SMARTRAC TECHNOLOGY

Value & Excellence.

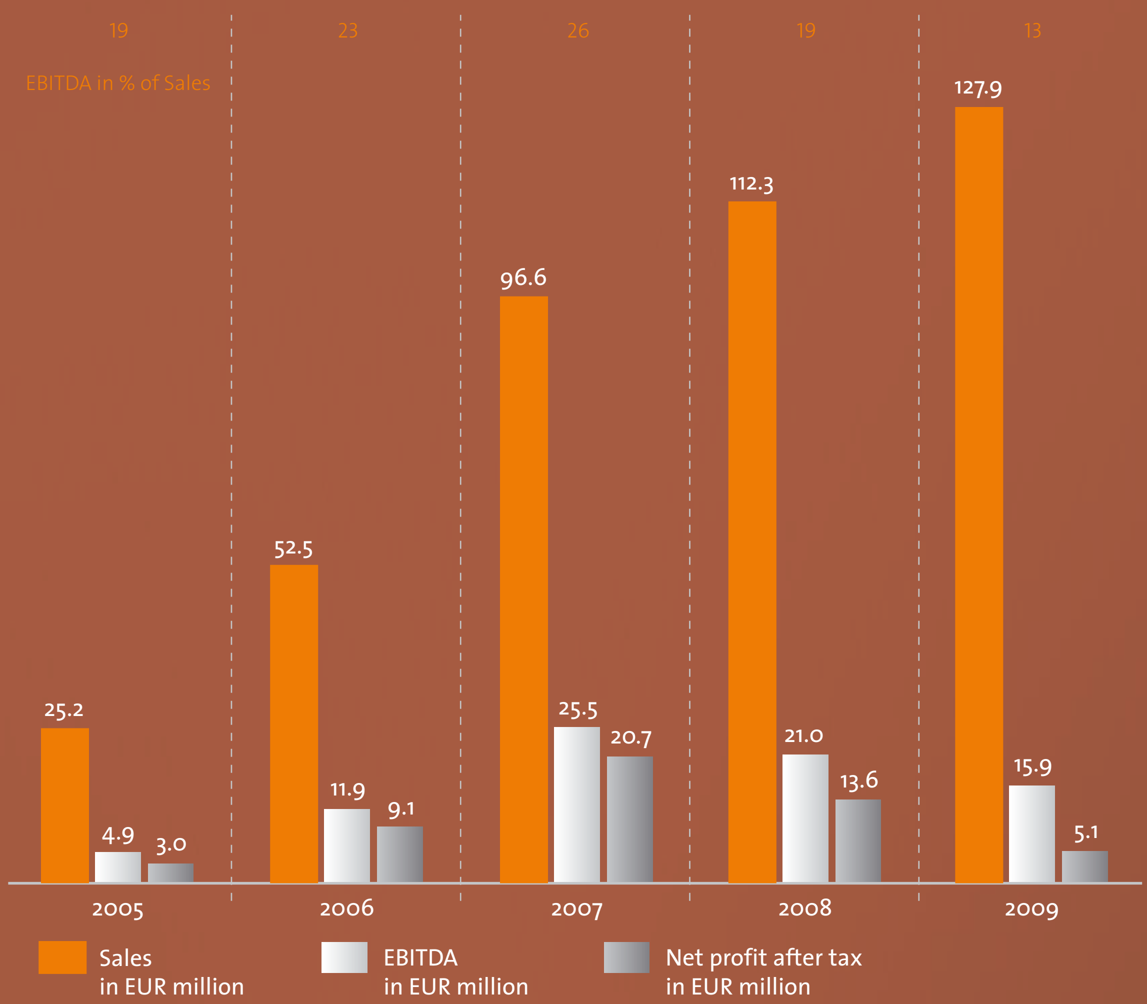
Annual Report
2009

In thousands of EUR		Consolidated 12 months ended December 2009	Consolidated 12 months ended December 2008	Change	Change in %
Consolidated income statement					
Revenues		127,862	112,301	15,561	13.86
EBITDA [1]		15,933	21,015	(5,082)	(24.18)
Net profit after tax		5,060	13,628	(8,568)	(62.87)
Financial position and liquidity					
Cash flow from operating activities		6,063	19,253	(13,190)	(68.51)
Working capital		31,037	23,839	7,198	30.19
Capital expenditure [2]		9,673	13,584	(3,911)	(28.79)
Total assets		208,345	177,387	30,958	17.45
Operating figures					
Basic earnings per share	EUR	0.38	1.03	(0.65)	(63.11)
Operating cash flow per share	EUR	0.45	1.46	(1.01)	(69.18)
Equity ratio	%	59.8	55.3	4.5	8.14
Headcount	at month's end	2,734	2,786	(52)	(1.87)

SMARTRAC at a glance: profitable business model

1) EBITDA is defined as operating profit for the period before depreciation, amortization, impairment on investment, 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) Capital expenditure (CAPEX) is defined as expenditure for property, plant and equipment, intangible assets and the change in deposits paid.



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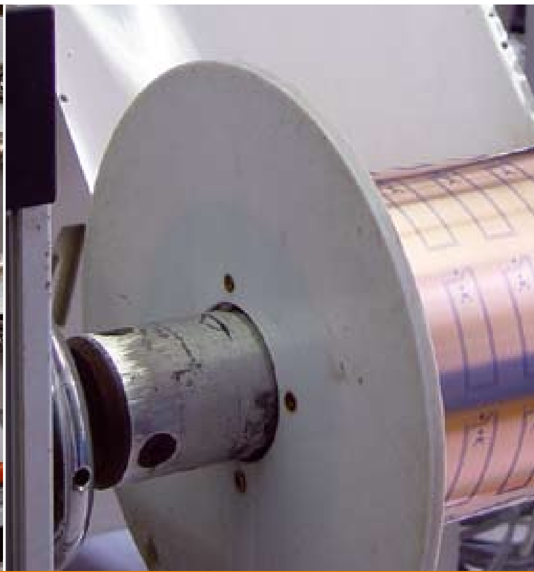
23
26
19
13
EBITDA in % of Sales
25.2
4.9
3.0
52.5
11.9
9.1
96.6
25.5
20.7
112.3
21.0
13.6
127.9
15.9
5.1
2005
2006
2007
2008
2009
Sales
in EUR million
EBITDA
in EUR million
Net profit after tax
in EUR million



Wire-embedding technology, etched antennas and glass tubes for coil-winded transponders

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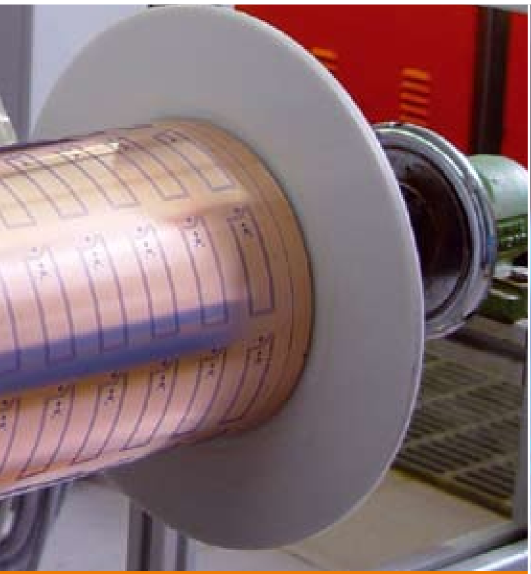

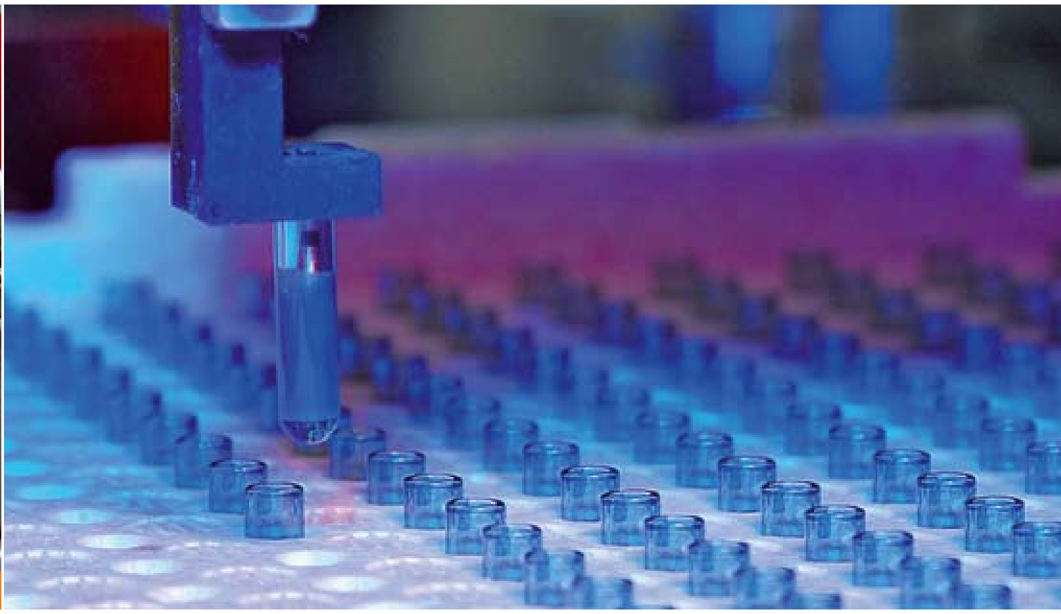

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It is not just copper.

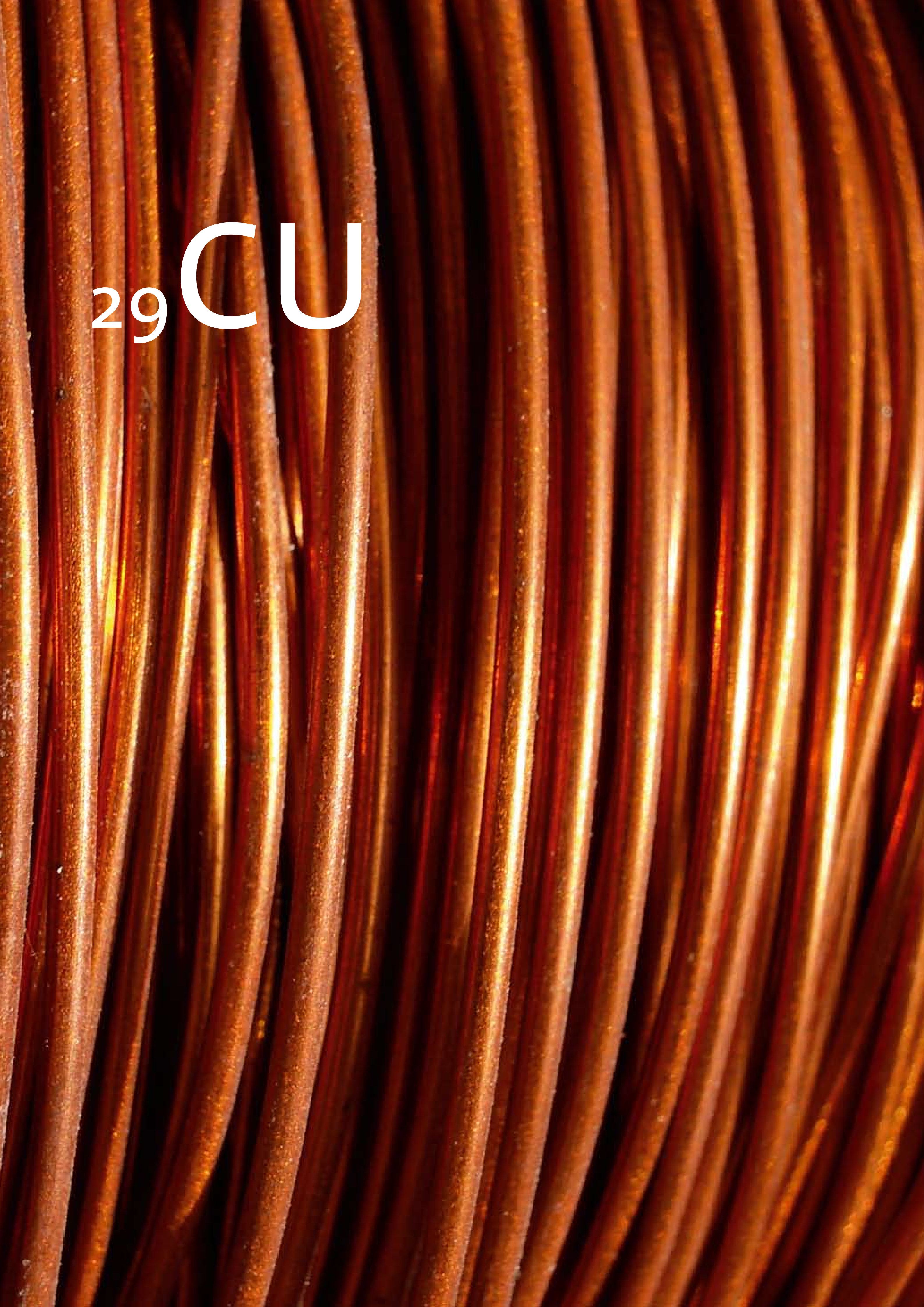
It is the basis for high security, convenience and simplicity. In 2009, we turned more than 24 tons of copper into high-quality RFID inlays. 386,000 kilometers of wire – almost ten times around the world.

Management reports

Letter of the CEO

Report of the Supervisory Board

Group Executive Team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Dr. Christian Fischer, CEO of SMARTRAC

Dear Shareholders,
Dear Friends of Our Company,

In 2009 the world economy experienced its deepest recession of the post-war period. The extraordinary dimension of the economic crisis produced a relentless assessment on SMARTRAC's business model, on our strategy and the company's organization. Reviewing our strategic decisions, our operational performance and our financial soundness at the end of financial year 2009, we can state that SMARTRAC as a Group has passed this challenge. We delivered on growth and, in the second half of 2009, we managed to improve profitability compared to weak profitability in the first two quarters. We secured solid financing, strengthened our equity base and provided further evidence to the value of our dedicated RFID strategy.

SMARTRAC is a leading developer, manufacturer and supplier of RFID transponders. We are a pure and dedicated RFID company with highest security standards and hold a prime position in the global RFID value chain. We have remained a reliable partner to our international customers, business associates, suppliers and employees. The clarity of focus and our commitment to RFID is reflected in our leading technology, process and operations expertise, in our diversified high quality product portfolio and our global network of research and development centers, manufacturing facilities and sales offices. SMARTRAC combines the most important technologies for transponder manufacturing in our industry – wire-embedding, coil-winding and etching – under one roof and covers all frequency standards in the global RFID market.

Our commitment to transparent and comprehensive communication to our stakeholders also requires a discussion of the issues we are not satisfied with and where we will work hard for improvement in 2010. Today we would like to highlight the achievements and challenges which are important to assess SMARTRAC's performance and development in 2009, which we consider in the light of the economic crisis to be a successful year: successful in terms of operating and financial performance, but more important in terms of stability and flexibility of our company.

1. Cope with and counteract the deep economic recession

Effective January 1, we converted our organization into a business unit structure. The business unit structure enables us to act more dedicated and with greater speed and flexibility on the global market and increased our capability to address customers' demands. We can more closely connect all elements of the value chain and therefore further improve the quality of the services to our customers. The strategy and decision has paid off in the difficult economic environment at the beginning of the year and has proven its actual strength in the phase of stabilization and modest recovery of the global economy.

The **Business Unit eID** covers products for personal electronic identification in governmental use such as e-Passports, national eID cards, electronic driver's licenses and electronic visas.

The **Business Unit Cards** provides card inlays and transponders for public transport, access, e-Payment and active card applications and works closely with card manufacturers around the world.

The **Business Unit Industry & Logistics** supplies RFID tags for fields such as automotive, animal identification, logistics, industrial, laundry and medical.

The **Business Unit Tickets & Labels** covers RFID inlays for tickets and label converters and includes applications such as media management (library), ticketing, apparel, airline luggage, pharmaceuticals and windshield labels for vehicle identification and toll applications.

Across all business units we had to cope with the uncertain economic environment at the start of the financial year 2009. The players in the RFID value chain were taking an observant approach. The order behavior was noticeably less focused on the long-term. The displayed cautious order behavior resulted in significant volatility and fluctuations in the utilization of our global production network with an associated significant impact on its efficiency and profitability. All four quarters were characterized by a slow start in the first month with a strong performance towards the end of the quarter. This shift in sales towards the end of a three-month period resulted in significant effects on our working capital and cash flow performance. In order to maintain flexibility in serving customers requirements at short notice we increased the level of inventory. Trade receivables increased as a result of the cumulated business in the last month of each quarter.

Beside the general effects, we had to cope with the effects of the challenging economic environment on industries and applications we are doing business with. The most evident example is the automotive industry in the Business Unit Industry & Logistics. The severe economic crisis had a substantial impact on global demand for motor vehicles. SMARTRAC supplies the automotive industry with the car immobilizer application which is directly linked to the production of cars. Not surprisingly we had to face business being around 40 percent below the level of the prior year in the first two quarters followed by a recovery to an amount of 20 percent below last year's level in the second half of the year. The management of the business unit was able to successfully counteract this development twofold; on the one hand with cost measures like short-time work at its main production site in Germany, and on the other hand with a more focused and emphasized development of the non-automotive business. In the non-automotive business we achieved strong growth in applications such as animal identification, laundry and industry applications.

This development clearly proves the rational behind our acquisition of Sokymat Automotive GmbH in September 2008 where we report the first full year of consolidation in 2009. Although affected by the automotive crisis, we added a reliable and recurring business to our business portfolio and received a profitable, established and flexible entity equipped with an experienced management. Finally, we created a strong platform for the non-automotive business to accelerate the growth opportunities. As a result of the performance, the impairment test of the goodwill related to the acquisition on the balance sheet as of December 31, 2009 confirmed the intrinsic value.

Another meaningful example illustrating the impact of the financial crisis is our business related to contactless credit cards (e-Payment). This business is predominantly U.S. driven and therefore right in the cradle of the financial crisis. Major players in the U.S. introduced nationwide schemes for contactless credit cards in 2008 and volumes exploded to 96 million inlays. Uncertain of the development in 2009 we have learned two things. First, the business case to enter into the cash-related transaction with a contactless credit card seems to pay off for the banks who have introduced these cards. Consequently, the major players continued their programs of issuing contactless credit cards and we were able to keep our business on a similar level (2009: 95 million inlays). But secondly, in 2009 we have seen the next growth spurt being postponed as no additional big player entered into a nationwide implementation in the financial environment surrounded by uncertainty. Due to today's penetration rate of the contactless credit cards in the United States, the increasing availability of the required infrastructure, the potential in other markets and our superior market position in this application we expect this business to return to its growth path in the coming years.

Last but not least, we would like to discuss the development in the area of electronic passports in general and the U.S. passport in particular. SMARTRAC is the dedicated high-security supplier to address governmental obligations for personal electronic identification such as e-Passports and national eID cards. The company's proprietary wire-embedding technology has become the leading technology standard in governmental applications where a supplier has to meet highest requirements in terms of security, quality and durability. In 2009, we further expanded our leading market position and attracted new projects in the global market for e-Passport supply. In the meantime, SMARTRAC has been chosen to deliver highly secure inlays for e-Passport projects in more than 30 countries worldwide. We are very pleased with the ongoing gain of market share as we were able to compensate for the continued unfavorable development in the U.S. e-Passport project in 2009. Non-U.S. passport business in the Business Unit eID increased by 39 percent compared to 2008. In the U.S. e-Passport project we had to cope with a decline of 50 percent in relation to the previous year. Order volumes and shipment levels to our customers in the largest e-Passport project in the world came in significantly below the demand for e-Passport books. According to the U.S. department of State 11.9 million e-Passport books were issued in 2009 (2008: 15.7 million books). The adjustments to the stock of inventory in the entire value chain in association with lower travel activities in general affected our company twice. We had to cope with a significant decline in sales but more importantly, the development resulted in an underutilized status of our high-security production site in the United States dedicated to this project. The underutilization additionally burdened our profitability significantly. In the fourth quarter 2009, we recorded increased order activity resulting in a high order backlog. But, after a long period of unfavorable volumes, the challenge was to secure the full support of the supply chain to provide the increasing levels of material required in time. We are confident that we have seen the lows in terms of volumes delivered and utilization of our factory in 2009. We expect to deliver the underlying demand in the coming year which should improve shipment levels and utilization, and result in a positive contribution of the United States' factory to the Group's profitability in 2010.

Summarizing, SMARTRAC's business model has shown its strength in a difficult economic environment. Our dedicated RFID strategy with a diversified product portfolio, a global approach to sales, research and development and high-security production allowed SMARTRAC to grow revenues by 14 percent in the challenging year 2009.

Market research clearly confirmed the growth perspective for the global RFID market and the Commission of the European Community supported the view in a commission recommendation published in May 2009. The recommendation provides guidance to the member states on the design and operation of RFID applications in a lawful, ethical, socially and politically acceptable way, respecting the right to privacy and ensuring protection of personal data. According to the commission's recommendation, RFID technology has the potential to become a new motor for growth and jobs, since it holds enormous economic promise by creating new business opportunities. SMARTRAC is well positioned in the growing RFID market due to its unique positioning in the RFID value chain, the largest production capacities worldwide, its global network in R&D, production and sales, and its broad technology base.

2. SMARTRAC's position as high-security company and adjustments to the organization

In this section, we would like to report on our achievements to strengthen SMARTRAC's position as high-security supplier in the global RFID industry and the strategic decisions affecting our organization.

SMARTRAC continuously advanced and enhanced its technology base, process and production know-how and has been able to set standards in the RFID industry. Beside cost advantages, convenience and efficiency gains, the key driver to implementing RFID solutions is to increase the level of security provided. This is particularly evident with regard to government-related applications and monetary transactions. Therefore, the ability of SMARTRAC to cope with highest security standards, highest quality and confidentiality levels within the entire value chain is a key asset to maintaining and expanding our leading market position.

In this context, SMARTRAC provided clear evidence to its high-security commitment and its leading position in high-security transponder manufacturing in October 2009. SMARTRAC obtained EAL5+ security certification for its production in Thailand from the German Federal Office for Information Security (BSI), which expands the existing security level of its e-Passport production facility in Thailand. Product certificates from the BSI are accepted in all countries following the Common Criteria specifications. The site certificate covers the production environment and processes for personal electronic identification (eID) products, especially RFID inlays for e-Passports and contactless national ID cards. It also includes the initialization environment for eID, with SMARTRAC being the first inlay manufacturer worldwide to obtain security certification for both capabilities. We will continue to increase certification grade of our high-security production network in Asia, Europe and the U.S. with site certificates in the future. This will further improve our position as high-security supplier to the RFID industry.

In the light of our strategy to support our customers with a worldwide network of highly secure inlay production sites, the management team decided in November 2009 to expand SMARTRAC's German production facility in Reichshof-Wehnrath to a European competence center. In addition to the production of RFID transponders for the industry and logistics market segment, we will build a high-security production facility for personal electronic identification (eID) products, especially RFID inlays for e-Passports and contactless national ID cards. It is our intention to set up a high-security environment compliant with the EAL 5+ security standard, comparable to what we already have in place in our high-security facility in Thailand. With the enlargement of the site and the resultant additional capacity we are well prepared for the future to address opportunities in the area of highly secure RFID inlays for the eID market. In addition, it will strengthen our global high-security production network. SMARTRAC operates dedicated high-security manufacturing facilities in Asia, Europe and the Americas to serve all our customers in a reliable and competitive manner with high-quality products and services.

To secure our leading position and maintain our position as driver of the RFID industry, it is our aim to improve the efficiency and profitability of our company and to challenge our processes continuously. In 2009, we started an operations project in our largest production facility in Thailand to set up production processes in order to leverage untapped efficiency potentials. First analysis of the status showed significant potential. We expect effects to materialize in the next year and we intend to expand the findings to other facilities of our global production network where appropriate.

Within our worldwide production network, we had to master the ramp-up in the United States and in Malaysia as well as the decision to phase out the production facility for etched antennas in Germany. In Malaysia, the Business Unit Ticket & Labels focuses on transponders based on etched antennas. SMARTRAC has developed a technology platform that integrates under one umbrella the inlay assembly concept, proprietary interconnection method (ChipLink™), and the in-house manufacturing of antennas, chip medium and inlays. Ramp-up phase and qualification processes with our customers clearly exceeded our expectation and significantly burdened our profitability. But the feedback from our customers and first volume project wins in the course of 2009 clearly confirm our strategy to enter into the high-volume section of the RFID transponder market.

However, the management of the business unit and of SMARTRAC's subsidiary multitape GmbH took the decision to concentrate the activities of the business unit at the production location in Kulim, Malaysia. In the course of this strategic focusing, it was decided to phase out production in Germany by the end of 2009 and transfer technology and processes to the high-volume production facility in Malaysia. We have taken measures to secure service and logistics and to support the 32 employees affected by the economically essential decision.

In 2009, we successfully finalized the integration of the business activities of Sokymat Automotive GmbH acquired in September 2008 into the global research and development, production and sales network of SMARTRAC. As a logical consequence and effective October 9, 2009, Sokymat Automotive GmbH changed its company name to SMARTRAC TECHNOLOGY GERMANY GmbH. Serving as the pillar for the Business Unit Industry & Logistics, the company brings together mutual products under the SMARTRAC brand. The established and trusted name Sokymat Automotive will be retained as a product brand for the automotive business, in which we hold a market-leading position for car immobilizers and have long-term experience with the particular requirements of the production of RFID components for the automotive industry in terms of security and quality.

3. Intellectual property strategy

SMARTRAC holds a strong portfolio of patents in the RFID industry. With more than 200 patents and patent applications for technology, equipment and production of RFID components and related processes, patent infringements and challenges to the company's patent rights are continuous incidents that SMARTRAC must face.

On November 6, 2009, SMARTRAC signed several agreements with On Track Innovations Ltd (OTI). With regard to intellectual property, OTI and SMARTRAC will accept and respect each other's patents especially in the field of wire-embedding and dual interface technology and all patent litigations and in particular all patent infringement legal proceedings between SMARTRAC and OTI were ceased. In addition, we purchased OTI's/MCT's machinery and inlay production in an asset deal and signed a supply agreement by which SMARTRAC becomes OTI's exclusive supplier for wire-embedded and dual interface inlays. The management team is fully convinced that these agreements will strengthen SMARTRAC's leadership position in the global RFID inlay market and, even more importantly eliminate uncertainty for our worldwide customer base in the RFID market.

Another example of successful protection of intellectual property was reported on March 10, 2009 when we were able to announce that the United States Patent and Trademark Office issued a reexamination certificate affirming the validity of one of SMARTRAC's patents as amended, U.S. Patent 6,233,818. The '818 Patent relates to SMARTRAC's wire-embedding technology. The issuance of the reexamination certificate is the result of a successful reexamination of the patent that was initiated by a third-party requestor in September 2007.

But we had to learn about the various facets in gaining and protecting our intellectual property. Within this context SMARTRAC became aware that law firms in South Korea and China that were involved in the individual registration of patents acquired by SMARTRAC in the past did not file the genuine documents with the respective patent offices but rather filed manipulated documents without the knowledge and authorization of SMARTRAC, in order to accelerate the formal registration process. Consequently, SMARTRAC immediately took all necessary steps to ensure the rightful registration of the acquired patents and in parallel seeking full compensation from these law firms.

Looking back on a long experience in executing intellectual property rights, SMARTRAC experienced time- and cost-intensive proceedings which not always led to the intended outcome in the different 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 various unique capabilities: Our core competence in the manufacturing of RFID inlays has been advanced continuously by broad process and engineering know-how. We also have extensive experience in module packaging, in connecting and assembly technologies as well as a deep understanding of lamination processes and in-house machine-building competence. The strategic approach to develop and produce our own machinery and – at the same time – to enter into exclusive license partnerships will secure SMARTRAC's leadership position in the global RFID market.

The broad variety of skills and capabilities are decisive to develop and produce high-quality RFID products. We provide a worldwide network of high security production facilities, global research and development and prototyping centers and a highly motivated team to serve our customers' needs and to drive market developments. Therefore our portfolio of competitive advantages will enable us to successfully maintain and enlarge our market position based on our respected and trusted competence in high-security RFID technology.

4. Securing financial flexibility and strengthening the balance sheet

In 2009 based on its operating performance, SMARTRAC was able to successfully complete transactions on the debt and equity markets.

On July 14, 2009 SMARTRAC completed its first transaction in the syndicated loan market. In a financial environment affected by the financial crises and its impact on the banking system, we were able to sign 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 has successfully transferred the existing one-year bridge financing facility into a mid-term credit facility. SMARTRAC used EUR 50.5 million from the new facility to refinance the usage of the bridge financing facility related to the acquisition of Sokymat Automotive GmbH (today: SMARTRAC TECHNOLOGY GERMANY GmbH) signed in September 2008. The facility's remaining EUR 14.5 million provides financial flexibility to support our strategic development in line with SMARTRAC's growth objectives.

For the first time after SMARTRAC went public in 2006, we increased our share capital and successfully placed 1,349,999 bearer shares with qualified investors in Germany and Europe on November 16, 2009 as part of an accelerated book building process. We increased our share capital from EUR 6,750,000 (13,500,000 bearer shares) to EUR 7,424,999.50 (14,849,999 bearer shares), by excluding the subscription rights of shareholders. The shares were priced at EUR 15.50 per share and SMARTRAC took in gross proceeds in the amount of EUR 20.9 million. The proceeds of the issuance were used to finance the acquisition of the machinery and inlay production of On Track Innovations Ltd, and its subsidiary Millennium Card's Technology Ltd. We also will invest in a high-security production facility in Germany for personal electronic identification (eID) products, especially RFID inlays for e-Passports and contactless national ID cards.

With the transactions we significantly strengthened our financial basis, created financial flexibility and improved our equity position. Our balance sheet gives us a competitive advantage over competitors and allows us to play an active role in the expected consolidation activities in our industry.

Key financial figures 2009

Due to the uncertainty created by the financial crisis and the global economic recession, we started the year with a qualitative outlook which we substantiated in the course of the year. And: we delivered on our targets! SMARTRAC continued to grow in financial year 2009. Total Group sales of EUR 127.9 million compared to EUR 112.3 million accounts for growth of 14 percent and matched the corridor communicated in November of EUR 125 million to EUR 130 million. Excluding the consolidation effect of SMARTRAC TECHNOLOGY GERMANY GmbH (former Sokymat Automotive GmbH) we generated organic growth of 2 percent which in the light of another bisection of the U.S. e-Passport sales and the economic environment we consider to be a satisfying performance.

In terms of profitability, we report an EBITDA of EUR 15.9 million (previous year: EUR 21.0 million) that is equivalent to an EBITDA margin of 12.5 percent. Without a doubt, this level of profitability does not meet our expectation and is not what we are aiming for. But, after six consecutive quarters with a decline in margin we were able to improve profitability from a second quarter low of 10.4 percent to 13.0 percent in the third quarter 2009 and were able to maintain the momentum of improvement in the fourth quarter of 2009 (EBITDA 14.1 percent). The decline in EBITDA margin was mainly attributable to the challenges presented by volatility in the utilization of our global production network with strong performance towards the end of the quarter and the burden related to our operations in Malaysia and the United States. Despite ongoing costs due to the ramp-up in our production facility in Malaysia, we are confident of improving our margin in 2010 due to a more balanced sales and production structure within the quarters and progress in the performance of the operations in the United States.

Again, we delivered what we communicated. We realized an improvement in EBITDA margin on a quarterly basis in the course of 2009 and every quarter of financial year 2009 contributed to the Group net profit of EUR 5.1 million for financial year 2009 (previous year: EUR 13.6 million).

With regard to the cash flow statement, we partially achieved our expectation. SMARTRAC generated a positive net cash flow from operating activities amounting to EUR 6.1 million. But, due to the asset deal acquiring machinery and inlay production as well as certain intellectual property from On Track Innovations Ltd, (OTI) and its subsidiary Millennium Card's Technology Ltd. (MCT) in November 2009, SMARTRAC´s free cash flow was negative EUR 3.2 million.

Due to the capital increase in November 2009, we were able to strengthen SMARTRAC's balance sheet significantly. As of December 31, 2009 total assets amounted to EUR 208.4 million and total equity reached EUR 124.6 million. The equity ratio of 60 percent (previous year 55 percent) underlines the strong financial basis which we consider to be one of the strongest in our industry. The balance sheet will support our growth strategy for the future.

We provide a detailed analysis of the financial figures and the two business segments 'Security' and 'Industry' in the section 'Key financial figures 2009 and business by segments' starting on page 58 of the report.

Share price development

The year-end share price of EUR 15.00 represents for an increase of 28 percent in financial year 2009. The SMARTRAC share could not fully keep pace with the technology index TecDAX (+ 61 percent) due to a disproportionate decline in the first quarter of 2009. The valuation of SMARTRAC marked its all-time low on March 6, 2009 at EUR 6.50 with a market capitalization of EUR 88 million. From that level, the SMARTRAC share price rallied by 162 percent to reach its financial-year high at EUR 17.00. At year-end share price and after the successful capital increase the valuation of SMARTRAC amounted to EUR 223 million as of December 31, 2009. In the second half of the year, capital markets recognized and valued the advanced operating performance and the improvement in SMARTRAC's profitability. SMARTRAC extensively communicated to the capital markets and updated the financial community on its operating development and its full-year expectation, and we delivered.

The alignment of the interests of the shareholders and management remained unchanged in the course of 2009. The management team holds more than 20 percent of the shares and will focus on the strategic and operating development in order to increase the shareholder value.

Outlook with certain optimism

The bottom of the global economic recession seems to have been reached, and a further, allbite slow, economic recovery is expected for 2010. Nevertheless, the crisis has changed the environment in which we do our business and the current situation still provides a number of challenges. We will continue to tackle all challenges determinedly and in a responsible manner. Only such an approach can ensure SMARTRAC's long-term success.

We are looking ahead to the financial year 2010 with decisiveness and self-confidence. We have formed an excellent base for the future, having created a strong platform with a diversified product and technology portfolio, providing the largest manufacturing capacity in the industry and significantly strengthening our financial position. Thanks to our dedicated position in the RFID value chain, our global presence in sales, production, research and development and, above all, SMARTRAC's highly committed and motivated team, we have all the requirements for a successful financial year 2010.

However, and despite the undisputed growth expectations for the RFID market in general, we expect the effects of the global economic crisis to also provide challenges in financial year 2010. We are confident that we can successfully master the challenges. We are aware that steady and solid growth in line with an improvement of our profitability is essential to create shareholder value for our investors. For this reason, the management team will work introversive toward improving the processes, efficiency and structures within SMARTRAC and exoteric toward defending and expanding our leading market position.

For the financial year 2010, the management team is confident of being able to deliver growth and improvement of our profitability despite the fact that the global market environment still provides some uncertainty and that we face a list of things to do within SMARTRAC, for instance to achieve breakeven in the Malaysian operation. In addition to the investment in the entities, we will invest in our global production network and the production capacity in 2010 where appropriate.

SMARTRAC targets a revenue growth of at least 10 percent compared to 2009. Group sales are expected in a range of EUR 140 million to EUR 150 million in comparison to EUR 127.9 million a year ago. In terms of profitability, SMARTRAC intends to deliver a more dynamic improvement of its EBITDA. The Management Board is confident to achieve a Group EBITDA profitability exceeding the margin of 2009.

The SMARTRAC team deserves our appreciation

I would like to cordially thank on behalf of the entire Group Executive Team all our employees for their tireless commitment, exceptional performance and the high degree of flexibility that has been demonstrated in 2009. The management team would like to express their appreciation to our employees for the support with undiminished energy to the SMARTRAC spirit and success. Together we will be able to successfully master the challenges and make SMARTRAC even more competitive in the future.

The Group Executive Team would also like to thank the shareholders, customers and partners of SMARTRAC for their trust, support and the open dialogue of the past financial year. It was our pleasure to act as a reliable partner for all our stakeholders around the world. We want to continue to strengthen our relationship, and convince you with our performance.

Sincerely yours,

Dr. Christian Fischer
CEO of SMARTRAC

Amsterdam, March 12, 2010

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 77 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 three members: Prof. Dr. Bernd Fahrholz (Chairman), Wolfgang Huppenbauer and Jan C. Lobbezoo. In 2009, the composition of the Supervisory Board remained unchanged.

All of 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.

Activities of the Supervisory Board

The SMARTRAC Supervisory Board held eight meetings during the financial year 2009 which were also attended by members of the SMARTRAC Management Board and Group Executive Team. Four meetings were plenary sessions with the majority of the members of the Management Board present and, with one exception represented by proxy, attended by all members of the Supervisory Board. Due to sick leave, Stephen Juge participated in two of the four plenary sessions. Four meetings were arranged via conference call with all members of the Supervisory Board dialing 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 the control system and the approval of major investments and acquisitions. Regular agenda items included financial and operational performance, share price development, course of business, commercial and technical developments and the annual financing and investment plan.

Wolfgang Huppenbauer, Prof. Dr. Bernd Fahrholz and Jan C. Lobbezoo (from left to right)

Prof. Dr. Bernd Fahrholz (62)*

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

Wolfgang Huppenbauer (55)*

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

Jan C. Lobbezoo (63)*

Member of the Supervisory Board

Appointment effective with the SMARTRAC 2007 Annual General Meeting,
Term of office ends in 2011
Businessman, Dutch citizen, home domicile is Son en Breugel, The Netherlands

- Former CFO Philips Semiconductors (currently NXP Semiconductors)
- Supervisory Board Member of ASMI N.V., Almere and of TMC N.V., Eindhoven
- Board member of FEI Company, USA

* Age as of December 31, 2009

In 2009, the Supervisory Board again devoted considerable time to discussions on the company's strategy, in particular the debt and equity financing of the company and the acquisition of On Track Innovations Ltd (OTI) and Millennium Card's Technology Ltd. (MCT) inlay manufacturing assets. The Supervisory Board reviewed and discussed in-depth with the Management Board the overall company strategy and strategic options, including objectives, associated risks and the company's financial position.

The Supervisory Board further reviewed the performance of the Management Board and the performance of its individual members 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. In the light of the limited number of members of the Supervisory Board, the evaluation of the functioning has been carried out in discussions of the entire Supervisory Board. In addition, the Chairman shared common themes and conclusions in private conversations with the individual members of the Supervisory Board.

As the Supervisory Board consists of three members, the tasks of the audit committee, remuneration committee as well as selection and appointment committee were performed by the full Supervisory Board in accordance with principle III.5 of the Dutch Corporate Governance Code.

Audit committee tasks

The tasks of the audit committee were performed during regular meetings of the Supervisory Board. The Supervisory Board regularly discussed the financial statements and the Annual Report. Before 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 traceable strategy and prioritizes risk management issues adequately.

With regard to the external audit, the Supervisory Board reviewed the financial statements of SMARTRAC, as presented by the Management Board, and discussed the financial statements 2009 with the external auditor at the Supervisory Board Meeting on March 12, 2010.

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

Remuneration committee tasks

The remuneration of the management was discussed by the Supervisory Board at its regular meetings. 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, as well as long-term components containing risk elements, such as stock options (SMARTRAC Stock Option Scheme 2008) or other equity-based compensation

(SMARTRAC Stock Plan). A detailed remuneration report can be found on pages 84 to 89 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 77 to 83 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.

Selection and appointment committee tasks

At the Annual General Meeting of Shareholders of SMARTRAC held on April 29, 2009 in Amsterdam, Prof. Dr. Bernd Fahrholz and Wolfgang Huppenbauer were re-elected as members of the SMARTRAC Supervisory Board. The term of office of Prof. Dr. Bernd Fahrholz is four years until the ordinary Annual Meeting of Shareholders in 2013 and the term of office of Wolfgang Huppenbauer is three years until the ordinary Annual Meeting of Shareholders in 2012. Term of office of Jan C. Lobbezoo as member of the SMARTRAC Supervisory Board will terminate on June 21, 2011.

SMARTRAC and Stephen Juge, Director B and member of the Management Board agreed by mutual consent not to renew the contract of Stephen Juge. Effective April 15, 2010, Stephen Juge will resign from office. Accordingly, Stephen Juge will not be available for re-election as Director B and member of the Management Board at SMARTRAC's Annual General Meeting of Shareholders on May 12, 2010.

Financial statements 2009

The Annual General Meeting of Shareholders will be asked on May 12, 2010 to adopt the financial statements of SMARTRAC for the financial year 2009, as prepared by the Management Board and discussed and approved by the Supervisory Board in its meeting of March 12, 2010. The consolidated and the company financial statements on pages 90 to 167 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 168 and 169.

We recommend that the Annual General Meeting of Shareholders adopt the 2009 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 all our employees for their dedication and hard work for the company in 2009. Equally we would also like to thank our partners and customers for their support and their commitment to SMARTRAC as well.

Amsterdam, March 12, 2010

Prof. Dr. Bernd Fahrholz
Wolfgang Huppenbauer
Jan C. Lobbezoo

Group Executive Team

The 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. In 2009, it comprises all three members of SMARTRAC Management Board and three 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 coordination and allocation of company resources.

SMARTRAC and Stephen Juge, Director B and Member of the Management Board agreed by mutual consent not to renew the contract of Stephen Juge. Effective April 15, 2010, Stephen Juge will resign from office. Accordingly, Stephen Juge will not be available for re-election as Director B and Member of the Management Board at SMARTRAC's Annual General Meeting of Shareholders on May 12, 2010.

Subsequent to the reporting period, SMARTRAC and Franz Vollmann, member of the Group Executive Team, agreed by mutual consent on the termination of Franz Vollmann's employment contract. Franz Vollmann, who took over the position as Group Chief Operating Officer in February 2008, will leave SMARTRAC as of March 31, 2010. Until a successor has been appointed, Manfred Rietzler, CTO, and Christian Uhl, Group CFO, will take over responsibility for SMARTRAC's operations.

SMARTRAC Group Executive Team

MANFRED RIETZLER

Member of the Management Board

Chief Technical Officer (CTO)

DR. CHRISTIAN FISCHER

Chairman of the Management Board

Chief Executive Officer (CEO)

CHRISTIAN UHL

Member of the Group Executive Team

Group Chief Financial Officer (CFO)

WOLFGANG SCHNEIDER

Member of the Group Executive Team

Head of Business Unit Cards

Effective on 1 July 2007, Dr. Christian Fischer took over the 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 has a doctorate in financial economics from the University of Hohenheim in Stuttgart, Germany. He is married with two children.

Dr. Christian Fischer (41), Chairman of the Management Board, Chief Executive Officer (CEO)

Review 2009

2009 was a challenging year but, in total, a successful year for SMARTRAC. We had to face the deepest recession in post-war history, but our dedicated strategy and positioning turned out to be correct in such an economic environment. SMARTRAC at the end of 2009 is a more diversified and more established company, equipped with a strong financial base. A company able to surmount the crisis.

The implementation of the business unit structure was an important strategic step to improve our organizational set-up. With this structure we are able to address the specific requirements of our customers and to focus on the dynamics of various markets.

The asset transaction with OTI/MCT further strengthens our worldwide market position. More importantly, we eliminated uncertainty for our worldwide customer base.

Finally, we were able to improve our margin during the course of 2009. We are back on the path of profitable growth.

Outlook 2010

2010 will be about growth and excellence. It is our aim to deliver profitable growth by strengthening our market position in existing and new markets and applications. We are convinced that we are well positioned to turn the immanent growth potentials of the global RFID market into profitable business.

The selection of SMARTRAC as supplier of eCovers by De La Rue Identity Systems for certain ongoing contracts is a first milestone. It significantly increases our market share in high-security governmental applications and will contribute to our financial figures in the years to come.

On the other hand, we will continue to advance SMARTRAC's operational excellence. We initiated programs to improve our processes, our workflow and our efficiency. We will work hard to lead the underperforming businesses to a profitable future.

We expect to deliver a financial performance along the path of profitable growth.

Effective on July 1, 2007, Manfred Rietzler took over the newly created position as Chief Technical Officer (CTO) of SMARTRAC. Manfred Rietzler joined SMARTRAC TECHNOLOGY Limited (Thailand) as a major shareholder in 2001 and was Chief Executive Officer from 2003 until June 2007. Since January 2006, Manfred Rietzler has been a member of the Management Board of the company. He holds a degree in electrical engineering from the Technical University of Munich and has specialized in electrical engineering and automated production technologies. He is an expert in RFID technology, semiconductor packaging, SmartCard technologies and transponder applications. Manfred Rietzler is married with two children. Manfred Rietzler holds an interest of 18.05 percent in SMARTRAC.

Manfred Rietzler (48), Member of the Management Board, Chief Technical Officer (CTO)

Review 2009

Our business case demonstrated its strength in 2009. Despite the challenging economic environment SMARTRAC achieved sales growth and we successfully broadened our product and technology portfolio.

Our research and development team addressed our customers' needs and provided solutions to drive the RFID market. To mention two examples, we started the volume production in the area of Tickets & Labels with our innovative ChipLink™ technology and we concluded first projects with ultra-high frequency (UHF) transponders. In 2009, our research and development activities resulted in the filing of several new patents.

As the leading developer, manufacturer and supplier of RFID transponders, we accept the responsibility in our industry. Therefore, we started a project to develop biodegradable RFID tags with universities in Thailand. Taking a leading role in their development will provide the opportunity to set standards for a "green RFID" in the future.

Outlook 2010

Industry experts and market research confirm the growth perspective for the global RFID market. SMARTRAC as a leading player will participate in this potential. But we also intend to improve our company performance and efficiency as a result of lean projects started in 2009.

Our dedicated and committed research and development team will continue to transform challenges into prime quality products and customized solutions. We are positioned to drive and respond quickly to market developments to seize opportunities in 2010.

A major challenge in 2010 is related to our Ticket & Label business. After the ramp-up of our production facility in Malaysia for transponders based on etched antennas, we need to achieve a high volume production utilization continuously to provide a positive financial contribution in the course of 2010.

We are confident of delivering growth and advancing profitability in 2010 to improve the valuation of SMARTRAC and to create shareholder value.

Wolfgang Schneider is co-founder of SMARTRAC and was responsible for the SMARTRAC Group's sales until the end of 2008. He became member of the Group Executive Team with its implementation at the end of 2007. Wolfgang Schneider holds a degree in engineering and studied mechanical engineering at the universities of Konstanz and Aalen. He currently holds the management position as Head of the Business Unit Cards.

Wolfgang Schneider (52), Member of the Group Executive Team

Review 2009

In an uncertain economic environment a trusted relationship to our customers, partners and suppliers was essential to further strengthen SMARTRAC's leading market position in the Industry. SMARTRAC once again proved to be a reliable, flexible, competitive and quality-driven partner.

We had to manage a significant volatility in the utilization of our production network caused by a cautious and less long-term order behavior of the players in the value chain, especially in the first half of 2009. It was a joint effort and great team work to achieve organic growth in 2009.

SMARTRAC successfully broadened its product and technology portfolio in the course of 2009. We provide the largest production capacity for RFID transponders in our industry with a global network of high security production facilities. With acquisition of OTI's/MCT's machinery and inlay production we further strengthened our capacity and market position in the area of wire-embedding and dual interface inlays.

Outlook 2010

The beginning of 2010 has already shown a more forward-looking and less cautionary order behavior of our customers. Therefore, we expect a more balanced utilization of our global facilities with positive effects on efficiency and profitability.

In addition to the increased production capacity, we will take the opportunities resulting from the purchase of the assets from OTI/MCT to strengthen and re-define our relationship with key customers.

We will continue to diversify our customer base and enter into new markets and applications. We are confident of further developing sales in regions such as South America, the United States and Asia.

Our guidance indicates another record-setting year for SMARTRAC. We strongly belief in the commitment of our partners and our excellent and dedicated employees around the world in particular.

Effective April 1, 2008, Christian Uhl took over the management position of the Group Chief Financial Officer (CFO) of SMARTRAC and became member of the Group Executive Team. He joined the company in May 2006 holding the management position of Director Corporate Accounting, Controlling and Finance. Christian Uhl holds a degree in business administration from the University of Bayreuth, Germany. He is married with one child.

Christian Uhl (37), Member of the Group Executive Team, Group Chief Financial Officer (CFO)

Review 2009

Milestones in financial year 2009 were the transactions on the capital markets which strengthened SMARTRAC's financial position significantly. In a difficult financial environment we closed our first transaction in the debt market in securing a EUR 65 million syndicated credit facility. In the equity market we realized EUR 20.9 million by successfully completing a capital increase. Both transactions provide evidence to the strength and growth perspectives of our company.

From an operational point of view, we successfully managed to cope with a significant volatility in all quarters of 2009. The strong months of the third and fourth quarter clearly showed the potential of our company. This and the fact that we improved our margin in the second half is encouraging.

It was a pleasure to partake in intensive discussions with our investors and potential investors. We spent 23 days on the road and organized around 150 individual meetings to discuss the business model and latest developments.

Outlook 2010

Looking into 2010, we are confident of delivering on the growth potential of SMARTRAC. Top-line we expect an increase of at least 10 percent to mark a new record for SMARTRAC. In terms of profitability we anticipate a further improvement on a full year basis. The enhancement in EBITDA will be driven by increasing sales, but even more importantly by improvements in less performing entities.

Another item on the agenda of the management team is to work on processes and organizational structures to further professionalize our company. Leveraging these potentials will make SMARTRAC stronger and less resilient to challenges provided by the economic environment.

We confirm our transparent and direct communication with the capital markets to continue a relationship to our investors based on trust and reliability. We will be available in the financial centers regularly and we are looking forward to talking to our shareholders and potential shareholders.

High security in the world of traveling.

Modern RFID technology redefines traveling worldwide. We are the trusted partner in over 30 e-Passport projects around the world. We are committed to increasing security, reliability and convenience in people's everyday lives.

Company profile

Branding

Vision, values and principles

Technology leadership and strategy

Business units and markets

Research and development

Global network

Employees

SINGAPORE
CANCELLED
Multiple-journey visa for Singapore
Valid till
for Controller of Immigration
Original Date of Issue
7 MAY 2007
DEC 2006
Holder previously travelled
Passport No
17 MAY 2008
Subject to conditions of visa. You must leave N.Z
before expiry of your permit, or face removal.
Immigration Officer
NEW ZEALAND IMMIGRATION ACT 1987
IMMIGRATION
ARRIVED
10 MAY 2009
SYDNEY AIRPORT
AUSTRALIA
01 APR 2006
MALAYSIA
PHILIPPINE
JAN 1
MALAYSIA IMMIGRATION
KOMPLEKS SULTAN ABU BAKAR,
VISIT PASS

Company profile

SMARTRAC is a leading developer, manufacturer and supplier of RFID transponders, dedicated to delivering high-quality, smart and secure products. Being one of only a few pure RFID players in the market, SMARTRAC is the global leader in high-quality RFID inlays for electronic passports (e-Passports) and contactless credit cards (e-Payment).

SMARTRAC also holds a leading position in the production of ready-made as well as customized transponders for public transport, access control, car immobilizers, animal identification, library as well as industry and logistics applications.

What differentiates SMARTRAC from other market participants in the RFID industry is the company's strategic position in the value chain, its innovative power, extensive technology, process and manufacturing expertise over all applications and current frequency standards.

SMARTRAC's highly dedicated and experienced workforce, global research and development, production and sales network, in-house machine-building resources and the single biggest manufacturing capacity in the industry are the pillars of the company's success.

Branding

SMARTRAC holds a strong brand. A brand recognition survey conducted by an independent research institute on behalf of the company in spring 2009 shared that SMARTRAC is not only perceived as a market leader in key segments of the RFID industry but also as a technology leader with a clear strategic focus.

"I like their strategy, their approach. They are growing and growing while others disappear from the market."

Customers especially esteem the company's strength in terms of production capacity and global presence. Further important factors from the customers' point of view are the company's competence, capability, experience and the quality of the product offering which is perceived as amongst the best in the entire RFID industry.

"We are not afraid to offer a ten-year guarantee if we have a SMARTRAC inlay inside. They probably have the best products in the market."

The high quality and technological supremacy of the company's products leads to the fact that the name SMARTRAC is partially being used as an ingredient brand by customers to generate value and build confidence within the value chain.

"I always use the SMARTRAC name in any proposal and we always point on their cutting-edge inlay construction. We consider them as a very important strategic partner."

In terms of customer relationship, business partners describe their relationship to SMARTRAC as very good and comfortable. What contributes to this fact is the straightforward and open manner of the employees, their commitment, passion, reliability as well as the company's sound support.

"They strive to understand our needs and to solve our problems. And you can rely on them."

The brand recognition survey was also the foundation on which the company re-defined its brand strategy and brand architecture. SMARTRAC was defined as an umbrella brand with several subordinate brands such as PRELAM®, ChipLink™ and Durasoft®. As a result of the customer and employee survey, Sokymat Automotive GmbH which was acquired by SMARTRAC in September 2008, was re-named SMARTRAC TECHNOLOGY GERMANY GmbH. The change of name became effective in October 2009.

The established and trusted Sokymat Automotive name will be retained as a product brand for the automotive business in which the subsidiary holds a market-leading position for car immobilizers and has lenghty experience with the particular requirements of the production of RFID components for the automotive industry in terms of security and quality.

Vision, values and principles

As the world's leading manufacturer for RFID transponders, we want to continuously create highest value for our customers, partners, shareholders, employees, the company and the end user.

- **We lead the world market for RFID transponders**
  SMARTRAC's overall focus is to continuously advance and enhance its market position in key segments of the RFID industry. Due to the company's strategic position in the value chain, its strong technology portfolio, manufacturing concept and capacity, SMARTRAC has the right prerequisites to further advance its leading market position. The company has so far grown both organically and through acquisitions, and it will pursue this path in the future as well.

- **We are the leading innovators in RFID and drive technology**
  As a pacesetter in the global RFID industry, SMARTRAC fosters innovation and is continuously improving and enhancing its established product portfolio. Based on a strong and excellent R&D team, SMARTRAC has the capability to permanently evaluate and integrate technical trends and developments worldwide. Once research results make their way to mass production, the company applies highest quality standards and technological excellence in the manufacturing of every single transponder to create prime quality products that perfectly fit customers' needs.

- **We create highest value for our customers and partners**
  SMARTRAC supports its customers in creating value by providing a strong product offering, by applying its leading technologies and manufacturing processes and through continuous innovation. The company's worldwide network is the foundation to serve customers globally, directly and on-site. Reliability, delivery dependability and best customer service at all times combined with excellent products and customized solutions ensure that customer's expectations are not only met but exceeded. Customers and business partners also enjoy the close relationship, the organization's flat hierarchies and short communication lines as well as a working environment that is characterized by professionalism and partnership.

- **We deliver growth and profitability that is above the industry average**
  SMARTRAC strives to constantly grow faster than the market in all fields of business the company is active in. The company has always been characterized by lean structures and aims to constantly increase its efficiency, excellence and profitability in every area. In addition, SMARTRAC intends to achieve returns for its shareholders that are above average.

- **We are a passionate, highly committed team that takes responsibility and ownership**
  Dedicated and highly motivated employees have been decisive for the success of SMARTRAC. The company employs some of the most skilled experts and has the best team in the RFID industry. Appreciating every single employee regardless of his or her position or function, respecting and encouraging cultural diversity among the company's staff ensures that customers benefit from a team that is highly motivated, has a can-do mentality and a pragmatic approach to solving their challenges and needs in an excellent and efficient manner.

- **We drive RFID to add security, convenience and simplicity to everybody's everyday life**
  SMARTRAC's technology and products from an overall perspective also add value to everybody's everyday life. The company manufactures RFID transponders that offer increased security, more reliability, faster transactions and greater convenience. Providing enabling technologies that are invisibly used in numerous applications from event tickets, public transportation cards to car keys and credit cards, the company's products simplify numerous processes in everyday life.

Technology leadership and strategy

SMARTRAC is a highly innovative company. Since its founding in 2000, the company has successfully expanded its product range, technological scope and research and development efforts in order to quickly respond to new trends and provide customers with appropriate products. Today, the company holds more than 200 patents and patent applications for technology, equipment and production of RFID components and related processes. SMARTRAC also has extensive knowledge and experience in processing technologies such as module packaging capabilities, antenna chip connecting technologies and lamination. Thereby, the company has been able to set standards in several fields.

Uniting three main antenna manufacturing technologies under one roof is a clear competitive advantage. What also significantly contributes to the success of SMARTRAC is the extensive process knowledge and experience the company has built up in the course of the years. From packaging the ICs into adequate modules to applying the antenna safely in or on the carrier material to connecting the chip properly to the antenna – excellence, experience, and the right technologies and equipment make the difference between failure and success. The number of products in the RFID market that do not fulfill the strict requirements and quality tests obliged today proves that producing an RFID transponder is a complex process that requires much more than some copper and plastic.

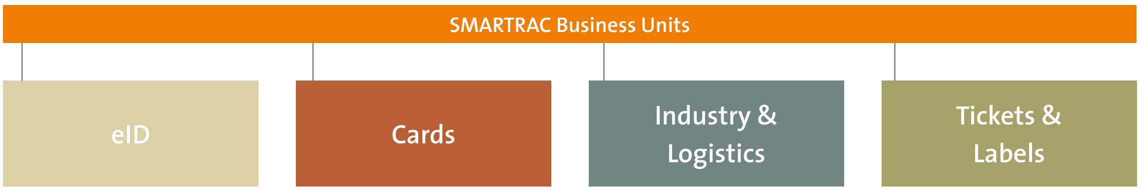
SMARTRAC protects its innovations and intellectual property by numerous activities. As a recognized technology leader, the company today files patents on a case-by-case approach. This strategy is founded in the reason that it is a question of benefit and expense to file patents on a worldwide scale especially for a company that acts in several differing cultural and regulatory areas. Another important aspect is the manufacturing of its main production equipment in-house. In addition to its dedicated machinery manufacturer Xytec, SMARTRAC has established exclusive partnerships with external manufacturers. The company is therefore able to benefit from advanced, cost-effective and proprietary machines for transponder production and related processes while at the same time protecting its intellectual property adequately.

Business units and markets

Effective January 1, 2009, SMARTRAC's business is structured into four business units: eID, Cards, Industry & Logistics and Tickets & Labels. The business unit structure is a lean and 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.

a broader range of identity documents driven by the demand to provide e-services to citizens and to increase efficiency of administrative processes. National eID cards, Pass Cards for border crossing, driver's licenses, health cards, public service cards and government employee ID cards are examples of further documents that have already been issued by authorities or are currently being evaluated in state projects.

Being part of the political process of the respective country, government eID projects undergo several stages. Even if the decision in favor of the introduction of RFID-based documents has been taken, technology deployment is accompanied by long pilot phases necessary to evaluate the complex infrastructure and to several other factors that often lead to time lags with regard to the planned implementation. In the course of the pilot phase, projects might also be cancelled because of financial reasons,



Business Unit eID

The Business Unit eID covers products for electronic identity documents issued by governments such as e-Passports, national eID cards, electronic driver's licenses and electronic Visa.

The eID market

Adoption of RFID technology in the government sector is mainly fueled by the request to enhance national security, reduce identity fraud, prevent illegal immigration and raise overall security standards. Electronic passports to date have accounted for the majority of RFID-based documents issued by governments. But the trend is for

a change in the political system or further interfering factors. Driven by several uncertainties, eID schemes have a project character that significantly reduces visibility for SMARTRAC as a supplier.

Security as top concern

Government-based RFID projects such as e-Passports and national identification cards widely follow international standards to ensure worldwide interoperability and cross-border adoption. Besides technical interoperability security is another major concern with regard to the sensitive information contained within passports.

High-security applications such as electronic passports and national ID cards so far have been spared from cheap goods due to the high-security requirements that governments demand from the suppliers throughout the value chain with good cause. In order to set a clear signal in favor of high-security standards and to secure government highest-ranking ID documents, SMARTRAC as a trusted supplier to this market has invested in the expansion of the existing security level and upgrading of its manufacturing sites into certified high-security production facilities.

In autumn 2009, SMARTRAC obtained a so called "site certificate" for its e-Passport production facility in Thailand from the German Federal Office for Information Security (BSI) which supports product certifications conformant to Part 3 up to the assurance level EAL 5+. The site certificate covers the production environment and processes for the manufacture of documents for personal identification (eID), especially RFID inlays for electronic passports and contactless national ID cards. It also includes the initialization environment for eID documents with SMARTRAC being the first RFID inlay manufacturer obtaining security certification for both capabilities.

SMARTRAC already runs a network of high-security production facilities in Asia, Europe and the U.S. which comply with different security standards. The company is also planning to equip further production facilities with site certificates and increase the certification grade of existing ones.

Evaluation Assurance Level (EAL) 5+ is the highest ranking international security standard applicable for the manufacture of RFID-based identity documents and is mutually recognized by commercial organizations and government bodies globally. The security certification is not only a proof of the company's security leadership for RFID-based eID inlays. Customers throughout the value chain benefit from increased flexibility and cost savings as they are now able to include the SMARTRAC certificate in their own product certificates at little or no additional cost and effort. As SMARTRAC will continue maintenance of the certificate, customers also benefit from a future-proof and flexible security commitment that covers upcoming products and product changes.

One of the first products that have been certified according to the highest e-Passport security standard based on SMARTRAC's certificate was TeleSec Chipcard Operating System (TCOS). In November, only a few weeks after BSI awarded SMARTRAC the site certificate, the company's EAL 5+ site certificate has been used as a basis for the re-certification of T-System's operating system and deployed as the operating system of a new e-Passport project in Europe.

Projects and milestones 2009

In 2009 SMARTRAC had to cope with a reduced demand for high security e-Passport inlays in the U.S. e-Passport project due to the world economic crisis. Nevertheless, the Business Unit eID was able to win several new projects in 2009. Due to the sensitivity of e-Passport projects and bound by Non-Disclosure Agreements (NDA) SMARTRAC is not able to give further particulars on the business partners and countries to which the respective volumes cater to. SMARTRAC currently supplies RFID inlays to more than 30 e-Passport projects worldwide.

While serving the existing demand for high-quality e-Passport inlays on a consistent level and expanding supply to additional countries, SMARTRAC will be able to derive further growth in the eID segment from the introduction of further security documents such as national eID cards, electronic driver's licenses, health cards, government employee ID cards, electronic Visas and further electronic identity documents.

Business Unit Cards

The Business Unit Cards comprises card inlays for transport, access, e-Payment and active card applications and caters to card manufacturers. As a leading manufacturer of inlays for contactless smart cards SMARTRAC to date has delivered more than 1 billion transponders to card manufacturers worldwide.

The e-Payment market

Contactless payment has seen a stable development in 2009. What contributes to the continued enrollment of contactless payment projects are user convenience on the one hand and the highly attractive small transaction business for banks and credit card companies on the other.

SMARTRAC works with the major players in the e-Payment market to offer the best solutions for contactless payment. Being a certified manufacturer for all major credit card companies, SMARTRAC has been able to benefit from the growing contactless payment market. Due to its high-quality products and flexible product range, the company is set to further participate in this growth market and enlarge its customer base on an international scale.

What also contributes to SMARTRAC's leading position in the e-Payment market is the company's ability to serve two different approaches: pure contactless payment applications as well as dual-interface applications combining a contact-based and a contactless function on one single card.

In addition, SMARTRAC has launched Shieldlam, a composite PRELAM® product with integrated shielding material that enables contactless data transmission for everyday items. The product was introduced to the market in spring 2009 and since then has received great interest.

SMARTRAC Shieldlam products are attachable to mobile phones and a broad range of other everyday items. The products with integrated shielding material allow the convenience of contactless data transmission in the presence of metal and other materials that normally interfere with RF reception. The products are not only suited for e-Payment applications but also for access control and public transportation applications. In addition, they can be customized and are available in various form factors. This makes them a flexible, convenient and secure solution.

SMARTRAC Composite PRELAM® products are made of PVC and manufactured with the company's proprietary patented wire-embedding technology. They fulfill the highest requirements regarding reliability, durability and mechanical robustness. The proprietary integrated shielding material allows the tag to function normally even when mounted on conductive materials such as mobile telephone batteries and metallic housings.

Although growth slowed down in 2009 due to the world economic situation and banks being preoccupied with the consequences of the financial crisis rather than introducing a new technology, the e-Payment market continues to be a promising segment. In the United States for example, only three of the major banks have already introduced contactless payment nationwide. With the technology becoming more and more convenient for end users further banks will follow.

In the European and South American markets adoption of e-Payment made further progress but is far beyond the expected level. As soon as the last challenges of the financial crisis have been solved, further progress is expected. Especially the Middle and South American markets offer promising growth perspectives as these countries have had to struggle with severe security problems in the banking and credit card sector in the last few years. Adoption of a new banking standard and migration to the new chip card technology is expected to restore customer confidence and increase the overall security level for banking applications.

The public transport market

In 2009 RFID was introduced to several new public transport projects although the economic crisis also led to projects being delayed or postponed. In addition, public transport applications usually have long pilot phases prior to deployment due to the required infrastructure. RFID-based public transport trials can easily last up to two years before roll-out and implementation of the system.

Nevertheless, contactless RFID cards for large metro systems and other traffic systems offer numerous benefits compared to conventional contact-based tickets. As the ticket validation is carried out without direct contact to a reader, public transportation organizations are able to realize cost savings through reduced maintenance efforts for mechanically heavily stressed equipment in conventional, contact-based mass transportation systems. Furthermore, the ticket validation process is much quicker than manual stamping, thus reducing queues and offering a convenient entry process for passengers.

SMARTRAC serves the public transport market with two approaches: RFID inlays for contactless smart cards and RFID inlays for public transport tickets. Thereby the company is able to serve sophisticated applications as well as limited-use tickets equally and derive growth from both application fields. In addition, SMARTRAC is in the position to support several chip technology platforms, thus being able to serve customers worldwide with varying data storage and security requirements.

RFID-based public transit projects are already quite common in the Asia-Pacific region. In addition, interoperability enables use of multipurpose cards combining e-Payment, public transport and loyalty applications on one single card. Small value payments are already enabled in several projects.

In Europe and the Middle East several new projects have been launched to provide travelers with a fast, convenient and secure solution. The North American public transport market is also gaining momentum with large trials aimed at combining payment with public transport solutions and thereby enabling travelers to use a variety of contactless payment cards for paying public transport fares. The South American market also developed favorably in 2009 and offers further growth potential for SMARTRAC's card inlay business.

The access control market

Access control applications in 2009 not only witnessed growth in the corporate sector but also from the education system. Several universities in Europe, North and South America introduced RFID-based student campus cards for access control purposes. Despite the uncertainty of the global markets corporations worldwide introduced advanced smart card-based access control solutions. Contactless access control solutions which combine user convenience with high-security standards such as biometric features have been able to displace the classical pass codes in several industries.

Further growth in this sector is expected from government authorities as well as from large corporations enhancing their security standards for access control.

Projects and milestones 2009

In 2009 the SMARTRAC Business Unit Cards successfully extended its smart card transponder product portfolio. In April the company introduced UHF PRELAM® to the market. The new product is geared to satisfy the growing demand for RFID transponders with long read range in an easy to handle but yet compact card format.

The standard ISO card-sized products are suited for applications such as access control, parking control and border crossing. Available in PVC, Polycarbonate and PET-G and with several EPC Class-1 Gen-2 chips, the UHF PRELAM® products offer global compatibility and conformance to the ISO-18000-6C standards.

Manufactured with SMARTRAC's proprietary patented wire-embedding technology SMARTRAC UHF PRELAM® products fulfill the highest requirements regarding reliability, durability and mechanical robustness and are designed for the particular requirements of card specifications.

In June, the company broadened its product portfolio with Dual Frequency PRELAM® products. The pre-laminated inlays are available in various hybrid combinations of LF, HF and UHF frequencies and accommodate the growing demand for RFID transponders with diverse read range requirements.

SMARTRAC Dual Frequency PRELAM® products are suited for applications such as access control, electronic payment, automated fare collection, border crossing as well as for multipurpose applications in the standard card format.

In 2009, SMARTRAC also joined Smart Card Alliance, a non-profit, multi-industry association and the leading voice in the North American smart card industry. Being the world's largest smart card industry association, the Smart Card Alliance has played a major role in driving the development and deployment of smart cards.

As a leading manufacturer of inlays for contactless smart cards and in order to participate in the further development of the market and to contribute to the thought leadership provided by the Smart Card Alliance, SMARTRAC has become a member of this renowned industry association.

Another milestone in 2009 for SMARTRAC as a company and for the Business Unit Cards in particular was the acquisition of OTI's and MCT's inlay manufacturing assets and IP. This acquisition further strengthens SMARTRAC's leadership position in the global RFID inlay market by offering an even wider range of products by adding OTI's production and machinery to its manufacturing capacity.

Business Unit Industry & Logistics

Sokymat Automotive GmbH which has been part of the SMARTRAC TECHNOLOGY Group since September 2008 and which was renamed to SMARTRAC TECHNOLOGY GERMANY GmbH in autumn 2009 is the platform on which the Business Unit Industry & Logistics has been accelerated. It covers RFID tags for fields of application such as automotive, animal identification, logistics, industry, laundry, medical and entryID.

As a further step on the way to full integration of the business of the former Sokymat Automotive GmbH into the SMARTRAC TECHNOLOGY GROUP, the company adjusted its product portfolio in spring 2009. The product realignment was also based on the strategic reasoning to further elaborate synergies as both companies in parts offered similar products, for example for the animal identification market, for industry and logistics applications and for entryID.

The automotive market

In the first half-year 2009, the business unit had to cope with a severe decline in sales in the automotive product line. But the business recovered in the course of the year and so did the sales and volumes delivered for car immobilizers, remote controls and passive keyless car systems to various leading car manufacturers in Europe, Asia and the Americas.

In addition to its leading position in the existing automotive applications, the business unit will be able to further expand its business to further automotive applications, such as vehicle parts tagging, and derive further growth from additional RFID projects continuously launched in the automotive market.

The animal identification market

National cattle tracking systems are on the verge of being implemented in several countries, with RFID in most cases being the technology of choice to track and trace individual animals and ensure integrity of the food chain as a whole. In addition, animal identification with RFID provides farmers throughout the world with convenient, reliable and cost-effective solutions for livestock identification and optimization of farm management as it helps farmers track feeding, medication and the recovery process of individual animals.

SMARTRAC offers RFID earmarks as well as glass tags for injection. Accordingly, the company is able to serve both the livestock and the pet markets. In 2009 the first regulations became effective and SMARTRAC was able to benefit from the growing demand. Besides the pet and livestock market the business unit also won projects for tagging of pigeons and fisheries.

With further regulation coming into effect, the animal identification market offers huge growth perspectives. Supporting both FDX and HDX technology for livestock identification and offering a broad range of additional technologies and products, the company is confident of benefiting from further growth in this market segment.

Industry and logistics applications

Several companies in the industry and logistics sector have already implemented RFID or are looking into the introduction of this smart technology to ease product tracking, optimize the flow of commodities and inventory management, prevent product counterfeiting, improve their processes and realize gains in efficiency.

SMARTRAC offers transponders for the industry and logistics sector that are suited for use in harsh environments as well as for highly sensitive areas such as the medical sector. Being able to offer customized solutions as well as standard products, SMARTRAC has been able to enlarge its market share in this vast growing market segment. Although the market was affected by delayed projects due to the global economic crisis, the second half-year developed favorably and SMARTRAC was able to win further orders in the laundry, waste management, medical identification and factory automation segments.

With a broad product range and the capability to adapt the transponder and its housing to customer-specific demands, SMARTRAC is well positioned to participate in the further growth in this application fields.

entryID applications

Smart RFID devices that are suited to secure access to buildings or rooms and offer convenience for payment, loyalty and public transport are becoming more and more popular. SMARTRAC offers a bandwidth of form factors such as key fobs, iCap tags, ISO and clamshell cards for entryID applications which combine an easy-to-handle form factor with advanced security requirements. Additional services such as logo print, serial number and optional initialization provide customers with a reliable and flexible solution.

Customizable design, high impact resistance as well as a variety of shapes and form factors that amongst others can be appended to the bunch of keys or attached to objects and surfaces are factors that contribute highly to the success of entryID applications. In 2009, SMARTRAC has been able to win additional contracts in this application field. With the business unit's particular capabilities in molding and embedding of transponders in specific housings, SMARTRAC has the right prerequisites to further grow in this area.

Projects and milestones 2009

In August 2009 SMARTRAC announced the availability of SmartFlexibleTag, an RFID transponder specifically designed to meet the demanding requirements of flat linen applications. The UHF transponder features a silicone coating turning it into a robust and at the same time flexible solution. The tag is specifically suited for use in textile cleaning and laundry where the RFID transponder is exposed to temperatures of up to 180 °C, high pressure and aggressive chemicals. The tag determines accurate measurement data despite the harsh environment. SMARTRAC SmartFlexibleTag allows for accurate tracking and identification of the laundry pieces. The benefits are a considerable contribution to the reduction of mistakes in order processing and stock-taking resulting in increased efficiency. Equipped with an integrated anti-collision algorithm, simultaneous reading of closely stacked garments is feasible even over a distance of several meters.

In September 2009 the company broadened its industry and logistics product portfolio with the passive UHF transponder SmartRuggedizedTag. Due to its long read range, the product is particularly suited for the tracking of assets in the value chain such as pallets, containers and vehicles. The robust polycarbonate housing protects the RFID inlay reliably against outside influences such as dirt and water. Thereby, the transponder provides full functionality even in harsh industrial environments and logistics applications.

In December 2009, the company introduced SmartTopTag to the market. The new Tough Operation Performance (T.O.P.) disc transponder is now also available in High Frequency (13.56 MHz) compliant to the ISO 15693 standard. The robust transponder accommodates the growing demand for RFID transponders with a good balance between read range and robustness for use in harsh environments. SmartTopTag is well suited for industrial applications where resistance to chemicals, shock and temperature change are crucial such as logistics and warehouse management. Applicable to metal applications and coming with a universal hole for use with countersunk as well as pan-head screws, the transponder is ideally suited for tracking and tracing of pallets, kegs, containers and vehicles as well as for tool identification, process control and waste management.

All of the new products were well received by the market and will contribute to further growth in the industry and logistics market segments. In addition, the business unit hired additional personnel for its business development department to further expand its existing business as well as develop into new fields. Growth was also backed up by the installation of new production machinery at the site in Reichshof-Wehnrath.

RFID transponder production for the Business Unit Industry & Logistics at the site in Thailand was reorganized in 2009. The production equipment was relocated to a new facility to gain additional space for the expansion of the machinery as well as for the installation of new manufacturing equipment to start volume production of new products in the animal identification, entryID, and industry and logistics segments.

Business Unit Tickets & Labels

The Business Unit Tickets & Labels 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, vehicle identification and toll applications.

The library market

Adoption of RFID in libraries has seen stable growth in 2009. Driven by the necessity to gain in efficiency while budgets are being curtailed, public libraries worldwide have started to introduce RFID as this smart technology combines the benefits of process acceleration with reliable theft protection. It is expected that introduction of RFID is suited to reduce manual processes in libraries by up to 50 percent, thus giving employees the possibility to focus on administrative tasks and customer service. SMARTRAC offers a full range of RFID products for the RFID library and media management market for various media such as books, CDs and DVDs. The offering of additional services for the library market also includes printing and programming, custom delivery formats as well as logistics using local service centers.

The ticketing market

The adoption of contactless entry systems in public transport is growing not only for high-quality access cards. Public carriers increasingly seek to improve their systems with comprehensive solutions that cover the entire range of tickets used. RFID tickets for mass transportation offer numerous benefits over conventional contact-based tickets. As the ticket validation is carried out without direct contact to a reader, public transportation organizations are able to realize cost savings through reduced maintenance efforts. In addition, the automated ticket validation process is much faster than manual validation processes, reducing queues and offering a fast and convenient entry for passengers.

In order to support a fast and efficient manufacturing process for the ticketing market, SMARTRAC has developed ChipLink™, one of the most innovative assembly processes on the market which lowers assembly costs significantly. 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 converting of the RFID ticket inlay.

In 2009, SMARTRAC was able to win several new projects catering to the ticketing market such as the ticketing projects in Seville, Spain, and Riga, Latvia for which SMARTRAC has been selected as the supplier of contactless RFID tickets. With more and more public transportation organizations worldwide seeking to improve efficiency and convenience and with its innovative technology and manufacturing concept, SMARTRAC has the right prerequisites to further expand its market share in the ticketing market.

The vehicle identification and toll application market

RFID technology is being increasingly used in vehicle and toll applications driven by governments seeking to facilitate tax and toll deduction. Comparable to other government applications, vehicle identification and toll applications also face long pilot phases prior to deployment due to the required infrastructure.

SMARTRAC offers passive windshield labels featuring UV protection and possessing several security features to ensure that the vehicle data is only accessible by authorized readers. The company's windshield labels are manufactured using cutting-edge transponder assembly technologies, while applying a very strict and integrated quality assurance program. Thereby, the company's products create a wealth of business opportunities in national, regional and local vehicle identification, parking and toll application projects.

Further growth opportunities from additional tickets and labels market segments

In addition to the market segments outlined above, the Business Unit Tickets & Labels offers a range of products to serve additional market segments with standard and customized products such as item level tagging of drugs for pharmaceutical applications, airline luggage or tagging of apparel. What will also contribute to the company's success in this area is the close collaboration with IC manufacturers to provide first-class RFID transponders in HF and UHF frequencies.

Projects and milestones 2009

Ramp-up of the factory and technology transfer to Malaysia is well underway. Despite its organizational challenges, the Business Unit Tickets & Labels was able to further expand its market share in the market segments ticketing, libraries and vehicle and toll applications.

In 2009, SMARTRAC was able to announce the winning of several new projects. In November, the company was awarded a contract to supply 30 million RFID labels into the library segment over the next twelve months from a large system integrator and key player in the market segment. Further large project wins that the company was able to announce in 2009 were the ticketing projects in Seville, Spain, and Riga, Latvia, where the company has been selected as the supplier of contactless RFID inlays.

A major contract for the vehicle identification and toll application market that SMARTRAC was able to announce in 2009 was the winning of the technology partnership for the Philippines traffic management project. This project is one of the first country-wide implementations of RFID technology for traffic management in the world.

The RFID traffic management system developed for the Philippines offers far lower system deployment and maintenance costs than previous generations of active and passive RFID technologies. As such the system serves as a reference model many countries, not least in the Asia-Pacific and Latin American markets, might follow.

Research and development

As of December 31, 2009 the Group employed some 100 highly skilled development experts. With research and development competence centers and prototyping facilities in Asia, Europe and the U.S. SMARTRAC has set the prerequisites to directly transform technically mature innovations into volume production on a global basis.

The ability of the company's research and development teams to create cutting-edge products and solutions and continuously enhance the strong product offering is an important competitive factor. SMARTRAC is continuously improving and enhancing its product portfolio.

In terms of frequencies, SMARTRAC has extensive experience in the manufacturing of HF and LF products and has successfully expanded its product portfolio to UHF transponders. Today, the company offers product in all current frequency standards.

Research project on biodegradable production materials

The focus in 2009 was to broaden the range of transponders in order to prepare the entry into new application areas. In addition, the company has launched a research project on biodegradable production materials as RFID components are increasingly becoming part of everyday life.

As the leading RFID transponder manufacturer with the largest single production capacity in the industry SMARTRAC strives to also take a leading role with regard to the implementation of biodegradable production materials. The company's target is to prepare itself for the time when RFID transponders will be embedded into more or less any consumer product.

In addition, SMARTRAC's research and development teams also developed new products for the four business units. For the cards market, SMARTRAC Shieldlam, UHF PRELAM® and Dual Frequency PRELAM® have been developed and introduced to the market. To serve the specific requirements of industry and logistics applications, new processes have been invented and products such as the SmartRuggedizedTag and SmartTopTag for industry and SmartFlexibleTag for laundry applications have been launched. Research and development for the Business Unit Tickets & Labels led to the further improvement of processes and manufacturing technologies. ChipLink™, one of the most innovative assembly processes on the market, was one of the most significant results thereof.

Besides an innovative spirit, the company's technological expertise, flexible ability to quickly transform innovation into volume production, and its close collaboration with the most important RFID IC manufacturers is another important success factor. SMARTRAC is not only able to process chips from all renowned RFID IC manufacturers, the company is also able to consider the latest specifications in the product design even before new chip ICs are launched.

As the fields of applications for RFID constantly broaden, SMARTRAC's product range will also increase to meet the demand. Over the past years, SMARTRAC has also expanded its business from a geographical perspective. Based on a global research and development, production and sales network, SMARTRAC has all the prerequisites to enlarge its market penetration in the global RFID market.

Your global partner.

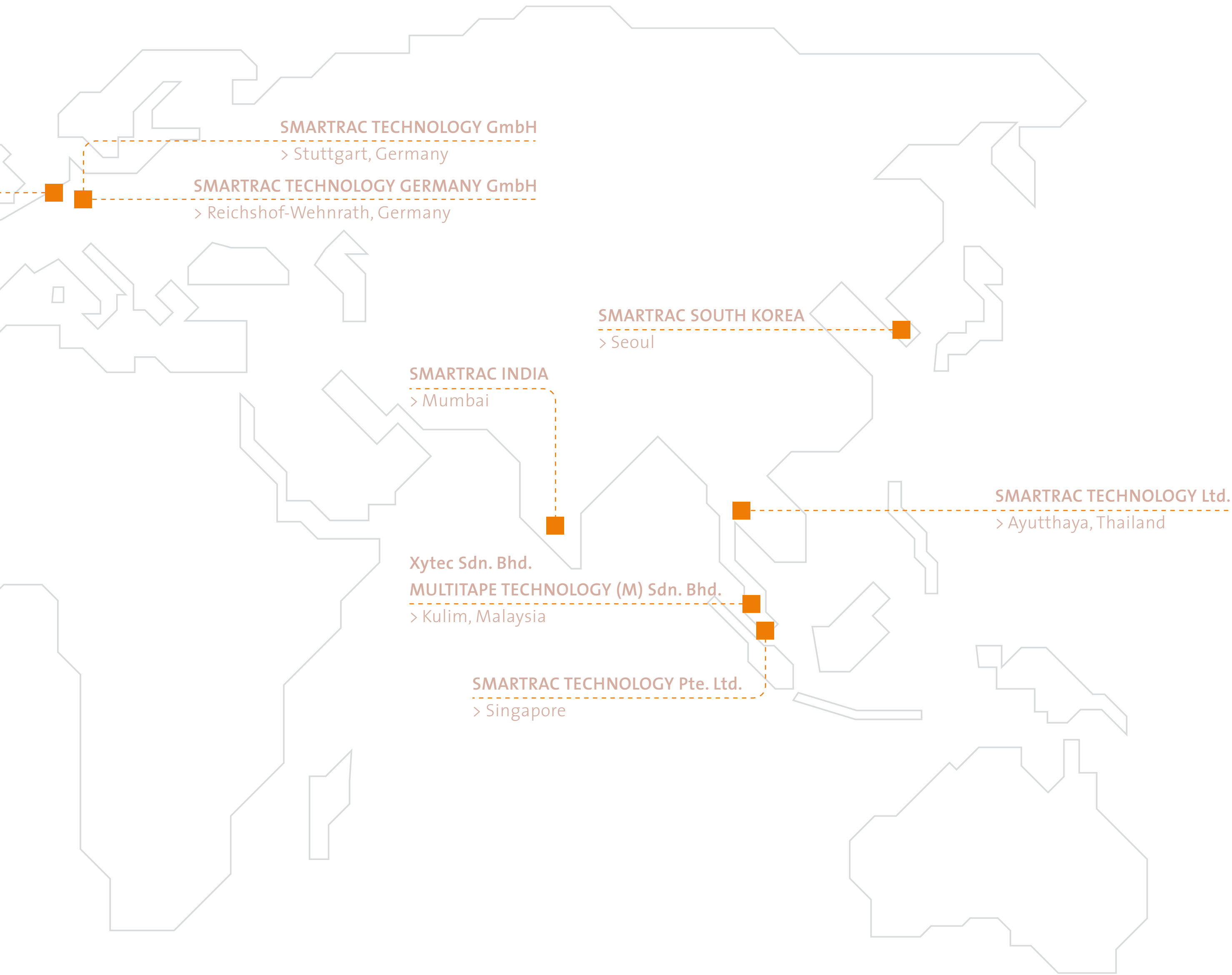
2000
Foundation of SMARTRAC TECHNOLOGY Ltd. by Richard Bird.

2001/2002
Manfred Rietzler and Wolfgang Schneider join SMARTRAC as shareholders. Mass production of RFID inlays began in Thailand. New factory opened in Ayutthaya, Thailand.

2004
Start of proprietary chip module production. Official opening of second production facility in Thailand.

2005
Acquisition of e-Passport activities of multitape GmbH. Founding of Xytec Solutions. Official opening of third production facility in Thailand.

2006
Official opening of SMARTRAC European sales office.
SMARTRAC becomes the world's largest supplier of RFID inlays for electronic passports.
Initial public offering (IPO), SMARTRAC shares first listed on the Frankfurt Stock Exchange.



2007

Official opening of fourth production facility in Thailand.
SMARTRAC N.V. acquires multitape GmbH.
Local production of RFID components in Brazil started.
SMARTRAC N.V. acquires HEI Inc.'s RFID division in the U.S.
SMARTRAC opens sales office in South Korea.

2008

SMARTRAC N.V. takes full ownership of Xytec Solutions Sdn. Bhd. Malaysia.
SMARTRAC acquires Sokymat Automotive GmbH.

2009

SMARTRAC implements a business unit structure.
Opening of fifth facility in Thailand.
Completion of EAL5+ certification process.
Sokymat Automotive GmbH changes its name to SMARTRAC TECHNOLOGY GERMANY GmbH.
SMARTRAC acquires assets and IP of On Track Innovations Ltd (OTI) and its subsidiary Millennium Card's Technology Ltd. (MCT).

Global network

SMARTRAC serves a global customer base in a steadily growing market. The implementation of a proper organization supported by efficient tools and the right network of partners has enabled SMARTRAC to consistently supply significant volumes of high-quality and reliable inlays with competitive lead times that meet the committed delivery schedules. SMARTRAC is known for consistently delivering on time and at the level of quality the market expects. This is something customers rank as a top asset of SMARTRAC and will support further growth on a global scale.

Since 2009, all of SMARTRAC's production facilities are ISO 9001:2000 certified. In addition, the company is steadily enhancing the security certification level of its production facilities for high-security eID documents and achieved several milestones in 2009.

The four factories in Ayutthaya, Thailand, are also certified to the ISO 14001 standard. ISO 14001 is the most important standard in the range of environmental management throughout the world. It comprises guidelines on how to continuously improve the environmental records of companies and organizations and addresses producers as well as service providers. By taking this internationally renowned environmental standard as its guideline, the company has committed itself to a production concept that guarantees economic manufacturing with minimal ecological impact.

With a total of ten factories on four continents, of which three are high-security facilities, the group is able to competitively address global projects by providing the best service and solutions to its customers. SMARTRAC maintains production facilities in Brazil, Germany, Malaysia, Thailand and the USA.

Brazil

Adoption of RFID technology is gaining momentum in the Latin-American market. Especially in the market segments public transport and access control deployment of smart cards has seen vast growth in recent years with the metro in São Paulo being one of the most prominent examples for the implementation of RFID technology.

SMARTRAC's local production facility in Manaus, in the Amazon state, offers a comprehensive product range of standard and customized RFID transponders for various industries. In order to support further adoption of RFID in the region, SMARTRAC Brazil launched a new customer support service in 2009. The support service is designed to provide guidance to card manufacturers intending to migrate from magnetic stripe cards to contactless technology. As there is still a lot of uncertainty in the industry when it comes to RFID cards, SMARTRAC will define the required equipment and production processes necessary for issuing RFID cards in close collaboration with the customer.

SMARTRAC Brazil in 2009 also joined Associação Brasileira das Empresas de Tecnologia em Identificação Digital (ABRID), the leading Latin-American industry association dedicated to smart cards, digital and biometric identification. ABRID was founded in September 2007 and intends to advance the dialogue between its members as well as with government, federal and municipal authorities. Being a member of ABRID will provide SMARTRAC Brazil with a platform to continue close collaboration with the leading market players in Middle and South America and to contribute to the thought leadership provided by the industry association.

In addition, the facility in Manaus successfully completed ISO 9001:2008 certification for production and sales of smart card inlays and animal identification tags.

Germany

In autumn 2009 Sokymat Automotive GmbH, Reichshof-Wehnrath, changed its name to SMARTRAC TECHNOLOGY GERMANY GmbH. The established and trusted name Sokymat Automotive will be retained as product brand for the automotive business in which the subsidiary holds a market leading position for car immobilizers and has long-lived experience with the particular requirements of the production of RFID components for the automotive industry in terms of security and quality.

Production of transponders for car immobilizers and automotive applications will also in the future continue to be carried out in the company's flexible and fully automated production lines in Wehnrath. The site is specifically suited to meet the stringent requirements for production of RFID transponders for the automotive sector. In June 2009, certification of the production facility according to the automotive standard TS 16949 was completed.

In order to support further growth in the industry and logistics segment, production of glass transponders as well as the molding capacity was continuously enlarged in the course of 2009.

In addition, SMARTRAC laid the foundation stone for a high-security eID inlay production site in Reichshof-Wehnrath. Work on the enlargement of the existing production facility started in November 2009. The site is being enlarged to accommodate a production environment for the manufacture of highly secure RFID inlays for electronic identification (eID) documents such as passports and national ID cards. To this end, the company plans to set up a high-security environment compliant with the EAL 5+ security standard, comparable to what is already in place in its high-security facility in Thailand.

With the enlargement of the existing production facility, the company intends to exploit synergies and turn the location in Reichshof-Wehnrath into a European competence center. Further benefits arise from the competencies and depth of experience of the employees on site with the specific requirements of the production of security-critical RFID transponders for the automotive industry.

In addition, the Group's corporate service center is located in Stuttgart, Germany, as Europe is the ideal location for group-wide communication across different time zones.

Malaysia

Further progress in the building up of the production facility as well as in the technology transfer from Germany to Malaysia were made in 2009. In addition, several new processes and products were developed that have been successfully utilized for product development and projects.

In addition, the group's in-house machinery-building subsidiary Xytec was able to enhance its position as machine-building centre for SMARTRAC TECHNOLOGY GROUP. With the advancement of existing machine concepts, development of new processes and construction of numerous new machines for subsidiaries around the world, the team made an important contribution to SMARTRAC's technology leadership and manufacturing capacity.

Expansion of production location Thailand

In March 2009, SMARTRAC opened its fifth building in Thailand. Located close to the existing production facilities in Ayutthaya, near Bangkok, the new building provides additional space for further growth and expansion. The supplementary building is currently being used for the optimization of the logistics area and provides additional space for purchasing and inventory management.

The additional site is also a commitment to the production location Thailand. The industrial estate in Ayutthaya offers ideal conditions for the company to conduct its business. Close to renowned universities, it enables the company to easily find highly skilled employees. Close to Bangkok, it also offers favorable preconditions in terms of infrastructure.

United States of America

In 2009, SMARTRAC completed the build-up of its factory in Chanhassen, Minnesota, and started volume production of secure RFID components. Several million RFID inlays have already been produced in the company's certified high-security production facility. Significant production quantities thereof have been delivered for Government applications.

The site in the U.S. has been qualified by the governmental authorities for the high-security production of RFID inlays and is thus an integral part of the company's network of high-security production facilities that covers Asia, Europe and America.

Employees

The total number of employees of the SMARTRAC TECHNOLOGY GROUP was 2,734 at the end of 2009 compared to 2,786 at the end of 2008 with around 20 nationalities worldwide. SMARTRAC expects a roughly similar level of employees in the current year 2010.

The decrease of 1.8 percent in 2009 is mainly attributable to the company's continuous efforts to further improve efficiency of its production network. Approximately 95 percent (including subcontracted employees) were employed in the global production facilities, but predominantly in the factories in Ayutthaya, Thailand. Accordingly, 84 percent of our employees work in Asia, 9 percent in America (North/South) and 6 percent in Europe.
The strongest age group is represented by employees between 21 and 35 years of age. From a gender perspective SMARTRAC is proud to employ almost as many men as women.

Maintaining a high standard of technical knowledge, assuring high-quality production processes, and safety in the workplace are major priorities for SMARTRAC. For this reason we have emphasized management training and extended our human resources development program with specific technical, quality, security and language training in our global network.

SMARTRAC employees: outstanding spirit, dedication and commitment

Aluminum is the most common metal of our earth's crust.

We use it to produce aluminum etched RFID antennas in high volumes. Together with our innovative ChipLink™ assembly process we provide a fast and cost-efficient process to serve high-volume projects in public transport and media management. Making life easier, more convenient and more secure.

The share

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Key Share Data	
ISIN (International Securities Identification Number)	NL 0000186633
WKN (German Securities Identification Number)	AOJEHN
Stock abbreviation	SM7
Market segment	Prime Standard of Deutsche Börse
Index data Deutsche Börse (selection)	TecDax, HDAX, DAXsector Technology, DAX International 100, Technology All Share
Designated Sponsor	Sal. Oppenheim jr. & Cie. KGaA
First day of trading	July 20, 2006

The share

Share price development

The performance of SMARTRAC's stock in the first quarter of financial year 2009 was dominated by the effects of the economic downturn and investors' uncertainty over the economic outlook. As a result, the capital markets decreased to bottom out at the end of the first quarter. However, in the three remaining quarters of financial year 2009 the stock markets recovered and the key share indices showed a positive performance for the full year 2009.

The German DAX stock market index finished 2009 with an increase of 24 percent at 5,957 points (XETRA closing). The DAX started 2009 with 4,810 points and recorded its financial year low on March 6, 2009 at 3,666 points and a decrease of 24 percent compared to the start of the reporting period. On December 29, 2009, the DAX reported its financial year high of 6,012 representing a 64 percent increase from its financial year low.

The German technology index TecDAX closed 2009 with an increase of 61 percent at 818 points (XETRA closing). The TecDAX started 2009 at 508 points. The TecDAX recorded its financial year low on March 6, 2009 at 405 points and a decrease of 20 percent compared to the start of the year. The index rallied to 823 points on December 16, 2009 accounting for a performance of 103 percent in relation to its financial year low.

The development of the SMARTRAC share price in general traced the overall market development with a higher volatility. The SMARTRAC share started 2009 at euro 11.75 followed by a disproportionate decline in the first quarter to bottom out on March 6, 2009 at EUR 6.50 representing a decline of 45 percent compared to the beginning of the year. From the all-time low the share price continuously followed the market improvement. The share price rallied after enhanced operating performance and the turnaround in SMARTRAC's profitability development in the second half of 2009 were recognized by the capital

Key ratios of the SMARTRAC N.V. share	2009	2008	2007
Basic earnings per share in EUR	0.38	1.03	1.55
Operating cash flow per share in EUR	0.45	1.46	1.25
Share price at year-end in EUR (XETRA)	15.00	11.75	37.30
High in EUR (XETRA)	17.00	38.01	44.00
Low in EUR (XETRA)	6.50	8.57	19.41
Number of shares issued	14,849,999	13,500,000	13,500,000
Market capitalization in EUR million*	223	157	504

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

market with higher assessments of the stock. Consequently, the share price reached financial year high of EUR 17.00 on November 25, 2009 and December 4, 2009. This represents an increase compared to financial year low of 162 percent. The year-end share price of EUR 15.00 accounted for an increase of 28 percent in financial year 2009. The DAX and TecDAX indices increased by 24 percent and 61 percent, respectively, between January and the end of December 2009.

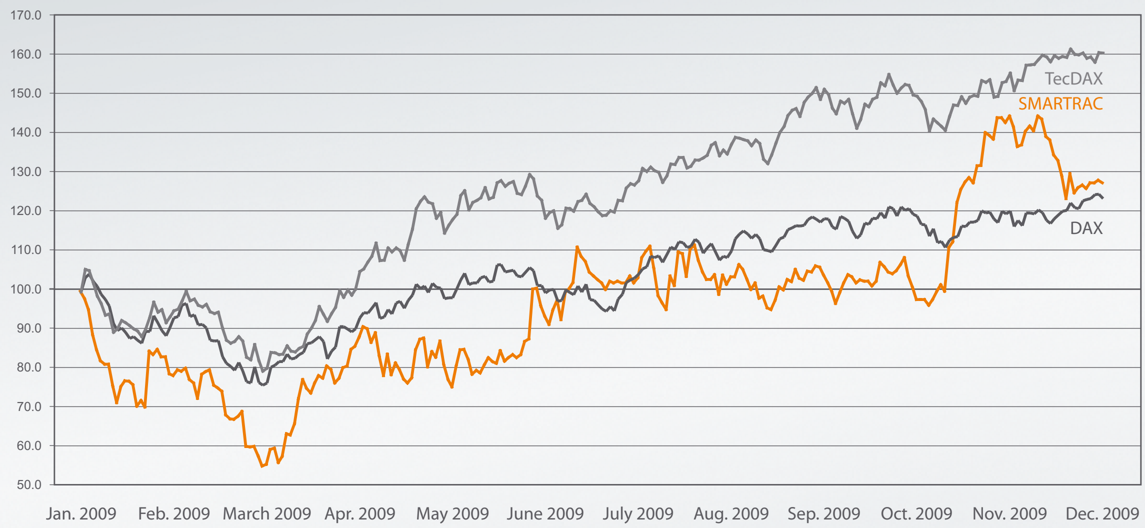
Earnings per share (EPS) is calculated by dividing the profit attributable to the equity holders of SMARTRAC N.V. by the weighted average of shares outstanding at December 31, 2009. In the year under review, the number of shares outstanding averaged 13,435,518. Earnings per share for financial year 2009 were EUR 0.38 and cash-flow per share amounted to EUR 0.45.

Dividend policy and dividend proposal

As a general strategic decision, the management of SMARTRAC intends to retain its earnings to finance the further growth and development of its business. No dividend was paid for financial year 2008. This decision had been approved by the SMARTRAC 2009 Annual General Meeting of Shareholders which was held on April 29, 2009 in Amsterdam. The Management Board intends to continue the dividend policy of adding profits to the profit reserve of the company for financial year 2009.

SMARTRAC increased its share capital

On November 16, 2009, the Management Board of SMARTRAC resolved to increase the share capital of the company. On the same date, SMARTRAC successfully placed 1,349,999 bearer shares with qualified investors in Germany and Europe (other jurisdictions outside the United States) as part of an accelerated book building process. The company increased its share capital from EUR 6,750,000 (13,500,000 bearer shares) to EUR 7,424,999.50 (14,849,999 bearer shares), by excluding the subscription rights of shareholders.



Index share price performance 2009 (SMARTRAC, DAX, TecDAX)

The shares were priced at EUR 15.50 per share. SMARTRAC took in gross proceeds in the amount of approximately EUR 20.9 million.

The proceeds of the issuance serve to finance the acquisition of On Track Innovations Ltd (OTI) and Millennium Card's Technology Ltd. (MCT) inlay manufacturing assets and to secure financial flexibility for further growth of the company. SMARTRAC will invest in a high-security production facility for personal electronic identification (eID) products, especially RFID inlays for e-Passports and contactless national ID cards, and will expand its German production facility in Reichshof-Wehnrath to a European competence center.

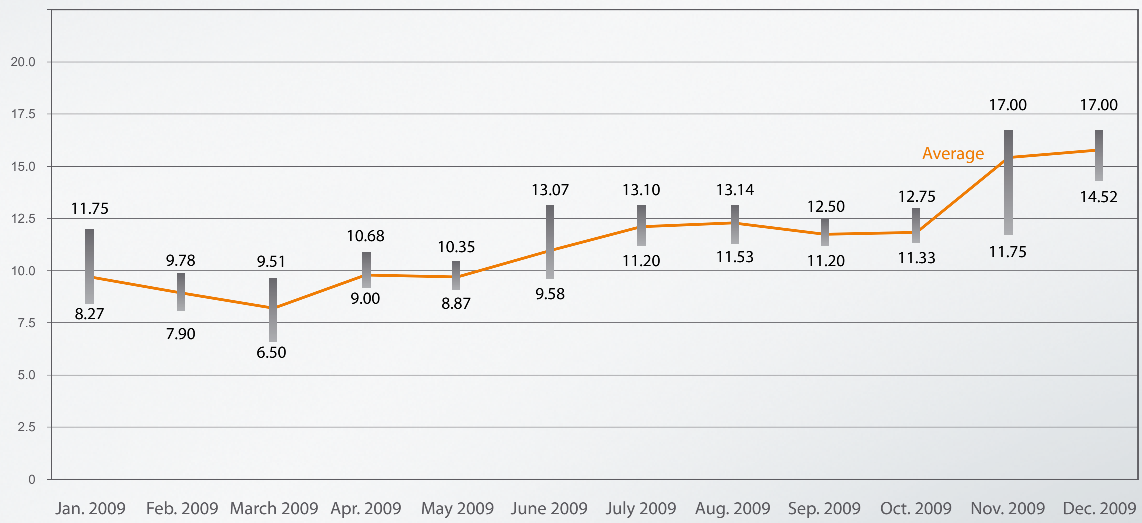
The new shares were admitted to trading without a prospectus on the Regulated Market segment of the Frankfurt Stock Exchange and the sub-segment of the Regulated Market with further post-admission obligations of the Frankfurt Stock Exchange (Prime Standard) on November 23, 2009.

Shareholder structure and liquidity

The development of SMARTRAC's shareholder structure in 2009 was mainly influenced by the dilution of the individual holdings due to the increase of SMARTRAC's share capital from EUR 6,750,000 (13,500,000 bearer shares) to EUR 7,424,999.50 (14,849,999 bearer shares) in November 2009.

SMARTRAC's largest shareholder is Manfred Rietzler, founder and CTO of SMARTRAC. In the course of an off-market share transaction on April 9, 2009, the equity interest controlled directly and indirectly by Manfred Rietzler increased by 300,000 shares to 2,680,000 shares. Based on the increased number of total shares of 14,849,999, this stake represents 18.05 percent of the share capital at year end 2009.

At the end of the reporting period, SMARTRAC held 210,451 treasury stocks, representing 1.42 percent of the increased total share capital. As a result, the free float according to the definition of Deutsche Börse amounted to 80.53 percent.



High, low and average price (Xetra), January 1 to December 31, 2009 in EUR

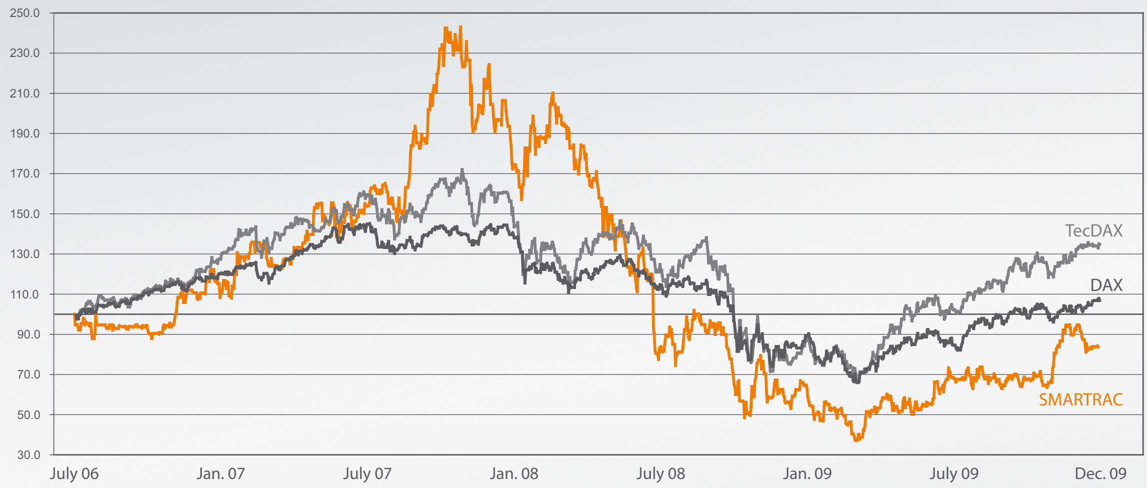
Within the free float Wolfgang Schneider, Member of the Group Executive Team of SMARTRAC, controls a stake of 3.36 percent based on the increased number of shares. At year-end 2009 the position of the Group Executive Team in the company amounted to 22.30 percent, providing congruency between the interest of shareholders and senior management.

All of the management's share transaction in SMARTRAC shares (director's dealings) have been announced to the public and the financial markets authorities in the Netherlands and Germany in accordance with Dutch and German regulatory requirements. They can also be obtained from the company's website.

At the reporting date, investments of Fortis Investment Management at 9.62 percent and Schroders Plc. at 5.17 percent exceeded the thresholds subject to reporting requirements. Fortis Investment Management informed SMARTRAC in January 2009 that its interest in SMARTRAC exceeded the threshold of 10 percent and amounted to 10.51 percent based on the share capital of 13,500,000 shares. Due to the dilution of the position in the course of the increase of SMARTRAC's share capital in November 2009, Fortis Investment Management disclosed on November 27, 2009 that the position based on the increased capital of 14,849,999 shares have fallen below the threshold of 10 percent and amount to 9.62 percent.

The liquidity of SMARTRAC's stock was influenced by negative sentiment of the stock markets in the first quarter 2009 and an improved performance of SMARTRAC's operating business in the second half of the financial year 2009. The majority of trading in SMARTRAC stock is carried out via the liquid XETRA trading system in Frankfurt am Main.

7.9 million SMARTRAC shares were traded on the XETRA trading system in financial year 2009 compared to 12.8 million a year ago. In 2009, the daily trading volume on the XETRA trading platform averaged more than 31,000 shares in comparison to more than 50,000 shares in 2008. In November 2009 the number of SMARTRAC shares daily traded reached a period-high of 65,000 on average. The daily volume peaked on November 6, 2009 amounting to 217,947 shares traded.



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

Share buyback program and treasury stock

The SMARTRAC's Annual General Meeting of Shareholders on April 25, 2008 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 for a period of 18 months following April 25, 2008. The Annual General Meeting of Shareholders on April 29, 2009 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 following April 29, 2009.

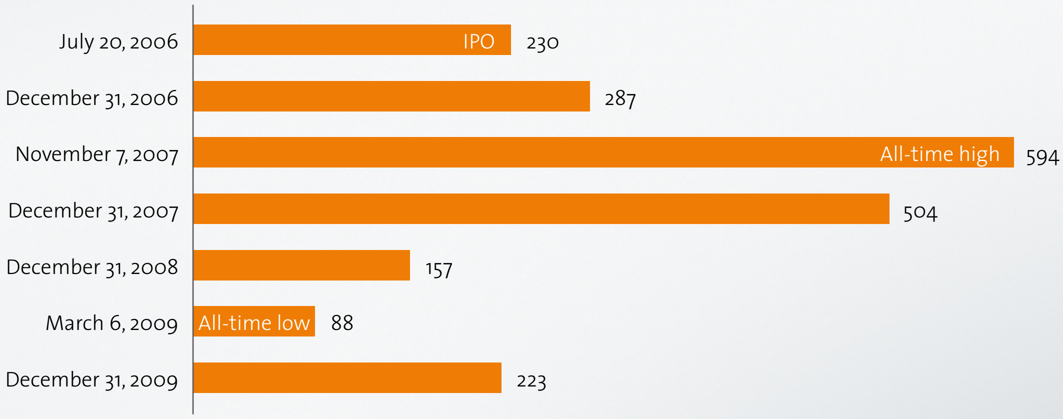
In the course of 2009, the Management made no use of the authorization.

On December 31, 2009, SMARTRAC N.V. held 210,451 treasury stock, representing 1.42 percent of the share capital at an average purchase price of EUR 30.14. Details on the utilization of the treasury stock are provided in the notes on page 127 of this Annual Report.

Information policy

SMARTRAC's investor relations work in financial year 2009 responded directly to the requirements of investors on the international capital markets caused by the financial crisis. SMARTRAC significantly expanded its contacts with investors by increasing the frequency of its visits to the financial centers as well as the number of investment conferences participated. This increased communication is aimed at providing a better understanding of the business model and the value drivers and gaining a fair valuation on the capital market.

The investor relations program contained 23 days dedicated to roadshows and investment conferences in Europe and North America with 145 investor one-on-one or group meetings. In addition, management used site visits, sales briefings and individual conference calls with investors to provide a deeper insight into the business model, the financial results and the company's strategy. Firmly established parts of the communication to the financial community are conference calls on the interim reports and important strategic transactions.



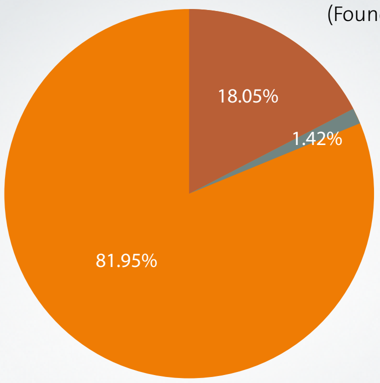
Market capitalization of SMARTRAC N.V. since IPO in EUR million

SMARTRAC started to intensify the investor relations activities with private investors. In addition to the Annual General Meeting of Shareholders and requests via e-mail and telephone, SMARTRAC introduced the company to private investors in the reporting year. The forums for this are generally organized in association with stockholder associations and regional banks.

With all its individual activities, SMARTRAC's financial communication, which rigorously pursued the principles of credibility and transparency, was aimed at meeting the requirements of the global capital market, creating confidence among investors and analysts and, as comprehensively as possible, providing information promptly and openly about the business model, its sustainability and its possibilities.

In accordance with the regulatory framework for publicly listed companies, SMARTRAC is committed to informing all stakeholders of the company as comprehensively and timely as possible, 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.



Manfred Rietzler
(Founder, CTO)

Treasury stock

Free float*

thereof:

Fortis Investment Management	9.62%
Schroders Plc.	5.17%
Wolfgang Schneider	3.36%

* according to the definition of Deutsche Börse

Shareholder structure as of 31 December 2009

Coverage expanded and positive assessment

In 2009, the number of brokers that follow SMARTRAC was increased to six national and international banks. DZ Bank, Frankfurt and CA Cheuvreux, Frankfurt initiated coverage on SMARTRAC and broadened the comprehensive spectrum of opinion available in the capital markets. The six sell-side analysts regularly comment on the financial figures and the business model of SMARTRAC. The company will not, in advance, assess, comment upon or correct, other than factually, any analyst's reports and valuations. The company values the financial analysts' function as central multipliers to increase investors' understanding of the business model, its drivers and its profitability. SMARTRAC intends to further increase the number of brokers analyzing the company.

As of the reporting date of December 31, 2009, the analysts agreed in their valuations: all six banks recommended a Buy/Outperform for the SMARTRAC N.V. share. The analysts saw the upside potential for the SMARTRAC security at the end of the year at EUR 17.50 on average and up to EUR 21.00. On its Investor Relations website under 'Research reports', SMARTRAC presents a constantly updated overview of the banks and their current recommendations.

Broker	Rating	Target Price
Berenberg Bank	Buy	EUR 21
CA Cheuvreux	Outperform	EUR 20
Deutsche Bank	Buy	EUR 12
DZ Bank	Buy	EUR 16
Sal. Oppenheim	Buy	EUR 16
UBS	Buy	EUR 20

Recommendation as of December 31, 2009

Financial calendar 2010

March 15, 2009	Publication of 2009 Annual Report Analysts' Conference Call
May 10, 2010	Publication of Q1 Interim Report (January to March 2010) Analysts' Conference Call
May 12, 2010	SMARTRAC Annual General Meeting of Shareholders, Amsterdam
July 29, 2010	Publication of Q2 Interim Report (April to June 2010) Analysts' Conference Call
November 3, 2010	Publication of Q3 Interim Report (July to September 2010) Analysts' Conference Call

The Investor Relations department of SMARTRAC is pleased to answer any questions regarding the share and the company by e-mail or by telephone. We look forward to investor contacts.

Investor Relations contact:

SMARTRAC N.V.
Andreas Schwarzwälder
Phone: +31 20 30 50 156
E-mail: investor.relations@smartrac-group.com

We are driven by the idea to help people make their work more efficient.

With SMARTRAC's intelligent labels and transponders, customers are able to structure their processes faster and reduce costs. Not only laundries, libraries or apparel companies are convinced of the competitive advantage of RFID. We are anyway.

Key financial figures

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Key financial figures 2009 and business by segments

Earnings position

Key data in thousands of EUR	2009	2008	2007	2006
Sales	127,862	112,301	96,566	52,465
Gross profit	38,134	41,231	41,696	18,481
EBITDA	15,933	21,015	25,520	11,913
EBITDA margin in %	13	19	26	23
Net profit	5,060	13,628	20,740	9,119
Basic earnings per share in EUR	0.38	1.03	1.55	0.79

In a very challenging economic environment, SMARTRAC achieved sales of EUR 127.9 million in the financial year 2009 representing an increase of 14 percent compared to sales of EUR 112.3 million in the same period of 2008. All business units except the Business Unit eID contributed to the growth of the Group. The decline of 10 percent in the Business Unit eID is due to disproportionate reduction of volumes delivered to the U.S. e-Passport project in 2009 which could not be fully offset by new passport projects in the global market for e-Passports and national ID cards. In the first full year of consolidation and significantly affected by the global crisis in the automotive industry, SMARTRAC TECHNOLOGY GERMANY GmbH (former Sokymat Automotive GmbH) accounted for sales of EUR 19.0 million compared to sales of EUR 5.5 million consolidated in the financial statement 2008 when the company was incorporated as of September 26, 2008. Eliminating the consolidation effect SMARTRAC generated 2 percent organic growth for 2009. A detailed breakdown by segment of the sales and profit contribution can be found on pages 113 and 114 of the report.

Sales split based on the geographical location of the customers showed Europe as the largest region but also substantiated the global coverage of the SMARTRAC's customer base. 55 percent of total Group sales are allocated to Europe (2008: 51 percent), followed by 24 percent attributable to North America (2008: 27 percent) and 14 percent to Asia (2008: 15 percent). A detailed breakdown can be found in the notes on page 115.

Cost of sales primarily relate to raw materials and manufacturing supplies, personnel expenses, depreciation and amortization as well as other manufacturing costs. A detailed breakdown can be found in the notes on page 117. The disproportionate increase of 26 percent to EUR 89.7 million is mainly due to a higher proportion of microchip sourcing recognized in 'raw materials and manufacturing supply'.

SMARTRAC's gross profit of EUR 38.1 million decreased by 8 percent compared to EUR 41.2 million in the previous year; particularly as a result of a further change in product mix associated with higher proportion of microchip sourcing and the very volatile utilization of SMARTRAC's production network due to the order behavior of our customers in an uncertain economic environment. Gross margin amounted to 30 percent compared to 37 percent a year ago.

All four quarters of 2009 were characterized by a very volatile utilization of our production capacity with significant effects on efficiency and profitability. Along with the change in product mix and the negative effects from the U.S. factory and the production facility in Malaysia, Group EBITDA (including EBITDA from other operations) of EUR 15.9 million decreased by 24 percent compared to EBITDA of EUR 21.0 million in 2008. In total, the negative effect on the Group EBITDA from the results related to the operations in the United States and Malaysia as well as the nonrecurring restructuring costs amount to EUR 3.9 million or approximately 3 percent EBITDA margin. The Group EBITDA margin amounted to 13 percent compared to 19 percent a year ago. However, on a quarter by quarter basis, SMARTRAC managed to improve its EBITDA profitability in the third quarter and continued on the path of improvement in the fourth quarter.

At EUR 5.1 million, profit for the period attributable to the equity holders of the company was down 63 percent on the previous year's EUR 13.6 million. The decline was mainly attributable to the lower operating result and increased financial expenses related to the syndicated credit facility secured in 2009.

Balance sheet

SMARTRAC has a sound and solid financial position. Despite the effects of the global economic crisis on the financial markets, SMARTRAC further strengthened its balance sheet in the course of 2009.

As of December 31, 2009, total assets of the consolidated balance sheet amounted to EUR 208.3 million. Total assets increased by 17 percent compared to the previous year figure of EUR 177.4 million. This increase is mainly due to the equity increase executed in 2009 and the increase in working capital.

The increase of 10 percent in inventories to EUR 21.3 million (2008: EUR 19.4 million) and the increase of 59 percent in trade receivables to EUR 33.8 million (2008: EUR 21.2 million) in 2009 reflects the business development with short-term order behavior and allocation of business towards the end of the quarters. Accordingly, trade and non-trade payables increased by 40 percent from EUR 14.4 million in 2008 to 20.2 million as of December 31, 2009.

In 2009, the increase of 27 percent in total equity attributable to equity holders to a total of EUR 124.6 million can be primarily attributed to the capital increase and the net profit of EUR 5.1 million. As of December 31, 2009, treasury stock amounted to EUR 6.3 million compared to EUR 9.1 million at year end 2008. SMARTRAC used the shares according to the company's Stock Plan and share-based acquisition. The equity ratio increased from 55 percent at the end of 2008 to 60 percent at record date 2009, providing a solid financial structure for future growth.

Cash flow statement

In 2009, net cash provided by operating activities amounted to EUR 6.1 million compared to EUR 19.3 million in the prior year. Group's net profit of EUR 5.1 million (2008: EUR 13.6 million) and increased trade receivables as a result of allocation of sales towards the end of a quarter are the main parameters to the development.

Working capital was affected by a significant increase of trade receivables (plus EUR 12.6 million; 2008: minus EUR 6.6 million) and further increase of inventories (plus EUR 1.7 million; 2008: plus EUR 3.8 million). Higher inventories are mainly due to the strategic decision to maintaining full flexibility in serving customers' requirements at short notice order behavior. Trade and non-trade payables also increased by EUR 5.8 million after a decrease of EUR 5.3 million in 2008 but could not match the increase in trade receivables.

Net cash used in investing activities amounted to EUR 5.5 million as of December 31, 2009, compared to net cash used of EUR 49.5 million for the same period of 2008. The development in 2008 was mainly due to cash outflow of EUR 47.6 million related to the acquisition of Sokymat Automotive GmbH (now SMARTRAC TECHNOLOGY GERMANY GmbH) in September 2008. In 2009, EUR 5.6 million were invested in the purchase of assets of On Track Innovations Ltd (OTI) subsidiary Millennium Card's Technology Ltd. (MCT) and the machinery and inlay production IP of OTI. Cash proceeds from asset management activities amounted to EUR 9.7 million in 2009 compared to EUR 11.8 million in 2008. Investments in property, plant and equipment decreased from EUR 10.4 million in 2008 to EUR 5.7 million in 2009, mainly driven by less investment requirements in the ramp-up of production facilities.

Net cash provided by financing activities amounted to EUR 16.0 million in 2009 compared to net cash provided of EUR 38.1 million in 2008. In 2009, the financing activities are on the one hand related to the proceeds from capital increase executed on November 16, 2009 and on the other hand allocated to the securing and use of a syndicated credit facility signed on July 14, 2009 and that replaced the bridge financing facility used to finance the acquisition of Sokymat Automotive GmbH (now SMARTRAC TECHNOLOGY GERMANY GmbH). In 2008, cash inflow was related to proceeds from interest-bearing loans of EUR 49.5 million predominantly linked to the acquisition of Sokymat Automotive GmbH (now SMARTRAC TECHNOLOGY GERMANY GmbH). Cash outflow in 2008 was mainly attributed to a share buyback program (EUR 7.5 million).

Cash and cash equivalents and bank overdrafts as of December 31 increased by 75 percent to EUR 38.8 million (2008: EUR 22.2 million) mainly related to the proceeds from the increase of share capital.

Business segments

In 2009, SMARTRAC changed its segment reporting upon implementation of the new business units and in accordance with the new accounting regulations of IFRS 8 (Operating segments). The 'Security' segment now aggregates the Business Unit eID and the Business Unit Cards. SMARTRAC reports in the 'Industry' segment on the Business Unit Industry & Logistics and the Business Unit Tickets & Labels.

The segment mix in the period under review showed an increasing importance of the Industry segment from 13 percent of total Group sales in 2008 to 24 percent in 2009. Key drivers are the consolidation of SMARTRAC TECHNOLOGY GERMANY GmbH (former Sokymat Automotive GmbH) for the full year 2009 as well as the further decline in the US e-Passport business, which led to a slight decrease in sales for the Security segment. In 2009, the Security segment accounted for 75 percent of total group sales compared to 86 percent a year ago.

Security segment

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

The Business Unit eID covers high-security products for personal electronic identification in governmental use such as e-Passports, national eID cards, electronic driver's licenses and electronic visas. SMARTRAC achieved and expanded its position as the leading supplier of RFID inlays for e-Passports worldwide. Official personal travel documents like e-Passports are normally issued with holding periods of between five and ten years. This places a great demand on the components with the RFID inlay being the crucial element of an electronic passport. Wire-embedding technology is therefore the technology of choice for customers worldwide when it comes to inlays that have to meet the highest quality, reliability and durability standards.

Also in 2009, the Business Unit eID had to manage opposed developments. SMARTRAC continuously expanded its leading market position and attracted new projects in the global market for e-Passport supply. By the end of 2009, SMARTRAC had been chosen to deliver high-security inlays for e-Passport projects in more than 30 countries worldwide. Customers trust SMARTRAC's proprietary wire-embedding technology which, in terms of quality and durability, has become a leading technology standard with regard to e-Passports. However, in the U.S. e-Passport project SMARTRAC was faced with a decline in business of 50 percent in relation to the previous year. Order volumes of and shipment levels to the value chain of the largest e-Passport project in the world were significantly below the underlying demand. Adjustments to the stock of inventory in the entire value chain in association with lower travel activities in general were responsible for the unfavorable development which, more importantly, resulted in an underutilized status of SMARTRAC's high-security production site in the United States dedicated to this project.

In thousands of EUR	Consolidated 2009	Consolidated 2008	Change	Change in %
Revenues	95,487	96,304	(817)	(1)
eID	40,003	44,320	(4,317)	(10)
Cards	56,017	53,147	2,870	5
Intrasegment elimination	(533)	(1,163)	630	54
Gross profit	30,703	39,235	(8,532)	(22)
EBITDA	16,902	24,054	(7,152)	(30)

Security segment

The Business Unit Cards consists of card inlays and transponders for public transport, access, e-Payment and active card applications. SMARTRAC's wire-embedding technology is successfully used for RFID transponders in mass transportation systems around the world. Along with access cards for buildings, office complexes or tickets and contactless ski passes, to name some examples, these applications represent the most mature market segment in the RFID industry and deliver reliable and sustainable growth.

Within the Business Unit Cards, the e-Payment application, in which both durability and dependency are key criteria to supply the secure payment industry, SMARTRAC reported a strong performance in the light of the financial crisis. As the e-Payment business is predominantly U.S. driven, the next growth spurt was postponed due to the financial environment, but all major players in the U.S., who introduced nationwide schemes for contactless credit cards, continued their programs in 2009. Consequently, SMARTRAC was successful in maintaining its leading market position and was able to keep the number of inlays delivered on a similar level compared to 2008, serving the U.S. market and pilot projects in Europe and Asia. SMARTRAC's e-Payment inlays attained MasterCard CQM certification and VISA card certification.

High-security inlays for active cards differ from conventional RFID card inlays in terms of their components and functionality. SMARTRAC is able to manufacture an RFID card inlay equipped with a battery, a switch and a display in a credit card size. Application areas are One Time Password (OTP) cards or multipurpose cards, combining payment, customer loyalty and public transport functionality.

Sales Security segment

In 2009, sales in the Security segment amounted to EUR 95.5 million, a slight decrease of 1 percent compared to sales of EUR 96.3 million a year ago. The decline is due mainly to the unfavorable development of the U.S. e-Passport project, whereas other e-Passport and national ID projects and the Business Unit Cards delivered favorable growth.

In 2009, sales of EUR 40.0 million from the Business Unit eID represent 42 percent of sales in the Security segment compared to EUR 44.3 million in the previous year (46 percent of segment sales). The Business Unit Cards accounted for EUR 56.0 million in the financial year 2009, representing 59 percent of sales in the Security segment. In 2008, sales of the Business Unit Cards were EUR 53.1 million and represented 55 percent of segment sales. In relation to total Group sales of EUR 127.9 million, the Business Unit eID accounted for 31 percent (2008: 40 percent) and the Business Unit Cards accounted for 44 percent (2008: 47 percent).

Gross profit Security segment

In 2009, gross profit in the Security segment amounted to EUR 30.7 million which is equivalent to a gross margin of 32 percent. The decline compared to a margin of 40 percent in 2008 (gross profit EUR 38.2 million) is attributable to an increased level of microchip sales in the Business Unit eID and a higher amount of sales generated in underperforming entities.

EBITDA Security segment

In financial year 2009, the Security segment reported EBITDA of EUR 16.9 million. Compared to EBITDA of EUR 24.1 million achieved in 2008, this represents a decrease of 30 percent. The EBITDA margin of 18 percent (2008: 25 percent) was burdened by the underutilization of the U.S. production facility and affected by a higher proportion of microchip sourcing in the period under review.

Summarizing, the Security segment delivered a good performance taking into account the economic environment affecting the growth of the Cards business, for example in the e-Payment application, as well as the gain of market share in the Business Unit eID which was overcompensated by the unfavorable development in the U.S. e-Passport project.

Industry segment

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

The Business Unit Tickets & Labels covers RFID inlays for tickets and label converters and includes applications such as media management (library), ticketing, public transport as well as vehicle identification and toll applications. In the course of 2009, the business unit increased its production volumes for transponders based on etched antennas significantly. In addition, SMARTRAC has successfully developed 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. These ChipLink™ inlays are manufactured at SMARTRAC's production site in Malaysia. In the course of the strategic focusing of the Business Unit Ticket & Labels on SMARTRAC's production location in Kulim, Malaysia, the decision has been taken to phase out production in Germany by the end of 2009 and transfer technology and processes to the high-volume production facility in Malaysia.

In thousands of EUR	Consolidated 2009	Consolidated 2008	Change	Change in %
Revenue	30,734	14,856	15,878	107
Tickets & Labels	7,324	5,504	1,820	33
Industry & Logistics	23,915	9,519	14,396	151
Intrasegment elimination	(505)	(167)	(338)	202
Gross profit	6,447	2,711	3,736	138
EBITDA	1,007	265	742	280

Industry segment

Following intensive qualification processes with leading ticket converters, the business unit was selected as supplier to projects in the area of public transport systems in Seville, Spain, and Riga, Latvia. Library projects have been supported in the area of media management where SMARTRAC, in addition to the transponder based on an etched antenna, offers additional services such as printing and programming. Another milestone to the improving performance of the business unit in 2009 was the agreement to deliver windshield labels for the vehicle identification project in the Philippines.

The Business Unit Industry & Logistics supplies RFID tags for fields such as automotive, animal identification, logistics, industrial, laundry and medical. A major market of the business unit is the automotive industry. SMARTRAC supplies RFID components for electronic immobilizers, radio remote controls and keyless car systems. The demand for these transponders is directly linked to the vehicle production and therefore was immediately affected by the crisis in the automotive industry. In the first half of 2009, the business unit had to cope with a significant decline of up to 40 percent compared to pre-crisis levels. In the second half of 2009, a recovery in demand from automotive customers was translated into business. The recovery was recognized in all major markets of SMARTRAC's automotive business, such as Europe, South America and Asia.

In 2009, the business unit successfully accelerated the non-automotive business and strengthened the platform implemented following the acquisition of Sokymat Automotive GmbH (now SMARTRAC TECHNOLOGY GERMANY GmbH). The broad product portfolio include RFID earmarks and glass tags for injection in the area of animal identification, standard and customized transponders for industry and logistics applications, which in some case require qualification for harsh environments in terms of temperature, chemical exposure or physical stress. The favorable development materialized in development contracts and volume agreements in areas such as laundry, waste management and factory automation in the course of 2009.

Sales Industry segment

Sales in the Industry segment accounted for EUR 30.7 million in 2009 representing a favorable increase of 107 percent compared to sales of EUR 14.9 million in 2008. The growth is attributable to the full-year consolidation of SMARTRAC TECHNOLOGY GERMANY GmbH (former Sokymat Automotive GmbH). Significantly affected by the automotive crisis, SMARTRAC TECHNOLOGY GERMANY effectively managed the decline by introducing short-time work and successfully developed the non-automotive business. Start of volume production in Malaysia in the Business Unit Tickets & Labels additionally supported the sales growth of the segment.

In 2009, sales of EUR 7.3 million from the Business Unit Tickets & Labels represent 24 percent of sales in the Industry segment compared to EUR 5.5 million in the previous year (37 percent of segment sales). The Business Unit Industry & Logistics accounted for EUR 23.9 million in the financial year 2009, representing 78 percent of sales in the Industry segment. In 2008, sales of the Business Unit Industry & Logistics amounted to EUR 9.5 million and represented 64 percent of segment sales. In relation to total Group sales of EUR 127.9 million, the Business Unit Tickets & Labels accounted for 6 percent (2008: 5 percent) and the Business Unit Industry & Logistics accounted for 19 percent (2008: 9 percent).

Gross profit Industry segment

In 2009, gross profit in the Industry segment amounted to EUR 6.4 million which is equivalent to a gross margin of 21 percent. The increase compared to a margin of 18 percent in 2008 (gross profit EUR 2.7 million) is attributable to the full year consolidation of SMARTRAC TECHNOLOGY GERMANY GmbH (former Sokymat Automotive GmbH).

EBITDA Industry segment

In financial year 2009, the Industry segment accounted for EBITDA of EUR 1.0 million and thus more than tripled compared to EBITDA of EUR 0.3 million reported in 2008. The EBITDA margin of 3 percent (2008: 2 percent) is still significantly affected by the ramp-up cost for the production facility in Malaysia and nonrecurring restructuring cost related to the phase out of production in Germany and the technology transfer to Malaysia.

Summarizing, the Industry segment is a strong growth segment in SMARTRAC's business portfolio. Although affected by the automotive crisis where we have seen a slight recovery in the second half of 2009, the segment remains dynamically driven by the non-automotive business and the start of volume production in the Business Unit Tickets & Labels.

In total, the SMARTRAC Group delivered further growth and continued the development toward a more balanced portfolio in 2009. Profitability was affected by the unfavorable development in the U.S. e-Passport business and the burden from the production facilities in the United States and Malaysia. However, SMARTRAC was able to achieve improvement in the company's profitability starting in the third quarter of the reporting period.

We are dedicated to quality when we develop the best solution for our customers.

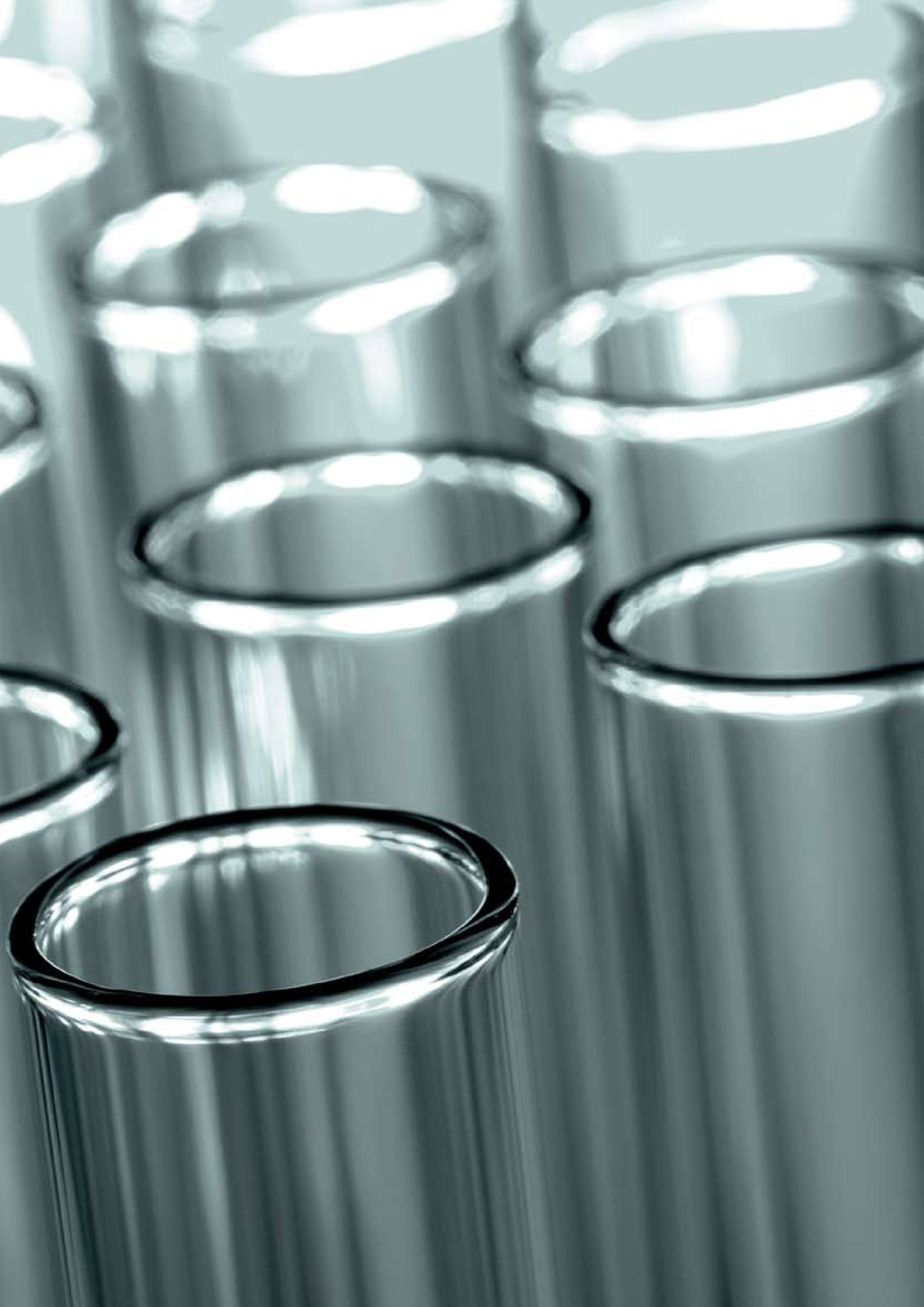
Glass is a versatile material and an indispensable form factor for RFID transponders. It is the material of choice in car immobilizers and animal identification. Our diversified product portfolio provides the full variety of transponders to address the challenges and opportunities of our customers.

Reports

Risk report

Corporate governance report

Remuneration 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 2009, SMARTRAC continuously enhanced the tools and methods for identifying and managing risks. The focus was on managing risks in the company on a more standardized and structured basis and enhances the quality of the information generated. This improved risk management process allows 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. Furthermore, in 2009 a Group Risk Management Committee was implemented in order to analyze the risks faced by SMARTRAC as well as to review and develop the Group's risk management strategies.

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 businesses, objectives, revenues, income, assets or liquidity.

I. Strategic risk

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 2009, SMARTRAC made use of the debt and equity market to extend the maturity profile of its debt funding and to strengthen its equity 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, the development of the capital market may limit the possibility to raise equity in the future.

Organization risk

SMARTRAC implemented a business unit structure effective January 1, 2009. Business unit management teams were given full 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

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, and have made significant financial investments. 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. 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. 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. The global economic recession poses a risk to the RFID industry and could lead to a decrease in product demand and delays in or cancellation of RFID projects.

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. But 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 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. Although the individual importance of single customers has decreased, there are still a limited number of these customers that account for a significant percentage of SMARTRAC's sales. Our sales development is exposed to the risk of not being able to maintain or replace the relationship to these key customers. To a certain extent SMARTRAC also has business relationships with customers in countries with a low rating and therefore faces a certain credit risk in this respect as well 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 further develop also in countries with a low rating which could expose us to additional risks due to different business dynamics and customer behaviors.

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 or 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. In the course of 2009, SMARTRAC has increasingly expanded its treasury reporting procedure.

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. This facility was particularly used to replace the bridge financing facility utilized with the acquisition of Sokymat Automotive GmbH (today SMARTRAC TECHNOLOGY GERMANY GmbH) in 2008. If we are unable to generate sufficient cash flow we may have difficulty repaying the outstanding indebtedness.

SMARTRAC has to 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.

Interest risk

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

SMARTRAC has 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. 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. Nevertheless, a potential increase of the interest rate could negatively affect the profitability of SMARTRAC.

The risk of changing interest rates affects SMARTRAC's financial assets. To maintain operational and strategic flexibility SMARTRAC keeps a financial reserve at a significant level. These assets are primarily invested in short-term bank deposits.

Currency risk

Due to our global business activities and centralized financing approach we have to 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 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

In 2009, SMARTRAC 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 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 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 multisourcing 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. Regardless of the fact that as of December 31, 2009 SMARTRAC is not subject to any significant product liability claims, 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 predominant 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 regarding 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 RFID. In order to maintain this position, the company is permanently 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 applied 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 process.

The IT security requirements for secure RFID applications might change from time to time also at short notice due to 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 of 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 200 patents and patent applications for technology, equipment and production of RFID components and 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. 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 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 2009, the evaluation of the risks did not indicate risks in the past financial 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.

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 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 financial year 2009. The corporate governance report for the financial reporting year 2009 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 and shareholders. 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 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.

In 2009, SMARTRAC N.V. adopted the SMARTRAC Code of Conduct and Business Ethics and complied with its provisions in the reporting period. The Supervisory Board of SMARTRAC N.V. has approved the SMARTRAC Code of Conduct and Business Ethics.

SMARTRAC 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 requested information is provided in detail on pages 170 to 171 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 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, 2009, SMARTRAC's Management Board consists of the following individuals as listed below:

Name	Age*	Position
Dr. Christian Fischer Chief Executive Officer	41	Chairman of the Management Board
Manfred Rietzler Chief Technical Officer	48	Member of the Management Board
Stephen Juge Chief Legal Counsel and Head of the Dutch Office	56	Member of the Management Board

* Age as of 31 December 2009

The Supervisory Board determines the remuneration of the individual members of the Management Board in line with the general remuneration policy adopted by the Annual General Meeting of Shareholders. The full remuneration of the individual Management Board members, broken down into its various components is outlined in the remuneration report on page 84.

SMARTRAC has also established a Group Executive Team with six members including the three 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 2009, a Group Risk Management Committee was implemented in order to analyze the risks faced by SMARTRAC as well as to review and develop the Group's risk management strategies. In 2009, SMARTRAC has continuously enhanced the tools and methods for identifying and managing risks. The focus was on managing risks in the company on a more standardized and structured basis and enhances the quality of the information generated. This improved risk management process allows 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 2009, no transactions have taken place in respect of which a member of the Management Board has had a conflict of interest that is of material significance to the company.

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 of 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. In 2009, the Supervisory Board adopted amendments to the activities and decisions which require its approval. In addition, the Supervisory Board intends to amend and resolve its terms of reference in the course of 2010.

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. All Supervisory Board members meet the independence requirements as stated in Code provisions III.2.1, III.2.2 and III.2.3.

As of December 31, 2009, SMARTRAC's Supervisory Board consists of the following individuals as listed below:

Name	Age*	Position
Prof. Dr. Bernd Fahrholz	62	Chairman of the Supervisory Board
Wolfgang Huppenbauer	55	Member of the Supervisory Board
Jan C. Lobbezoo	63	Member of the Supervisory Board

* Age as of 31 December 2009

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.

As the Supervisory Board consists of not more than four members, the tasks of an audit committee, remuneration committee as well as selection and appointment committee were fulfilled by the full Supervisory Board in accordance with the principles of the Dutch Corporate Governance Code.

In 2009, no transactions were reported under which a member of the Supervisory Board had a conflict of interest that was of material significance to the company.

The General Meeting determines the remuneration of Supervisory Board members. Supervisory Board members receive a fixed annual remuneration. The remuneration of a Supervisory Board member is not dependent on the results of the company. More information on the remuneration of the Supervisory Board members can be found on page 89.

The Shareholders and General Meetings of Shareholders

Share capital

The issued share capital of the Company is equal to EUR 7,424,999.50 divided into 14,849,999 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 financial 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 on the agenda of the Annual General Meeting of Shareholders.

Extraordinary General Meetings of Shareholders may be convened by the Supervisory Board or the Board of Management 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, 2009, an independent foundation was not established and the Management Board made no use of the authorization with regard to preference shares in financial year 2009.

SMARTRAC N.V. intends to make use of the possibility in exceptional circumstances only. These circumstances include situations where, in the opinion of the Management Board, the continuity of the company's management and policies is at stake. This may be the case if a public bid for the bearer shares of the company has been announced or has been made, or the justified expectation exists that such a bid will be made without any agreement having been reached in relation to such a bid with the company.

The same shall apply if one shareholder, or more shareholders acting in a concerted way, hold a substantial percentage of the issued bearer shares of the company without making an offer or if, in the opinion of the Management Board, the exercise of the voting rights by one shareholder or more shareholders, acting in a concerted way, is materially in conflict with the interests of the company. In such cases the Supervisory Board and the Management Board, in accordance with their statutory responsibility, will evaluate all available options with a view to serving the best interests of the company, its shareholders and other stakeholders.

In the event of a hostile takeover bid, in general the Supervisory Board and the Management Board reserve the right to use all powers available to them in the interest of the company.

The above circumstances are only examples of circumstances in which SMARTRAC N.V. could make use of the possibility of the issue of preference shares. There might be other situations where the Management Board in the interest of the company could make use of the issue of preference shares.

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 fulfils this responsibility.

Within four months from the end of a financial year the Management Board prepares the financial statements and the Annual Report. 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 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 course of 2009, SMARTRAC complied with the provisions II.1.3 and II.1.7. In the following we indicate which specific provisions of the Dutch Code SMARTRAC do not apply and why.

II.2.4, II.2.5, II.2.10, II.2.11, II.2.12, III.1.1, III.3.1, III.3.6, III.4.1, III.4.3, III.6.5, IV.3.1, V.3.1

II.2.4. According to the SMARTRAC Stock Option Scheme, the vesting period of options granted to members of the Management Board is two years and not three years. The company is of the opinion that, in the specific case of SMARTRAC, given the short industry and business cycles a vesting period of two years is appropriate, while maintaining the effectiveness of the incentive.

II.2.5. The company has granted to the members of the Management Board shares with a lock-up period of only two years. The company takes the view that a lock-up period of two years is sufficient to bind the directors to the company, as the remuneration policy intends to award both shares and stock options on an annual basis. As a result, the continuous awarding of equity will sufficiently align directors' interests with shareholders' interests.

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.

III.1.1. Terms of reference were not posted on the company's website. The Supervisory Board intends to amend the terms of reference in the course of 2010. The amended terms of reference will be immediately posted on the company's website.

III.3.1. The profile and the composition of the Supervisory Board were not defined by the Supervisory Board. In light of the limited number of members 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 different terms of office and in light of the limited number of members of the Supervisory Board, SMARTRAC considers it unnecessary to establish a retirement scheme.

III.4.1. In the light of the limited number of members, the Supervisory Board has not elected a vice-chairman.

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.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 member 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

The tasks of a remuneration committee have been fulfilled by the Supervisory Board in accordance with the principles of the Dutch Corporate Governance Code.

The Supervisory Board determines the remuneration and further conditions of employment for every member of the Management Board within the scope of the company's remuneration policy and subject to the provisions mentioned in section 135 Book 2 of the Dutch Civil Code. The Supervisory Board carried out the scenario analysis as stated in the Dutch Corporate Governance Code.

The Supervisory Board has the final authority to determine the pay-out under any incentive plan. This is an ultimum remedium, which will only be used in the exceptional circumstances that the actual performance delivered will lead to an unreasonable outcome. This authority can be used to adjust both ways, i.e. upward and downwards.

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

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

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

Compensation for members of the Management Board

Remuneration for the financial year 2009

At the SMARTRAC 2009 Annual General Meeting of Shareholders in Amsterdam on April 29, 2009, Dr. Christian Fischer was re-appointed as Director A and Chairman of the Management Board for a term of office of four years, ending with the Annual General Meeting of Shareholders of SMARTRAC in 2013. The amended employment contract with Dr. Christian Fischer started on January 1, 2009.

The compensation of Dr. Christian Fischer pursuant to his employment contract consists of an annual compensation of EUR 420,000 and a variable annual compensation of two percent of Group EBITDA. If Group EBITDA exceeds EUR 50 million, the amount of variable compensation exceeding this measurement base will be granted as shares with a lock-up period of two years. The variable bonus is capped at a base of Group EBITDA of EUR 100 million. Starting in 2009, Dr. Christian Fischer receives an annual payment of 50 percent of his annual base compensation for the purpose of personal pension arrangements (2009: EUR 210,000). The contract of Dr. Christian Fischer comprises a change of control provision. In the event a third party exercises a controlling influence, Dr. Christian Fischer has the right to terminate his contract and to receive a redundancy payment. Dr. Christian Fischer has been provided with a company car. Dr. Christian Fischer is eligible to participate in the company's stock option program and received 8,021 conditional options, which are conditionally awarded on the achievement of a performance condition measured over a two-year period. Dr. Christian Fischer is eligible to participate in the company's stock plan and received 11,696 shares in the course of the year 2009. In addition, Dr. Christian Fischer converted 5,000 SMARTRAC shares from his 2008 cash bonus at a share price of EUR 8.34. According to the company's stock plan, Dr. Christian Fischer will receive 5,000 restricted bonus shares that will be issued after a vesting period of two years.

The amended employment contract with Manfred Rietzler started on January 1, 2008 and was approved by the SMARTRAC 2007 Annual General Meeting of Shareholders in Amsterdam on June 22, 2007. The regular term of the contract with Manfred Rietzler as Director A and member of the Management Board ends December 31, 2011.

In 2009, Manfred Rietzler received an annual base compensation of EUR 250,000. According to his employment contract, the housing, school fees and related expenses of Manfred Rietzler in Thailand were borne by the company and a company car has been provided. As major shareholder and co-founder of SMARTRAC, Manfred Rietzler does not participate in the company's stock plan and stock option program.

The employment contract of Stephen Juge started on January 15, 2008. The Annual General Meeting of Shareholders, which was held on April 25, 2008, in Amsterdam, appointed Stephen Juge as Director B and member of the Management Board to a term of office of two years. SMARTRAC and Stephen Juge agreed by mutual consent not to renew the contract of Stephen Juge. He will resign from office as of April 15, 2010. Accordingly, Stephen Juge will not be available for re-election as Director B and member of the Management Board at SMARTRAC's 2010 Annual General Meeting of Shareholders to be held on May 12, 2010.

According to his employment contract Stephen Juge received an annual base compensation of EUR 200,000. Stephen Juge is eligible to participate in the company's stock plan and stock option program. In 2009, Stephen Juge received 1,499 shares and 13,368 conditional options, which are conditionally awarded on the achievement of a performance condition measured over a two-year period. Stephen Juge is entitled to a company car and received a reimbursement for housing and related expenses.

In 2009, the members of the Management Board were not entitled to receive redundancy payments. SMARTRAC has no pension scheme for members of the Management Board in place.

The following tables provide an overview of the compensation of the Management Board:

In thousands of EUR	Dr. Christian Fischer	Manfred Rietzler	Stephen Juge	Anthony E. Driessen	Total
Salary					
2009	**420**	**250**	**200**	**–**	**870**
2008	420	250	192*	8*	870
Bonus (non-share based)					
2009	**324**	**–**	**–**	**–**	**324**
2008	439	–	50	–	489
Housing and others					
2009	**–**	**21**	**36**	**–**	**57**
2008	–	38	35	–	73
Total					
2009	**744**	**271**	**236**	**–**	**1,251**
2008	859	288	277	8	1,432

* pro-rata for the time of employment

In addition, Dr. Christian Fischer received a payment of EUR 210,000 for the purpose of personal pension arrangement.

Management Board – long-term compensation

The SMARTRAC 2008 Annual General Meeting of Shareholders approved the Stock Option Scheme 2008. In accordance with the principles of the Dutch Corporate Governance Code the options granted under the Stock Option Scheme 2008 depend on achieving certain criteria. In accordance with the principles of the Dutch Corporate Governance Code, members of the Supervisory Board are not eligible under the Stock Option Scheme 2008. In 2009, 21,389 conditional options were granted to the Management Board. No options were exercised or expired during financial year 2009, 2008 and 2007. The aggregate numbers of (performance-related) stock options held by the members and the related option expenses (IFRS 2) of the Management Board were as follows:

Management Board – long-term compensation	Exercise price in EUR	Dr. Christian Fischer	Manfred Rietzler	Stephen Juge	Anthony E. Driessen	Total
Tranche 1 (vested)						
2006	17.00	5,000	–	–	–	5,000
Tranche 2 (vested)						
2007	22.40	15,000	–	–	5,000*	20,000
Tranche 3 (vested)						
2007	39.20	100,000	–	–	–	100,000
Tranche 4 (not yet vested)						
2008	14.80	18,197	–	4,332	–	22,529
Tranche 5 (not yet vested)						
2009	**8.34**	**8,021**	**–**	**13,368**	**–**	**21,389**
Total						
2009		**146,218**	**–**	**17,700**	**–***	**163,918**
2008		138,197	–	4,332	5,000*	147,529

* Options forfeited in 2008

Expenses for vesting options (IFRS 2) in thousands of EUR	Dr. Christian Fischer	Manfred Rietzler	Stephen Juge	Anthony E. Driessen	Total
Tranche 1 (vested)					
2009	**–**	**–**	**–**	**–**	**–**
2008	10	–	–	–	10
Tranche 2 (vested in the course of 2009)					
2009	**13**	**–**	**–**	**–**	**13**
2008	51	–	–	–	51
Tranche 3 (vested in the course of 2009)					
2009	**418**	**–**	**–**	**–**	**418**
2008	456	–	–	–*	456
Tranche 4 (not yet vested)					
2009	**31**	**–**	**8**	**–**	**39**
2008	13	–	3	–	16
Tranche 5 (not yet vested)					
2009	**6**	**–**	**9**	**–**	**15**
2008	–	–	–	–	–
Total					
2009	**468**	**–**	**17**	**–**	**485**
2008	530	–	3	–	533

* Options forfeited in 2008

The SMARTRAC 2008 Annual General Meeting of Shareholders amended the stock plan. The amendment changed the approved stock plan to the effect that no shares can be granted to the members of the Supervisory Board. According to the amended stock plan, members of the Management Board of the company, selected employees of the company or of an affiliate of the company may receive compensation components in shares or may convert part of his or her bonus, if any, into shares of the capital of the company. In 2009, 18,195 shares and 5,000 restricted bonus shares were granted to the Management Board.

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

Number of shares granted (Stock plan)	Dr. Christian Fischer	Stephen Juge	Total
2009	**16,696***	**1,499**	**18,195**
2008	12,754*	1,623	14,377

* Therof 5,936 shares converted from 2007 bonus and 5,000 shares converted from 2008 bonus

Fair value of shares granted (Stock plan):

In thousands of EUR	Dr. Christian Fischer	Stephen Juge	Total
2009	**98**	**13**	**111**
2008	108	26	134

Restricted bonus shares Board of Directors:

In thousands of EUR	Dr. Christian Fischer
2009	**182**
2008	–

The expenses for restricted stock bonus shares refer to 10,936 converted shares that will be issued after a vesting period of two years. The exercise price of restricted bonus shares is EUR 0.00. The fair value at grant date amount to EUR 31.90 (5,936 shares) and EUR 8.69 (5,000 shares) per share and reflect the observable market price.

Compensation for members of the Supervisory Board

In 2009, the yearly remuneration of the ordinary members of the Supervisory Board amounts to EUR 30,000 and the yearly remuneration of the Chairman of the Supervisory Board amounts to EUR 90,000.

In thousands of EUR	Prof. Dr. Bernd Fahrholz	Wolfgang Huppenbauer	Jan C. Lobbezoo	Total
Base compensation				
2009	**90**	**30**	**30**	**150**
2008	90	30	30	150

We create value.

RFID in public transport systems around the world facilitates and accelerates use for everyone. SMARTRAC develops and manufactures RFID transponders to create value. Our products and customized solutions seamlessly integrate into the production process of card manufacturers. Public transport, access and e-Payment systems benefit from reliability and durability.

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Appropriation of the result


10

Consolidated statement of comprehensive income

For the years ended December 31

In thousands of EUR	Note	Consolidated 2009	Consolidated 2008
Revenue	5	127,862	112,301
Cost of sales	6	(89,728)	(71,070)
Gross profit		**38,134**	**41,231**
Administrative expenses	7	(29,737)	(25,425)
Other operating income (expenses)	9	(830)	33
Total operating expenses		**(30,567)**	**(25,392)**
Operating profit before financial income		**7,567**	**15,839**
Financial income	10	4,587	3,561
Financial expenses	10	(6,590)	(5,434)
Net financial (expenses)		**(2,003)**	**(1,873)**
Profit before tax		**5,564**	**13,966**
Income tax (expenses)	11	**(504)**	**(338)**
Profit for the period attributable to the owners of the parent		**5,060**	**13,628**
Foreign exchange translation		(153)	184
Income tax relating to components of other comprehensive income		–	–
Other comprehensive income (loss), net of tax		**(153)**	**184**
Total comprehensive income for the period attributable to the owners of the parent		**4,907**	**13,812**
Basic earnings per share (EUR)	12	0.38	1.03
Diluted earnings per share (EUR)	12	0.38	1.03

The accompanying notes (on page 96 to 157) are an integral part of the consolidated financial statements.

Consolidated balance sheet

As at December 31

In thousands of EUR	Note	Consolidated 2009	Consolidated 2008
Assets			
Intangible assets	15	61,302	58,351
Property, plant and equipment	14	45,502	38,440
Other investments		426	415
Deferred tax assets	11	2,422	2,141
Other non-current assets		885	920
Total non-current assets		**110,537**	**100,267**
Inventories	16	21,268	19,428
Trade receivables	17	33,756	21,246
Current income tax		1,150	890
Other current assets	18	2,224	2,624
Short-term investments	19, 27	591	10,399
Cash and cash equivalents	20, 27	38,819	22,532
Total current assets		**97,808**	**77,120**
Total assets		**208,345**	**177,387**
Equity			
Share capital	1, 21	7,425	6,750
Share premium	1, 21	75,047	56,911
Translation reserve		(55)	98
Retained earnings		48,547	43,487
Treasury stock	13	(6,344)	(9,092)
Total equity attributable to equity holders of the company		**124,620**	**98,154**
Liabilities			
Secured loans	22	50,532	1,142
Employee benefits	23	396	317
Deferred tax liabilities	11	3,343	3,228
Other non-current liabilities	4	1,598	–
Total non-current liabilities		**55,869**	**4,687**
Bank overdraft	20	5	353
Current portion of secured loan	22	490	462
Interest-bearing loans and borrowings	22	–	53,382
Trade and non-trade payables	24	20,188	14,423
Current income tax		682	341
Provisions	25	432	–
Other current liabilities	26	6,059	5,586
Total current liabilities		**27,856**	**74,547**
Total liabilities		**83,725**	**79,234**
Total equity and liabilities		**208,345**	**177,387**

The accompanying notes (on page 96 to 157) 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 2009	Consolidated 2008
Cash flows from operating activities			
Net profit		5,060	13,628
Reconciliation of net profit to net cash provided by (used in) operating activities:			
Income tax expenses		504	338
Depreciation and amortization	6, 7	8,114	5,176
Impairment on investments	4	251	–
Expenses for share based payments	13, 29	1,270	1,692
(Reversal of) write down of inventories	9	281	56
Impairments on trade and other receivables	9	85	17
(Gains) or losses on disposal of assets	9	19	33
Interest income	10	(353)	(609)
Interest expense	10	2,574	1,052
Other non cash items		(587)	(48)
Changes in operational assets and liabilities:			
Other non-current assets		35	(14)
Inventories		(1,749)	(3,800)
Other current assets		1,141	1,355
Trade receivables		(12,595)	6,639
Employee benefits		79	49
Trade and non-trade payables		5,767	(5,281)
Other current liabilities and provisions		(666)	(267)
Cash provided by operating activities		**9,230**	**20,016**
Interest paid		(2,913)	(351)
Interest received		317	442
Income taxes paid		(571)	(854)
Net cash provided by operating activities		**6,063**	**19,253**
Cash flows from investing activities			
Net cash inflow (outflow) on business combinations	4	(5,866)	(47,565)
Other investments		(11)	(415)
Proceeds from sale of equipment		403	234
Purchases of intangible assets	15	(3,522)	(3,178)
Purchases of property, plant and equipment	14	(5,651)	(10,406)
Deposits paid for property, plant and equipment	18	(500)	–
Cash proceeds on sale of short-term investments		9,672	11,834
Net cash used in investing activities		**(5,475)**	**(49,496)**
Cash flows from financing activities			
Net proceeds from issue of share capital	21	20,247	–
Share buyback	13	–	(7,529)
Proceeds from interest-bearing loans and borrowings and secured loan	22	49,519	46,504
Repayments of interest-bearing loans and borrowings and secured loan	22	(53,727)	(868)
Net cash provided by financing activities		**16,039**	**38,107**
Net change in cash and cash equivalents and bank overdrafts		16,627	7,864
Cash and cash equivalents and bank overdrafts at January 1	20	22,179	14,318
Effect of exchange rate fluctuations on cash and cash equivalents and bank overdrafts		8	(3)
Cash and cash equivalents and bank overdrafts at December 31	**20**	**38,814**	**22,179**

The accompanying notes (on page 96 to 157) 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	Retained earnings*	Treasury stock	Equity attributable to SMARTRAC's shareholders
Balance as at January 1, 2008		**6,750**	**54,463**	**(86)**	**29,859**	**(4,798)**	**86,188**
Net profit for the period		–	–	–	13,628	–	13,628
Other comprehensive income (loss), net of tax		–	–	184	–	–	184
Total comprehensive income of the period		**–**	**–**	**184**	**13,628**	**–**	**13,812**
Share buyback	13	–	–	–	–	(7,529)	(7,529)
Share based payment – options	29	–	1,279	–	–	–	1,279
Share based payment – shares	13	–	(732)	–	–	1,798	1,066
Share based acquisition	13	–	1,900	–	–	1,437	3,337
Balance as at December 31, 2008		**6,750**	**56,911**	**98**	**43,487**	**(9,092)**	**98,154**
Balance as at January 1, 2009		**6,750**	**56,911**	**98**	**43,487**	**(9,092)**	**98,154**
Net profit for the period		–	–	–	5,060	–	5,060
Other comprehensive income (loss), net of tax		–	–	(153)	–	–	(153)
Total comprehensive income (loss) of the period		**–**	**–**	**(153)**	**5,060**	**–**	**4,907**
Par value of new shares – credited to share capital	21	675	–	–	–	–	675
Excess of gross proceeds over par share value credited to share premium	21	–	20,250	–	–	–	20,250
Transaction costs of the capital increase charged to share premium	21	–	(677)	–	–	–	(677)
Share based payment – options	29	–	922	–	–	–	922
Share based payment – restricted stock	29	–	182	–	–	–	182
Share based payment – shares	13	–	(546)	–	–	753	207
Share based acquisition	13	–	(1,995)	–	–	1,995	–
Balance as at December 31, 2009		**7,425**	**75,047**	**(55)**	**48,547**	**(6,344)**	**124,620**

The accompanying notes (on page 96 to 157) are an integral part of the consolidated financial statements.

* The retained earnings as at December 31, 2009 include a legal reserve for capitalized internal development costs amounting to EUR 4.1 million (2008: EUR 1.7 million).

Notes to the consolidated financial statements for the year ended December 31, 2009

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 at Frankfurt Stock Exchange (ISIN NL 0000186633). The company acts as the holding company for the SMARTRAC Group ('the Group'), comprising of the following consolidated entities as at December 31, 2009.

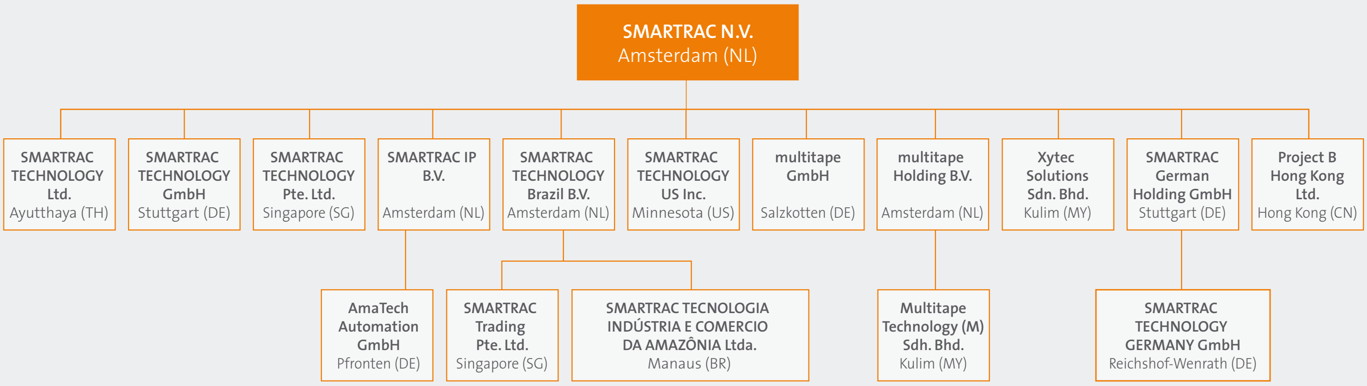
Company	Country of incorporation	Date of incorporation/ inclusion	Business type	Ownership and voting interest
Direct Holdings				
SMARTRAC TECHNOLOGY Ltd.	Thailand	January 1, 2000	Manufacturing	100 %
SMARTRAC TECHNOLOGY GmbH	Germany	November 17, 2003	Manufacturing/ Service Centre	100 %
SMARTRAC TECHNOLOGY Pte. Ltd.	Singapore	October 7, 2005	Sales Service	100 %
multitape GmbH	Germany	January 26, 2007	Manufacturing	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 %
Xytec Solutions Sdn. Bhd.	Malaysia	January 21, 2008	Manufacturing	100 %
SMARTRAC German Holding GmbH	Germany	September 2, 2008	Holding	100 %
Project B Hong Kong Limited	China	December 10, 2009	Holding	100 %
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 %
Multitape Technology (M) Sdn. Bhd.	Malaysia	October 3, 2007	Manufacturing	100 %
SMARTRAC TECHNOLOGY GERMANY GmbH (formerly: Sokymat Automotive GmbH)	Germany	September 26, 2008	Manufacturing	100 %

Amatech Automation GmbH, Pfronten, was not consolidated as at December 31, 2009 (2008).

b) Activities

The Group is a leading supplier of inlays for passports and credit cards and also produces applications for public transport, access control, animal identification, industry and logistics with an integrated contactless chip and an antenna.

c) Group structure



Ownership 100 % if not noted differently.

d) Financial year

According to the Articles of Association of SMARTRAC N.V., the financial reporting year ends at December 31, 2009.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements 2009 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, 2009 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 12, 2010 and will be submitted for adoption to the Annual General Meeting of Shareholders on May 12, 2010.

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, 2009, together with a description of the principal risks that the Group is confronted with.

Amsterdam, March 12, 2010

Dr. Christian Fischer
Chairman of the Management Board, CEO

Manfred Rietzler
Member of the Management Board, CTO

Stephen Juge
Member of the Management Board, Chief Legal Counsel

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:

- Short-term investments are stated at fair value through profit and loss
- 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) Functional and presentation currency

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

e) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS adopted by the EU requires management to make judgements, 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 judgements 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.

Judgements 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 11)
- Valuation of intangible assets, especially goodwill (note 15)
- Valuation of provisions (note 25).

f) Leases

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

Leases that 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 2009 the Group acquired additional subsidiaries and established additional companies (please refer to note 4).

2. Subsidiaries

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

3. 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.

4. 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.

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.

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.

Currency	2009 Period end rate	2009 Period average rate	2008 Period end rate	2008 Period average rate
USD to EUR	1.43	1.39	1.40	1.46
THB to EUR	47.66	47.42	48.35	47.84
SGD to EUR	2.01	2.02	2.03	2.07
BRL to EUR	2.45	2.75	3.30	2.64
MYR to EUR	4.91	4.89	4.89	4.86
CHF to EUR	1.49	1.51	1.48	1.58

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
– Motor 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 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 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 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. The cost of inventories is based on the weighted-average principle 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 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.

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) and deferred tax assets (see accounting policy p), 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. 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 product mix, 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.

k) Trade and other payables

Trade and other payables are stated at amortized cost.

l) 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.

m) Other current liabilities

Other current liabilities are stated at amortized costs.

n) 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.

o) 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.

p) 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.

q) 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.

r) 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 the Business Unit Cards were aggregated as reportable segment 'Security' and the Business Unit Industry & Logistics and the 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 in governmental use such as e-Passports, National eID cards, electronic driver's licenses and electronic Visa as well as card inlays for transport, access, e-Payment and active card applications.

The business segment 'Industry' covers RFID tags for fields of application such as automotive, animal identification, logistics, industrial, laundry and medical as well as RFID inlays that cater to tickets and label converters and include fields of application such as library, ticketing and airline luggage.

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.

s) New accounting policies

As from January 1, 2009, the Group applies the following mandatory standards and interpretations:

- IFRS 8 "Operating Segments" introduces the 'management approach' to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, has been applied since the beginning of the financial year 2009. IFRS 8 requires a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker (CODM) in order to assess each segment's performance and to allocate resources to them. In prior years and including the financial year 2008, the Group presented segment information in respect of its business and geographical segments. The comparative figures of the financial year 2008 were adjusted according to IFRS 8.

- IAS 1 "Presentation of Financial Statements: A Revised Presentation" is intended to facilitate the analysis and comparison of financial statements by users. Formally, the income statement is complemented by a statement of comprehensive income. These effects will no longer be presented in the statement of changes in equity. SMARTRAC presents total comprehensive income in a single statement.

– In March 2009, the IASB issued "Improving Disclosures about Financial Instruments" (Amendments to IFRS 7 Financial Instruments: Disclosures). The amendments enhances the disclosure requirements about fair value measurements and about liquidity risk. In the first year of application comparative disclosures are not required.

t) New standards and interpretations

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2009, and have not been applied in preparing these consolidated financial statements. Amongst others these are:

– Revised IFRS 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Group's operations:
  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  - Contingent considerations will be measured at fair value, with subsequent changes therein recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in the acquire will be measured at fair value with the gain or loss recognized in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods than in the Group's 2010 consolidated financial statements.

– Amended IAS 27 "Consolidated and Separate Financial Statements" requires accounting for changes in ownership interest by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Group looses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are expected to have no or a limited effect on the Group's consolidated financial statements.

– IFRS 9 "Financial Instruments" presents the first step in the IASB intention to replace IAS 39. IFRS 9 introduces new requirements for classifying and measuring financial assets that will have to be applied for the Group's 2013 consolidated financial statements. The new standard will have an effect on the consolidated financial statements, but due to the long timeframe no further estimates of these effects can be given.

Furthermore the IASB issued various other pronouncements. The recently adopted pronouncements as well as pronouncements not yet adopted, other than IFRS 9, will not have a material impact on SMARTRAC's consolidated financial statements.

4. Business combinations

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

In thousands of EUR	Date of first time inclusion	Percentage of voting equity instruments acquired	Transaction costs	Goodwill / bargain purchase	Revenue since inclusion	Profit and loss since inclusion
Company / business						
Assets of MCT and OTI	Dec. 22, 2009	none (asset deal)	764	(5)	–	–
Project B Hong Kong Ltd.	Dec. 10, 2009	100 %	–*	–	–	–
Total			**764**	**(5)**	**–**	**–**

* Transaction costs amounting to EUR 251,000 were expensed.

Business of MCT and OTI

On December 22, 2009, SMARTRAC Trading Pte. Ltd acquired from On Track Innovations Ltd., Rosh Pina, Israel (OTI) and from Millenium Card's Technology Ltd., Shenzhen, China (MCT) the machinery and inlay production as well as certain intellectual property from OTI in an asset deal.

The parties signed a supply agreement that secures OTI's delivery of products and projects and SMARTRAC becomes OTI's exclusive supplier for wire-embedded and dual interface inlays.

The integration of the acquired business adds to the global production network of the SMARTRAC Group and assures SMARTRAC supply obligations.

The acquisition resulted in recognizing a small gain on a bargain purchase. The gain was realized after management has reassessed whether it has correctly identified all of the assets acquired and all of the liabilities assumed. Also management has reviewed the procedures used to measure the amounts that are required according to IFRS 3.36a-d.

In thousands of EUR	Total
Purchase consideration	
Cash paid	5,615
Total cash paid for acquisition	**5,615**
Purchase price liability (present value of future payments)	3,420
Total purchase consideration	**9,035**
Fair value of assets acquired	(9,171)
Fair value of liabilities assumed	131
Gain on bargain purchase	**(5)**

Detailed overview of the net assets acquired in the course of the financial year 2009:

In thousands of EUR	Carrying value prior to acquisition	Adjustment	Carrying value upon acquisition
Plant and equipment	6,440	1,060	7,500
Intangible assets	–	1,671	1,671
Other current liabilities / provisions	–	(131)	(131)
Deferred tax liabilities*	–	–	–
Net assets acquired	**6,440**	**2,600**	**9,040**
Gain on bargain purchase			(5)
Total purchase consideration			9,035
Purchase price liability (present value); of which EUR 1.6 million is non-current			3,420
Cash outflow on acquisition			**5,615**

* Since the tax basis of all assets acquired and liabilities assumed equal their respective fair values, no deferred tax assets nor liabilities were realized due to the asset deal.

Project B Hong Kong Limited

This shell company was established in 2009 to form a cooperation for the Chinese transponder market. The formation of the cooperation has not yet taken place. The purchase price and incurred transaction costs amounting to EUR 251,000 were fully impaired. The impairment was shown in the statement of comprehensive income under other operating expenses.

5. Segment reporting

The Group has two reportable segments. 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 the Business Unit Cards were aggregated as reportable segment 'Security' and the Business Unit Industry & Logistics and the Business Unit Tickets & Labels were aggregated as reportable segment 'Industry'. The aggregation was made because of the similar economic characteristics. All other business activities are included in the 'All other' segment.

The business segment 'Security' includes products for personal electronic identification in governmental use such as e-Passports, National eID cards, electronic driver's licenses and electronic Visa as well as card inlays for transport, access, e-Payment and active card applications.

The business segment 'Industry' covers RFID tags for fields of application such as automotive, animal identification, logistics, industrial, laundry and medical as well as RFID inlays that cater to tickets and label converters and include fields of application such as library, ticketing and airline luggage.

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. 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. The comparative figures of the financial year 2009 were adjusted according to IFRS 8.

Consolidated segment information by business segments

In thousands of EUR	Security		Industry		All other		Eliminations		Consolidated	
	12 months ended Dec. 2009	12 months ended Dec. 2008	12 months ended Dec. 2009	12 months ended Dec. 2008	12 months ended Dec. 2009	12 months ended Dec. 2008	12 months ended Dec. 2009	12 months ended Dec. 2008	12 months ended Dec. 2009	12 months ended Dec. 2008
Segment revenue										
Revenue from external customers	95,481	95,433	30,656	14,790	1,725	2,078	–	–	127,862	112,301
Revenue from transactions with other segments	6	871	78	66	2,583	1,926	(2,667)	(2,863)	–	–
Total revenue	**95,487**	**96,304**	**30,734**	**14,856**	**4,308**	**4,004**	**(2,667)**	**(2,863)**	**127,862**	**112,301**
Segment result										
Gross profit	30,703	38,235	6,447	2,711	1,303	280	(319)	5	38,134	41,231
Operating income (expenses)	(18,269)	(17,899)	(8,711)	(3,704)	(3,459)	(3,790)	(128)	–	(30,567)	(25,393)
Operating profit (loss)	12,434	20,336	(2,264)	(993)	(2,156)	(3,510)	(447)	5	7,567	15,838
Financial result									(2,003)	(1,873)
Profit before tax expense / benefit									**5,564**	**13,965**
Income tax expense / benefit									(504)	(338)
Group profit for the period									**5,060**	**13,628**
Supplemental information										
Operating profit (loss)	12,434	20,336	(2,264)	(993)	(2,156)	(3,510)	(447)	5	7,567	15,838
Amortization, depreciation and impairment on investment	4,468	3,718	3,271	1,258	680	200	(53)	–	8,366	5,176
Segment EBITDA*	**16,902**	**24,054**	**1,007**	**265**	**(1,476)**	**(3,310)**	**(500)**	**5**	**15,933**	**21,015**

* EBITDA is defined as operating profit for the period before depreciation, amortization, impairment on investment, financial result, share of profit of associates, and income tax result. 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.

Revenues by subsegment were as follows

In thousands of EUR	Consolidated 2009	Consolidated 2008
Segment Security		
eID	40,003	44,320
Cards	56,017	53,147
Intrasegment eliminations	(533)	(1,163)
Subtotal	**95,487**	**96,304**
Segment Industry		
Tickets & Labels	7,324	5,504
Industry & Logistics	23,915	9,519
Intrasegment eliminations	(505)	(167)
Subtotal	**30,734**	**14,856**
Segment All Other	**4,308**	**4,004**
Intersegment eliminations	(2,667)	(2,863)
Total	**127,862**	**112,301**

Major customers

Revenue from one customer of the Group's Security segment represents approximately EUR 13.0 million of the Group's total revenues.

Category of revenue

In thousands of EUR	RFID transponders	Royalties	Total revenues
2009	**127,067**	**795**	**127,862**
2008	112,301	–	112,301

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 customers. Segment assets and liabilities are based on the geographical location.

In thousands of EUR	Consolidated 2009	Consolidated 2008
Revenues		
Asia	17,360	16,593
Europe	70,173	57,180
North America	30,914	30,497
Latin America	8,740	7,514
Others	675	517
Total revenues	**127,862**	**112,301**
Revenues from external customers attributed to the entities country of domicile		
Asia	86,184	90,639
Europe	29,092	12,310
North America	6,172	2,435
Latin America	6,414	6,917
Total revenues	**127,862**	**112,301**
Non current assets		
Asia	40,462	31,026
Europe	56,697	57,005
North America	5,726	4,956
Latin America	5,231	4,724
Total assets	**108,116**	**97,711**

Property, plant and equipment and intangibles acquired

In thousands of EUR	Consolidated 2009	Consolidated 2008
Property, plant and equipment		
Asia	10,430	9,410
Europe	1,274	4,827
North America	1,379	1,267
Latin America	68	379
Total property, plant and equipment	**13,151**	**15,883**
Intangibles		
Asia	3,964	3,127
Europe	1,181	47,190
North America	48	46
Latin America	–	225
Total intangibles	**5,193**	**50,588**

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

In thousands of EUR	2009	2008
Revenues		
Total revenue for reportable segments	126,221	111,160
Other revenue	4,308	4,004
Elimination of inter-segment revenue	(2,667)	(2,863)
Consolidated revenue	**127,862**	**112,301**
Profit or loss		
Total EBITDA for reportable segments	17,909	24,319
Other EBITDA	(1,476)	(3,310)
All EBITDA	16,433	21,009
Elimination of inter-segment profits	(500)	5
Unallocated amounts:		
Financial result	(2,003)	(1,873)
Depreciation, amortization and impairment on investment	(8,366)	(5,176)
Consolidated profit before income tax	**5,564**	**13,965**
Assets		
Security segment	89,424	72,611
Industry segment	80,860	76,598
Total assets for reportable segments	**170,284**	**149,209**
Other assets	72,990	53,844
Elimination	(34,929)	(25,667)
Consolidated total assets	**208,345**	**177,386**
Liabilities		
Total liabilities for reportable segments	55,236	47,017
Other liabilities	62,233	57,170
Elimination	(33,744)	(24,953)
Consolidated total liabilities	**83,725**	**79,234**

Other material items 2009

In thousands of EUR	Reportable segment totals	All other segment	Consolidated totals
Capital expenditure			
Fixed assets	13,125	27	13,152
Intangible assets	4,617	826	5,443
Deposits paid for fixed assets	–	500	500
Total capital expenditure including business combination	**17,742**	**1,353**	**19,095**
(Fixed assets)	(7,500)	–	(7,500)
(Intangible assets)	(1,672)	–	(1,672)
Total capital expenditure reported	**8,570**	**1,353**	**9,923**

6. Cost of sales

In thousands of EUR	Consolidated 2009	Consolidated 2008
Raw materials and manufacturing supplies	62,915	50,576
Personnel expenses (note 8)	11,458	10,878
Depreciation and amortization (note 14 and 15)	5,752	3,970
Other manufacturing costs	9,603	5,646
Total cost of sales	**89,728**	**71,070**

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

7. Administrative expenses

In thousands of EUR	Consolidated 2009	Consolidated 2008
Personnel expenses (note 8)	16,856	13,497
Rental expenses	602	546
Sales commission expenses	184	5
Professional fees	3,771	3,998
Depreciation and amortization (note 14 and 15)	2,362	1,206
Other administrative expenses	5,962	6,173
Total administrative expenses	**29,737**	**25,425**

Within the administrative expenses research and development expenses amounted to EUR 2.0 million (2008: EUR 1.1 million). Other administrative expenses include mainly travel expenses, fleet expenses and transportation.

8. Personnel expenses

In thousands of EUR	Consolidated 2009	Consolidated 2008
Wages and salaries	24,562	19,772
Compulsory social security contributions	1,717	886
Subcontractor fees	1,976	3,420
Other	59	297
Total	**28,314**	**24,375**

Personnel expenses are classified in the income statement as follows:

In thousands of EUR (except headcount)	Consolidated 2009	Consolidated 2008
Cost of sales	11,458	10,878
Administrative expenses	16,856	13,497
Total	**28,314**	**24,375**
Number of staff employees	2,011	1,977
Number of subcontractors	723	809
Total	**2,734**	**2,786**

The increase of the personnel expenses relates mainly to the full-year consolidation of Sokymat.

9. Other operating income (expenses)

In thousands of EUR	Consolidated 2009	Consolidated 2008
Reversal of / (write down) of inventories	(281)	(56)
Gain / (loss) on disposal of fixed assets	(19)	(33)
Impairment loss on trade receivables	(92)	(17)
Impairment loss on investment Hong Kong	(251)	–
Restructuring expenses multitape GmbH	(294)	–
Others	107	139
Total	**(830)**	**33**

Restructuring Expense

In the fourth quarter the management of multitape GmbH decided on and communicated a restructuring plan for multitape GmbH. The production at this site has been ended at the end of the calendar year 2009. In the fiscal year 2009 the restructuring costs for this programme amounting to EUR 294, 000 (2008: zero) are recorded in other operating expenses. This contains mainly rent (EUR 150,000), renovation (EUR 50,000), downsizing (EUR 50,000), security (EUR 34,000) and lawyer (EUR 10,000).

In correspondence provisions amounting to EUR 255,000 (2008: zero) for restructuring have been recognized.

10. Net financial income (expenses)

In thousands of EUR	Consolidated 2009	Consolidated 2008
Change in fair value	166	279
Interest income	353	609
Foreign exchange gains	4,068	2,673
Financial income	**4,587**	**3,561**
Change in fair value	(672)	(423)
Interest expense	(2,574)	(1,052)
Bank charges	(483)	(438)
Foreign exchange losses	(2,861)	(3,521)
Financial expenses	**(6,590)**	**(5,434)**
Net financial income (expenses)	**(2,003)**	**(1,873)**

Foreign exchange gains and losses in 2009 are still on a high level due to an ongoing significant volatility of important currency rates over the whole year. The interest expenses increased strongly because of the transition of the bridge financing into a longer term financing of the acquisition of SMARTRAC TECHNOLOGY GERMANY GmbH.

11. 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 30), SMARTRAC Technology Limited 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 seven years (until 2011), or a maximum of THB 183.5 million (approximately EUR 3.8 million), whichever occurs first.
- Exemption from corporate income tax for seven years (until 2013) or a maximum of THB 1.9 billion (approximately EUR 41.2 million) whichever occurs first.

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

- Reduction 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).

Multitape Technology (M) Sdn. Bhd. received the official approval for the pioneer status by the MITI (Ministry of International Trade and Industry) in July 2009. The pioneer status entitles the company Multitape Technology (M) Sdn. Bhd. for an income tax exemption for a period of 5 years. The pioneer status activation expires in June 2011. This means at the latest from June 2011 onwards the pioneer status is valid for 5 years.

Recognized in the income statement

In thousands of EUR	Consolidated 2009	Consolidated 2008
Current corporate tax expense	(670)	(404)
Deferred tax benefit	166	66
Income tax (expense) / benefit	**(504)**	**(338)**

Reconciliation of effective tax charge

In thousands of EUR	Consolidated 2009	Consolidated 2008
Profit before tax	**5,564**	**13,965**
Expected tax expense based on rate of 25.5 % (2008: 25.5 %)	(1,419)	(3,561)
Tax exempt income relating to promotional activities	3,121	4,737
Non-recognition of tax benefits on losses incurred	(2,194)	(1,774)
Non-deductible expenses	(213)	(201)
Tax rate differences in foreign jurisdictions	140	161
Reversal of income tax expense from prior periods	142	–
Others	(81)	300
Actual tax expense	**(504)**	**(338)**

Deferred tax assets

Movements in deferred tax assets recognized are as follows:

In thousands of EUR	Consolidated 2009	Consolidated 2008
Balance January 1	2,141	2,068
Recognized in income statement	281	73
Balance December 31	**2,422**	**2,141**

Deferred tax liabilities

In thousands of EUR	Consolidated 2009	Consolidated 2008
Balance January 1	3,228	321
Recognized in the income statement	115	(7)
Acquired through business combinations	–	2,914
Balance December 31	**3,343**	**3,228**

Movements in temporary differences during the year

In thousands of EUR	Balance at January 1, 2009	Recognized in profit or loss	Acquired in business combinations	Balance at December 31, 2009
Deferred tax assets				
Goodwill	16	(16)	–	–
Property, plant and equipment	262	96	–	358
Trade receivables	18	(18)	–	–
Employee benefits	–	18	–	18
Trade payables	–	119	–	119
Other current liabilities	–	82	–	82
Tax loss carry forward	5,065	3,147	–	8,212
./. Allowance	(3,220)	(3,147)	–	(6,367)
Total deferred tax assets	**2,141**	**281**	**–**	**2,422**
Deferred tax liabilities				
Intangible assets	2,811	(349)	–	2,462
Property, plant and equipment	417	454	–	871
Trade receivables	–	10	–	10
Total deferred tax liabilities	**3,228**	**115**	**–**	**3,343**

In thousands of EUR	Balance at January 1, 2008	Recognized in profit or loss	Acquired in business combinations	Balance at December 31, 2008
Deferred tax assets				
Intangible assets	14	(14)	–	–
Goodwill	–	16	–	16
Property, plant and equipment	150	112	–	262
Inventories	40	(40)	–	–
Trade receivables	59	(41)	–	18
Tax loss carry forward	3,251	1,814	–	5,065
./. Allowance	(1,446)	(1,774)	–	(3,220)
Total deferred tax assets	**2,068**	**73**	**–**	**2,141**
Deferred tax liabilities				
Intangible assets	283	(7)	2,535	2,811
Property, plant and equipment	38	–	379	417
Total deferred tax liabilities	**321**	**(7)**	**2,914**	**3,228**

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 1.8 million (2008: EUR 1.8 million) an amount of EUR 0 (2008: EUR 0) is related to entities that have suffered a loss in either 2009 or 2008 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, 2009 amounts to EUR 6.4 million (2008: EUR 3.2 million).

12. Earnings per share

Profit attributable to ordinary shareholders

The calculation of basic earnings per share at December 31, 2009 was based on the profit attributable to ordinary shareholders and amounts to EUR 5.06 million (2008: EUR 13.6 million).

In thousands of shares	2009	2008
Number of ordinary shares	13,198	13,309
Capital increase	168	–
Effect of share buyback	–	(188)
Shares given out for acquisition	50	42
Employee bonus shares	19	24
Weighted average number of ordinary shares at December 31	**13,435**	**13,187**

Basic earnings per share

In thousands of EUR and shares, except earnings per share	Consolidated 2009	Consolidated 2008
Profit attributable to ordinary shareholders	5,060	13,628
Weighted average number of ordinary shares at December 31	13,435	13,187
Earnings per share (EUR)	**0.38**	**1.03**

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 fifth and sixth tranche. The other tranches do not have a dilutive effect.

- The average market share price was EUR 11.29 (2008: EUR 21.65).
- The effective tax rate is 0 %.

In thousands of shares	Consolidated 2009	Consolidated 2008
Weighted average of ordinary shares outstanding	13,435	13,187
Effect of potential dilutive shares		
Share options	21	28
Potential shares to be issued for Xytec acquisition	–	66
Weighted average of ordinary shares at December 31	**13,456**	**13,281**

Diluted earnings per share

In thousands of EUR and shares, except earnings per share	Consolidated 2009	Consolidated 2008
Profit attributable to ordinary shareholders	5,060	13,628
Weighted average number of ordinary shares at December 31	13,456	13,281
Diluted earnings per share (EUR)	**0.38**	**1.03**

13. Treasury stock

No shares were acquired during the financial year 2009.

In conjunction with the stock plan 5,000 shares were granted to a member of the Management Board in March 2009 and SMARTRAC granted 19,941 bonus shares to the Management Board and selected employees with a fair value of EUR 166,000 decreasing the treasury stock by EUR 753,000. Additionally 66,184 shares were granted relating to the acquisition of Xytec, decreasing the treasury stock by EUR 1,995,000.

The table below shows the development of treasury stock:

Month	Number of shares	Average share price in EUR
Total as at January 1, 2008	**190,644**	
February 2008 (share buyback)	86,189	35.19
March 2008 (share buyback)	101,132	33.91
March 2008 (share based acquisition)	(49,470)	29.05
April 2008 (conversion of bonus in shares according to stock plan)	(5,936)	29.90
April 2008 (share buyback)	32,849	32.49
August 2008 (bonus shares rendered)	(24,176)	30.13
September 2008 (locked share bonus)	(29,656)	30.13
Total as at December 31, 2008	**301,576**	**30.14**
March 2009 (bonus shares rendered)	(19,941)	30.14
March 2009 (conversion of bonus into shares according to stock plan)	(5,000)	30.14
March 2009 (share based acquisition)	(66,184)	30.14
Movement current year	**(91,125)**	**30.14**
Total as at December 31, 2009	**210,451**	**30.14**

14. Property, plant and equipment

In thousands of EUR	Land	Buildings and building improvements	Vehicles
Cost			
Balance at January 1, 2008	754	7,030	41
Acquired through business combinations	176	1,648	66
Acquisitions	321	2,615	96
Reclassification*	–	1,291	–
Disposals	–	(37)	–
Currency effects	–	22	(9)
Balance at December 31, 2008	**1,251**	**12,569**	**194**
Accumulated depreciation			
Balance at January 1, 2008	–	1,587	38
Depreciation charge for the year	–	788	28
Disposals	–	(17)	–
Currency effects	–	2	(1)
Balance at December 31, 2008	**–**	**2,360**	**65**
Carrying amounts			
At January 1, 2008	754	5,443	3
At December 31, 2008	**1,251**	**10,209**	**129**
Cost			
Balance at January 1, 2009	1,251	12,569	194
Acquired through business combinations	–	–	–
Acquisitions	–	510	91
Reclassification*	–	284	–
Disposals	–	(32)	(28)
Currency effects	(1)	(3)	24
Balance at December 31, 2009	**1,250**	**13,328**	**281**
Accumulated depreciation			
Balance at January 1, 2009	–	2,360	65
Depreciation charge for the year	–	1,265	46
Disposals	–	(20)	(11)
Currency effects	–	14	18
Balance at December 31, 2009	**–**	**3,619**	**118**
Carrying amounts			
At January 1, 2009	1,251	10,209	129
At December 31, 2009	**1,250**	**9,709**	**163**

* Reclassified to property, plant and equipment from intangible assets

Machinery	Tools and equipment	Furniture and fixtures	Office equipment	Construction in progress	Consolidated
22,558	2,859	565	1,059	931	35,797
3,016	3	9	87	461	5,466
4,369	709	107	307	1,893	10,417
1,275	17	11	12	(2,420)	186
(48)	–	(5)	(5)	(212)	(307)
(90)	5	(9)	(1)	1	(81)
31,080	**3,593**	**678**	**1,459**	**654**	**51,478**
5,495	1,222	219	357	–	8,918
2,423	570	104	246	–	4,159
(17)	–	(1)	(2)	–	(37)
(6)	1	(1)	3	–	(2)
7,895	**1,793**	**321**	**604**	**–**	**13,038**
17,063	1,637	346	702	931	26,879
23,185	**1,800**	**357**	**855**	**654**	**38,440**
31,080	3,593	678	1,459	654	51,478
7,500	–	–	–	–	7,500
2,950	442	53	230	1,375	5,651
898	21	(1)	108	(1,310)	–
(371)	–	(1)	(15)	(193)	(640)
505	–	16	23	–	564
42,562	**4,056**	**745**	**1,805**	**526**	**64,553**
7,895	1,793	321	604	–	13,038
3,529	629	114	323	–	5,906
(1)	–	(2)	(16)	–	(50)
86	(2)	8	33	–	157
11,509	**2,420**	**441**	**944**	**–**	**19,051**
23,185	1,800	357	855	654	38,440
31,053	**1,636**	**304**	**861**	**526**	**45,502**

15. Intangible assets

With the exception of internally generated development costs (2009: EUR 2.7 million; 2008: EUR 1.7 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, 2008	5,507	2,444	908	–	493	9,352
Acquired through business combinations	38,692	116	130	1,336	7,124	47,398
Additions	–	620	821	1,749	–	3,190
Reclassification*	–	–	–	(171)	(15)	(186)
Disposals	–	–	–	–	–	(1)
Currency effects	48	(7)	(7)	2	7	43
Balance at December 31, 2008	**44,247**	**3,173**	**1,851**	**2,916**	**7,609**	**59,796**
Amortization						
Balance at January 1, 2008	–	291	118	–	58	467
Acquired through business combinations	–	–	7	–	–	7
Amortization	–	170	167	78	602	1,017
Reclassification*	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Currency effects	–	(47)	(1)	–	1	(46)
Balance at December 31, 2008	**–**	**414**	**292**	**78**	**661**	**1,445**
Carrying amounts						
At January 1, 2008	5,507	2,153	790	–	435	8,885
At December 31, 2008	**44,247**	**2,759**	**1,560**	**2,838**	**6,948**	**58,351**
Cost						
Balance at January 1, 2009	44,247	3,173	1,851	2,916	7,609	59,796
Acquired through business combinations	–	477	–	150	1,044	1,671
Additions	8	421	322	2,739	32	3,522
Reclassification	–	–	114	(317)	221	18
Disposals	–	–	(5)	–	(203)	(208)
Currency effects	155	–	12	(3)	(68)	96
Balance at December 31, 2009	**44,410**	**4,071**	**2,294**	**5,485**	**8,635**	**64,895**
Amortization						
Balance at January 1, 2009	–	414	292	78	661	1,445
Amortization	–	284	323	640	961	2,208
Reclassification*	–	–	(14)	15	17	18
Disposals	–	–	(5)	–	–	(5)
Currency effects	–	(2)	1	(1)	(71)	(73)
Balance at December 31, 2009	**–**	**696**	**597**	**732**	**1,568**	**3,593**
Carrying amounts						
At January 1, 2009	44,247	2,759	1,560	2,838	6,948	58,351
At December 31, 2009	**44,410**	**3,375**	**1,697**	**4,753**	**7,067**	**61,302**

* Reclassified to property, plant and equipment

Goodwill results from business combinations of the financial year 2008 and 2007.

The management of SMARTRAC considers the smallest identifiable group of assets to be the business units of the Group. At the beginning of the fiscal year 2009 the segments of the Group were reorganized into segments Security and Industry. Furthermore the Group established two business units as part of each segment. Through this new business unit organization, it is possible to identify the smallest identifiable group of assets on a more detailed level as opposed to the identified groups of assets in 2008, namely the Standard segment and the High Security segment.

Therefore the Group uses the business unit as a Cash generating unit for the purpose of performing the impairment test.

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	2009
eID	1,783
Cards	4,098
Industry & Logistics	37,200
Tickets & Labels	1,329
Total	**44,410**

SMARTRAC performed its annual goodwill impairment tests at December 31, 2009. 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 both cash 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 and amount to 11.83 %, on a pre-tax basis. The cash flows were based on the Groups budget and were planned on a detailed basis covering period of three to four years. The growth rate used to extrapolate cash flow projections beyond the period covered is 1.5 %.

The patents and patent rights relate to technical inventions and innovations used (or to be used) in production by the Group and/or licensed to other parties. Other intangible assets relate to customer relationships, technology and supply agreements that were mainly capitalized in the course of purchase price allocations. All intangible assets have limited useful lives and are amortized on a straight- line basis.

16. Inventories

In thousands of EUR	Consolidated 2009	Consolidated 2008
Raw materials and consumables	14,279	14,706
Work in progress	3,432	2,000
Finished goods	3,557	2,722
Total inventories	**21,268**	**19,428**

In the financial year 2009 inventories (raw materials) of EUR 281,000 have been written off to zero (2008: EUR 56,000).

17. Trade receivables

In thousands of EUR	Consolidated 2009	Consolidated 2008
Third parties	34,407	21,805
Impairments	(651)	(559)
Total trade receivables	**33,756**	**21,246**

Trade receivables are shown net of impairments amounting to EUR 651,000 (2008: EUR 559,000) of which EUR 406,000 (2008: EUR 306,800) arise from five customers that have gone bankrupt.

18. Other current assets

In thousands of EUR	Consolidated 2009	Consolidated 2008
Advance for equipment purchases	603	–
Prepayments to vendors	42	651
Prepaid expenses	1,091	888
FX-hedging contracts	8	181
Other	480	904
Total	**2,224**	**2,624**

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

19. Short-term investments

At December 31, 2009 SMARTRAC had invested EUR 591,200 in securities (2008: EUR 10.4 million). They were designated on initial recognition as one to be measured at fair value with fair value changes in profit and loss (financial income / expenses: change in fair value).

The decrease of EUR 9.8 million relates to the repayment of the German Government Bonds at maturity date during the year.

20. Cash and cash equivalents

In thousands of EUR	Consolidated 2009	Consolidated 2008
Cash	9,676	11,029
Short-term cash deposits	29,143	11,503
Cash and cash equivalents	**38,819**	**22,532**
Bank overdraft	(5)	(353)
Cash and cash equivalents and bank overdrafts as stated in the cash flow statement	**38,814**	**22,179**

At December 31, 2009, the Group held a total of EUR 29.1 million (2008: EUR 11.5 million) in short-term deposits of which EUR 29.1 million (2008: EUR 11.5 million) have a total period less than two months.

21. Equity

Share capital

In thousands of shares	Consolidated 2009	Consolidated 2008
Outstanding at January 1	13,198	13,309
Issued for cash	1,350	–
Share buyback	–	(220)
Shares rendered for acquisition	66	49
Employee bonus shares	25	60
Outstanding at December 31	**14,639**	**13,198**

The Company holds own shares. Reference is made to note 13.

Authorized share capital

During the Annual General Meeting of Shareholders on April 29, 2009 the shareholders have approved the amendment of the Articles of Association. One amendment was the increase of the authorized share capital in order to implement preference shares. 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. 14.8 million ordinary shares are issued and fully paid.

Share premium reserve

The increase in share premium in the financial year 2009 is mainly due to the excess of proceeds over par value from the capital increase. Additionally bonus shares were granted and options vested in the course of the year 2009. Additionally 66,184 shares were granted relating to the acquisition of Xytec, decreasing share premium by EUR 1,995,000.

Capital increase

In November 2009 SMARTRAC N.V. increased its share capital with the exclusion of shareholder subscription rights by an amount of EUR 674,999.50 (1,349,999 bearer shares) to a maximum of EUR 7,424,999.50 (14,849,999 bearer shares) in exchange for cash contribution.

The placement was done on the basis of an accelerated bookbuilding. 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 success fees for the sole lead manager and bookrunner (EUR 627,000) and legal fees (EUR 50,000).

SMARTRAC used the proceeds on the one hand to finance the acquisition of OTI's and MCT's inlay manufacturing assets and on the other hand to increase financial flexibility for further growth of the company.

In thousands of shares		Consolidated 2009
Gross proceeds		20,925
Par value of new shares – credited to share capital		675
Excess of gross proceeds over par value credited to share premium		20,250
Less	– Transaction costs of the capital increase charged to share premium	(677)
	– Tax effect of transaction costs credited to share premium	–
Net movement in share premium arising from capital increase		**19,573**

22. 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 27.

In thousands of EUR	Consolidated 2009	Consolidated 2008
Non-current liability		
Secured loan	50,532	1,142
	50,532	**1,142**
Current liabilities		
Current portion of secured loan	490	462
	490	**462**
Interest-bearing loans and borrowings		
Short-term bank borrowings	–	53,382
	–	**53,382**
	51,022	**54,986**

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. This facility is secured by a pledge of the shares of SMARTRAC TECHNOLOGY Ltd. owned by SMARTRAC N.V. and has replaced the existing bridge financing facility used to finance the acquisition of Sokymat Automotive GmbH (now SMARTRAC TECHNOLOGY GERMANY GmbH) end of July. The syndicated multicurrency credit facility has standard market terms and conditions including a leverage and an equity covenant. In the financial year 2009, the covenants were fulfilled at any time. Therefore the usage of EUR 49.9 million as of December 31, 2009 of this facility is now recognized under the position secured loans. The residual amounts are mainly borrowings under a credit facility agreed with Deutsche Bank S.A. in Brazil and used to refinance the buildup of the Brazilian SMARTRAC entity. Maturity of the credit facility is in December 2012. The bank borrowings totaling EUR 475,000 are secured by a pledge on a securities account of SMARTRAC N.V. with a maximum pledge amount of EUR 2 million.

Short term bank borrowings

As of December 31, 2009 there was no cash usage of the existing EUR 12 million revolving umbrella credit facility, which was agreed between Deutsche Bank AG and SMARTRAC N.V. in 2008.

23. Employee benefits

Under Thai law the Group is required to make severance payments to employees who reach retirement age while employed at SMARTRAC TECHNOLOGY Ltd. These lump sum payments are accounted for as unfunded post employment benefits in the balance sheet. Additionally, the Group has a defined 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 2009	Consolidated 2008
Balance at the beginning of the year	453	147
Acquisition through business combinations	–	190
Current service costs	147	89
Interest on obligation	25	26
Actuarial gain or losses	10	1
Defined benefit obligation as at end of the year	**635**	**453**

No benefits were paid in 2009 and 2008.

Development of plan assets

The following table shows the change in plan assets:

In thousands of EUR	Consolidated 2009	Consolidated 2008
Balance at the beginning of the year	136	–
Acquisition through business combinations	–	108
Contribution by employer	34	33
Expected return on plan assets	5	(5)
Actuarial gain or losses on plan assets	17	–
Plan assets as at end of the year	**192**	**136**

Pension plan assets fully consist of a life insurance. The applied expected and actual rate of return for plan assets is 4 % (2008: 4 %).

Development of net liability

In thousands of EUR	Consolidated 2009	Consolidated 2008
Defined benefit obligation unfunded	310	174
Defined benefit obligation wholly or partly funded	325	279
Plan assets	(192)	(136)
Unrecognized actuarial gains and losses	(47)	–
Defined benefit liability	**396**	**317**

Expense recognised in the income statement

In thousands of EUR	Consolidated 2009	Consolidated 2008
Current service costs	147	89
Interest on obligation	25	26
Actuarial gain or losses	10	1
Expected return on plan assets	(5)	(5)
Actuarial gain or losses on plan assets	(17)	–
Total	**160**	**111**

These expenses were classified under administrative expenses.

The Group expects to contribute EUR 61,000 to its defined benefits plans in 2010.

Weighted average assumptions

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

In thousands of EUR	Consolidated 2009	Consolidated 2008
Discount rate at December 31	4.22 %	6.00 %
Future salary increases	6.00 %	6.00 %
Price inflation	2.96 %	3.50 %

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.

24. Trade and non-trade payables

In thousands of EUR	Consolidated 2009	Consolidated 2008
Other trade payables	18,318	11,337
Total trade payables	**18,318**	**11,337**
Other non-trade payables	1,870	3,086
Total non-trade payables	**1,870**	**3,086**
Total trade and non-trade payables	**20,188**	**14,423**

25. Provisions

In thousands of EUR	Warranties	Restructuring	Total
Balance at January 1, 2009	–	–	–
Assumed in a business combination	130	–	130
Provisions made during the period	47	255	302
Provisions used during the period	–	–	–
Provisions reversed during the period	–	–	–
Balance at December 31, 2009	**177**	**255**	**432**

Warranty provisions for former machinery sales of MCT/OTI result from the MCT/OTI asset deal (Note 4).
Provisions for restructuring of multitape GmbH amount to EUR 255,000 (2008: zero).
They contain rent (EUR 150,000), renovation (EUR 50,000), downsizing (EUR 45,000) and lawyer costs (EUR 10,000).
The use of all provisions is expected for the year 2010.

26. Other current liabilities

In thousands of EUR	Consolidated 2009	Consolidated 2008
Accrued expenses	2,476	3,409
Prepayments from customers	1,106	542
Other liabilities	2,380	1,635
FX-hedging contracts	97	–
Total other current liabilities	**6,059**	**5,586**

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).

27. 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 assumes the responsibility 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 Controlling and Finance 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 managing 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. And 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, 2009 the Group reports a comparably low level of indebtedness. The net financial debt position at the end of 2009 was EUR 11.6 million (2008: net debt position amounting to EUR 22.4 million). The liquidity reserve was EUR 39.4 million (cash and cash equivalent EUR 38.8 million and liquid short-term investments EUR 591,000).

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, 2009, only the guarantee facilities are drawn and a total of EUR 9.7 million of the umbrella credit facility amount is unused (December 31, 2008: EUR 8.9 million).

On July 14, 2009 SMARTRAC successfully completed its first transaction in the syndicated loan market. The Company 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 was provided by Deutsche Bank Luxemburg S.A. and Berenberg Bank and was arranged by Deutsche Bank AG. SMARTRAC has successfully transferred the existing one-year bridge financing into a mid-term credit facility. The credit facility 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 used has a fixed rate convention until maturity on June 30, 2012. The effective interest rate is 6.35 %. As of December 31, 2009 a total amount of EUR 50.0 million was drawn. A total of EUR 14.5 million of the credit facility is unused as at December 31, 2009.

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 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, short term investments 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, 2009 and 2008 significant concentrations of credit risk of a few key accounts were identified. In general those accounts are closely monitored by analyzing its 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, which is maintained to manage the liquidity risk, is currently mainly invested in short term bank deposits using a broad range of different counterparties. The underlying investment strategy has a focus on stable interest generation, short term availability and avoidance of fair value changes.

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 2009	Consolidated 2008
Trade receivables	33,756	21,246
Other current assets	485	1,085
Short-term investments	591	10,399
Cash and cash equivalents	38,819	22,532
Total	**73,651**	**55,262**

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

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

In thousands of EUR	Consolidated 2009	Consolidated 2008
Asia	3,088	2,099
Europe	20,974	12,732
North America	6,667	4,652
Latin America	2,866	1,738
Others	161	25
Total	**33,756**	**21,246**

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

With the successful transfer of the short-term bridge financing facility into the syndicated mid-term EUR 65 million credit facility SMARTRAC has significantly reduced its interest rate risk.

At December 31, 2009 EUR 49.9 million of the total financial liabilities of EUR 51.0 million of the Group have a fixed interest rate. In relation to the liquidity reserve maintained it was decided to focus at first on short-term availability.

The interest 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.

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

Sensitivity analyis

From an accounting and treasury point of view at December 31, 2009, an increase of 1 % in interest rates of financial instruments would increase the Group's profit for the year before tax by EUR 260,000 (2008: decrease by EUR 314,000) 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 risk (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 majority of the Group's bank borrowings and loans at December 31, 2009 and 2008 were in EUR. Please refer to note 22.

Sensitivity analyis

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 63,000 for the year 2009 (2008: EUR 669,000).

The tables below show the net foreign exchange exposure by major currencies as of December 31, 2009 and 2008.

As at December 31, 2009 **Denominated in thousands of foreign currency**	**USD**	**THB**	**Effect in EUR**
Trade receivables	21,442	9,051	
Other current assets	588	15,668	
Financial assets	**22,030**	**24,719**	**–**
Trade payables	12,208	103,733	
Non trade payables	78	41,174	
Loans	5,352	–	
Financial liabilities	**17,638**	**144,907**	**–**
Gross balance sheet exposure (not hedged)	**4,392**	**(120,188)**	**–**
Effect of 10 % appreciation of the Euro, denominated in thousands of EUR	(303)	240	(63)
Effect of 10 % appreciation of the Euro, other foreign currencies, denominated in thousands of EUR			–
Total foreign currency effect	**(303)**	**240**	**(63)**

As at 31 December 2008 Denominated in thousands of foreign currency	USD	THB	Effect in EUR
Trade receivables	22,467	4,084	
Other current assets	376	7,921	
Financial assets	**22,843**	**12,005**	**–**
Trade payables	3,928	204,763	
Non trade payables	650	28,832	
Loans	2,384	440	
Financial liabilities	**6,962**	**234,035**	**–**
Gross balance sheet exposure (not hedged)	**15,881**	**(222,030)**	**–**
Effect of 10 % appreciation of the Euro, denominated in thousands of EUR	(1,128)	459	(669)
Effect of 10 % appreciation of the Euro, other foreign currencies, denominated in thousands of EUR			–
Total foreign currency effect	**(1,128)**	**459**	**(669)**

Effects of currency translation

Many SMARTRAC subsidiaries are located outside the Euro zone. Since the financial reporting currency of the Group is the Euro, the financial statements of these subsidiaries are translated into EUR 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 EUR 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, 2009 the Group has derivatives with a total market value of EUR 85,000 (2008: EUR 181,000). The derivatives were concluded to hedge identified cash risk exposures related to EUR/USD and USD/THB exchange rate fluctuations. Plain-vanilla foreign exchange options and forwards were used here 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 2009 the return on equity was 4 % (2008: 14 %) 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 2008
- SMARTRAC stock plan

Based only on the granted stock and stock options so far, at present employees (excluding board members) would hold approximately 3 % 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 13 'Treasury Stock'.

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.

28. Leases

Leases as lessee

Operating leases

Non-cancellable operating lease rentals are payable as follows:

In thousands of EUR	Consolidated 2009	Consolidated 2008
Less than one year	925	1,105
Between one and five years	1,730	3,095
Longer than five years	–	121
Total	**2,655**	**4,321**

The Group has contractual operating leases over office equipment amounting to EUR 3,000 (2008: EUR 56,000), buildings amounting to EUR 1.6 million (2008: EUR 2.4 million) and vehicles amounting to EUR 418,000 (2008: EUR 637,000). During year ended December 31, 2009, an amount of EUR 975,000 (2008: EUR 796,000) was recognized as an expense in profit and loss in respect of operating leases.

Finance leases

SMARTRAC leases machinery under finance leases. In 2009 and 2008 finance lease arrangements existed.

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

In thousands of EUR	Consolidated 2009	Consolidated 2008
Machinery		
Acquisition value	417	417
Accumulated depreciation	(88)	(46)
Net carrying amount	**329**	**371**

The following reconciliation provides a breakdown at year end:

	Consolidated 2009			Consolidated 2008		
In thousands of EUR	Minimum lease payment	Interest component	Present value	Minimum lease payment	Interest component	Present value
Within 1 year	93	14	79	93	20	73
In 1 to 3 years	177	12	165	186	23	163
In 3 to 5 years	–	–	–	84	3	81
After 5 years	–	–	–	–	–	–
Total	**270**	**26**	**244**	**363**	**46**	**317**

The material finance leasing arrangements contain machinery. The uncancellable duration is 48 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).

29. Share based payment

Stock option plan

On February 8, 2006, the Company's Management Board established a stock option plan (the Stock Option Plan) 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 new stock option plan (Stock Option Plan 2008) for members of Management, Senior Management and selected employees of the Group which is applicable to the fourth, fifth and sixth tranche. The Stock Option Plan 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.

Stock options under the Stock Option Plan provide rights to purchase shares in the Company. Total expenses for the first to the sixth tranche of the SMARTRAC stock option scheme are recorded at December 31, 2009. They 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 for the Stock Option Scheme are as follows:

In thousands of EUR	Consolidated 2009	Consolidated 2008
Tranche 1	–	108
Tranche 2	116	479
Tranche 3	666	659
Tranche 4	76	33
Tranche 5	58	–
Tranche 6	6	–
Total expenses	**922**	**1,279**

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 are 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 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 2008	Exercise price	Grant date	Current price of underlying shares	Expected volatility	Exp. annual employee turnover rate	Risk-free interest rate	Option life expiration
Tranche 1	17.00	August 17, 2006	16.80	55 %	5 %	3.60 %	17 August 2012
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 4	14.80	August 8, 2008	16.55	45 %	5 %	4.02 %	8 August 2014
Tranche 5	8.34	March 24, 2009	8.69	55 %	5 %	2.21 %	March 24, 2015
Tranche 6	12.04	August 20, 2009	12.18	55 %	5 %	2.11 %	August 20, 2015

Stock option activity of the SMARTRAC Group during 2009 was as follows:

Consolidated 2009	Outstanding Jan. 1, 2009	Granted	Exercised	Forfeited	Outstanding Dec. 31, 2009
Tranche 1	53,250	–	–	–	53,250
Tranche 2	147,450	–	–	(1,750)	145,700
Tranche 3	152,000	–	–	–	152,000
Tranche 4	49,438	–	–	(2,472)	46,966
Tranche 5	–	95,514	–	(16,618)	78,896
Tranche 6	–	12,000	–	–	12,000
Total	**402,138**	**107,514**	**–**	**(20,840)**	**488,812**

In the financial year 2008 53,806 options were granted and 402,138 options were outstanding as at December 31, 2008.

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 1	6.66
Tranche 2	6.86
Tranche 3	9.11
Tranche 4	3.44
Tranche 5	1.87
Tranche 6	2.57

Total expenses for the first to the sixth tranche are reported under administrative expenses and as an increase in shareholder's equity.

The expected life used in the model for the tranche 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

In conjunction with bonus shares granted to the Management Board and selected employees of SMARTRAC, treasury stock (see note 13) decreased by 24,941 shares (2008: 59,768 shares) . With respect to restricted bonus shares, please refer to note 33.

30. 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 two 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 seven years (see note 11).
- 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.

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, 2009, 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 11 'Corporate income tax'.

Multitape Technology (M) Sdn. Bhd. received the official approval for the pioneer status by the MITI (Ministry of International Trade and Industry) in July 2009. The pioneer status entitles the company Multitape Technology (M) Sdn. Bhd. for an income tax exemption for a period of 5 years. The pioneer status activation expires in June 2011. This means at the latest from June 2011 onwards the pioneer status is valid for 5 years.

31. Capital commitments

As at December 31, 2009, capital commitment amounting to EUR 7,000 exists with respect to land and buildings (December 31, 2008: EUR 0).

As at December 31, 2009, the Group has outstanding purchase orders for machinery amounting to EUR 28,000 (December 31, 2008: EUR 371,000). The Group has done down payments on these purchase orders in 2009 amounting to EUR 0 (2008: EUR 134,000). Additionally the Group has orders for tools and equipment amount EUR 104,000 (2008: EUR 0).

Based on cooperation and frame contracts, the Group is commited to incur capital expenditure for machinery amounting to EUR 2.5 million in the year 2010, EUR 2.5 million in the year 2011, EUR 2.0 million in the year 2012 and EUR 2.0 million in the year 2013.

32. 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 provided for.

Off balance sheet commitments

At December 31, 2009 the Group has bank guarantees granted to utility suppliers and for litigation costs amounting approximately EUR 2.3 million (2008: EUR 255,000). This high increase is mainly due to the implementation of new bank guarantees in the context of e-Passport tenders, utility service agreements and a cooperation- / frame purchase agreement.

33. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 1) and with its (former) directors, supervisory directors, executive officers and entities controlled by its directors and executive officers. In the ordinary course of business the Group has transactions with various organizations with which certain of its members of the Supervisory Board or Management Board are associated but no transactions responsive to this item were conducted in 2009. Likewise, there have been no transactions with members of the Supervisory Board or Management Board, member of the Executive Committee, any other senior management personnel or any family member of such persons. The members of the Management Board and the Executive Committee are considered to be the key management personnel as defined in IAS 24 'Related parties'.

Transactions with key management

As at December 31, 2009 directors of the Company and their immediate relatives control 22.3 % of the voting shares of the Company (December 31, 2008: 22.7 %).

Total remuneration is included in 'personnel expenses' (see note 8). The remuneration for directors and executive officers is as follows:

Remuneration of key management

The Management Board received the following salaries, performance-related bonuses and other compensations (presented on accrual basis):

In thousands of EUR	Dr. Christian Fischer	Manfred Rietzler	Stephen Juge	Anthony E. Driessen	Total
Salary					
2009	**420**	**250**	**200**	**–**	**870**
2008	420	250	192*	8*	870
Bonus (non-share based)					
2009	**324**	**–**	**–**	**–**	**324**
2008	439	–	50	–	489
Housing and others					
2009	**–**	**21**	**36**	**–**	**57**
2008	–	38	35	–	73
Total					
2009	**744**	**271**	**236**	**–**	**1,251**
2008	859	288	277	8	1,432

* pro-rata for the time of employment

In addition, Dr. Christian Fischer received a payment of EUR 210,000 for the purpose of personal pension arrangement. For details about the remuneration policy of directors of the Management Board please refer to the section 'Corporate governance report' of the Annual Report.

Incentives

In 2009, stock options and shares were granted to the members of the Management Board. No options were exercised or expired during financial year 2009 and 2008. The aggregate numbers of (performance-related) stock options held by the members and the related option expenses (IFRS 2) of the Management Board were as follows:

Management Board – long-term compensation	Exercise price in EUR	Dr. Christian Fischer	Manfred Rietzler	Stephen Juge	Anthony E. Driessen	Total
Tranche 1 (vested)						
2006	17.00	5,000	–	–	–	5,000
Tranche 2 (vested)						
2007	22.40	15,000	–	–	5,000*	20,000
Tranche 3 (vested)						
2007	39.20	100,000	–	–	–	100,000
Tranche 4 (not yet vested)						
2008	14.80	18,197	–	4,332	–	22,529
Tranche 5 (not yet vested)						
2009	**8.34**	**8,021**	**–**	**13,368**	**–**	**21,389**
Total						
2009		**146,218**	**–**	**17,700**	–*	**163,918**
2008		138,197	–	4,332	5,000*	147,529

* Options forfeited in 2008

Expenses for vesting options (IFRS 2) in thousands of EUR	Dr. Christian Fischer	Manfred Rietzler	Stephen Juge	Anthony E. Driessen	Total
Tranche 1 (vested)					
2009	**–**	**–**	**–**	**–**	**–**
2008	10	–	–	–	10
Tranche 2 (vested in the course of 2009)					
2009	**13**	**–**	**–**	**–**	**13**
2008	51	–	–	–	51
Tranche 3 (vested in the course of 2009)					
2009	**418**	**–**	**–**	**–**	**418**
2008	456	–	–	–*	456
Tranche 4 (not yet vested)					
2009	**31**	**–**	**8**	**–**	**39**
2008	13	–	3	–	16
Tranche 5 (not yet vested)					
2009	**6**	**–**	**9**	**–**	**15**
2008	–	–	–	–	–
Tranche 6 (not yet vested)					
2009	**–**	**–**	**–**	**–**	**–**
2008	–	–	–	–	–
Total					
2009	**468**	**–**	**17**	**–**	**485**
2008	530	–	3	–	533

* Options forfeited in 2008

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

Number of shares granted (Stock plan)	Dr. Christian Fischer	Stephen Juge	Total
2009	**16,696***	**1,499**	**18,195**
2008	12,754*	1,623	14,377

* Therof 5,936 shares converted from 2007 bonus and 5,000 shares converted from 2008 bonus

Fair value of shares granted (Stock plan):

In thousands of EUR	Dr. Christian Fischer	Stephen Juge	Total
2009	**98**	**13**	**111**
2008	108	26	134

Restricted bonus shares Board of Directors:

In thousands of EUR	Dr. Christian Fischer
2009	**182**
2008	–

The expenses for restricted stock bonus shares refer to 10,936 converted shares that will be issued after a vesting period of 2 years. The exercise price of restricted bonus shares is EUR 0.00. The fair value at grant date amounts to EUR 31.90 (5,936 shares) and EUR 8.69 (5,000 shares) per share and reflects the observable market price. The grant of restricted stock bonus is based on the stock plan of the Company. There were no expected dividends included in the measurement of fair value and no other features of the granted restricted bonus shares was incorporated in the measurement of fair value.

Remuneration of the Supervisory Board

In thousands of EUR	Prof. Dr. Bernd Fahrholz	Wolfgang Huppenbauer	Jan C. Lobbezoo	Total
Base compensation				
2009	**90**	**30**	**30**	**150**
2008	90	30	30	150

Grant of options to a member of the Supervisory Board

Number of options granted	Prof. Dr. Bernd Fahrholz
Tranche 2 (vested)	
2007	20,000
Tranche 3 (vested)	
2007	15,000

Due to the new 2008 Stock Option Scheme, no options are granted to members of the Supervisory Board starting 2008. No options were exercised or expired during financial year 2009 and 2008.

Expenses for vesting options (IFRS 2)

In thousands of EUR	Prof. Dr. Bernd Fahrholz
Tranche 2 (vested in the course of 2009)	
2009	**17**
2008	69
Tranche 3 (vested in the course of 2009)	
2009	**63**
2008	68
Total	
2009	**80**
2008	137

Grant of shares to members of the Supervisory Board

Due to amended stock plan 2008, no shares are granted to members of the Supervisory Board starting 2008.

Other related party transactions and balances

Related parties are summarised below.

Mr. Manfred Rietzler is both Chief Technology Officer and shareholder of SMARTRAC N.V..

Name	Type of business	Relationship	Directors/shareholders
Emsquares AG	Development and sale of reading devices	Shareholder	Mr. Manfred Rietzler
Padma Netherlands B.V.	Holding	Shareholder	Mr. Manfred Rietzler

34. Auditor's fees and services

The following table provides a breakdown of auditing fees recognized as expenses in the 2009 financial year:

In thousands of EUR	KPMG Accountants N.V.	Other KPMG	KPMG Network total 2009
Audit services	154	142	296
Non audit	–	20	20
Fiscal advice	–	190	190
Advisory services	–	29	29
Total	**154**	**381**	**535**

In thousands of EUR	KPMG Accountants N.V.	Other KPMG	KPMG Network total 2008
Audit services	133	154	287
Non audit (review)	60	40	100
Fiscal advice	–	195	195
Advisory services	50	93	143
Total	**243**	**482**	**725**

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 in 2008. 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.

35. Subsequent events

There are no subsequent events to be reported.

Company financial statements 2009 of SMARTRAC N.V.

Company balance sheet before appropriation of profits

As at December 31

In thousands of EUR	Note	2009	2008
Assets			
Property, plant and equipment		22	28
Intangible assets	4	169	181
Investment in subsidiaries	5	51,354	52,653
Deferred tax assets	6	1,750	1,750
Total non-current assets		**53,295**	**54,612**
Loans to subsidiary companies	7	84,586	68,629
Trade receivables	8	160	–
Other current assets	9	7,562	6,797
Short-term investments	10	591	10,399
Cash and cash equivalents	11	30,013	12,087
Total current assets		**122,913**	**97,912**
Total assets		**176,207**	**152,524**
Equity			
Issued capital	12	7,425	6,750
Share premium	13	75,047	56,911
Translation reserve	13	(55)	98
Retained earnings	13	48,547	43,487
Treasury stock	13	(6,344)	(9,092)
Total equity attributable to the holders of the company		**124,620**	**98,154**
Secured loan	14	49,867	–
Total long-term liabilities		**49,867**	**–**
Non-trade payables	15	870	988
Current liabilities to subsidiary companies	16	408	1,778
Interest-bearing loan	17	–	50,478
Other current liabilities	18	443	1,126
Total current liabilities		**1,721**	**54,370**
Total equity and liabilities		**176,207**	**152,524**

The accompanying notes on page 160 to 167 are an integral part of the company financial statements.

Company income statement

For the years ended December 31

In thousands of EUR	2009	2008
Income after tax from investment in group companies	4,845	13,913
Other income (loss) after tax	215	(285)
Profit for the period attributable to the owner of the parent	**5,060**	**13,628**

The accompanying notes on page 160 to 167 are an integral part of the company financial statements.

Notes to the company financial statements of SMARTRAC N.V. for the year ended 2009

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 EU-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 EU-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 subsidiary companies

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 2009 and in 2008 consist of patents. The decrease in intangibles results from amortization of the patents on a regular basis.

5. Investments in subsidiary companies

In thousands of EUR	2009	2008
Carrying value of investment at January 1	**52,653**	**43,473**
Investments during the year	11	9,905
Equity accounted earnings	4,845	13,913
Dividends received	(6,002)	(14,822)
Currency translation effects	(153)	184
Carrying value of investment at December 31	**51,354**	**52,653**

As per 31 December 2009 (2008), all investments are owned for 100 %.

6. Deferred tax asset

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 2013. Also refer to note 12 of the notes to the consolidated financial statements.

7. Short-term loans to subsidiaries

In thousands of EUR	2009	2008
Subsidiary		
SMARTRAC TECHNOLOGY GmbH	1,890	1,290
SMARTRAC TECHNOLOGY Pte. Ltd.	3,187	3,401
SMARTRAC TECHNOLOGY Brazil B.V.	2,210	2,210
SMARTRAC IP B.V.	4,726	3,552
multitape GmbH	1,377	1,129
SMARTRAC TECHNOLOGY US Inc.	5,428	2,534
Multitape Technology (M) Sdn. Bdh.	12,572	7,651
Xytec Solutions Sdn. Bdh.	200	210
SMARTRAC TECHNOLOGIA INDUSTRIA Ltda.	3,600	2,550
SMARTRAC German Holding GmbH	43,355	43,100
Multitape Holding B.V.	1,042	1,002
SMARTRAC Trading Pte. Ltd.	5,000	–
Total short-term loans to subsidiaries	**84,586**	**68,629**

Terms: All loans have a residual repayment term of less than 12 months and were granted at market interest rates, except the loan to SMARTRAC German Holding GmbH which is due on June 30, 2012.

8. Trade receivables

Trade receivables are shown net of impairments and are due from non-related parties.

9. Other current assets

In thousands of EUR	2009	2008
Receivables from subsidiaries	7,007	6,173
Other receivables	555	624
Other current assets	**7,562**	**6,797**

10. Short-term investments

At December 31, 2009 SMARTRAC had invested EUR 591,200 in securities (2008: EUR 10.4 million).They were designated on initial recognition as one to be measured at fair value with fair value changes in profit and loss.

The decrease of EUR 9.8 million relates to the repayment of the German Government Bonds at maturity date during the year.

11. Cash and cash equivalents

In thousands of EUR	2009	2008
Cash and cash equivalents	30,013	12,087

At December 31, 2009, SMARTRAC held EUR 28.950.000 in seven short-term bank deposits with a maximum maturity of one month.

12. Share capital

In November 2009 SMARTRAC N.V. increased its share capital with the exclusion of shareholder subscription rights by an amount of EUR 674,999.50 (1,349,999 bearer shares) to a maximum of EUR 7,424,999.50 (14,849,999 bearer shares) in exchange for cash contribution.

The placement was done on the basis of an accelerated bookbuilding. 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 success fees for the sole lead manager and bookrunner (EUR 627,000) and legal fees (EUR 50,000).

SMARTRAC used the proceeds on the one hand to finance the acquisition of OTI's and MCT's inlay manufacturing assets and on the other hand increase financial flexibility for further growth of the company.

Authorized share capital

During the Annual General Meeting of Shareholders on April 29, 2009 the shareholders have approved the amendment of the Articles of Association. One amendment was the increase of the authorized share capital in order to implement preference shares. 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. 14,8 million ordinary shares are issued and fully paid.

	2009	2008
Issued ordinary share of EUR 0.50 each	14,849,000	13,500,000

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	Equity attributable to SMARTRAC's shareholders
Balance as at January 1, 2008	**6,750**	**54,463**	**(86)**	**29,859**	**(4,798)**	**86,188**
Net profit for the period	–	–	–	13,628	–	13,628
Other comprehensive income (loss), net of tax	–	–	184	–	–	184
Total comprehensive income of the period	**–**	**–**	**184**	**13,628**	**–**	**13,812**
Share buyback	–	–	–	–	(7,529)	(7,529)
Share based payment – options	–	1,279	–	–	–	1,279
Share based payment – shares	–	(732)	–	–	1,798	1,066
Share based acquisition	–	1,900	–	–	1,437	3,337
Balance as at December 31, 2008	**6,750**	**56,911**	**98**	**43,487**	**(9,092)**	**98,154**
Balance as at January 1, 2009	**6,750**	**56,911**	**98**	**43,487**	**(9,092)**	**98,154**
Net profit for the period	–	–	–	5,060	–	5,060
Other comprehensive income (loss), net of tax	–	–	(153)	–	–	(153)
Total comprehensive income (loss) of the period	**–**	**–**	**(153)**	**5,060**	**–**	**4,907**
Par value of new shares – credited to share capital	675	–	–	–	–	675
Excess of gross proceeds over par share value credited to share premium	–	20,250	–	–	–	20,250
Transaction costs of the capital increase charged to share premium	–	(677)	–	–	–	(677)
Share based payment – options	–	922	–	–	–	922
Share based payment – restricted stock	–	182	–	–	–	182
Share based payment – shares	–	(546)	–	–	753	207
Share based acquisition	–	(1,995)	–	–	1,995	–
Balance as at December 31, 2009	**7,425**	**75,047**	**(55)**	**48,547**	**(6,344)**	**124,620**

* The retained earnings as at December 31, 2009 include a legal reserve for capitalized internal development costs amounting to EUR 4.1 million (2008: EUR 1.7 million).

14. Secured loan

In thousands of EUR	2009	2008
Usage of syndicated credit facility	**49,867**	**–**

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. and has replaced the existing bridge financing facility used to finance the acquisition of Sokymat Automotive GmbH (now SMARTRAC TECHNOLOGY GERMANY GmbH) end of July. The syndicated multicurrency credit facility have standard market terms and conditions including a leverage and an equity covenant. In the financial year 2009, the covenants were fulfilled at any time. The effective interest rate is 6.35 percent.

15. Non-trade payables

In thousands of EUR	2009	2008
Creditors – professional fees	752	715
Wage tax	118	273
Total non-trade payables	**870**	**988**

16. Current liabilities to subsidiary companies

In thousands of EUR	2009	2008
SMARTRAC TECHNOLOGY Ltd.	146	229
SMARTRAC TECHNOLOGY GmbH	62	37
SMARTRAC TECHNOLOGY Pte. Ltd.	3	–
SMARTRAC Brazil Technology B.V.	10	10
SMARTRAC IP B.V.	179	–
Xytec Solutions Sdn. Bdh.	8	–
SMARTRAC TECHNOLOGY GERMANY GmbH	–	1,502
Total current liabilities to subsidiary companies	**408**	**1,778**

17. Interest-bearing loan

In thousands of EUR	2009	2008
Loan with Deutsche Bank Luxemburg S.A.	–	50,478
Total interest-bearing loan	**–**	**50,478**

This short-term loan was replaced with a secured mid-term loan on July 27, 2009, see note 14.

18. Other current liabilities

In thousands of EUR	2009	2008
FX-hedging contracts	95	–
Other current liabilities	348	1,126
Total other current liabilities	**443**	**1,126**

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).

19. Compensation by key management

With respect to the remuneration of the members of the Supervisory Board reference is made to note 33 to the consolidated financial statements.

Dr. Christian Fischer and Stephen Juge as members of the Management Board were remunerated by SMARTRAC N.V. Their detailed remuneration is outlined in note 33 to the consolidated financial statements.

The aggregated remuneration expensed by SMARTRAC N.V. was as follows:

In thousands of EUR	Salary without Bonus	Bonuses	Others	Total
2009	**620**	**324**	**36**	**980**
2008	620	439	35	1,094

In addition, Dr. Christian Fischer received a payment of EUR 210,000 for the purpose of personal pension arrangement. This compensation does not meet the criteria of post-employment benefits as defined by IFRS 19.

The detailed incentives for Dr. Christian Fischer and Stephen Juge as members of the Management Board are outlined in note 33 to the consolidated financial statements.

The expenses for vested options to members of the Management Board in the financial year 2009 based on the principles of IFRS 2 amounted to EUR 485,000 (2008: EUR 533,000).

20. 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.

21. Auditor's fees and services

With respect to the auditor's fees and services please refer to note 34 of the consolidated financial statements.

Amsterdam, March 12, 2010

The Management Board

Dr. Christian Fischer Chief Executive Officer	Manfred Rietzler Chief Technical Officer	Stephen Juge Chief Legal Counsel

The Supervisory Board

Prof. Dr. Bernd Fahrholz Chairman	Jan C. Lobbezoo Member	Wolfgang Huppenbauer Member

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 2009 of Smartrac N.V., Amsterdam as set out on pages 90 to 167. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2009, the consolidated statement of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at December 31, 2009, the company income statement for the year then ended and the notes.

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 board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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, 2009, 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, 2009, 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 requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report as set out on pages 6 to 89 is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, March 12, 2010
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 2009 the company has issued 14,489,999 common shares with par value of EUR 0.50 each, which account for 100 percent of the issued share capital of the company.

Article 1b: Not applicable.

Article 1c: As at December 31, 2009 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’):

Article 1d-f: Not applicable.

Article 1g: Shares granted to the members of the Management Board in accordance with SMARTRAC’s Stock Plan as amended in 2008 contain restrictions on the transfer of shares.

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.

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 31 December 2008				
Fortis Investment Management	1,428,893	9.62	1,428,893	9.62
Schroders Plc.	767,131	5.17	493,576	3.32
Mr. Manfred Rietzler (CTO of SMARTRAC)	2,680,000	18.05	2,680,000	18.05

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 authorised 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.

The Management Board is authorised until October 29, 2010 to repurchase and acquire up to 25 percent of the issued share capital of the Company for a consideration of at least 80 percent of the stock price of the shares of the Company at the date of such repurchase and for a maximum consideration of 120 percent of such 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.

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 2009, the Management Board determines the profit shown in the attached annual accounts which is subject to the adoption of the General Meeting of Shareholders on May 12, 2010 to be retained as retained earnings.

SMARTRAC TRANSFORMING RFID

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