SMARTRAC

# COMBINING THE BEST

ANNUAL REPORT 2011

| In thousands of EUR | | Consolidated 12 months ended December 2011 | Consolidated 12 months ended December 2010 | Change | Change in % |
|---|---|---|---|---|---|
| **Consolidated income statement** | | | | | |
| Revenues | | 167,604 | 180,111 | (12,507) | (6.9) |
| EBITDA [1] | | 15,213 | 19,725 | (4,512) | (22.9) |
| Net profit after tax [2] | | (41,554) | 6,073 | (47,627) | (784.2) |
| **Financial position and liquidity** | | | | | |
| Net cash provided by (used in) operating activities | | 6,326 | 1,940 | 4,386 | 226.1 |
| Working capital | | 27,629 | 43,722 | (16,093) | (36.8) |
| Capital expenditure [3] | | 19,105 | 18,207 | 898 | 4.9 |
| Total assets | | 264,080 | 248,457 | 15,623 | 6.3 |
| **Operating figures** | | | | | |
| Basic earnings per share | EUR | (2.54) | 0.41 | (2.95) | (719.5) |
| Operating cash flow per share | EUR | 0.39 | 0.13 | 0.26 | 200.0 |
| Equity ratio | % | 52.6 | 65.0 | (12.4) | (19.1) |
| Headcount | at month's end | 3,676 | 3,488 | 188 | 5.4 |

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

# ANNUAL REPORT 2011

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 79 and on page 184.

# WE HAVE AN EYE ON EVERY SINGLE PIECE OF GARMENT IN YOUR SUPPLY CHAIN.

**18.36 $cm^2$**

of etched antenna labels can provide accurate inventories at any time.

# MANAGEMENT REPORTS


# DEAR SHAREHOLDERS, DEAR FRIENDS OF OUR COMPANY,

2011 was one of the most challenging and exciting years in our company history so far. In the year of our tenth company anniversary, we experienced mixed market conditions, continued working on the setup and optimization of structures and processes within the Group, had to cope with the most severe flood in Thailand for decades, and conducted several acquisitions. Each individual factor poses challenges to organizations and employees. Successfully managing the coincidence of all of them is a clear sign of the strength of this company and the dedication and commitment of our global team.

## EXPERIENCING MIXED MARKET CONDITIONS

We started the year with the clear knowledge that the exceptionally strong market upturn of 2010 would diminish to a certain extent. In the first half of 2011, market growth and order entry returned to a more moderate level than in the preceding year, yet still showed positive development. The slowdown of growth particularly in the card inlay related business segments continued over the course of the second half-year and came off deeper than anticipated which led to a temporary underutilization of our card inlay production capacities. In total, the business development of SMARTRAC was satisfactory under the given circumstances.

The market development for electronic identity documents continued to progress stably in 2011. Whereas the number of new e-passport projects was moderate, the introduction of new electronic national ID cards and identity documents developed well. The Business Unit eID improved its sales figures by 4 percent in 2011 compared with 2010. This sales increase is gratifying, given the fact that the Business Unit eID was among those business units which were significantly affected by the flood disaster in Thailand in the fourth quarter of 2011.

From a strategic perspective, the Business Unit eID continued to further expand its global network of high-security production facilities consisting of facilities in Asia, Europe, and the U.S. In 2011, the production location in Reichshof-Wehnrath obtained EAL5+ certification from the German Federal Office for Information Security (BSI). With the completion of this site certification, SMARTRAC is the only high security inlay and e-Cover manufacturer holding two active EAL5+ site certificates. The production location in Minnesota earned ISO 9001:2008 certification in addition to Security Assurance Certification from NASPO, the North American Security Products Organization, and qualification from U.S. government authorities for the high security production of RFID inlays.

SMARTRAC is the foremost high-security supplier for personal electronic identification documents such as e-passports and national e-ID cards. Our proprietary wire-embedding technology has become the leading technology standard in government applications, where suppliers must meet stringent requirements in terms of security, quality, and durability. In 2011, we further expanded our leading market position and attracted new projects in the global market for high-security identity document supply. Due to the flood disaster in Thailand, however, the Business Unit was not able to seize the opportunities resulting from the positive business development.

The market for contactless card applications slowed down in 2011 after significant growth in 2010. The Business Unit Cards had a positive start into the year, but the first signs of weakening market development became clearer in the second quarter of 2011 and continued throughout the year. Particularly business with non-EMV card inlays dropped significantly as did demand for card inlays for public transport card inlays. Business with PRELAM™ and card inlays for EMV applications, dual interface card inlays and card inlays for access control applications developed moderately in 2011. This could not, however, compensate for the decline in the e-payment and public transport business. Due to this, the company's card inlay production capacities were temporarily underutilized. On top of all this, the flood disaster in Thailand in the fourth quarter of 2011 further affected the business unit significantly. As a result, the Cards Business Unit reported a decline in sales of 28 percent in 2011 compared with the previous year.

SMARTRAC's car immobilizer, remote control, and passive keyless entry business is directly linked to the overall situation in the automotive industry in terms of production and sales of new cars. In 2011, the market in total continued to develop positively. The Industry & Logistics Business Unit was able to benefit from demand in the established application fields and continued to expand its product development activities for the automotive industry to include supplementary fields of application, such as the tagging of engines, car bodies, and safety-relevant parts. The non-automotive business activities also developed satisfactorily. Particularly business with entry ID tags showed good progress. The positive progress was, however, diminished by the flood disaster in Thailand which also had an effect on the production capacity for certain product families in the Industry & Logistics Business Unit. Altogether, the Industry & Logistics Business Unit improved its sales revenue by 3 percent in 2011 compared with 2010.

The most impressive business development in 2011 was achieved in the Tickets & Labels Business Unit. On the basis of business with established markets as well as from new project wins, the Tickets & Labels Business Unit increased sales by 80 percent in 2011 compared with 2010. Vast demand in the retail and apparel application field led to high order intake, including the highest single order in our company history to date. Business with products for library and media management developed on a positively and stably growth level. Production capacity at the site in Kulim was further increased in the course of 2011 in order to satisfy the high levels of demand.

New employees were hired and trained to support the future growth in this very promising market segment. The teams are also working on securing new projects and on stepping up production capacity and manufacturing excellence.

In summary, the severe flood in Thailand with its adverse effects on overall production capacity had a significant impact on the company in 2011. Due to the effects of the flood and the weaker demand in certain business segments over the course of the year, SMARTRAC was not able to achieve the sales target set for the full year 2011. Revenue declined by 7 percent from EUR 180.1 million in fiscal year 2010 to EUR 167.6 million in 2011.

Based on the company's focused RFID strategy with a unique position in the RFID value chain, a broad technology base, innovative strength, and the largest production capacities worldwide, we are confident that we will return to our former strength and be able to participate in the future growth of the RFID market as soon as we have fully overcome the challenges posed by the flood.

## IMPROVING EXCELLENCE

Based on the stable but moderate demand in the worldwide RFID industry which we experienced during the first months of the year, the company returned to a much steadier pace of operations than in 2010. Therefore, we were able to focus our attention on strategic projects and again turn our attention to the excellence project that we launched in 2009.

The project started in 2009 focusses on improving structures and processes in order to leverage untapped efficiency potentials. The first analysis in 2009 which was conducted at our single largest production facility in Thailand had shown significant potential and was meant to be expanded to other facilities of the global production network where appropriate. We had to put this project on hold in 2010, due to the exceptional market dynamics which challenged our organization in terms of keeping pace with the huge order entry and steadily expanding the manufacturing capacity. This project was revived in 2011.

We continued working on the optimization of structures and processes and started a restructuring program at our core production facilities in Thailand. The initiated measures achieved initial encouraging successes in August and September 2011. These successes were, however, abruptly disrupted by the flood disaster which ravaged Thailand in October 2011.

## COPING WITH THE FLOOD DISASTER IN THAILAND

On October 6, 2011, we were forced to evacuate employees and production equipment due to the most severe flood the region had seen in 70 years. Whereas it initially looked like the flooding would spare the Hi-Tech industry park and our production facilities, we finally had to cope with the fact that the main floors of our production facilities were flooded up to approximately 2.5 meters at the peak. The upper floors however remained waterless.

The force majeure event was and still is a great challenge for our company, the team, and our customers. Especially the unpredictability of the course of events, the uncertainty as to when the water would recede, and when we would be able to restart production was very encumbering.

Despite this uncertainty, the most part of our global customer base was very sympathetic and showed unwavering trust in us and our disaster recovery measures. The excellent relationship with customers and business partners which we have built up over the past years proved very beneficial in this exceptional situation. The support which we experienced was remarkable. Therefore, on behalf of the entire Group Executive Team, we would like to sincerely thank all our customers and business partners for their confidence and kind support.

From an overall perspective, we can state that we not only managed the flood disaster much better than most of the companies in the region, we were also able to increase our customers' trust in us. The competent management of the preventive measures, the evacuation, and the recovery measures as well as the outstanding commitment of the local staff despite being personally affected, were decisive for the positive outcome. Despite this severe incident, our commitment to the production location Thailand remains unchanged. Instead, we have used the force majeure event in Thailand to revise our disaster recovery plans and set the prerequisites to be even better prepared for future challenges whenever and wherever they may occur. The setup of card inlay manufacturing capacities in Malaysia will also contribute to the further diversification of our global production network.

In addition to the adverse effect on our customers, the flood disaster also affected many of our employees who live in the region. To support our local team, we decided to implement several measures such as wage continuation and the establishment of a relief fund. These measures were not only meant to fulfill our corporate social responsibility, we also wanted to take care of our colleagues and friends in need. In addition to the corporate measures, the helpfulness of the global team was amazing. We always knew that we work with a highly committed and passionate team, which we consider to be unique and the best team in the entire RFID industry. This incident has shown us more than anything that we are truly one team standing and fighting together. Therefore, it is the top management's aim to pay even more attention to maintaining and fostering this unique 'SMARTRAC' spirit which has made this company what it is today and has kept us growing.

## MATERIALIZING OUR GROWTH STRATEGY

Over the past years, it has been our declared strategy to grow both organically and via select acquisitions. The opportunities which presented themselves to our company in 2011 were extraordinary and we are even more pleased that we were able to take these chances and acquire some of the leading players in their respective fields.

On December 14, 2011, we acquired KSW Microtec AG (KSW). Based in Dresden, Germany, KSW has more than 15 years of expertise and manufacturing experience in the production of RFID inlays, pre-laminates, and components. The acquisition of KSW further extends our leading market position in the RFID industry in particular in the access control, e-payment, e-Ticketing, and asset management application fields as well as for high-security products for government identification documents.

Integration of KSW into the SMARTRAC Group is almost completed. The site in Dresden will become the Research & Development Competence Center for PRELAM™-related products as well as for the development of high-security products for government identification documents. Along with our competence center in Thailand, the competence center in Dresden will play a key role in developing new products, identifying and utilizing new production technologies and generating innovation for the entire Group. As part of the integration, KSW changed its company name to SMARTRAC TECHNOLOGY Dresden GmbH.

On December 22, 2011, we reached an agreement with UPM-Kymmene Corporation (UPM) under which SMARTRAC will take over UPM's RFID business while UPM-Kymmene Corporation will become an indirect stockholder of SMARTRAC. As a consideration for UPM's RFID business, UPM will obtain an indirect economic interest in SMARTRAC of 10.6% through OEP Technologie B.V., the majority shareholder of our company.

UPM RFID 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. The transaction is still subject to certain customary closing conditions, including regulatory approvals, and is expected to be completed within the first quarter of 2012. Accordingly, the UPM RFID transaction was not taken into account in the SMARTRAC 2011 Annual Report.

On December 8, 2011, we signed an agreement with Tenedora de Empresas S.A. de C.V. (Tenedora), regarding the acquisition of Neology, Inc., a leader in electronic vehicle registration (EVR), and electronic toll collection and public safety markets. The company is headquartered in San Diego, California, with offices in Mexico City. Neology's expertise in the UHF RFID business and the company's comprehensive intellectual property (IP) will further strengthen our broad technology base. Under the agreement, Tenedora will continue to be a major shareholder of the company and Neology will continue its business under their existing company name and brand.

On November 11, 2011, we acquired Dalton ID Group, a well-established provider of animal identification products headquartered in the UK. The company complements our product range and provides us with the platform to further accelerate growth in this business segment. Integration of the Dalton ID Group into the SMARTRAC Group is underway. Based on the long tradition of the company, Dalton ID will continue operating under their own corporate name.

We are well aware of the fact that acquisitions and especially the necessary integration processes bring both challenges and risks with them. We are, however, fully convinced that we will be able to manage these challenges successfully and that SMARTRAC will be a much stronger company after completion of the transactions and integration projects. The acquisitions will not only strengthen our product portfolio, manufacturing capacity, research & development capabilities, Intellectual Property (IP), global sales force, and global footprint. They will also give us the opportunity to build up the best team in the RFID-industry based on the unique SMARTRAC spirit and the commitment and passion of our global team. The combined business activities will also further strengthen our strong technology base and patent portfolio.

## EXECUTING OUR FOCUSED INTELLECTUAL PROPERTY STRATEGY

SMARTRAC holds a strong portfolio of patents in the RFID industry. With more than 371 own 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 continuous incidents that SMARTRAC must face.

In our long experience with executing intellectual property rights, SMARTRAC has experienced time-consuming and cost-intensive proceedings, which not always led to the intended outcome in the various jurisdictions. SMARTRAC will focus itself by taking a case by-case approach in monitoring and executing, but also in filing its intellectual property rights by considering a clear cost-benefit-analysis.

Today, SMARTRAC's leading position in the RFID industry is based on numerous unique capabilities: our core competence in the manufacturing of RFID inlays has been continuously advanced by our comprehensive process and engineering expertise. We also have extensive experience in module packaging, connecting and assembly technologies, comprehensive 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 partnerships with dedicated machinery building companies will secure SMARTRAC's leadership position in the global RFID market. The acquisitions conducted at the end of 2011 which include some of the oldest companies in the industry, will further strengthen SMARTRAC's strong intellectual property standing, research & development capabilities, and technology range significantly.

This broad range of skills and capabilities is decisive for developing and producing high quality RFID products. We provide a worldwide network of production facilities, including high-security manufacturing sites, we maintain global research and development and prototyping centers, and we have a highly motivated team to serve our customers' needs and to drive market developments. Our portfolio of competitive advantages will thus enable us to successfully maintain and expand our market position based on our respected and trusted competence in high-security RFID technology.

## KEY FINANCIAL FIGURES 2011

Due to the severe flood in Thailand with its adverse effects on overall production capacity and the weaker demand in certain business segments over the course of the year, SMARTRAC achieved Group sales of EUR 168 million in the 2011 fiscal year, representing a decrease of 7 percent compared to EUR 180 million in 2010.

The positive but moderate order entry in the eID and Industry & Logistics business units and the extremely positive development in the Tickets & Labels business unit could not counterbalance the weakening demand in the Cards Business Unit and the consequences of the flood in Thailand. As a result, Group EBITDA decreased by 23 percent to EUR 15 million, compared with EUR 20 million in 2010. EBITDA for 2011, as per definition, excludes extraordinary costs for the restructuring program in Thailand implemented in July and August 2011, extraordinary costs related to the flood in Thailand, as well as extraordinary acquisition costs. The EBITDA margin amounted to 9 percent in 2011, compared with 11 percent a year ago.

As of December 31, 2011, total assets of the consolidated balance sheet amounted to EUR 264 million, representing an increase of 6 percent compared to the previous year's figure of EUR 248 million. This increase mainly resulted from the increase in intangible assets and property, plant and equipment related to the acquisitions conducted at the end of 2011.

A detailed analysis of the financial figures and the two business segments 'Security' and 'Industry' is provided in the section 'Key Financial Figures 2011 and Business by Segments' in this Annual Report.

## SHARE DEVELOPMENT 2011

The performance of the SMARTRAC share in 2011 was characterized by the low free float and the associated low trading volumes. Our share started 2011 at EUR 18.31 and recorded its high for the year on January 6, 2011, at EUR 18.78. On November 22, 2011, the share recorded its low for the year at EUR 10.27. The share closed the reporting period at EUR 11.00.

Throughout the course of 2011, SMARTRAC communicated regularly with the capital markets and constantly updated the financial community on its business perspectives and operating development. It is our firm 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

In December 2011, we conducted a capital increase, issuing 1,409,091 new bearer shares excluding subscription rights for shareholders. The new bearer shares were fully signed by the majority shareholders of the company OEP Technologie B.V. and Manfred Rietzler at an issue price of EUR 11.00 payable in cash. Consequently, SMARTRAC increased its share capital from EUR 8,167,498.50 (16,334,997 bearer shares) to EUR 8,872,044 (17,744,088 bearer shares). SMARTRAC received gross proceeds of approximately EUR 15.5 million. The company used the proceeds to finance the acquisition of Neology.

## EXPANSION OF THE SUPERVISORY BOARD

The 2011 Annual General Meeting of Shareholders appointed Manfred Rietzler and Tobias Reich as Members of the Supervisory Board of SMARTRAC N.V. Manfred Rietzler is one of the co-founders of the company and a major shareholder of SMARTRAC N.V. He served the company as a Member of the Management Board and CTO prior to his appointment. Tobias Reich is investment professional at One Equity Partners Europe GmbH, an affiliate of OEP Technologie B.V., the majority shareholder of the company. Both appointments were approved by 100 percent of the votes cast.

Jan C. Lobbezoo resigned as a Member of the SMARTRAC Supervisory Board as of May 31, 2011. The SMARTRAC Management Board would like to take this opportunity to cordially thank Mr. Lobbezoo for his advice and support over the past four years.

Following the changes, the Supervisory Board consists of six members, providing supervision and advice to the SMARTRAC Management Board.

## OUTLOOK

The year 2011 was one of the most challenging and exciting years in our company history so far. We successfully overcame the most severe disaster Thailand and our company has experienced to date. With the accomplished acquisitions, we have further strengthened the foundations for the future growth of our company. On the basis of our focused strategy and business model as pure RFID inlay and transponder manufacturer, our strong technology portfolio, diversified product offering, global presence in sales, production, research and development, and above all, our highly committed and motivated team, we are convinced that we will be able to further expand our leading market position in the global RFID industry.

Despite the weaker demand in certain application fields experienced in 2011, the RFID is and will continue to be a market with strong growth potential. Therefore, we are committed to growing steadily and robustly and to create value for our employees, shareholders, customers, business partners, and the company itself.

For the 2012 fiscal year, we are confident that we will be able to achieve growth and an improvement in our profitability. SMARTRAC Group sales are expected to grow to EUR 250 million in 2012. In terms of profitability, we are working hard to achieve Group EBITDA margins which come close to past levels.

## COMBINING THE BEST

The current integration processes follow the guiding principle 'Combining the Best'. This main idea is not only an expression of our mindset as to how we are realizing the integration process, it is also an expression of the value we aim to generate for our joint customer base, business partners, employees, and other stakeholders in our company.

'Combining the Best' means that some of the best-known companies in their respective fields are united in the SMARTRAC Group. SMARTRAC will use the integration processes to combine the best elements to shape an even more successful, strong company with a brand renowned throughout the industry.

As a result of the integration, it is our firm goal to support the growth and success of our customers with the best R&D team in the industry, the broadest technology base, the largest production capacity over all frequencies, the best production technologies, the best team in the global RFID-industry and the best product portfolio, in accordance with our proven and dedicated business model as a developer, manufacturer, and supplier of RFID transponders and inlays. In addition, the combined business activities aim at delivering customers the best service, highest quality, innovation, and best value.

For the global teams, the combined business activities will offer increased career opportunities on an international level, the best possibilities in the RFID industry for professional development and the chance to work for one of the most trusted companies in this market segment with a brand to be proud of. Together and with our unique SMARTRAC spirit, we will be able to successfully shape the coming years of excellence, leadership, innovative power, and success.

On behalf of the Management Board, I would like to sincerely thank all our employees for their tireless dedication, amazing team spirit, vital contribution, and excellent performance, both as individuals and as a team, which has helped us to overcome the challenges of the flood and will secure the Company's success for the future.

We would also like to thank our customers and business partners for their unwavering trust, confidence and kind support facing the exceptional disaster as well as for the excellent business relationships over the past years. We look forward to a continued close collaboration and open dialogue in the future.

Sincerely yours,

Dr. Christian Fischer
CEO of SMARTRAC

Amsterdam, March 23, 2012

# 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 that members of the Management Board simultaneously act as members of the Supervisory Board.

As far as Dutch Corporate Governance is concerned, please refer to page 70 of this Annual Report for further information on the company's corporate governance structure including the Supervisory Board.

### COMPOSITION OF THE SUPERVISORY BOARD

The SMARTRAC Supervisory Board consists of six members: Prof. Dr. Bernd Fahrholz (Chairman), Manfred Rietzler (Vice-Chairman), Christopher von Hugo, Wolfgang Huppenbauer, Tobias Reich, and Dr. Jörg Zirener.

In 2011, the SMARTRAC Supervisory Board was enlarged from five to six members. At the SMARTRAC Annual General Meeting of Shareholders held on May 31, 2011, Manfred Rietzler and Tobias Reich were appointed to the SMARTRAC Supervisory Board each with 100 percent of the votes cast. Jan C. Lobbezoo resigned as a member of the SMARTRAC Supervisory Board and Chairman of the Audit Committee as of May 31, 2011.

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 Christopher von Hugo, Dr. Jörg Zirener, Tobias Reich, and Manfred Rietzler. Christopher von Hugo and Dr. Jörg Zirener are both Managing Directors, Tobias Reich is investment professional at One Equity Partners Europe GmbH, an affiliate of OEP Technologie B.V., the majority shareholder of the Company. Manfred Rietzler was a Member of the Management Board of the company prior to his appointment to the SMARTRAC Supervisory Board.

## ACTIVITIES OF THE SUPERVISORY BOARD

The SMARTRAC Supervisory Board held ten meetings during the 2011 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 five plenary sessions with one exception where two members of the Supervisory Board were not able to participate in one of the plenary sessions. In addition, the majority of the members of the Management Board were present at the five plenary meetings. Five meetings were arranged via conference call with all members of the Supervisory Board dialing in with two exceptions where one member of the Supervisory Board was not able to dial in. 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.

The Supervisory Board further reviewed the performance of the Management Board and the performance of its individual members in 2011, 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 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.

## THE AUDIT COMMITTEE

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

- Jan C. Lobbezoo, Chairman of the Audit Committee until May 31, 2011
- Prof. Dr. Bernd Fahrholz, Member of the Audit Committee
- Dr. Jörg Zirener, Member of the Audit Committee

In 2011, the Audit Committee held its meeting on March 23. No further meetings of the Audit Committee were necessary because any further tasks of the Audit Committee were performed by the whole Supervisory Board during the 2011 fiscal year. Prior to each announcement of the 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 SMARTRAC Management 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 2011 with the external auditor at the Supervisory Board meeting held on March 23, 2012.

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 decision using internal and external resources.

## PROF. DR. BERND FAHRHOLZ (64*)

### 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 (50*)

### 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.

## CHRISTOPHER VON HUGO (48*)

### 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 Dreieich, Germany

- Managing Director of OEP Europe GmbH
- Member of the Supervisory Board of Süd-Chemie AG
- Member of the Supervisory Board of Constantia Packaging AG
- Member of the Shareholders' Committee of Cereals Holding AG

## WOLFGANG HUPPENBAUER (57*)

**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 2012

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 (36*)

**MEMBER OF THE SUPERVISORY BOARD**

Appointment effective with the 2011 SMARTRAC Annual General Meeting

Term of office ends in 2015

- Investment Professional of One Equity Partners Europe GmbH
- Member of the Shareholders' Committee of Cereals Holding AG

## DR. JÖRG ZIRENER (39*)

**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 OEP Europe GmbH
- Deputy member of the Supervisory Board of Süd-Chemie AG
- Member of the Supervisory Board of Constantia Packaging AG

* Age as of December 31, 2011

## 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
- Dr. Jörg Zirener, Member of the Strategy Committee

In 2011, the Strategy Committee met on August 16, and on October 27. The Strategy Committee devoted considerable time to discussions on 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 78 to 79 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 for 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 70 to 77 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 which 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 is discussions.

The term of office of 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 of Wolfgang Huppenbauer is three years and ends with the Annual General Meeting of Shareholders in 2012. The term of office of Christopher von Hugo is four years and ends with the Annual General Meeting of Shareholders in 2014. The term of office of Dr. Jörg Zirener is four years and ends with the Annual General Meeting of Shareholders in 2014. Manfred Rietzler and Tobias Reich were appointed to the SMARTRAC Supervisory Board at the Annual General Meeting of Shareholders held on May 31, 2011. The terms of office are four years until the Annual General Meeting of Shareholders in 2015.

Jan C. Lobbezoo resigned as a Member of the SMARTRAC Supervisory Board and Chairman of the Audit Committee as of May 31, 2011. Dr. Jörg Zirener was appointed as Chairman of the Audit Committee in the Audit Committee Meeting on March 23, 2012. Tobias Reich was appointed Member of the Audit Committee on March 23, 2012.

## FINANCIAL STATEMENTS 2011

The Annual General Meeting of Shareholders will be asked on June 19, 2012, to adopt the financial statements of SMARTRAC for the 2011 fiscal year, as prepared by the Management Board and discussed and approved by the Supervisory Board in its meeting of March 23, 2012. The consolidated and the company financial statements on pages 82 to 178 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 2011 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 2011. Our team in Thailand particularly deserves our gratitude for their relentless effort to restart production after the severe flood. We would also like to thank business partners and customers for their support and commitment to SMARTRAC as well, especially in the challenging fourth quarter of 2011.

Amsterdam, March 23, 2012

Prof. Dr. Bernd Fahrholz
Chairman

Manfred Rietzler
Vice-Chairman

Christopher von Hugo
Member

Wolfgang Huppenbauer
Member

Dr. Jörg Zirener
Member

Tobias Reich
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 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 2011, the SMARTRAC Group Executive Team underwent several changes. Manfred Rietzler, Director A, Member of the Management Board upon the incorporation of the company in January 2006, and Chief Technical Officer (CTO) of SMARTRAC from July 1st 2007, to May 30, 2011, formally retired from the SMARTRAC Management Board on May 30, 2011. His decision to assume a new role and serve the Company as Member of the Supervisory Board was based on his intention to focus on new technologies and the strategy of the Company rather than managing day-to-day business.

Based on Manfred Rietzler's decision to serve the Company as a Member of the Supervisory Board, Wolfgang Schneider took over responsibility for the Tickets & Labels business at the beginning of 2011.

Since the SMARTRAC Annual General Meeting of Shareholders on May 31, 2011, the SMARTRAC Management Board consists of three members: Dr. Christian Fischer, Chairman of the Management Board and Chief Executive Officer (CEO), Wolfgang Schneider, Member of the Management Board and responsible for the company's Tickets & Labels business, and Robert Harmzen, Member of the Management Board.

SMARTRAC and Dato' Tan Soo Hee, Member of the Group Executive Team, who held the position of Group Chief Operating Officer from June 1, 2010, agreed by mutual consent to the termination of Dato' Tan Soo Hee's employment contract effective January 2, 2012. In the wake of his departure, Christian Uhl, Group CFO, took over responsibility as Group COO on an interim basis.

In December 2011, the SMARTRAC Group Executive Team was enlarged by Thomas Hitzer, former CEO of KSW Microtec AG. Thomas Hitzer took over responsibility as new Head of BU Cards from Wolfgang Schneider.

## DR. CHRISTIAN FISCHER (43*)

**CHAIRMAN OF THE MANAGEMENT BOARD**

**CHIEF EXECUTIVE OFFICER (CEO)**

Effective July 1, 2007, Dr. Christian Fischer took over responsibility as Chief Executive Officer (CEO) of SMARTRAC. Dr. Fischer joined SMARTRAC as Chief Financial Officer (CFO) at the end of 2005 and became a Member of the Management Board upon the incorporation of the company in January 2006. Dr. Christian Fischer has a degree in business administration and a doctorate in financial economics from the University of Hohenheim in Stuttgart, Germany.

## WOLFGANG SCHNEIDER (54*)

**MEMBER OF THE MANAGEMENT BOARD**

**RESPONSIBLE FOR THE TICKETS & LABELS BUSINESS**

Wolfgang Schneider is Member of the Management Board of SMARTRAC since May 31, 2011. 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.

## CHRISTIAN UHL (39*)

**MEMBER OF THE GROUP EXECUTIVE TEAM**

**GROUP CHIEF FINANCIAL OFFICER (CFO)**

**ACTING GROUP CHIEF OPERATIONS OFFICER (GROUP COO)**

Christian Uhl is Member of the Group Executive Team and holds the management position of Group Chief Financial Officer (CFO) of SMARTRAC. He joined the company in May 2006 and held the management position of the Director 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.

## MARTIN KUSCHEWSKI (44*)

**MEMBER OF THE GROUP EXECUTIVE TEAM**

**HEAD OF BUSINESS UNIT E-ID**

Martin Kuschewski is Member of the Group Executive Team and Head of the 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 e-ID in which he built up and organized SMARTRAC's global e-ID business activities. Martin Kuschewski has a diploma in electrical engineering from the University of Applied Sciences Munich, Germany.

## MARKUS SPRENG (45*)

**MEMBER OF THE GROUP EXECUTIVE TEAM**

**HEAD OF BUSINESS UNIT INDUSTRY & LOGISTICS**

Markus Spreng is a Member of the Group Executive Team and Head of the 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 has a degree in electrical engineering.

## THOMAS HITZER (49*)

**MEMBER OF THE GROUP EXECUTIVE TEAM**

**HEAD OF BUSINESS UNIT CARDS**

Thomas Hitzer is a Member of the Group Executive Team and Head of the Business Unit Cards. 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 the CEO since 2007. In addition, he served as Director of Microcomponents AG from 2007 to 2008. Thomas Hitzer has a degree in electrical engineering with focus on semiconductors from technical university in Ilmenau, Germany.

* Age as of December 31, 2011

# WE ARE THE TRUSTED PARTNER FOR MORE THAN 40 E-PASSPORT PROJECTS THAT MAKE THIS WORLD MORE SECURE.


# EAL5+

Our products and production facilities offer quality and security standards that the world's leading authorities trust in.

# COMPANY PROFILE

# COMPANY PROFILE

SMARTRAC is a world leading developer, manufacturer, and supplier of RFID transponders and inlays. The Company has extensive technical and operating experience and a proven track record that amounts to more than 2 billion RFID transponders stand-alone. SMARTRAC is the global market leader for high-quality RFID inlays for e-passports and National ID cards. Our dedication to delivering high-quality, intelligent, and secure products is backed by our many certifications, making SMARTRAC the global market leader for contactless e-payment cards as well.

SMARTRAC also holds a leading market position in the development, production, and supply of ready-made as well as customized transponders and inlays for public transport, access control, car immobilizers, library, retail apparel, as well as industry and logistics applications.

## SMARTRAC – THE PREFERRED MANUFACTURING PARTNER IN THE RFID INDUSTRY

Customers and business partners enjoy working with us because we are a dedicated and highly motivated team and we strive to solve the challenges our customers face in addition to offering a standard product range. These characteristics and our 'unique SMARTRAC spirit' are highly valued by our business partners.

The factors which made SMARTRAC the RFID transponder and inlay manufacturer of choice for a global customer base are excellence, innovative power, outstanding products, and the capability to provide large numbers of RFID transponders of excellent quality and with short lead times.

Another important success factor is the Company's deliberately chosen business model as a developer, manufacturer, and supplier of RFID transponders and inlays. SMARTRAC's strategic position in the RFID value chain is the ideal basis for further enhancing the Company's leading market position and global presence.

Over the years, SMARTRAC has grown organically, via select acquisitions, geographical expansion, and development into new application fields.

In 2011, SMARTRAC successfully completed several acquisitions.

On December 14, 2011, SMARTRAC signed a contract with Deutsche Effecten- und Wechsel-Beteiligungsgesellschaft AG, Jena, Germany, regarding the acquisition of KSW Microtec AG (KSW) by SMARTRAC N.V. at an amount of EUR 24 million enterprise value.

KSW Microtec AG is based in Dresden, Germany, and has more than 15 years of expertise and manufacturing experience in the production of RFID inlays, prelaminates, and components based on etched and printed antennas deploying advanced wafer processing, assembly, laminating, and interconnecting technologies.

The acquisition of KSW ideally complements SMARTRAC's strong intellectual property, product portfolio, research & development capabilities, and technology range. In addition, the acquisition further extends SMARTRAC's leading market position in the RFID industry in particular in the access control, e-payment, e-Ticketing, and asset management application fields as well as for high-security products for government identification documents.

As part of the integration of KSW into the SMARTRAC Group, the site will become the Research & Development Competence Center for PRELAM™-related products as well as for the development of high-security products for government identification documents. In addition to the Company's Competence Center in Thailand, the competence center in Dresden will play a key role in developing new products, identifying and utilizing new production technologies and generating innovation for the entire Group.

On December 22, 2011, SMARTRAC reached an agreement with UPM-Kymmene Corporation (UPM) by which SMARTRAC will take over UPM's RFID business while UPM-Kymmene Corporation will become an indirect stockholder of SMARTRAC. The transaction is still subject to certain customary closing conditions, including regulatory approvals, and is expected to be completed within the first quarter of 2012.

As consideration for UPM's RFID business, UPM will obtain an indirect economic interest in SMARTRAC of 10.6% via OEP Technologie B.V.. OEP Technologie B.V. is a holding company controlled by One Equity Partners (OEP). OEP Technologie B.V. currently holds approximately 87 percent of the issued capital and voting rights in SMARTRAC.

UPM RFID is part of UPM-Kymmene Corporation's Engineered Materials business group and consists of three companies located in Finland, the United States and China. UPM RFID 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.

Effective November 11, 2011, SMARTRAC acquired Dalton ID Group, a well-established provider of animal identification products, headquartered in Henley-on-Thames, UK. Animal identification is a promising market segment driven by legal requirements to ensure food safety and the benefits of optimized farm management. Dalton ID Group complements SMARTRAC's product offering of injectable glass transponders, coil & chip inlays for earmarks and transponders for bolus application. Established in 1947, the company has long-standing business relationships with the farming, research, wildlife, and marine research industries. Based on the company's long tradition, Dalton ID Group will continue operating under their own corporate name.

On December 8, 2011, SMARTRAC signed an agreement with Tenedora de Empresas S.A. de C.V. (Tenedora), regarding the acquisition of Neology, Inc. Under the terms of the agreement, SMARTRAC acquired Neology for US $ 30.0 million, on a cash and debt free basis. In addition, the parties agreed on an earn-out component of up to US $ 9.0 million whereof US $ 6.0 million was provided per December 31, 2011, based on the results of operations for the years 2011 and 2012. Tenedora, the former majority shareholder in Neology, retained a 12 percent stake in Neology and agreed to reinvest any earn-out payments it may receive into the combined company.

Neology is a leader in electronic vehicle registration (EVR), electronic toll collection and public safety markets. The company employs more than 150 people and is headquartered in San Diego, California, with offices in Mexico City. 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) are expected to contribute toward strengthening SMARTRAC's technology base. Under the new ownership, Neology and its 150 employees will continue its business activities in San Diego and Mexico City under its existing company name and brand.

## SMARTRAC – COMBINING THE BEST

As a result of the acquisitions, SMARTRAC established 'Combining the Best' as a guiding principle for the integration processes. 'Combining the Best' as a basic idea not only expresses the Company's mindset as to how the integration processes will be realized, it is also an expression of the value the Company intends to generate for the joint customer base, for business partners, employees, and other stakeholders in the Company.

The combined business activities are aimed at providing customers with the best service, highest quality, innovation, and best value within the proven and dedicated business model as a developer, manufacturer, and supplier of RFID transponders and inlays. Business partners will benefit from a strong partner whose focus is on growing together with its partners. Business partners will also benefit from SMARTRAC's intention to take an active role in the industry to develop RFID further with leadership, a sense of responsibility, and innovation. The fair, cooperative, and trusting collaboration with customers and business partners is also the firm intention of the Company in the future.

Concomitant with the integration processes, the Company launched group-wide branding activities. The goal of the branding activities is to reinforce the global visibility of the SMARTRAC brand and further strengthen the core elements of its trusted brand which are growth, leadership, a strong technology and IP portfolio, high quality, a passionate team with a unique spirit, and a strong focus on customers' needs.

As part of the branding measures and conclusion of the integration of KSW into the SMARTRAC Group, KSW Microtec AG canged its company name to SMARTRAC TECHNOLOGY Dresden GmbH effective February 21, 2012, only two months after the acquisition.The name change from KSW to SMARTRAC TECHNOLOGY Dresden GmbH is a result 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.

## SMARTRAC – THE PREFERRED TECHNOLOGY PARTNER IN THE RFID INDUSTRY

Since its foundation, SMARTRAC 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. In 2011, SMARTRAC held more than 371 own patents and patent applications for technology, equipment, and the production of RFID components and continuously further developed its intellectual property (IP). The Company will also increase its IP by a significant amount due to the acquisitions conducted at the end of 2011. In addition to its proprietary intellectual property, SMARTRAC also has extensive knowledge and experience in processing technologies such as chip module packaging capabilities, antenna-chip connecting technologies, and lamination.

SMARTRAC's technologies are legally protected by patents in numerous countries worldwide. Nevertheless, market participants have tried to circumvent or challenge the Company's technologies and patents throughout the course of the Company's history. To date, SMARTRAC's patents have been recognized by numerous authorities and re-affirmed by various court rulings. In 2011, SMARTRAC again successfully enforced and defended its patents. Subsequent to the reporting period, SMARTRAC received a draft of a claim against SMARTRAC and one of its founding shareholders which the Company considers ineligible. 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.

The acquisitions will significantly strengthen the Company's strong intellectual property, research & development capabilities, and technology range. Based on its strengths, SMARTRAC is currently the worldwide leading developer, manufacturer, and supplier of RFID transponders and inlays and intents to maintain and expand its leading position in the future as well.

## BUSINESS UNITS & MARKETS

At year-end 2011, SMARTRAC looks back on three years of experience and success with its business unit structure. Since January 1, 2009, SMARTRAC's business has been structured into the four business units eID, Cards, Industry & Logistics, and Tickets & Labels. This business unit structure is an efficient organizational approach that ensures optimized utilization of resources as well as ideal market cultivation and customer support for each of the respective market segments and their specific needs.

### 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 healthcare cards, electronic social security cards, and electronic permanent resident cards.

In 2011, 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.

The advantages of second and third generation identification documents derive from a higher level of security and thereby a much better protection against identity fraud as well as prevention of illegal immigration. E-passports also offer substantial efficiency improvements for passenger processing at airports, land borders, and sea ports. One of the reasons for the moderate development of the e-passport market is the fact that many states in the Americas and Africa still need to commit to the ICAO standard which specifies that biometric data, such as facial data, fingerprint or iris scans protected by encryption together with further identification data on the identity document be stored electronically. Another reason for the moderate development is certainly due to the overall world economic climate which in 2011 predominantly was characterized by uncertainty.

The introduction of e-national ID cards continued to develop well in 2011. Besides a higher level of security, latest generation electronic national identity cards afford governments the opportunity to provide e-services to citizens and thereby facilitate interaction with administrative bodies and public authorities. The trend towards combining higher security standards with user convenience is also reflected in the introduction of e-health cards and other electronic identity documents.

### SMARTRAC – THE TRUSTED MANUFACTURING PARTNER FOR HIGH SECURITY ID DOCUMENTS

SMARTRAC has always been committed to highest security standards to protect governments' 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 became one of the first manufacturers and suppliers of e-covers and e-ID inlays to obtain an EAL5+ site certificate for its e-ID production facility in Thailand from the German Federal Office for Information Security (BSI) covering the production environment and processes for manufacturing of electronic identification documents as well as the initialization environment for e-ID documents.

In 2011, SMARTRAC further enhanced its strong commitment to providing the highest level of security and quality. The Company's facility in the United States earned the International Organization for Standardization's (ISO) 9001:2008 Certification. The ISO 9001:2008 standard specifies quality management system requirements focused on an organization's ability to meet quality requirements and customer satisfaction and is the worldwide most widely used and recognized quality management system standard.

SMARTRAC's site in the U.S. also received Security Assurance Certification from NASPO, the North American Security Products Organization, one of the strictest independent security certification processes worldwide in 2010. NASPO certification can only be achieved by implementing and ensuring high-level security assurance standards and a solid framework of security processes and best practices. In addition, the production location has been qualified by U.S. government authorities for the high security production of RFID inlays.

In October 2011, SMARTRAC obtained another EAL5+ certificate from the German Federal Office for Information Security (BSI). The EAL5+ site certificate for the Company's high security production site in Reichshof-Wehnrath, Germany, complements the already existing EAL5 certificate. With the completion of the second EAL5+ site certification, SMARTRAC is the only high security inlay and e-Cover manufacturer who holds two active EAL5+ site certificates

The security certifications mentioned above are not only proof of the Company's leadership in RFID-based e-covers and e-ID inlays. Customers throughout the value chain benefit from the highest security standards. As a trusted supplier for government identification documents, SMARTRAC has continuously invested in increasing the existing security level and upgrading its manufacturing sites into certified high-security production facilities and will continue this strategy in the future.

### PROJECTS AND MILESTONES 2011

In 2011, SMARTRAC was able to benefit from the stable demand in the e-ID market. While consistently serving the existing demand for high-quality e-passport inlays, SMARTRAC was also able to win new projects in Europe, Asia, and the Americas. Due to the sensitivity of the e-passport projects and the corresponding non-disclosure agreements (NDAs), SMARTRAC is not able to give further particulars on the business partners and countries to which the respective volumes relate.

Many of the served e-passport projects rely on DURASOFT™, an especially resilient material which enhances the documents' lifespan and durability. With the issuance of more and more e-national ID cards, electronic driver's licenses, electronic visa documents, contactless healthcare cards, electronic social security cards, and electronic permanent resident cards, SMARTRAC also enjoys strong demand for its SMART AC PC Inlay. Polycarbonate (PC) is generally a highly durable material. In the long-term, however, when the final card is being used under normal conditions, PC cards tend to suffer from micro cracks in areas of particular mechanical stress. Whilst traditional PC cards are replaced after a few years, government identification documents are in use for a comparably long period of time that can typically last up to 10 years. In order to fulfill the stringent requirements in terms of longevity, security, and reliability for government identification documents, SMARTRAC has invented SMART AC crack prevention to ensure the highest quality of PC card products over the required lifetime of ID documents. The product is manufactured according to the current ICAO recommendations and applicable ISO standards. The optimized thickness of the inlay allows customers to add additional security features over the course of the card manufacturing process without exceeding the standardized size parameters. Accommodating security, longevity, reliability, and customer requirements equally, the SMART AC PC Inlay is very popular on the e-ID market.

Based on the developments outlined above, SMARTRAC is in a very good position to participate in the further growth of the e-ID market. The acquisition of KSW Microtec AG will additionally strengthen SMARTRAC's market position, product offering, and technology base for highly secure identity documents.

## BUSINESS UNIT CARDS

The Cards business unit provides card inlays for public transport, access controls, e-payment, and active card applications and caters to card manufacturers as well as multinational system integrators with their own card manufacturing capabilities.

Following the strong growth in 2010, the overall market development for contactless card applications was very diverse in 2011. Demand for e-payment card inlays slowed down in the United States, particularly business with non-EMV card inlays dropped significantly. Migration to the EMV standard continued to make progress. Whereas financial institutions in Europe, Latin America, and Asia have been issuing EMV bank cards for several years, financial institutions in the United States historically issued magnetic stripe cards. With increasing card-related fraud losses, financial institutions, however, proceeded with the migration to the EMV standard as storing cardholder data on a microchip offer better protection against modification, counterfeit, and fraud. E-payment business outside of the U.S. developed as expected. As a certified manufacturer of PRELAM™ products, which are the foundation for cards issued by major credit card companies, SMARTRAC collaborates with the major players in the e-payment market to offer the best solutions for contactless payment.

Demand for card inlays for public transport systems also slowed down due to project delays. Business with dual interface card inlays and card inlays for access control applications developed moderately in 2011. This was not, however, able to compensate for the decline in the e-payment and public transport business.

### PROJECTS AND MILESTONES 2011

In December 2010, SMARTRAC officially opened its card inlay production at the manufacturing site in Kulim, Malaysia. At the beginning of 2011, SMARTRAC obtained Card Quality Management (CQM) Certification from MasterCard for its factory in Kulim, Malaysia. The CQM label was granted to SMARTRAC's high frequency card inlays following an on-site audit. The MasterCard CQM label for the factory in Kulim is an important accomplishment and complements the existing MasterCard CQM label for high frequency card inlays, durable dual-interface (DDI) inlays, and the module packaging process in the Company's production facility in Ayutthaya, Thailand. CQM is a quality program ensuring high quality standards throughout the entire production process of MasterCard-branded products. With the recently awarded CQM certification, it has been formally verified that SMARTRAC's production processes comply with the strict MasterCard quality requirements for the manufacturing facility, process management, testing, evaluation, and auditing.

In 2011, the Cards business unit signed an agreement with Sony Corporation regarding the high-volume supply of PETG-based FeliCa PRELAM™ products based on the Company's patented wire-embedding antenna technology for a specific micro-payment card project. In addition, the business unit supplied Sony Corporation with large volumes of PRELAM™ products for automated fare collection (AFC) cards and college campus cards based on Sony's FeliCa RCS-962 chips.

Further project wins in the automated fare collection (AFC) application field include project wins in Taiwan and Singapore where the Company's Durable Dual Interface (DDI) card inlays are being used as well as the common ticketing card project in Bangkok where SMARTRAC card inlays based on the new NXP Mifare Desfire EV1 4k chip technology are being used.

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, high-quality and high security products, the Company is set to overcome the temporary slow down and to further participate in the future market growth in the card inlays business. The acquisition of KSW Microtec AG adds additional capabilities and technologies to SMARTRAC's strengths which will benefit the Company's global customer base.

## BUSINESS UNIT INDUSTRY & LOGISTICS

The Industry & Logistics business unit covers RFID tags for a variety of automotive, animal identification, logistics, industry, laundry, medical, and entry ID applications.

The automotive market continued to develop favorably in 2011 as did sales and volumes delivered for car immobilizers, remote controls, and keyless entry systems to various leading car manufacturers in Europe, Asia, and the Americas. The business unit also continued to expand its business into non-immobilizer applications in the automotive industry. Based on the excellent knowledge of the specific requirements of the market, an outstanding technology portfolio, and the established and trusted brand Sokymat Automotive, the business unit was able to win additional customers and to launch new projects.

Growth in the animal identification market slowed down based on the consolidation in the market concomitant with the uncertain financial situation of several countries, public calls for bids in 2011 were significantly reduced. Nevertheless, the business unit was able to win new customers for glass transponders and earmark inlays for animal identification.

Adoption of RFID technology in industry and logistics also made further progress in 2011. From tagging containers and pallets to tracking single items and tools, RFID is replacing barcode technology more and more to ease product tracking, optimize the flow of commodities and inventory management, prevent product counterfeiting, improve processes, and realize gains in efficiency. In the course of 2011, the business unit was able to win additional volume orders, especially in the areas of medical and healthcare, waste management, and logistics. In addition, new product developments were initiated to support further growth.

Favorable demand for entry ID tags was driven by the growth of this application field on a global scale. SMARTRAC's key fobs, iCap tags, and white contactless ISO and clamshell cards for entry ID applications provide customers with reliable and flexible solutions. The Company's particular capabilities in molding and embedding transponders into specific housings, customizable designs, the high impact-resistance of the tags as well as a variety of shapes and form factors contributed to the further success of SMARTRAC's business activities in the entry ID application field. The Company's product portfolio for white contactless ISO (CISO) cards and clamshell cards was further broadened to accommodate requirements from existing customers as well as new projects.

## PROJECTS AND MILESTONES 2011

Adoption of RFID technology in the automotive industry developed well in 2011. Two additional versions of the business units' AES product range, the TagMicroTxFN-c and the AES Tag-c, were qualified by leading OEMs for use in future car platforms. In addition, mass production of the newly developed brick transponder was started for use in a two-wheeled vehicle application. The business unit also launched an AES-crypto-based passive glass transponder and introduced another microcontroller-based AES-crypto transponder to the market. In order to further broaden the product portfolio for keyless entry systems, a new product development project was started for the development of the new TagMicroTx3D.

In the animal identification business, new 3.85 x 23 mm glass transponders for fish tagging were developed. The new 1.4 x 10 mm small glass transponders for animal identification have also been well received on the market. The development project for HDX glass transponders was very successful and resulted in a promising new product as well as in new orders.

New products and joint product developments also resulted from the acquisition of 50 percent in Omnia Technologies, an Indian manufacturer of RFID tags located in Gurgaon with long-standing experience in the production of LF, HF and UHF transponders. SMARTRAC took the 50 percent interest in Omnia Technologies in February 2011. The Company has since been managed conjointly by SMARTRAC and its former owners.

In order to address the specific requirements of efficient laundry management, SMARTRAC has enlarged its product range for laundry management to include the new SMART-S-Tag 16 LF. The new, robust transponder operates at a frequency of 125 kHz and perfectly complements the existing product range. The transponder is manufactured using a special injection molding process and offers high mechanical resistance and withstands water immersion (IP67), heat of up to 200 °C, pressure, and chemicals. Due to its small size and bright color, the tag can be easily and invisibly sewn into linen sheets or working garments.

All new products have been well received on the market and will contribute to further growth in the Industry & Logistics business unit. In addition, the business unit is further expanding its business development and sales capacities to benefit from the promising growth perspectives in its established business and to further expand into new fields.

## BUSINESS UNIT TICKETS & LABELS

The Tickets & Labels business unit covers RFID inlays that cater to tickets and label converters and includes fields of application such as media management for libraries, ticketing for mass transit, apparel tracking, and many more.

The business development in 2011 was characterized by major new customer and project wins in the retail apparel application field. Due to non-disclosure agreements (NDAs), SMARTRAC is not able to give further particulars on the business partners and countries to which the respective volumes relate.

Business growth for library and media management products developed at moderate level, as expected, in 2011. The business unit was able to benefit from further adoption of RFID in libraries to support users with reliable theft protection and to reduce manual processes. The range of additional services offered for the library market, including printing and programming, custom delivery formats as well as logistics using local service centers, is a clear benefit to our customers.

The delay of projects in public transport not only became manifest in the card inlay business but also in the e-ticketing business. Adoption of contactless entry systems in public transport is still a mainly project-driven business which largely depends on the decision of local authorities and regional public transport operators. In an uncertain economic environment, projects are generally subject to delays, and project starts are often postponed. Once the decision has been taken to roll-out a contactless access solution for automated fare collection in public transport, large volumes are required within short lead times. As one of only a few market participants, SMARTRAC is able to supply customers with both inlays for cards and paper tickets. The Company's proprietary ChipLink™ technology for the manufacture of inlays for paper-based e-Tickets, one of the most innovative assembly processes in the market, which lowers the assembly costs significantly, is today well accepted on the market. With this technology, SMARTRAC is one of only a few manufacturers providing a fully integrated production process, from etching of the antenna to assembly and RFID ticket conversion, where required.

In addition to the market segments outlined above, the Tickets & Labels business unit offers products to serve additional market segments with standard and customized products, such as item-level tagging of drugs for pharmaceutical applications or airline luggage, or the inlays for windshield labels for vehicle identification and toll applications. Product developments based on the Company's proven technology portfolio will also contribute to further growth and enable access to new areas of application.

### PROJECTS AND MILESTONES 2011

SMARTRAC continuously increased its production capacity in the Kulim factory to satisfy the vast demand for retail apparel products in 2011. Manufacturing volumes were significantly increased over the course of the year, which was well received by the customers. The very positive development of business in the retail apparel application was backed by the development and launch of customer-specific new UHF products. The product portfolio for library and media management was completed during the year. Quality tests in-house and in the field proved that SMARTRAC's products exceed the industry benchmark in terms of product performance. The business unit also further progressed in the organization of a worldwide supply chain to support its global customer base.

Overall, the Tickets & Labels business unit achieved several milestones in 2011 which not only led to the favorable development in 2011 but also paved the way for future growth in the respective application fields.

## RESEARCH & DEVELOPMENT

In 2011, SMARTRAC further increased its R&D workforce. As of December 31, 2011, the Group employed approximately 110 highly skilled development experts, not including the R&D experts from the acquired companies. With research and development competence centers and prototyping facilities in Asia, Europe, and the U.S., SMARTRAC has laid the prerequisites for directly transforming technically mature innovations into mass production on a global basis.

The ability of the Company's research and development teams to create cutting-edge products and solutions and to continuously enhance the expansive product range is an important competitive factor. SMARTRAC is continuously improving and enhancing its product portfolio for high-security e-covers and e-ID inlays, card inlays, glass transponders, hard tags, label and ticket inlays as well as other transponders and inlays.

In 2011, the R&D workforce supported the global sales teams and business units in the development of several new standard products across all frequency bands. In addition, the teams perfectly developed customer requirements into high-volume manufacturing products which led to several vast project wins during the course of the year.

The acquisitions conducted at the end of 2011 will further contribute to the Company's strong R&D capabilities and will result in innovation transformed into standard and customized products for the benefit of the customer.

## GLOBAL 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 with the quality expected on the market.

In the first half of 2011, SMARTRAC had to cope with weakening market demand in the card inlay business. After building up additional production capacities in light of 2010's market growth and the overall market expectation for 2011, this market development led to a significant underutilization of the Company's production capacities in the first six months of the year.

In the second half of 2011, Thailand faced the worst flooding in 70 years. The impact of the flood on the production facilities in Ayutthaya not only strained the team in Thailand but the entire company. Production facilities and the sales teams worldwide were occupied with countering the effects of the flood on our global customer base and accommodating the local team while at the same time supporting reconstruction.

The acquisitions conducted in the last quarter of the year added several new production sites and locations to the Group's global network hitherto consisting of 10 factories on four continents. With its global production network, the Group is able to competitively respond to global projects by providing the best service and solutions for its customers.

In terms of certification, SMARTRAC's production facilities are all ISO 9001:2000 certified. In addition, ISO 9001:2008 and ISO 14001 certifications have already been achieved or are being prepared for the Company's global production facilities. In addition, the Company is steadily enhancing the certification level of its production facilities.

## BRAZIL

Adoption of RFID technology in the Latin American market made further progress in 2011, particularly in the market segments of public transport and access control. As a result, SMARTRAC's local production facility in Manaus, in the Brazilian state of Amazonas, was utilizing capacities at a high level throughout the entire year. New production records were achieved and sales within the country and export to South and Central America increased.

Adoption of e-passport and e-ID card technology in South America also showed further progress in 2011. Based on the Company's leading market position and its long experience of manufacturing of PRELAM™ products, inlays and eCovers for high security documents, the team in Brazil was able to support several local and global card manufacturers with their expertise and technical support. As a result, the business partners began to include SMARTRAC's PC PRELAM™ in their product portfolio.

In October 2010, SMARTRAC was able to deliver the first volumes of high-security RFID inlays for electronic identification (e-ID) documents in South America. Since the middle of 2011, the volumes were expanded to a stable supply. The name of the customer, country, and the volumes of the project are subject to a confidentiality agreement. SMARTRAC views the expansion of the collaboration as a clear sign of the Company's strong reputation, technology leadership, expertise, and competence in the manufacture of high-security identification documents. The inlays have been manufactured with the Company's proprietary, patented wire-embedding technology, which has proven to be ideally suited to contactless antennas with optimal product performance for high-profile applications.

Based on the positive development of high-security document projects, the Company continued to invest into the subsidiary in Manaus in 2011 in order to prepare the local production facility for the expected future strong demand for high-security PRELAM™ products and inlays in the region.

In the course of the further market development and with rising demand for high-security and high-quality e-ID products, SMARTRAC is also considering converting its production facility into a high-security production environment conformant with the international common criteria (CC) security standard.

## GERMANY

Following the acquisitions, SMARTRAC now has three locations in Germany as of December 31, 2011, two production locations and one corporate service center for the Group.

Supported by the stable demand in the automotive, industry, logistics, and entry ID markets, several new standard products and customer-specific products were launched at SMARTRAC TECHNOLOGY GERMANY GmbH in Reichshof-Wehnrath.

SMARTRAC TECHNOLOGY GROUP's corporate service center is located in Stuttgart. With Europe being the center of different time zones, the team supports business units and regional subsidiaries in the areas corporate accounting & tax, corporate controlling & financing, corporate development, corporate communications & marketing, corporate HR, corporate IT, and the legal department. In 2011, the corporate service center was selectively reinforced with additional employees to better support the Group's global teams and business activities.

KSW Microtec AG (meanwhile SMARTRAC TECHNOLOGY Dresden GmbH) which was acquired by SMARTRAC on December 14, 2011, will continue its business activities in Dresden with its 72 employees. In addition, SMARTRAC intends to promote the location in Dresden. The site will become the research & development competence center for PRELAM™-related products as well as for the development of high-security products for government identification documents. In addition to the Company's competence center in Thailand, the competence center in Dresden will play a key role in developing new products, identifying and utilizing new production technologies and generating innovation for the entire Group.

## MALAYSIA

Production capacity for ticket and label inlays at SMARTRAC TECHNOLOGY MALAYSIA Sdn. Bhd. were significantly increased during 2011 to satisfy the vast demand for retail apparel products. The very positive development of the business was backed by the development and launch of customer-specific new UHF products. In addition, several new processes were developed at the site in Kulim that have been utilized for the development of new products and the successful completion of customer qualifications. Concomitant with the volume ramp-up, the workforce at the site in Kulim was steadily increased.

Expansion of card inlay manufacturing capacities at the production location in Kulim progressed further in 2011. SMARTRAC started setting up card inlay production in its Malaysian production facility in fall 2010. At the beginning of 2011, card inlay production in Kulim obtained Card Quality Management (CQM) certification from MasterCard for high frequency card inlays complementing the existing MasterCard CQM label for high frequency card inlays, durable dual-interface (DDI) inlays, and the module packaging process in the Company's production facility in Ayutthaya, Thailand.

SMARTRAC's in-house machinery building subsidiary SMARTRAC AUTOMATION Sdn. Bhd. was able to further enhance its position as a key machine building center for the Group. In particular, the subsidiary supported the volume ramp-up of label and ticket inlay production in Kulim, the volume ramp-up for the production of high-security e-ID inlays in Reichshof-Wehnrath, and the disaster recovery and business continuity measures following the force majeure situation in Thailand.

## THAILAND

SMARTRAC's largest individual production site is in Ayutthaya, Thailand. Due to the heavy rains during the 2011 monsoon season, Thailand faced the most severe flooding in 70 years. As a consequence, the local authorities of the Hi-Tech Industrial Estate, in which the Company's production is located, issued an evacuation order on October 6, 2011. Due to the severe flooding in several other regions in Thailand, the management team of SMARTRAC TECHNOLOGY Ltd. had already initiated preventive measures prior to the official order so as to protect employees and production equipment should the flooding reach the Ayutthaya Province.

Whereas it initially looked like the flooding would spare the industry park, the dikes surrounding the Hi-Tech Industrial Estate eventually broke. On October 14, 2011, several smaller cracks as well as one major breach occurred and water streamed into the industrial park, reaching the Company's production facilities. Endeavors by the Thai Army to repair the dikes and to protect the industrial park as well as they could failed. At the flood's peak, the flood waters reached up to 2.5 meters from the ground floors of the Company's five facilities. The upper floors remained waterless.

At the beginning of November, the water level at the Hi-Tech Industrial Estate and the surroundings started dropping slowly but steadily. On November 11, 2011, the industry park authorities were able to start pumping the water out of the industrial park. On November 29, 2011, the water level had sank to approximately 30 centimeters and access to the industry park by car and truck was possible. The local team immediately started removing production equipment from the upper floors of the buildings to furnish an interim factory which we had rented in the east of Bangkok. Clean-up work at SMARTRAC's production facilities commenced and the damage was surveyed conjointly with the insurance loss adjuster. In addition, the necessary measures to restart production in the Hi-Tech Real Estate were initiated in parallel to the activities at the interim facility.

On December 9, 2011, SMARTRAC restarted production in Thailand. The earlier than expected restart of production was a result of the 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.

SMARTRAC was one of the first manufacturers in the entire region to restart production just over two months after the evacuation order. In addition, the Company served as an example for insurers and corporations in the region and shared experiences and best-practice with other flood-hit companies. The Company also used the force majeure event in Thailand to revise its disaster recovery plans and set the prerequisites to be even better prepared for future challenges wherever and whenever they may occur.

## UNITED STATES OF AMERICA

Production capacity at the facility in Chanhassen, Minnesota, was well utilized in 2011, while the usual high security and quality standards were upheld. The facility in the U.S. 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. In 2011, the facility earned the ISO 9001:2008 certification to add to its existing quality and security certifications including Assurance Certification from NASPO, the North American Security Products Organization, one of the strictest independent security certification processes worldwide. In addition, the production location has been qualified by U.S. government authorities for the high security production of RFID inlays.

## EMPLOYEES

SMARTRAC TECHNOLOGY GROUP's total number of employees, including the new teams from the acquired companies as well as subcontracted workforce, amounted to 3,676 at the end of 2011 compared to 3,488 at the end of 2010, consisted of around 20 nationalities worldwide.

Approximately 95 percent (including subcontracted employees) of our global workforce were employed in the global production facilities. Approximately 80 percent of our employees work in Asia, 10 percent in America (North/South), and 10 percent work in Europe. From a gender perspective, SMARTRAC is proud to employ almost as many women as men.

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.

* PRELAM, Durasoft, Sokymat Automotive, ChipLink, and AmaTech are registered trademarks of SMARTRAC N.V., MIFARE, MIFARE Classic, and MIFARE DESFire are registered trademarks of NXP Semiconductors N.V., TI Tag-it is a registered trademark of Texas Instruments Incorporated.

# WE OPEN THE NEXT CHAPTER IN RFID TECHNOLOGY.

# 10 years

SMARTRAC RFID tags designated for books and sold as library applications are guaranteed for the lifetime of the book in standard environmental conditions (typically +20 °C, 50 % relative humidity). Lifetime in a public lending library is considered to be 10 years.

# 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 2011 was characterized by the low free float and the resulting low trading volumes. The SMARTRAC share started 2011 at EUR 18.31 and recorded its high for the year on January 6, 2011, at EUR 18.78. On November 22, 2011, the share recorded the low for the year at EUR 10.27. The SMARTRAC share closed 2011 at EUR 11.00.

The German stock market index DAX started 2011 at 6,915 points and reported its high for the year on May 2, 2011, at 7,528 points. The DAX recorded its low for the year on September 12, 2011, at 5,072 points, a decrease of 27 percent compared to the start of the reporting period. The DAX finished 2011 with a decrease of 16 percent at 5,898 points (XETRA closing).

The German technology index TecDAX started 2011 at 851 points and moved to 949 points on April 5, 2011. The TecDAX recorded its low for the year on October 4, 2011, at 626 points, a decrease of 27 percent compared to the start of the year. The TecDAX closed 2011 with a decrease of 20 percent at 685 points (XETRA closing).

The year-end share price of the SMARTRAC share of EUR 11.00 constituted a decrease of 40 percent in the 2011 fiscal year. The DAX and TecDAX indices decreased by 16 percent and 20 percent, respectively, between January and the end of December 2011.

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, 2011. In the year under review, the number of shares outstanding averaged 16,374,000. Earnings per share for the 2011 fiscal year came to EUR -2.54 due to the effects of the severe flood in Thailand and cash flow per share amounted to EUR 0.39.

| Broker | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Basic earnings per share in EUR | (2.54) | 0.41 | 0.38 | 1.03 | 1.55 |
| Operating cash flow per share in EUR | 0.39 | 0.13 | 0.45 | 1.46 | 1.25 |
| Share price at year-end in EUR (XETRA) | 11.00 | 18.31 | 15.00 | 11.75 | 37.30 |
| High in EUR (XETRA) | 18.78 | 20.00 | 17.00 | 38.01 | 44.00 |
| Low in EUR (XETRA) | 10.27 | 12.95 | 6.50 | 8.57 | 19.41 |
| Number of shares issued at year-end | 17,744,088 | 16,334,997 | 14,849,999 | 13,500,000 | 13,500,000 |
| Market capitalization in EUR million* | 195 | 299 | 223 | 157 | 504 |

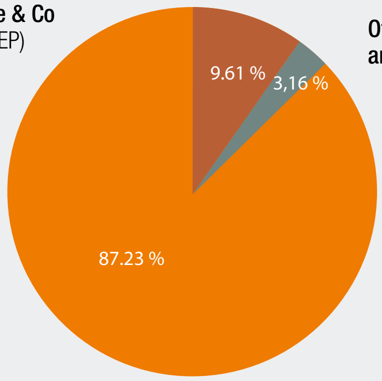
* based on share price at year-end (XETRA)

## 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 2010 fiscal year. This decision was approved by the SMARTRAC 2011 Annual General Meeting of Shareholders held on May 31, 2011, in Amsterdam.

## SMARTRAC INCREASED ITS SHARE CAPITAL

In 2011, the Management Board of SMARTRAC resolved to increase the share capital of the company. On December 19, 2011, SMARTRAC increased its share capital from EUR 8,167,498.50 (16,334,997 bearer shares) to EUR 8,872,044 (17,744,088 bearer shares), excluding subscription rights for shareholders. SMARTRAC's major shareholders OEP Technologie B.V. (OEP) and Manfred Rietzler agreed to subscribe for the 1,409,091 new bearer shares as a sign of their strong commitment to the company. Manfred Rietzler, co-founder of the company and Member of SMARTRAC N.V.'s Supervisory Board, subscribed for 136,364 new shares and OEP subscribed for 1,272,727 new shares at an issue price of EUR 11.00 payable in cash. The delivery and settlement of the new shares occurred on December 23, 2011. SMARTRAC received gross proceeds in the amount of approximately EUR 15.5 million. The company used the proceeds to finance the acquisition of Neology, Inc.




| | |
|---|---|
| JP Morgan Chase & Co. (indirectly via OEP Technologie B.V.) | 87.23 % |
| Manfred Rietzler (Founder, Member of the Supervisory Board of SMARTRAC N.V.) | 9.61 % |
| Free float according to the definition of Deutsche Börse | 3.16 % |

Shareholder structure as of December 31, 2011

## SHAREHOLDER STRUCTURE AND LIQUIDITY

SMARTRAC's shareholder structure did not change substantially in 2011. As a result of the capital increase, OEP Technologie B.V. holds 87.23 percent (previous year: 86.96%) and Manfred Rietzler 9.61 percent (previous year: 9.61%) of the total shares. As of December 31, 2011, the free float amounted to 3.16 percent compared to a free float of 3.4 percent a year ago.

All of the directors' and SMARTRAC management's SMARTRAC share dealings have been announced to the public and the financial markets authorities in the Netherlands and Germany in accordance with the Dutch and German regulatory requirements. Information on these dealings can also be obtained from the Company's website.

The majority of trading in SMARTRAC shares is carried out via the liquid XETRA trading system in Frankfurt/Main. Around 164,000 SMARTRAC shares were traded on the XETRA trading system in the first half of 2011. The daily trading volume on the XETRA trading platform averaged close to 1,500 shares in the first half of 2011, compared with approximately 45,000 shares in the same period in 2010. Although trading volumes in SMARTRAC shares slightly decreased in the second half of 2011 compared with the first half of the year, the highest trading volume on the XETRA trading platform of the period under review of 35,531 shares traded took place on September 15, 2011.

## 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 from April 29, 2009. The Annual General Meeting of Shareholders held on May 31, 2011, 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 May 31, 2011. In the course of 2011, 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 2011 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. In 2011, SMARTRAC held its yearly Investors Conference on December 20 by means of a conference call.

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 2011, the number of analysts that followed SMARTRAC decreased from seven to six national and international banks. Deutsche Bank terminated research coverage effective May 10, 2011.

Close Brothers Seydler began the reporting year with a price target of EUR 21 and changed it to EUR 18 on April 14, 2011. Maintaining a price target of EUR 13.50, the analysts at DZ Bank moved from a ‘sell’ to a ‘hold’ recommendation on April 15, 2011. On November 22, 2011, the analysts from UBS changed the price target from EUR 20 to EUR 11, maintaining the ‘neutral’ rating. Currently, five analysts rate the SMARTRAC share as a ‘hold/neutral’ and one analyst rates the stock as ‘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 2012

| | |
|---|---|
| **March 28, 2012** | Publication of 2011 Annual Report<br>Analysts' Conference Call |
| **May 10, 2012** | Publication of Q1 Interim Report<br>(January to March 2012)<br>Analysts' Conference Call |
| **June 19, 2012** | SMARTRAC Annual General Meeting<br>of Shareholders, Amsterdam |
| **July 25, 2012** | Publication of Q2 Interim Report<br>(April to June 2012)<br>Analysts' Conference Call |
| **November 9, 2012** | Publication of Q3 Interim Report<br>(July to September 2012)<br>Analysts' Conference Call |

## INVESTOR RELATIONS CONTACT

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

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

# WE OFFER EXCELLENT PERFORMANCE UNDER HARSH CONDITIONS.

85 °C

Thanks to their robust casing, SMARTRAC transponders for industry and logistics have a high level of resistance to shock, dust, vibrations, heat, and temporary immersion in water as well as aggressive liquids.

# KEY FINANCIAL FIGURES 2011 AND BUSINESS BY SEGMENTS

# KEY FINANCIAL FIGURES 2011 AND BUSINESS BY SEGMENTS

## EARNINGS POSITION

Overall, the market developed positively in 2011, but more modestly than in 2010. Therefore, we were not able to counter the adverse effects on overall production capacity caused by the severe flood in Thailand in the fourth quarter of 2011 and the weaker demand in certain business segments over the course of the year. In total, SMARTRAC achieved Group sales of EUR 168 million in the 2011 fiscal year, representing a decrease of 7 percent compared to EUR 180 million in 2010.

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. 55 percent of total Group sales were generated in Europe (2010: 50 percent), followed by 19 percent attributable to North America (2010: 24 percent), 18 percent to Asia (2010: 19 percent) and 8 percent to South America (2010: 6 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. The damage caused by the flood in Thailand resulted in a total of EUR 13 million additional expenses, thus triggering an increase in the cost of sales in relation to revenues from 74 percent in 2010 to 83 percent in 2011 amounting to EUR 140 million. This development mainly resulted from the impairments on property, plant, and equipment lost due to the flood. Consequently, SMARTRAC's gross profit amounted to EUR 28 million in 2011, compared with EUR 46 million in the previous year. The gross margin amounted to 17 percent, compared with 26 percent one year ago.

Other operating expenses increased by EUR 27 million, whereby an increase of EUR 24 million was due to the flood disaster, the related write-down of stock, additional administrative expenses, and adequate provisioning. The severe consequences of the flood in Thailand and the temporary weakening of demand and the resulting underutilization of production capacity in the Cards business unit could however not be countered by the stable order entry in the eID and Industry & Logistics business units and the very positive development in the Tickets & Labels business unit.

EBITDA for 2011, as per definition, excludes extraordinary costs for the restructuring program in Thailand implemented in July and August 2011, extraordinary costs related to the flood in Thailand, as well as extraordinary costs related to acquisitions. In total, Group EBITDA decreased by 23 percent to EUR 15 million, compared with EUR 20 million in 2010. Facing severe capacity reduction in the fourth quarter of 2011, the EBITDA margin amounted to 9 percent in 2011, compared with 11 percent a year ago.

Loss for the period, including non-controlling interests, amounted to EUR 42 million, compared with profit for the period of EUR 6 million in 2010. This development mainly results from the severe losses from the flood disaster amounting to EUR 37 million, subsequent profitability effects from temporarily lost production capacity as well as from negative effects triggered by the financial result.

## BALANCE SHEET

As of December 31, 2011, total assets on the consolidated balance sheet amounted to EUR 264 million, representing an increase of 6 percent compared to the previous year's figure of EUR 248 million. This increase mainly resulted from the increase in intangible assets and property, plant and equipment related to the acquisitions conducted at the end of 2011.

Working capital decreased by 37 percent from EUR 44 million in 2010 to EUR 28 million in 2011, particularly inventories decreased by 11 percent to EUR 30 million (2010: EUR 33 million) in 2011. Due to the flood in Thailand, affected inventories had to be written off in 2011. A breakdown of the flood related costs can be found in the Notes of this Annual Report. Trade and non-trade receivables decreased by 11 percent to EUR 35 million in 2011 (2010: EUR 40 million) reflecting the overall business development and the flood in Thailand. Trade and non-trade payables decreased by 19 percent from EUR 25 million in 2010 to EUR 20 million as of December 31, 2011. Other current liabilities increased by 17 million to EUR 24 million at the end of 2011 primarily due to a deferred purchase consideration for the former KSW.

The decrease of 14 percent in total equity to a total of EUR 139 million (2010: EUR 162 million) primarily resulted from the loss incurred in 2011. Consequently, the retained earnings decreased from EUR 55 million in 2010 to EUR 13 million in 2011. As of December 31, 2011, SMARTRAC held no treasury stock. The equity ratio decreased from 65 percent at the end of 2010 to 53 percent as of the 2011 reporting date.

## CASH FLOW STATEMENT

Due to the effects of the flood disaster, the cash flow statement of 2011 cannot really be compared to the cash flow statement in 2010. Net cash provided by operating activities amounted to EUR 6 million in 2011, compared to EUR 2 million in the previous year, despite a net loss of EUR 42 million in 2011. Impairments on property, plant and equipment as well as on inventory at an amount of EUR 27 million did not impact the cash position of SMARTRAC in 2011.

As a result of the acquisitions conducted in 2011, net cash used in investing activities increased from EUR 19 million in 2010 to EUR 59 million in 2011. In particular, net cash outflow on business combinations increased from EUR 2 million in 2010 to EUR 39 million in 2011. In 2010, investments in the purchase of property, plant and equipment at an amount of EUR 16 million were predominantly related to the expansion of the site in Malaysia, the build-up of additional production capacities in Brazil as well as the addition of a high-security production location at the site in Reichshof-Wehnrath, Germany.

Net cash provided by financing activities amounted to EUR 25 million in 2011 compared to net cash provided of EUR 28 million in 2010. The main financing was provided by shareholders through an equity contribution of EUR 15.5 million in 2011. In total, cash and cash equivalents and bank overdrafts decreased by 56 percent to EUR 22 million (2010: EUR 49 million) as of December 31, 2011, and related mainly to the decrease in net change in cash and cash equivalents and bank overdrafts.

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 | Change | Change in % |
|---|---|---|---|---|
| **Revenues** | 116,808 | 136,333 | (19,525) | (14) |
| eID | 61,839 | 59,549 | 2,290 | 4 |
| Cards | 55,134 | 76,784 | (21,650) | (28) |
| Intrasegment elimination | (165) | – | | |
| **Gross profit** | 15,887 | 36,044 | (20,157) | (56) |
| **EBITDA** | 12,901 | 16,506 | (3,605) | (22) |

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 eID Business Unit and the Cards Business Unit. The 'Industry' segment consists of the Industry & Logistics Business Unit and the Tickets & Labels Business Unit.

The segment mix in the period under review changed slightly as compared with 2010. The Industry segment contributed 30 percent of total Group sales in 2011 (2010: 24 percent), while the Security segment accounted for 70 percent of total Group sales (2010: 76 percent).

### SECURITY SEGMENT

The Security segment of SMARTRAC includes the business activities of the eID Business Unit and the Cards Business Unit.

The eID Business Unit covers high-security products for government identification documents such as e-passports, national e-ID cards, electronic driver's licenses and electronic visa documents, contactless health cards, electronic social security cards, and electronic permanent resident cards. SMARTRAC is the global market leader for high-security RFID inlays and e-covers for electronic passports worldwide. Government identification documents such as e-passports are usually issued with holding periods of between five and ten years. Based on the long period of use as well as the strict quality and security requirements for government documents, authorities place great demands on the components with which the documents are made, with the RFID inlay being the crucial element of an electronic passport. Wire-embedding technology has proven to be the technology of choice for customers worldwide when it comes to RFID inlays that must meet the highest quality, reliability, and durability standards.

In 2011, 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 was able to grow with the market and to further expand its leading position on a global scale.

The Cards Business Unit provides card inlays and transponders for public transport, access control, e-Payment, and active card applications and caters to card manufacturers. SMARTRAC's wire-embedding technology is successfully used for RFID transponders in public transport systems around the world. Along with contactless access cards for buildings, these applications represent the most mature market segment in the RFID industry.

Following strong growth in 2010, the overall market development for contactless card applications was very diverse in 2011. Demand for e-payment card inlays in the United States slowed down, particularly business with non-EMV card inlays dropped significantly. Migration to the EMV standard continued to make progress. E-payment business outside of the U.S. developed as expected. Demand for card inlays for public transport systems also slowed down due to project delays. Business with dual interface card inlays and card inlays for access control applications developed moderately in 2011. This was not, however, able to compensate for the decline in the e-payment and public transport business.

### SALES SECURITY SEGMENT

As a result of the significant reduction of production capacity in Thailand due to the flood and the outlined business development in the eID and Cards business units, sales in the Security segment decreased by 14 percent from EUR 136 million in 2010 to EUR 117 million in 2011.

Sales of EUR 62 million from the eID Business Unit represented 53 percent of sales in the Security segment in 2011 compared to EUR 60 million in the previous year (44 percent of segment sales). The Cards Business Unit accounted for EUR 55 million in the 2011 fiscal year, representing 47 percent of sales in the Security segment. In 2010, sales in the Cards Business Unit were EUR 77 million and represented 56 percent of segment sales. In relation to total Group sales of EUR 168 million, the eID Business Unit accounted for 37 percent (2010: 33 percent) and the Cards Business Unit accounted for 33 percent (2010: 43 percent).

### GROSS PROFIT SECURITY SEGMENT

In 2011, gross profit in the Security segment amounted to EUR 16 million which is equivalent to a gross margin of 14 percent. The decrease compared to the gross margin of 26 percent in 2010 (gross profit EUR 36 million) is mainly attributable to the severe flood in Thailand.

### EBITDA SECURITY SEGMENT

In the 2011 fiscal year, the Security segment reported EBITDA of EUR 13 million compared to EBITDA of EUR 17 million achieved in 2010. This represents a decrease of 22 percent. The EBITDA margin of 11 percent (2010: 12 percent) was burdened by the lower production capacity and sales caused by the flood disaster in Thailand.

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 | Change | Change in % |
|---|---|---|---|---|
| **Revenues** | 49,931 | 42,545 | 7,386 | 17 |
| Tickets & Labels | 13,798 | 7,674 | 6,124 | 80 |
| Industry & Logistics | 36,133 | 34,917 | 1,216 | 3 |
| Intrasegment elimination | – | (46) | | |
| **Gross profit** | 10,285 | 9,408 | 877 | 9 |
| **EBITDA** | 2,532 | 2,091 | 441 | 21 |

INDUSTRY SEGMENT

## INDUSTRY SEGMENT

The Industry segment of SMARTRAC includes the business activities of the Tickets & Labels Business Unit and the Industry & Logistics Business Unit.

The Tickets & Labels Business Unit covers RFID inlays that cater to ticket and label converters and includes fields of application such as media management (library), ticketing, and apparel tracking based on a technology platform that integrates under one umbrella the inlay assembly concept, proprietary interconnection method, and the in-house manufacturing of antennas, straps and inlays. In addition to the production of inlays and related components, the business unit offers additional services such as printing and programming.

The business development of the Tickets & Labels Business Unit in 2011 was characterized by major new customer and project wins in the retail apparel application field. The delay of projects in public transport did not only manifest itself in the card inlay business but also in the e-ticketing business. Revenues from library and media management sales in 2011 developed moderatly, as expected.

The Industry & Logistics Business Unit provides RFID tags for fields of application such as automotive, animal identification, logistics, industry, laundry, medical, and entry ID.

The automotive market continued to develop favorably in 2011 as did sales and volumes delivered for car immobilizers, remote controls, and keyless entry systems for various leading car manufacturers in Europe, Asia, and the Americas under the established and trusted brand Sokymat Automotive. The business unit also continued to expand its business into non-immobilizer applications in the automotive industry. Growth in the animal identification market slowed down based on the consolidation in the market concomitant with the overall world economic climate which in 2011 was predominantly characterized by uncertainty that led to significant reduction of public calls for bids. Adoption of RFID technology in industry and logistics also made further progress. In the course of 2011, the business unit was able to win additional volume orders, especially in the area of medical and healthcare, waste management, and logistics. Favorable demand for entry ID tags was driven by the growth of this application field on a global scale.

### SALES INDUSTRY SEGMENT

Sales in the Industry segment accounted for EUR 50 million in 2011 representing an increase of 17 percent compared to sales of EUR 43 million in 2010. Growth resulted from the stable demand in the automotive business, additional projects in the non-automotive business as well as the significant increase of sales in the tickets and labels business.

Sales of EUR 14 million in the Tickets & Labels Business Unit represented 28 percent of sales in the Industry segment in 2011 compared with EUR 8 million in the previous year (18 percent of segment sales). The Industry & Logistics Business Unit accounted for EUR 36 million in the fiscal year 2011, representing 72 percent of sales in the Industry segment. In 2010, sales in the Industry & Logistics Business Unit amounted to EUR 35 million and represented 82 percent of segment sales. In relation to total Group sales of EUR 168 million in 2011, the Tickets & Labels Business Unit accounted for 8 percent (2010: 4 percent) and the Industry & Logistics Business Unit accounted for 22 percent (2010: 19 percent).

### GROSS PROFIT INDUSTRY SEGMENT

Gross profit in the Industry segment amounted to EUR 10 million which is equivalent to a gross margin of 21 percent. The decrease compared to a margin of 22 percent in 2010 (gross profit EUR 9 million) is attributable to the adverse effect of the flood in Thailand.

### EBITDA INDUSTRY SEGMENT

The Industry segment accounted for EBITDA of EUR 3 million and thus further increased compared to EBITDA of EUR 2 million reported in 2010. The EBITDA margin of 5 percent (2010: 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 Industry segment is a strong growth segment for SMARTRAC. The dynamic growth of the Tickets & Labels Business Unit in 2011, the stable growth of the Industry & Logistics Business Unit and the growth potentials inherent in these market segments will prove beneficial for the overall growth of the company in the future.

Overall, the SMARTRAC Group managed the challenges it faced in 2011 quite well. The initiated optimization of structures and processes and the restructuring program in Thailand showed first successes in August and September 2011. Nevertheless, the significant impact of the flood disaster in Thailand burdened the Group's profitability in 2011. Going forward, SMARTRAC will continue improving excellence in 2012 as soon as the challenges of the flood disaster in Thailand have been fully overcome. In addition, the acquisitions conducted in the fourth quarter of 2011 will contribute positively to the expansion of the company's leading market position in the global RFID market.

# WE HAVE THE RIGHT PRODUCT, WHEREVER YOU WANT TO TAKE IT TO.

# 40 feet

Whatever size your customer's packaging items are,
SMARTRAC provides a suitable RFID transponder to make your solution work.

# 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 2011, 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 all risk 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 2011, SMARTRAC's equity decreased to a total of EUR 139 million. The equity ratio decreased from 65 percent at the end of 2010 to 53 percent as of December 31, 2011. 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, SMARTRAC conducted five acquisitions and has thereby increased its acquisition-related risks considerably. 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 accounts 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 derivates. 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 2009, SMARTRAC signed an agreement on a syndicated multicurrency credit facility for EUR 65 million which matures on June 30, 2012, with standard market terms and conditions. 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. If we cannot prolong this credit facility, we may have difficulties covering the outstanding indebtedness.

### INTEREST RISK

The financial liabilities and our financial investments 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. In order to contain the risks of interest rate changes and risk premiums, SMARTRAC has secured a fixed interest rate for the main proportion of its syndicated credit facility signed in 2009. Furthermore, SMARTRAC has concluded interest rate swaps to partially cover interest rate risk. 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 371 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.

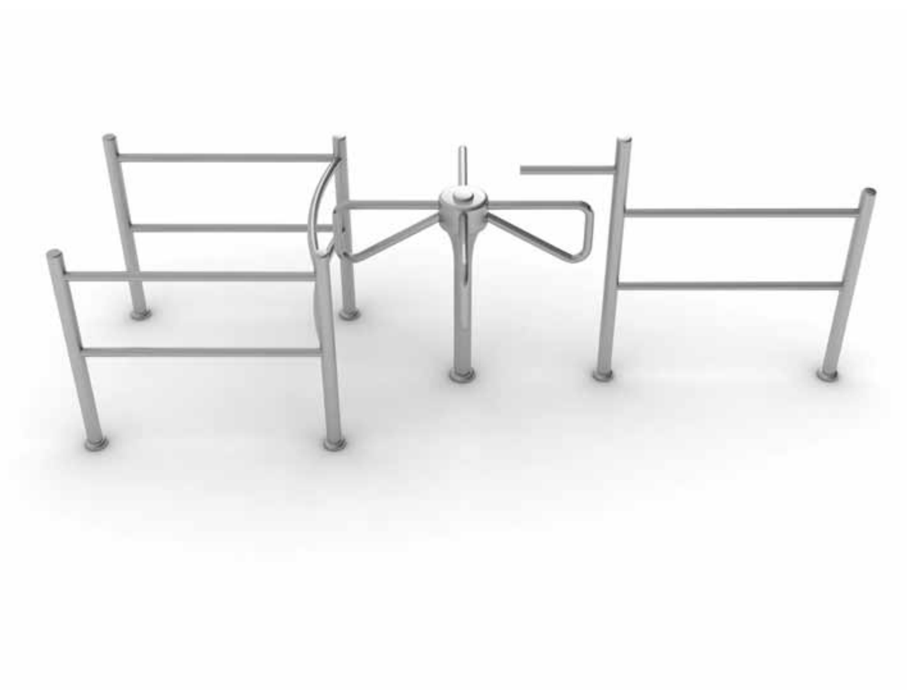
## OVERALL RISK SITUATION

In 2011, SMARTRAC had to cope with the most severe flood in Thailand in 70 years. The flooding of our production facilities led to a production stop for approximately two months.

SMARTRAC maintains insurance coverage for damages to buildings, machinery, stock, and business interruption in Thailand. However, the Company faces several risks resulting from the flood disaster. The Company might lose customers due to capacity restraints and delays in deliveries to customers. In addition, further risk is involved in the re-installment of the production facilities. Furthermore, the respective insurance companies may delay or refuse full payment based on the magnitude of the disaster.

In total, the evaluation of the risks in 2011 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.

# WE GRANT YOU ACCESS TO HIGHEST RELIABILITY.



**250 µm**

Designed for use under normal environmental conditions, the SMARTRAC Ultra-Thin Mini Module is ideally suited for access control, payment, loyalty, transport and secure identification applications.

# 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 Annual 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 fiscal year 2009. The corporate governance report for the financial reporting year 2011 therefore assesses the 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 Annual General Meeting of Shareholders and have to provide sound reasons for any non-application of the provisions.

SMARTRAC N.V. and its subsidiaries are committed to high standards of business integrity, ethical values and professionalism in all of their activities. SMARTRAC N.V. agrees both with the general approach and with 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 of April 21, 2004, on takeover bids. The requested information is provided in detail on page 182 to 183 of the 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 Annual 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 December 31, 2011, SMARTRAC's Management Board consisted of the following individuals as listed below:

| Name | Age* | Position |
|---|---|---|
| **Dr. Christian Fischer**<br>Chief Executive Officer | 43 | Chairman of the Management Board |
| **Wolfgang Schneider** | 54 | Member of the Management Board |
| **Robert Harmzen** | 58 | Member of the Management Board |

* Age as of December 31, 2011

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 pages 78 and 79.

SMARTRAC has also established a Group Executive Team with six members including two members of the Management Board. Refer to page 22 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 2011, SMARTRAC has analyzed and discussed on a permanent basis and in different panels the risk management situation. Throughout 2011, SMARTRAC furthermore had a clear focus on the enhancement of the existing management information system, which was implemented in 2009. 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.

In 2011 the Company entered into certain transactions in respect of which members of the Management Board and Members of the Supervisory Board had a conflict of interest. The transactions are disclosed further in this Annual Report (page 114, 161). The Company has complied with the corporate governance code in respect of these transactions.

The Company entered into certain transactions with companies belonging to the major shareholder of the Company, OEP. The transactions are disclosed further in this Annual Report (page 114, 161). The Company complied with the corporate governance code in this respect.

## SUPERVISORY BOARD

The Supervisory Board has the legal tasks to supervise the Management Board of SMARTRAC and to advise the Management Board of SMARTRAC. These legal tasks are further elaborated in the Dutch Corporate Governance Code. The Dutch Corporate Governance Code defines that the Supervisory Board supervises the policies of the Management Board and the general course of affairs of SMARTRAC and its Group companies, as well as to 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 in pursuance 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 will check 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 Christopher von Hugo, Dr. Jörg Zirener, Tobias Reich, and Manfred Rietzler. Christopher von Hugo and Dr. Jörg Zirener are both Managing Directors and Tobias Reich is an investment professional at One Equity Partners Europe GmbH, 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.

As of December 31, 2011, SMARTRAC's Supervisory Board consisted of the following individuals as listed below:

| Name | Age* | Position |
|---|---|---|
| **Prof. Dr. Bernd Fahrholz** | 64 | Chairman of the Supervisory Board |
| **Manfred Rietzler** | 50 | Vice-Chairman of the Supervisory Board |
| **Christopher von Hugo** | 48 | Member of the Supervisory Board |
| **Wolfgang Huppenbauer** | 57 | Member of the Supervisory Board |
| **Tobias Reich** | 36 | Member of the Supervisory Board |
| **Dr. Jörg Zirener** | 39 | Member of the Supervisory Board |

* Age as of December 31, 2011

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.

The Supervisory Board has two Committees, an Audit Committee and a Strategy Committee. Due to the limited size of the Company, 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. More information on the committee activities can be found on pages 17 to 20 of this Annual Report.

In 2011 the Company entered into certain transactions in respect of which Members of the Management Board and Members of the Supervisory Board had a conflict of interest. The transactions are disclosed further in this Annual Report (page 114, 161). The Company has complied with the corporate governance code in respect of these transactions.

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 pages 78 to 79 of this Annual Report.

## THE SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS

### SHARE CAPITAL

The issued share capital of the company is equal to EUR 8,872,044 and is divided into 17,744,088 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 Annual General Meeting of Shareholders in person or through a written proxy to address the meeting and to exercise voting rights.

The Annual 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 Annual 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 conformity 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 Annual General Meeting of Shareholders in good time with all information that it requires for the exercise of its powers.

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 form of anti-takeover measure. As of December 31, 2011, an independent foundation had not been established and the Management Board made no use of the authorization with regard to preference shares in the fiscal year 2011. 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 in respect of 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 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, 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 Management 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 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. Wolfgang Schneider's and Robert Harmzen's contracts have not been made public at the date of the convocation notice of the general meeting where the appointment of the Management Board Members has been proposed to protect their privacy. The Company regards this reason as sufficient to justify a deviation from the Corporate Governance Code in this respect.

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. The Company regards these documents as internal rules and does not wish to disclose them to the public.

III.2.2. Four of the members of the Supervisory Board are not independent. Christopher von Hugo and Dr. Jörg Zirener are both Managing Directors and Tobias Reich is an investment professional at One Equity Partners Europe GmbH, 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 view of OEP Technologie B.V.'s and Manfred Rietzler'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 the composition of the Supervisory Board have not been defined by the Supervisory Board. In light of the composition of the Supervisory Board 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 light of the composition of the Supervisory Board, SMARTRAC considers it unnecessary to establish a retirement scheme.

III.4.3. SMARTRAC believes that the regulation of 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 and a selection and appointment committee. Due to the size of the Company these tasks are performed by the Strategy Committee of the Supervisory Board. The establishment of two other committees is in the opinion of the Company not necessary.

III.6.5. Regulations governing ownership of and transactions in securities by members of the Management Board or the Supervisory Board was not drawn. 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, in view of the number of meetings with analysts and presentations to analysts or investors, 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. 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 decision using internal and external resources.

# REMUNERATION REPORT

At the Annual General Meeting held in Amsterdam on May 31, 2011, Dr. Christian Fischer was re-appointed as 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. Manfred Rietzler resigned as Director A and Member of the Management Board on May 30, 2011. Wolfgang Schneider was appointed as Director A and Member of the Management Board for a term of office ending with the Annual General Meeting of Shareholders of SMARTRAC in 2015. In addition, Robert Harmzen was appointed as Director B and Member of the Management Board for a term of office ending with the Annual General Meeting of Shareholders of SMARTRAC in 2013.

According to their employment contracts which were entered into between the company, Dr. Fischer and Mr. Rietzler, for the fiscal year beginning 2011, Dr. Fischer received an annual base compensation of EUR 420,000. Mr. Rietzler received a base compensation of EUR 96,000 until and including May 2011. Wolfgang Schneider received a base compensation amounting to EUR 146,000 from June 2011 onwards. Robert Harmzen did not receive any compensation from the Company. In addition, the housing and related expenses of Mr. Rietzler in Thailand that amount to EUR 14,000 were borne by the company. 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. The compensation of Dr. Fischer pursuant to his employment contract also includes a variable annual compensation of two percent of Group EBITDA. The variable bonus is capped at a base of Group EBITDA of EUR 100 Mio. In 2011, he received a variable bonus of EUR 310,000. His employment contract also comprises a change of control provision. 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 2011, Wolfgang Schneider did not receive any variable bonus payments.

In the event that a third party exercises a controlling influence, Dr. Christian Fischer 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 45,000 in 2011.

Dr. Fischer and Mr. Rietzler have been provided with a company car.

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

At the Annual General Meeting held in Amsterdam on May 31, 2011, Manfred Rietzler was appointed as Vice Chairman of the Supervisory Board. In addition, Tobias Reich was appointed as a Member of the Supervisory Board.

The annual remuneration of the Chairman of the Supervisory Board (for Prof. Dr. Bernd Fahrholz) amounted to EUR 90.000 in 2011, the remuneration for the Vice Chairmen of the Supervisory Board (for Manfred Rietzler) amounted to EUR 35,000. The compensation for Members of the Supervisory Board amounted to EUR 30,000 for Wolfgang Huppenbauer and EUR 15,000 for Jan Lobbezoo who resigned his membership to the Supervisory Board on May 31, 2011. Christopher von Hugo, Dr. Jörg Zirener, and Tobias Reich waived their right to compensation for the year 2011.

Throughout 2011, 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).

# WE HAVE A RECEIPT FOR FAST PAIN RELIEF AT MEDICAL AND PHARMA PROCESS SOLUTIONS.

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SMARTRAC offers a wide range of RFID transponders especially developed to accommodate the specific requirements in medical and health care environments like the resistance to gamma radiation.

# CONSOLIDATED FINANCIAL STATEMENTS 2011

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEARS ENDED DECEMBER 31

| In thousands of EUR | Note | Consolidated 2011 | Consolidated 2010 |
|---|---|---|---|
| Revenue | 6 | 167,604 | 180,111 |
| Cost of sales | 7 | (139,811) | (133,619) |
| **Gross profit** | | **27,793** | **46,492** |
| Administrative expenses | 8 | (50,138) | (37,183) |
| Other operating expenses | 10 | (14,909) | (1,197) |
| **Total operating expenses** | | **(65,047)** | **(38,380)** |
| **Operating profit before financial income/(expenses)** | | **(37,254)** | **8,112** |
| Financial income | 12 | 7,260 | 13,703 |
| Financial expenses | 12 | (11,536) | (16,125) |
| **Net financial expenses** | | **(4,276)** | **(2,422)** |
| Share of loss of equity-accounted investees | 5 | (47) | – |
| **Profit/(loss) before tax** | | **(41,577)** | **5,690** |
| **Income tax benefit/(expenses)** | **13** | **23** | **383** |
| **Profit/(loss) for the period attributable to:** | | **(41,554)** | **6,073** |
| Owners of the company | | (41,550) | 6,073 |
| Non-controlling interests | | (4) | – |
| **Profit/(loss) for the period** | | **(41,554)** | **6,073** |
| Foreign exchange translation | | 141 | 2,106 |
| **Other comprehensive income/(loss), net of tax** | | **141** | **2,106** |
| **Total comprehensive income/(loss) for the period attributable to:** | | **(41,413)** | **8,179** |
| Owners of the company | | (41,409) | 8,179 |
| Non-controlling interests | | (4) | – |
| **Total comprehensive income/(loss) for the period** | | **(41,413)** | **8,179** |
| Basic earnings per share (EUR) | 14 | (2.54) | 0.41 |
| Diluted earnings per share (EUR) | 14 | (2.54) | 0.40 |

The accompanying notes (on page 88 to 165) are an integral part of the consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

## AS AT DECEMBER 31

| In thousands of EUR | Note | Consolidated 2011 | Consolidated 2010 |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 17 | 107,030 | 63,206 |
| Property, plant and equipment | 16 | 56,371 | 54,852 |
| Investment in jointly controlled entities | 5 | 1,115 | 1 |
| Deferred tax assets | 13 | 4,354 | 2,720 |
| Other non-current assets | | 4,417 | 1,644 |
| **Total non-current assets** | | **173,287** | **122,423** |
| Inventories | 18 | 29,500 | 33,204 |
| Trade and non-trade receivables | 19 | 35,178 | 39,501 |
| Current income tax | | 685 | 751 |
| Other current assets | 20 | 3,330 | 2,965 |
| Cash and cash equivalents | 21, 28 | 22,100 | 49,613 |
| **Total current assets** | | **90,793** | **126,034** |
| **Total assets** | | **264,080** | **248,457** |
| **Equity** | | | |
| Share capital | 1, 22 | 8,872 | 8,167 |
| Share premium | 1, 22 | 111,624 | 96,743 |
| Translation reserve | | 2,192 | 2,051 |
| Retained earnings | | 13,070 | 54,620 |
| **Equity attributable to owners of the company** | | **135,758** | **161,581** |
| Non-controlling interests | | 3,061 | – |
| **Total equity** | | **138,819** | **161,581** |
| **Liabilities** | | | |
| Secured loans | 23 | 1,161 | 50,246 |
| Employee benefits | 24 | 663 | 543 |
| Deferred tax liabilities | 13 | 6,124 | 2,761 |
| Other non-current liabilities | 4 | 6,315 | – |
| Deferred income from government grants | 28 | 670 | – |
| **Total non-current liabilities** | | **14,933** | **53,550** |
| Bank overdraft | 21, 23 | 320 | 212 |
| Current portion of secured loans | 23 | 58,524 | 415 |
| Non-secured loans | 23 | 459 | – |
| Trade and non-trade payables | 25 | 20,050 | 24,684 |
| Current income tax | | 1,286 | 798 |
| Provisions | 26 | 5,322 | 105 |
| Other current liabilities | 4, 27 | 24,367 | 7,112 |
| **Total current liabilities** | | **110,328** | **33,326** |
| **Total liabilities** | | **125,261** | **86,876** |
| **Total equity and liabilities** | | **264,080** | **248,457** |

The accompanying notes (on page 88 to 165) 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 2011 | Consolidated 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income (loss) | | (41,554) | 6,073 |
| | | | |
| **Reconciliation of net profit to net cash provided by (used in) operating activities:** | | | |
| Income tax benefit | 13 | (23) | (383) |
| Depreciation, amortization and impairment | 7, 8 | 24,515 | 10,382 |
| Impairment on intangible assets | 17 | 658 | – |
| Reversal of impairment on fixed assets | | (18) | – |
| Share related payments settled in equity | 15, 31 | 196 | 552 |
| Provision on losses on inventory | 10 | 14,931 | 206 |
| Provision on losses on accounts receivable | 10 | 604 | 1,413 |
| (Gains) or losses on disposal of fixed assets | 10 | (32) | (144) |
| Share of loss of equity-accounted investees | | 47 | – |
| Interest income | 12 | (235) | (163) |
| Interest expense | 12 | 3,912 | 3,414 |
| Other non cash items | | (2,087) | (621) |
| | | | |
| **Changes in operational assets and liabilities:** | | | |
| Other non-current assets | | 12 | (57) |
| Inventories | | (7,347) | (12,142) |
| Other current assets | | (311) | (695) |
| Accounts receivables | | 16,861 | (5,911) |
| Employee benefits | | 120 | 147 |
| Trade and non-trade payables | | (11,391) | 2,365 |
| Other non-current liabilities | | 57 | – |
| Other current liabilities and provisions | | 9,617 | 453 |
| | | | |
| **Cash provided by operating activities** | | **8,532** | **4,889** |
| | | | |
| Interest paid | | (2,254) | (3,043) |
| Interest received | | 245 | 185 |
| Income taxes paid | | (197) | (91) |
| **Net cash provided by operating activities** | | **6,326** | **1,940** |
| | | | |
| **Cash flows from investing activities** | | | |
| Net cash inflow (outflow) on business combinations | 4 | (39,121) | (1,743) |
| Investments in jointly controlled entities | | (1,253) | – |
| Proceeds from sale of equipment | | 170 | 385 |
| Purchases of intangible assets | 17 | (2,487) | (3,311) |
| Purchases of property, plant and equipment | 16 | (13,916) | (14,484) |
| Deposits paid for property, plant and equipment | | (2,702) | (412) |
| Cash proceeds on sale of short-term investments | | – | 450 |
| Loans made to other parties | | – | (296) |
| **Net cash used in investing activities** | | **(59,309)** | **(19,411)** |

| In thousands of EUR | Note | Consolidated 2011 | Consolidated 2010 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of share capital | 22 | 15,390 | 25,462 |
| Proceeds from sale of treasury stock | 15 | – | 3,841 |
| Proceeds from interest-bearing loans and borrowings and secured loan | 23 | 7,104 | 5 |
| Repayments of interest-bearing loans and borrowings and secured loan | 23 | (466) | (687) |
| Payments for termination and exercise of stock option schemes | 15 | – | (964) |
| Proceeds from non-controlling interests | | 3,061 | – |
| **Net cash provided by financing activities** | | **25,089** | **27,657** |
| | | | |
| Net change in cash and cash equivalents and bank overdrafts | | (27,894) | 10,186 |
| Cash and cash equivalents and bank overdrafts at January 1 | 21 | 49,401 | 38,814 |
| Effect of exchange rate fluctuations on cash and cash equivalents and bank overdrafts | | 273 | 401 |
| **Cash and cash equivalents and bank overdrafts at December 31** | **21** | **21,780** | **49,401** |

The accompanying notes (on page 88 to 165) 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, 2010** | | **7,425** | **75,047** | **(55)** |
| Net profit for the period | | – | – | – |
| Other comprehensive income (loss) | | – | – | 2,106 |
| **Total comprehensive income (loss) of the period** | | **–** | **–** | **2,106** |
| Par value of new shares – credited to share capital | | 742 | – | – |
| Excess of gross proceeds over par share value credited to share premium | | – | 25,245 | – |
| Transaction costs of the capital increase charged to share premium | | – | (525) | – |
| Option expense – share based option schemes | 31 | – | 292 | – |
| Reclassification of restricted stock (stock plan) | 31 | – | (109) | – |
| Issuance of stock plan | 15 | – | (219) | – |
| Excercise and termination of stock option schemes | 31 | – | (1,039) | – |
| Sale Treasury Stock | 15 | – | (1,949) | – |
| **Balance as at December 31, 2010** | | **8,167** | **96,743** | **2,051** |
| **Balance as at January 1, 2011** | | **8,167** | **96,743** | **2,051** |
| Net 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 | 22 | 705 | – | – |
| Excess of gross proceeds over par share value credited to share premium | 22 | – | 14,795 | – |
| Transaction costs of the capital increase charged to share premium | 22 | – | (110) | – |
| Option expense – share based option schemes | 31 | – | 196 | – |
| **Balance as at December 31, 2011** | | **8,872** | **111,624** | **2,192** |

* The retained earnings as at December 31, 2011, include a legal reserve for capitalized development costs amounting to EUR 5.4 million (2010: EUR 6.2 million).

The accompanying notes (on page 88 to 165) are an integral part of the consolidated financial statements.

| Retained earnings* | Treasury stock | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|
| **48,547** | **(6,344)** | **124,620** | **–** | **124,620** |
| | | | | |
| 6,073 | – | 6,073 | – | 6,073 |
| – | – | 2,106 | – | 2,106 |
| **6,073** | **–** | **8,179** | **–** | **8,179** |
| | | | | |
| – | – | 742 | – | 742 |
| – | – | 25,245 | – | 25,245 |
| – | – | (525) | – | (525) |
| – | – | 292 | – | 292 |
| – | – | (109) | – | (109) |
| – | 479 | 260 | – | 260 |
| – | 75 | (964) | – | (964) |
| – | 5,790 | 3,841 | – | 3,841 |
| | | | | |
| **54,620** | **–** | **161,581** | **–** | **161,581** |
| | | | | |
| **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** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

## 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 following subsidiaries and jointly controlled entities as at December 31, 2011:

| 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 GmbH | Germany | November 17, 2003 | Manufacturing/ 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 % |
| multitape Holding B.V. | The Netherlands | September 3, 2007 | Holding | 100 % |
| SMARTRAC AUTOMATION Sdn. Bhd. | Malaysia | January 21, 2008 | Manufacturing | 100 % |
| SMARTRAC German 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 % |
| KSW Microtec Holding AG | Germany | December 14, 2011 | Holding | 100 % |
| SMARTRAC US Holding B.V. | The Netherlands | December 19, 2011 | Holding | 88 % |
| **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 GERMANY 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 % |
| KSW Microtec AG** | Germany | December 14, 2011 | Manufacturing | 100 % |
| Neology Inc. | USA | December 21, 2011 | Manufacturing | 100 % |
| Single Chips Systems Inc. | USA | December 21, 2011 | IP Management | 100 % |
| Neology S. de RL de CV | Mexico | December 21, 2011 | Trading | 100 % |
| Neology Servicios S. de RL de CV | Mexico | December 21, 2011 | Service Centre | 100 % |
| **Jointly controlled entity** | | | | |
| Citywish Investments Ltd. | China | July 2, 2010 | Trading/Holding | 30 % |
| Omnia Technologies Private Ltd. | India | March 1, 2011 | Manufacturing | 50 % |

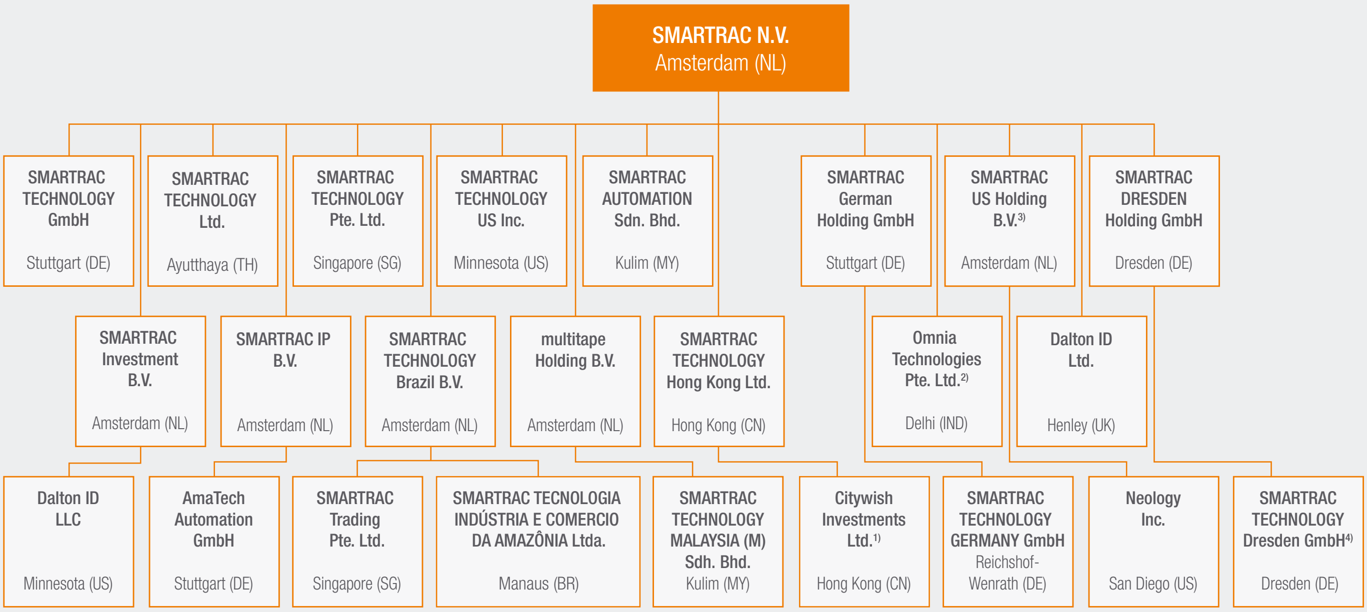
* In the last quarter of the year, International Animal ID, LLC, has changed the company's name to Dalton ID, LLC. The change of name is a result of the alignment of activities under the Dalton ID brand.

** In February 2012, KSW Microtec AG changed its company name to SMARTRAC TECHNOLOGY Dresden GmbH. The name change is a result 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.

## B) ACTIVITIES

The Group is a leading developer, manufacturer, and supplier of RFID transponders and inlays for e-passports and contactless credit cards and also produces transponders for public transport, access control, animal identification, retail apparel, library, industry and logistics, as well as ticket and labels applications. 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.

1) Ownership 30%

2) Ownership 50%

3) Ownership 87,67%

4) In the course of 2012, KSW Microtec AG changed its company name to SMARTRAC TECHNOLOGY Dresden GmbH

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, 2011.

## 2. BASIS OF PREPARATION

### A) STATEMENT OF COMPLIANCE

The consolidated financial statements 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the International Accounting Standards Board (IASB) effective as at December 31, 2011, 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 23, 2012, and will be submitted for adoption to the Annual General Meeting of Shareholders on June 19, 2012.

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 at December 31, 2011, together with a description of the principal risks that the Group is confronted with.

Amsterdam, March 23, 2012

| | | |
|---|---|---|
| Dr. Christian Fischer | Wolfgang Schneider | Robert Harmzen |
| Chairman of the Management Board, CEO | Member of the Management Board | 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 of the balance sheet:

- Cash and cash equivalents are stated at fair value.
- 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.
- Foreign currency hedges are stated at fair value.
- Trade and other receivables are stated initially at fair value.

## D) GOING CONCERN

On July 14, 2009, SMARTRAC signed an agreement on a syndicated multicurrency credit facility for EUR 65 million which ends on June 30, 2012, with standard market terms and conditions including a leverage and an equity covenant. As of December 31, 2011, a total notional amount of EUR 57.5 million was drawn. A total of EUR 7.5 million of the credit facility is unused as at December 31, 2011. SMARTRAC is currently in negotiations with the lenders and additional banks to refinance the expiring facilities. Based on the current progress of the negotiations the Management Board considers that the Group is a going concern and can repay its debts as they fall due.

## E) 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.

## F) 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 of 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 respected notes, if any. This relates in particular to:

- Recoverability of deferred tax assets (note 13)
- Valuation of intangible assets, especially goodwill (note 17)
- Allowance for doubtful accounts (note 10, 19)
- Valuation of provisions (note 26)
- Exceptional items as presented in note 11

## G) 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 transfer substantially 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 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 financial year 2011, SMARTRAC founded additional entities (please refer to note 4) and obtained control over three companies including their respective subsidiaries (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 at the 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 to 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 at 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 at the date of the transaction. Any differences arising from this procedure have been charged (credited) to the cumulative translation reserve in equity. On 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 | 2011 Period end rate | 2011 Period average rate | 2010 Period end rate | 2010 Period average rate |
|---|---|---|---|---|
| USD to EUR | 1.29 | 1.39 | 1.33 | 1.33 |
| THB to EUR | 40.88 | 42.17 | 40.02 | 42.42 |
| SGD to EUR | 1.68 | 1.75 | 1.71 | 1.81 |
| BRL to EUR | 2.41 | 2.32 | 2.21 | 2.35 |
| MYR to EUR | 4.11 | 4.25 | 4.09 | 4.29 |
| HKD to EUR | 10.06 | 10.83 | 10.32 | 10.33 |
| INR to EUR | 70.29 | 65.14 | n.a. | n.a. |
| GBP to EUR | 0.84 | 0.87 | n.a. | n.a. |
| AUD to EUR | 1.27 | 1.35 | n.a. | n.a. |
| ZAR to EUR | 10.51 | 10.06 | n.a. | n.a. |
| MXN to EUR | 18.09 | 17.27 | 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

The Group recognizes in the carrying amount of an item of property, plant and equipment 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 PATENT RIGHTS

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 can not be subsumed under other intangible asset categories. These are mainly non-competition agreements, supply agreements and customer basis 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 for software is 5 years. 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.

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.

### Secured loans and interest-bearing borrowings

Secured loans and interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, secured 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.

### Hedge contracts and measurement

The Group enters into certain foreign currency transactions and interest rate swap derivatives that are not designated as hedges for accounting purposes. The foreign currency hedges relate to anticipated, but not firmly committed, commercial transactions and non-EUR-intercompany loans, based on management objective of risk avoidance. The interest rate swap derivatives serve the purpose of hedging the Group's interest rate risk arising from future floating-rate based borrowings.

### 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 which are subject to an insignificant risk of changes in value. Cash equivalents are stated at fair value with movements through the income statement.

## I) IMPAIRMENT

The carrying amounts of the Group's assets, other than inventories (see accounting policy f), deferred tax assets (see accounting policy p), 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 in 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. Share bonus grants are recognized as an employee expense with a corresponding increase in equity at the grant date.

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

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### 1. WARRANTIES

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

#### 2. RESTRUCTURING

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

#### 3. FLOOD RELATED OBLIGATIONS

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

## N) OTHER CURRENT LIABILITIES

Other current liabilities are stated at amortized costs.

## O) REVENUE

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 result 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.

## 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 payable 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 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 of the product portfolio rather than differences in geographical area or other factors.

The Business Unit eID and Business Unit Cards were aggregated as reportable segment 'Security' and the Business Unit Industry & Logistics and Business Unit Tickets & Labels were aggregated as reportable segment 'Industry'. All other business activities are included in the 'All other' segment.

The business segment 'Security' includes products for personal electronic identification governmental use such as e-Passports, National eID cards, electronic driver's licenses and electronic Visa as well as transponders for public transport, access control, e-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 tickets and label converters and include fields of application such as library, ticketing and airline luggage. The Industry segment also comprises the business activities of Neology Inc. which serves the electronic registration and electronic toll collection 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 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

As from January 1, 2011, the Group applies the following mandatory standards and interpretations:

- **IAS 24 Related Party Disclosures (as revised in 2009):** IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

  The Company and its subsidiaries are not government-related entities. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has resulted in the identification of related parties that were not identified as related parties under the previous Standard. Specifically, associates of the ultimate holding company of the Company are treated as related parties of the Group under the revised Standard whilst such entities were not treated as related parties of the Group under the previous Standard.

- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments:** The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognized through profit and loss.

Improvements to IFRSs issued in 2010:

- Except for the amendments to IFRS 3, the application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

  As part of Improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ('market-based measure').

## U) NEW STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these consolidated financial statements. Amongst others these are:

– The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. There is minor impact in our financial statements.

– IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

  Key requirements of IFRS 9 are described as follows:

  IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

  The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss. There is minor impact in our financial statements.

  IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

- IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

- IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

  In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

- IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

- IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope. The new standard will have an effect on the consolidated figures and must be revaluated.

  IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

– The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

  The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

## 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, 2011 | Profit and loss since January 1, 2011 |
|---|---|---|---|---|---|---|---|---|
| **Company / business** | | | | | | | | |
| Dalton ID Ltd. | Nov 11, 2011 | 100 % | 109 | 2,350 | 337 | (353) | 2,600 | (510) |
| KSW Holding AG | Dec 14, 2011 | 100 % | 379 | 13,132 | 1,613 | 212 | 12,600 | 656 |
| Neology Inc. | Dec 21, 2011 | 100 % | 680 | 17,597 | – | – | 15,160 | 1,346 |
| **Total** | | | **1,168** | **33,079** | **1,950** | **(141)** | **30,360** | **1,492** |

Transaction costs mainly comprice legal and consultancy fees.

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

### KSW GROUP

#### DESCRIPTION OF KSW'S BUSINESS ACTIVITIES AND THE EXPECTED IMPACT FROM THE INTEGRATION INTO THE GROUP

KSW including KSW Holding AG, Jena, and its only subsidiary KSW Microtec AG, Dresden, is a manufacturer and supplier of contactless components, basically of RFID HF and UHF inlays as well as prelaminates for standard and customized applications. The product range covers the business segments eTicketing, Asset Management, Access Control, eGovernment, and ePayment. Its business focuses on Germany and is complemented by select activities mainly in the United Kingdom and the USA.

The acquisition of KSW enables SMARTRAC to benefit from the long-term experience of KSW in the high frequency (HF) and the ultra-high frequency (UHF) RFID inlay production and proprietary know-how and creates excellent synergies in research & development. The acquisition further leads to an expansion of SMARTRAC's market position in Germany and the USA.

#### THE PURCHASE AGREEMENT

Effective December 14, 2011, the acquisition of KSW includes the sale and purchase of 100 % of the KSW shares and the sale and purchase of various shareholder loans. The purchase price for the acquisition of KSW amounts to a nominal amount of EUR 24 million which was discounted by using the long-term borrowed capital cost-rate of SMARTRAC to a total of EUR 23.3 million consisting of EUR 9.9 million representing the nominal value of the outstanding claims of the Shareholder at the acquisition date and EUR 13.4 million, representing the purchase price for the shares.

## THE PURCHASE PRICE ALLOCATION AND OTHER ACQUISITION RELATED INFORMATION

The following tables present a summarized breakdown of the values of KSW's net assets acquired during the reporting period:

| In thousands of EUR | Total |
|---|---|
| | |
| **Total purchase consideration** | **23,340** |
| Cash for shareholder loans | (9,897) |
| **Net assets acquired** | **13,443** |
| | |
| Fair value of acquired assets | (16,288) |
| Fair value of acquired liabilities | 15,744 |
| **Total fair value** | **12,899** |
| | |
| Deferred tax assets | (1,401) |
| Deferred tax liability | 1,634 |
| **Goodwill** | **13,132** |

Detailed overview of the net assets acquired (100 %) in the course of the financial year 2011:

| In thousands of EUR | Carrying value prior to acquisition | Adjustment | Carrying value upon acquisition |
|---|---|---|---|
| | | | |
| Plant and equipment | 6,089 | – | 6,089 |
| Goodwill | 5,143 | 7,989 | 13,132 |
| Patents | – | 478 | 478 |
| Software | 25 | – | 25 |
| Other intangible assets | 134 | 3,706 | 3,840 |
| Inventories | 1,411 | 102 | 1,513 |
| Receivables | 4,163 | – | 4,163 |
| Cash and cash equivalents | 180 | – | 180 |
| Deferred tax assets | – | 1,401 | 1,401 |
| Deferred grants related to assets | (674) | – | (674) |
| Total non-current financial liabilities | (5,434) | – | (5,434) |
| Other provisions | (547) | – | (547) |
| Payables | (2,435) | – | (2,435) |
| Other current liabilities | (6,654) | – | (6,654) |
| Deferred tax liabilities | (325) | (1,309) | (1,634) |
| **Net assets acquired** | **1,076** | **12,367** | **13,443** |
| Purchase price | | | (24,000) |
| Discounted amount | | | 660 |
| Total purchase consideration | | | (23,340) |
| Deferred consideration liability | | | 11,340 |
| Cash and cash equivalents | | | 180 |
| **Cash outflow on acquisition** | | | **(11,820)** |

All assets and liabilities acquired were recognized at the fair value on the date of the acquisition. Additional intangible assets (trademark, patens 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 trade-mark, patents and technologies. To measure the customer relationships and similar rights the multi-period-excess-earnings-method was used. On the basis of the fair value of the net assets acquired the goodwill amounts to EUR 13.1 million. In accordance with IFRS 3 this goodwill is not amortized. The goodwill includes an employee base of EUR 0.4 million which was determined by a cost basis. The remaining goodwill is determined by the growth opportunities arising from the purchase.

## DALTON GROUP

### DESCRIPTION OF DALTON'S BUSINESS ACTIVITIES AND THE EXPECTED IMPACT FROM THE INTEGRATION INTO THE GROUP

Dalton UK Ltd (including Subsidiaries: 'Dalton Group'), Henley on Thames, United Kingdom, and its subsidiaries Dalton Continental B.V. (The Netherlands), Dalton Continental GmbH (Germany), Dalton ID (Africa) Pty (South Africa, 60%), Dalton ID (Australia) Pty and Drovers AY One Pty (Australia), is a producer and seller of visual and RFID-based animal identification systems. Its business focuses on the United Kingdom and Continental Europe and is complemented by select activities mainly in Australia and South Africa.

The purpose of the acquisition of Dalton Group is to benefit from the promising animal identification business and to integrate business know-how and distribution channels to the already existing product portfolio of SMARTRAC.

### THE PURCHASE AGREEMENT

As of November 11, 2011, the acquisition of Dalton Group includes the sale and purchase of 100 % of the shares of Dalton UK Ltd. The purchase price for the acquisition of Dalton amounts to a nominal amount of EUR 1.8 million which was discounted by using the long-term borrowed capital cost-rate of SMARTRAC to a total of EUR 1.7 million.

### THE PURCHASE PRICE ALLOCATION AND OTHER ACQUISITION RELATED INFORMATION

The following tables present a summarized breakdown of the values of Dalton's net assets acquired during the reporting period:

| In thousands of EUR | Total |
|---|---|
| | |
| Cash consideration | 900 |
| Contingent purchase consideration (earn-Out) | 809 |
| **Total purchase consideration** | **1,709** |
| | |
| Fair value of acquired assets | (2,316) |
| Fair value of acquired liabilities | 3,114 |
| **Total fair value** | **798** |
| | |
| Deferred tax asset | (248) |
| Deferred tax liability | 91 |
| **Goodwill** | **2,350** |

Detailed overview of the net assets acquired (100 %) in the course of the financial year 2011:

| In thousands of EUR | Carrying value prior to acquisition | Adjustment | Carrying value upon acquisition |
|---|---|---|---|
| Plant and equipment | 544 | – | 544 |
| Goodwill | 512 | 1,838 | 2,350 |
| Other intangible assets | 263 | – | 263 |
| Inventories | 723 | – | 723 |
| Receivables | 642 | – | 642 |
| Deferred tax assets | 248 | | 248 |
| Cash and cash equivalents | 144 | – | 144 |
| Bank overdraft | (539) | – | (539) |
| Total non-current financial liabilities | (1,004) | – | (1,004) |
| Other provisions | – | – | – |
| Payables | (1,571) | – | (1,571) |
| Other current liabilities | – | – | – |
| Deferred tax liabilities | (91) | – | (91) |
| **Net assets acquired** | **(129)** | **1,838** | **1,709** |
| Purchase price | | | (1,800) |
| Discounted amount | | | 91 |
| Total purchase consideration | | | (1,709) |
| Cash and cash equivalents and bank overdraft | | | (395) |
| Contingent consideration | | | 809 |
| **Net cash outflow on acquisition** | | | **(1,295)** |

All assets and liabilities acquired were recognized at the fair value on the date of the acquisition. Additional intangible assets were not identified. On the basis of the fair value of the net assets acquired the goodwill amounts to EUR 2.4 million. In accordance with IFRS 3 this goodwill is not amortized.

## NEOLOGY GROUP

### DESCRIPTION OF NEOLOGY'S BUSINESS ACTIVITIES AND THE EXPECTED IMPACT FROM THE INTEGRATION INTO THE GROUP

Neology Inc., a Delaware Corporation and headquartered in San Diego, California, with offices in Mexico City is a leader in secure customized high-value RFID transponders. The company is an early player in UHF technology and a holder of some of the most important intellectual property in the industry, Neology also serves the tolling, electronic vehicle registration (EVR) and public safety markets and 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.

With the acquisition of Neology, SMARTRAC expects to benefit from access to the attractive and growing electronic vehicle registration and electronic toll collection market in the Americas. Neology's long-standing expertise in the ultra-high frequency (UHF) RFID business and the comprehensive intellectual property (IP) are expected to contribute toward strengthening SMARTRAC's technology base.

## THE PURCHASE AGREEMENT

As of December 21, 2011 the acquisition of Neology includes the sale and purchase of 100 % of the Neology shares and a cash contribution into Neology's equity. The total purchase consideration amounts to EUR 28.8 million including an earn-out component of EUR 4.6 million of which a major portion will be delivered in the form of participation rights and the minority in cash.

## THE PURCHASE PRICE ALLOCATION AND OTHER ACQUISITION RELATED INFORMATION

The following tables present a summarized breakdown of the values of Neology's net assets acquired during the reporting period:

| In thousands of EUR | Total |
|---|---|
| **Total purchase consideration** | **28,768** |
| Fair value of acquired assets | (17,667) |
| Fair value of acquired liabilities | 4,595 |
| **Total fair value** | **15,696** |
| Deferred tax asset | (73) |
| Deferred tax liability | 1,974 |
| **Goodwill** | **17,597** |

Detailed overview of the net assets acquired (100 %) in the course of the financial year 2011:

| In thousands of EUR | Carrying value prior to acquisition | Adjustment | Carrying value upon acquisition |
|---|---|---|---|
| Plant and equipment | 1,600 | – | 1,600 |
| Goodwill | – | 17,597 | 17,597 |
| Patents | 912 | | 912 |
| Software | 129 | – | 129 |
| Other intangible assets | 53 | 6,442 | 6,495 |
| Other non-current assets | 12 | – | 12 |
| Inventories | 1,477 | – | 1,477 |
| Receivables | 6,493 | – | 6,493 |
| Cash and cash equivalents | 549 | – | 549 |
| Deferred tax assets | 73 | – | 73 |
| Current income tax | (423) | – | (423) |
| Payables | (2,530) | – | (2,530) |
| Other current liabilities | (1,537) | – | (1,537) |
| Deferred tax liabilities | (25) | (1,949) | (1,974) |
| Other non current liabilities | (105) | – | (105) |
| **Net assets acquired** | **6,678** | **22,090** | **28,768** |
| Total purchase consideration | | | (28,768) |
| Contingent consideration liability | | | 4,591 |
| Receivables with regards to consideration | | | (628) |
| Cash and cash equivalents | | | 549 |
| **Net cash outflow on acquisition** | | | **(24,256)** |

All assets and liabilities acquired were recognized at the fair value on the date of the acquisition on a provisional basis. Additional intangible assets (trademark, patents and technologies) 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 trademark, patents and technologies. On the basis of the fair value of the net assets acquired the goodwill amounts to EUR 17.6 million and determined by the growth opportunities arising from the purchase. In accordance with IFRS 3 the goodwill is not amortized.

The tables below present as a summary a breakdown of the cumulative values of the net assets acquired during the reporting period:

| In thousands of EUR | Total |
|---|---|
| | |
| **Total purchase consideration** | **53,817** |
| Cash for selling shareholder loans | (9,897) |
| | |
| **Net assets acquired** | **43,920** |
| Fair value of acquired assets | (36,271) |
| Fair value of acquired liabilities | 23,453 |
| **Total fair value** | **(12,818)** |
| | |
| Deferred tax asset | (1,722) |
| Deferred tax liability | 3,699 |
| **Goodwill** | **33,079** |

Detailed overview of the cumulative net assets acquired in the course of the financial year 2011:

| In thousands of EUR | Carrying value prior to acquisition | Adjustment | Carrying value upon acquisition |
|---|---|---|---|
| Plant and equipment | 8,233 | – | 8,233 |
| Goodwill | 5,655 | 27,424 | 33,079 |
| Patents | 912 | 478 | 1,390 |
| Software | 154 | – | 154 |
| Other intangible assets | 450 | 10,148 | 10,598 |
| Other non-current assets | 12 | – | 12 |
| Inventories | 3,611 | 102 | 3,713 |
| Receivables | 11,298 | – | 11,298 |
| Cash and cash equivalents | 873 | – | 873 |
| Deferred tax assets | 321 | 1,401 | 1,722 |
| Non-current financial liabilities | (6,438) | – | (6,438) |
| Deferred grants related to assets | (674) | – | (674) |
| Other provisions | (547) | – | (547) |
| Bank overdrafts | (539) | – | (539) |
| Current income tax | (423) | – | (423) |
| Payables | (6,536) | – | (6,536) |
| Other current liabilities | (8,191) | – | (8,191) |
| Deferred tax liabilities | (441) | (3,258) | (3,699) |
| Other non-current liabilities | (105) | – | (105) |
| **Net assets acquired** | **7,625** | **36,295** | **43,920** |
| Purchase consideration | | | (54,568) |
| Discounted amount | | | 751 |
| Total purchase consideration | | | (53,817) |
| Deferred consideration liability | | | 11,340 |
| Contingent consideration liability | | | 5,400 |
| Receivables with regards to consideration paid | | | (628) |
| Cash and cash equivalents less bank overdrafts | | | 334 |
| **Net cash outflow on acquisition** | | | **(37,371)** |

## BUSINESS OF MCT AND OTI

Based on contractual obligations to pay for assets acquired from On Track Innovations Ltd. and from Millenium Card's Technology Ltd. in the year 2009, an amount of EUR 1,750,000 (including interests according to the effective interest method) was paid in 2011 (2010: EUR 1,743,000).

## ESTABLISHMENT OF SMARTRAC INVESTMENT B.V.

On May 25, 2011, SMARTRAC established SMARTRAC Investment B.V., a 100 percent subsidiary of SMARTRAC N.V., which serves as an entity for minority investments. Thereby, SMARTRAC intents to participate in growth opportunities in the RFID industry alongside its core business by gaining access to emerging growth segments of the RFID industry, future contactless technologies, RFID-related competencies, business concepts and ideas.

## ESTABLISHMENT OF INTERNATIONAL ANIMAL ID LLC

On July 29, 2011, SMARTRAC established International Animal ID LLC, Chanhassen, USA, a 100 percent subsidiary of SMARTRAC Investment B.V. the company was subsequently renamed to Dalton ID, LLC. The company provides sales services for the animal identification market.

## ESTABLISHMENT OF SMARTRAC US HOLDING B.V.

On December 19, 2011, SMARTRAC established SMARTRAC US Holding B.V., a 88 percent subsidiary of SMARTRAC N.V., which serves as a holding company for Neology Inc.

## 5. INVESTMENT IN JOINTLY CONTROLLED ENTITIES AND NON-CONTROLLING INTERESTS

### 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 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 5,605.

The business scope of Citywish is trading and making investments in mainland China.
SMARTRAC recognizes its interest in Citywish using the equity method.

### 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 % | 369 | 313 | 682 | 314 | – | 314 | 368 | 478 | 568 | (90) | 184 | (45) |

### ACQUISITION AND DISPOSAL OF RFID TECHNOLOGIE B.V.

On June 1, 2011, SMARTRAC Investment B.V. acquired an interest of 19,99 percent in RFID Technologie B.V., Amsterdam, The Netherlands, as an opportunity to develop new products and applications. The financial asset of EUR 20 million is designated at fair value through profit or loss. On August 31, 2011, SMARTRAC Investment B.V. reduced its investment by EUR 3 million. In October, SMARTRAC Investment B.V. sold its remaining shares in RFID Technologie B.V. to OEP Technologie Holding B.V.

## 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, National e-ID Cards, electronic driver's licenses, electronic Visas, e-Health cards, e-Social security cards, public transport, e-Payment, access control and active card applications.

- **Industry segment:** the manufacture and sale of RFID transponders with embedded chips for use in a broad range of applications. RFID transponders for the industry and logistics sector are suited for automotive applications, for use in harsh environments such as industry, logistics, laundry, waste management, as well as for highly sensitive areas such as the medical sector and animal identification. In addition, this segment covers a broad range of standard and customized RFID transponders for tickets and labels applications such as library, retail apparel, ticketing and airline luggage. The Industry segment also comprises the business activities of Neology Inc. which serves the electronic registration and electronic toll collection market.

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

## CONSOLIDATED SEGMENT INFORMATION BY BUSINESS SEGMENTS

| | Security | |
|---|---|---|
| In thousands of EUR | 12 months ended Dec. 2011 | 12 months ended Dec. 2010 |
| | | |
| **Segment revenue** | | |
| Revenue from external customers | 116,788 | 136,330 |
| Revenue from transactions with other segments | 20 | 3 |
| **Total revenue** | **116,808** | **136,333** |
| | | |
| **Segment result** | | |
| Gross profit | 15,887 | 36,044 |
| Operating income (expenses) | (44,206) | (25,104) |
| Thereof impairment loss on trade receivables | – | (1,300) |
| Operating profit (loss) | (28,319) | 10,940 |
| Financial result | | |
| Share of profit of equity-accounted investees | | |
| **Profit before tax expense / benefit** | | |
| Income tax expense / benefit | | |
| **Group profit for the period** | | |
| | | |
| **Supplemental information** | | |
| Operating profit (loss) | (28,319) | 10,940 |
| Amortization, depreciation and impairment | 7,328 | 5,566 |
| | | |
| Exceptional items voluntary public tender offer [2] | – | – |
| **Exceptional items 2010** | **–** | **–** |
| | | |
| Exceptional items restructuring [3] | 340 | – |
| Exceptional items flood Thailand [4] | 33,552 | – |
| Exceptional items acquisition costs [5] | – | – |
| **Exceptional items 2011** | **33,892** | **–** |
| | | |
| **Segment EBITDA [1]** | **12,901** | **16,506** |

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) Legal and financial consultancy with regard to the voluntary public tender offer for SMARTRAC.

3) Restructuring costs for the year 2011. Please refer to note 11.

4) Please refer to note 11.

5) Transaction costs regarding several acquisitions in 2011.

| | Industry | | All other | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | 12 months ended Dec. 2011 | 12 months ended Dec. 2010 | 12 months ended Dec. 2011 | 12 months ended Dec. 2010 | 12 months ended Dec. 2011 | 12 months ended Dec. 2010 | 12 months ended Dec. 2011 | 12 months ended Dec. 2010 |
| | | | | | | | | |
| | | | | | | | | |
| | 49,299 | 42,543 | 1,517 | 1,238 | – | – | 167,604 | 180,111 |
| | 632 | 2 | 6,339 | 3,960 | (6,991) | (3,965) | – | – |
| | **49,931** | **42,545** | **7,856** | **5,198** | **(6,991)** | **(3,965)** | **167,604** | **180,111** |
| | | | | | | | | |
| | | | | | | | | |
| | 10,285 | 9,408 | 2,403 | 1,819 | (782) | (779) | 27,793 | 46,492 |
| | (16,345) | (11,559) | (4,527) | (1,702) | 31 | (15) | (65,047) | (38,380) |
| | – | – | – | – | – | – | – | (1,300) |
| | (6,060) | (2,151) | (2,124) | 117 | (751) | (794) | (37,254) | 8,112 |
| | | | | | | | (4,276) | (2,422) |
| | | | | | | | (47) | – |
| | | | | | | | **(41,577)** | **5,690** |
| | | | | | | | 23 | 383 |
| | | | | | | | **(41,554)** | **6,073** |
| | | | | | | | | |
| | | | | | | | | |
| | (6,060) | (2,151) | (2,124) | 117 | (751) | (794) | (37,254) | 8,112 |
| | 4,946 | 4,242 | 755 | 685 | (236) | (111) | 12,793 | 10,382 |
| | | | | | | | | |
| | – | – | – | 1,231 | – | – | – | 1,231 |
| | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1,231** |
| | | | | | | | | |
| | 74 | – | 30 | – | – | – | 444 | – |
| | 3,572 | – | 45 | – | – | – | 37,169 | – |
| | – | – | 2,061 | – | – | – | 2,061 | – |
| | **3,646** | **–** | **2,136** | **–** | **–** | **–** | **39,674** | **–** |
| | | | | | | | | |
| | **2,532** | **2,091** | **767** | **2,033** | **(987)** | **(905)** | **15,213** | **19,725** |

## REVENUES BY SUBSEGMENT WERE AS FOLLOWS

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| **Segment Security** | | |
| eID | 61,839 | 59,549 |
| Cards | 55,134 | 76,784 |
| Intrasegment eliminations | (165) | – |
| **Subtotal** | **116,808** | **136,333** |
| **Segment Industry** | | |
| Tickets & Labels | 13,798 | 7,674 |
| Industry & Logistics | 36,133 | 34,917 |
| Intrasegment eliminations | – | (46) |
| **Subtotal** | **49,931** | **42,545** |
| **Segment All Other** | **7,856** | **5,198** |
| Intersegment eliminations | (6,991) | (3,965) |
| **Total** | **167,604** | **180,111** |

## MAJOR CUSTOMERS

Revenue from one customer of the Group's Security segment represents approximately EUR 31.4 million (2010: EUR 39.0 million) of the Group's total revenues. The decrease in revenue compared to 2010 is a result of the flooding in Thailand during the fourth quarter 2011.

## CATEGORY OF REVENUE

| In thousands of EUR | RFID transponders | Royalties | Total revenues |
|---|---|---|---|
| **2011** | **166,839** | **765** | **167,604** |
| 2010 | 179,500 | 611 | 180,111 |

## INFORMATION ABOUT 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 2011 | Consolidated 2010 |
|---|---|---|
| **Revenues** | | |
| Asia | 30,601 | 34,199 |
| Europe | 91,284 | 90,534 |
| North America | 31,760 | 43,441 |
| Latin America | 13,077 | 11,093 |
| Others | 882 | 844 |
| **Total revenues** | **167,604** | **180,111** |
| **Revenues from external customers attributed to SMARTRAC entities (country of domicile)** | | |
| Asia | 96,126 | 113,203 |
| Europe | 36,084 | 33,853 |
| North America | 24,154 | 22,587 |
| Latin America | 11,240 | 10,468 |
| **Total revenues** | **167,604** | **180,111** |
| **Non-current assets*** | | |
| Asia | 43,890 | 51,608 |
| Europe | 82,103 | 56,989 |
| North America | 40,730 | 5,019 |
| Latin America | 2,210 | 6,087 |
| **Total non-current assets** | **168,933** | **119,703** |

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

## PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES ACQUIRED (EXCLUDING GOODWILL)

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| **Property, plant and equipment** | | |
| Asia | 8,281 | 8,998 |
| Europe | 10,199 | 4,068 |
| North America | 3,211 | 1,865 |
| Latin America | 418 | 352 |
| **Total property, plant and equipment** | **22,109** | **15,283** |
| **Intangibles** | | |
| Asia | 927 | 2,335 |
| Europe | 6,419 | 1,090 |
| North America | 7,443 | 245 |
| Latin America | 452 | 35 |
| **Total intangibles** | **15,241** | **3,705** |

These amounts also include acquisitions from Business Combinations amounting to EUR 8.2 million.

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

| In thousands of EUR | 2011 | 2010 |
|---|---|---|
| **Revenues** | | |
| Total revenue for reportable segments | 166,739 | 178,878 |
| Other revenue | 7,856 | 5,198 |
| Elimination of inter-segment revenue | (6,991) | (3,965) |
| **Consolidated revenue** | **167,604** | **180,111** |
| **Profit or loss** | | |
| Total EBITDA for reportable segments | 15,433 | 18,597 |
| Other EBITDA | 767 | 2,033 |
| **All EBITDA (before inter-segment elimination)** | **16,200** | **20,630** |
| Elimination of inter-segment profits | (987) | (905) |
| Unallocated amounts: | | |
| Financial result | (4,276) | (2,422) |
| Depreciation, amortization and impairment on investment | (12,793) | (10,382) |
| Share of profit of equity-accounted investees | (47) | – |
| Extraordinary items | (39,674) | (1,231) |
| **Consolidated profit before income tax** | **(41,577)** | **5,690** |
| **Assets** | | |
| Security segment | 110,081 | 110,452 |
| Industry segment | 132,503 | 90,453 |
| **Total assets for reportable segments** | **242,584** | **200,905** |
| Other assets | 116,122 | 113,560 |
| Elimination | (94,626) | (66,008) |
| **Consolidated total assets** | **264,080** | **248,457** |
| **Liabilities** | | |
| Total liabilities for reportable segments | 129,017 | 85,671 |
| Other liabilities | 88,081 | 65,190 |
| Elimination | (91,837) | (63,985) |
| **Consolidated total liabilities** | **125,261** | **86,876** |

## 7. COST OF SALES

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Raw materials and manufacturing supplies | 85,193 | 99,948 |
| Personnel expenses (note 9) | 18,664 | 17,667 |
| Depreciation, amortization and impairment (note 16 and 17) | 21,364 | 7,592 |
| Other manufacturing costs | 14,590 | 8,412 |
| **Total cost of sales** | **139,811** | **133,619** |

Regarding the costs related to the flood in Thailand, please refer to note 11.

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

## 8. ADMINISTRATIVE EXPENSES

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Personnel expenses (note 9) | 21,332 | 20,597 |
| Professional fees | 6,635 | 4,683 |
| Depreciation, amortization and impairment (note 16 and 17) | 3,791 | 2,790 |
| Rental expenses | 1,031 | 879 |
| Transportation | 1,819 | 2,113 |
| Research and Development | 3,081 | 2,395 |
| Provision for consigned goods | 4,870 | – |
| Other administrative expenses | 7,579 | 3,726 |
| **Total administrative expenses** | **50,138** | **37,183** |

Other administrative expenses mainly include travel expenses, fleet expenses, insurance, and office supplies.

Regarding the costs related to the flood in Thailand, please refer to note 11.

## 9. PERSONNEL EXPENSES

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Wages and salaries | 34,655 | 32,414 |
| Compulsory social security contributions | 2,150 | 1,999 |
| Subcontractor fees | 2,352 | 3,613 |
| Other | 839 | 238 |
| **Total** | **39,996** | **38,264** |

Personnel expenses are classified in the income statement as follows:

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Cost of sales | 18,664 | 17,667 |
| Administrative expenses | 21,332 | 20,597 |
| **Total** | **39,996** | **38,264** |
| Number of staff employees | 3,343 | 2,941 |
| Number of subcontractors | 333 | 547 |
| **Total** | **3,676** | **3,488** |

## 10. OTHER OPERATING INCOME (EXPENSES)

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Write down/(reversal) of inventories (note 11) | (14,931) | (206) |
| Gain/(loss) on disposal of fixed assets | 32 | 144 |
| Impairment loss on trade receivables | (604) | (1,413) |
| Other | 594 | 278 |
| **Total** | **(14,909)** | **(1,197)** |

Regarding the costs related to the flood in Thailand, please refer to note 11.

In fiscal year 2011, impairment loss on trade receivables amounting to EUR 604,000 mainly related to several customers that went bankrupt (2010: impairment losses amounting to EUR 1,300,000 were recognized for one customer of the Business Unit Cards which has not met the payment obligation).

# 11. EXCEPTIONAL ITEMS

## RESTRUCTURING IN THAILAND

Within the twelve months ended December 31, 2011, operating profit included restructuring expenses regarding our Thailand site that occurred in July and August. The total restructuring costs for this program amounted to EUR 444,000. This amount contains EUR 179,000 cost of sales and EUR 265,000 administrative expenses.

## EXCEPTIONAL ITEMS FLOOD THAILAND

For the first time since decades and as a result of the heavy rains in Thailand in October 2011, the dikes surrounding the Hi-Tech Industrial Estate were not able to bear up against the water. On October 13, 2011, several smaller cracks as well as one major breach occurred. As a consequence, water flew into our production facilities and flooded the ground floors of our five buildings up to approximately 2.5 meters height. As a consequence of the flooding and the concomitant damage, SMARTRAC has impaired machinery, equipment, raw material, inventory, and goods. In addition, running expenses such as administrative expenses and labor costs continued most of the time during the two months business interruption period. SMARTRAC restarted production in Thailand on December 9, 2011. The following overview presents the expenses occurred with respect to the flood in Thailand:

| In thousands of EUR | | Thereof: cost of sales | Thereof: administrative expenses | Thereof: other operating income/(expenses) |
|---|---|---|---|---|
| Impairment machinery | 12,237 | 12,237 | – | – |
| Impairment office equipment | 124 | – | 124 | – |
| Write down of inventories | 13,867 | – | – | 13,867 |
| Write down of WIP | 716 | – | – | 716 |
| Provision for consigned goods | 4,870 | – | 4,870 | – |
| Labor costs | 1,004 | 1,004 | – | – |
| Personnel expenses | 1,382 | – | 1,382 | – |
| Other administrative expenses | 2,969 | – | 2,969 | – |
| **Total** | **37,169** | **13,241** | **9,345** | **14,583** |

SMARTRAC maintains insurance coverage for damages to buildings, machinery, and business interruption in Thailand with five insurance companies. With the underlying information at hand and discussion with insurance companies and the loss adjuster who is ordered by the five insurance companies, nothing has come to management's attention that might lead to a situation in which the insurance companies would not accept the insurance claim.

Regarding the insurance for property damages, the insurance policy covers replacement values, with respect to the business interruption insurance policy, the amount of loss resulting from business interruption as a consequence to the flood is covered.

The final calculation of both the claim for business interruption as well as for property damages is currently expected to be concluded in late 2012 until the beginning of 2013. As a consequence, SMARTRAC did not recognize an insurance receivable because the recognition of a receivable at this early stage is not virtually certain.

## 12. NET FINANCIAL INCOME (EXPENSES)

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Change in fair value | 1,334 | 1,480 |
| Interest income | 235 | 163 |
| Foreign exchange gains | 5,691 | 12,060 |
| **Financial income** | **7,260** | **13,703** |
| Change in fair value | (1,550) | (2,350) |
| Interest expense | (3,632) | (3,414) |
| Bank charges | (759) | (575) |
| Foreign exchange losses | (5,595) | (9,786) |
| **Financial expenses** | **(11,536)** | **(16,125)** |
| **Net financial income (expenses)** | **(4,276)** | **(2,422)** |

The strong decrease in foreign exchange gains and losses in 2011 reflects the ongoing significant volatility of important currency rates over the whole reporting period. In comparison to 2010 the net foreign exchange result (2011: EUR 0.1 million) has declined (2010: EUR 2.3 million).

## 13. CORPORATE INCOME TAX

### TAX PRIVILEGES

The normal corporate income tax rate in Thailand is 30%. However, under the special promotional privileges granted by the Thailand Board of Investment (see note 32), SMARTRAC TECHNOLOGY Ltd. is entitled to the following corporate income tax facility relating to its production and sale of transponders in Thailand:

– Exemption from corporate income tax for eight years (until 2014). The exemption on corporate income tax was waived by the Thailand Board of Investment based on the approval of the program ‘Skill, Technology & Innovation’ dated June 10, 2011 (BOI 3).

In June 2010, the Thai Government’s Industrial Investment Promotion Act B.E. 2520, has granted SMARTRAC TECHNOLOGY Ltd., Thailand, another promotional privilege relating to its manufacturing of transponders and electronic parts or components in Thailand (BOI 4). The promotional privilege includes, among other things:

– Exemption from corporate income tax for the net profit derived from the promoted operational capacity for 8 years (until 2018)
– Permission to bring dividend from the promoted business which is exempt from corporate income tax
– Permission to transfer foreign currency out of Thailand

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

– Exemption in the Import Duty tax;
– Exemption of excise tax (IPI);
– Reimbursement of 100% of ICMS due (on sales);
– No ICMS, PIS and COFINS on import of raw materials, intermediary products and package;
– 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 for an income tax exemption for a period of 5 years from January 1, 2010 to December 31, 2015.

## RECOGNIZED IN THE INCOME STATEMENT

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| | | |
| Current corporate tax expense | (225) | (615) |
| Deferred tax benefit | 248 | 998 |
| | | |
| **Income tax benefit / (expense)** | **23** | **383** |

## THE INCOME TAX BENEFIT / (EXPENSE) IS COMPOSED AS FOLLOWS:

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| | | |
| **Current income tax benefit / (expense)** | | |
| The Netherlands | (16) | – |
| Other countries | (209) | (615) |
| **Total current income tax benefit / (expense)** | **(225)** | **(615)** |
| | | |
| **Deferred income tax benefit** | | |
| The Netherlands | – | (250) |
| Other countries | 248 | 1,248 |
| **Total deferred income tax (expense)** | **248** | **998** |
| | | |
| **Total income tax benefit / (expense)** | **23** | **383** |

## RECONCILIATION OF EFFECTIVE TAX CHARGE

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| | | |
| **Profit before tax** | **(41,577)** | **5,690** |
| Expected tax expense based on rate of 25.0 % (2010: 25.5 %) | 10,394 | (1,451) |
| | | |
| Change in tax rate | – | 10 |
| Tax rate differences in foreign jurisdiction | 1,766 | (541) |
| Tax effects from investments at equity | (12) | – |
| Tax exempt loss (income) relating to promotional activities | (10,604) | 3,814 |
| Non-deductible expenses | (561) | (285) |
| Non-recognition of tax benefits on losses incurred | (1,596) | (1,692) |
| Use of tax loss carry forward previously unrecognized | 482 | 587 |
| Permanent differences | 215 | – |
| Current taxes from prior years | (21) | 12 |
| Others | (40) | (71) |
| | | |
| **Effective income tax expense (benefit)** | **23** | **383** |

## DEFERRED TAX ASSETS

Movements in deferred tax assets recognized are as follows:

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Balance January 1 | 2,720 | 2,422 |
| Recognized in income statement | (88) | 298 |
| Acquired through business combinations | 1,722 | – |
| **Balance December 31** | **4,354** | **2,720** |

## DEFERRED TAX LIABILITIES

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Balance January 1 | 2,761 | 3,343 |
| Recognized in the income statement | (336) | (700) |
| Acquired through business combinations | 3,699 | 118 |
| **Balance December 31** | **6,124** | **2,761** |

## MOVEMENTS IN TEMPORARY DIFFERENCES DURING THE YEAR

| In thousands of EUR | Balance at January 1, 2011 | Recognized in profit or loss | 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** |

| In thousands of EUR | Balance at January 1, 2010 | Recognized in profit or loss | Acquired in business combinations | Balance at December 31, 2010 |
|---|---|---|---|---|
| **Deferred tax assets (DTA)** | | | | |
| Intangible assets | – | 13 | – | 13 |
| Property, plant and equipment | 358 | (282) | – | 76 |
| Inventories | – | 9 | – | 9 |
| Trade receivables | – | 345 | – | 345 |
| Employee benefits | 18 | (18) | – | – |
| Trade payables | 119 | (119) | – | – |
| Other current liabilities | 82 | 509 | – | 591 |
| Tax loss carry forward | 8,212 | 1,184 | – | 9,396 |
| ./. Allowance | (6,367) | (1,142) | – | (7,509) |
| Offset DTA & DTL | – | (201) | – | (201) |
| **Total deferred tax assets** | **2,422** | **298** | **–** | **2,720** |
| **Deferred tax liabilities (DTL)** | | | | |
| Intangible assets | 2,462 | (590) | 118 | 1,990 |
| Property, plant and equipment | 871 | (51) | – | 820 |
| Other non-current assets | – | 8 | – | 8 |
| Trade receivables | 10 | 21 | – | 31 |
| Other current liabilities | – | 113 | – | 113 |
| Offset DTA & DTL | – | (201) | – | (201) |
| **Total deferred tax liabilities** | **3,343** | **(700)** | **118** | **2,761** |

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 of EUR 3.5 million (2010: EUR 1.9 million) an amount of EUR 1.6 million (2010: EUR 0) is related to entities that have suffered a loss in either 2011 or 2010 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 at December 31, 2011 amounts to EUR 8.6 million (2010: EUR 7.5 million).

The amount of the tax loss carry forward for which no deferred tax assets have been recognized as at December 31, 2011 is EUR 23.8 million (December 31, 2010: EUR 18.4 million) whereof EUR 5.2 million (2010: EUR 5.2 million) will expire within the period until 2016.

# 14. EARNINGS PER SHARE

## PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

The calculation of basic earnings per share at December 31, 2011, was based on the profit attributable to ordinary shareholders and amounts to EUR -41.6 million (2010: EUR 6.1 million).

| In thousands of shares | 2011 | 2010 |
|---|---|---|
| **Number of ordinary shares as at January 1** | **16,335** | **14,639** |
| Capital increase | 39 | 310 |
| Treasury Stock sold | – | 24 |
| Employee bonus shares | – | 12 |
| **Weighted average number of ordinary shares at December 31** | **16,374** | **14,985** |

## BASIC EARNINGS PER SHARE

| In thousands of EUR and shares, except earnings per share | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Profit / loss attributable to ordinary shareholders | (41,550) | 6,073 |
| Weighted average number of ordinary shares at December 31 | 16,374 | 14,985 |
| **Earnings per share (EUR)** | **(2.54)** | **0.41** |

## 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 dilutive potential shares of SMARTRAC stock option scheme of the tranche eight and nine. The other tranches do not have a dilutive effect.

- The average market share price was EUR 14.94 (2010: EUR 22.29).
- The effective tax rate is 0 % (2010: 0 %).

| In thousands of shares | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| | | |
| Weighted average of ordinary shares outstanding | 16,374 | 14,985 |
| | | |
| **Effect of potential dilutive shares** | | |
| Share options | 4 | 43 |
| **Weighted average of ordinary shares at December 31** | **16,378** | **15,028** |

## DILUTED EARNINGS PER SHARE

| In thousands of EUR and shares, except earnings per share | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| | | |
| Profit attributable to ordinary shareholders | (41,550) | 6,073 |
| Weighted average number of ordinary shares at December 31 | 16,378 | 15,028 |
| | | |
| **Diluted earnings per share (EUR)** | **(2.54)** | **0.40** |

## 15. TREASURY STOCK

No shares were acquired or granted during the 2011 fiscal year.

### MOVEMENTS IN THE FINANCIAL YEAR 2010

In conjunction with the stock plan, 5,000 shares were converted from the bonus of a Member of the Management Board in March 2010. Additionally, SMARTRAC granted 9,918 bonus shares to a Member of the Management Board and select employees. In August 2010, SMARTRAC granted 983 shares to a select employee decreasing the treasury stock in total by EUR 479,000. Furthermore, 2,500 vested options of the Stock Option Scheme 2006 were exercised and decreased the treasury stock by EUR 75,000.

In October 2010, SMARTRAC sold its remaining 192,050 treasury shares (book value EUR 5.8 million) through the stock market and received a consideration of approximately EUR 3.8 million.

The table below shows the development of treasury stock:

| Month | Numbers of shares | Average share price in EUR |
|---|---|---|
| **Total as at January 1, 2010** | **210,451** | **30.14** |
| March 2010 (bonus shares rendered) | (9,918) | 30.14 |
| March 2010 (conversion of bonus into shares according to stock plan) | (5,000) | 30.14 |
| August 2010 (bonus shares rendered) | (983) | 30.14 |
| September 2010 (exercise of share options) | (2,500) | 30.14 |
| October 2010 (sale Treasury Stock) | (192,050) | 30.14 |
| **Total as at December 31, 2010** | **–** | **–** |
| **Total as at January 1, 2011** | **–** | **–** |
| **Movement current year** | **–** | **–** |
| **Total as at December 31, 2011** | **–** | **–** |

## 16. PROPERTY, PLANT AND EQUIPMENT

| In thousands of EUR | Land | Buildings and building improvements | Vehicles |
|---|---|---|---|
| **Cost** | | | |
| Balance at January 1, 2010 | 1,250 | 13,328 | 281 |
| Acquired through business combinations | – | – | – |
| Acquisitions | 75 | 2,264 | 49 |
| Reclassification* | – | 680 | – |
| Disposals | – | (257) | – |
| Currency effects | – | 687 | 48 |
| **Balance at December 31, 2010** | **1,325** | **16,702** | **378** |
| **Accumulated depreciation** | | | |
| Balance at January 1, 2010 | – | 3,619 | 118 |
| Depreciation charge for the year | – | 1,541 | 58 |
| Reclassification | – | 1 | – |
| Disposals | – | (252) | – |
| Currency effects | – | 114 | 19 |
| **Balance at December 31, 2010** | **–** | **5,023** | **195** |
| **Carrying amounts** | | | |
| At January 1, 2010 | 1,250 | 9,709 | 163 |
| **At December 31, 2010** | **1,325** | **11,679** | **183** |
| **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** |

* Reclassified to intangible assets from property, plant and equipment

| | Machinery | Tools and equipment | Furniture and fixtures | Office equipment | Construction in progress | Consolidated |
|---|---|---|---|---|---|---|
| | | | | | | |
| | | | | | | |
| | 42,562 | 4,056 | 745 | 1,805 | 526 | 64,553 |
| | – | – | – | – | – | – |
| | 7,115 | 1,048 | 140 | 641 | 3,951 | 15,283 |
| | 1,504 | 420 | (45) | 15 | (2,606) | (32) |
| | – | – | (28) | (8) | (38) | (331) |
| | 989 | 84 | 23 | 60 | – | 1,891 |
| | **52,170** | **5,608** | **835** | **2,513** | **1,833** | **81,364** |
| | | | | | | |
| | | | | | | |
| | 11,509 | 2,420 | 441 | 944 | – | 19,051 |
| | 4,613 | 806 | 92 | 405 | – | 7,515 |
| | (9) | – | 8 | – | – | – |
| | (137) | – | (9) | (6) | – | (404) |
| | 170 | 18 | 6 | 23 | – | 350 |
| | **16,146** | **3,244** | **538** | **1,366** | **–** | **26,512** |
| | | | | | | |
| | | | | | | |
| | 31,053 | 1,636 | 304 | 861 | 526 | 45,502 |
| | **36,024** | **2,364** | **297** | **1,147** | **1,833** | **54,852** |
| | | | | | | |
| | | | | | | |
| | 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** |
| | | | | | | |
| | | | | | | |
| | 13,146 | 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** |

## 17. INTANGIBLE ASSETS

With the exception of internally and externally generated development costs (2011: EUR 2.1 million; 2010: EUR 2.5 million) all additions to intangible assets were due to acquisitions.

| In thousands of EUR | Goodwill | Patents and patent rights | Software | Development costs | Others | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at January 1, 2010 | 44,410 | 4,071 | 2,294 | 5,485 | 8,635 | 64,895 |
| Acquired through business combinations | – | 394 | – | – | – | 394 |
| Additions | – | 478 | 341 | 2,472 | 20 | 3,311 |
| Reclassification* | – | 141 | 56 | (108) | (57) | 32 |
| Disposals | – | – | (7) | (158) | (1) | (166) |
| Currency effects | 748 | 54 | 34 | 243 | 130 | 1,209 |
| **Balance at December 31, 2010** | **45,158** | **5,138** | **2,718** | **7,934** | **8,727** | **69,675** |
| **Amortization** | | | | | | |
| Balance at January 1, 2010 | – | 696 | 597 | 732 | 1,568 | 3,593 |
| Amortization | – | 457 | 377 | 1,041 | 992 | 2,867 |
| Disposals | – | – | (10) | – | – | (10) |
| Currency effects | – | – | 10 | 6 | 3 | 19 |
| **Balance at December 31, 2010** | **–** | **1,153** | **974** | **1,779** | **2,563** | **6,469** |
| **Carrying amounts** | | | | | | |
| At January 1, 2010 | 44,410 | 3,375 | 1,697 | 4,753 | 7,067 | 61,302 |
| **At December 31, 2010** | **45,158** | **3,985** | **1,744** | **6,155** | **6,164** | **63,206** |
| **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** |

* Reclassified from property, plant and equipment

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, 2011: EUR 2.9 million; carrying amount at December 31, 2010: EUR 1.8 million).

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

| In thousands of EUR | 2011 |
|---|---|
| | |
| eID | 4,644 |
| Cards | 14,823 |
| Industry & Logistics | 39,645 |
| Tickets & Labels | 1,331 |
| Neology | 17,764 |
| | |
| **Total** | **78,207** |

SMARTRAC performed its annual goodwill impairment tests at December 31, 2011. 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. Discount rates applied to the cash flow forecasts in determining recoverable amounts are derived from the Group's weighted average cost of capital range from 8.66 % to 11.78 %, on a pre-tax basis (2010: 9.0 % to 11.1 %). The cash flows were based on the Groups budget and were planned on a detailed basis covering period of four years (2010: four to six years). The growth rate used to extrapolate cash flow projections beyond the period covered is 1.5 % (2010: 1.5 %). An increase of the weighted average cost of capital by 1 % would lead to an impairment of goodwill amounting to EUR 1.4 million.

## 18. INVENTORIES

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Raw materials and consumables | 19,888 | 24,697 |
| Work in progress | 3,187 | 4,381 |
| Finished goods | 6,425 | 4,126 |
| **Total inventories** | **29,500** | **33,204** |

In the financial year 2011, inventories (raw materials) of EUR 14.9 million were written off to zero (2010: EUR 0.2 million). Regarding the flood related costs in Thailand please refer to note 11.

## 19. TRADE AND NON-TRADE RECEIVABLES

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Third parties | 37,122 | 41,034 |
| Allowance for doubtful accounts | (1,944) | (1,533) |
| **Total trade receivables** | **35,178** | **39,501** |

Trade receivables are shown net of impairments amounting to EUR 1,944,000 (2010: EUR 1,533,000) which mainly arise from several customers that went bankrupt. Impairment losses recognized in profit or loss are disclosed under other operating income (expenses) (note 10). The short-term receivables were valued based on the present value of estimated future cash flows. The future cash flows are based on assumptions concerning the liquidation value of customer's fixed assets and inventory items for which the Group holds a legal title.

Furthermore, there is a security deposit included in the receivables amounting to EUR 1,967,000 which is not payable within one year (2010: EUR 1,673,000).

## 20. OTHER CURRENT ASSETS

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Prepayments to vendors | 449 | 501 |
| Prepaid expenses | 777 | 1,513 |
| Advance for a tender | 766 | – |
| Other | 1,338 | 951 |
| **Total** | **3,330** | **2,965** |

## 21. CASH AND CASH EQUIVALENTS

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Cash | 22,100 | 14,506 |
| Short-term cash deposits | – | 35,107 |
| **Cash and cash equivalents** | **22,100** | **49,613** |
| Bank overdraft | (320) | (212) |
| **Cash and cash equivalents and bank overdrafts as stated in the cash flow statement** | **21,780** | **49,401** |

At December 31, 2011, the Group held a total of EUR 0,00 (2010: EUR 35.1 million) in short-term deposits with banks of which EUR 0,00 (2010: EUR 35.1 million) have a total period less than two months.

In the total amount of cash and cash equivalents are cash positions included denominated in MYR (MYR 146,000) and BRL (BRL 381,000). These cash positions are restricted from a foreign exchange regulations point of view.

# 22. EQUITY

## SHARE CAPITAL

| In thousands of shares | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| | | |
| Outstanding at January 1 | 16,335 | 14,639 |
| Issued for cash | 1,409 | 1,485 |
| Employee bonus shares | – | 19 |
| Sale Treasury Stock | – | 192 |
| | | |
| **Outstanding at December 31** | **17,744** | **16,335** |

## 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. 16.3 million ordinary shares are issued and fully paid.

### SHARE PREMIUM RESERVE

The increase in share premium in the financial year 2011 is mainly due to the excess of proceeds over par value from the capital increase. Vesting expenses regarding options were credited to share premium.

On December 19, 2011, the Company increased its share capital from EUR 8,167,498.50 (16,334,997 bearer shares) to EUR 8,872,044 (17,744,088 bearer shares), excluding the subscription rights of the shareholders.

The capital increase consisted of the issuance of 1,409,091 new bearer shares with a nominal value of EUR 0.50. SMARTRAC's major shareholders OEP and Manfred Rietzler have agreed to subscribe for the new shares as a sign of their strong commitment to the company. Manfred Rietzler, co-founder of the company and Member of SMARTRAC N.V.'s Supervisory Board, subscribed for 136,364 new shares and OEP Technologie B.V. subscribed for 1,272,727 new shares at an issue price of EUR 11.00 per share payable in cash. The issued shares were listed at the stock exchange on December 23, 2011.

Subscription rights of shareholders were excluded on the basis of Article 28.2 of the Articles of Association by a resolution of the Management Board.

The transaction costs included bank arrangement and legal fees (EUR 110,000).

SMARTRAC realized gross proceeds (before deduction of transaction costs) in the amount of approximately EUR 15.5 million. The company used the proceeds to finance the acquisition of Neology, Inc.

| In thousands of EUR | Consolidated 2011 |
|---|---|
| | |
| Gross proceeds | 15,500 |
| Par value of new shares – credited to share capital | (705) |
| Excess of gross proceeds over par value credited to share premium | 14,795 |
| Less transaction costs of the capital increase charged to share premium | (110) |
| | |
| **Net movement in share premium arising from capital increase** | **14,685** |

## 23. FINANCIAL LIABILITIES

This note provides more detailed information about the Group's financial liabilities. For more information about the contractual terms and Group's exposure to interest rate risk, see note 29.

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| **Non-current liability** | | |
| Secured loan | 1,161 | 50,246 |
| | **1,161** | **50,246** |
| **Current liabilities** | | |
| Current portion of secured loan | 58,524 | 415 |
| Non-secured loan | 459 | – |
| Bank overdraft | 320 | 212 |
| | **59,303** | **627** |
| | **60,464** | **50,873** |

### SECURED LOAN

On July 14, 2009, SMARTRAC signed an agreement on a syndicated multicurrency credit facility for EUR 65 million, which matures on June 30, 2012. The syndicated multicurrency credit facility has standard market terms and conditions including a leverage and an equity covenant. In the financial year 2011, the covenants were fulfilled at any time. As of December 31, 2011, an notional amount of EUR 57.5 million of this facility was used. The residual amounts are mainly borrowings of recently acquired companies.

### BANK OVERDRAFT

As of December 31, 2011, EUR 320,000 is shown as bank overdraft in cash (2010: EUR 212,000). It is largely the result from the recently acquired companies.

## 24. 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 pension plan in Germany. The funding policy is consistent with the 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 2011 | Consolidated 2010 |
|---|---|---|
| Balance at the beginning of the year | 830 | 635 |
| Current service costs | 125 | 138 |
| Interest on obligation | 37 | 30 |
| Actuarial losses or (gains) | (8) | 27 |
| **Defined benefit obligation as at end of the year** | **984** | **830** |

No benefits were paid in 2011 and 2010.

### DEVELOPMENT OF PLAN ASSETS

The following table shows the change in plan assets:

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Balance at the beginning of the year | 224 | 192 |
| Contribution by employer | 33 | 33 |
| Expected return on plan assets | 9 | 7 |
| Actuarial (losses) or gains on plan assets | (9) | (8) |
| **Plan assets as at end of the year** | **257** | **224** |

Pension plan assets fully consist of a life insurance.

## BREAKDOWN OF THE NET BENEFIT LIABILITY

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Defined benefit obligation unfunded | 556 | 439 |
| Defined benefit obligation wholly or partly funded | 428 | 391 |
| Plan assets | (257) | (224) |
| Unrecognized actuarial (losses) or gains | (64) | (63) |
| **Defined benefit liability** | **663** | **543** |

## EXPENSE RECOGNIZED IN THE INCOME STATEMENT

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Current service costs | 125 | 138 |
| Interest on obligation | 37 | 30 |
| Actuarial losses or (gains) | (8) | 27 |
| Expected return on plan assets | (9) | (7) |
| Actuarial losses or (gains) on plan assets | 9 | 8 |
| **Total** | **154** | **196** |

These expenses were classified under administrative expenses.

The Group expects to contribute EUR 100,000 to its defined benefits plans in 2012 (2011: EUR 90,000).

## WEIGHTED AVERAGE ASSUMPTIONS

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

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Discount rate at December 31 | 4.33 % | 4.33 % |
| Future salary increases | 3.75 % | 3.75 % |
| Price inflation | 3.50 % | 3.50 % |
| Return on plan assets | 4.00 % | 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.

## 25. TRADE AND NON-TRADE PAYABLES

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| | | |
| Trade payables | 17,207 | 21,889 |
| **Total trade payables** | **17,207** | **21,889** |
| | | |
| Non-trade payables | 2,843 | 2,795 |
| **Total non-trade payables** | **2,843** | **2,795** |
| | | |
| **Total trade and non-trade payables** | **20,050** | **24,684** |

## 26. PROVISIONS

| In thousands of EUR | Warranties | Other | Total |
|---|---|---|---|
| | | | |
| Balance at January 1, 2011 | 105 | – | 105 |
| Acquired through business combination | 70 | – | 70 |
| Provisions made during the period | 29 | 5,223 | 5,252 |
| Provisions used during the period | (1) | – | (1) |
| Provisions reversed during the period | (102) | – | (102) |
| Currency effects | (2) | – | (2) |
| **Balance at December 31, 2011** | **99** | **5,223** | **5,322** |

Other provisions include a provision for flood related obligations especially likely payments for consigned goods which were destroyed in the course of the flooding of the production premises in Ayutthaya, Thailand, in early October 2011. This provision amounts to EUR 4,870,000 and is based on the estimate of experts of the Company concerning wafer production prices and the current status of ongoing negotiations with key suppliers of SMARTRAC.

## 27. OTHER CURRENT LIABILITIES

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Accrued expenses | 8,957 | 3,550 |
| Prepayments from customers | 1,042 | 519 |
| FX-hedging contracts | 79 | 193 |
| Interest rate hedging derivatives | 173 | – |
| Deferred purchase consideration | 6,000 | – |
| Contingent purchase liability | 4,591 | – |
| Other liabilities | 3,525 | 2,850 |
| **Total other current liabilities** | **24,367** | **7,112** |

The increase in accrued expenses is among other things the result of accrued expenses for legal costs regarding the acquisitions in 2011 amounting to EUR 1.8 million. These recently acquired companies causes also an increase amounting to EUR 585,000.

The item FX-hedging contract comprises a EUR/USD forward instrument while the item interest hedging derivatives consists of several EUR forward interest rate swaps. The fair value changes are booked through profit and loss (financial income / expenses: change in fair value).

The deferred purchase consideration of EUR 6.0 million represents the short term liability of the purchase consideration for KSW. The contingent purchase liability of EUR 4.6 million represents the short term liability of the purchase consideration for Neology.

## 28. DEFERRED INCOME FROM GOVERNMENT GRANTS

Deferred investment grants resulted from the regional economic structure improvement program in east Germany. The amounts concerned originate from grants of 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.

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 secure 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. 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 which are authorized to trade derivatives in the Group is kept to a minimum. Only employees with certain professional background are permitted for such trading activities.

### LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations 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 done 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 pure 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 to ensure financial flexibility.

The development of the liquidity position of SMARTRAC Group and its entities is closely monitored via the weekly Treasury Reporting. In addition, a weekly cash flow planning on a rolling basis is done to ensure the permanent solvency of SMARTRAC Group and its entities.

As of December 31, 2011, the Group reports a net financial debt of EUR 38.4 million (2010: net financial debt amounting to EUR 1.3 million). The increase in net financial debt mainly results from the recent acquisitions as well as capital expenditures undertaken to foster SMARTRAC's growth. To a large extent these investments were conducted using the Group's cash position leading to a reducing in the liquidity reserve to EUR 22.1 million (2010: liquidity reserve of EUR 49.6 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. As at December 31, 2011, EUR 2.9 million of the guarantee facilities and no cash facilities are drawn resulting in an unused amount of the umbrella facility amounting to EUR 9.1 million (December 31, 2010: EUR 9.6 million).

On July 14, 2009, SMARTRAC signed an agreement on a syndicated multicurrency credit facility for EUR 65 million which ends on June 30, 2012, with standard market terms and conditions including a leverage and an equity covenant. This credit facility is provided by Deutsche Bank Luxembourg S.A. 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. The largest tranche with an amount of EUR 50 million has a fixed rate convention until maturity on June 30, 2012. The effective interest rate is 6.35 %. As of December 31, 2011, a total notional amount of EUR 57.5 million was drawn. A total of EUR 7.5 million of the credit facility is unused as at December 31, 2011. SMARTRAC is currently in negotiations with the lenders and additional banks to refinance the expiring facilities.

On the level of recently acquired companies SMARTRAC Group is party to several smaller loan and finance lease agreements totaling EUR 2.9 million. Most of these borrowings will be repaid in due course.

## 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 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 concentration 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 of at least A, if available.

At December 31, 2011 and 2010, 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 liquidity reserve is currently held on current accounts in order to have the flexibly use of the funds on short notice. Due to the decrease in cash resulting from the recent acquisitions as well as capital expenditures short term bank deposits were reduced to zero. The general investment strategy regarding the liquidity reserve is to focus on short term availability, diversification of bank, avoidance of fair value changes and stable interest generation.

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 2011 | Consolidated 2010 |
|---|---|---|
| Trade receivables | 33,878 | 39,228 |
| Non-trade receivables | 1,300 | 273 |
| Other current assets | 3,330 | 2,965 |
| Cash and cash equivalents | 22,100 | 49,613 |
| **Total** | **60,608** | **92,079** |

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 2011 | Consolidated 2010 |
|---|---|---|
| Asia | 5,169 | 5,822 |
| Europe | 13,438 | 23,218 |
| North America | 5,994 | 7,580 |
| Latin America | 8,968 | 2,559 |
| Others | 309 | 49 |
| **Total** | **33,878** | **39,228** |

The aging of trade receivables at the reporting date was:

| In thousands of EUR | Gross 2011 | Impairment 2011 | Gross 2010 | Impairment 2010 |
|---|---|---|---|---|
| Not past due | 16,867 | 8 | 26,741 | – |
| Past due 0 – 30 days | 8,506 | 5 | 6,559 | – |
| Past due 31 – 60 days | 2,727 | – | 3,119 | – |
| Past due 61 – 90 days | 1,196 | 1 | 1,890 | – |
| More than 90 days | 6,526 | 1,930 | 2,452 | 1,533 |
| **Total** | **35,822** | **1,944** | **40,761** | **1,533** |

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

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Balance at January 1 | 1,533 | 651 |
| Impairment loss recognized | 604 | 1,413 |
| Settlement impairment | (193) | (531) |
| **Balance at December 31** | **1,944** | **1,533** |

## 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.

In regard to the upcoming expiration of the EUR 50.0 million fixed rate term loan of SMARTRAC's syndicated credit facilities in mid of 2012 SMARTRAC has taken measures to extent the hedging of its interest rate exposure. These measures comprise the conclusion of forward interest rate swaps with a nominal amount totaling EUR 11.0 million maturing in 2015 and 2017. At December 31, 2011, the fair value of the interest rate swaps is EUR -0.2 million. SMARTRAC intends to further extent the volume of the interest risk hedging activities in 2012.

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.

The weekly Treasury Reporting closely monitors the interest rate risk exposure of SMARTRAC Group and its entities.

### SENSITIVITY ANALYSIS

From an accounting and treasury point of view at December 31, 2011, an increase of 1% in interest rates of financial instruments would decrease the Group's profit for the year before tax by EUR 278,000 (2010: increase by EUR 321,000) 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 US-Dollar (USD), Thai Baht (THB) and Brazilian Real (BRL).

The foreign exchange rate risk management of SMARTRAC is to focus 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.

The major part of the Group's bank borrowings and loans at December 31, 2011 and 2010 were in Euro. Please refer to note 23.

### SENSITIVITY ANALYSIS

From an accounting point of view the foreign exchange rates sensitivity is calculated by 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 1.6 million for the year 2011 (2010: EUR 265,000).

The tables below show the net foreign exchange exposure by major currencies as of December 31, 2011 and 2010.

| As at December 31, 2011<br>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)** |

| As at December 31, 2010<br>Denominated in thousands of foreign currency | USD | THB | Effect in EUR |
|---|---|---|---|
| | | | |
| Trade receivables | 19,822 | 5,184 | |
| Other current assets | 1,212 | 16,060 | |
| **Financial assets** | **21,034** | **21,244** | **–** |
| | | | |
| Trade payables | 12,093 | 100,114 | |
| Non-trade payables | 207 | 58,036 | |
| Loans | 678 | – | |
| **Financial liabilities** | **12,978** | **158,150** | **–** |
| | | | |
| **Gross balance sheet exposure (not hedged)** | **8,056** | **(136,906)** | **–** |
| **Effect of 10 % appreciation of the Euro, denominated in thousands of EUR** | **(607)** | **342** | **(265)** |

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 Euros 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 at balance sheet date which 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 notional amount is deemed to reflect the fair value.

### SHORT-TERM INVESTMENTS

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

### DERIVATIVES

At December 31, 2011, the Group has derivatives with a total negative market value of EUR 252.000 (2010: EUR -193,000). 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.

### 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 2011, the return on equity was -25 % (2010: 4 %) calculated on the profit for the period.

The Management Board provides long-term incentives to key employees of the Group in order to encourage them to focus on the growth of the long-term sustainable value of shareholders and to increase employee loyalty to SMARTRAC. This is supported by the implementation of a range of share-based benefits to key employees:

- SMARTRAC Stock Option Scheme 2006
- SMARTRAC Stock Option Scheme 2008 (terminated in 2010)
- SMARTRAC Stock Option Scheme 2010
- SMARTRAC Stock Plan (terminated in 2010)

Based only on the granted stock and stock options so far, at present employees (excluding board members) would hold approximately 2 % of ordinary shares, assuming that all outstanding share options are vested and exercised.

From time to time, the Group purchases its own shares on the market; the timing of these purchases depends on market prices. The shares are intended to be used in the context of acquisitions as well as for the Group's own share programs. Reference is made to note 15 'Treasury Stock'. In 2011, the Group did not buy or sell its own shares.

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 multicurrency credit facility (signed July 14, 2009) contains a market standard leverage covenant and a market standard equity covenant.

# 30. LEASES

## LEASES AS LESSEE

### OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| Less than one year | 1,208 | 1,294 |
| Between one and five years | 2,472 | 1,475 |
| Longer than five years | 978 | 907 |
| **Total** | **4,658** | **3,676** |

The Group has contractual operating leases over office equipment amounting to EUR 43,493 (2010: EUR 37,000), buildings amounting to EUR 2.7 million (2010: EUR 1.6 million) and vehicles amounting to EUR 721,000 (2010: EUR 507,000). During year ended December 31, 2011, an amount of EUR 1,684,000 (2010: EUR 1,476,000) was recognized as an expense in profit and loss in respect to operating leases.

### FINANCE LEASES

SMARTRAC leases machinery under finance leases. In 2011 and 2010, finance lease arrangements existed.

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

| In thousands of EUR | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| **Machinery** | | |
| Acquisition value | 6 | 7 |
| Additions from business combinations | 490 | – |
| Accumulated depreciation | (136) | (1) |
| **Net carrying amount** | **360** | **6** |

The following reconciliation provides a breakdown at year end.

| | | | Consolidated 2011 | | | Consolidated 2010 |
|---|---|---|---|---|---|---|
| In thousands of EUR | Minimum lease payment | Interest component | Present value | Minimum lease payment | Interest component | Present value |
| Less than one year | 157 | 16 | 141 | 3 | 1 | 2 |
| Between one and five years | 167 | 7 | 160 | 3 | – | 3 |
| **Total** | **324** | **23** | **301** | **6** | **1** | **5** |

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 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 April 2, 2008, the Company's Management Board established a stock option plan (Stock Option Scheme 2008) for members of Management Board, Senior Management and selected employees of the Group which is applicable to the fourth, fifth and sixth tranche. The Stock Option Scheme 2008 includes a market condition based on the total shareholder return (TSR) of SMARTRAC in relation to a peer group. The market condition is considered in the fair value of the granted options using a performance discount, based on the equal probability method.

The determination of the expected volatility is based on the weighted average historical volatility of SMARTRAC N.V., and in addition based on the historical volatility of a peer group since the listing period of the SMARTRAC share is not yet equivalent to the estimated average term of options.

On May 11, 2010, the Company's Management Board established a further 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 3 year average sales growth and 3 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 2011 | Consolidated 2010 |
|---|---|---|
| Tranche 4 | – | 35 |
| Tranche 5 | – | 83 |
| Tranche 6 | – | 21 |
| Tranche 7 | 94 | 71 |
| Tranche 8 | 99 | 81 |
| Tranche 9 | 3 | 1 |
| **Total expenses** | **196** | **292** |

As a consequence of the Voluntary Public Offer of OEP Technologie B.V. in August 2010, the Management Board decided based on the change of control clause of Option Scheme 2008 (comprising Tranches 4, 5 and 6), to terminate and compensate all outstanding vested and unvested options under this scheme. The termination of the Option Scheme 2008 resulted in a compensation payment amounting to EUR 978,000 of which an amount of EUR 837,000 was treated as a capital payback (deduction of share premium). Tranche 4 was not compensated because it lapsed due to the non-fulfillment of its market conditions.

Option expenses include accelerated vesting expenses for Tranche 5 (EUR 22,000) and for Tranche 6 (EUR 9,000).

The exercise price of stock options granted within six weeks of the Company's IPO is the IPO offer price. 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 2011 | 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 2011 was as follows:

| Consolidated 2011 | Outstanding Jan. 1, 2011 | Forfeited | Outstanding Dec. 31, 2011 |
|---|---|---|---|
| Tranche 2 | 145,700 | – | 145,700 |
| Tranche 3 | 152,000 | – | 152,000 |
| Tranche 7 | 46,000 | (5,000) | 41,000 |
| Tranche 8 | 75,850 | (13,600) | 62,250 |
| Tranche 9 | 1,000 | – | 1,000 |
| **Total** | **420,550** | **(18,600)** | **401,950** |

In the financial year 2011, no options were granted and 401,950 options were outstanding as at December 31, 2011. Furthermore no options were exercised, terminated or lapsed.

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 date of exercise.

## STOCK PLAN

As a consequence of the Voluntary Public Offer of OEP Technologie B.V., the Management Board decided based on the change of control clause of the Stock Plan to terminate the Stock Plan. The fair value of the instrument was remeasured at the date of settlement.

## 32. PROMOTIONAL PRIVILEGES

By virtue of the provisions of the Thai Government's Industrial Investment Promotion Act B.E. 2520, SMARTRAC TECHNOLOGY Ltd. has been granted promotional privileges relating to its manufacturing of transponders and electronic parts or components in Thailand. The promotional privileges include, among other things:

– Exemption from corporate income tax on net earnings from the promotional activities for up to eight years (see note 13).
– Exemption from corporate income tax on dividends received from companies using similar promotional privileges.
– 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 exchange in and out of Thailand.

In June 2010, the Thai Government's Industrial Investment Promotion Act B.E. 2520, has granted SMARTRAC TECHNOLOGY Ltd., Thailand, another promotional privilege relating to its manufacturing of transponders and electronic parts or components in Thailand. The promotional privilege includes, among other things:

– Exemption from import duty tax for machinery for 10 years
– Exemption from corporate income tax for the net profit derived from the promoted operational capacity for 8 years (until 2018)
– Permission to bring dividend from the promoted business which is exempt from corporate income tax
– Permission to transfer foreign currency out of Thailand

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, 2011, the company complied with these conditions.

Furthermore, SMARTRAC TECHNOLOGIA INDUSTRIA E COMMERCIO DA AMAZONIA Ltda. operates within the Manaus Freetrade Zone, Brazil, and therefore benefits under privileges described under note 12 'Corporate income tax'.

SMARTRAC TECHNOLOGY MALAYSIA Sdn. Bhd. received the official approval for the pioneer status by the MITI (Ministry of International Trade and Industry) in August 2011 (please refer to note 13 'Corporate income tax').

## 33. CAPITAL COMMITMENTS

As at December 31, 2011, capital commitment amounting to EUR 1.4 million exists with respect to land and buildings (2010: EUR 186,000) of which an amount of EUR 110,000 was already paid.

As at December 31, 2011, the Group has outstanding purchase orders for machinery amounting to EUR 6.1 million (2010: EUR 110,000). The Group has done down payments on these purchase orders in 2011 amounting to EUR 2.1 million (2010: EUR 92,000). Additionally the Group has orders for tools and equipment amounting to EUR 423,000 (2010: EUR 52,000).

Based on cooperation and frame contracts, the Group is committed to incur capital expenditure for machinery amounting to EUR 2.0 million in the year 2012 and EUR 2.0 million in the year 2013.

## 34. 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.

### OFF BALANCE SHEET COMMITMENTS

At December 31, 2011, the Group has bank guarantees granted to utility suppliers and for litigation costs amounting approximately EUR 3.0 million (2010: EUR 2.3 million). The guarantees are mainly in the context of e-Passport tenders, utility service agreements and cooperation- / frame purchase agreement. In addition, the Group has bonds issued by insurance companies to guarantee its performance in connection with government contracts as at December 31, 2011, of EUR 7.6 million (2010: EUR 0).

## 35. 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 of its members of the Supervisory Board or Board of Management are associated but no transactions responsive to this item were conducted in 2011. 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

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%.

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.

### CONTROLLING SHAREHOLDER

During the year ended December 31, 2010, a majority of the Company's shares were acquired by OEP Technologie B.V. (OEP). Since then OEP has continued to be the Company's controlling shareholder.

### 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 and Manfred Rietzler. 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 2011 | Consolidated ended December 2010 |
|---|---|---|
| | | |
| **Sales** | | |
| Bibliotheca AG | 5,726 | 4,332 |
| Omnia Technologies Private Ltd.* | 247 | – |
| | | |
| **Other operating income** | | |
| Bibliotheca AG | 34 | – |
| | | |
| **Purchases** | | |
| Omnia Technologies Private Ltd.* | 454 | – |
| Dalton Property Holdings B.V. | 4 | – |
| Dalton Group Ltd. | 58 | – |
| | | |
| **Cost recharge** | | |
| Citywish Investments Ltd. | – | 267 |

* please refer to note 5

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

| In thousands of EUR | Consolidated ended December 2011 | Consolidated ended December 2010 |
|---|---|---|
| **Trade and non trade receivables** | | |
| Bibliotheca AG | 870 | 1,513 |
| Omnia Technologies Private Ltd. | 104 | – |
| Dalton Property Holdings UK Ltd. | 4 | – |
| **Total** | **978** | **1,513** |
| **Trade payables** | | |
| Omnia Technologies Private Ltd. | 106 | – |
| Dalton Property Holdings UK B.V. | 3 | – |
| Dalton Group Ltd. | 25 | – |
| **Total** | **134** | **–** |
| **Other non-current assets** | | |
| Citywish Investments Ltd. | 315 | 303 |
| **Total** | **315** | **303** |
| **Other current assets** | | |
| Bibliotheca AG | 4 | – |
| Dalton EID Ltd. | 21 | – |
| **Total** | **25** | **303** |
| **Capital contribution** | | |
| OEP Technologie B.V. | 14,000 | 25,987 |
| Manfred Rietzler | 1,500 | – |
| **Capital increase** | | |
| Omnia Technologies Private Ltd. | 309 | – |

## TRANSACTIONS WITH KEY MANAGEMENT

As at December 31, 2011, directors of the Company and their immediate relatives control 9.6 % of the voting shares of the Company (December 31, 2010: 9.6 %).

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 | 2011 | 2010 |
|---|---|---|
| Short-term employee benefits | 1,182 | 1,321 |
| Share-based payment | 255 | 341 |
| Housing and related expenses | 9 | 45 |
| **Total** | **1,446** | **1,707** |

For details about the remuneration policy of directors of the Management Board please refer to the section 'Corporate governance report' of the Annual Report.

## SHARE-BASED PAYMENT

No options were granted, exercised nor did expire in the financial year 2011. In 2010, stock options and shares were granted to the members of the Management Board. In the course of 2010, options of Tranche 5 and restricted stock grants were compensated as a consequence of the terminations of the Stock Option Scheme 2008 and the Stock Plan. The terminations were decided for in consequence of the successful Voluntary Public Offer by OEP Technologie B.V.

## STOCK OPTION SCHEME

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

| Number of options granted Management Board | Beginning and ending balance |
|---|---|
| **Tranche 2 (vested)** | |
| 2007 | 15,000 |
| **Tranche 3 (vested)** | |
| 2007 | 100,000 |
| **Tranche 7 (not vested)** | |
| 2010 | 18,000 |
| **Total quantity** | **133,000** |

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

## STOCK PLAN

Based on the Stock plan (amended 2008) shares for the Board of Management were granted as follows:

| In thousands of EUR | Total |
|---|---|
| | |
| **2011** | – |
| 2010 | 11,312* |

* Thereof 5,000 shares converted from cash bonus of prior year according to stock plan.

In 2010, the fair value of shares granted to members of the Board of Management according to the Stock Plan amounted to EUR 105,000. The grant was done based on an observable market price of EUR 16.45.

The expenses (based on IFRS 2) for restricted stock bonus of members of the Management Board amounted to EUR 208,000, thereof EUR 24,000 for 5,936 shares converted in 2008 (Share Grant 1) that were settled in cash. Due to the termination of the Stock Plan as a consequence of the Voluntary Public Offer of OEP Technologie B.V, all residual restricted stock (5,000 shares from share grant 2009 and 5000 shares from share grant 2010) were compensated in form of cash compensation in 2010 (compensation price: EUR 20 per share).

## REMUNERATION OF THE SUPERVISORY BOARD

In 2011, the compensation for members of the Supervisory Board amounted to EUR 170,000 (2010: EUR 150,000). In addition, a member of the Supervisory Board 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). No options were exercised or expired during financial year 2011 and 2010.

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 Member of the SMARTRAC N.V. Supervisory Board and shareholder of SMARTRAC N.V.

| Name | Type of business | Relationship | Directors/shareholders |
|---|---|---|---|
| | | | |
| Bibliotheca RFID Library Systems AG | Production / Trade | Shareholder | Mr. Manfred Rietzler |

## 36. AUDITOR'S FEES AND SERVICES

The following table provides a breakdown of auditing fees recognized as expenses in the financial years 2011 and 2010:

| In thousands of EUR | KPMG Accountants N.V. | Other KPMG | KPMG Network total 2011 |
|---|---|---|---|
| Audit services | 152 | 134 | 286 |
| Audit related services | – | 61 | 61 |
| Fiscal advice | – | 361 | 361 |
| Advisory services | – | 13 | 13 |
| **Total** | **152** | **569** | **721** |

| In thousands of EUR | KPMG Accountants N.V. | Other KPMG | KPMG Network total 2010 |
|---|---|---|---|
| Audit services | 161 | 149 | 310 |
| Audit related services | – | 16 | 16 |
| Fiscal advice | – | 346 | 346 |
| Advisory services | 14 | 21 | 35 |
| **Total** | **175** | **532** | **707** |

Professional fees for audits include in particular fees for the statutory auditing of annual and consolidated financial statements as well as fees for other auditing services provided.

Professional fees for other accounting services primarily relate to fees for the review of the interim financial statements. Tax consulting fees primarily include 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.

## 37. SUBSEQUENT EVENTS

On December 22, 2011, SMARTRAC N.V. has reached an agreement with UPM-Kymmene Corporation (UPM) by which SMARTRAC N.V. will take over UPM's RFID business while UPM-Kymmene Corporation will become an indirect stockholder of SMARTRAC. As consideration for UPM's RFID business, UPM will obtain an indirect economic interest in SMARTRAC of 10.6% via OEP Technologie B.V. During the reporting period control was not yet acquired. The identification of the assets and liabilities to be acquired could therefore not be processed within the reporting period.

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# COMPANY FINANCIAL STATEMENTS 2011 OF SMARTRAC N.V.

# COMPANY BALANCE SHEET BEFORE APPROPRIATION OF PROFITS
## AS AT DECEMBER 31

| In thousands of EUR | Note | 2011 | 2010 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | | 13 | 15 |
| Intangible assets | 4 | 142 | 156 |
| Investment in subsidiaries | 5 | 68,741 | 76,741 |
| Investments in jointly controlled entities | 6 | 1,115 | – |
| Deferred tax assets | 7 | 1,500 | 1,500 |
| Other non-current assets | | – | 302 |
| **Total non-current assets** | | **71,511** | **78,714** |
| | | | |
| Loans to subsidiary companies | 8 | 121,308 | 90,280 |
| Loans to companies held at equity | 9 | 315 | – |
| Trade receivables | | – | 751 |
| Other current assets | 10 | 10,257 | 7,214 |
| Cash and cash equivalents | 11 | 5,770 | 37,659 |
| **Total current assets** | | **137,650** | **135,904** |
| | | | |
| **Total assets** | | **209,161** | **214,618** |
| | | | |
| **Equity** | | | |
| Issued capital | 12 | 8,872 | 8,167 |
| Share premium | 13 | 111,624 | 96,743 |
| Translation reserve | 13 | 2,192 | 2,051 |
| Retained earnings | 13 | 13,070 | 54,620 |
| Treasury stock | 13 | – | – |
| **Total equity attributable to the holders of the company** | | **135,758** | **161,581** |
| | | | |
| Other non-current liabilities | 14 | 6,231 | 50,130 |
| **Total non-current liabilities** | | **6,231** | **50,130** |
| | | | |
| Secured loan | 15 | 57,353 | – |
| Non-trade payables | 16 | 473 | 703 |
| Current liabilities to subsidiary companies | 17 | 158 | 1,164 |
| Current liability | 18 | 6,150 | – |
| Other current liabilities | 19 | 3,038 | 1,040 |
| **Total current liabilities** | | **67,172** | **2,907** |
| | | | |
| **Total equity and liabilities** | | **209,161** | **214,618** |

The accompanying notes on page 170 to 177 are an integral part of the company financial statements.

# COMPANY INCOME STATEMENT
## FOR THE YEARS ENDED DECEMBER 31

| In thousands of EUR | 2011 | 2010 |
|---|---|---|
| Income after tax from investment in group companies | (39,918) | 5,665 |
| Income after tax from investments at equity | (47) | – |
| Other income (loss) after tax | (1,585) | 408 |
| **Profit for the period attributable to the owner of the parent** | **(41,550)** | **6,073** |

The accompanying notes on page 170 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 2011

## 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 2011 and in 2010 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 | 2011 | 2010 |
|---|---|---|
| **Carrying value of investment at January 1** | **76,741** | **51,354** |
| Investments during the year | 36,934 | 17,616 |
| Equity accounted earnings | (39,918) | 5,665 |
| Dividends received | (5,249) | – |
| Currency translation effects | 233 | 2,106 |
| **Carrying value of investment at December 31** | **68,741** | **76,741** |

For the list of entities please refer to note 1 of the consolidated financial statements.

## 6. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

| In thousands of EUR | 2011 | 2010 |
|---|---|---|
| **Carrying value of investment at January 1** | **–** | **–** |
| Investments during the year | 1,254 | – |
| Equity accounted earnings | (47) | – |
| Currency translation effects | (92) | – |
| **Carrying value of investment at December 31** | **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 12 of the notes to the consolidated financial statements.

## 8. SHORT-TERM LOANS TO SUBSIDIARIES

| In thousands of EUR | 2011 | 2010 |
|---|---|---|
| **Subsidiary** | | |
| SMARTRAC TECHNOLOGY GmbH | 1,127 | 2,040 |
| SMARTRAC TECHNOLOGY Pte. Ltd. | 3,807 | 3,807 |
| SMARTRAC TECHNOLOGY Brazil B.V. | 2,480 | 2,210 |
| SMARTRAC IP B.V. | 6,025 | 5,125 |
| SMARTRAC TECHNOLOGY US Inc. | 9,634 | 9,813 |
| SMARTRAC TECHNOLOGY MALAYSIA Sdn. Bhd. | 39,494 | 24,730 |
| SMARTRAC TECNOLOGIA INDÚSTRIA E COMERCIO DA AMAZÔNIA Ltda. | 4,350 | 4,350 |
| SMARTRAC German Holding GmbH | 32,771 | 32,466 |
| multitape Holding B.V. | 1,040 | 1,072 |
| SMARTRAC TECHNOLOGY GERMANY GmbH | 7,563 | 1,100 |
| SMARTRAC Trading Pte. Ltd. | 1,243 | 3,567 |
| Dalton ID Ltd. | 1,466 | – |
| Dalton Continental B.V. | 205 | – |
| Dalton ID LLC | 201 | – |
| KSW Microtec Holding AG | 9,897 | – |
| SMARTRAC Hongkong Ltd. | 5 | – |
| **Total short-term loans to subsidiaries** | **121,308** | **90,280** |

All loans have a residual repayment term of less than 12 months and were granted at market interest rates.

## 9. LOANS TO COMPANIES HELD AT EQUITY

| In thousands of EUR | 2011 | 2010 |
|---|---|---|
| Citywish Investments Ltd. | 315 | – |
| **Total short-term loans to companies held at equity** | **315** | **–** |

## 10. OTHER CURRENT ASSETS

| In thousands of EUR | 2011 | 2010 |
|---|---|---|
| Receivables from subsidiaries | 9,687 | 6,572 |
| Other current assets | 570 | 642 |
| **Total other current assets** | **10,257** | **7,214** |

## 11. CASH AND CASH EQUIVALENTS

| In thousands of EUR | 2011 | 2010 |
|---|---|---|
| Cash and cash equivalents | 5,770 | 37,659 |

At December 31, 2011, SMARTRAC held no more short-term bank deposits.

## 12. SHARE CAPITAL

On December 19, 2011, the Company increased its share capital from EUR 8.167.498,50 (16.334.997 bearer shares) to EUR 8.872.044 (17.744.088 bearer shares), excluding the subscription rights of the shareholders.

The capital increase consisted of the issuance of 1.409.091 new bearer shares. 1.272.727 new shares were subscribed by OEP Technologie B.V. (OEP), Amsterdam, The Netherlands, and 136.364 new shares were subscribed by Manfred Rietzler at an issue price per share of EUR 11,00 payable in cash. The issued shares were listed at the stock exchange on December 23, 2011.

Subscription rights of shareholders were excluded on the basis of Article 28.2 of the Articles of Association by a resolution of the Management Board.

The transaction costs consisted of bank arrangement (EUR 110.000 ).

Please also refer to note 22 of the group statement.

### AUTHORIZED SHARE CAPITAL

| | 2011 | 2010 |
|---|---|---|
| Issued ordinary share of EUR 0.50 each | 17,744,088 | 16,334,997 |

## 13. COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
### FOR THE YEARS ENDED DECEMBER 31

| In thousands of EUR | Issued and paid-up share capital | Share premium | Translation reserve | Retained earnings* | Treasury stock | Total |
|---|---|---|---|---|---|---|
| **Balance as at January 1, 2010** | **7,425** | **75,047** | **(55)** | **48,547** | **(6,344)** | **124,620** |
| Net profit for the period | – | – | – | 6,073 | – | 6,073 |
| Other comprehensive income (loss) | – | – | 2,106 | – | – | 2,106 |
| **Total comprehensive income (loss) of the period** | **–** | **–** | **2,106** | **6,073** | **–** | **8,179** |
| Par value of new shares – credited to share capital | 742 | – | – | – | – | 742 |
| Excess of gross proceeds over par share value credited to share premium | – | 25,245 | – | – | – | 25,245 |
| Transaction costs of the capital increase charged to share premium | – | (525) | – | – | – | (525) |
| Option expense – share based option schemes | – | 292 | – | – | – | 292 |
| Reclassification of restricted stock (stock plan) | – | (109) | – | – | – | (109) |
| Issuance of stock plan | – | (219) | – | – | 479 | 260 |
| Excercise and termination of stock option schemes | – | (1,039) | – | – | 75 | (964) |
| Sale Treasury Stock | – | (1,949) | – | – | 5,790 | 3,841 |
| **Balance as at December 31, 2010** | **8,167** | **96,743** | **2,051** | **54,620** | **–** | **161,581** |
| **Balance as at January 1, 2011** | **8,167** | **96,743** | **2,051** | **54,620** | **–** | **161,581** |
| Net 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 consolidations | – | – | – | – | – | – |
| 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) |
| Option expense – share based option schemes | – | 196 | – | – | – | 196 |
| **Balance as at December 31, 2011** | **8,872** | **111,624** | **2,192** | **13,070** | **–** | **135,758** |

* The retained earnings as at December 31, 2011, include a legal reserve for capitalized development costs amounting to EUR 5.4 million (2010: EUR 6.2 million).

## 14. OTHER NON-CURRENT LIABILITIES

| In thousands of EUR | 2011 | 2010 |
|---|---|---|
| Earn-out liabilities former shareholders acquired subsidiaries | 6,231 | – |
| Usage of syndicated credit facility | – | 50,130 |
| **Total non-current liabilities** | **6,231** | **50,130** |

## 15. SECURED LOAN

On July 14, 2009, SMARTRAC signed an agreement on a syndicated multicurrency credit facility for EUR 65 million, which ends on June 30, 2012. This facility is secured by a pledge of the shares of SMARTRAC TECHNOLOGY Ltd. owned by SMARTRAC N.V. The syndicated multicurrency credit facility has standard market terms and conditions including a leverage and equity covenant. In the financial year 2011, the covenants were fulfillled at any time. The effective interest rate is 6.35%.

## 16. NON-TRADE PAYABLES

| In thousands of EUR | 2011 | 2010 |
|---|---|---|
| Wage tax | 165 | 181 |
| Other non-trade payables | 308 | 522 |
| **Total non-trade payables** | **473** | **703** |

## 17. CURRENT LIABILITIES TO SUBSIDIARY COMPANIES

| In thousands of EUR | 2011 | 2010 |
|---|---|---|
| SMARTRAC TECHNOLOGY Ltd. | 2 | 868 |
| SMARTRAC TECHNOLOGY GmbH | – | 41 |
| SMARTRAC TECHNOLOGY Pte. Ltd. | – | 153 |
| SMARTRAC TECHNOLOGY US Inc. | – | 18 |
| SMARTRAC German Holding GmbH | 12 | 12 |
| SMARTRAC TECNOLOGIA INDÚSTRIA E COMERCIO DA AMAZÔNIA Ltda. | 23 | 23 |
| SMARTRAC TECHNOLOGY MALAYSIA Sdn. Bhd. | – | 29 |
| Amatech Automation GmbH | 121 | 20 |
| **Total current liabilities to subsidiary companies** | **158** | **1,164** |

## 18. CURRENT LIABILITIES

| In thousands of EUR | 2011 | 2010 |
|---|---|---|
| Earn-out liability former shareholders acquired subsidiaries | 6,150 | – |
| **Total other current liabilities** | **6,150** | **–** |

## 19. OTHER CURRENT LIABILITIES

| In thousands of EUR | 2011 | 2010 |
|---|---|---|
| Hedging contracts | 252 | 189 |
| Transaction costs (legal and consultants) | 1,839 | – |
| Other current liabilities | 947 | 851 |
| **Total other current liabilities** | **3,038** | **1,040** |

The FX-hedging contracts are EUR/USD forwards. The fair value changes are booked through profit and loss (financial income / expenses: change in fair value).

## 20. COMPENSATION BY KEY MANAGEMENT

With respect to the remuneration of the members of the Supervisory Board reference is made to note 35 of the consolidated financial statements.

The detailed remuneration of the members of the Management Board is outlined in note 35 of the consolidated financial statements and the remuneration report (being part of the Annual Report 2011).

The aggregated remuneration for those members of the Management Board compensated by SMARTRAC N.V. was as follows:

| In thousands of EUR | Salary without bonus | Bonuses | Others | Total |
|---|---|---|---|---|
| 2011 | 630 | 310 | – | 940 |
| 2010 | 688 | 403 | 11 | 1,102 |

The total share based payment expenses for the Management Board compensated by SMARTRAC N.V. amounted in fiscal year 2011 to EUR 255,000 (2010: 341,000).

For details about the remuneration policy of members of the Management Board please refer to the section ‘Corporate governance report’ of the Annual Report.

## 21. RELATED PARTIES

Please refer to note 35 of the consolidated statement.

## 22. CONTINGENCIES

### LEGAL PROCEEDINGS

In case of potential insolvency of SMARTRAC TECHNOLOGY Pte. Ltd. and SMARTRAC TECHNOLOGY GmbH, SMARTRAC N. V. is, at written requirement of SMARTRAC TECHNOLOGY Pte. Ltd. and SMARTRAC TECHNOLOGY GmbH, 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 36 of the consolidated financial statements.

Amsterdam, March 23, 2012

## THE MANAGEMENT BOARD

| | | |
|---|---|---|
| Dr. Christian Fischer<br>Chief Executive Officer | Wolfgang Schneider | Robert Harmzen |

Amsterdam, March 23, 2012

**THE SUPERVISORY BOARD**

Prof. Dr. Bernd Fahrholz
Chairman

Manfred Rietzler
Member

Christopher von Hugo
Member

Wolfgang Huppenbauer
Member

Dr. Jörg Zirener
Member

Tobias Reich
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 2011 of SMARTRAC N.V., Amsterdam as set out on pages 82 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 December 31, 2011, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at December 31, 2011, 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 consolidated financial statements give a true and fair view of the financial position of SMARTRAC N.V. as at December 31, 2011, 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 December 31, 2011, 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, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the management reports as set out on pages 6 to 79 to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, March 23, 2012
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, 2011, the Company has issued 17,744,088 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, 2011, 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, 2011** | | | | |
| JP Morgan Chase & Co. (via OEP Technologie B.V.) | 15,477,968 | 87.23 | 17,183,982 | 96.84 |
| Mr. Manfred Rietzler (Member of the Supervisory Board of SMARTRAC N.V.) | 1,706,014 | 9.61 | 17,008,982 | 95.86 |

## ARTICLE 1D-E

Not applicable.

## ARTICLE 1F

OEP Technologie B.V. and Manfred Rietzler entered into an agreement to exercise the voting rights relating to their shares in the Company jointly.

## ARTICLE 1G

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 April 28, 2014 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 May 31, 2011, 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 May 31, 2011. 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, CEO of SMARTRAC, comprises a change of control provision. In the event a third party exercises a controlling influence, Dr. Fischer has the right to terminate his contract and receives 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.

# APPROPRIATION OF THE RESULT IN ACCORDANCE WITH THE ARTICLES OF ASSOCIATION

Pursuant to Article 24, 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 2011, the Company incurred a net loss.

**SMARTRAC N.V.**
Strawinskylaan 851
1077 XX Amsterdam
The Netherlands
Phone +31 20 30 50 150
Fax +31 20 30 50 155
Web www.smartrac-group.com