection, access control, contactless payment, and active card applications and caters to card manufacturers as well as multinational system integrators with own card manufacturing capabilities.

In 2012, the Business Unit Cards, was renamed to Business Unit CTA (Cards, Transport, and Access) comprising the business of SMARTRAC's Business Unit Cards, part of the business activities of former KSW, and access control products previously contained in the Business Unit Industry & Logistics. The business unit unified its product range over the course of 2012 and defined its technology roadmap for the coming years.

Overall market development for RFID-based card inlays continued to develop favorably. Several new contactless public transport projects were launched worldwide and adoption of RFID technology for contactless payment cards and access control solutions also achieved further market penetration. In 2012, SMARTRAC was able to participate in the growth of the market and the Business Unit CTA laid the foundation for future growth.

At the beginning of 2012, SMARTRAC joined the OSPT Alliance as a full member to participate in the advancement of open, vendor-neutral and next-generation fare collection systems based on the CIPURSE™ open security standard.

The CIPURSE™ open security standard addresses transit authorities' need for future-proof fare collection systems with more advanced security than is currently in use. Because it is an open standard, CIPURSE™ promotes vendor neutrality, cross-vendor system interoperability, lower technology adoption risks, higher quality and improved market responsiveness, all of which result in lower operating costs and greater flexibility for transport system operators. CIPURSE™ also offers a global basis for a faster transition of transit fare systems to the use of emerging NFC mobile phones and other devices, and support for the adoption of NFC transit applications for a truly future-proof solution.

In March 2012, SMARTRAC introduced a new semi-finished, contactless ISO card to the market. The semi-finished CISO FRAM card operates at 13.56 MHz and offers various benefits such as memory capacity of 2 Kbytes, 64-bit UID, high-speed data transmission and reception, anti-collision function, anti-theft (EAS) command, FRAM memory data protection and data retention of ten years. Due to its ferroelectric characteristics, the card easily withstands radiation sterilization processes, making it a convenient and secure solution for access control applications in medical environments and the health care sector. The new semi-finished CISO FRAM card has been developed based on the company's CISO product family, which is available in low and high frequency and is optimized for access control, loyalty, and e-commerce applications.

In the third quarter of 2012, SMARTRAC once again obtained certification for a number of its RFID PRELAM® products from AIT, the Austrian Institute of Technology. The SMARTRAC PRELAM® certification gives card manufacturers a clear advantage, as it provides them with an easy, quick, and cost-efficient way to obtain card certification from AIT. Card manufacturers simply have to acquire a so-called 'upgrade certificate' rather than passing a full certification process. The reduced complexity of the certification process results in time and cost savings and a much quicker time to market for card manufacturers seeking smart-card certification. The certified SMARTRAC PRELAM® products are used in applications such as automated fare collection in public transport, contactless micropayments, access control, and many more application fields.

SMARTRAC was also pleased to announce that it surpassed the production milestone of 2 million PRELAM® products based on the Sony FeliCa™ RC-S962 IC chip in the third quarter of 2012. The benefits of the Sony FeliCa™ RC-S962 IC chip combined with the high reliability and durability of the SMARTRAC PRELAM® result in a sophisticated product which offers fast and convenient access, ticket validation, and payment functionalities and is used in applications such as automated fare collection (AFC) for public transport, access control, contactless micropayments, and loyalty schemes.

In November 2012, the business unit launched new MIFARE™-based inlays and PRELAM® products for automated fare collection based on a new smart paper ticketing chip from NXP. The SMARTRAC PET inlays and PRELAM® products for limited use tickets, public transport cards, access control tickets, and access control cards feature the new MIFARE™ Ultralight EV1 chip, the next generation of MIFARE™ Ultralight chips from NXP.

Drawing upon its longstanding internal post-fabrication wafer processing capabilities and antenna-chip interconnection technologies, SMARTRAC is able to offer a broad range of inlay and PRELAM® products based on the new chip generation to the automated fare collection market supporting higher reliability and security.

Overall market development for contactless card applications developed favorably in 2012. The new products and the established product range were well received by the market. Based on SMARTRAC's capability and experience in the development, manufacture, and supply of card inlays and PRELAM™ products, its excellent technology portfolio, proprietary manufacturing concepts, and high-quality products, the company is set to further participate in the future market growth of the card inlay business.

BUSINESS UNIT INDUSTRY & LOGISTICS

The Business Unit Industry & Logistics covers RFID tags for a variety of automotive, animal identification, logistics, industry, laundry, and medical applications.

Market development in the Industry & Logistics business unit continued to show a mixed picture. While the European automotive market had to cope with declining sales volumes, non-European regions continue to show strong development. Business with the established car immobilizer products and RFID transponders for the automotive industry was subject to those fluctuations in 2012.

The non-automotive business continued to develop stably. It was, however, not able to compensate for the fluctuation in the automotive business. Over the course of 2012, new product developments were initiated to support further growth.

The business unit enlarged its product range by another high-temperature RFID tag. The new SMART-Ferro II-Tag has been developed to track and trace metallic objects over long reading distances in harsh and high temperature environments. The passive UHF tags are therefore ideally suited for logistics applications, shipping handling, incoming goods departments, and asset tracking as well as for applications in the petrochemical, automotive, aerospace, and maritime industries.

The business unit also added an even smaller version of the SMART-Mini-Tag to its standard product portfolio. The SMART-Mini6-Tag has a diameter of just 6mm and a thickness of only 0.8mm, which makes it the ideal solution for tagging small items. Due to its small footprint, the HF tag can easily be integrated into OEM equipment. Application fields include, for example, cable tagging in cable cabinets and cable harnesses (patch panels) as well as tool and tool trolley tagging, where every single tool is tagged with the SMART-Mini6-Tag.

In November 2012, the business unit introduced an implant system for animal identification to the market. The implant system is equipped with glass tags with diameters of 1.4 mm or 2.12 mm, which are typically used to tag pets, horses, birds, zoo animals, fish, and laboratory animals. Made out of biocompatible glass, the tags are manufactured in Germany under superior standards in order to ensure the highest quality.

The glass transponders operate at 134.2 kHz. Compliance with ISO 11784 and 11785 guarantee interoperability with other standard components and systems. The ergonomic design of the implant system and the precision-cut cannula guarantee easy subcutaneous implantation of the glass tag. Enclosed barcode labels support simple handling when registering the animal.

The new products have been well received by the market and will contribute to further growth in the Industry & Logistics market segments.

BUSINESS UNIT E-PI

The Business Unit ePI comprises the business activities of former SMARTRAC Tickets & Labels business and UPM RFID. The Business Unit ePI (electronic Product Identification) covers RFID inlays that cater to ticket and label converters and include fields of application such as libraries and media management, mobile and smart media (NFC), apparel tracking, brand protection, electronic product identification, as well as applications in the pharmaceutical industry, retail, supply chain management, and many more application fields.

At the beginning of 2012, following the completion of the UPM RFID acquisition, the Business Unit ePI unified its product range and technology roadmap.

In 2012, the overall business development for RFID inlays used in retail, apparel tracking, libraries, product authentication, and NFC applications continued to grow rapidly. The business development of the Business Unit ePI in 2012 was characterized by major wins of new customers and projects and the launch of several new products to serve these high-volume markets.

In April 2012, the business unit introduced the new Midas™ near field communication (NFC) tag to the market. The SMARTRAC Midas™ NFC tag is ideally suited to linking small objects with cloud services. Due to its small footprint, the tag can easily be attached to electronics and various accessories allowing for a unique identification of the object while at the same time granting access to a broad range of services and options residing in the cloud. The Midas™ NFC tag is also well suited for applications where inlays are embedded with limited space available for housing such as electronics pairing, NFC-Bluetooth pairing, brand authentication, toy figures, and key fobs. The Midas™ NFC tag has been cross-tested and qualified by major NFC smartphone brands.

In June 2012, SMARTRAC announced supply of its BullsEye™ NFC inlays for FujiFilm SmartPix kiosks in the United Kingdom. The 'Tap 'n' Print' service is available on kiosks in selected supermarkets, retail outlets, pharmacies and camera shops. The new feature, developed by FujiFilm together with UK-based Near Field Solutions, makes it easy for consumers to transfer images from their NFC phone by selecting the pictures they want to print and touching their phone to the kiosk. The phone sends the photos via Bluetooth connection. SmartPix kiosks act as a link between the consumer, FujiFilm's web server and a variety of output options. In addition to standard photo prints, consumers are able to print montages, photo books and other photo-based gift items using the kiosk.

In the third quarter of 2012, SMARTRAC teamed up with U.S.-based application provider ClikGenie and partner FineLine Technologies to launch CLIKSecure™, a mobile application for NFC-enabled product authentication. The app is the first to have dual functionality for in-store product merchandising and product authentication.

The CLIKSecure™ app was first demonstrated for wine authentication. Consumers may tap the inlay using any NFC-enabled phone to receive information the brand owner wants to share, such as details on the vineyard, wine ratings, food pairings, and tasting notes. When the same inlay is tapped using a phone with the CLIKSecure™ app, the product's authenticity can be confirmed immediately. In addition to registering the UID of the chip itself, the unique phone serial number (SRN) will be registered for very high security. This ensures that only brand inspectors and other authorized users of the app can access detailed product information and easily and discretely identify fake products throughout the supply chain.

In October 2012, SMARTRAC announced that it was the first RFID transponder and inlay manufacturer worldwide to offer NFC tags with ultrathin 50 µm chips. RFID chips are typically offered on wafers with a standard thickness of 120 µm. Drawing upon its longstanding internal post-fabrication wafer processing capabilities, SMARTRAC is able to prepare Infineon my-d™ NFC chip wafers down to 50 µm for flip chip assembly.

The ultrathin NFC chip is then connected to a SMARTRAC BullsEye antenna employing the company's proprietary and patented palladium bumping technology. Palladium bumping enables pure metal-on-metal antenna-chip interconnection resulting in very high durability. SMARTRAC BullsEye NFC tags equipped with 50 µm chips are particularly suited for use in the printing industry, as the ultrathin inlays seamlessly integrate into business cards, magazines, and similar products. The tags also significantly ease converting processes compared to standard RFID tags.

In December 2012, SMARTRAC introduced the new UHF EPC-compliant WebLite inlay. The SMARTRAC WebLite inlay represents a technological advance in both size and performance. With an antenna size of only 46 x 15 mm (1.8" x 0.6"), it is especially suited for item-level tagging and identification where RFID tag space is limited and performance is of critical importance.

Due to its compact form and special design, which takes into account RF requirements for close coupling and high-population RFID scanning, the SMARTRAC WebLite inlay perfectly meets the needs of retail apparel applications. Close coupling occurs when RFID-tagged items are stacked in close proximity to each other. SMARTRAC has been working with its partners, renowned independent test facilities, major retail end users, and RFID hardware providers, to test, qualify, and approve the WebLite tags and inlays for immediate deployment in major item-level tagging applications. WebLite has gone through stringent performance testing by major U.S. retailers with RFID programs and has passed these tests for a multitude of product categories.

Overall, the Business Unit ePI achieved several milestones in 2012 that not only led to the favorable development in 2012 but also paves the way for future sales and business growth in major application fields of this growth market.

BUSINESS UNIT DALTON, NEOLOGY

Dalton ID is an established provider of animal identification products, headquartered in Henley-on-Thames, UK. Dalton ID complements SMARTRAC's product offering of injectable glass transponders, coil and chip inlays for earmarks and transponders for bolus application. Established in 1947, the company has long-standing business relationships with agricultural and research industries, as well as wildlife and marine research. In 2012, Dalton ID underwent a comprehensive restructuring to streamline its business activities and global footprint to further improve its competitiveness.

Neology Inc. is a leader in electronic vehicle registration (EVR), electronic toll collection, and public safety markets. The company is headquartered in San Diego, California, with offices in Mexico City, and employs more than 150 people. Neology is the exclusive provider for the Mexico Repuve program, an ambitious program to tag every vehicle in Mexico with an RFID tag to enhance security and combat fraud. The long-term expertise of Neology in the ultra-high frequency (UHF) RFID business and the company's comprehensive intellectual property (IP) provided the basis for favorable business development and several new projects gained in 2012.

On October 30, 2012, Neology acquired 80 percent of the share capital of Controles Electromecánicos S.A. de C.V., a family-owned Mexican company with more than 20 years of proven and qualified experience in the tolling and access control market. Based in Mexico City, Controles delivers solutions including toll booth plaza, control and audit systems, hardware and equipment, and also develops and installs vehicle classification equipment for tolling, parking, and access control. The company also provides non-tolling equipment which has not been acquired by Neology.

The acquisition of Controles' tolling business and the resulting synergies for tolling solutions will enable Neology to further strengthen its excellent market position in the strongly growing market for automated tolling lanes. Based on Controles' strong presence and international experience, the coverage of the combined business activities in South America and Asia is further strengthened.

RESEARCH AND DEVELOPMENT

As of December 31, 2012, the SMARTRAC Group employed approximately 110 highly skilled R&D experts. Over the course of 2012, the company streamlined its R&D activities as a result of the acquisitions conducted in 2011. The existing and new research centers in Asia, Europe, and the U.S. were transformed into Centers of Excellence focusing on specific technology aspects, utilizing synergies and thereby operating even more effectively and innovatively.

SMARTRAC employs R&D experts in all relevant areas: engineering, material sciences, mechanical and electrical engineering, production technologies, process engineering, processing technologies, and related areas. The global R&D team will continue to evaluate new materials, technologies, and production processes to improve existing technologies and processes and to invent new production concepts, products, and added services for the company's global customers.

The ability of the company's research and development teams to create cutting-edge products and to continuously enhance the strong product offering is an important competitive factor. In 2012, the R&D workforce supported the launch of several new products and supported the business units in transforming customer requirements into high-volume manufacturing products, which led to several major project wins in the course of the year. The R&D teams also further strengthened the companies' technology excellence and knowledge in such processing technologies as wafer processing, assembly, chip module packaging, antenna-chip interconnecting technologies, and lamination.

In 2012, SMARTRAC was the first RFID transponder manufacturer worldwide to introduce NFC tags with ultrathin 50 µm chips to the market. RFID chips are typically offered on wafers with a standard thickness of 120 µm. Drawing upon its longstanding internal post-fabrication wafer processing capabilities, SMARTRAC prepares NFC chip wafers down to 50 µm for flip chip assembly. The ultrathin NFC chip is then connected to a SMARTRAC BullsEye antenna employing the company's proprietary and patented palladium bumping technology. Palladium bumping enables pure metal-on-metal antenna-chip interconnection resulting in very high durability. SMARTRAC BullsEye NFC tags equipped with 50 µm chips are particularly suited for use in the printing industry, as the ultrathin inlays seamlessly integrate into business cards, magazines, and similar products. The tags also significantly ease converting processes compared to standard RFID tags.

In November 2012, SMARTRAC introduced SMART-HERA® to the market. SMART-HERA® is the next evolutionary step in dual interface (DI) technology and consists of a high-tech machine concept combined with customized dual interface inlays to be processed with the machine using HERA® technology. SMART-HERA® ideally combines SMARTRAC's manufacturing experience from more than 1 billion RFID inlays and PRELAM® products employing the company's patented wire-embedding technology with the benefits of intermetallic connections and the new HERA® dual interface technology.

HERA® advances dual interface beyond conductive materials providing pure metal-on-metal interconnection between the DI module and the antenna. The resulting DI products offer very high mechanical durability, resistance, and reliability. Customers also benefit from an easy migration to DI technology and a high-tech machine concept tailored to card manufacturer's needs.

In 2013, the global R&D team will continue to broaden the company's technology range. Particular focus is placed on new antenna-chip-connecting technologies and the development of next generation wire-embedding products.

GLOBAL PRODUCTION NETWORK

SMARTRAC serves a global customer base in a steadily growing market. Based on a strong technology portfolio and the right network of partners, SMARTRAC has been able to consistently supply significant volumes of RFID transponders at the level of quality the market expects.

As a result of the acquisition conducted in 2011, SMARTRAC's global production network was broadened by additional production facilities in China, Germany, and the United States.

ASIA

SMARTRAC maintains production facilities in Thailand, Malaysia, and China.

SMARTRAC's largest individual production site is located in Ayutthaya, Thailand. In the first quarter of 2012, the team in Thailand was managing reconstruction of the facilities in Ayutthaya after the severe flood in the third quarter of 2011. SMARTRAC was one of the first manufacturers in the entire region to restart production just over 2 months after evacuation and served as example for insurers and corporations in the region regarding its professional reconstruction activities in record time. The successful disaster management was a result of the extraordinary and relentless effort of the team in Thailand, the solidarity of the global team, and the excellent relationship with and dependability of suppliers and business partners.

Despite the flood, SMARTRAC TECHNOLOGY Ltd, Thailand, was able to maintain its high security standards at the production facility for high-security RFID inlays and e-covers. The German Federal Office for Information Security (BSI) issued an assurance continuity maintenance report confirming the validity of the EAL 5+ site certificate. Furthermore, the team successfully completed renewal of the Sony Green Partner Certification in 2012.

The production facility in Kulim, Malaysia, hosts production for card inlays as well as ticket and label inlays. At the beginning of 2012, the team supported the colleagues in Thailand in the further reconstruction of the facilities after the flood disaster. Throughout the year, SMARTRAC TECHNOLOGY MALAYSIA Sdn Bhd. was well utilized to satisfy the vast demand for retail apparel products. The very positive development of the business was backed by the development and launch of new UHF products.

SMARTRAC's in-house machinery-building subsidiary SMARTRAC AUTOMATION Sdn. Bhd. was able to further enhance its position as a key machinery-building center for the Group. In particular, the subsidiary supported the reconstruction activities in Thailand.

Following the completion of the UPM RFID transaction at the end of the first quarter of 2012, integration of the teams and locations into the SMARTRAC Group began. The factory in Guangzhou, China, was renamed SMARTRAC TECHNOLOGY (Guangzhou) Co. Ltd. and re-branding activities were started to also visually integrate the subsidiary into the SMARTRAC Group.

EUROPE

Following the acquisitions, SMARTRAC now has three locations in Germany, two production locations and one Group corporate service center.

The production facility in Reichshof-Wehnrath had to withstand unsteady market developments in the automotive business in 2012. Additionally, the team from SMARTRAC TECHNOLOGY Wehnrath GmbH supported the Industry & Logistics business activities with the launch of new products.

The SMARTRAC TECHNOLOGY GROUP's corporate service center is located in Stuttgart. With Europe being in the middle of different time zones around the world, the team supports business units and regional subsidiaries in the areas of corporate accounting and tax, corporate development, corporate communications and marketing, corporate finance and controlling, corporate HR, corporate IT, corporate purchasing, and the legal department. In 2012, the corporate service center has been selectively reinforced with additional employees to support the Group's global teams and business activities even better.

The production facility in Dresden, former KSW Microtec AG, was renamed SMARTRAC TECHNOLOGY Dresden GmbH at the beginning of 2012. Integration of the site into the SMARTRAC Group commenced at the beginning of the year and included the formation of a center of excellence for card inlay, Thinlam®, and PRELAM™ products as well as for the development of high-security products for government identification documents in close collaboration with the colleagues from Ayutthaya, Thailand.

NORTH AMERICA

SMARTRAC maintains production facilities in Fletcher, North Carolina, and Chanhassen, Minnesota, while Neology Inc. is located in San Diego, California.

The facility in Chanhassen, Minnesota, is part of SMARTRAC's global network of certified high-security production facilities in Asia, Europe, and the U.S., which comply with a variety of security standards.

Following the completion of the UPM RFID transaction at the end of the first quarter of 2012, integration of the teams and locations into the SMARTRAC Group began. The factory in Fletcher, North Carolina, was renamed SMARTRAC TECHNOLOGY Fletcher Inc. and re-branding activities were started to also visually integrate the subsidiary into the SMARTRAC Group. Furthermore, the team in Fletcher supported the ePI business unit during the launch and manufacture of new products for various application fields.

SOUTH AMERICA

Adoption of RFID technology in Brazil and Latin America as a whole was lower than anticipated in 2012. The economic downturn in Latin America led to project delays and cautious investment behavior. In Brazil, in particular, economic growth in 2012 slowed down to approximately 1 percent. The growth spurt resulting from the 2014 World Cup and the 2016 Olympic Games as well as the related investments into infrastructure, which were anticipated to materialize in 2012, was weaker than predicted.

Nevertheless, SMARTRAC was able to increase its revenues in the Latin American market compared to 2011 mainly as a result of the business activities of Neology in the Latin American market.

* SMARTRAC, PRELAM, Thinlam, Durasoft, ChipLink, HERA, Sokymat Automotive, and AmaTech are registered trademarks of SMARTRAC N.V.

ANTENNA PRINTING

SMARTRAC unites all main antenna manufacturing technologies under one roof: wire-embedding, etching, coil winding, and printing. Currently, we use silver ink to print our antennas while constantly evaluating new conductive materials that are suited for mass production. Our printed antennas offer excellent electrical performance and reliable readability.

THE SHARE

ISIN (International Securities Identification Number)	NL 0000186633
WKN (German Securities Identification Number)	AOJEHN
Stock abbreviation	SM7
Market segment	Prime Standard of Deutsche Börse
Designated Sponsor	CA Cheuvreux
First day of trading	July 20, 2006

THE SHARE

SHARE PRICE DEVELOPMENT

The development of the SMARTRAC share in 2012 was characterized by the low free float and the resulting low trading volumes. The SMARTRAC share started 2012 at EUR 10.73 and recorded its high for the year on January 13, 2012, at EUR 11.70. On June 8, 2012, the share recorded the low for the year at EUR 9.10. The SMARTRAC share closed 2012 at EUR 10.60.

The German stock market index DAX started 2012 at 6,076 points and reported its high for the year on December 20, 2012, at 7,672 points. The DAX recorded its low for the year on June 5, 2012, at 5,969 points. The DAX finished 2012 with an increase of 25 percent at 7,612 points (XETRA closing).

The German technology index TecDAX started 2012 at 692 points and moved to 845 points on December 3, 2012. The TecDAX recorded its low for the year on January 2, 2012, at 692 points. The TecDAX closed 2012 with an increase of 20 percent at 829 points (XETRA closing).

The year-end share price of the SMARTRAC share of EUR 10.60 constituted a decrease of 1 percent in the 2012 fiscal year. The DAX and TecDAX indices increased by 25 percent and 20 percent, respectively, between January and the end of December 2012.

Earnings per share (EPS) is calculated by dividing the profit attributable to the equity holders of SMARTRAC N.V. by the weighted average number of shares outstanding as of December 31, 2012. In the year under review, the number of shares outstanding averaged 19,322,000. Earnings per share for the 2012 fiscal year came to EUR 0.26 and cash flow per share amounted to EUR 0.83.

	2012	2011	2010	2009	2008
Basic earnings per share in EUR	0.26	(2.54)	0.41	0.38	1.03
Operating cash flow per share in EUR	0.83	0.39	0.13	0.45	1.46
Share price at year-end in EUR (XETRA)	10.60	11.00	18.31	15.00	11.75
High in EUR (XETRA)	11.70	18.78	20.00	17.00	38.01
Low in EUR (XETRA)	9.10	10.27	12.95	6.50	8.57
Number of shares issued at year-end	19,847,974	17,744,088	16,334,997	14,849,999	13,500,000
Market capitalization in EUR million*	210	195	299	223	157

* based on share price at year-end (XETRA)

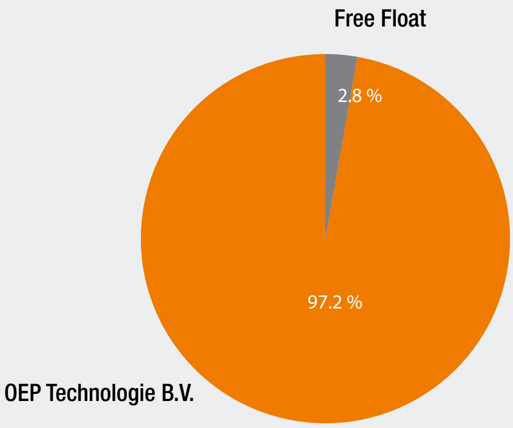
DIVIDEND POLICY AND DIVIDEND PROPOSAL

The management of SMARTRAC intends to retain its earnings to finance the further growth and development of its business. No dividend was paid for the 2011 fiscal year. This decision was approved by the SMARTRAC 2012 Annual General Meeting of Shareholders held on June 19, 2012, in Amsterdam.

SMARTRAC INCREASED ITS SHARE CAPITAL

On March 31, 2012, the Management Board of SMARTRAC N.V. resolved to utilize SMARTRAC's authorized capital and to increase SMARTRAC's share capital through the issuance of 2,103,886 ordinary shares. Subscription rights for shareholders were excluded. The capital increase was associated with the closing of the transaction with UPM-Kymmene Corporation, under which SMARTRAC took over UPM's RFID business while UPM-Kymmene Corporation obtained an indirect economic interest in SMARTRAC of 10.6 percent via OEP Technologie B.V., a holding company controlled by One Equity Partners, one of the major shareholders of SMARTRAC.

Furthermore, SMARTRAC N.V. and OEP Technologie B.V. agreed that the new shares would not be admitted to trading on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange for a period of at least twelve months following the registration of the capital increase in the commercial register.



OEP Technologie B.V.	97.2 %
– JP Morgan Chase & Co.	
– UPM KYMMENE Corporation	
– Manfred Rietzler, former member of the Management Board & CTO of SMARTRAC	
Free float according to the definition of Deutsche Börse	2.8 %

On July 20, 2012, OEP Technologie B.V. decided to initiate squeeze-out proceedings against minority shareholders in SMARTRAC N.V.

Shareholder structure as of December 31, 2012

SHAREHOLDER STRUCTURE AND LIQUIDITY

On June 6, 2012, Manfred Rietzler, Vice Chairman of the Supervisory Board of SMARTRAC N.V., informed the capital market authorities and SMARTRAC N.V. that he had entered into an agreement with OEP Technologie B.V. by which he exchanged his directly and indirectly held shares in SMARTRAC N.V. against shares in OEP Technologie B.V. As of June 6, 2012, Manfred Rietzler and his holding company ICM Netherlands no longer held shares or voting rights in SMARTRAC N.V.

On July 20, 2012, the Management Board of SMARTRAC N.V. was informed that OEP Technologie B.V. decided to initiate squeeze-out proceedings against all minority shareholders in SMARTRAC N.V. in order to have their shares in SMARTRAC N.V. transferred to OEP Technologie B.V., pursuant to Article 2.92a of the Dutch Civil Code. The Management Board of SMARTRAC N.V. was also informed that OEP Technologie B.V. intended to request the Enterprise Chamber of the Amsterdam Court of Appeal to order the minority shareholders to transfer their shares and to set the price of the shares to be transferred at EUR 11.00 per share.

On September 12, 2012, the SMARTRAC Management Board resolved to apply for a delisting of the company's shares from the Frankfurt Stock Exchange (Prime Standard) and to propose to the general meeting a change of the company's articles of association subject to the approval of the delisting.

At the Extraordinary General Meeting of shareholders held on October 29, 2012, the proposed changes of the company's Articles of Association were approved with 99.9 percent of the votes cast.

On November 30, 2012, SMARTRAC N.V. was informed about the decision of the Frankfurt Stock Exchange regarding its request for a delisting of the company's shares from the Frankfurt Stock Exchange (Prime Standard). On the company's request, the Frankfurt Stock Exchange decided to revoke the listing of the ordinary bearer shares, ISIN NL0000186633, on the regulated market. The Frankfurt Stock Exchange also informed SMARTRAC N.V. that the revocation will become effective at the end of the day on May 28, 2013.

The majority of trading in SMARTRAC's share is carried out via the liquid XETRA trading system in Frankfurt/Main. Around 83,000 SMARTRAC shares were traded on the XETRA trading system in the first half of 2012. The daily trading volume on the XETRA trading platform averaged close to 650 shares in the first half of 2012, compared with approximately 1,500 shares in the same period of 2011. Trading volumes in SMARTRAC shares decreased in the second half of 2012 compared with the first half of the year, and the highest trading volume on the XETRA trading platform of the period under review of 13,860 shares traded took place on January 11, 2012.

As of December 31, 2012, OEP Technologie B.V. held 19,287,868 shares in SMARTRAC N.V., representing 97.2 percent of the shares and voting rights in SMARTRAC N.V., and the free float amounted to 2.8 percent.

SHARE BUYBACK PROGRAM AND TREASURY STOCK

The Annual General Meeting of Shareholders held on April 29, 2009, authorized the Management Board to repurchase and acquire up to a maximum of 10 percent of the company's issued share capital. The authorization was granted for a period of 18 months starting April 29, 2009. The Annual General Meeting of Shareholders held on June 19, 2012, renewed the authorization of the Management Board to repurchase and acquire up to a maximum of 10 percent of the company's issued share capital. The current authorization is for a period of 18 months from June 19, 2012. In the course of 2012, the Management Board made no use of this authorization.

At the end of the reporting period, SMARTRAC held no treasury stock.

INFORMATION POLICY

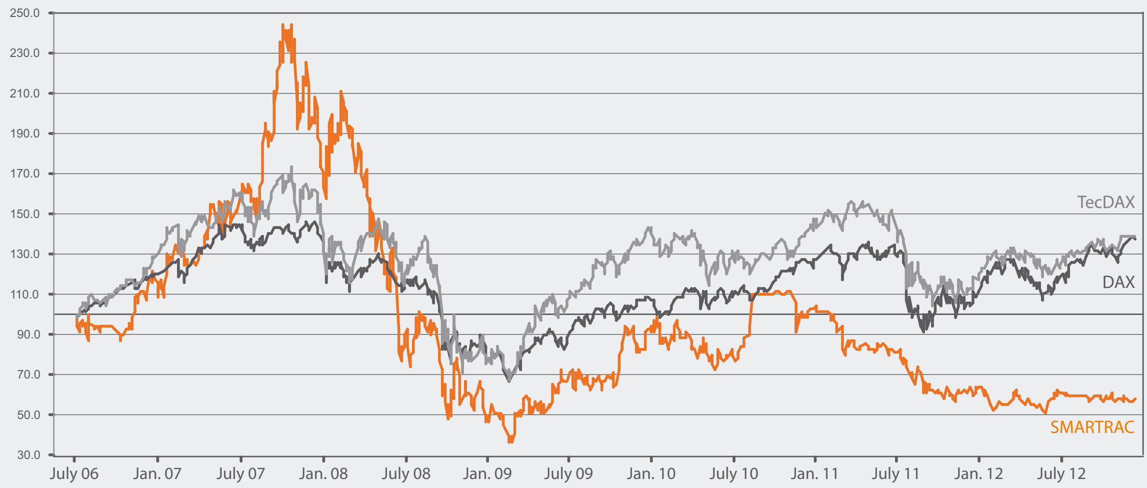
SMARTRAC's investor relations work in the 2012 fiscal year was targeted to directly meet the needs of investors on the international capital markets. SMARTRAC maintained a continuous exchange of information and contact with the capital market and investors.

Management used individual conference calls with investors to provide deeper insight into the business model, the financial results, and the company's strategy. Conference calls on the interim reports and important strategic transactions are firmly established elements of our communication with the financial community.

SMARTRAC's financial communication, which rigorously pursues the principles of credibility and transparency, was intended to meet the requirements of the global capital market, fostering confidence among investors and analysts, and as comprehensively as possible, providing information promptly and openly about the business model, its sustainability, and its potential.

In accordance with the regulatory framework for publicly listed companies, SMARTRAC is committed to providing all stakeholders in the company with comprehensive and timely information, thereby facilitating transparency of the company's overall development, strategy, and prospects. SMARTRAC is strict in its compliance with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders.

Quarterly financial disclosures, ad hoc releases, and press releases issued by SMARTRAC throughout the course of the year can also be found on the company's website at www.smartrac-group.com in the Investor Relations section.



Share price (indexed, July 20, 2006 = 100) – SMARTRAC, DAX, TecDAX

COVERAGE AND ASSESSMENT

In 2012, the number of analysts that follow SMARTRAC further decreased from six to five national and international banks. UBS terminated research coverage effective on July 24, 2012.

Currently, four analysts rate the SMARTRAC share as a 'hold/neutral' and one analyst rates the stock as an 'underperform.' In the Investor Relations section of the website, under 'Research reports,' SMARTRAC presents a constantly updated overview of the banks and their current recommendations.

The company will not, in advance, assess, comment upon or correct, other than factually, any analyst's reports or valuations. The company values the financial analysts' function as central multipliers to increase investors' understanding of the business model, its drivers, and its profitability.

FINANCIAL CALENDAR

FIRST HALF OF 2013

March 21, 2013	Publication of 2012 Annual Report Analysts' Conference Call
May 16, 2013	Publication of Q1 Interim Report (January to March 2013) Analysts' Conference Call
June 18, 2013	SMARTRAC Annual General Meeting of Shareholders, Amsterdam

INVESTOR RELATIONS CONTACT

SMARTRAC's Investor Relations department is happy to answer any questions regarding the share and the company by email or by telephone.

SMARTRAC N.V.
Tanja Möhler
Phone: +31 20 30 50 157
Email: investor.relations@smartrac-group.com

WAFER PROCESSING

SMARTRAC possesses long-standing internal wafer back end processing technologies. This capability results in additional service offerings for our customers and the technological lead in the processing of ultrathin RFID chips.

KEY FINANCIAL FIGURES 2012 AND BUSINESS BY SEGMENTS

KEY FINANCIAL FIGURES 2012 AND BUSINESS BY SEGMENTS

EARNINGS POSITION

In total, SMARTRAC achieved Group sales of EUR 255.5 million in the 2012 fiscal year, representing an increase of 52 percent compared to sales of EUR 167.6 million in 2011.

Sales divided by geographical location of customers showed Europe to be the largest sales region, but also substantiated the global coverage of SMARTRAC's customer base. 40 percent of total Group sales were generated in Europe (2011: 55 percent), followed by 25 percent attributable to Asia (2011: 18 percent), 24 percent to North America (2011: 19 percent), and 9 percent to South America (2011: 8 percent). A detailed breakdown can be found in the Notes to the Consolidated Financial Statements of this Annual Report.

Cost of sales primarily relate to raw materials including microchips and manufacturing supplies, personnel expenses, depreciation and amortization as well as other manufacturing costs. A detailed breakdown can be found in the Notes to the Consolidated Financial Statements of this Annual Report. Cost of sales in relation to revenues decreased from 83 percent in 2011 to 75 percent in 2012, amounting to EUR 192 million in 2012. Cost of sales in 2011 was burdened by impairments on property, plant, and equipment lost due to the flood. In 2012, raw materials and manufacturing supplies as well as personnel expenses increased, resulting from the acquisitions conducted at the end of 2011. Consequently, SMARTRAC's gross profit amounted to EUR 63 million in 2012, compared to 28 million in the previous year. The gross margin amounted to 25 percent, as compared with 17 percent one year ago.

Other operating income amounted to EUR 26 million in 2012, compared to other operating expenses of EUR 15 million in 2011. In 2011, the write-down of inventories amounted to EUR 15 million. In 2012, SMARTRAC received insurance payments of EUR 28 million, both related to the flood in Thailand.

EBITDA for 2012, as per definition, excludes exceptional items. Please refer to page 122. In total, Group EBITDA increased by 54 percent to EUR 23 million, compared with EUR 15 million in 2011. The EBITDA margin amounted to 9 percent in 2012, equaling an EBITDA margin of 9 percent a year ago.

Profit for the period, including non-controlling interests, amounted to EUR 5 million, compared with loss for the period of EUR 42 million in 2011.

BALANCE SHEET

As of December 31, 2012, total assets on the consolidated balance sheet amounted to EUR 329 million, representing an increase of 25 percent compared to the previous year's figure of EUR 264 million. This increase was predominantly related to the inclusion of the former UPM RFID as well as investments in property, plant, and equipment, mainly to rebuild Thailand.

Working capital increased by 77 percent from EUR 28 million in 2011 to EUR 49 million in 2012. The reconstruction in Thailand and the strong sales growth have had a significant impact on the working capital development in 2012, in addition to the inclusion of the former UPM RFID. Accordingly, inventories increased to EUR 43 million as of December 31, 2012, (2011: EUR 30 million).

Trade and non-trade receivables increased to EUR 49 million as of December 31, 2012, (2011: EUR 35 million) mainly resulting from the increased business volume. Trade and non-trade payables increased to EUR 31 million as of December 31, 2012, (2011: EUR 20 million) due to an increase of accrued expenses and contingent purchase liabilities.

Total equity amounted to EUR 168 million as of December 31, 2012, compared to EUR 139 million as of December 31, 2011. The increase in group equity mainly results from the proceeds from the capital increase conducted on March 31, 2012, in relation to the acquisition of the former UPM RFID.
Based on the increased profit, the retained earnings increased from EUR 13 million in 2011 to EUR 18 million in 2012. As of December 31, 2012, SMARTRAC held no treasury stock. The equity ratio decreased from 53 percent at the end of 2011 to 51 percent as of December 31, 2012.

CASH FLOW STATEMENT

Net cash provided by operating activities amounted to EUR 16 million in 2012, compared to EUR 6 million in the previous year, due to a higher net profit.

Net cash used in investing activities decreased from EUR 59 million in 2011 to EUR 36 million as of December 31, 2012. Net cash used in investing activities in 2012 mainly related to investments in property, plant, and equipment used for the reconstruction in Thailand and acquisitions performed. In 2011, net cash used in investing activities mainly related to the acquisitions conducted at the end of 2011.

Net cash provided by financing activities amounted to EUR 26 million in 2012, compared to net cash provided by financing activities of EUR 25 million in 2011. In 2011, SMARTRAC received net proceeds from the issuance of share capital. In 2012, the cash inflow resulted from proceeds of secured loans. SMARTRAC signed a EUR 100 million term and revolving facilities agreement in the second quarter of 2012, replacing the syndicated EUR 65 million term and multicurrency revolving facilities agreement concluded in 2009.

In total, cash and cash equivalents and bank overdrafts as of December 31, 2012, increased to EUR 28 million (2011: EUR 22 million).

In thousands of EUR	Consolidated 2012	Consolidated 2011	Change	Change in %
Revenues	142,827	116,808	26,019	22
eID	62,779	61,839	940	2
CTA	80,061	55,134	24,927	45
Intrasegment elimination	(13)	(165)	(152)	
Gross profit	30,995	15,887	15,108	95
EBITDA	14,637	12,901	1,736	13

SECURITY SEGMENT

BUSINESS SEGMENTS

SMARTRAC reports results for the business segments along with its business unit structure and in accordance with the accounting regulations of IFRS 8 (Operating Segments). The 'Security' segment comprises the Business Units eID and CTA. The 'Industry' segment consists of the Business Units Industry & Logistics, ePI, and the Business Unit Dalton & Neology.

The segment mix once again changed in the period under review as compared with 2011. The Industry segment contributed 44 percent of total Group sales in 2012 (2011: 30 percent), while the Security segment accounted for 56 percent of total Group sales (2011: 70 percent).

SECURITY SEGMENT

The Security segment of SMARTRAC includes the business activities of the Business Units eID and CTA.

The Business Unit eID covers products for electronic identification documents issued by governments and state authorities such as e-passports, e-national ID cards, electronic driver's licenses, electronic visa documents, contactless health care cards, electronic social security cards, and electronic permanent resident cards.

In 2012, the overall market development for electronic identity documents continued to progress stably. Whereas the number of newly launched e-passport projects worldwide was moderate, the issuance of e-national ID cards, electronic permanent resident cards, and other electronic identity documents developed well. SMARTRAC is the global market leader for high-security RFID inlays and e-covers for electronic passports worldwide. In 2012, the company was also able to further expand its market share for high-security identity cards.

The Business Unit CTA comprises card inlays for automated fare collection, access control, contactless payment, and active card applications and caters to card manufacturers as well as multinational systems integrators with own card manufacturing capabilities.

In 2012, the Business Unit Cards was renamed the Business Unit CTA comprising the business of SMARTRAC's Cards business unit, part of the business activities of former KSW, and access control products previously included in the Industry & Logistics business unit. The CTA business unit was able to grow with the market in 2012.

SALES SECURITY SEGMENT

Revenues in the Security segment increased by 22 percent, from EUR 117 million in 2011 to EUR 143 million in 2012. Sales of EUR 63 million from the Business Unit eID represented 44 percent of sales in the Security segment in 2012, compared to EUR 62 million in the previous year (53 percent of segment sales). The Business Unit CTA accounted for EUR 80 million in the 2012 fiscal year, representing 56 percent of sales in the Security segment. In 2011, sales of the former Business Unit Cards were EUR 55 million and represented 47 percent of segment sales.

In relation to total Group sales of EUR 256 million, the Business Unit eID accounted for 25 percent (2011: 37 percent) and the Business Unit CTA accounted for 31 percent (2011: 33 percent).

GROSS PROFIT SECURITY SEGMENT

In 2012, gross profit in the Security segment amounted to EUR 31 million, which is equivalent to a gross margin of 22 percent. The increase compared to a margin of 14 percent in 2011 (gross profit EUR 16 million) is attributable to the increased business volume and machinery impairments in 2011 as a consequence of the flood in Thailand.

EBITDA SECURITY SEGMENT

In the 2012 fiscal year, the Security segment reported EBITDA of EUR 15 million, compared to EBITDA of EUR 13 million achieved in 2011. This represents an increase of 13 percent. The EBITDA margin of 10 percent (2011: 11 percent) was burdened by higher administration costs mainly due to the above mentioned acquisitions.

In thousands of EUR	Consolidated 2012	Consolidated 2011	Change	Change in %
Revenues	111,699	49,931	61,768	124
ePI	61,874	13,798	48,076	348
Industry & Logistics	29,861	36,133	(6,272)	(17)
Dalton & Neology	20,448	–	–	–
Intrasegment elimination	(484)	–	–	–
Gross profit	31,325	10,285	21,040	205
EBITDA	10,408	2,532	7,876	311

INDUSTRY SEGMENT

INDUSTRY SEGMENT

The Industry segment comprises the Industry & Logistics and electronic Product Identification (ePI) business units as well as the business from Neology and Dalton.

The Business Unit ePI comprises the business activities of the former UPM RFID and SMARTRAC's Tickets & Labels business. The Business Unit ePI covers RFID inlays that cater to ticket and label converters and includes fields of application such as libraries and media management, mobile and smart media (NFC), apparel tracking, brand protection, electronic product identification, as well as applications in the pharmaceutical industry, retail, supply chain management, and many more.

At the beginning of 2012, following the completion of the UPM RFID acquisition, the Business Unit ePI unified its product range and technology roadmap. The business development in 2012 was characterized by major wins of new customers and projects and the launch of several new products.

The Business Unit Industry & Logistics covers RFID tags for a variety of automotive, animal identification, logistics, industrial, laundry, and medical applications.

Market development in the Industry & Logistics business continued to show a mixed picture. While the European automotive market had to cope with declining sales volumes, non-European regions continue to show strong development. Business with the established car immobilizer products and RFID transponders for the automotive industry was subject to those fluctuations in 2012. The non-automotive business continued to develop stably. It was, however, not able to compensate for the fluctuation in the automotive business.

Dalton ID is an established provider of animal identification products, serving agricultural and research industries, as well as wildlife and marine research. In 2012, Dalton ID underwent a comprehensive restructuring to streamline its business activities and global footprint to further improve its competitiveness. The business development in 2012 was characterized by stable demand.

Neology Inc. is a leader in electronic vehicle registration (EVR), electronic toll collection, and public safety markets. In 2012, Neology was able to further strengthen its excellent market position in the strongly growing market for automated tolling lanes.

SALES INDUSTRY SEGMENT

Sales in the Industry segment accounted for EUR 112 million in 2012, representing an increase of 124 percent compared to sales of EUR 50 million in 2011. The strong growth mainly resulted from the inclusion of the former UPM RFID business as well as the inclusion of the business activities of Dalton and Neology.

Sales of EUR 62 million from the Business Unit ePI represented 55 percent of sales in the Industry segment in 2012, compared to EUR 14 million in the previous year (28 percent of segment sales). The Business Unit Industry & Logistics accounted for EUR 30 million in the 2012fiscal year, representing 27 percent of sales in the Industry segment. In 2011, sales of the Industry & Logistics business unit amounted to EUR 36 million and represented 72 percent of segment sales. The new Business Unit Dalton & Neology accounted for EUR 20 million in the 2012 fiscal year and represented 18 percent of sales in the Industry segment.

In relation to total Group sales of EUR 256 million in 2012, the Business Unit ePI accounted for 24 percent (2011: 8 percent), the Business Unit Industry & Logistics accounted for 12 percent (2011: 22 percent), and the new Business Unit Dalton & Neology accounted for 8 percent of total Group sales.

GROSS PROFIT INDUSTRY SEGMENT

Gross profit in the Industry segment amounted to EUR 31 million, which is equivalent to a gross margin of 28 percent. The increase compared to a margin of 21 percent in 2011 (gross profit EUR 10 million) is attributable to the increased business volume.

EBITDA INDUSTRY SEGMENT

The Industry segment accounted for EBITDA of EUR 10 million, compared to EBITDA of EUR 3 million reported in 2011. The EBITDA margin of 9 percent (2011: 5 percent) is still below the potential of this segment. With the continued growth of the segment and the resulting economies of scale, we are confident that the profitability of the Industry segment will increase further.

In summary, the acquisitions led to a further diversification of the company’s business, resulting in an increased revenue and profit contribution of the Industry segment to the overall company result.

Overall, SMARTRAC will continue improving excellence and driving down costs in 2013. In addition, the company will strive to maintain and expand its leading market position in the global RFID market.

TEST AND CERTIFICATION

It is our goal to deliver RFID transponders and inlays of the highest quality. Therefore, our products undergo various internal tests prior to delivery. Our UHF products are, for example, tested according to IEC 60068-2-67 (temperature and humidity) and JESD22-A104-B (temperature cycling) as well as a bending test developed in-house.

RISK REPORT

RISK REPORT

Within the framework of SMARTRAC's global activities and as a result of a competitive environment, the company is exposed to a number of risks. The variety of our business requires SMARTRAC to identify, measure, and manage its risks, and to allocate our capital among our businesses appropriately. SMARTRAC understands risk to be any event that could negatively impact the achievement of our short-term operational or long-term strategic goals. Our target of pursuing sustainable growth and creating economic value requires entrepreneurial activities while avoiding and managing inappropriate risks.

In 2012, SMARTRAC analyzed and discussed the risk management situation on a permanent basis and in different panels.

The Management Board has currently identified and clustered the following risks, which could have a considerable negative impact on the asset, financial, and earnings situation of SMARTRAC. The risk overview may, however, not include all the risks that may ultimately affect SMARTRAC. Some risks not yet known to SMARTRAC, or currently believed not to be material, could later turn out to have a material impact on SMARTRAC's business activities, objectives, revenues, income, assets, or liquidity.

SMARTRAC has several basic company insurances including property damage and business interruption insurance, product liability insurance, transportation insurance, and D&O (Directors and Officers Liability) insurance. These insurances are maintained and managed on a corporate level with global reach subject to country-specific limitations.

I. STRATEGIC RISKS

MANAGEMENT RISKS

Through its strategy, SMARTRAC intends to achieve profitable growth. SMARTRAC's inability to transform this strategy into business and to meet the financial targets as planned and communicated, may cause its share price to drop and affect the reputation of the company.

SMARTRAC's growth strategy requires a balanced financial structure. In the course of 2012, SMARTRAC's equity increased to a total of EUR 168 million. The equity ratio decreased from 53 percent at the end of 2011 to 51 percent as of December 31, 2012. Despite this decrease, SMARTRAC has a sound and solid financial position. Nevertheless, if further negative developments impact the global capital market this may affect the ability to raise or re-finance debt, or could also lead to significant increases in the cost of such borrowing in the future. Furthermore, a negative development of the capital market may limit the possibility to raise equity in the future.

ORGANIZATION RISK

SMARTRAC has implemented a business unit structure. Business unit management teams were given responsibility for the respective profit and loss account as well as the strategic development of the business unit. Our future operating result will depend on the ability to implement, improve and develop the business in each individual business unit. Any inability to do so could have a materially adverse effect on our results of operations.

ACQUISITION RISKS

In order to strengthen, protect or expand its technology base, market presence, capacities, and product portfolio, SMARTRAC has completed different forms of acquisitions, and may continue to do so in the future, implying significant financial investments.

In 2011 and 2012, SMARTRAC conducted five acquisitions and thereby has increased its acquisition-related risks considerably. Although integration of the acquired businesses into the Group is well underway, the company faces the risk of not achieving the desired return on investments in a timely manner or at all. The further integration might fail due to insufficient management capacities or the inability to generate the anticipated revenues and profits from these acquisitions.

In general and despite the strategic objective of exploiting opportunities to expand by making additional acquisitions, SMARTRAC might not be able to identify any or the right acquisition targets, or fail to complete transactions at acceptable conditions or to allocate the required financial resources, thus limiting the company's growth perspectives in this respect.

Acquisitions may also lead to a substantial increase in non-current assets, including goodwill. Write-downs of these assets due to unforeseen business developments may materially and adversely affect SMARTRAC's earnings.

II. MARKET RISKS

ECONOMIC RISK

The worldwide RFID market is a fast growing and dynamic market. In order to provide products and competitive solutions in line with market requirements and customer needs it is crucial to achieve and maintain a leading market position. Our strategy is to position SMARTRAC as a pure and dedicated RFID player in the value chain in order to participate in the market development. A global recession could lead to a decrease in product demand and delays in or cancellation of RFID projects and therefore poses a risk also to the RFID industry.

PRICE RISKS

Most of our products are based on plastic materials such as PVC. These materials are oil-based and thus have a certain exposure to changes in oil prices. We also depend on raw materials such as copper and aluminum which are also exposed to market price changes. We might fail to identify and anticipate price changes and fail to pass them on to our customers with a consequent impact on our results.

Chip prices tend to decrease over time. However, changes in global demand and global capacities can also lead to temporary increases in prices and might result in chip shortages or chip rationing. We might not be able to anticipate and efficiently manage these market developments and thus face the risk of not being able to deliver to our customers on time due to chip shortages. Chip purchases might negatively affect our financial performance if we fail to adequately monitor our chip purchases and purchase too many chips for our own account at unfavorable prices.

CUSTOMER RISK

SMARTRAC has continuously broadened its customer base. In the event that customers are not able to fulfill their contractual duties or become insolvent, there is a certain credit risk and the liquidity position of SMARTRAC could be adversely affected. In general, there is only a limited number of customers that account for a significant percentage of SMARTRAC's sales. Our sales development is exposed to the risk of not being able to maintain or replace the relationship to these key customers. To a certain extent SMARTRAC also has business relationships with customers in countries with a low rating and therefore faces a certain credit risk in this respect as well as in the event that these customers become insolvent or fail to fulfill their contractual duties. Due to the overall growth of the company, our international customer base will most probably continue to develop further, including in countries with a low rating, which could expose us to additional risks due to different business dynamics and customer behavior.

REPUTATION RISK

SMARTRAC is exposed to developments which could affect its reputation and negatively impact the public's trust in the company. Such developments could be product- and production-related, of an environmental- or social nature, or related to individual behavior of employees.

III. FINANCIAL RISKS

FINANCIAL RISKS

The general risk management objective for financial risks is risk avoidance. If feasible and necessary, risk is managed by using plain-vanilla derivatives. Hedging without an underlying transaction is not allowed. Speculation in the field of treasury is strictly forbidden. Only employees with a certain professional background are permitted for such trading activities. SMARTRAC uses real-time information of a financial market information system in order to evaluate, analyze and manage risks and opportunities in an adequate manner.

LIQUIDITY RISK

In 2012, SMARTRAC signed a syndicated EUR 100 million term and revolving facilities agreement replacing the syndicated EUR 65 million term and multicurrency revolving facilities agreement concluded in 2009 which matures on December 30, 2016, with standard market terms and conditions. If we cannot prolong this credit facility, we may have difficulties covering the outstanding indebtedness. SMARTRAC must comply with the terms and conditions and is exposed to the risk of offending against the terms and conditions of the agreement in case the operating performance negatively impacts the financial results. In 2012, SMARTRAC has initiated a delisting procedure. As a consequence of no longer having access to the equity capital market, SMARTRAC might have less flexibility in raising equity funds to support the further growth.

INTEREST RISK

The financial liabilities are partially exposed to risks from changing interest rates.

SMARTRAC has partly used debt instruments to refinance its acquisitions, other investments and working capital requirements. The debt service cost depends on the development of defined reference interest rates and of risk premiums for borrowers. SMARTRAC has signed a new syndicated credit facility in 2012 based on a floating interest rate convention. In order to partially cover risk due to an unfavorable development of the underlying floating interest rate, SMARTRAC has concluded interest rate swaps. Nevertheless, a potential increase in the interest rate could negatively affect the profitability of SMARTRAC.

CURRENCY RISK

Due to our global business activities and centralized financing approach, we must conduct transactions in several currencies. To manage the risks of the numerous payment flows in different currencies appropriately, SMARTRAC's Corporate Treasury is responsible for foreign currency management including the hedging strategy. Pure translation risks arising from the conversion of foreign currency positions are generally not hedged. The currency risk might increase to the extent that we continue to further broaden the internationalization of our business. Fluctuations can have a material impact on our reported results. To the extent that we incur costs in one currency and earn revenues in another, our profit margins may be affected by an exchange rate development between the currencies. We might not be able to manage these risks efficiently and fail to implement the right hedging instruments and processes and thus face negative impacts which could affect our financial results and cash position.

INFLATION RISK

To the extent that our business operations in countries with high inflation might increase, this would expose SMARTRAC to a certain inflation risk.

FINANCIAL MARKET RISK

The management of our liquidity reserves is exposed to financial market risks. Negative developments in the financial markets could have an adverse effect on the results as well as on the liquidity of the company and could therefore also limit the financial resources needed for investments in the further development of SMARTRAC's business.

IV. COMPLIANCE RISKS

REGULATORY RISKS

As a stock corporation domiciled in The Netherlands that issues securities listed on a German stock exchange, SMARTRAC is subject to both Dutch and German governance-related regulatory requirements. Changes in law and stock exchange regulations imply risks. Nonetheless and despite SMARTRAC's best endeavors, the company cannot exclude the possibility that SMARTRAC may have to answer for failures to comply with the law and regulations. Such event may have a material adverse impact on our reputation and may lead to decreased business and stock value performance.

POLICY RISKS

SMARTRAC has established various guidelines and implemented a Code of Conduct and Business Ethics. SMARTRAC's Compliance Officer manages all of our policy-related compliance measures and ensures employee awareness of required standards. SMARTRAC is exposed to the risk of non-compliance with the company's policies and cannot exclude the possibility that SMARTRAC's assets, finances, or profit may be affected.

DISCLOSURE RISKS

The correctness of disclosures provides investors and other market professionals with significant information for a better understanding of SMARTRAC's businesses. Imperfections or lack of clarity in the disclosures could create market uncertainty regarding the reliability of the data presented and may have a negative impact on SMARTRAC's reputation and share price.

V. PERFORMANCE RISKS

PRODUCT AVAILABILITY RISK

In order to broaden the product portfolio and to participate in the growth of additional product lines of the RFID transponder market, SMARTRAC has made significant investments in the development and acquisition of new products and technologies, the implementation of production capacities as well as the employment of additional personnel. These investments rely on the expectation that these product lines could contribute to the further profitable growth of the company. The expectations are based on internal estimates as well as on independent external market surveys and market intelligence. To the extent that these internal and external estimates might be unfounded or prove to be unrealistic, the new products might not meet customers' expectations. The company might fail to keep to the timeline set for market introduction. For these reasons their contribution to growth might not eventuate as expected, and this could have a material adverse impact on the performance and results of the company. This might result in ongoing costs which are possibly not covered by sales and therefore negatively affect the financial performance of the company.

PROCUREMENT RISK

Most of SMARTRAC's activities are conducted outside of the Netherlands, and international operations bring challenges. Although SMARTRAC works closely with its suppliers in order to avoid supply-related problems, there can be no assurance that it will not encounter supply problems in the future or that it will be able to replace a supplier that is not able to meet its demand. SMARTRAC intends to maintain a multi-sourcing strategy where possible. Due to the company's position in the RFID value chain, SMARTRAC cannot exclude the possibility of single sourcing in certain projects and the related risks. Shortages, delays or quality issues could materially harm its business and negatively affect the financial performance.

PRODUCT LIABILITY RISK

As in many other markets, product liability is a potential risk in the production, marketing and sale of RFID components as well. SMARTRAC has implemented an appropriate insurance coverage where possible but it cannot be guaranteed that there will be no liability claims against the company in the future. Liability claims could in any case have a negative impact on the reputation and the financial performance of the company.

VI. POLITICAL AND TECHNOLOGICAL RISKS

COUNTRY RISKS

SMARTRAC follows a global business strategy. Our product portfolio is produced and marketed in various countries worldwide. Production sites, sales offices and business relations in different countries are subject to risks inherent in international business operations. Such risks include, for example, the general economic or political conditions in individual countries, the conflict and overlap between differing tax structures, regulatory constraints such as import and export restrictions and competition law regimes. General constraints in countries SMARTRAC is doing business in may affect our expected business performance in those countries.

REGULATION RISK

SMARTRAC is faced with varying practices of regulatory, tax, judicial, and administrative bodies in different countries. A negative political or economic development might affect our business activities.

SMARTRAC enjoys tax benefits in different places where the company has operations. These tax benefits are of significance for the overall profitability of the company. In Thailand and Malaysia, SMARTRAC has enjoyed corporate income tax exemptions tied to a specific level of investment and specified product targets. These benefits may not be available in the future if the relevant tax rules change, the exemptions expire, the company fails to meet the necessary requirements or exceeds the limits of the tax exemption, any of which could cause the effective tax rate to increase earlier and to a greater extent than projected.

A material portion of sales is still generated by the production location in Thailand. Political changes going on in Thailand could lead to unexpected changes in regulatory requirements. Social turbulences in the course of fundamental political and social changes could in a worst case scenario also interfere with our business, cause delayed deliveries to our customers or even lead to production downtimes. This could have an adverse material effect on our business and the financial performance of our operations.

TECHNOLOGY RISKS

The worldwide RFID industry is a comparatively young and still rapidly developing industry. Among other factors, the situation in the RFID industry is extremely dynamic with respect to the development of new production technologies. There are already different production technologies being used by the global players in the competitive set. Additional production technologies are being developed and some are in the course of being qualified. SMARTRAC's competitive position is based on having access to the core production technologies in the RFID sector. In order to maintain this position, the Company is continually investing in research and technology, acquiring technology as well as investing in attracting skilled industry experts. Regardless of these ongoing efforts, the company might miss the appearance and application of rival and superior technologies by competitors which might be more economical and have the potential to partially or fully substitute production technologies utilized by SMARTRAC in the production of RFID components.

VII. SPECIAL RISKS

HUMAN RESOURCES RISKS

Committed and competent staff and managers are a central factor in the success of SMARTRAC. The company is exposed to the general risk associated with employee turnover. With respect to SMARTRAC's dynamic development, the ability to recruit and retain talented personnel in the company and to allocate sufficient management resources in a timely manner and at acceptable terms is a critical factor. To the extent that we do not succeed in attracting the appropriate talented and skilled managers, industry specialists and employees to our company, the implementation of strategic projects and the further management of the profitable growth of SMARTRAC might fail. This would have a materially adverse impact on our operations and the development of our company.

INFORMATION TECHNOLOGY RISKS

SMARTRAC's business processes as well as internal and external communications are profoundly based on information technology systems. Therefore the IT infrastructure is constantly monitored and updated. Despite all implemented precautions, a disturbance here may influence our business processes.

The IT security requirements for secure RFID applications might change from time to time also at short notice as a result of current developments. The implementation of IT technology upgrades or new systems at our customers might lead to a shift in demand and affect the order situation of SMARTRAC as the supplier of RFID components and thus lead to a certain decrease in volumes and a delay in our business. This could have an adverse effect on our results.

LEGAL RISK – PROTECTING INTELLECTUAL PROPERTY

SMARTRAC holds a strong portfolio of patents in the RFID industry that has set standards across the industry. With more than 700 patents and patent applications for technology, equipment, and production of RFID components and the related processes, ongoing patent infringements by competitors therefore are a threat to the business operations and financial performance of SMARTRAC. The company views its intellectual property as one competitive advantage in a multitude of capabilities to reflect SMARTRAC's respected and trusted competence in high-security RFID technology.

Some competitors attempt to challenge the validity of SMARTRAC's patents by patent opposition or cancellation proceedings in various jurisdictions. Here experience shows that court decisions in patent matter are difficult to predict and that it is not unusual that first instance decisions are reversed on the appalate level. Also, not all of the countries in the world protect our intellectual property rights to the same extent as other countries. Looking back on a long experience in executing intellectual property rights, SMARTRAC experienced time- and cost-intensive proceedings which not always lead to the intended outcome in the different jurisdictions. Therefore, SMARTRAC will focus itself by taking a case-by-case approach in filing and executing its intellectual property rights by considering a clear cost-benefit analysis based on a continuous monitoring.

SMARTRAC experiences third parties attempting to participate in the success of SMARTRAC by raising allegations and claims against its founding shareholders, which are mainly related to alleged intellectual property rights. SMARTRAC cannot prevent third parties from attempting to seek financial benefits or public attention in the future. Legal costs might incur from any actions SMARTRAC might decide to take.

SMARTRAC has taken some legal action against competitors and has reached some agreements by which competitors have acknowledged the patent rights of SMARTRAC. The company will in an appropriate manner continue to make efforts to protect its intellectual property. These efforts will incur significant costs for legal services and support on an ongoing basis. Nevertheless, SMARTRAC may fail to prosecute successfully patent infringements and enforcement actions and may fail to protect its patents and intellectual property against oppositions and legal actions for cancellation and other challenges in the future, which could weaken the company's financial performance.

Legal proceedings or damage claims are – insofar as they are known – of relatively subordinate importance and are taken into consideration in the financial statements.

OVERALL RISK SITUATION

In 2012, SMARTRAC completed reconstruction of its facilities in Thailand which had been affected by the severe flood disaster in 2011 and which had led to a production stop of our facilities for approximately two months. SMARTRAC maintains insurance coverage for damages on buildings, machinery, stock, and business interruption in Thailand. Although, reconstruction and restart of production are completed and part of the insurance payments have been received, the company still faces risks resulting from the flood disaster. The respective insurance companies might delay or neglect full payment of the outstanding insurance payments based on the magnitude of the disaster.

In total, the evaluation of the risks in 2012 did not indicate risks in the past fiscal year which could materially jeopardize the ongoing business health and viability of SMARTRAC. In addition, we are not aware of risks which could reasonably be expected to endanger the existence of the company whether alone or in conjunction with other risks.

ASSEMBLING

We offer various assembly services to our global customer base to package transponders in a wide range of materials and form factors. As the RFID technology partner of choice, we want to develop additional features and services with our business partners that bring value to our customers as part of our proven business model as the world's leading developer, manufacturer, and supplier of RFID transponders and inlays.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

GENERAL

SMARTRAC is a 'Naamloze Vennootschap' (N.V.), a Dutch limited liability company. The company has a two-tier board structure consisting of a Management Board ('Raad van Bestuur') and a Supervisory Board ('Raad van Commissarissen'). It is in the interest of SMARTRAC and all of its stakeholders that there is a clear division of responsibilities between the Management Board, the Supervisory Board, the General Meeting of Shareholders and the external auditor in a well-functioning system of checks and balances.

In the Netherlands, the Dutch Corporate Governance Code ('the Dutch Code') became effective on January 1, 2004. The Code is applicable to SMARTRAC N.V., as it is incorporated in the Netherlands as a Dutch company, and is listed on the Frankfurt Stock Exchange (FSE). The amended Dutch Corporate Governance Code was published in December 2008 and came into effect from the start of the 2009 fiscal year. The corporate governance report for the financial reporting year 2012 therefore assesses compliance with the amended code.

The Dutch Code contains a set of principles and a number of best practice provisions, creating a set of standards governing the conduct of the members of the Management Board and the Supervisory Board. The Management Board and the Supervisory Board are responsible for the corporate governance structure of the company and for compliance with the Dutch Code. They are accountable for this to the General Meeting of Shareholders and have to provide sound reasons for any non-application of the provisions.

SMARTRAC and its subsidiaries are committed to high standards of business integrity, ethical values and professionalism in all of their activities. SMARTRAC agrees with both the general approach and the vast majority of the Dutch Code principles and best practice provisions. The Management Board recognizes the importance of clear and straightforward rules on corporate governance and the members of the Management Board are accountable to the shareholders for such rules.

SMARTRAC complies with the Decree effecting article 10 of directive 2005/25/EC of the European Parliament and the European Council from April 21, 2004, on takeover bids. The requested information is provided in detail from page 182 to 183 of this report.

MANAGEMENT BOARD

The Management Board is entrusted with the management of the company, which means that, among other responsibilities, it defines the strategic direction, establishes the policies and manages the company's day-to-day operations under the supervision of the Supervisory Board. The members of the Management Board collectively manage the company and are accountable for this to the Supervisory Board and to the General Meeting of Shareholders. In performing its duties, the Management Board is guided by the interest of the company. The Management Board follows its own rules determined in SMARTRAC's Corporate Organization Handbook, which defines responsibilities, competencies and decision-making processes.

The Management Board provides the Supervisory Board with timely information and, if necessary, consults with the Supervisory Board on important matters and submits certain important decisions to the Supervisory Board for approval.

Members of the Management Board are appointed by the Annual General Meeting of Shareholders, subject to the right of the Supervisory Board to make a binding nomination to appoint a Management Board member in accordance with the relevant provisions of the Dutch Civil Code.

As of midnight on December 31, 2012, SMARTRAC's Management Board consisted of the following individuals as listed below:

Name	Age*	Position
Christian Uhl Chief Financial Officer	40	Chairman of the Management Board
Wolfgang Schneider	55	Member of the Management Board
Robert Harmzen	60	Member of the Management Board

* Age as of December 31, 2012

The Supervisory Board determines the remuneration of the individual members of the Management Board in line with the general remuneration policy adopted by the Annual General Meeting of Shareholders. The full remuneration of the individual Management Board members, broken down into its various components is outlined in the remuneration report on page 81.

SMARTRAC has also established a Group Executive Team with six members including two members of the Management Board. Please refer to page 24 for further explanation.

In accordance with provision II.1.5 of the Dutch Code, the Management Board declares that the internal risk management and control systems are adequate and effective. In 2012, SMARTRAC analyzed and discussed the risk management situation on an ongoing basis and in different panels. The established risk management processes ensure a comprehensive and integral assessment of SMARTRAC's major risks. The status of major risks is assessed by using risk maps. The risks were evaluated and classified according to probability of occurrence and loss amounts.

No transactions took place in 2012 in which a member of the Management Board had a conflict of interest that was of material significance to the company.

SUPERVISORY BOARD

The Supervisory Board has the legal tasks to supervise and advise the Management Board of SMARTRAC. These legal tasks are further elaborated in the Dutch Corporate Governance Code. The Dutch Corporate Governance Code stipulates that the Supervisory Board must oversee the policies of the Management Board and the general course of affairs at SMARTRAC and its Group companies, as well as assist the Management Board by providing advice. The Supervisory Board acts in the interest of the company and its Group companies and takes into account the relevant interests of the company's stakeholders.

In the performance of its duties, the Supervisory Board meets according to a pre-defined schedule and as often as the Management Board requests, or as often as necessary pursuant to the provisions of the Articles of Association. The meetings may be held in person or by telephone conference, or a combination thereof.

Major management decisions and the Company's strategy are discussed with the Supervisory Board. The Supervisory Board determines the major decisions of the Management Board which require its approval. The Supervisory Board checks its terms of reference regularly.

No member of the Supervisory Board holds more than five supervisory board memberships in Dutch listed companies.

The composition of the Supervisory Board is such that the members are able to act with due objectivity and independently of one another and of the Management Board. The Supervisory Board members meet the independence requirements as stated in Code provisions III.2.1, III.2.2 and III.2.3, except for Lee Gardner, Tobias Reich, Dr. Jörg Zirener, Richard Smith, and Manfred Rietzler. Lee Gardner is managing director of One Equity Partners Chicago. Richard Smith is managing director of One Equity Partners New York. Dr. Jörg Zirener and Tobias Reich are managing directors of One Equity Partners Frankfurt, an affiliate of OEP Technologie B.V., the majority shareholder of SMARTRAC. Manfred Rietzler was a member of the Management Board of the company prior to his appointment to the SMARTRAC Supervisory Board.

The Company issued 2,103,886 ordinary shares to its majority shareholder, OEP Technologie B.V., on March 31, 2012. The issue price (EUR 11) and the other terms and conditions of the share issuance followed the arm's length principle, in accordance with the provisions of the Dutch Code.

As of December 31, 2012, SMARTRAC's Supervisory Board consists of the following individuals:

Name	Age*	Position
Prof. Dr. Bernd Fahrholz	65	Chairman of the Supervisory Board
Manfred Rietzler	51	Vice Chairman of the Supervisory Board
Lee Gardner	65	Member of the Supervisory Board
Wolfgang Huppenbauer	58	Member of the Supervisory Board
Tobias Reich**	37	Member of the Supervisory Board
Dr. Jörg Zirener	40	Member of the Supervisory Board

* Age as of December 31, 2012

** Tobias Reich resigned as a member of the SMARTRAC Supervisory Board as of January 22, 2013

The Chairman of the Supervisory Board determines the agenda and chairs the meetings of the Supervisory Board, monitors the proper functioning of the Supervisory Board and its committees, arranges for the adequate provision of information to the members of the Supervisory Board and acts on behalf of the Supervisory Board as the main contact for the Management Board. Important topics and upcoming decisions were also dealt with in regular discussions and meetings between the Chairman of the Supervisory Board and the Chairman of the Management Board. The Chairman of the Supervisory Board informed the other members of the Supervisory Board regularly on the outcome of his discussions and meetings. He also initiates the evaluation of the functioning of the Supervisory Board and the Management Board and chairs the Annual General Meeting of Shareholders.

In 2010, the Supervisory Board discussed adoption of the Dutch Corporate Governance provisions for the establishment of committees and agreed to establish two committees, consisting of an Audit Committee and a Strategy Committee. Due to the limited size of the company, the Strategy Committee also performs the tasks of the remuneration committee as well as the selection and appointment committee provided for by the Dutch Corporate Governance Code. More information on the committee activities in fiscal year 2012 can be found on page 20 of this Annual Report.

Other than the issue of shares to OEP Technologie B.V. on March 31, 2012 (see above), there were no transactions in 2012 in which a member of the Supervisory Board had a conflict of interest that was of material significance to the company. With regard to the issuance of new shares to the majority shareholder, OEP Technologie B.V., the Supervisory Board has complied with the provisions of the Dutch Code.

The Annual General Meeting of Shareholders determines the remuneration of the Supervisory Board members. Supervisory Board members receive a fixed annual remuneration. The remuneration of a Supervisory Board member is not dependent on the results of the company. More information on the remuneration of the Supervisory Board members can be found on page 83 of this Annual Report.

THE SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS

SHARE CAPITAL

The issued share capital of the company is equal to EUR 9,923,987 and is divided into 19,847,974 ordinary shares. The ordinary shares carry the right to cast one vote per share. The ordinary shares are bearer shares.

GENERAL MEETINGS OF SHAREHOLDERS

General Meetings of Shareholders are held at least once a year. The Annual General Meeting of Shareholders is convened by public notice and is held within six months of the end of a fiscal year. The agenda and the notes to the agenda are published in advance and posted on the company's corporate website. The notes to the agenda contain all relevant information with respect to the proposed resolutions. All resolutions are made on the basis of the 'one share, one vote' principle.

The Annual General Meeting of Shareholders reviews the Annual Report and decides on adoption of the financial statements and the dividend proposal, as well as on the discharge of the members of the Supervisory Board and the Management Board. The Management Board may add other items to the agenda of the Annual General Meeting of Shareholders.

Extraordinary General Meetings of Shareholders may be convened by the Supervisory Board or the Management Board if deemed necessary.

Shareholders who individually or collectively represent at least 1 percent of the issued share capital have the right to propose items for the agenda.

Every shareholder has the right to attend the General Meeting of Shareholders in person or through a written proxy to address the meeting and to exercise voting rights.

The General Meeting of Shareholders may pass resolutions to effect a merger (juridische fusie), split up (splitsing), dissolution (liquidatie) of the company or the amendment of the Articles of Association or a reduction of the share capital.

The General Meeting of Shareholders appoints, dismisses, and suspends the members of the Management Board and the members of the Supervisory Board.

The Supervisory Board can make a proposal in respect of an appointment, dismissal, and suspension of the members of the Management Board and the members of the Supervisory Board.

PROVISION OF INFORMATION

In compliance with relevant laws and regulations, we provide all shareholders and other parties in the financial markets with equal and simultaneous information about matters that may influence the share price, thereby taking into account possible exceptions permitted by those laws and regulations.

The Management Board and the Supervisory Board provide the General Meeting of Shareholders with all information that it requires for the exercise of its powers in good time.

According to provision IV.3.11 of the Code, the company is required to provide an overview of its actual or potential anti-takeover measures and of the circumstances in which they may be used:

On April 29, 2009, the Annual General Meeting of Shareholders approved the amendment to the Articles of Association of SMARTRAC N.V. The possibility to issue preference shares to an independent foundation may be considered to constitute a kind of anti-takeover measure. As of December 31, 2012, an independent foundation had not been established and the Management Board made no use of the authorization with regard to preference shares in the 2012 fiscal year. In view of the current shareholder structure of SMARTRAC, the Management Board currently has no intention of making use of this anti-takeover measure.

RESTRICTIONS ON NON-DUTCH SHAREHOLDERS' RIGHTS

Under the company's Articles of Association, there are no limitations on the rights of non-resident or foreign shareholders to hold or execute voting rights with regard to its shares and there are no such restrictions under Dutch law.

DIVIDEND

The Management Board will determine what proportion of the profit is appropriated to the reserves. Any remaining profit resulting after this appropriation is available for distribution to the shareholders. The decision to pay out a dividend is made by the Annual General Meeting of Shareholders on proposal of the Management Board.

Distribution of profits may take place, in whole or in part, in shares.

FINANCIAL REPORTING

The Management Board is responsible for the quality and completeness of publicly disclosed financial reports. The Supervisory Board ensures that the Management Board fulfills this responsibility.

The Management Board prepares the financial statements and the Annual Report within four months of the end of a fiscal year. The financial statements and the Annual Report are submitted to the Supervisory Board. Thereafter, the financial statements together with the Annual Report are submitted to the Annual General Meeting of Shareholders for adoption.

THE AUDIT OF THE FINANCIAL STATEMENTS

The external auditor is appointed at the Annual General Meeting of Shareholders. The Supervisory Board nominates a candidate for this appointment, while the Management Board advises the Supervisory Board. The external auditor attends and is entitled to attend the meeting of the Supervisory Board at which the financial statements are discussed and to the Annual General Meeting of Shareholders at which the financial statements are adopted.

COMPLY OR EXPLAIN

SMARTRAC is positively disposed to the Dutch Code. The company has applied most of the principles and applicable best practices provisions of the Dutch Code.

In the following, we indicate which specific provisions of the Dutch Code SMARTRAC do not apply and why.

II.2.11, II.2.12, II.2.13, II.2.14, III.1.1, III.2.2, III.3.1, III.3.6, III.4.3, III.5, III.6.5, IV.3.1, V.3.1

II.2.11. The remuneration of the Management Board does not include a claw-back clause. The Supervisory Board considers SMARTRAC's approval and external auditing processes in place to be sufficient and effective.

II.2.12. Following a decision of the Supervisory Board, the remuneration report is not directly published on the company's website, but can be reached via a hyperlink to the Annual Report. The Supervisory Board places more value on the explanatory power of the remuneration report as part of the Annual Report.

II.2.13. The remuneration report of the Supervisory Board does not fully comply with all terms of the Corporate Governance Code relating to the remuneration report. The remuneration report is in line with the market practice of companies comparable to the company. It gives sufficient insight in the remuneration of the members of the Management Board.

II.2.14. Mr. Christian Uhl's contract was not made public at the date of the convocation notice of the General Meeting where his appointment as Management Board member was proposed for the purpose of privacy protection.

III.1.1. Terms of reference for the Supervisory Board, the Audit Committee and the Strategy Committee were not posted on the company's website. In the opinion of the company, the terms of reference of the Supervisory Board do not constitute useful information for shareholders of the company. The Supervisory Board reports on its activities in this Annual Report (see page 16).

III.2.2. Four members of the Supervisory Board are not independent. Lee Gardner is managing director of One Equity Partners Chicago. Richard Smith is managing director of One Equity Partners New York. Dr. Jörg Zirener is managing director of One Equity Partners Frankfurt, an affiliate of OEP Technologie B.V., the majority shareholder of SMARTRAC. Manfred Rietzler has been a member of the Management Board of the company prior to his appointment to the SMARTRAC Supervisory Board. In view of OEP Technologie B.V.'s shareholding in the company, and taking into account the fact that two of the members of the Supervisory Board are independent, the Supervisory Board can fulfill its tasks properly.

III.3.1. The profile and composition of the Supervisory Board have not been defined by the Supervisory Board. In view of the number of Supervisory Board members , we consider it unnecessary to establish a profile.

III.3.6. The Supervisory Board has not established a formal retirement schedule for the Supervisory Board. Due to the different terms of office and in view of the number of members of the Supervisory Board, SMARTRAC considers it unnecessary to establish a retirement scheme.

III.4.3. SMARTRAC believes that the regulation implementing a company secretary is not applicable due to the current size of the Supervisory Board and the company.

III.5. The Supervisory Board has not established a remuneration committee or a selection and appointment committee. Due to the size of the company, these tasks are performed by the Strategy Committee of the Supervisory Board. In the opinion of the company, the establishment of two other committees is not necessary.

III.6.5. Regulations governing ownership of and transactions in securities by members of the Management Board or the Supervisory Board have not been drawn up. SMARTRAC trusts the members of the Management Board and the Supervisory Board to trade securities in line with legal requirements.

IV.3.1. While strictly complying with the rules and regulations on fair and non-selective disclosure and equal treatment of shareholders, not all of these meetings and presentations are announced in advance by means of a press release and on the company's website or can be followed in real time, in view of the number of meetings with analysts and presentations to analysts or investors. For this reason, SMARTRAC cannot fully apply the literal text of recommendation IV.3.I. of the Dutch Corporate Governance Code.

V.3.1. SMARTRAC has no internal audit function. Nevertheless, the Management Board and the Supervisory Board have implemented internal audits on a case-by-case basis using internal and external resources.

REMUNERATION REPORT

The tasks of a remuneration committee have been fulfilled by the Strategy Committee and the full Supervisory Board in accordance with the principles of the Dutch Corporate Governance Code. The Supervisory Board determines the remuneration and further conditions of employment for every member of the Management Board within the scope of the company's remuneration policy and subject to the provisions mentioned in section 135 Book 2 of the Dutch Civil Code.

The objective of SMARTRAC's remuneration policy is to provide remuneration in a form that will attract, retain and motivate the members of the Management Board, while protecting and promoting the objectives of the company. In line with the Dutch Corporate Governance Code and common practice in the industry, the features of the remuneration for members of the Management Board include annual base compensation and variable components as well as additional arrangements (i.e. housing allowance or company car arrangements).

In order to link Management Board remuneration to the Company's performance and risk profile, the remuneration package includes significant variable components in the form of an annual cash bonus incentive and a long-term incentive in the form of stock options. The long-term incentive serves to align the interests of the Management Board with the shareholders' interests and to focus them on improving the performance of SMARTRAC and enhancing the value of the company, and to be able to attract other highly qualified executives to enter into SMARTRAC service, when required.

The overall remuneration policy, as approved by the Annual General Meeting of Shareholders on June 22, 2007, is based on a remuneration scheme which takes into account specific tasks and the scope of individual responsibilities of each member of the Management Board.

REMUNERATION FOR FISCAL YEAR 2012

COMPENSATION FOR MEMBERS OF THE MANAGEMENT BOARD

Dr. Christian Fischer, re-appointed Director A and Chairman of the Management Board for a term of office ending with the Annual General Meeting of Shareholders of SMARTRAC in 2017, resigned from his position as CEO and Chairman of the Management Board of SMARTRAC N.V. effective September 3, 2012. He continued to serve the company as Director A of SMARTRAC N.V. until December 31, 2012.

Wolfgang Schneider was appointed Director A of SMARTRAC N.V. at the SMARTRAC Annual General Meeting of Shareholders 2011 for a term of office ending with the Annual General Meeting of Shareholders of SMARTRAC in 2015.

In addition, Robert Harmzen was appointed Director B of SMARTRAC N.V. at the SMARTRAC Annual General Meeting of Shareholders 2011 for a term of office ending with the Annual General Meeting of Shareholders of SMARTRAC in 2013.

At the SMARTRAC Extraordinary General Meeting of Shareholders on October 29, 2012, Mr. Christian Uhl, Chief Financial Officer, was appointed Director A of SMARTRAC N.V. until the Annual General Meeting of Shareholders of SMARTRAC in 2016. On December 5, 2012, Christian Uhl was appointed Co-Chairman of the Management Board of the company.

According to his employment contract, Dr. Fischer received an annual base compensation of EUR 420,000. Wolfgang Schneider received a base compensation of EUR 250,000. Robert Harmzen waived his right for compensation from the company. Christian Uhl received a compensation amounting to EUR 75,000 from October 29, 2012, onwards, including a special compensation for his role as Co-Chairman.

Dr. Fischer received an annual payment of 50 percent of his annual base compensation for the purpose of personal pension arrangement. In addition, Dr. Fischer was entitled to receive 50 percent of his annual base compensation either in shares or in cash on a pro rata base. The compensation of Dr. Fischer pursuant to his employment contract consists as well of a variable annual compensation of two percent of Group EBITDA. In 2012, he did not receive a variable bonus. His employment contract also comprises a change of control provision. Termination benefits in relation with the resignation of Dr. Christian Fischer as CEO and Chairman of the Management Board of SMARTRAC N.V. effective September 3, 2012, amount to EUR 9.3 million. Wolfgang Schneider pursuant to his employment contract is entitled to receive a variable compensation based on the fulfillment of Group EBITDA and business unit EBITDA targets. In 2012, the variable compensation amounted to EUR 100,000. The compensation of Christian Uhl pursuant to his employment contract also includes a variable annual compensation based on the fulfillment of personal targets and Group EBITDA targets. In 2012, Christian Uhl did not receive bonus payments for the period October 29, 2012, to December 31, 2012. The employment contract of Christian Uhl also comprises a change of control provision. In the event that a third party exercises a controlling influence, Christian Uhl has the right to terminate his contract and to receive a redundancy payment. In the context of the Voluntary Public Offer of OEP Technologie B.V., he waived his extraordinary right of termination of his service agreement and a claim for an indemnity payment. This payment claim may be reinstated under certain circumstances.

The Management Board is eligible to participate in the Company's Stock Option Scheme. The total vesting expenses in favor of Dr. Fischer for all non-vested Stock Option Schemes amounted to EUR 79,258 in 2012 including accelerated option expense of EUR 44,255 due to the waiver of entitlement to options.

Dr. Fischer and Christian Uhl have been provided with a company car.

With the exception of the change of control clause of Christian Uhl, the Members of the Management Board are not entitled to receive change of control payments. SMARTRAC has no pension scheme for Members of the Management Board in place.

COMPENSATION FOR MEMBERS OF THE SUPERVISORY BOARD

As of December 31, 2012, the SMARTRAC Supervisory Board consisted of six members: Prof. Dr. Bernd Fahrholz (Chairman), Manfred Rietzler (Vice Chairman), Lee Gardner, Wolfgang Huppenbauer, Tobias Reich, and Dr. Jörg Zirener.

Christopher von Hugo resigned as a member of the SMARTRAC Supervisory Board as of October 22, 2012. Charles Scharf resigned as a member of the SMARTRAC Supervisory Board as of October 25, 2012.

The annual remuneration of the Chairman of the Supervisory Board, Prof. Dr. Bernd Fahrholz, amounted to EUR 90.000 in 2012. Remuneration for the Vice Chairman of the Supervisory Board, Manfred Rietzler, amounted to EUR 60,000. The compensation for members of the Supervisory Board amounted to EUR 30,000 for Wolfgang Huppenbauer.

Lee Gardner, Christopher von Hugo, Tobias Reich, Charles Scharf, and Dr. Jörg Zirener waived their right to compensation for the year 2012.

Subsequent to the reporting period, Tobias Reich resigned as member of the SMARTRAC Supervisory Board on January 22, 2013.

Throughout the year 2012, Prof. Dr. Bernd Fahrholz has held 20,000 options of Tranche 2 (exercise price: EUR 22.40, option life expiration: March 29, 2013) and 15,000 options of Tranche 3 (exercise price: EUR 39.20, option life expiration: November 23, 2013).

WIRE-EMBEDDING

Card manufacturers and players in the high-security printing industry consider wire-embedding technology the de facto standard for products that have to fulfill the highest quality, reliability, and durability requirements.

We will continue to nurture wire-embedding technology in the future in order to advance it to the next level of technological excellence and high-speed output . In parallel, we will refine our additional antenna manufacturing technologies and continue to evaluate new production technologies and processes to further broaden our technology portfolio.

CONSOLIDATED FINANCIAL STATEMENTS 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31

In thousands of EUR	Note	Consolidated 2012	Consolidated 2011
Revenue	6	255,530	167,604
Cost of sales	7	(192,227)	(139,811)
Gross profit		**63,303**	**27,793**
Administrative expenses	8	(75,605)	(50,138)
Other operating income (expenses)	10	25,816	(14,909)
Total operating expenses		**(49,789)**	**(65,047)**
Operating profit (loss) before financial income (expenses)		**13,514**	**(37,254)**
Financial income	12	7,285	7,260
Financial expenses	12	(15,515)	(11,536)
Net financial expenses		**(8,230)**	**(4,276)**
Share of loss of equity-accounted investees	5	(20)	(47)
Profit (loss) before tax		**5,264**	**(41,577)**
Income tax (expenses) benefit	**13**	**(291)**	**23**
Profit (loss) for the period attributable to:		**4,973**	**(41,554)**
Owners of the company		4,955	(41,550)
Non-controlling interests		18	(4)
Profit (loss) for the period		**4,973**	**(41,554)**
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation		919	141
Net fair value loss on hedging instruments entered into for cash flow hedges	29	(351)	–
Tax on other comprehensive income		88	–
Other comprehensive income (loss), net of tax		**656**	**141**
Total comprehensive income (loss) for the period attributable to:		**5,629**	**(41,413)**
Owners of the company		5,660	(41,409)
Non-controlling interests		(31)	(4)
Total comprehensive income (loss) for the period		**5,629**	**(41,413)**
Basic earnings per share (EUR)	14	0.26	(2.54)
Diluted earnings per share (EUR)	14	0.26	(2.54)

The accompanying notes (from page 92 to 163) are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31

In thousands of EUR	Note	Consolidated 2012	Consolidated 2011
Assets			
Intangible assets	16	112,424	107,030
Property, plant and equipment	15	79,072	56,371
Equity-acounted investees	5	1,070	1,115
Deferred tax assets	13	4,856	4,354
Other non-current assets		3,644	4,417
Total non-current assets		**201,066**	**173,287**
Inventories	17	42,773	29,500
Trade and non-trade receivables	18	48,687	35,178
Current income tax		1,216	685
Other current assets	19	7,534	3,330
Cash and cash equivalents	20,29	27,962	22,100
Total current assets		**128,172**	**90,793**
Total assets		**329,238**	**264,080**
Equity			
Share capital	1, 21	9,924	8,872
Share premium	1, 21	133,871	111,624
Reserves		2,897	2,192
Retained earnings		18,025	13,070
Equity attributable to owners of the company		**164,717**	**135,758**
Non-controlling interests		3,355	3,061
Total equity		**168,072**	**138,819**
Liabilities			
Loans and borrowings	22	71,703	1,161
Employee benefits	23	605	663
Deferred tax liabilities	13	7,597	6,124
Other non-current liabilities	24	1,403	6,315
Deferred income from government grants	28	878	670
Total non-current liabilities		**82,186**	**14,933**
Bank overdraft	20, 22	346	320
Loans and borrowings	22	15,215	58,983
Trade and non-trade payables	25	30,947	20,050
Current income tax		1,484	1,286
Provisions	26	1,619	5,322
Other current liabilities	4, 27	29,369	24,367
Total current liabilities		**78,980**	**110,328**
Total liabilities		**161,166**	**125,261**
Total equity and liabilities		**329,238**	**264,080**

The accompanying notes (from page 92 to 163) are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

In thousands of EUR	Note	Consolidated 2012	Consolidated 2011
Cash flows from operating activities			
Profit for the period		4,973	(41,554)
Reconciliation of net profit to net cash provided by (used in) operating activities:			
Income tax expenses (benefit)	13	291	(23)
Depreciation and amortization	7, 8	18,369	24,515
Impairment tangible assets	15	526	–
Impairment intangible assets	16	436	658
Reversal of impairment on fixed assets		(69)	(18)
Equity-settled share-based payment transactions	31	176	196
Gains (loss) on disposal of assets		6	(32)
Interest income	12	(109)	(235)
Interest expense	12	4,348	3,912
Other non cash items		3,011	(2,087)
Provision for losses on accounts receivables	10	466	604
Provision for losses on inventory	17	719	14,931
Share of loss of equity-accounted investees		20	47
Changes in operational assets and liabilities:			
Inventories		(7,382)	(7,347)
Trade and non-trade receivables		(6,679)	16,861
Prepayments to vendor		(1,445)	–
Other current assets		(1,838)	(311)
Employee benefits		139	120
Trade and non-trade payables		8,722	(11,391)
Other non-current liabilities		(4,918)	57
Other current liabilities and provisions		1,409	9,617
Other non-current assets		–	12
Cash provided by operating activities		**21,171**	**8,532**
Interest paid		(3,331)	(2,254)
Interest received		99	245
Income taxes paid		(1,967)	(197)
Net cash provided by operating activities		**15,972**	**6,326**
Cash flows from investing activities			
Purchases of property, plant and equipment	15	(25,484)	(13,916)
Purchases of intangible assets	16	(4,274)	(2,487)
Proceeds from sale of equipment		199	170
Change deposits paid for property, plant and equipment		985	(2,702)
Net cash outflow on business combinations	4	(7,834)	(39,121)
Investments in jointly controlled entities		–	(1,253)
Cash proceeds from deferred grants		229	–
Net cash used in investing activities		**(36,179)**	**(59,309)**

In thousands of EUR	Note	Consolidated 2012	Consolidated 2011
Cash flows from financing activities			
Side costs for capital increase	21	(20)	–
Net proceeds from issue of share capital		–	15,390
Proceeds from interest-bearing loans and borrowings and secured loans	22	95,402	7,104
Repayments of interest-bearing loans and borrowings and secured loans	22	(68,927)	(466)
Proceeds from non-controlling interests		–	3,061
Net cash provided by financing activities		**26,455**	**25,089**
Net change in cash and cash equivalents and bank overdrafts		6,248	(27,894)
Cash and cash equivalents and bank overdrafts at January 1	20	21,780	49,401
Effect of exchange rate fluctuations on cash and cash equivalents and bank overdrafts		(412)	273
Cash and cash equivalents and bank overdrafts at December 31	**20**	**27,616**	**21,780**

The accompanying notes (from page 92 to 163) are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31

In thousands of EUR	Note	Issued and paid-up share capital	Share premium	Translation reserve
Balance as at January 1, 2011		**8,167**	**96,743**	**2,051**
Profit for the period		–	–	–
Other comprehensive income (loss)		–	–	141
Total comprehensive income (loss) of the period		**–**	**–**	**141**
Additions from first time consolidations		–	–	–
Par value of new shares – credited to share capital	21	705	–	–
Excess of gross proceeds over par share value credited to share premium	21	–	14,795	–
Transaction costs of the capital increase charged to share premium	21	–	(110)	–
Share-based payment options	31	–	196	–
Balance as at December 31, 2011		**8,872**	**111,624**	**2,192**
Balance as at January 1, 2012		**8,872**	**111,624**	**2,192**
Profit for the period		–	–	–
Other comprehensive income (loss)		–	–	968
Total comprehensive income (loss) of the period		**–**	**–**	**968**
Additions from first time consolidations		–	–	–
Share-based payment options	31	–	176	–
Par value of new shares – credited to share capital	21	1,052	–	–
Excess of gross proceeds over par share value credited to share premium	21	–	22,091	–
Transaction costs of the capital increase charged to share premium	21	–	(20)	–
Balance as at December 31, 2012		**9,924**	**133,871**	**3,160**

* The retained earnings as of December 31, 2012, include a legal reserve for development costs amounting to EUR 5.5 million (2011: EUR 5.4 million).

The accompanying notes (from page 92 to 163) are an integral part of the consolidated financial statements.

Attributable to the owners of the Company				
Hedging reserve	Retained earnings*	Total	Non-controlling interests	Total equity
–	**54,620**	**161,581**	**–**	**161,581**
–	(41,550)	(41,550)	(4)	(41,554)
–	–	141	–	141
–	**(41,550)**	**(41,409)**	**(4)**	**(41,413)**
–	–	–	3,065	3,065
–	–	705	–	705
–	–	14,795	–	14,795
–	–	(110)	–	(110)
–	–	196	–	196
–	**13,070**	**135,758**	**3,061**	**138,819**
–	**13,070**	**135,758**	**3,061**	**138,819**
–	4,955	4,955	18	4,973
(263)	–	705	(49)	656
(263)	**4,955**	**5,660**	**(31)**	**5,629**
–	–	–	325	325
–	–	176	–	176
–	–	1,052	–	1,052
–	–	22,091	–	22,091
–	–	(20)	–	(20)
(263)	**18,025**	**164,717**	**3,355**	**168,072**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

1. REPORTING ENTITY

A) GENERAL

SMARTRAC N.V. ('The Company') is a company domiciled at Strawinskylaan 851, 1077 XX Amsterdam, The Netherlands. The shares of the company are listed in the Prime Standard Segment at Frankfurt Stock Exchange (ISIN NL 0000186633). The company acts as the holding company for the SMARTRAC Group ('The Group'), composed of the subsidiaries and jointly controlled entities as of December 31, 2012 as outlined in the table on the following page.

On September 12, 2012, the Management Board resolved to apply for a delisting of the Company's shares from the Frankfurt Stock Exchange (Prime Standard) and proposed a change of the Company's Articles of Association subject to the approval of the delisting to the General Meeting.

The delisting from the Regulated Market (Prime Standard) and from Xetra was filed with Deutsche Börse AG (German Stock Exchange) on October 30, 2012. Subject to the approval of the delisting application by the management board of the Frankfurt Stock Exchange the final day of trading of the company's shares on the Frankfurt Stock Exchange is expected to become effective at the end of the day on May 28, 2013.

Company	Country of incorporation	Date of incorporation/ inclusion	Business type	Ownership and voting interest
Direct Holdings				
SMARTRAC TECHNOLOGY Ltd.	Thailand	January 1, 2000	Manufacturing	100 %
SMARTRAC TECHNOLOGY Stuttgart GmbH***	Germany	November 17, 2003	Service Center	100 %
SMARTRAC TECHNOLOGY Pte. Ltd.	Singapore	October 7, 2005	Sales Service	100 %
SMARTRAC TECHNOLOGY Brazil B.V.	The Netherlands	February 27, 2007	Holding	100 %
SMARTRAC TECHNOLOGY US Inc.	USA	August 31, 2007	Manufacturing	100 %
SMARTRAC IP B.V.	The Netherlands	January 18, 2007	IP Management	100 %
SMARTRAC TECHNOLOGY Malaysia Holding B.V.**	The Netherlands	September 3, 2007	Holding	100 %
SMARTRAC AUTOMATION Sdn. Bhd.	Malaysia	January 21, 2008	Manufacturing	100 %
SMARTRAC Wehnrath Holding GmbH***	Germany	Januar 26, 2007	Holding	100 %
SMARTRAC TECHNOLOGY HONG KONG Ltd.	China	December 10, 2009	Holding	100 %
SMARTRAC Investment B.V.	The Netherlands	May 25, 2011	Holding	100 %
Dalton ID Ltd.	UK	November 11, 2011	Manufacturing	100 %
SMARTRAC Dresden Holding GmbH*	Germany	December 14, 2011	Holding	100 %
SMARTRAC US Holding B.V.	The Netherlands	December 8, 2011	Holding	88 %
SMARTRAC TECHNOLOGY Finland Holding Oy****	Finland	March 22, 2012	Sales Service	100 %
SMARTRAC TECHNOLOGY (Guangzhou) Co. Ltd.***	China	March 31, 2012	Manufacturing	100 %
SMARTRAC TECHNOLOGY Fletcher Inc.**	USA	March 31, 2012	Manufacturing	100 %

Company	Country of incorporation	Date of incorporation/ inclusion	Business type	Ownership and voting interest
Indirect Holdings				
SMARTRAC TECNOLOGIA INDÚSTRIA E COMERCIO DA AMAZÔNIA Ltda.	Brazil	July 15, 2007	Manufacturing	100 %
SMARTRAC Trading Pte. Ltd.	Singapore	March 22, 2007	Trading	100 %
SMARTRAC TECHNOLOGY MALAYSIA Sdn. Bhd.	Malaysia	October 3, 2007	Manufacturing	100 %
SMARTRAC TECHNOLOGY Wehnrath GmbH***	Germany	September 26, 2008	Manufacturing	100 %
AmaTech Automation GmbH	Germany	May 31, 2010	Manufacturing/ IP Management	100 %
Dalton ID, LLC*****	USA	July 29, 2011	Sales Service	100 %
Dalton Continental B.V.	The Netherlands	November 11, 2011	Manufacturing	100 %
Dalton Continental GmbH	Germany	November 11, 2011	Trading	100 %
Dalton ID (Africa) Pty	South Africa	November 11, 2011	Manufacturing	60 %
Dalton ID (Australia) Pty	Australia	November 11, 2011	Holding	100 %
Drovers AY One Pty	Australia	November 11, 2011	Manufacturing	100 %
Drovers Africa (pty) Ltd.	South Africa	September 4, 2012	Trading	100 %
SMARTRAC TECHNOLOGY Dresden GmbH*	Germany	December 14, 2011	Manufacturing	100 %
Neology Inc.	USA	December 21, 2011	Manufacturing	88 %
Single Chips Systems Inc.	USA	December 21, 2011	IP Management	88 %
Neology S. de R.L. de C.V.	Mexico	December 21, 2011	Trading	88 %
Neology Servicios S. de R.L. de C.V.	Mexico	December 21, 2011	Service Centre Manufacturing / Sales	88 %
Controles Electromecánicos S.A. de C.V.	Mexico	October 30, 2012	Service	70 %
Jointly controlled entity				
Citywish Investments Ltd.	China	July 2, 2010	Trading/Holding	30 %
Omnia Technologies Private Ltd.	India	March 1, 2011	Manufacturing	50 %

* In the first quarter of 2012, KSW Microtec AG changed its company name to SMARTRAC TECHNOLOGY Dresden GmbH and, in April 2012, KSW Microtec Holding AG changed its company name to SMARTRAC Dresden Holding GmbH. The name changes are a result of the Group's strategy to unite its core business under the family brand 'SMARTRAC'.

** In the second quarter of 2012, and also resulting from the Group's strategy to unite its core business under the family brand 'SMARTRAC', Multitape Holding B.V., UPM RFID Inc. and UPM RFID Oy have changed their company names into SMARTRAC TECHNOLOGY Malaysia Holding B.V., SMARTRAC TECHNOLGY Fletcher Inc. and SMARTRAC Finland Holding Oy.

*** In the third quarter of 2012, SMARTRAC TECHNOLOGY GmbH changed its company name to SMARTRAC TECHNOLOGY Stuttgart GmbH; SMARTRAC German Holding GmbH changed its company name to SMARTRAC Wehnrath Holding GmbH; SMARTRAC TECHNOLOGY GERMANY GmbH changed its company name to SMARTRAC TECHNOLOGY Wehnrath GmbH; UPM Raflatac RFID Guangzhou Co., Ltd., China, changed its company name to SMARTRAC TECHNOLOGY (Guangzhou) Co. Ltd. The name changes result from the Group's strategy to unit its core business under the family name 'SMARTRAC'.

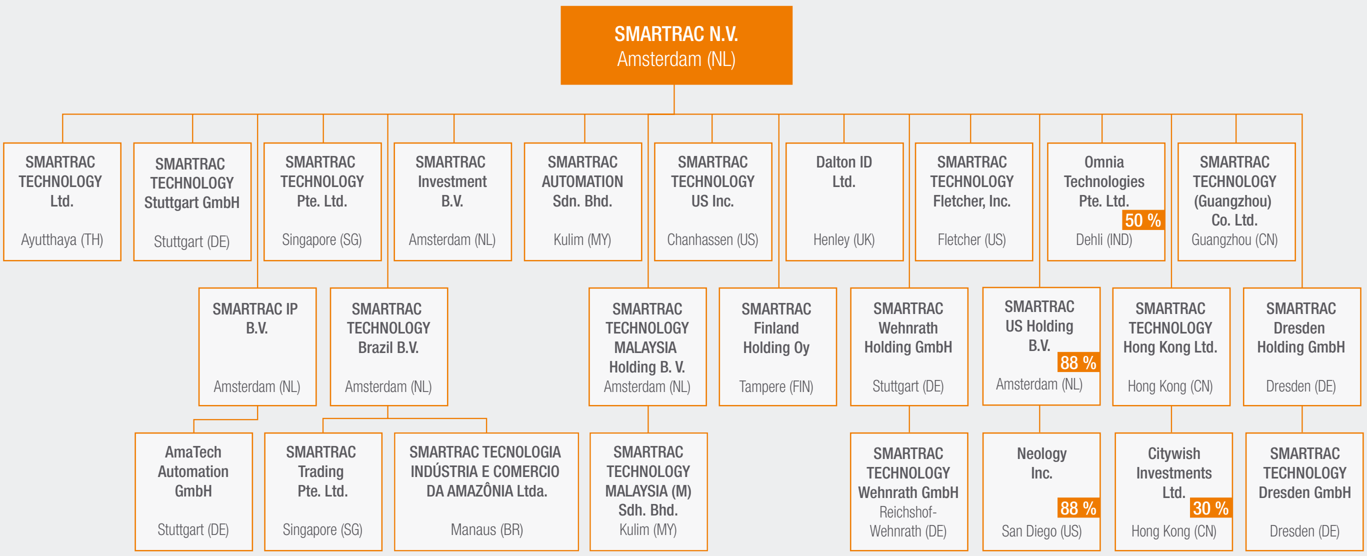
**** As of December 31, 2012, SMARTRAC TECHNOLOGY Finland Oy was merged with SMARTRAC Finland Holding Oy. The holding structure was a necessary structure to complete the acquisition and integration of the former UPM RFID into the SMARTRAC Group. With the completion of the transaction and integration, it was no longer necessary to maintain two legal entities in Finland.

***** As of December 3, 2012, Dalton ID LLC, Chanhassen, USA, filed for dissolution.

B) ACTIVITIES

The Group is the leading developer, manufacturer, and supplier of RFID and NFC transponders and inlays. The company produces both ready-made and customized transponders and inlays used in access control, animal identification, automated fare collection, border control, RFID-based car immobilizers, contactless payment cards, electronic product identification, industrial applications, libraries and media management, laundry tracking, logistics, mobile and smart media, public transport, retail, and many more application fields. A transponder is an electronic device (pre-product) with an integrated contactless chip and an antenna for contactless identification.

C) GROUP STRUCTURE



Ownership 100 % if not noted differently.

OEP Technologie B.V. (OEP), Amsterdam, The Netherlands, holds a controlling interest in SMARTRAC. The ultimate holding company of OEP and thus SMARTRAC is JPMorgan Chase & Co., a corporation under the laws of the State of Delaware, United States with its seat in Delaware, United States (business address at 270 Park Avenue, New York, NY 10017, U.S.).

D) FINANCIAL YEAR

According to the Articles of Association of SMARTRAC N.V., the financial reporting year ends at December 31, 2012.

2. BASIS OF PREPARATION

A) STATEMENT OF COMPLIANCE

The 2012 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the International Accounting Standards Board (IASB) effective as of December 31, 2012, and adopted by the European Union (EU) and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

The financial statements have been prepared by the Management Board of the company and authorized for issue on March 18, 2013, and will be submitted for adoption to the Annual General Meeting of Shareholders on June 18, 2013.

The company presents a condensed income statement, using the facility of Article 402 of Part 9, Book 2, of the Netherlands Civil Code.

B) RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements (with the other information as meant in Article 2:392 of the Netherlands Civil Code) give a true and fair view of the assets, liabilities, financial position and profit of the company and the subsidiaries included in the consolidation, and the Management Board Report gives a true and fair view of the development and performance of the business and the position of the Group as of December 31, 2012, together with a description of the principal risks that the Group is confronted with.

Amsterdam, March 18, 2013

Christian Uhl Co-Chairman of the Management Board	Nigel Sealey Co-Chairman of the Management Board	Wolfgang Schneider Member of the Management Board	Robert Harmzen Member of the Management Board

C) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except for the following positions on the balance sheet:

- A stock option plan allows Group employees to acquire shares of the company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity.
- Derivative financial instruments are measured at fair value.

D) FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Euro, which is the Company's functional currency. All financial information presented in Euro has been rounded to the nearest thousand.

E) USE OF ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in conformity with IFRS adopted by the EU requires management to make judgments, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed within their respective notes, if any. This relates in particular to:

- Recoverability of deferred tax assets (note 13)
- Valuation of intangible assets, especially goodwill (note 16)
- Allowance for doubtful accounts and obsolete stock (note 10, 18)
- Exceptional items (note 11)

F) LEASES

Agreements under which the Group made payments to owners in return for the right to use an asset for a period are accounted for as leases.

Leases that substantially transfer all the risks and rewards of ownership are recorded at inception as finance leases within property, plant and equipment and debt.

All other leases are recorded as operating leases and the costs are charged to income statement on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements and by all Group entities.

A) BASIS OF CONSOLIDATION

1. CONSOLIDATED FINANCIAL STATEMENTS

In the 2012 fiscal year, SMARTRAC founded one additional entity (please refer to note 4) and obtained control over four companies (please refer to note 4).

2. SUBSIDIARIES

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

3. INVESTMENT IN JOINTLY CONTROLLED ENTITIES

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Investments in jointly controlled entities are accounted for using the equity method and are recognized initially at cost (please refer to note 5).

4. TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances and any unrealized gains and losses or income and expenses arising from intra-group transactions, are eliminated when preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Group’s interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

5. BUSINESS COMBINATIONS

The acquiree’s identifiable assets, liabilities, and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair values as of acquisitions date, except for non-current assets that are classified as held for sale. Goodwill arising on acquisition is recognized as an asset at the excess of the cost of the business combination over the Group’s interest in the fair value of the identifiable assets, liabilities, and contingent liabilities recognized. If, after reassessment, the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities, and contingent liabilities exceed the cost of the business combination, the excess is recognized immediately in profit or loss. Subsequently, goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. Transaction costs, that the Group incurs in connection with a business combination are expensed as incurred.

6. ACQUISITIONS OF NON-CONTROLLING INTERESTS

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

B) FOREIGN CURRENCY

1. FOREIGN CURRENCY TRANSACTIONS

Items included in the financial statements of each of the Group's entities are measured or re-measured (when local law requires the use of the local currency for the recording of transactions in an entity's accounting records) using the currency of the primary economic environment in which the entity operates (the functional currency). Re-measurement to the functional currency is performed by translating balances using exchange rates at the dates of the relevant transactions, with all resulting differences recorded as foreign exchange gains (losses). The consolidated financial statements are presented in Euro, which is the company's presentation currency.

In the consolidated financial statements, all separate financial statements of subsidiaries, originally presented in a currency different from the Group's presentation currency, have been converted into Euro. Assets and liabilities have been translated into Euro at the closing rate as of the balance sheet date. The income statements of foreign Group companies, whose functional currency is not the Euro, are – like their respective net income for the period – translated at the rate as of the date of the transaction. Any differences arising from this procedure have been charged (credited) to the cumulative translation reserve in equity.

Upon the disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the translation reserve relating to that foreign operation is recognized in profit or loss when the gain or loss on disposal is recognized.

The exchange rates used to convert transactions and balances denominated in other currencies to the Euro are as shown in the table below.

Currency	2012 Period end rate	2012 Period average rate	2011 Period end rate	2011 Period average rate
USD to EUR	1.32	1.29	1.29	1.39
THB to EUR	40.11	39.73	40.88	42.17
SGD to EUR	1.62	1.61	1.68	1.75
BRL to EUR	2.71	2.51	2.41	2.32
MYR to EUR	3.95	3.96	4.11	4.25
HKD to EUR	10.25	9.97	10.06	10.83
INR to EUR	72.27	68.69	70.29	65.14
GBP to EUR	0.82	0.81	0.84	0.87
AUD to EUR	1.27	1.24	1.27	1.35
ZAR to EUR	11.20	10.54	10.51	10.06
MXN to EUR	17.19	16.90	18.09	17.27
CNY to EUR	8.33	8.10	n.a.	n.a.

2. TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at year-end of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

C) PROPERTY, PLANT AND EQUIPMENT

1. RECOGNITION AND MEASUREMENT

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy i). Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

2. SUBSEQUENT COSTS

In the carrying amount of an item of property, plant and equipment, the Group recognizes the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

3. DEPRECIATION

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

– Buildings	20 years
– Machinery	10 years
– Building improvements	5 years
– Tools and Equipment	5 years
– Furniture and Fixtures	5 years
– Office Equipment	5 years
– Vehicles	5 years
– Toolings (vacuum plates)	2 years

The depreciation methods, residual values, and useful lives are subject to annual reassessment. Toolings are included in tools and equipment.

D) INTANGIBLE ASSETS

1. GOODWILL

Goodwill occurs from business combinations according to IFRS 3 and represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets, liabilities, and contingent liabilities of the acquiree existing at the time of the acquisition.

In order to measure the amount of the goodwill, the purchase price is allocated to the individual assets and liabilities based on their fair values. The amount of the goodwill is the positive amount remaining after the allocation.

2. PATENTS AND TECHNOLOGIES

Patents and patent rights are acquired by the Group and are stated at cost less accumulated amortization (see accounting policy d (6.)) and impairment losses (see accounting policy i).

3. SOFTWARE

Software acquired by the Group is stated at cost less accumulated amortization (see accounting policy d (6.)) and impairment losses (see accounting policy i).

4. RESEARCH AND DEVELOPMENT

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the income statement as an expense as incurred.

Costs for development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. Additionally, the future economic benefits must be probable and SMARTRAC intends to complete development and to use or sell the asset for use. The expenditure capitalized includes the cost of materials, direct labor and directly attributable costs. Such capitalized costs are stated at cost less accumulated amortization and impairment losses with an amortization period of generally three to five years (see accounting policy i). Other development expenditure is recognized in the income statement as an expense as incurred.

5. OTHER INTANGIBLE ASSETS

The other intangible assets contain assets which cannot be subsumed under other intangible asset categories. These are mainly non-competition agreements, supply agreements and customer base acquired in the course of business combinations.

6. AMORTIZATION

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful life for patents and patent rights is 10 to 20 years and is 5 years for software. The estimated useful life for capitalized development expenditure is generally 3 to 5 years. The amortization methods, residual values and useful lives are subject to annual reassessment. The amortization period of other intangible assets depends on the useful life of the particular asset and varies between 4 months and 10 years.

E) TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are stated at amortized cost using the effective interest method less impairment losses (see accounting policy i).

F) INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. For the measurement of the cost of inventories, the standard cost method is used. The cost of inventories is based on the weighted-average cost formula and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

G) FINANCIAL INSTRUMENTS

Pursuant to IAS 39, a financial instrument is any contract that gives rise to a financial asset at one entity and a financial liability or equity instrument at another entity.

If the trade date of a financial asset differs from the settlement date, the trade date is authoritative for initial recognition. Initial measurement of a financial instrument is amortized before cost. Transaction costs are included. Subsequent measurement of financial instruments is either at fair value or amortized cost as set out in the applicable note.

With respect to measurement, IAS 39 distinguishes between the following categories of financial assets:

– Financial instruments recognized at fair value through profit or loss
– Held-to-maturity investments,
– Loans and receivables, and
– Available-for-sale investments.

By contrast, financial liabilities are divided into the two categories:

– Financial instruments recognized at fair value through profit or loss and financial instruments held for trading, and
– Other liabilities.

At the end of the year the group only held financial instruments within the categories ‘loans and receivables’, ‘held for trading’ and ‘other liabilities’. Other liabilities comprise finance lease liabilities and negative market values of derivatives designed as hedging instruments.

Measurement of financial instruments is either at fair value or amortized cost as set out in the applicable notes.

Fair value corresponds to market price provided the financial instruments measured are traded on an active market. If there is no active market for a financial instrument, fair value is calculated using appropriate valuation methods such as recognized option price models or discounting future cash flows with the market interest rate.

Amortized cost corresponds to costs of purchase less redemption, impairment losses, and the reversal of any difference between costs of purchase and the amount repayable upon maturity.

LOANS AND BORROWINGS

Loans and borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans and interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

DERIVATIVE FINANCIAL INSTRUMENTS (INCLUDING HEDGE ACCOUNTING)

SMARTRAC uses derivatives in the ordinary course of business to manage market risks. Derivatives used are interest rate swaps, foreign currency forwards and options. Hedge accounting is only applied for interest rate swaps and not for foreign currency contracts relating to non-EUR-intercompany loans, based on the management objective of risk avoidance.

Derivative financial instruments are recognized initially at fair value and transaction costs attributable to them are recognized in profit and loss as incurred. Derivatives for which no hedge accounting is applied are accounted for at fair value through profit and loss.

The Group entered into certain interest rate swap derivatives that serve the purpose of hedging the Group's interest rate risk arising from future floating-rate interest payments on the secured loan. These interest rate swap derivatives were designated as cash flow hedges and gains and losses are recorded in other comprehensive income and presented in the hedging reserve in equity to the extent that they refer to the effective part of the hedging relationship. Any ineffective parts of the hedge relationship are recorded in the profit and loss account. Effectiveness of the hedging relationships is periodically measured using the dollar offset method.

OPTION CONTRACTS AND MEASUREMENT

Option contracts are measured at fair value. The fair value is determined by a Black-Scholes model.

H) CASH AND CASH EQUIVALENTS

Cash comprises cash balances and short-term deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash equivalents are stated at fair value with movements through the income statement.

l) IMPAIRMENT

The carrying amounts of the Group's assets, other than inventories (see accounting policy f), deferred tax assets (see accounting policy q), assets arising from employee benefits and financial assets (see accounting policy g) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy i. 1.).

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. The management of SMARTRAC considers the smallest identifiable group of assets to be the business units of the Group. Impairment losses are recognized in the income statement. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

1. CALCULATION OF RECOVERABLE AMOUNT

The recoverable amount of the Group's receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Key assumptions on which management has based its determination of value in use include the average selling price per inlay, growth rates, discount rates, and cost efficiency estimates.

The values assigned to the key assumptions represent management's assessment of the future trends in the industry and are based on external sources and internal sources (historical data).

2. REVERSALS OF IMPAIRMENT

An impairment loss in respect of a receivable carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

In respect of other assets, an impairment loss in prior periods is assessed at each reporting date for indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

J) EMPLOYEE BENEFITS

1. DEFINED BENEFIT PLANS

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on long-term government bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the income statement.

Actuarial gains and losses that arise when calculating the Group's obligation in respect of a plan are recognized in the income statement by applying the 'corridor method', which means that the portion of actuarial gains and losses in excess of 10% of the present value of the defined benefit obligations is recognized in the income statement.

2. SHARE-BASED PAYMENT TRANSACTIONS

The grant date fair value of options granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value is determined by a Black-Scholes model. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

In case a grant of equity-settled instruments is cancelled during the vesting period, the cancellation is accounted for as accelerated vesting. As a consequence, all costs that otherwise would have been recognized for services over the remainder of the vesting period, have to be recognized immediately. Besides that, any payment made to the employee on the cancellation is accounted for as a repurchase of an equity interest resulting in a deduction of share premium, except to the extent that the payment exceeds the fair value of the options granted.

K) TRADE AND NON-TRADE PAYABLES

Trade and non-trade payables are stated at amortized cost.

L) GOVERNMENT GRANTS

Government grants are recognized initially at fair value when there is reasonable assurance that the grants will be received and that the company will meet the requirements attached to the grants. Grants for an asset are recognized in the balance sheet as deferred income and are released through profit and loss over the estimated useful life.

M) PROVISIONS

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected.

Flood related obligations for consigned goods which were destroyed in the course of the flooding in Thailand were recognized as a provision in 2011. The amount of the provision is based on the estimate of experts concerning the production prices.

N) ACCRUED AND OTHER CURRENT LIABILITIES

Accruals are liabilities to pay for goods and services that have been received or supplied but not been invoiced, including amounts due to employees (for example bonuses, vacation pay, or severance payments). Although it might be necessary to estimate the amount or the timing of the accrual, the uncertainty is much less than for provisions. Accruals and other current liabilities are stated at amortized costs.

O) REVENUE AND OTHER OPERATING INCOME

Revenue is measured at the fair value of the consideration received or receivable.

SALE OF GOODS

Revenue from the sale of RFID transponders is measured at fair value and recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, following the applicable Incoterms as defined by the International Chamber of Commerce. The Incoterms 'Ex Works (EXW)' and 'Delivery Duty Unpaid (DDU)' are applied predominantly. In case of the use of EXW, revenue is recognized when the products are released to the buyer or the buyer's freight forwarder. In case of DDU, revenue is recognized when the products are moved to the buyer's premises. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods or continuing management involvement with the goods.

REVENUE FROM ROYALTIES

The revenue from royalties results from license agreements in which the use of certain patents of the SMARTRAC patent portfolio was agreed. The amount of royalties is calculated based on reported quantities of transponders that the contractor shipped for the period of SMARTRAC's financial year. The revenue is therefore recognized on an accrual basis and in accordance with the substance of the license agreements.

INSURANCE PROCEEDS

During 2012 and the first quarter 2013 SMARTRAC has finalized its overall insurance claim covering all claim categories that fall under business interruption and property (including inventory) damages. The assets and related income are recognized in the financial statements of the period in which the approval of the insurance company is demonstrated by cash inflows incurred on the SMARTRAC bank accounts. After receipt of payments by the insurance companies receivables can be treated as virtually certain and shown as other income in the consolidated statement of comprehensive income.

P) EXPENSES

1. OPERATING LEASE PAYMENTS

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized in the income statement as an integral part of the total lease expense.

2. NET FINANCIAL EXPENSES

Net financing costs comprise interest expenses on borrowings calculated using the effective interest rate method. Interest income is recognized in the income statement as it accrues, using the effective interest method. Financial income or expenses comprises further changes in the fair value of financial assets at fair value through profit or loss.

Q) INCOME TAX

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to (1.) the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and (2.) differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future, are not recognized. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

R) EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

S) SEGMENT REPORTING

The reportable segments were identified based on the differences in the product portfolio rather than differences in geographical area or other factors.

The eID business unit and CTA business unit were aggregated as the reportable segment 'Security'. The ePI business unit, Industry & Logistics business unit, Neology and Dalton business unit were aggregated as the reportable segment 'Industry'. All other business activities are included in the 'All other' segment.

The business segment 'Security' includes products for personal electronic identification documents for governmental use such as e-passports, e-national ID Cards, electronic driver's licenses and electronic visa documents, e-health cards, e-social security cards, e-permanent resident cards as well as transponders for public transport, access control, contactless payment, and active card applications.

The business segment 'Industry' covers RFID tags for fields of application such as automotive, animal identification, industry, logistics, laundry, waste management, and medical as well as RFID transponders that cater to ticket and label converters and include fields of application such as electronic product identification, library and media management, retail, NFC, ticketing, and airline luggage. The Industry segment also comprises the business activities of Dalton which manufactures animal identification solution and Neology Inc., which serves the electronic vehicle identification, automated toll collection, and asset tracking market.

Under the management approach, the Group presents segment information in respect of the business segment structure that reflects the approach of assessment performed by the CEO / Co-Chairmen as the Chief Operating Decision Maker (CODM). The measurement of segment profit or loss is based on the segment's EBITDA.

The basis of accounting for any transactions between reportable segments is in accordance with IFRS.

T) NEW ACCOUNTING POLICIES

IFRSs and interpretations thereof not yet in force have been assessed for their potential impact on our consolidated financial statements for 2013 and beyond.

AMENDMENTS TO IAS 19, EMPLOYEE BENEFITS

The amendments to IAS 19 'Employee Benefits' have become effective as of January 1, 2013, and will be applied in our 2013 financial reports. The amendments include the requirement that actuarial gains and losses are recognized in other comprehensive income, thus removing the corridor method which we have applied so far. In addition, the expected return on plan assets recognized in the statement of income is calculated based on the rate used to discount the defined benefit obligation, instead of applying an expected rate of return on plan assets, as has been required up to and including our 2012 financial statements.

The outcome of this preliminary assessment is disclosed in Note 23.

OTHER NEW IFRS ACCOUNTING STANDARDS

Standard	Published	Implementation date in the standard	Endorsed by the European Union	Anticipated impact
IFRS 9 Financial Instruments	November 12, 2009, and subsequent amendments on December 16, 2011	January 1, 2015, earlier adoption permitted	Postponed	IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. This standard encompasses an overall change of accounting principles for financial instruments and will eventually replace IAS 39 – the current standard on financial instruments. As its scope will be further expanded during the next years, we will review the effects of a comprehensive standard on financial instruments and consider adoption when appropriate.
Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	December 16, 2011	January 1, 2014	December 29, 2012	These amendments clarify that the right to offset must not be contingent on a future event; and must be legally enforceable. We will assess the effect of this standard on our consolidated financial statements during 2013.
IFRS 10 Consolidated Financial Statements	May 12, 2011	January 1, 2013; under EU endorsement postponed to January 1, 2014, with earlier adoption permitted	December 29, 2012	This standard outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities they control. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee.We do not expect any effect of this standard on our consolidated financial statements during 2013.
IFRS 11 Joint Arrangements	May 12, 2011	January 1, 2013; under EU endorsement postponed to January 1, 2014, with earlier adoption permitted	December 29, 2012	This standard addresses the accounting of joint arrangements and eliminates proportionate consolidation. As we do not apply this method, there is no impact on our consolidated financial statements from the elimination.

Standard	Published	Implementation date in the standard	Endorsed by the European Union	Anticipated impact
IFRS 12 Disclosure of Interests in Other Entities	May 12, 2011	January 1, 2013; under EU endorsement postponed to January 1, 2014, with earlier adoption permitted	December 29, 2012	This standard contains the disclosure requirements for interests in subsidiaries, joint ventures, associates, and other unconsolidated interests. It may affect some disclosures in our consolidated financial statements.
IFRS 13 Fair Value Measurement	May 12, 2011	January 1, 2013	December 29, 2012	IFRS 13 replaces the fair value measurement guidance contained in existing IFRS with a single source of fair value measurement guidance. Except for certain plan assets, this standard is not expected to materially impact our consolidated financial statements. In 2013, we will assess the final effect of this standard on our consolidated financial statements.
Amendments to IAS 27, Separate Financial Statements	May 12, 2011	January 1, 2013; under EU endorsement postponed to January 1, 2014, with earlier adoption permitted	December 29, 2012	These amendments address the requirements for separate financial statements (which are not the company financial statements). As we do not prepare separate financial statements, this standard is not applicable.
Amendments to IAS 28, Investments in Associates and Joint Ventures	May 12, 2011	January 1, 2013; under EU endorsement postponed to January 1, 2014, with earlier adoption permitted	December 29, 2012	These amendments address the criteria and measurement of associates and joint ventures that qualify as held for sale. It is not expected to materially affect our consolidated financial statements.
Amendments to IAS 1, Presentation of Financial Statements	June 16, 2011	January 1, 2013	June 5, 2012	These amendments concern a requirement to group items presented in other comprehensive income on the basis of potential reclassification to profit or loss. As the amendments do not address which items are presented in other comprehensive income, they will only affect the order of items in the disclosures in our consolidated financial statements.

4. BUSINESS COMBINATIONS

The following companies / businesses were acquired during the accounting period and consolidated for the first time:

In thousands of EUR	Date of acquisition	Percentage of voting equity instruments acquired	Transaction costs*	Goodwill	Revenues since inclusion	Profit and loss since inclusion	Revenues since January 1, 2012	Profit and loss since January 1, 2012
Company / business								
UPM RFID	Mar 31, 2012	100 %	980	1,597	32,904	(776)	42,993	(733)
Controles Electro-mecánicos S.A. de C.V.	Oct 30, 2012	70 %	55	2,952	1,594	87	6,602	473
Total			**1,035**	**4,549**	**34,498**	**(689)**	**49,595**	**(260)**

* The group incurred acquistion-related costs related to external legal fees and due diligence costs. Costs of EUR 0.5 million have been included in 'administrative expenses' in the consolidated statement of comprehensive income in 2012. The remaining costs (EUR 0.5 million) relate to 2011.

The following paragraphs provide detailed disclosures on the acquisitions, specifically: a description of the related business activities and the expected impact of their integration into SMARTRAC Group; the purchase agreement, the purchase price allocation and other acquisition related information.

UPM RFID GROUP

DESCRIPTION OF UPM RFID'S BUSINESS ACTIVITIES AND THE EXPECTED IMPACT OF THEIR INTEGRATION ON THE GROUP

UPM RFID, part of UPM-Kymmene Corporation's Engineered Materials business group and comprising the three companies UPM RFID, Inc., Fletcher, North Carolina, United States, UPM RFID Oy, Pirkkala, Finland and UPM Raflatac RFID (Guangzhou) Co., Ltd, Guangzhou, China, is a leading supplier of passive RFID products specializing in the development and high-volume production of HF, NFC and UHF RFID tags and inlays for use in a broad range of RFID applications.

SMARTRAC's intention behind purchasing UPM RFID is to expand its product and market platform for NFC and UHF RFID tags and inlays. The acquisition also leads to an expansion of SMARTRAC's market position in the strategically important markets of China and the United States.

THE PURCHASE AGREEMENT

SMARTRAC, OEP Technologie B.V., Amsterdam, the Netherlands, OEP Technologie Holding B.V., Amsterdam, the Netherlands, UPM-Kymmene Investment, Inc., Fletcher, North Carolina, United States and UPM Raflatec Oy, Tampere, Finland entered into sales and purchase agreement being effective as of March 31, 2012. Under this agreement SMARTRAC takes over the UPM RFID shares while UPM-Kymmene and UPM Raflatec Oy receive a cash compensation and an indirect economic interest in SMARTRAC of 10.6 % via OEP Technologie B.V., a holding company controlled by One Equity Partners and one of the major shareholders of SMARTRAC.

The purchase consideration amounts to EUR 29.7 million, consisting of EUR 23.1 million for the shares and of EUR 6.6 million cash at closing. SMARTRAC financed the deal predominately by utilizing SMARTRAC's authorized capital and issuing 2,103,886 ordinary shares for a cash consideration of EUR 11 per new share, in total EUR 23.1 million, to OEP Technologie B.V.

THE PURCHASE PRICE ALLOCATION AND OTHER ACQUISITION RELATED INFORMATION

Detailed overview of the net assets acquired (100 %) as of March 31, 2012:

In thousands of EUR	Carrying value prior to acquisition	Adjustment	Carrying value upon acquisition
Plant and equipment	7,010	3,179	10,189
Goodwill	–	1,597	1,597
Intangible assets	723	3,046	3,769
Cash and cash equivalents	6,575	–	6,575
Receivables	7,163	–	7,163
Inventories	5,801	143	5,944
Other current assets	752	–	752
Deferred tax assets	327	98	425
Trade and non-trade payables	(2,666)	–	(2,666)
Other current liabilities	(1,074)	(392)	(1,466)
Deferred income taxes	(115)	–	(115)
Deferred tax liabilities	(499)	(1,935)	(2,434)
Net assets acquired	**23,997**	**5,736**	**29,733**
Purchase consideration			(29,733)
Deferred consideration liability			4,536
Cash and cash equivalents			6,575
Consideration in shares			23,143
Cash inflow on acquisition date			**4,521**

The deferred consideration liability was settled by the end of December 2012.

All assets and liabilities acquired were recognized at the fair value on the date of the acquisition. Additional intangible assets (patents and technologies, customer relationships, and similar rights), which were not recognized in the balance sheet of the company acquired have been accounted for, taking tax effects into consideration. The relief-of royalty-method was used to measure the patents and technologies. To measure the customer-relationships and similar rights the multi-period-excess-earnings method was used. A contingent liability amounting to EUR 0.4 million was recognized in view of a pending damage claim with a likely outflow that relates to a transaction prior to acquisition. On the basis of the fair value of the net assets acquired, the goodwill amounts to EUR 1.6 million and is determined by the growth opportunities arising from the purchase and synergies expected to be achieved from integrating into the group's ePI business unit. None of the goodwill is expected to be deductible for tax purposes.

OTHER BUSINESS COMBINATIONS / ACQUISITIONS

As at October 30, 2012, Neology S. de R.L. de CV, Mexico acquired 80 % of the share capital of Controles Electromecánicos, S.A. DE C.V. for a total amount of EUR 4.24 million including contingent consideration liability of EUR 1.2 million.

On the basis of the fair value of the net assets acquired the goodwill amounts to EUR 2.9 million mainly attributable to the IT skills and technical knowledge of Controles' workforce and advantages expected from the complementarity of the Neology/Controles business unit. Controles Electromecánicos, S.A. DE C.V. (Controles) is specialized in tolling solutions, including the toll booth plaza, control and audit systems, hardware, and equipment and also develops and installs vehicle classification equipment for tolling, parking and access control. The acquisition of Controles tolling business enables SMARTRAC to combine Neology's RFID tags and readers with Controles' tolling booth equipment to offer tolling solutions.

This acquisition in 2012 both individually and in total is deemed immaterial in respect to IFRS 3 disclosure requirements.

5. EQUITY-ACCOUNTED INVESTEES

INVESTMENT IN CITYWISH INVESTMENTS LTD.

In the course of the third quarter of 2010, SMARTRAC TECHNOLOGY HONG KONG Ltd. and Mr. Chen Shyan Tser established the jointly controlled entity Citywish Investments Ltd. (Citywish), in which SMARTRAC has an interest of 30%. The business scope of Citywish is trading and making investments in mainland China.

SMARTRAC recognizes its interest in Citywish using the equity method.

The aggregate amounts of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to the 30% interest in Citywish are immaterial. The unrecognized share of losses of the jointly controlled entity amounts to EUR 2,432 for the 2012 fiscal year.

INVESTMENT IN OMNIA TECHNOLOGIES PRIVATE LTD.

On March 1, 2011, SMARTRAC acquired an interest of 50 percent of the shares of Omnia Technologies Private Ltd. and therewith established a jointly controlled entity with Mr. Ashish Bhutani and Mr. Ajay Bhutani. The business scope of Omnia Technologies Private Ltd. is the development and production of RFID tags in India as well as their worldwide distribution. SMARTRAC recognizes its interest in Omnia Technologies Private Ltd. using the equity method. Omnia's reporting period deviates from that used by the Group and ends at the end of March.

Summarized financial information, including the aggregated amounts of assets, liabilities, revenues, and profit and loss is as follows:

In thousands of EUR	Reporting date	Ownership	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Net assets	Income	Expenses	Profit/ loss	Group share of net assets	Group's share of loss
Omnia Technologies Private Ltd.	March 31	50 %	295	267	562	239	–	239	323	878	912	(34)	161.5	(17)

6. SEGMENT REPORTING

The Group comprises the following main business segments:

– **Security segment:** the manufacture and sale of RFID transponders carrying microchips with high-security features such as sophisticated data encryption, controlled data access and mutual authentication, for use in applications such as e-passports, e-national ID Cards, electronic driver's licenses and electronic visa documents, e-health cards, e-social security cards, e-permanent resident cards as well as transponders for public transport, access control, contactless payment, and active card applications.

– **Industry segment:** the manufacture and sale of RFID and NFC transponders with embedded chips for use in a broad range of applications. RFID and NFC transponders for the industry sector are suited for fields of application such as automotive, animal identification, industry, logistics, laundry, waste management, and medical as well as RFID transponders that cater to tickets and label converters and include fields of application such as electronic product identification, library and media management, retail, NFC, ticketing, and airline luggage. The Industry segment also comprises the business activities of Neology Inc., which serves the electronic vehicle identification, automated toll collection, and asset tracking market as well as the business of Dalton manufacturing animal identification solutions.

– **All other:** all other income/expense that cannot be attributed to the Security and Industry segment.

Over the course of the integration of acquired businesses into the SMARTRAC Group the following changes occurred during the fiscal year:

– The Business Unit 'Cards' (Security Segment) was renamed into the Business Unit 'CTA'
– The access control business which previously was part of the Business Unit Industry & Logistics (Industry Segment) was transferred into the Business Unit CTA (Security Segment).
– The former UPM RFID business and the former SMARTRAC Business Unit 'Tickets & Labels' (Industry Segment) have been merged into the new Business Unit 'ePI'.

Since the changes refer to renaming and integration activities or insignificant changes in the composition of reportable segments, earlier periods were not restated; the contribution of the access control business to sales is immaterial.

CONSOLIDATED SEGMENT INFORMATION BY BUSINESS SEGMENTS

	Security	
In thousands of EUR	12 months ended Dec. 2012	12 months ended Dec. 2011
Segment revenue		
Revenue from external customers	142,772	116,788
Revenue from transactions with other segments	55	20
Total revenue	**142,827**	**116,808**
Segment result		
Gross profit	30,995	15,887
Operating (expenses) income	(4,110)	(44,206)
Operating profit (loss)	26,885	(28,319)
Financial result		
Share of loss of equity-accounted investees		
Profit before tax expense / benefit		
Income tax expense / benefit		
Group profit for the period		
Supplemental information		
Operating profit (loss)	26,885	(28,319)
Amortization, depreciation and impairment [4]	9,520	7,328
Exceptional items restructuring [2]	476	340
Exceptional items flood Thailand [2]	303	33,552
Insurance payments flood related [2]	(22,547)	–
Exceptional items acquisition costs [3]	–	–
Termination costs [2]	–	–
Exceptional others	–	–
Exceptional items	**(21,768)**	**33,892**
Segment EBITDA [1]	**14,637**	**12,901**

1) EBITDA is defined as operating profit for the period before depreciation, amortization, impairment, financial result, share of profits of associates, non-recurring items (exceptional items), and income tax expense. The Group presents EBITDA because management believes it is a useful measure in evaluating the Group's operating performance. EBITDA is not a measure of operating performance or liquidity under IFRS. EBITDA as presented may not be comparable to measures with similar names as presented by other companies.

2) Please refer to note 11.

3) Transaction costs arising from the acquisition of the UPM Group and Controles in 2012.

4) Impairment loss incurred in the reportable segment 'Security' amounts to EUR 826,000 and in the reportable segment 'Industry' to EUR 103,000.

Industry		All other		Eliminations		Consolidated	
12 months ended Dec. 2012	12 months ended Dec. 2011	12 months ended Dec. 2012	12 months ended Dec. 2011	12 months ended Dec. 2012	12 months ended Dec. 2011	12 months ended Dec. 2012	12 months ended Dec. 2011
111,389	49,299	1,369	1,517	–	–	255,530	167,604
310	632	4,280	6,339	(4,645)	(6,991)	–	–
111,699	**49,931**	**5,649**	**7,856**	**(4,645)**	**(6,991)**	**255,530**	**167,604**
31,325	10,285	1,868	2,403	(885)	(782)	63,303	27,793
(32,772)	(16,345)	(13,176)	(4,527)	269	31	(49,789)	(65,047)
(1,447)	(6,060)	(11,308)	(2,124)	(616)	(751)	13,514	(37,254)
						(8,230)	(4,276)
						(20)	(47)
						5,264	**(41,577)**
						(291)	23
						4,973	**(41,554)**
(1,447)	(6,060)	(11,308)	(2,124)	(616)	(751)	13,514	(37,254)
9,435	4,946	691	755	(384)	(236)	19,262	12,793
3,069	74	306	30	–	–	3,851	444
520	3,572	(27)	45	–	–	796	37,169
(3,038)	–	(149)	–	–	–	(25,734)	–
550	–	–	2,061	–	–	550	2,061
–	–	9,868	–	–	–	9,868	–
1,319	–	–	–	–	–	1,319	–
2,420	**3,646**	**9,998**	**2,136**	**–**	**–**	**(9,350)**	**39,674**
10,408	**2,532**	**(619)**	**767**	**(1,000)**	**(987)**	**23,426**	**15,213**

REVENUES BY SUBSEGMENT

In thousands of EUR	Consolidated 2012	Consolidated 2011
Segment Security		
Business Unit eID	62,779	61,839
Business Unit CTA	80,061	55,134
Intrasegment eliminations	(13)	(165)
Subtotal	**142,827**	**116,808**
Segment Industry		
Business Unit ePI	61,874	13,798
Business Unit IndLog	29,861	36,133
Business Unit Neology, Dalton	20,448	–
Intrasegment eliminations	(484)	–
Subtotal	**111,699**	**49,931**
Segment All Other	**5,649**	**7,856**
Intersegment eliminations	(4,645)	(6,991)
Total	**255,530**	**167,604**

MAJOR CUSTOMERS

Revenue from one customer of the Group's Security segment represents approximately EUR 30.8 million (2011: EUR 31.4 million) of the Group's total revenues.

CATEGORY OF REVENUE

In thousands of EUR	RFID transponders	Royalties	Total revenues
2012	**254,546**	**984**	**255,530**
2011	166,839	765	167,604

INFORMATION ON GEOGRAPHICAL AREAS

The Group's principal geographical areas are Europe, Asia, North America, and Latin America. In reporting information on the basis of geographical areas, revenues are based on the geographical location of the customers. Segment assets and liabilities are based on the geographical location.

In thousands of EUR	Consolidated 2012	Consolidated 2011
Revenues		
Asia	64,999	30,601
Europe	102,950	91,284
North America	61,523	31,760
Latin America	23,103	13,077
Others	2,955	882
Total revenues	**255,530**	**167,604**
Revenues from external customers attributed to SMARTRAC entities (country of domicile)		
Asia	134,266	96,126
Europe	58,331	36,084
North America	41,495	24,154
Latin America	21,438	11,240
Total revenues	**255,530**	**167,604**
Non-current assets*		
Asia	58,464	43,890
Europe	92,321	82,103
North America	38,416	40,730
Latin America	7,009	2,210
Total non-current assets	**196,210**	**168,933**

* Non-current assets are excluding the deferred tax assets.

RECONCILIATIONS OF REPORTABLE SEGMENT REVENUES, PROFIT OR LOSS, ASSETS AND LIABILITIES

In thousands of EUR	2012	2011
Revenues		
Total revenue for reportable segments	254,526	166,739
Other revenue	5,649	7,856
Elimination of inter-segment revenue	(4,645)	(6,991)
Consolidated revenue	**255,530**	**167,604**
Profit or loss		
Total EBITDA for reportable segments	25,045	15,433
Other EBITDA	(619)	767
All EBITDA (before inter-segment elimination)	**24,426**	**16,200**
Elimination of inter-segment profits	(1,000)	(987)
Unallocated amounts:		
Financial result	(8,230)	(4,276)
Depreciation, amortization and impairment	(19,262)	(12,793)
Share of loss of equity-accounted investees	(20)	(47)
Extraordinary items	9,350	(39,674)
Consolidated profit before income tax	**5,264**	**(41,577)**
Assets		
Security segment	127,889	110,081
Industry segment	183,862	132,503
Total assets for reportable segments	**311,751**	**242,584**
Other assets	135,314	116,122
Elimination	(117,827)	(94,626)
Consolidated total assets	**329,238**	**264,080**
Liabilities		
Total liabilities for reportable segments	160,662	129,017
Other liabilities	114,894	88,081
Elimination	(114,390)	(91,837)
Consolidated total liabilities	**161,166**	**125,261**

7. COST OF SALES

In thousands of EUR	Consolidated 2012	Consolidated 2011
Raw materials and manufacturing supplies	132,091	85,193
Personnel expenses (note 9)	32,870	18,664
Depreciation, amortization and impairment (note 15 and 16)	15,104	21,364
Other manufacturing costs	12,162	14,590
Total cost of sales	**192,227**	**139,811**

Other manufacturing costs especially include repair and maintenance, electricity and water, freight and transportation.

8. ADMINISTRATIVE EXPENSES

In thousands of EUR	Consolidated 2012	Consolidated 2011
Personnel expenses (note 9)	39,741	21,332
Professional fees	8,327	6,635
Depreciation, amortization and impairment (note 15 and 16)	4,158	3,791
Rental expenses	1,711	1,031
Transportation	2,567	1,819
Research and Development	4,991	3,081
Provision for consigned goods	–	4,870
Other administrative expenses	14,110	7,579
Total administrative expenses	**75,605**	**50,138**

Other administrative expenses mainly include travel expenses, fleet costs, insurance, and office supplies. The increase in personnel expenses in 2012 is predominantly the result of the inclusion of the termination benefits (EUR 9.3 million) and acquisitions in December 2011 and March 2012.

9. PERSONNEL EXPENSES

In thousands of EUR	Consolidated 2012	Consolidated 2011
Wages and salaries	60,471	34,655
Compulsory social security contributions	4,653	2,150
Subcontractor fees	6,840	2,352
Other	647	839
Total	**72,611**	**39,996**

Personnel expenses are classified in the income statement as follows:

In thousands of EUR except headcount	Consolidated 2012	Consolidated 2011
Cost of sales	32,870	18,664
Administrative expenses	39,741	21,332
Total	**72,611**	**39,996**
Number of staff employees	3,151	3,343
Number of subcontractors	484	333
Total	**3,635**	**3,676**

The 'number of staff employees' is a year-end figure. The number for 2011 already comprises the employees of the companies acquired in December 2011. In contrast to that the statement of comprehensive income from 2011 only includes insignificant personnel expenses since the acquisitions were conducted within the last weeks of the 2011 fiscal year explaining the disproportionate increase of personnel expenses in 2012 compared to the (relatively stable) number of employees. Furthermore 'administrative expenses' in 2012 also comprise unusual high termination benefits (EUR 9.3 million).

10. OTHER OPERATING INCOME (EXPENSES)

In thousands of EUR	Consolidated 2012	Consolidated 2011
Insurance payments	27,910	–
Write down/(reversal) of inventories (note 11)	–	(14,931)
Restructuring	(3,851)	–
Other	1,757	22
Total	**25,816**	**(14,909)**

Due to the flood the production site in Thailand incurred exceptionally high costs for write-downs of inventories that were shown in 2011 under ‘other operating expenses’. For information for 2012, please refer to note 17 (‘Inventories’).

In 2012, restructuring expenses were exceptionally high and are shown under ‘other operating expenses’ whereas in 2011 they were included in ‘cost of sales’ (EUR 0.2 million) and in ‘administrative expenses’ (EUR 0.2 million).

SMARTRAC has filed a claim up to an amount of EUR 70 million with insurance companies for damages on property, plant and equipment, inventories and business interruption of which EUR 28 million were received in 2012. We expect further significant payments in 2013. Since these payments are not virtually certain the Group did not recognize a receivable.

For additional information on operating income and expenses please refer to the following note 11.

11. EXCEPTIONAL ITEMS

Non-recurring and unusually high income and expenses are classified as exceptional items, in particular acquisition costs, restructuring expenses and income and expense that relate to natural disaster such as the flood in Thailand. In 2012, the Group additionally incurred exceptionally high termination costs and legal costs for the defense of patents.

During the twelve months ended December 31, 2012, operating profit included exceptional items totaling to income of EUR 9.4 million (2011: expenses EUR 39.7 million). The most significant exceptional items refer to restructuring, the flood in Thailand and termination costs.

Restructuring expenses include severance and reorganizational expenses for the Dalton group, for the entities in Thailand, Malaysia, and Finland amounting in total to EUR 3.9 million (2011: EUR 0.4 million). These costs are shown under ‘other operating expenses’ in the 2012 consolidated statement of comprehensive income.

Due to the flood in Thailand and during the course of the reconstruction of the production facilities in Thailand exceptional expenses occurred in January and February amounting to EUR 0.8 million (2011: EUR 37.2 million). During the twelve months ended December 31, 2012, SMARTRAC received exceptional insurance payments totaling EUR 25.7 million for flood damages to buildings, machinery and stock as well as business interruption. In addition, SMARTRAC received non-exceptional insurance payments totaling EUR 2.2 million for business interruption. All these payments are included in ‘other operating income’ in the consolidated statement of comprehensive income.

Terminations costs in relation to the resignation of Dr. Christian Fischer as CEO and Chairman of the Management Board of SMARTRAC N.V. on September 3, 2012, amount to EUR 9.9 million and mainly contain termination benefits partly subject to certain conditions as well as compensation for legal expenses. These expenses are included in ‘administrative expenses’ in the consolidated statement of comprehensive income.

Other exceptional costs refer to legal fees for enforcing and defending patents from infringement. The likelihood of success in the infringement lawsuit is assessed as more likely than not.

12. NET FINANCIAL INCOME (EXPENSES)

In thousands of EUR	Consolidated 2012	Consolidated 2011
Change in fair value	1,173	1,334
Interest income	109	235
Foreign exchange gains	6,003	5,691
Financial income	**7,285**	**7,260**
Change in fair value	(1,474)	(1,550)
Interest expense	(4,348)	(3,632)
Bank charges	(704)	(759)
Foreign exchange losses	(8,676)	(5,595)
Impairment loss on financial assets	(313)	–
Financial expenses	**(15,515)**	**(11,536)**
Net financial expenses	**(8,230)**	**(4,276)**

The strong increase in foreign exchange gains and losses in 2012 reflects the increase in the revenues and ongoing significant volatility of important currency rates over the whole reporting period. In comparison to 2011 the net foreign exchange result for 2012 represent a loss amounting to EUR 2.7 million (2011: EUR 0.1 million gain).

13. CORPORATE INCOME TAX

TAX PRIVILEGES

The normal corporate income tax rate in Thailand is 23% (from 2013 forward: 20 %). However, under the special promotional privileges granted by the Thailand Board of Investment (BOI), SMARTRAC TECHNOLOGY Ltd. is among other things entitled to the following income tax facility relating to its production and sale of transponders in Thailand:

- Exemption of the import duty tax for machinery
- Exemption from corporate income tax for the net profit derived from the promoted operational capacity for 8 years (BOI 3: until 2014; BOI 4: until 2018)
- Permission to bring dividend from the promoted business that is exempt from corporate income tax
- Exemption from withholding tax deductions on distributions of net earnings of promoted activities paid to foreign shareholders during the tax exemption period
- Permission to transfer foreign currency out of Thailand

Insurance compensation for flood-related damages of property, plant and equipment are exempted from income tax whereas insurance payments for damages of inventory are only taxable if they exceed the residual value of inventory damaged. Payments from business interruption insurance after deduction of losses carry forward and deductible expenses are taxable upon settlement of the final claim. There is an ongoing discussion whether the part of the insurance payments that relates to business interruption should be treated as BOI and tax-exempted income as well.

SMARTRAC TECHNOLOGY Ltd. must also comply with specific conditions contained within the promotional certificates such as maintaining appropriate books and records, working capital and quality standards. Until December 31, 2012, the company complied with these conditions.

SMARTRAC Technologia Industria E Commercio Da Amazonia Ltda. operates within the Manaus Free Trade Zone and therefore benefits from the following privileges:

– Exemption of the import duty tax;
– Exemption of excise tax (IPI);
– Reimbursement of 100% of ICMS due (on sales);
– No ICMS, PIS and COFINS imported of raw materials, intermediary products and packaging;
– Reduced PIS and COFINS tax rate on sales transactions to companies located outside Manaus Free Trade Zone (mostly cases at a combined rate of 3.65%);
– No PIS/COFINS on sales made to companies located within Manaus Free Trade Zone (to the extend they use those products in the production process of other products).

SMARTRAC TECHNOLOGY MALAYSIA Sdn. Bhd. received the final approval for the pioneer status by the MITI (Ministry of International Trade and Industry) in August 2011. The pioneer status entitles the company to an income tax exemption for a period of 5 years until December 31, 2014.

TAX RECOGNIZED IN PROFIT OR LOSS

In thousands of EUR	Consolidated 2012	Consolidated 2011
Current year	(875)	(204)
Adjustment for prior years	(554)	(21)
Current tax expense	**(1,429)**	**(225)**
Current year	1,109	248
Adjustment for prior years	29	–
Deferred tax benefit	**1,138**	**248**
Income tax (expense) benefit	**(291)**	**23**

RECONCILIATION OF EFFECTIVE TAX CHARGE

In thousands of EUR	Consolidated 2012	Consolidated 2011
Profit (loss) before tax	**5,264**	**(41,577)**
Expected tax (expense) benefit based on rate of 25.0 % (2011: 25.0 %)	(1,316)	10,394
Tax rate differences in foreign jurisdiction	1,156	1,766
Non-deductible expenses	(2,153)	(561)
Tax exempt loss (income) relating to promotional activities	6,212	(10,604)
Non-recognition of tax benefits on losses incurred	(3,568)	(1,596)
Recognition of deferred tax liabilities on insurance proceeds	(1,106)	–
Permanent differences	165	215
Use of tax loss carry forward previously unrecognized	1,165	482
Current taxes from prior years	(525)	(21)
Others	(321)	(52)
Effective income tax (expense) benefit	**(291)**	**23**

DEFERRED TAX ASSETS

Movements in deferred tax assets recognized are as follows:

In thousands of EUR	Consolidated 2012	Consolidated 2011
Balance January 1	4,354	2,720
Recognized in income statement	(11)	(88)
Recognized in equity	88	–
Acquired through business combinations	425	1,722
Balance December 31	**4,856**	**4,354**

The income taxes recognized in equity are related to cash flow hedges.

DEFERRED TAX LIABILITIES

Movements in deferred tax liabilities recognized are as follows:

In thousands of EUR	Consolidated 2012	Consolidated 2011
Balance January 1	6,124	2,761
Recognized in the income statement	(1,149)	(336)
Acquired through business combinations	2,622	3,699
Balance December 31	**7,597**	**6,124**

MOVEMENTS IN TEMPORARY DIFFERENCES AND DEFERRED TAX ASSETS ON TAX LOSS CARRY FORWARDS DURING THE YEAR

In thousands of EUR	Balance at January 1, 2012	Recognized in profit or loss	Recognized in equity	Acquired in business combinations	Balance at December 31, 2012
Deferred tax assets (DTA)					
Intangible assets	105	415	–	–	520
Property, plant and equipment	211	386	–	222	819
Inventories	9	65	–	–	74
Trade receivables	209	36	–	104	349
Other current liabilities	579	(441)	88	99	325
Tax loss carry forward	12,153	1,106	–	–	13,259
./. Allowance	(8,618)	(452)	–	–	(9,070)
Offset DTA & DTL	(294)	(1,126)	–	–	(1,420)
Total deferred tax assets	**4,354**	**(11)**	**88**	**425**	**4,856**
Deferred tax liabilities (DTL)					
Intangible assets	5,360	(900)	–	2,622	7,082
Property, plant and equipment	863	(104)	–	–	759
Other non-current assets	15	39	–	–	54
Trade receivables	93	(93)	–	–	–
Other current liabilities	87	1,035	–	–	1,122
Offset DTA & DTL	(294)	(1,126)	–	–	(1,420)
Total deferred tax liabilities	**6,124**	**(1,149)**	**–**	**2,622**	**7,597**

In thousands of EUR	Balance at January 1, 2011	Recognized in profit or loss	Recognized in equity	Acquired in business combinations	Balance at December 31, 2011
Deferred tax assets (DTA)					
Intangible assets	13	92	–	–	105
Property, plant and equipment	76	(32)	–	167	211
Inventories	9	–	–	–	9
Trade receivables	345	(136)	–	–	209
Other current liabilities	591	(12)	–	–	579
Tax loss carry forward	9,396	1,109	–	1,648	12,153
./. Allowance	(7,509)	(1,109)	–	–	(8,618)
Offset DTA & DTL	(201)	–	–	(93)	(294)
Total deferred tax assets	**2,720**	**(88)**	**–**	**1,722**	**4,354**
Deferred tax liabilities (DTL)					
Intangible assets	1,990	(349)	–	3,719	5,360
Property, plant and equipment	820	(30)	–	73	863
Other non-current assets	8	7	–	–	15
Trade receivables	31	62	–	–	93
Other current liabilities	113	(26)	–	–	87
Offset DTA & DTL	(201)	–	–	(93)	(294)
Total deferred tax liabilities	**2,761**	**(336)**	**–**	**3,699**	**6,124**

The deferred tax assets were substantiated by a future planning of taxable income of the legal entities that contributed to the total of the deferred tax assets. The future planning reflects the estimate of management with particular respect to interest rates, management fees, received, and loans acquired and given out. In assessing the valuation of the deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred tax assets considered realizable, however, could change in the near term if future estimates of projected taxable income during the carry forward period are revised.

From the total amount of recognized deferred tax assets on tax loss carry forward amounting to EUR 4.2 million (2011: EUR 3.5 million) an amount of EUR 3.1 million (2011: EUR 1.6 million) is related to entities that have suffered a loss in either 2012 or 2011 in the tax jurisdiction to which a deferred tax asset relates and where utilization is dependent on future taxable profit in excess of the profit arising from the reversal of existing taxable temporary differences.

The allowance on deferred tax asset arising from tax loss carry forward as of December 31, 2012 amounts to EUR 9.1 million (2011: EUR 8.6 million).

The amount of the tax loss carry forward unrecognized as of December 31, 2012 is EUR 33.4 million (December 31, 2011: EUR 23.8 million) whereof EUR 5.2 million (2011: EUR 5.2 million), will expire within the period until 2017.

14. EARNINGS PER SHARE

PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

The calculation of basic earnings per share at December 31, 2012, was based on the profit attributable to ordinary shareholders and amounts to EUR 5.0 million (2011: EUR -41.6 million).

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

In thousands of shares	2012	2011
Number of ordinary shares as at January 1	**17,744**	**16,335**
Capital increase	1,578	39
Weighted average number of ordinary shares at December 31	**19,322**	**16,374**

BASIC EARNINGS PER SHARE

In thousands of EUR and shares, except earnings per share	Consolidated 2012	Consolidated 2011
Profit (loss) attributable to ordinary shareholders	4,973	(41,550)
Weighted average number of ordinary shares at December 31	19,322	16,374
Earnings per share (EUR)	**0.26**	**(2.54)**

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR THE PURPOSE OF DILUTED EARNINGS PER SHARE

The weighted average number of ordinary shares for the purpose of diluted earnings per share includes the potential shares of the SMARTRAC stock option scheme. The average market share price was EUR 10.43 (2011: EUR 14.94).

In thousands of shares	Consolidated 2012	Consolidated 2011
Weighted average of ordinary shares outstanding	19,322	16,374
Effect of potential dilutive shares		
Share options	–	4
Weighted average of ordinary shares at December 31	**19,322**	**16,378**

DILUTED EARNINGS PER SHARE

In thousands of EUR and shares, except earnings per share	Consolidated 2012	Consolidated 2011
Profit (loss) attributable to ordinary shareholders	4,973	(41,550)
Weighted average number of ordinary shares at December 31	19,322	16,378
Diluted earnings per share (EUR)	**0.26**	**(2.54)**

15. PROPERTY, PLANT AND EQUIPMENT

In thousands of EUR	Land	Buildings and building improvements	Vehicles
Cost			
Balance at January 1, 2011	1,325	16,702	378
Acquired through business combinations	929	1,882	52
Acquisitions	68	1,670	111
Reclassification	–	387	–
Disposals	–	(2,386)	(22)
Currency effects	–	63	(3)
Balance at December 31, 2011	**2,322**	**18,318**	**516**
Accumulated depreciation			
Balance at January 1, 2011	–	5,023	195
Depreciation charge for the year	–	1,669	78
Impairment loss	–	675	–
Disposals	–	(2,386)	(17)
Currency effects	–	37	–
Balance at December 31, 2011	**–**	**5,018**	**256**
Carrying amounts			
At January 1, 2011	1,325	11,679	183
At December 31, 2011	**2,322**	**13,300**	**260**
Cost			
Balance at January 1, 2012	2,322	18,318	516
Acquired through business combinations	41	140	84
Acquisitions	–	1,352	171
Reclassification	–	3,727	–
Disposals	–	(4)	(119)
Currency effects	–	170	9
Balance at December 31, 2012	**2,363**	**23,703**	**661**
Accumulated depreciation and impairment			
Balance at January 1, 2012	–	5,018	256
Depreciation charge for the year	–	1,852	100
Impairment loss / reversals	–	2	–
Disposals	–	(5)	(51)
Currency effects	–	45	5
Balance at December 31, 2012	**–**	**6,912**	**310**
Carrying amounts			
At January 1, 2012	2,322	13,300	260
At December 31, 2012	**2,363**	**16,791**	**351**

Impairment losses on individual machines and an antenna line (EUR 0.5 million) are included in the cost of sales.

	Machinery	Tools and equipment	Furniture and fixtures	Office equipment	Construction in progress	Consolidated
	52,170	5,608	835	2,513	1,833	81,364
	5,033	236	34	61	6	8,233
	8,564	948	147	431	1,937	13,876
	(289)	339	–	22	(459)	–
	(18,286)	(2,859)	(343)	(494)	(1,002)	(25,392)
	278	24	(3)	(22)	5	342
	47,470	**4,296**	**670**	**2,511**	**2,320**	**78,423**
	16,146	3,244	538	1,366	–	26,512
	5,369	818	119	425	–	8,478
	10,009	608	43	81	929	12,345
	(18,227)	(2,859)	(343)	(493)	(929)	(25,254)
	(65)	4	(1)	(4)	–	(29)
	13,232	**1,815**	**356**	**1,375**	**–**	**22,052**
	36,024	2,364	297	1,147	1,833	54,852
	34,238	**2,481**	**314**	**1,136**	**2,320**	**56,371**
	47,470	4,296	670	2,511	2,320	78,423
	10,126	–	–	–	35	10,426
	11,749	1,166	679	629	9,738	25,484
	4,807	48	–	210	(8,792)	–
	(94)	–	(39)	(105)	(325)	(686)
	49	143	(12)	2	4	365
	74,107	**5,653**	**1,298**	**3,247**	**2,980**	**114,012**
	13,232	1,815	356	1,375	–	22,052
	9,051	868	209	494	–	12,574
	485	(32)	–	2	–	457
	–	–	(35)	(101)	–	(192)
	(94)	98	(4)	(1)	–	49
	22,674	**2,749**	**526**	**1,769**	**–**	**34,940**
	34,238	2,481	314	1,136	2,320	56,371
	51,433	**2,904**	**772**	**1,478**	**2,980**	**79,072**

16. INTANGIBLE ASSETS

With the exception of internally and externally generated development costs (2012: EUR 1.7 million; 2011: EUR 2.1 million), all additions to intangible assets were due to acquisitions.

In thousands of EUR	Goodwill	Patents and technologies	Software	Development costs	Others	Total
Cost						
Balance at January 1, 2011	45,158	5,138	2,718	7,934	8,727	69,675
Acquired through business combinations	33,079	1,390	154	–	10,598	45,221
Additions	–	739	177	2,130	53	3,099
Reclassification	–	537	63	(600)	–	–
Disposals	–	–	–	(178)	–	(178)
Currency effects	(30)	68	(2)	360	(106)	290
Balance at December 31, 2011	**78,207**	**7,872**	**3,110**	**9,646**	**19,272**	**118,107**
Amortization						
Balance at January 1, 2011	–	1,153	974	1,779	2,563	6,469
Amortization	–	742	377	1,565	990	3,674
Impairment loss	–	–	–	658	–	658
Currency effects	–	–	8	264	4	276
Balance at December 31, 2011	**–**	**1,895**	**1,359**	**4,266**	**3,557**	**11,077**
Carrying amounts						
At January 1, 2011	45,158	3,985	1,743	6,155	6,164	63,206
At December 31, 2011	**78,207**	**5,977**	**1,750**	**5,380**	**15,715**	**107,030**
Cost						
Balance at January 1, 2012	78,207	7,872	3,110	9,646	19,272	118,107
Acquired through business combinations	4,549	1,888	488	–	1,881	8,806
Additions	–	1,254	1,208	1,749	63	4,274
Reclassification*	–	10,463	93	–	(10,556)	–
Disposals	88	(482)	(11)	(481)	–	(886)
Currency effects	(942)	(197)	(17)	25	42	(1,089)
Balance at December 31, 2012	**81,902**	**20,798**	**4,871**	**10,939**	**10,702**	**129,212**
Amortization						
Balance at January 1, 2012	–	1,895	1,359	4,266	3,557	11,077
Amortization	–	1,962	509	1,303	2,021	5,795
Impairment loss	–	222	–	214	–	436
Reclassification	–	835	–	–	(835)	–
Disposals	–	(14)	(10)	(486)	–	(510)
Currency effects	–	(17)	(9)	20	(4)	(10)
Balance at December 31, 2012	**–**	**4,883**	**1,849**	**5,317**	**4,739**	**16,788**
Carrying amounts						
At January 1, 2012	78,207	5,977	1,750	5,380	15,715	107,030
At December 31, 2012	**81,902**	**15,915**	**3,022**	**5,622**	**5,963**	**112,424**

* Certain assets amounting to EUR 10.6 million have been reclassified from ‘Others’ to ‘Patents and Technologies’ in order to reflect the substance of those assets better.

Non-amortizable intangible assets are primarily comprised of goodwill and development costs for projects which have not yet been completed (carrying amount at December 31, 2012: EUR 4.0 million; carrying amount at December 31, 2011: EUR 2.9 million). Impairment losses incurred relate to individual assets and project termination and are shown under administrative expenses (EUR 0.4 million)

The carrying amount of the goodwill assets is allocated to the following cash-generating units that served as the basis for managing the Group's business:

In thousands of EUR	2012	2011
eID	4,809	4,644
CTA	14,317	14,823
I&L	37,197	37,198
ePI	3,072	1,331
Neology	20,013	17,764
Dalton	2,494	2,447
Total	**81,902**	**78,207**

SMARTRAC performed its annual goodwill impairment tests on December 31, 2012. These tests did not result in any impairment of goodwill. On the basis of information currently available and expectations with respect to the market and competitive environment, the figures for all generating units fall within the general range of reasonable values. In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit (including goodwill) is compared with the recoverable amount of the cash-generating unit. The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of any information about the fair value of a cash-generating unit, the recoverable amount is deemed to be the value in use. The Group generally estimates value in use using a discounted cash flow model in a similar manner as in 2011. Discount rates applied to the cash flow forecasts in determining recoverable amounts are derived from the Group's weighted average cost of capital ranging from 7.59 % to 7.81 %, on a post-tax basis (2011 pre-tax basis: 8.66 % to 11.78 %). The cash flows were based on the Group's budget and were planned on a detailed basis covering a period of five years (2011: four years). For the forecasting of the first five years growth rates for sales were on average within a range from 7.5 % to 30 %. The growth rate used to extrapolate cash flow projections beyond the period covered is 1.5 % (2011: 1.5 %). An increase of the weighted average cost of capital by 1 % or a decrease of the growth rate by 1 % would not lead to an impairment of goodwill (2011: EUR 1.4 million).

17. INVENTORIES

In thousands of EUR	Consolidated 2012	Consolidated 2011
Raw materials and consumables	27,067	19,888
Work in progress	3,918	3,187
Finished goods	11,788	6,425
Total inventories	**42,773**	**29,500**

In the financial year 2012, inventories (raw materials) of EUR 0.7 million were written off to zero (2011: EUR 14.9 million). The high amount of write downs in 2011 resulted from the flood damage in Thailand as explained in note 11.

18. TRADE AND NON-TRADE RECEIVABLES

In thousands of EUR	Consolidated 2012	Consolidated 2011
Third parties	51,023	37,122
Allowance for doubtful accounts	(2,336)	(1,944)
Total trade receivables	**48,687**	**35,178**

Trade receivables are shown net of impairments amounting to EUR 2.3 million (2011: EUR 1.9 million), which mainly arise from several customers with doubtful creditworthiness. Impairment losses are recognized in profit or loss under administrative expenses. The trade and non-trade receivables are measured at amortized costs.

Furthermore, there is a security deposit included in the receivables amounting to EUR 2.3 million, which is not payable within one year (2011: EUR 2.0 million).

19. OTHER CURRENT ASSETS

In thousands of EUR	Consolidated 2012	Consolidated 2011
Prepayments to vendors	1,151	449
Prepaid expenses	1,744	777
Advance for a tender	744	766
Loan to third party	847	–
Other current non-financial assets	3,048	1,338
Total	**7,534**	**3,330**

The increase is the result of the acquisitions in 2011 and 2012. Other current non-financial assets mostly include VAT receivables.

20. CASH AND CASH EQUIVALENTS

In thousands of EUR	Consolidated 2012	Consolidated 2011
Bank balances	27,722	22,100
Short-term cash deposits	240	–
Cash and cash equivalents	**27,962**	**22,100**
Bank overdraft	(346)	(320)
Cash and cash equivalents and bank overdrafts as stated in the cash flow statement	**27,616**	**21,780**

As of December 31, 2012, the Group held a total of EUR 240,000 (2011: EUR 0) in short-term deposits with banks. The amount has been pledged as collateral for a project with a customer until mid of February 2013.

21. EQUITY

SHARE CAPITAL

In thousands of shares	Consolidated 2012	Consolidated 2011
Outstanding at January 1	17,744	16,335
Issued for cash	2,104	1,409
Outstanding at December 31	**19,848**	**17,744**

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Annual General Meetings of the shareholders.

AUTHORIZED SHARE CAPITAL

The authorized share capital of the company is EUR 30 million, divided into 30 million ordinary shares, each having a par value of EUR 0.50, and 30 million preference shares, each having a par value of EUR 0.50. 19.9 million ordinary shares are issued and fully paid.

SHARE PREMIUM RESERVE

The increase in share premium in the 2012 fiscal year is mainly due to the excess of proceeds over par value from the capital increase (EUR 22,071,000). Furthermore vesting expenses regarding options were credited to share premium (EUR 176,000).

On March 31, 2012, the company increased its share capital from EUR 8,872,044 (17,744,088 bearer shares) to EUR 9.923.987 (19,847,974 bearer shares). Subscription rights for shareholders have been excluded on the basis of Article 28.2 of the Articles of Association by a resolution of the Management Board.

The capital increase is associated with the closing of the transaction with the UPM-Kymmene Corporation under which SMARTRAC takes over UPM's RFID business while UPM-Kymmene Corporation obtains an indirect economic interest in SMARTRAC of 10.6% via OEP Technologie B.V.

The new shares will be issued to OEP Technologie B.V., each new share having a nominal value of EUR 0.50, for a cash consideration of EUR 11.00 per new share, to be effected by means of a set off against an obligation of SMARTRAC to pay EUR 23,142,746.00 to OEP Technologie B.V. for providing the above mentioned indirect economic interest in SMARTRAC.

SMARTRAC N.V. and OEP Technologie B.V. furthermore agreed that the new shares will not be admitted to trading on the Regulated Market of the Frankfurt Stock Exchange for a period of at least twelve months following the registration of the capital increase.

The transaction costs included bank arrangement and legal fees (EUR 20,000).

In thousands of EUR	Consolidated 2012
Gross proceeds	23,143
Par value of new shares – credited to share capital	(1,052)
Excess of gross proceeds over par value credited to share premium	22,091
Less transaction costs of the capital increase charged to share premium	(20)
Net movement in share premium arising from capital increase	**22,071**

TRANSLATION RESERVE

The translation reserve mainly comprises foreign currency differences arising from the translation of the financial statements of foreign operations of the Group (excluding amounts attributable to non-controlling interests).

HEDGING RESERVE

This reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments.

22. FINANCIAL LIABILITIES

This note provides more detailed information about the Group's financial liabilities. For more information about the contractual terms and the Group's exposure to interest rate risk, see note 28.

In thousands of EUR	Consolidated 2012	Consolidated 2011
Non-current liability		
Secured loan	71,703	1,161
	71,703	**1,161**
Current liabilities		
Current portion of secured loan	2,615	58,524
Unsecured loan	12,600	459
Bank overdraft	346	320
	15,561	**59,303**
	87,264	**60,464**

LOANS AND BORROWINGS

On June 13, 2012, SMARTRAC signed an agreement on a syndicated credit facility amounting to EUR 100 million and maturing on December 30, 2016. This new credit facility was used to refinance the EUR 65 million syndicated multicurrency credit facility that matured on June 29, 2012. The syndicated credit facility has standard market terms and conditions including a leverage, an absolute EBITDA and an equity covenant. The facility is provided by Deutsche Bank Luxembourg S.A., Commerzbank AG, Landesbank Baden-Württemberg, NIBC Bank N.V. and Berenberg Bank and can be used for acquisition, working capital, and capital expenditure purposes. SMARTRAC N.V. has provided collateral by pledging its shares of SMARTRAC TECHNOLOGY Ltd. and by a guarantee of SMARTRAC IP B.V. The credit facility consists of two tranches, a EUR 50 million revolving credit facility and a EUR 50 million term loan. Of the latter facility, EUR 2.5 million are annually repaid from 2013 onwards with the remaining EUR 40 million becoming due on the maturity date of the syndicated credit facility. The nominal interest rate of the credit facility is based on EURIBOR plus a credit margin depending on the financial leverage of SMARTRAC. As of December 31, 2012, a total nominal amount of EUR 75.5 million was drawn. A total of EUR 24.5 million of the credit facility is unused as at December 31, 2012.

On May 25, 2012, SMARTRAC entered into a loan agreement with its shareholder OEP Technologie B.V. whereby OEP Technologie B.V. provided financing amounting to EUR 12 million. The loan is unsecured and subordinated to the claims of the lenders in SMARTRAC's syndicated credit facility. The loan does not mature before May 25, 2013.

BANK OVERDRAFT

As of December 31, 2012, EUR 346,000 is shown as bank overdraft in cash (2011: EUR 320,000).

23. EMPLOYEE BENEFITS

Under Thai law, the Group is required to make severance payments to employees who reach retirement age while employed at SMARTRAC TECHNOLOGY Ltd. These lump sum payments are accounted for as unfunded post-employment benefits in the balance sheet.

Additionally, the Group has a defined benefit pension plan in Germany. The funding policy is consistent with local requirements. Valuations of the obligations are carried out by independent actuaries.

DEVELOPMENT OF BENEFIT OBLIGATION

The following table shows the change in the defined benefit obligation:

In thousands of EUR	Consolidated 2012	Consolidated 2011
Balance at the beginning of the year	848	857
Current service costs	129	125
Interest on obligation	35	37
Settlement gain	(45)	(51)
Actuarial losses or (gains)	21	(8)
Benefits paid	(98)	(98)
Effect of movement in exchange rate	1	(14)
Defined benefit obligation as at end of the year	**891**	**848**

DEVELOPMENT OF PLAN ASSETS

The following table shows the change in plan assets:

In thousands of EUR	Consolidated 2012	Consolidated 2011
Balance at the beginning of the year	257	224
Contribution by employer	33	33
Expected return on plan assets	11	9
Actuarial loss on plan assets	(10)	(9)
Plan assets as at end of the year	**291**	**257**

Pension plan assets fully consist of a life insurance.

BREAKDOWN OF THE NET BENEFIT LIABILITY

In thousands of EUR	Consolidated 2012	Consolidated 2011
Defined benefit obligation unfunded	404	424
Defined benefit obligation wholly or partly funded	487	424
Plan assets	(291)	(257)
Unrecognized actuarial (losses) or gains	–	66
Effect of movement in exchange rate	5	6
Defined benefit liability	**605**	**663**

EXPENSE RECOGNIZED IN THE INCOME STATEMENT

In thousands of EUR	Consolidated 2012	Consolidated 2011
Current service costs	129	125
Interest on obligation	35	37
Actuarial losses or (gains)	21	(8)
Settlement gain	(45)	(51)
Expected return on plan assets	(11)	(9)
Actuarial losses on plan assets	10	9
Total	**139**	**103**

These expenses were classified under administrative expenses.

The Group expects to contribute EUR 133,000 to its defined benefits plans in 2013 (2012: EUR 100,000).

HISTORICAL INFORMATION

In thousands of EUR	2012	2011	2010	2009	2008
Present value of defined benefit obligation	891	848	830	635	453
Fair value of plan asset	291	257	224	192	136

WEIGHTED AVERAGE ASSUMPTIONS

Principal actuarial assumptions as of the balance sheet date (expressed as weighted averages):

	Consolidated 2012	Consolidated 2011
Discount rate at December 31	3.93 %	4.33 %
Future salary increases	4.34 %	3.75 %
Price inflation	3.50 %	3.50 %
Return on plan assets	4.16 %	4.00 %

The Group has used the yield on long-term government bonds as the discount rate and nominal salary inflation in Thailand and Germany for determining the current fair value of employee benefits. If salary inflation were to increase, the Group’s unrecognized actuarial gain would increase with the risk that the severance payments would be greater.

IMPLEMENTATION OF IAS 19 (REVISED 2011)

Revisions to IAS 19 will result in an increase of the defined benefit obligation by EUR 0.7 million on January 2013, due to the removal of the method of deferral of the recognition of actuarial gain and losses. This amount will be booked directly in equity under the line ‘other comprehensive income’ within ‘reserves’. There will be no significant impact resulting from the requirement to restate the prior year and the application of the new requirements for calculation of net interest. Generally, the changes will result in increased volatility of the defined benefit liability and other comprehensive income in the future.

24. OTHER NON-CURRENT LIABILITIES

In thousands of EUR	Consolidated 2012	Consolidated 2011
Interest rate hedging derivatives	943	–
Deferred / contingent purchase consideration	420	6,156
Other non-current liabilities	40	159
Total other non-current liabilities	**1,403**	**6,315**

An amount of EUR 5.7 million of the deferred purchase considerations is due in 2013 and was reclassified into current liabilities explaining the decrease in 2012 compared to prior year.

25. TRADE AND NON-TRADE PAYABLES

In thousands of EUR	Consolidated 2012	Consolidated 2011
Trade payables	28,063	17,207
Total trade payables	**28,063**	**17,207**
Non-trade payables	2,884	2,843
Total non-trade payables	**2,884**	**2,843**
Total trade and non-trade payables	**30,947**	**20,050**

26. PROVISIONS

In thousands of EUR	Warranties	Restructuring	Other	Total
Balance at January 1, 2012	99	–	5,223	5,322
Acquired through business combination	–	–	–	–
Provisions made during the period	77	133	–	210
Provisions used during the period	(99)	(105)	(3,088)	(3,292)
Provisions reversed during the period	–	–	(621)	(621)
Currency effects	–	–	–	–
Balance at December 31, 2012	**77**	**28**	**1,514**	**1,619**

Other provisions include a remaining provision for flood-related obligations especially likely payments for consigned goods which were destroyed during the flooding of the production premises in Ayutthaya, Thailand.

27. OTHER CURRENT LIABILITIES

In thousands of EUR	Consolidated 2012	Consolidated 2011
Accrued expenses	11,755	8,957
Prepayments from customers	580	1,042
FX-hedging contracts	28	79
Interest rate hedging derivatives	–	173
Deferred purchase consideration	5,674	6,000
Contingent purchase liability	7,268	4,591
Other financial liabilities	968	–
Other current non-financial liabilities	3,096	3,525
Total other current liabilities	**29,369**	**24,367**

The increase in accrued expenses is mainly due to the acquisitions in 2012.

The item FX-hedging contract comprises a EUR/USD forward instrument. The fair value changes of FX-hedging contracts are booked through profit and loss (financial income / expenses: change in fair value).

The deferred purchase consideration of EUR 6.0 million recognized in December 2011 related to the KSW acquisition and was paid over the course of 2012. The amount shown in 2012 (EUR 5.7 million) relates also to KSW (shown under 'non-current liabilities' in 2011) and is due at the end of 2013. The contingent purchase liability of EUR 7.3 million represents the short term liability of the contingent purchase considerations for Neology, Controles and for Dalton. The contingent considerations accrued represent their current fair values, which do not differ significantly from their fair value as of the acquisition date. Calculations are based on contractually agreed thresholds of the acquiree's EBITDA. The final payments are subject to the result of the ongoing negotiations.

28. DEFERRED INCOME FROM GOVERNMENT GRANTS

Deferred investment grants resulted from the regional economic structure improvement program in eastern Germany. The amounts concerned originate from grants from 2002 and are amortized over the useful life of the related assets.

29. FINANCIAL INSTRUMENTS

The Group has an exposure to the following financial risks: liquidity, credit, and market risk. This note presents information about the exposure to each of the above mentioned risks and the Group's management of capital and it summarizes SMARTRAC's policies and processes that are in place for measuring managing risks, including those related to capital management.

SMARTRAC's Group Treasury Department is responsible for the management of financial risks.

In July 2009, a Group Treasury Guideline was implemented in order to ensure the identification, measurement, and management of financial risks. In addition, a Group Risk Management Committee was implemented to analyze the risk profile of SMARTRAC and to review and develop risk management strategies. Members of the Group Risk Management Committee are the CEO, Group CFO and Head of Corporate Finance and Controlling of SMARTRAC TECHNOLOGY Group. Following the change in the management structure with the establishment of the Co-Chairmen, the Risk Management Committee is composed of the Co-Chairmen and the Head of Corporate Finance and Controlling. The Risk Management Committee meets on a regular basis.

The general financial risk management objective of SMARTRAC is risk avoidance. If feasible and necessary, financial risks are managed by using plain- vanilla derivatives. Hedging without an underlying transaction is not allowed. Speculation in the field of treasury is strictly forbidden. The number of employees who are authorized to trade derivatives in the Group is kept to a minimum. Only employees with certain professional backgrounds are permitted to engage in such trading activities.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations that are settled by delivery of cash or other financial assets as they fall due.

The Group's approach to manage liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

To increase the attractiveness for investors, SMARTRAC in general has a centralized financing approach. This means, if feasible, external financing and the management of the Group's liquidity reserves are performed centrally by SMARTRAC N.V. Furthermore, SMARTRAC strives for diversification in terms of investors, financing instruments and the maturity profile of debt-financing instruments. In addition, SMARTRAC strives to maintain an investment grade status on the basis of a purely quantitative rating assessment approach.

The liquidity risk management strategy of SMARTRAC is to maintain an adequate liquidity reserve in terms of cash and short-term investments and furthermore to implement sufficient committed credit facilities for working capital and investment financing purposes in order to ensure financial flexibility. The development of the liquidity position of SMARTRAC Group and its entities is closely monitored.

As of December 31, 2012, the Group reported a net financial debt of EUR 59.3 million (2011: net financial debt amounting to EUR 38.4 million). The increase in net financial debt mainly results from additional debt raised for the financing of exceptional expenses in 2012, the Controles acquisition as well as capital expenditures undertaken to foster SMARTRAC's growth. SMARTRAC's liquidity reserve increased to EUR 28.0 million (2011: liquidity reserve of EUR 22.1 million).

A revolving umbrella credit facility amounting to EUR 12 million was implemented in 2008 until further notice for working capital financing purposes of the Group. The credit facility was agreed between SMARTRAC N.V. and Deutsche Bank AG and can be used for general corporate purposes. Collateral is not provided. The credit facility amount is allocated to different SMARTRAC entities as overdraft, credit and guarantee facilities.

On June 13, 2012, SMARTRAC signed an agreement on a syndicated credit facility amounting to EUR 100 million maturing on December 30, 2016. This new credit facility was used to refinance the EUR 65 million syndicated multicurrency credit facility that matured on June 29, 2012. The syndicated credit facility has standard market terms and conditions including a leverage, an EBITDA, and an equity covenant. The facility is provided by Deutsche Bank Luxembourg S.A., Commerzbank AG, Landesbank Baden-Württemberg, NIBC Bank N.V., and Berenberg Bank and can be used for acquisition, working capital, and capital expenditure purposes. SMARTRAC N.V. has provided collateral by pledging its shares of SMARTRAC TECHNOLOGY Ltd. and by a guarantee of SMARTRAC IP B.V. The credit facility consists of two tranches, a EUR 50 million revolving credit facility and a EUR 50 million term loan. Of the latter facility, EUR 2.5 million are annually repaid from 2013 onwards with the remaining EUR 40 million becoming due on the maturity date of the syndicated credit facility. The nominal interest rate of the credit facility is based on EURIBOR plus a credit margin depending on the financial leverage of SMARTRAC. As of December 31, 2012, a total nominal amount of EUR 75.5 million was drawn. A total of EUR 24.5 million of the credit facility is unused as of December 31, 2012.

On May 25, 2012, SMARTRAC entered into a loan agreement with its shareholder OEP Technologie B.V., whereby OEP Technologie B.V. provided financing amounting to EUR 12 million. The loan is unsecured and subordinated to the claims of the lenders in SMARTRAC's syndicated credit facility. The loan does not mature before May 25, 2013.

On the level of companies acquired in 2011, SMARTRAC Group is party to several smaller loan and finance lease agreements totaling EUR 1.1 million as per December 31, 2012. These borrowings will be repaid as they are due.

CREDIT RISK

Credit risk is the risk of a financial loss to the Group if a customer or other counterparty fails to meet its contractual obligations, and arises principally from the Group's receivables against customers, credit balances, derivative positions with banks, bank deposits and short-term investment positions with issuers of securities or certificates in relation to liquidity management activities of SMARTRAC.

The credit management strategy of SMARTRAC is to focus on the diversification of counterparties and to avoid or reduce the concentration of risks. The economic crisis has impacted SMARTRAC's regular business activities and performance. However, the business impact differed across the regions and operations. Within the Group, credit risk exposures have been assessed and actions are taken to mitigate the higher than usual risks.

A credit policy for credit limits and payment terms for customers is in place. Credit risk positions are closely monitored via the weekly treasury reporting.

Bank deposits and the conclusion of derivatives are only made with counterparties that have a long-term rating in the investment grade range, preferably A or better, if a credit rating is available.

As of December 31, 2012 and 2011, significant concentrations of credit risk of a few key accounts were identified. In general, those accounts are closely monitored by analyzing their financial statements on a regular basis, if available, via a market information system and the usage of business information reports. Those key accounts did show a solid financial situation.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet as disclosed:

In thousands of EUR	Consolidated 2012	Consolidated 2011
Trade receivables	48,687	33,878
Non-trade receivables	–	1,300
Other current assets	7,534	3,330
Cash and cash equivalents	27,962	22,100
Total	**84,183**	**60,608**

Other current assets also contain non-financial instruments that are not exposed to credit risk.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

In thousands of EUR	Consolidated 2012	Consolidated 2011
Asia	11,554	5,169
Europe	18,265	13,438
North America	9,571	5,994
Latin America	6,340	8,968
Others	2,957	309
Total	**48,687**	**33,878**

The aging of trade receivables at the reporting date was:

In thousands of EUR	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not past due	27,811	10	16,867	8
Past due 0 – 30 days	11,036	2	8,506	5
Past due 31 – 60 days	1,671	–	2,727	–
Past due 61 – 90 days	653	1	1,196	1
More than 90 days	9,852	2,323	6,526	1,930
Total	**51,023**	**2,336**	**35,822**	**1,944**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

In thousands of EUR	Consolidated 2012	Consolidated 2011
Balance at January 1	1,944	1,533
Impairment loss recognized	466	604
Settlement impairment	(74)	(193)
Balance at December 31	**2,336**	**1,944**

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments.

Exposure arises in the normal course of the Group's business.

INTEREST RATE RISK

Interest rate risk arises for SMARTRAC largely from financial borrowings: Higher market interest rates generally lead to higher interest expenses for the Group. The interest rate risk management strategy of the Group is to focus purely on the floating interest rate exposure and not on changes of the underlying market value of financial debt with fixed interest rates.

HEDGE ACCOUNTING

The major part of SMARTRAC's financial borrowings are incurred on a floating-rate basis. In order to hedge the floating rate interest risk exposure SMARTRAC concluded interest rate swaps whereby the company receives floating rate interest payments in exchange for fixed interest payments over a specified period of time. To date, SMARTRAC has concluded interest rate swaps that mature in 2015, 2016 and 2017 (EUR 10 million respectively) with a nominal amount totaling EUR 30 million. As of December 31, 2012, the fair value of the interest rate swaps is EUR -0.9 million. The interest rate swaps are designated as cash flow hedges from July 1, 2012 onwards (or as per the date of conclusion, if later). The cash flows of the underlying borrowings as well as of the hedging instruments are expected to occur in each year until 2017. In these years, the cash flows are expected to affect profit and loss. As at December 31, 2012, a fair value loss of EUR 0.4 million was recognized in other comprehensive income. No ineffective part was recognized in profit and loss.

Regarding the liquidity reserve maintained, it was decided to focus primarily on short-term availability. A resulting risk from floating rate interest income is partially hedged naturally due to the existing credit facility drawings on a floating-rate basis.

SENSITIVITY ANALYSIS

From an accounting and treasury point of view at December 31, 2012, an increase of 1% in interest rates of financial instruments would decrease the Group's profit for the year before tax by EUR 470,000 (2011: increase by EUR 278,000) taking into the account already fixed interest periods.

FOREIGN CURRENCY RISK

Due to its global activities in the normal course of business and central financing approach, the Group is exposed to foreign exchange rate risks. From an accounting point of view, the Group is faced with foreign currency risk related to those positions that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Euro. The currencies giving rise to this risk are primarily the US-Dollar (USD), Thai Baht (THB) and Mexican Peso (MXN).

The foreign exchange rate risk management of SMARTRAC focuses only on so called cash risks (or transaction risks) and not on pure translation risks (due to the movements in the Euro-value of the consolidated foreign currency net assets and earnings of subsidiaries). A natural hedging, if reasonable, with a long-term effect instead of a financial hedging (hedging via derivatives) is preferred. With regard to investments in subsidiaries with a functional currency other than Euro, the Group assumes that the investment is considered to be long-term in nature and is therefore not hedged.

The weekly treasury reporting and cash flow planning procedure closely monitors the foreign exchange risk exposure of SMARTRAC Group and its entities.

As of December 31, 2012 the Group has a foreign currency swap with an outstanding notional amount of USD 14.5 million. This foreign currency swap is designated as fair value through profit and loss and accounted for as such and serves the purpose of hedging inter-company loans denominated in USD. As of December 31, 2012 the swap has a negative fair value of EUR 28,000 shown under ‘other current liabilities’.

The majority of the Group’s bank borrowings and loans as of December 31, 2012 and 2011 were in Euro. Please refer to note 22.

SENSITIVITY ANALYSIS

From an accounting point of view the foreign exchange rates sensitivity is calculated through aggregation of the net foreign exchange rate exposure of all entities at the balance sheet date. The risk is described by an assumed 10% appreciation of the Euro against the net exposure of the financial assets and liabilities denominated in foreign currencies. An assumed appreciation of 10% of the Euro against all other currencies would have decreased the operating profit before tax by EUR 1.5 million for the 2012 fiscal year (2011: EUR 1.6 million).

The tables below show the net foreign exchange exposure by major currencies as of December 31, 2012 and 2011.

As at December 31, 2012 Denominated in thousands of foreign currency	USD	THB	MXN	Effect in EUR
Trade receivables	39,623	5,072	72,169	
Other current assets	1,354	6,822	–	
Financial assets	**40,977**	**11,894**	**72,169**	**–**
Trade payables	21,691	57,293	34,790	
Non-trade payables	286	33,094	–	
Financial liabilities	**21,977**	**90,387**	**34,790**	**–**
Gross balance sheet exposure (not hedged)	**19,000**	**(78,493)**	**37,379**	**–**
Effect of 10 % appreciation of the Euro, denominated in thousands of EUR	**(1,438)**	**196**	**(217)**	**(1,459)**

As at December 31, 2011 Denominated in thousands of foreign currency	USD	THB	Effect in EUR
Trade receivables	35,843	–	
Other current assets	2,042	24,791	
Financial assets	**37,885**	**24,791**	**–**
Trade payables	14,665	51,433	
Non-trade payables	20	45,831	
Loans	152	–	
Financial liabilities	**14,837**	**97,264**	**–**
Gross balance sheet exposure (not hedged)	**23,048**	**(72,473)**	**–**
Effect of 10 % appreciation of the Euro, denominated in thousands of EUR	**(1,780)**	**177**	**(1,603)**

Due to the acquisition in December 2011, MXN is not applicable for 2011.

EFFECTS OF CURRENCY TRANSLATION

Many SMARTRAC subsidiaries are located outside the Euro-zone. Since the financial reporting currency of the Group is the Euro, the financial statements of these subsidiaries are translated into Euro so that the financial results can be included in the consolidated financial statements of SMARTRAC. To consider the effects of foreign exchange translation risk within risk management, the assumption is that investments in foreign-based operations are permanent and that reinvestment is continuous. Whenever a divestment of a particular asset or entity is made, the value of this translation risk is included in the sensitivity analysis. Effects from currency fluctuations on the translation of net assets amounts into Euro are reflected in the Group's consolidated equity position.

FAIR VALUES

There were no financial instruments as of the balance sheet dates that have fair values significantly different from carrying amounts. The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments.

INTEREST-BEARING LOANS AND BANK BORROWINGS

Fair values approximate carrying amounts due to the relatively short-term maturity and interest periods of the loans and borrowings.

TRADE AND OTHER RECEIVABLES / PAYABLES

For receivables / payables with a remaining life of less than one year, the carrying amount is deemed to reflect the fair value.

DERIVATIVES

As of December 31, 2012, the Group has derivatives with a total negative market value of EUR 971.000 (2011: EUR 252,000). The derivatives were concluded to hedge identified cash risk exposures related to EUR/USD exchange rate fluctuations as well as to hedge the Group´s interest rate risk. Plain vanilla foreign exchange forwards and interest rate swaps were used as hedging instruments.

FAIR VALUE MEASUREMENT

The fair value of financial derivatives is measured using methods from the Level 2 hierarchy. For interest rate and foreign currency swaps fair value is determined by discounting the estimated future cash flows based on market rates. The fair value of share option contracts is determined by a Black-Scholes model.

CAPITAL MANAGEMENT

The Management Board's policy is to maintain a strong capital base in order to maintain investor, creditor, and market confidence and to sustain future development of the business. This policy is supported by a centralized financing approach and general strategy of diversification of the financing. Furthermore, the Management Board strives to maintain an investment grade status on the basis of a pure quantitative rating assessment approach.

The Management Board permanently monitors the return on equity, which the Group defines as net result divided by total shareholders' equity. This key figure shall describe the efficient use of equity within SMARTRAC Group.

The Management Board considers maintaining a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. In 2012, the return on equity was 3 % (2011: - 25 %) calculated on the profit for the period.

There were no changes in the Group's approach to capital management during the year. Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements, except the following: the syndicated credit facility (signed June 13, 2012) contains a standard market leverage covenant, a standard market absolute EBITDA covenant and a standard market equity covenant. The Group was in compliance with its covenant throughout the year presented.

30. LEASES

LEASES AS LESSEE

OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

In thousands of EUR	Consolidated 2012	Consolidated 2011
Less than one year	2,235	1,208
Between one and five years	3,077	2,472
Longer than five years	610	978
Total	**5,922**	**4,658**

The Group has contractual operating leases over office equipment amounting to EUR 74,023 (2011: EUR 43,493), buildings amounting to EUR 3.9 million (2011: EUR 2.7 million) and vehicles amounting to EUR 761,000 (2011: EUR 721,000). During the year ended December 31, 2012, an amount of EUR 2,333,000 (2011: EUR 1,684,000) was recognized as an expense in profit and loss with regard to operating leases.

FINANCE LEASES

SMARTRAC leases machinery under finance leases. In 2012 and 2011, finance lease arrangements existed.

The following table shows the net carrying amounts at the year-end:

In thousands of EUR	Consolidated 2012	Consolidated 2011
Machinery		
Acquisition value	490	6
Additions from business combinations	–	490
Accumulated depreciation	(178)	(136)
Net carrying amount	**312**	**360**

The following reconciliation provides a breakdown at year end.

	Consolidated 2012			Consolidated 2011		
In thousands of EUR	**Minimum lease payment**	**Interest component**	**Present value**	**Minimum lease payment**	**Interest component**	**Present value**
Less than one year	126	6	120	157	16	141
Between one and five years	30	1	29	167	7	160
Total	**156**	**7**	**149**	**324**	**23**	**301**

The material finance leasing arrangements contain machinery. The uncancellable duration is 60 months. There is the possibility of renewal and a purchase option.

No contingent rents have been recognized as an expense in the period. Sub-lease agreements do not exist. The leasing arrangements do not contain any restrictions mentioned in IAS 17.31e (iii).

31. SHARE BASED PAYMENT

STOCK OPTION SCHEMES

On February 8, 2006, the company's Management Board established a stock option plan (Stock Option Scheme 2006) for members of the Management and Supervisory Boards, senior management and selected employees of the Group, which is applicable for the company's single option tranches one to three.

On May 11, 2010, the company's Management Board established an additional new stock option scheme (Stock Option Scheme 2010 for Selected Employees) for selected employees. This Stock Option Scheme 2010 for Selected Employees is applicable to the eight tranche. The vesting of the stock options granted under the Stock Option Scheme 2010 for Selected Employees is not subject to a performance condition.

Following approval by the SMARTRAC Annual General Meeting on May 12, 2010, the company's Management Board established a new stock option scheme (Stock Option Scheme 2010) for members of the Management Board, members of the Group Executive Team, Executive Vice Presidents and Senior Vice Presidents. This Stock Option Scheme 2010 is applicable to the seventh and ninth tranche. The quantity of the vesting stock options granted under the Stock Option Scheme 2010 is subject to a performance condition on the basis of a defined three year average sales growth and three-year average EBITDA margin.

Stock options under the Stock Option Schemes provide rights to purchase shares in the company. Total expenses for the first to the ninth tranche of the SMARTRAC Stock Option Scheme are reported under administrative expenses and as an increase in shareholder's equity (share premium) at the same time. The Black Scholes model was used for the evaluation.

The total expenses (recognized in equity) for the Stock Option Schemes are as follows:

In thousands of EUR	Consolidated 2012	Consolidated 2011
Tranche 7	75	94
Tranche 8	98	99
Tranche 9	3	3
Total expenses	**176**	**196**

Due to a termination of options an additional option expense of EUR 44,000 was recognized under the line 'administrative expenses' in the consolidated statement of comprehensive income. Additionally, to the extent of the fair value of options payments made to the option holder on the cancellation, these were shown as a repurchase of equity (EUR 79,920).

The exercise price of stock option tranches two to three is based on the weighted average price of the company's shares during the ten business days immediately preceding the grant of the stock options. In relation to the stock options granted thereafter, the exercise price is based on the weighted average price during the five business days immediately preceding the grant of the stock options.

The exercise price, the grant date, and the underlying assumptions for the single tranches are as follows:

Consolidated 2012	Exercise price	Grant date	Current price of underlying shares	Expected volatility	Exp. annual employee turnover rate	Risk-free interest rate	Option life expiration
Tranche 2	22.40	March 29, 2007	22.11	40 %	5 %	3.97 %	29 March 2013
Tranche 3	39.20	Nov. 23, 2007	34.50	40 %	0 %	3.67 %	23 Nov. 2013
Tranche 7	15.24	May 14, 2010	14.19	63 %	0 %	1.26 %	May 14, 2017
Tranche 8	14.13	May 26, 2010	14.00	63 %	5 %	1.26 %	May 26, 2017
Tranche 9	14.84	August 4, 2010	14.95	63 %	5 %	0.93 %	August 4, 2017

Stock option activity of the SMARTRAC Group during 2012 was as follows:

Consolidated 2012	Outstanding Jan. 1, 2012	Forfeited	Terminated	Outstanding Dec. 31, 2012
Tranche 2	145,700	(24,500)	–	121,200
Tranche 3	152,000	(100,000)	–	52,000
Tranche 7	41,000	–	(18,000)	23,000
Tranche 8	62,250	(7,500)	–	54,750
Tranche 9	1,000	–	–	1,000
Total	**401,950**	**(132,000)**	**(18,000)**	**251,950**

In the financial year 2012, no options were granted, exercised, or expired.

The fair value of the stock options is based on the single tranches and the staggered vesting period, which is shown in the table below.

In EUR	Fair value
Tranche 2	6.86
Tranche 3	9.11
Tranche 7	6.25
Tranche 8	5.90
Tranche 9	6.31

Total expenses of the option tranches are reported under administrative expenses and as an increase in shareholder’s equity.

The expected life used in the model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

There are no dividend payouts expected until the date of exercise.

32. CAPITAL COMMITMENTS

As of December 31, 2012, no capital commitment exists with regard to land and buildings (2011: EUR 1.4 million).

As of December 31, 2012, the Group has outstanding purchase orders for machinery amounting to EUR 5.0 million (2011: EUR 6.1 million). The Group has done down payments on these purchase orders in 2012 amounting to EUR 2.5 million (2011: EUR 2.1 million). Additionally, the Group has orders for tools and equipment amounting to EUR 4,000 (2011: EUR 423,000).

Based on cooperation and framework agreements, the Group is committed to incur capital expenditure for machinery amounting to EUR 3.9 million in the year 2013.

33. CONTINGENCIES

LEGAL PROCEEDINGS

The company is involved in various lawsuits, claims and proceedings incidental to the normal conduct of its business, including suits in respect of infringement and cancellation of patents and regarding other intellectual property rights. The company has accrued for these loss contingencies when loss is deemed probable and can be estimated. The company regularly evaluates claims and legal proceedings together with their related probable losses to determine whether they should be adjusted based upon the current information available to the company. Legal costs associated with claims are settled.

34. RELATED PARTIES

IDENTITY OF RELATED PARTIES

The Group has a related party relationship with its subsidiaries (see note 1), with its (former) directors, supervisory directors, executive officers, entities controlled by its directors and executive officers, jointly controlled entities and the ultimate controlling party. In the ordinary course of business, the Group has transactions with various organizations with which certain members of the Supervisory Board or Management Board are associated but no transactions responsive to this item were conducted in 2012. The members of the Management Board and Group Executive Team are considered to be the key management personnel as defined in IAS 24 'Related parties'.

JOINTLY CONTROLLED ENTITIES

On March 1, 2011, SMARTRAC acquired an interest of 50 percent of the shares of Omnia Technologies Private Ltd. and therewith established a jointly controlled entity with Mr. Ashish Bhutani and Mr. Ajay Bhutani. The business scope of Omnia Technologies Private Ltd. is the development and production of RFID tags in India as well as their worldwide distribution.

BIBLIOTHECA RFID LIBRARY SYSTEMS AG

SMARTRAC sells products for library solutions to Bibliotheca RFID Library Systems AG (Bibliotheca), Switzerland. Bibliotheca is a company indirectly controlled by OEP. Manfred Rietzler holds a non-controlling interest in Bibliotheca. Amounts were billed based on normal market rates for such products and were due and payable under normal payment terms.

The Group has the following transactions with related parties:

In thousands of EUR	Consolidated ended December 2012	Consolidated ended December 2011
Sales		
Bibliotheca AG	4,429	5,726
Omnia Technologies Private Ltd.	263	247
Other operating income		
Bibliotheca AG	–	34
Purchases		
Omnia Technologies Private Ltd.	429	454
Dalton Property Holdings B.V.	26	4
Dalton Group Ltd.	–	58
Other operating expenses		
Dalton Group Ltd.	8	–
Dalton Property Holdings UK Ltd.	11	–
Lano Holdings APS	8	–

The transactions were carried out at arm’s length.

The balances of receivables, payables and capital contribution with related parties are shown below:

In thousands of EUR	Consolidated ended December 2012	Consolidated ended December 2011
Trade and non trade receivables		
Bibliotheca AG	518	870
Omnia Technologies Private Ltd.	47	104
Dalton Property Holdings UK Ltd.	–	4
Total	**565**	**978**
Trade and non-trade payables		
Omnia Technologies Private Ltd.	32	106
Dalton Property Holdings B.V.	–	3
Dalton EID Ltd.	21	–
Dalton Group Ltd.	–	25
Total	**53**	**134**
Other non-current assets		
Citywish Investments Ltd.	–	315
Total	**–**	**315**
Other current assets		
Bibliotheca AG	–	4
Dalton EID Ltd.	–	21
Total	**–**	**25**
Other non-current liabilities		
Dalton Group Ltd.	235	–
Total	**235**	**–**
Capital contribution		
OEP Technologie B.V.	23,143	14,000
Manfred Rietzler	–	1,500
Capital increase		
Omnia Technologies Private Ltd.	–	309
Interest-bearing borrowings		
OEP Technologie B.V.	12,000	–

TRANSACTIONS WITH KEY MANAGEMENT

On June 6, 2012, Manfred Rietzler, Vice Chairman of the Supervisory Board of SMARTRAC N.V., informed the capital market authorities and SMARTRAC N.V. that he had entered into an agreement with OEP Technologie B.V. by which he exchanged his directly and indirectly held shares in SMARTRAC N.V. against shares in OEP Technologie B.V. As of June 6, 2012, Manfred Rietzler and his holding company ICM Netherlands held no more shares and voting rights in SMARTRAC N.V.

Total remuneration is included in ‘personnel expenses’ (see note 9). The remuneration for directors and executive officers is as follows:

REMUNERATION OF KEY MANAGEMENT

The Board of Management received the following salaries, performance-related bonuses, and other compensations (presented on accrual basis and in accordance with IFRS 2 if applicable):

In thousands of EUR	2012	2011
Short-term employee benefits	985	1,182
Share-based payment	140	255
Housing and related expenses	–	9
Termination benefits	9,320	–
Total	**10,445**	**1,446**

For details about the remuneration policies of directors of the Management Board please refer to the ‘Corporate Governance Report’ section of the Annual Report.

SHARE-BASED PAYMENT

No options were granted, exercised or expired in the 2012 fiscal year. Options terminated led to an additional option expense amounting to EUR 44,000.

STOCK OPTION SCHEME

The aggregate numbers of (performance-related) stock options and the development of the stock options held by the members of the Management Board were as follows:

Number of options granted Management Board	Ending balance 2012
Tranche 2 (vested)	
2007	15,000
Tranche 3 (vested)	
2007	15,000
Tranche 7 (not vested)	
2010	15,000
Total quantity	**45,000**

For further details on above tranches of the SMARTRAC Stock Option Schemes, please refer to note 31.

REMUNERATION OF THE SUPERVISORY BOARD

In 2012, the compensation for members of the Supervisory Board amounted to EUR 180,000 (2011: EUR 170,000). In addition, a member of the Supervisory Board has held 20,000 options of tranche two (exercise price: EUR 22.40, option life expiration: March 29, 2013) and 15,000 options of tranche three (exercise price: EUR 39.20, option life expiration: November 23, 2013). No options were exercised or expired during the 2011 and 2012 fiscal year.

Since 2008, no options have been granted to members of the Supervisory Board based on a change in the regulations of the Stock Option Schemes.

OTHER RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are summarized below:

Mr. Manfred Rietzler is both a member of the SMARTRAC N.V. Supervisory Board and Managing Director of SMARTRAC TECHNOLOGY Ltd., Thailand.

Name	Type of business	Relationship	Directors/shareholders
Bibliotheca RFID Library Systems AG	Production / Trade	Shareholder	Mr. Manfred Rietzler

35. AUDITOR'S FEES AND SERVICES

The following table provides a breakdown of auditing fees for the fiscal years 2012 and 2011:

In thousands of EUR	KPMG Accountants N.V.	Other KPMG	KPMG Network total 2012
Audit services	200	223	423
Audit related	–	7	7
Fiscal advice	–	378	378
Advisory services	–	76	76
Total	**200**	**684**	**884**

In thousands of EUR	KPMG Accountants N.V.	Other KPMG	KPMG Network total 2011
Audit services	222	152	374
Audit related	–	61	61
Fiscal advice	–	361	361
Advisory services	–	13	13
Total	**222**	**587**	**809**

Professional fees for audit services include in particular fees for the statutory auditing of annual and consolidated financial statements. Fiscal advice primarily includes professional fees for tax consulting services performed as part of current or planned transactions. Fees for advisory services mainly relate to consulting services and assistance.

36. SUBSEQUENT EVENTS

There were no material events to report on or after the reporting date and before the issuance of this report.

FREQUENCY RANGE

With our proven technological expertise in low (125 / 134.2 kHz), high (13.56 MHz), and ultra-high frequency (850-960MHz), we cover all current frequency standards in the global RFID industry. We also produce and supply dual frequency transponders for applications where different read range requirements have to be covered.

COMPANY FINANCIAL STATEMENTS 2012 OF SMARTRAC N.V.

COMPANY BALANCE SHEET BEFORE APPROPRIATION OF PROFITS
AS AT DECEMBER 31

In thousands of EUR	Note	2012	2011
Assets			
Intangible assets	4	130	142
Property, plant and equipment		58	13
Investment in subsidiaries	5	99,283	68,741
Equity accounted investees	6	1,070	1,115
Deferred tax assets	7	1,588	1,500
Total non-current assets		**102,129**	**71,511**
Loans to subsidiary companies	8	144,482	121,308
Loans to companies held at equity	9	–	315
Receivables from subsidiaries	10	13,499	9,687
Other current assets	11	722	570
Cash and cash equivalents	12	2,258	5,770
Total current assets		**160,961**	**137,650**
Total assets		**263,090**	**209,161**
Equity			
Share capital	13	9,924	8,872
Share premium	14	133,871	111,624
Reserves	14	2,897	2,192
Retained earnings	14	18,025	13,070
Total equity attributable to the holders of the company		**164,717**	**135,758**
Loans and borrowings	16	71,388	–
Other non-current liabilities	15	1,363	6,404
Total non-current liabilities		**72,751**	**6,404**
Loans and borrowings	16	14,500	57,353
Other current non-financial liabilities	17	1,282	165
Current liabilities to subsidiary companies	18	1,491	158
Other current liabilities	19	8,349	9,323
Total current liabilities		**25,622**	**66,999**
Total equity and liabilities		**263,090**	**209,161**

The accompanying notes on page 168 to 177 are an integral part of the company financial statements.

COMPANY INCOME STATEMENT

FOR THE YEARS ENDED DECEMBER 31

In thousands of EUR	2012	2011
Income after tax from investment in group companies	15,430	(39,918)
Income after tax from investments at equity	(20)	(47)
Other income (loss) after tax	(10,455)	(1,585)
Profit for the period attributable to the owner of the parent	**4,955**	**(41,550)**

The accompanying notes on page 168 to 177 are an integral part of the company financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS OF SMARTRAC N.V. FOR THE YEAR ENDED 2012

1. REPORTING ENTITY

Where the financial statements reflect the same information as the consolidated financial statements, the note numbers refer to these notes.

2. BASIS OF PREPARATION

The consolidated financial statements are prepared according to the standards laid down by the International Accounting Standards Board and adopted by the European Union (hereinafter referred to as IFRS). In setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its separate financial statements, SMARTRAC N.V. has made up use of the option provided in Article 362.8 of Part 9, Book 2 of the Netherlands Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the separate financial statements of SMARTRAC N.V. are the same as those applied for the consolidated IFRS financial statements. Associates and subsidiaries, over which significant influence is exercised, are stated on the basis of the equity method. Reference is made to the accounting principles as described in note 2 and 3 of the consolidated financial statements. The disclosures in the company financial statements are provided pursuant to Part 9 Book 2 of the Netherlands Civil Code.

The Company presents a condensed income statement, using the facility of Article 402 of Part 9, Book 2, of the Netherlands Civil Code.

3. SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiary companies are carried at equity value. For the principles of valuation of assets and liabilities and for determination of results reference is made to the notes to the consolidated financial statements.

4. INTANGIBLE ASSETS

The intangible assets in 2012 and in 2011 consist of patents. The decrease in intangibles results from amortization of the patents on a regular basis.

5. INVESTMENTS IN SUBSIDIARIES

In thousands of EUR	2012	2011
Carrying value of investment at January 1	**68,741**	**76,741**
Investments during the year	26,921	36,934
Equity accounted earnings	15,430	(39,918)
Dividends received	(12,802)	(5,249)
Currency translation effects	993	233
Carrying value of investment at December 31	**99,283**	**68,741**

For the list of entities please refer to note 1 of the consolidated financial statements.

6. EQUITY ACCOUNTED INVESTEES

In thousands of EUR	2012	2011
Carrying value of investment at January 1	**1,115**	**–**
Investments during the year	–	1,254
Equity accounted earnings	(20)	(47)
Currency translation effects	(25)	(92)
Carrying value of investment at December 31	**1,070**	**1,115**

7. DEFERRED TAX ASSETS

The deferred tax asset mainly results from unused taxable losses incurred in the course of the Initial Public Offering in 2006. It can be used up until year 2015. Also refer to note 13 of the notes to the consolidated financial statements.

8. LOANS TO SUBSIDIARY COMPANIES

In thousands of EUR	2012	2011
Subsidiary		
SMARTRAC TECHNOLOGY Stuttgart GmbH	2,700	1,127
SMARTRAC TECHNOLOGY Pte. Ltd.	4,007	3,807
SMARTRAC TECHNOLOGY Brazil B.V.	2,480	2,480
SMARTRAC IP B.V.	6,600	6,025
SMARTRAC TECHNOLOGY US Inc.	10,091	9,634
SMARTRAC TECHNOLOGY MALAYSIA Sdn. Bhd.	43,744	39,494
SMARTRAC TECNOLOGIA INDÚSTRIA E COMERCIO DA AMAZÔNIA Ltda.	5,880	4,350
SMARTRAC Wehnrath Holding GmbH	32,821	32,771
SMARTRAC TECHNOLOGY Malaysia Holding B.V.	1,121	1,040
SMARTRAC TECHNOLOGY Wehnrath GmbH	11,063	7,563
SMARTRAC Trading Pte. Ltd.	307	1,243
Dalton ID Ltd.	6,038	1,466
SMARTRAC TECHNOLOGY Dresden GmbH	793	–
SMARTRAC TECHNOLOGY Finland Holding Oy	2,984	–
Dovers AY One Pty	708	–
Neology Inc.	3,027	–
Dalton Continental B.V.	205	205
Dalton ID, LLC	–	201
SMARTRAC Dresden Holding AG	9,907	9,897
SMARTRAC TECHNOLOGY Hong Kong Ltd.	6	5
Total loans to subsidiary companies	**144,482**	**121,308**

All loans have a residual repayment term of less than 12 months and were granted at market interest rates.

In the course of 2012 the names of several subsidiaries were changed. Please refer to note 1 of the consolidated financial statements.

9. LOANS TO COMPANIES HELD AT EQUITY

In thousands of EUR	2012	2011
Citywish Investments Ltd.	–	315
Total short-term loans to companies held at equity	**–**	**315**

10. RECEIVABLES FROM SUBSIDIARIES

In thousands of EUR	2012	2011
Subsidiary		
SMARTRAC TECHNOLOGY Ltd.	1,836	395
SMARTRAC TECHNOLOGY Brazil B.V.	1,868	1,758
SMARTRAC TECHNOLOGY MALAYSIA Sdn. Bhd.	3,827	2,278
SMARTRAC TECNOLOGIA INDÚSTRIA E COMERCIO DA AMAZÔNIA Ltda.	1,813	1,296
Other SMARTRAC subsidiaries	4,155	3,960
Total receivables from subsidiaries	**13,499**	**9,687**

11. OTHER CURRENT ASSETS

In thousands of EUR	2012	2011
Trade receivables	9	–
Prepaid expenses	508	494
Other current non-financial assets	205	76
Total other current assets	**722**	**570**

12. CASH AND CASH EQUIVALENTS

In thousands of EUR	2012	2011
Cash and cash equivalents	**2,258**	**5,770**

13. SHARE CAPITAL

On March 31, 2012, the Company increased its share capital from EUR 8,872,044 (17,744,088 bearer shares) to EUR 9.923.987 (19,847,974 bearer shares). Subscription rights for shareholders have been excluded on the basis of Article 28.2 of the Articles of Association by a resolution of the Management Board.

The capital increase is associated with the closing of the transaction with UPM-Kymmene Corporation under which SMARTRAC takes over UPM's RFID business while UPM-Kymmene Corporation obtains an indirect economic interest in SMARTRAC of 10.6% via OEP Technologie B.V.

The new shares will be issued to OEP Technologie B.V., each new share having a nominal value of EUR 0.50, for a cash consideration of EUR 11.00 per new share, to be effected by means of a set off against an obligation of SMARTRAC to pay EUR 23,142,746.00 to OEP Technologie B.V. for providing the above mentioned indirect economic interest in SMARTRAC.

SMARTRAC N.V. and OEP Technologie B.V. furthermore agreed that the new shares will not be admitted to trading on the Regulated Market of the Frankfurt Stock Exchange for a period of at least twelve month following the registration of the capital increase.

The transaction costs included bank arrangement and legal fees (EUR 20,000).

Please also refer to note 21 of the consolidated financial statements.

ISSUED SHARES

In thousands of EUR	2012	2011
Issued ordinary shares of EUR 0.50 each (units)	19,847,974	17,744,088

14. COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31

In thousands of EUR	Note	Issued and paid-up share capital	Share premium	Translation reserve	Hedging reserve	Retained earnings*	Total
Balance as at January 1, 2011		**8,167**	**96,743**	**2,051**	**–**	**54,620**	**161,581**
Profit for the period		–	–	–	–	(41,550)	(41,550)
Other comprehensive income (loss)		–	–	141	–	–	141
Total comprehensive income (loss) of the period		**–**	**–**	**141**	**–**	**(41,550)**	**(41,409)**
Additions from first time consolidation		–	–	–	–	–	–
Par value of new shares – credited to share capital		705	–	–	–	–	705
Excess of gross proceeds over par share value credited to share premium		–	14,795	–	–	–	14,795
Transaction costs of the capital increase charged to share premium		–	(110)	–	–	–	(110)
Share based options		–	196	–	–	–	196
Balance as at December 31, 2011		**8,872**	**111,624**	**2,192**	**–**	**13,070**	**135,758**
Balance as at January 1, 2012		**8,872**	**111,624**	**2,192**	**–**	**13,070**	**135,758**
Profit for the period		–	–	–	–	4,955	4,955
Other comprehensive income (loss)		–	–	968	(263)	–	705
Total comprehensive income (loss) of the period		**–**	**–**	**968**	**(263)**	**4,955**	**5,660**
Share-based payment options		–	176	–	–	–	176
Par value of new shares – credited to share capital	13	1,052	–	–	–	–	1,052
Excess of gross proceeds over par share value credited to share premium	13	–	22,091	–	–	–	22,091
Transaction costs of the capital increase charged to share premium	13	–	(20)	–	–	–	(20)
Balance as at December 31, 2012		**9,924**	**133,871**	**3,160**	**(263)**	**18,025**	**164,717**

* The retained earnings as at December 31, 2012, include a legal reserve for capitalized internally and externally development costs amounting to EUR 5.5 million (2011: EUR 5.4 million).

15. OTHER NON-CURRENT LIABILITIES

In thousands of EUR	2012	2011
Contingent purchase liability	420	6,231
Interest rate hedging derivatives	943	173
Total non-current liabilities	**1,363**	**6,404**

For information about the Interest rate Hedging derivatives, please refer to note 29 – Financial Instruments of the consolidated financial statements.

16. LOANS AND BORROWINGS

In thousands of EUR	2012	2011
Non-current liability		
Secured loan	71,388	–
Total non-current liabilities	**71,388**	**–**
Current liabilities		
Current portion of secured loan	2,500	57,353
Non-secured loan	12,000	–
Total current liabilities	**14,500**	**57,353**

On June 13, 2012, SMARTRAC signed an agreement on a syndicated credit facility amounting to EUR 100 million maturing on December 30, 2016. This new facility was used to refinance the EUR 65 million syndicated multicurrency credit facility that matured on June 29, 2012. The syndicated credit facility has standard market terms and conditions including a leverage, an EBITDA and an equity covenant. In the financial year 2012, the covenants were fulfilled at any time. As of December 31, 2012, a notional amount of EUR 75.5 million of this facility was used. Eur 73 million will be repayable after 31 December 2013.

On May 25, 2012 SMARTRAC entered into a loan agreement with its shareholder OEP Technologie B.V. whereby OEP Technologie B.V. provided financing amounting to EUR 12 million. The loan is unsecured and subordinated to the claims of the lenders in SMARTRAC's syndicated credit facility. The loan matures not before May 25, 2013.

17. OTHER CURRENT NON-FINANCIAL LIABILITIES

In thousands of EUR	2012	2011
Wage taxes	1,282	165
Total current non-financial liabilities	**1,282**	**165**

18. CURRENT LIABILITIES TO SUBSIDIARY COMPANIES

In thousands of EUR	2012	2011
SMARTRAC TECHNOLOGY Ltd.	1,076	2
SMARTRAC TECHNOLOGY Stuttgart GmbH	96	–
SMARTRAC TECHNOLOGY Pte. Ltd.	173	–
SMARTRAC Wehnrath Holding GmbH	–	12
SMARTRAC TECNOLOGIA INDÚSTRIA E COMERCIO DA AMAZÔNIA Ltda.	23	23
Amatech Automation GmbH	123	121
Total current liabilities to subsidiary companies	**1,491**	**158**

19. OTHER CURRENT LIABILITIES

In thousands of EUR	2012	2011
FX-hedging derivatives	28	79
Contingent purchase liability	6,118	6,150
Transaction costs (legal and consultants)	–	1,839
Other current liabilities	2,203	1,255
Total other current liabilities	**8,349**	**9,323**

For information about the FX-hedging derivatives, please refer to note 29 – Financial Instruments of the consolidated financial statements.

20. COMPENSATION OF KEY MANAGEMENT

With respect to the remuneration of the members of the Supervisory Board reference is made to note 34 of the consolidated financial statements.

The remuneration for the members of the Management Board of SMARTRAC N.V. was as follows:

In thousands of EUR	Base salary	Bonus	Termination benefits	Others	Total
2012					
Dr. Christian Fischer (through December)	420	–	9,320	280	10,020
Wolfgang Schneider	250	100	–	–	350
Christian Uhl (November to December)	75	–	–	–	75
Total 2012	**745**	**100**	**9,320**	**280**	**10,445**
2011					
Dr. Christian Fischer	420	310	–	460	1,190
Wolfgang Schneider (June to December)	146	–	–	–	146
Manfred Rietzler (January to May)	96	–	14	–	110
Total 2011	**662**	**310**	**14**	**460**	**1,446**

21. RELATED PARTIES

Please refer to note 34 of the consolidated financial statements.

22. CONTINGENCIES

LEGAL PROCEEDINGS

In case of potential insolvency of SMARTRAC TECHNOLOGY PTE Ltd., SMARTRAC TECHNOLOGY GmbH, SMARTRAC Dresden Holding GmbH and Dalton ID Ltd. SMARTRAC N. V. is obliged to fulfil all obligations of these subsidiaries.

23. AUDITOR'S FEES AND SERVICES

With respect to the auditor's fees and services please refer to note 35 of the consolidated financial statements.

Amsterdam, March 18, 2013

THE MANAGEMENT BOARD

Christian Uhl
Co-Chairman

Nigel Sealey
Co-Chairman

Wolfgang Schneider
Member

Robert Harmzen
Member

Amsterdam, March 18, 2013

THE SUPERVISORY BOARD

Prof. Dr. Bernd Fahrholz Chairman	Manfred Rietzler Vice Chairman	Lee Gardner Member
Wolfgang Huppenbauer Member	Richard Smith Member	Dr. Jörg Zirener Member

INDEPENDENT AUDITOR’S REPORT

TO: THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF SMARTRAC N.V.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2012 of SMARTRAC N.V., Amsterdam, as set out on pages 86 to 179. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2012, the consolidated statements of comprehensive income, changes in shareholders’ equity and cash flows for the year then ended and the notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2012, the company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

MANAGEMENT’S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management reports in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR’S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION WITH RESPECT TO THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the financial statements give a true and fair view of the financial position of SMARTRAC N.V. as at 31 December 2012, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

OPINION WITH RESPECT TO THE COMPANY FINANCIAL STATEMENTS

In our opinion, the company financial statements give a true and fair view of the financial position of SMARTRAC N.V. as at 31 December 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the management reports as set out on pages 6 to 83, to the extent we can assess, have been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the management reports, to the extent we can assess, are consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, March 18, 2013
KPMG Accountants N.V.

H.A.P.M. van Meel RA

DECLARATION REGARDING DECREE ARTICLE 10 TAKEOVER BIDS

SMARTRAC N.V. ('the Company') complies with the Decree effecting article 10 of Directive 2005/25/EC of the European Parliament and the Council of April 21, 2004, on takeover bids ('the Decree') by providing the following information requested by the respective articles of the Decree:

ARTICLE 1A

As at December 31, 2012, the Company has issued 19,847,974 common shares with par value of EUR 0.50 each, which account for 100 percent of the issued share capital of the Company. The Company has not issued preferred shares.

ARTICLE 1B

Not applicable.

ARTICLE 1C

As at December 31, 2012, SMARTRAC is aware and had been notified of participations in the company which there is a notification requirement as provided for in articles 5:34, 5:35 and 5:43 Act on Financial Supervision ('Wet financieel toezicht'):

Name/institution	Number of shares	% of total shares	Number of voting rights	% of total voting rights
Share capital interest and voting rights of major shareholders as at December 31, 2012				
JP Morgan Chase & Co. (via OEP Technologie B.V.)	19,287,868	97.2	19,287,868	97.2

ARTICLE 1D-G

Not applicable.

ARTICLE 1H

The General Meeting of Shareholders shall appoint the directors (as A director or B director) and may at any time suspend or dismiss directors. Resolutions to suspend or dismiss directors shall be capable of being passed if the proposal to that effect has been made by the Supervisory Board, with an absolute majority of the votes cast. If such proposal has not been made by the Supervisory Board, then these resolutions shall only be capable of being passed with a majority of at least two third of the votes validly cast representing more than half of the issued share capital.

The appointment of an A director or B director may take place by way of a binding nomination naming at least two persons for each vacancy to be filled and prepared by the Supervisory Board within three months after the vacancy has arisen. If a binding nomination has not been prepared within the above period, the General Meeting shall be unrestricted in its choice. The General Meeting of Shareholders shall also be unrestricted in its choice if it renders the nomination non-binding by means of a resolution adopted by at least two-thirds of the valid votes cast, representing more than half of the issued capital.

The General Meeting shall appoint the Supervisory Board members and shall at all times be empowered to suspend or dismiss each and any Supervisory Board member. The Supervisory Board may make a non-binding nomination for each vacancy within three months of the vacancy arising. In the event of nomination for the appointment of a Supervisory Board member, the candidate's age, profession, the nominal amount of the shares held by him or her in the Company's capital and the positions which he or she holds or has held, to the extent relevant to the performance of the duties of a Supervisory Board member, shall be stated. The legal entities in which he or she already holds an office on a Supervisory Board shall also be indicated. Where these legal entities include companies belonging to the same group, it shall be sufficient to designate that group. The reasons for any recommendation or proposal for appointment or re-appointment shall be stated. In the event of reappointment, the manner in which the candidate has performed her or his duties as a Supervisory Director shall be taken into account.

Resolutions to amend the articles of association shall be capable of being passed, if the proposal to that effect has been made by the Management Board, with an absolute majority of the votes validly cast. If such proposal has not been made by the Management Board, then these resolutions shall only be capable of being passed with a majority of at least two thirds of the votes validly cast in a General Meeting, in which at least three quarters of the issued share capital is represented.

ARTICLE 1I

The Management Board is authorized until May 30, 2016, to issue shares, or to issue rights to acquire shares until the issued share capital amounts to EUR 13,000,000 and to exclude pre-emption right.

At the SMARTRAC Annual General Meeting of Shareholders on June 19, 2012, the Management Board was granted the authority to repurchase up to 10 percent of the company's issued share capital, with due observance of the relevant law provisions, for a period of 18 months following June 19, 2012. The consideration for the shares to be repurchased will be at least 80 percent of the opening stock price of the shares of the company at the date of such repurchase and at the most 120 percent of the opening stock price.

ARTICLE 1J

Not applicable.

ARTICLE 1K

The contract of Dr. Fischer, former CEO and Chairman of the Management Board of SMARTRAC N.V., comprised a change of control provision. In the event a third party exercises a controlling influence, Dr. Fischer had the right to terminate his contract and receive a redundancy payment. In the context of the voluntary public offer of OEP Technologie B.V. announced with a press release on August 30, 2010, Dr. Fischer waived his extraordinary right of termination of his service agreement and a claim for an indemnity payment. This payment claim may be reinstated under certain circumstances. The employment contract of Christian Uhl, Co-Chairman of the Management Board of SMARTRAC N.V., also comprises a change of control provision. In the event that a third party exercises a controlling influence, Christian Uhl has the right to terminate his contract and to receive a redundancy payment. In the context of the Voluntary Public Offer of OEP Technologie B.V., he waived his extraordinary right of termination of his service agreement and a claim for an indemnity payment. This payment claim may be reinstated under certain circumstances.

APPROPRIATION OF THE RESULT IN ACCORDANCE WITH THE ARTICLES OF ASSOCIATION

Pursuant to Article 21, section 1 of the articles of association, the profit shown in the adopted annual accounts, after deducting all tax owed by SMARTRAC N.V. (the Company), shall first be applied for the addition to the reserves of such an amount as the Management Board shall determine. The profit which then remains shall be at the unrestricted disposal of the General Meeting of Shareholders. The General Meeting of Shareholders can add the profits to the Company's reserves or distribute the profits in accordance with the dividend and reserves policy adopted by the General Meeting of Shareholders.

For the financial year 2012, the Management Board determines the profit shown in the attached annual accounts which is subject to the adoption of the General Meeting of Shareholders on June 18, 2013, to be retained as retained earnings.

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