10 Years of Transponder Manufacturing Excellence.

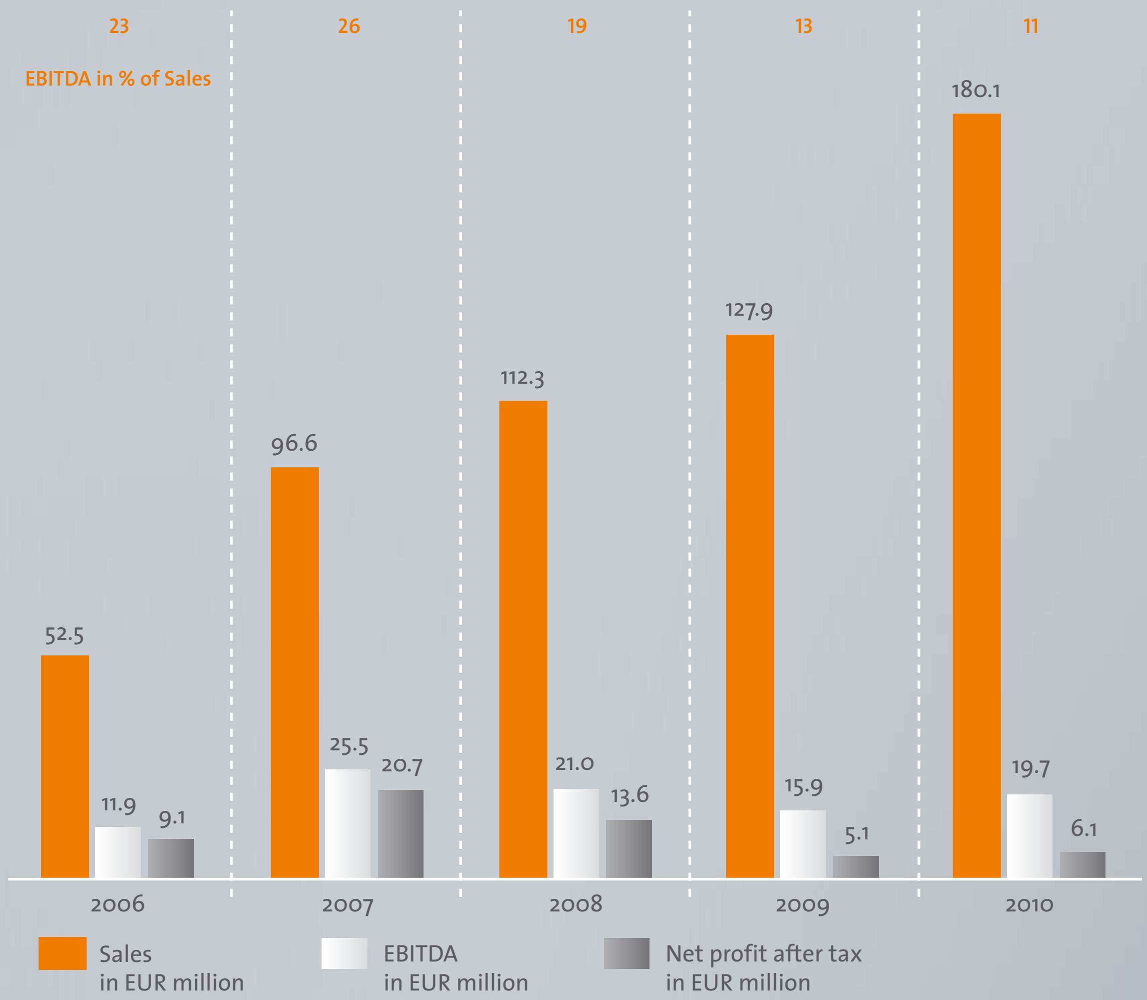
Annual Report 2010

In thousands of EUR		Consolidated 12 months ended December 2010	Consolidated 12 months ended December 2009	Change	Change in %
Consolidated income statement					
Revenues		180,111	127,862	52,249	40.9
EBITDA [1]		19,725	15,933	3,792	23.8
Net profit after tax		6,073	5,060	1,013	20.0
Financial position and liquidity					
Net cash provided by (used in) operating activities		1,940	6,063	(4,123)	(68.0)
Working capital		43,722	31,037	12,685	40.9
Capital expenditure [2]		18,207	9,673	8,534	88.2
Total assets		248,457	208,345	40,112	19.3
Operating figures					
Basic earnings per share	EUR	0.41	0.38	0.03	7.9
Operating cash flow per share	EUR	0.13	0.45	(0.32)	(71.1)
Equity ratio	%	65.0	59.8	5.2	8.7
Headcount	at month's end	3,488	2,734	754	27.6

SMARTRAC at a glance: profitable business model

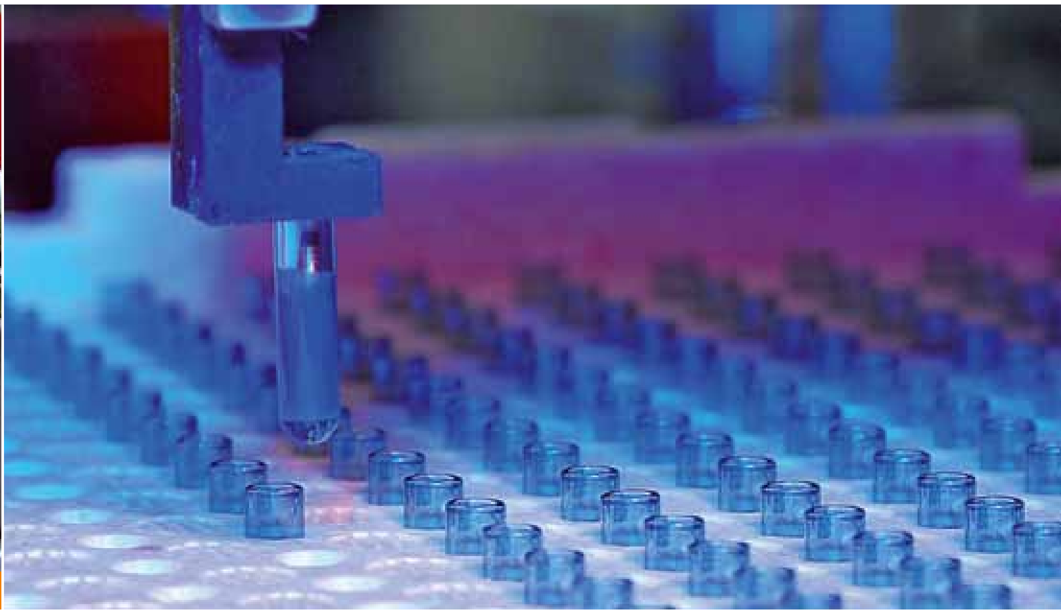
1) EBITDA is defined as operating profit for the period before depreciation, amortization, impairment on investment, financial result, share of profits of associates, non-recurring items (extraordinary items) and income tax expense. The Group presents EBITDA because management believes it is a useful 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.


23
26
19
13
11
EBITDA in % of Sales
180.1
127.9
112.3
96.6
52.5
11.9
9.1
25.5
20.7
21.0
13.6
15.9
5.1
19.7
6.1
2006
2007
2008
2009
2010
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

The information required by 2:391 of the Netherlands Civil Code is provided in the various sections of this Annual Report on page 6 to 97 and on page 178.



We trust in growth.

THAILAND.

SMARTRAC TECHNOLOGY Ltd., the cradle of today's group of companies, was founded in Thailand in 2000. Mass production of RFID transponders was launched at the beginning of 2001. Since then, SMARTRAC has developed into a worldwide leading player in the RFID industry. We aim to grow constantly in all fields of business in which we are active in order to create value for our customers, partners, shareholders, employees, the company, and the end user.

Dr. Christian Fischer, CEO of SMARTRAC

Dear Shareholders,
Dear Friends of Our Company,

In 2011, SMARTRAC is celebrating its tenth company anniversary. We are proud to look back on ten years of excellence, leadership, innovative power, and passion. The success of the past ten years is based on our focused business model as pure RFID company, our clear strategy, our strong technology portfolio, the stable and trusting relationship with our customers and business partners, and last but not least, the motivation and commitment of our employees.

SMARTRAC began operations as a contract manufacturer for RFID inlays in 2001. Since then, the company has grown into a worldwide leading developer, manufacturer, and supplier of RFID transponders with a diversified, high-quality product offering and a global network of research and development centers, manufacturing facilities, and sales offices. Today, we occupy a prime position in the global RFID value chain and are the market leader in key segments of the RFID industry. We combine the most important technologies for transponder manufacturing in our industry – wire-embedding, coil-winding, and etching – under one roof and cover all frequency standards in the global RFID market. We are thus able to support our customers in generating value.

Looking back on the company's development in fiscal year 2010, we can state that our dedicated RFID strategy has proven to be the ideal foundation to not only substantially benefit from the strong recovery of the industry, but also to even exceed market dynamics. The year 2010 was a successful year for SMARTRAC, one in which we were able to report one sales record after the next as a result of the strong market upturn and the high demand from our customers. Due to the high market growth, the capacity of our global production network was utilized at highest levels and we initiated the largest investment program in our company history in order to keep pace with the high order intake. The strong growth, however, also posed challenges for our organization which we would like to discuss in the following, together with the strategic accomplishments we achieved in 2010.

1. Keeping Pace with the Strong Market Upturn

Supported by the stabilization of the global economy, we started successfully into 2010. The positive signs at the beginning of the year soon turned into a lastingly high order activity on customer side. All four business units reported high demand on a global scale, providing further evidence for the success of our business unit structure with its strategic focus on specific customer requirements, flexibility on the global market, and improved service quality.

Based on the overall market recovery combined with revived projects and the start of new e-ID projects, demand for high-security transponders increased steadily in 2010. As a result, the Business Unit eID improved its sales figures by 49 percent in 2010 as compared with 2009. SMARTRAC is the foremost high-security supplier for personal electronic identification documents such as e-passports and national e-ID cards. Our proprietary wire-embedding technology has become the leading technology standard in governmental applications, where suppliers must meet stringent requirements in terms of security, quality, and durability. In 2010, we further expanded our leading market position and attracted new projects in the global market for e-passport supply. Furthermore, SMARTRAC has been chosen to deliver highly secure inlays for e-ID projects in more than 40 countries worldwide. Our leading position was further strengthened by a framework agreement with De La Rue Identity Systems for the provision of e-covers, a component part of biometric passports, for certain ongoing contracts. De La Rue selected SMARTRAC in March 2010 following a structured competitive e-tender process. Initial positive results from the framework agreement in terms of volume production were achieved in the second half of 2010. Demand related to the e-passport project in the United States also recovered in 2010 combined with the significant abating of the world economic crisis. Order volumes and shipment levels to our customers in the largest e-passport project in the world stabilized at a favorable level in order to supply the underlying demand. According to the U.S. Department of State, 12.3 million e-passport books were issued in 2010 (2009: 11.9 million books). The steady supply led to a favorable utilization of our high-security production site in the United States dedicated to this project. Increase of production capacity at the facility in Minnesota was advanced as planned and surpassed the milestone of 1 million units in a single month in July 2010. The progress in terms of orders and capacity utilization resulted in a positive contribution by the United States factory to the Group's profitability in 2010. In addition to the positive business development, we were also very pleased to be able to create new jobs in the United States.

Recovery from the global economic crisis additionally led to a resumption of the technology shift toward contactless technologies in the public transportation, access control, and e-payment sectors. Several large public transportation projects had been postponed in 2009, and the uncertainty in the financial markets made banks and financial institutions focus on their core business rather than spurring the technology shift to contactless debit and credit cards in 2009. With the revived confidence in the global economy in 2010, projects were resumed in order to benefit from cost savings through reduced maintenance requirements in public transport as well as gains in security and user convenience from the implementation of access control applications. The goal of benefiting from additional business with cashless transactions led to steady progress in the issuance of e-payment cards in

2010. Although the e-payment market is still predominantly driven by large banks and financial institutions in the United States, launch of new projects in Europe and Asia contributed to stronger market penetration on a global scale. Working together with the major players in the secure payment industry and based on the company's ability to supply both, inlays for entirely contactless cards as well as dual-interface applications, we were able to benefit from the strong recovery in the e-payment market. As a result of our ability to deliver high volumes of card inlays at prime quality, we also supported customers worldwide in public transportation projects. The Cards Business Unit was thus able to report sales growth of 37 percent in 2010 as compared with the previous year.

Recovery in the automotive industry started at the end of 2009, stabilized at the beginning of 2010, and returned to a robust level over the course of the year. As a supplier to various leading car manufacturers in Europe, Asia, and the Americas, SMARTRAC's business for car immobilizers and passive keyless entry systems is directly linked to the overall situation in the automotive industry in terms of production and sales of new cars. With the revival of the automotive market in general, order intake and volumes also developed favorably for our glass transponder and tag applications supplied to leading OEM's under the trusted brand Sokymat Automotive. In addition, the Industry and Logistics Business Unit successfully expanded its activities for the automotive industry to include supplementary fields of application, such as the tagging of engines, car bodies, and safety-relevant parts. The non-automotive business activities also played an important role in the positive development of the business unit in 2010. Favorable order intake related to the production and supply of RFID transponders and tags for laundry, medical, and waste management as well as for RFID-based ear tags and transponders for animal identification contributed to the sales growth of the Industry and Logistics Business Unit of 46 percent in 2010, as compared with 2009.

Last but not least, our Tickets & Labels Business Unit also showed further progress in 2010. Technology transfer for the production of etched antennas from Germany to Malaysia was completed in the first half-year, and operational processes were stabilized further in the course of 2010. Successful customer qualification processes provided evidence for the growth potential of this business segment. On the basis of business with established markets, the Tickets and Labels Business Unit increased sales by 5 percent in 2010 compared with 2009. Nevertheless, there is still room for improvement and the teams are working on securing further projects as well as on stepping up production capacity and manufacturing excellence.

In summary, SMARTRAC's business model has again demonstrated its strength in tapping the potential of the growing RFID industry. Our focused RFID strategy with a diversified product portfolio combined with our global approach to sales, research and development, and production allowed SMARTRAC to increase revenues by 41 percent in 2010. Based on its unique positioning in the RFID value chain, its broad technology base, innovative strength, and the largest production capacities worldwide, SMARTRAC is well positioned in the RFID market to keep pace with the favorable market dynamics and substantially benefit from the growth of the industry.

2. Enlarging and Improving Our Global Production Network

Expansion of the site in Reichshof-Wehnrath, Germany, to include a high-security production facility for personal electronic identification (e-ID) products, particularly RFID inlays for e-passports and contactless national ID cards, was initiated in November 2009. Construction work onsite progressed as scheduled in 2010, strengthening our global high-security production network and paving the way for additional production capacity for the manufacture of high-security inlays and e-covers in Europe. The site near Cologne also advanced as a European competence center for the SMARTRAC Group. Uniting three of our four business units under one roof, several new staff members were hired to realize synergies from joint business activities and development efforts in the growing industry segment.

Expanding production capacity in Malaysia for the manufacture of ticket and label inlays based on a technology platform that integrates under one roof the inlay assembly concept, proprietary interconnection methods, and the in-house manufacturing of antennas, chip carriers, and inlays is still behind schedule, though showed further progress in 2010. Given that the Kulim location provides good infrastructural prerequisites for conducting international business and in the light of the available space at the site, the SMARTRAC management decided to enlarge the facility in Kulim to include card inlay production lines. Set-up of the new production was completed at the end of 2010. The new production lines are up and running and have been successfully qualified by major customers.

Enlargement of the production facilities in Brazil and the United States progressed well in 2010. Both subsidiaries increased production capacity and workforce and contributed positively to the Group's profitability in 2010. Additional security certification of the production facility in the United States further elevated our commitment to highest security and quality standards. As a trusted supplier for government identification documents, we have continuously invested in the heightening of the existing security level and upgrading of our manufacturing sites into certified high-security production facilities. Certification from the North American Security Products Organization (NASPO) for our high-security production facility in Minnesota is further evidence of our high-level of security standards as well as of the implementation and assurance of a robust framework of security processes and best practices. Sales and business development activities from the local team in Brazil created new opportunities in the South American market which have already resulted in orders and sales and additionally offer further growth potential for the future.

The ever-increasing customer demand led to a continued high utilization level of our worldwide production network in 2010. The successful integration of inlay production assets from MCT into our global production network contributed positively to our production capacity. The recovery in the markets was, however, much stronger than expected and order volumes achieved new record levels. As a result, we initiated the largest investment program in our company history to expand our overall manufacturing capacity and speed up lead times.

The high utilization level of our core factories combined with the measures to increase production capacity strained the organizational and operational set-up of the company and required the full attention of the teams involved. As a result, the operations project launched in 2009 to leverage untapped efficiency potential received less attention in 2010 than planned. Although the overall excellence of our global operations was strengthened by the implementation of new teams and structures, and by the re-definition of processes, progress lagged behind our expectations. Machinery which we had planned to replace in 2010 was utilized further in order to keep up with the high order intake. All in all, the initiated operational measures require additional time to unfold their full potential. Now that our production capacity has been increased considerably, we are better prepared for strong market growth even in the exceptional magnitude and intensity which we experienced in 2010. This gives us the necessary scope to re-focus on our goal of improving the efficiency and profitability of our company, optimizing our processes, and thereby securing our leading market position and maintaining our position as a driving force of the RFID industry.

3. Executing Our Focused Intellectual Property Strategy

SMARTRAC holds a strong portfolio of patents in the RFID industry. With more than 300 patents and patent applications for technology, equipment, and the production of RFID components and related processes, patent infringements and challenges to the company's patent rights are continuous incidents that SMARTRAC must face.

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

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

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

4. Securing SMARTRAC's Proven Strategy and Financial Flexibility

On August 30, 2010, SMARTRAC and One Equity Partners (OEP) announced the signing of a foundation agreement to enter into a strategic cooperation. It was the deliberate intention of the SMARTRAC Management Board to take on board a long-term committed, strong financial partner and anchor investor to financially back up the company's further growth. OEP is considered to be an ideal partner for SMARTRAC to support the company's proven strategy and business model with its established technology platform, production network, broad product range, and focus on customer needs. In addition, SMARTRAC will be able to benefit from OEP's network and M&A expertise. The foundation agreement comprised various measures, which were executed in the second half of 2010.

Voluntary Public Tender Offer

On October 11, 2010, OEP Technologie B.V. published a voluntary public tender offer for all SMARTRAC shares at an offer price of EUR 20.00 per share. The acceptance period for the offer began upon publication of the Offer Document and ended at midnight on November 8, 2010. An additional acceptance period commenced on November 13, 2010, and ended at midnight on November 26, 2010. The Management Board and the Supervisory Board recommended to the SMARTRAC shareholders that they carefully consider the Offer Document. The Management Board and Supervisory Board supported the offer and outlined their considerations in various statements, as required by Dutch and German law. The statements were published on October 14, 2010, and were made available on the SMARTRAC website. An Extraordinary General Meeting of Shareholders was held in Amsterdam on October 21, 2010. The shareholders present or represented at the meeting held 7,205,175 shares and represented 44.11 percent of the issued share capital of 16,334,997 shares. The Management Board informed the Extraordinary General Meeting of Shareholders about the foundation agreement and the voluntary public tender offer by OEP Technologie B.V. and discussed the offer, in accordance with Article 18 of the Dutch Decree on Public Tender Offers.

The SMARTRAC Management Board and Supervisory Board not only supported the offer by recommending to SMARTRAC shareholders that they accept the offer, but also accepted the offer for shares they themselves held. All of the directors' and SMARTRAC management's dealings in SMARTRAC shares have been announced to the public and the financial markets authorities in the Netherlands and Germany in accordance with the Dutch and German regulatory requirements. Details can also be obtained from the company's website. The free float according to the definition of Deutsche Börse amounted to 3.4 percent as per December 31, 2010. Based on the significant decrease in the free float and due to the rules of Deutsche Börse, the SMARTRAC share as a result was excluded from TecDAX as of November 19, 2010.

Capital Increase

As part of the foundation agreement, SMARTRAC conducted a 10 percent capital increase on October 15, 2010, issuing 1,484,998 new bearer shares, which were fully signed by OEP Technologie B.V. at an issue price of EUR 17.50 per share payable in cash. Consequently, SMARTRAC increased its share capital from EUR 7,424,999.50 (14,849,999 bearer shares) to EUR 8,167,498.50 (16,334,997 bearer shares), excluding the subscription rights of shareholders. SMARTRAC received gross proceeds of approximately EUR 26.0 million.

Expansion of the Supervisory Board

The Extraordinary General Meeting of Shareholders appointed Mr. Christopher von Hugo and Dr. Jörg Zirener, both Managing Directors of One Equity Partners Europe GmbH, as additional members of the Supervisory Board of SMARTRAC. Both appointments were approved by 100 percent of the votes cast. Following the appointment, the Supervisory Board consists of five members, providing supervision and advice to the SMARTRAC Management Board.

Overall, the strategic partnership with OEP is a milestone in our company history which will help us to secure and execute our proven business strategy while at the same time providing us with the financial flexibility and competitive advantage to play an even more active role in shaping our industry.

Key Financial Figures 2010

Based on initial positive signs at the end of 2009 and the encouraging development at the beginning of 2010, SMARTRAC started confident into the year with expected sales of EUR 140–150 million for the full year 2010. As market dynamics accelerated further, particularly in the second quarter, we were able to increase our sales forecast to EUR 165 million for the full year with the publication of the Q2 2010 interim report. At the end of 2010, we even exceeded this adjusted sales forecast. SMARTRAC achieved total Group sales of EUR 180.1 million in fiscal year 2010, representing an increase of 41 percent, compared with sales of EUR 127.9 million in the same period of 2009.

All business units were able to benefit from the strong recovery of the market on a global scale and contributed to the growth of the Group. As a result, EBITDA increased by 24 percent to EUR 19.7 million, compared with EUR 15.9 million in 2009. EBITDA for 2010, as per definition, excludes extraordinary legal and financial costs related to the strategic partnership with One Equity Partners (OEP). The EBITDA margin amounted to 11 percent in 2010, compared with 13 percent a year ago. Overall, EBITDA remained clearly below our potential and expectations. The decrease in the EBITDA margin was mainly attributable to ongoing costs related to the ramp up of mass production in Malaysia combined with the extraordinary market growth that resulted in a delay in fully tapping the potential from the operational measures already initiated. Profit for the period amounted to EUR 6.1 million, compared with EUR 5.1 million in 2009.

In 2010, we further improved our sound financial position and strengthened our equity base. As of December 31, 2010, total assets amounted to EUR 248.5 million and total equity reached EUR 161.6 million. The equity ratio of 65 percent (previous year: 60 percent) underlines our strong financial basis, which we consider to be one of the strongest in our industry and the ideal basis for our growth strategy for the future.

A detailed analysis of the financial figures and the two business segments “Security” and “Industry” is provided in the section “Key Financial Figures 2010 and Business by Segments” starting on page 68 of this Annual Report.

Share Price Development

Throughout the course of 2010, SMARTRAC communicated with the capital markets extensively and constantly updated the financial community on its business perspectives and operating development. The performance of the SMARTRAC share in the first half of 2010 on the whole traced the overall market development, though with higher volatility. Our share started 2010 at EUR 15.00 and recorded its low for the first six months on June 8, 2010, at EUR 12.95. Main driver of the development of the share in the second half of 2010 was the publication of the decision to launch an offer to the SMARTRAC shareholders at an offer price of EUR 20.00 by One Equity Partners (OEP) on August 30, 2010. Since the announcement, the SMARTRAC share traded at around EUR 20.00 or slightly below this level and closed 2010 at EUR 18.31.

Despite a free float of only 3.4 percent as of December 31, 2010, it is our declared target to create value added for all of our shareholders and to focus on strategic and operating development in order to increase the shareholder value.

Outlook

The year 2010 was an exceptional one for SMARTRAC and for the entire RFID industry. We have accomplished several strategic milestones and shaped the foundations for the future of our company. On the basis of our focused strategy and business model, our strong technology portfolio, diversified product offering, global presence in sales, production, research and development, and above all, our highly committed and motivated team, we are looking ahead to fiscal year 2011 with confidence and optimism. However, we are also aware of the fact that certain challenges remained unsolved in 2010 and will require our full attention in 2011.

The RFID market offers strong growth potential. Growth rates will, however, return to a much more moderate level than the levels seen in the post-crisis market growth of 2010. It is our declared aim to grow steadily and robustly and to improve our profitability to create value for our employees, shareholders, customers, business partners, and the company itself. For this reason, the management team will work on improving processes, efficiency, and structures within SMARTRAC and on maintaining and expanding our leading market position in the global RFID industry. For fiscal year 2011, we are confident of being able to achieve growth and an improvement in our profitability. In addition to the investment program and enlargement of our global production capacity conducted in 2010, we will further invest in our global production network in 2011 where appropriate.

For 2011, SMARTRAC Group sales are expected to continue its growth path. In terms of profitability, we are working hard to achieve Group EBITDA margins which come close to past levels.

Retaining the Unique SMARTRAC Spirit

The success of SMARTRAC is to a significant degree a result of the passion, commitment, and leadership of our workforce. I would therefore like to cordially thank on behalf of the entire Group Executive Team all our employees for their tireless dedication and enthusiastic efforts in 2010 as well as in the past years. The Group Executive Team is well aware of the fact that the exceptional market dynamics in 2010 combined with the expansion of our global production capacity have demanded a great deal from the global team. We highly appreciate the strong contribution and excellent performance of individuals and the global team as a whole toward the company's success. Conjointly, and based on our unique SMARTRAC spirit, we will be able to successfully master the next ten years of excellence, leadership, innovative power, and success.

The Group Executive Team would also like to thank our customers and business partners for their unwavering trust and support in the 2010 fiscal year as well as in the past ten years. It has been our pleasure to act as a reliable partner for all our stakeholders around the world and we look forward to a continued close collaboration and open dialogue in the future.

Sincerely yours,

Dr. Christian Fischer
CEO of SMARTRAC

Amsterdam, March 23, 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 87 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 five members: Prof. Dr. Bernd Fahrholz (Chairman), Christopher von Hugo, Wolfgang Huppenbauer, Jan C. Lobbezoo, and Dr. Jörg Zirener.

In 2010, the SMARTRAC Supervisory Board was enlarged from three to five members. At the SMARTRAC Extraordinary General Meeting of Shareholders held on October 21, 2010, Christopher von Hugo and Dr. Jörg Zirener were appointed to the SMARTRAC Supervisory Board each with 100 percent of the votes cast.

The members of the SMARTRAC Supervisory Board fulfill the requirements of independent members of the Supervisory Board as set out by the Dutch Corporate Governance Code under Best Practice Provisions III.2.2, with the exception of Christopher von Hugo and Dr. Jörg Zirener. Both are Managing Directors of One Equity Partners Europe GmbH, an affiliate of OEP Technologie B.V., the majority shareholder of the Company.

Activities of the Supervisory Board

The SMARTRAC Supervisory Board held ten meetings during fiscal year 2010 which were also attended by members of the SMARTRAC Management Board and Group Executive Team. All members of the Supervisory Board attended the six plenary sessions with one exception where one member of the Supervisory Board was not able to participate in one of the plenary sessions. In addition, the majority of the members of the Management Board were present at the six plenary meetings. Four meetings were arranged via conference call with all members of the Supervisory Board dialing in. Stephen Juge, Director B and member of the Management Board, resigned from office effective April 15, 2010. Important topics and upcoming decisions were also dealt with in regular discussions and meetings between the Chairman of the Supervisory Board and the Chairman of the Management Board. The Chairman of the Supervisory Board informed the other members of the Supervisory Board regularly on the outcome of his discussions and meetings.

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

In 2010, the Supervisory Board again devoted considerable time to discussions on the Company's strategy, including objectives, associated risks and the company's financial position. The Supervisory Board discussed in particular the voluntary public tender offer by OEP

Technologie B.V., a wholly owned subsidiary of One Equity Partners, to acquire all shares of SMARTRAC N.V. for a cash amount of EUR 20 per share announced by means of a press release on August 30, 2010. The Supervisory Board reviewed and discussed the offer and the offer price in-depth with the Management Board, taking into consideration independent advice as well as the overall Company strategy. On October 14, 2010, the Management and Supervisory Board published a joint reasoned statement in accordance with German law (Gemeinsame Begründete Stellungnahme) and a supplement to the reasoned joint statement on October 20, 2010, relating to the offer and the offer price proposed by OEP Technologie B.V.

The Supervisory Board further reviewed the performance of the Management Board and the performance of its individual members in 2010 with and also in absence of the members of the Management Board. The Supervisory Board also discussed its profile, composition and competence as well as its own functioning and that of its individual members. Evaluation of the functioning was carried out in discussions of the entire Supervisory Board. In addition, the Chairman shared common topics and conclusions in conversations with the individual members of the Supervisory Board. As the committees were not established until October 21, 2010, the Supervisory Board will make an evaluation of the committees for the first time in 2011.

As the Supervisory Board consisted of three members from January to October 21, 2010, the tasks of an 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 until October 21, 2010. On October 21, 2010, the Supervisory Board formed an Audit Committee and a Strategy Committee. The Strategy Committee also performed the tasks of a remuneration committee and a selection and appointment committee.

Audit Committee Tasks

Until October 21, 2010, the tasks of an audit committee were performed during regular meetings of the Supervisory Board. The Supervisory Board regularly discussed the financial statements and the Annual Report. Prior to each announcement of the quarterly results, the Supervisory Board was informed of the figures. The execution of internal and business risk management and the further development of internal control systems were discussed and monitored. The Supervisory Board is of the opinion that the SMARTRAC Management follows a coherent strategy and prioritizes risk management issues adequately.

With regard to the external audit, the Supervisory Board reviewed the financial statements of SMARTRAC, as presented by the Management Board, and discussed the financial statements for 2010 with the external auditor at the Supervisory Board meeting held on March 23, 2011.

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 that internal audits are implemented on a case-by-case decision using internal and external resources.

SMARTRAC Supervisory Board

JAN C. LOBBEZOO

Member of the Supervisory Board

CHRISTOPHER VON HUGO

Member of the Supervisory Board

PROF. DR. BERND FAHRHOLZ

Chairman of the Supervisory Board

DR. JÖRG ZIRENER

Member of the Supervisory Board

WOLFGANG HUPPENBAUER

Member of the Supervisory Board

Prof. Dr. Bernd Fahrholz (63)*
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

Christopher von Hugo (47)*
Member of the Supervisory Board

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

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

Wolfgang Huppenbauer (56)*
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 (64)*
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 TMC N.V., Eindhoven
- Board member of FEI Company, USA

Dr. Jörg Zirener (38)*
Member of the Supervisory Board

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

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

* Age as of December 31, 2010
** Christopher von Hugo resigned from the Supervisory Board of Pfleiderer AG effective February 17, 2011

Remuneration Committee Tasks

Until October 21, 2010, 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) or other equity-based compensation (SMARTRAC Stock Plan). A detailed remuneration report can be found on pages 94 to 97 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 87 to 93 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

The term of office of Prof. Dr. Bernd Fahrholz as Chairman of the Supervisory Board is four years and ends with the Annual General Meeting of Shareholders in 2013. The term of office of Wolfgang Huppenbauer is three years and ends with the Annual General Meeting of Shareholders in 2012. The term of office of 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 resigned from office. Accordingly, Stephen Juge was not 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.

Christopher von Hugo and Dr. Jörg Zirener were appointed to the SMARTRAC Supervisory Board at the Extraordinary General Meeting of Shareholders held on October 21, 2010. The terms of office are four years until the Annual General Meeting of Shareholders in 2014.

Re-organization of Committees

Following the appointment of the two additional members to the SMARTRAC Supervisory Board on October 21, 2010, the Supervisory Board discussed adoption of the Dutch Corporate Governance Provisions for the establishment of committees. The Dutch Corporate Governance Code provides for the establishment of three committees when the Supervisory Board has more than four members. Due to the limited size of the company, the Supervisory Board agreed to establish two committees existing of an audit committee (the 'Audit Committee') and a strategy committee (the 'Strategy Committee').

The new Committees are comprised of the following members of the SMARTRAC Supervisory Board:

Audit Committee:

– Jan C. Lobbezoo
  Chairman of the Audit Committee
– Prof. Dr. Bernd Fahrholz
  Member of the Audit Committee
– Dr. Jörg Zirener
  Member of the Audit Committee

Strategy Committee:

– Prof. Dr. Bernd Fahrholz
  Chairman of the Strategy Committee
– Christopher von Hugo
  Member of the Strategy Committee
– Dr. Jörg Zirener
  Member of the Strategy Committee

The Strategy Committee will also perform the tasks of a remuneration committee and a selection and appointment committee provided for by the Dutch Corporate Governance Code.

Due to the fact that the Committees were not established until October 21, 2010, no meetings took place in 2010.

The Supervisory Board agreed on establishing regulations entailing the duties and responsibilities for the Audit Committee and the Strategy Committee. In addition, the Supervisory Board decided to revise the terms of reference in the course of 2011. The revised terms of reference of the SMARTRAC Supervisory Board will be published in the Corporate Governance section of the company's website immediately after adoption.

Financial Statements 2010

The Annual General Meeting of Shareholders will be asked on May 31, 2011 to adopt the financial statements of SMARTRAC for the financial year 2010, as prepared by the Management Board and discussed and approved by the Supervisory Board in its meeting of March 23, 2011. The consolidated and the company financial statements on pages 98 to 175 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 176 and 177.

We recommend that the Annual General Meeting of Shareholders adopt the 2010 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 employees for their dedication to and hard work for the company in 2010. We would also like to thank our business partners and customers for their support and commitment to SMARTRAC as well.

Amsterdam, March 23, 2011

Prof. Dr. Bernd Fahrholz
Christopher von Hugo
Wolfgang Huppenbauer
Jan C. Lobbezoo
Dr. Jörg Zirener

Group Executive Team

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

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

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

In 2010, the SMARTRAC Group Executive Team underwent several changes. 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 resigned from office. Accordingly, Stephen Juge was not 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.

Since April 15, 2010, the SMARTRAC Management Board consists of two members, Dr. Christian Fischer, Chairman of the Management Board and Chief Executive Officer (CEO), and Manfred Rietzler, member of the Management Board and Chief Technical Officer (CTO).

SMARTRAC and Franz Vollmann, member of the Group Executive Team, who held the position of Group Chief Operating Officer since February 2008, agreed by mutual consent on the termination of Franz Vollmann's employment contract effective March 31, 2010. From April 1, 2010, onwards Manfred Rietzler, CTO, and Christian Uhl, Group CFO, held interim responsibility for SMARTRAC's operations.

Effective June 1, 2010, Dato' Tan Soo Hee was appointed Chief Operating Officer (COO) and member of the Group Executive Team. In his role, he took over responsibility for the operations of the company's production facilities worldwide.

In October 2010, the SMARTRAC Group Executive Team was enlarged by two additional members. The two new members who were appointed to the Group Executive Team are Martin Kuschewski, Head of Business Unit eID and Markus Spreng, Head of Business Unit Industry & Logistics.

SMARTRAC Group Executive Team

MARKUS SPRENG

Member of the Group Executive Team

Head of Business Unit Industry & Logistics

MARTIN KUSCHEWSKI

Member of the Group Executive Team

Head of Business Unit eID

DR. CHRISTIAN FISCHER

Chairman of the Management Board

Chief Executive Officer (CEO)

WOLFGANG SCHNEIDER

Member of the Group Executive Team

Head of Business Unit Cards

CHRISTIAN UHL

Member of the Group Executive Team

Group Chief Financial Officer (CFO)

MANFRED RIETZLER

Member of the Management Board

Chief Technical Officer (CTO)

DATO' TAN SOO HEE

Member of the Group Executive Team

Chief Operating Officer (COO)

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

Dr. Christian Fischer (42), Chairman of the Management Board, Chief Executive Officer (CEO)

Milestones from 6 Years at SMARTRAC

When I joined SMARTRAC at the end of 2005, I was used to single-digit growth rates. Having worked for companies with a strong restructuring focus, single-digit annual growth was already very positive in industries where growth resulted from the optimization of processes and structures rather than from market growth. As a result, the postulated huge growth potential of the RFID industry was a new experience, which I analyzed very carefully. Prior to joining the company, I did my own due diligence of the SMARTRAC business plan and came to the personal conclusion that the company had the right strategy, technology portfolio and business model to participate lastingly in the overall growth of the industry. In 2005, SMARTRAC generated sales of EUR 25.2 million. However, I believed that it would be possible to grow sales by 100 percent in 2006 and 2007 and we managed it to fulfill our ambitious sales target, too.

Although I was convinced of the huge potential of the market and the company, it was my strategy to create and manage a balance between growth and sound financing. In my professional career, I have seen too many companies fall into decline due to uncontrolled growth. As a result, it was my declared goal right from the very beginning to take the necessary steps to ensure sound financing and secure the long-term growth and market leadership of the Company. Based on this strategy, we expanded our business carefully and consistently into new market segments such as the tickets & labels and industry & logistics sectors, and weighed the necessary investments and the underlying financing carefully against our strategy of organic growth and growth via selected acquisitions. All in all, this strategy has proven successful over the years and will remain so in the future.

In 2006, the IPO was the right strategy to take our financing to a new level and realize our ambitious growth targets. Prior to the IPO, the financing of the company had been provided by Richard Bird. It was thus in the nature of things that we needed access to additional funds in order to execute our growth strategy. The IPO and the concomitant capital increase provided us with the financial fundament to secure and finance this growth. In the following years, we were able to open new factories in Thailand, realize market entrance in South America and North America, to acquire multitape GmbH as a platform for entrance into the tickets and labels business, to take over 100 percent of Xytec to protect our intellectual property and to equip the company with advanced machines and equipment, as well as to enlarge our Asian manufacturing presence by a site in Malaysia.

The IPO not only led to the enlargement of our global footprint, technology and product portfolio, it also led to a professionalization of the organization. We implemented the holding structure with headquarters in the Netherlands, founded the Corporate Service Center in Stuttgart, Germany, and hired several hundreds of new employees. From year-end 2005 to year-end 2007, our global workforce increased from 1,104 employees to 2,625 employees to support the management of this growth.

While the first years of our listing on the stock exchange were an interesting experience, peaking in the inclusion in the German TecDAX, we also had to learn the unpredictability and limits of the capital market. As a result, we completed our first transaction in the syndicated loan market in the challenging global economic environment of 2009 and managed to sign an agreement on a syndicated EUR 65 million multicurrency credit facility to refinance the acquisition of Sokymat Automotive GmbH, which we had acquired in September 2008, as well as to gain further financial flexibility for our growth strategy.

The high volatility of our share price in 2008 and 2009 showed the further limitations of our refinancing possibilities. Consequently, we looked for alternatives which would help us secure our future growth strategy and market leadership. Just as the IPO marked a milestone in the financing of the company in 2006, the strategic partnership with One Equity Partners is the beginning of a new chapter for the company and its sound financing in 2010. OEP as a long-term committed, strong partner is able to provide us with the financial flexibility for the ongoing execution of our growth strategy to secure and expand our leading market position in the future.

Today, we have an outstanding platform on the basis of which we can execute the next growth initiatives for SMARTRAC.

Effective 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. He was Chief Executive Officer from 2003 until June 2007 and became a member of the Management Board upon the incorporation of the company in January 2006.

Manfred Rietzler holds a degree in electrical engineering from the Technical University of Munich, Germany, 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 (49), Member of the Management Board, Chief Technical Officer (CTO)

Milestones from 10 Years at SMARTRAC

It has been very interesting to experience the growth of SMARTRAC over the last 10 years. When we began mass production in 2001, we were just a couple of ambitious people, trying to enter the RFID market, manufacturing in a small factory in the northern area of Bangkok.

We accomplished our first projects as a subcontractor for RFID inlays for access control and public transport ticketing. Our initial target was to raise the manufacturing output to a volume of 1 million transponders per month which we achieved by the end of that year. This was a courageous venture, as it was not clear whether the RFID technology would be able to enter the global market. Whereas many other companies left the RFID industry, we believed in the capability and potential of this technology and subsequently developed new markets and new products in subsequent years.

Following our successful entry into the access control and ticketing market in 2002, we worked intensively on two new application fields in which we saw potential: e-payment and secure identification. From 2003 to 2004 we developed a complete product range of RFID inlays for contactless credit cards and e-passports. Our assessment proved successful and both markets developed in parallel to our product development. As a result, we were able to start volume production for e-payment mid-2005 and for e-passport at the end of 2005. Standing at the forefront of the technological development of these new areas, we soon became the market leader in both fields. The volume from the new business segments together with the increased demand in the access control and public transport segments brought our overall production output to a total of 10 million transponders per month as early as mid-2006.

After we had established ourselves successfully in the secure RFID market, we decided to focus on the industry segment. We approached product and business development simultaneously and were thus able to generate revenues from the new market segment from 2007 onwards. Since all our product lines were growing continuously, our production output hit the mark of 20 million transponders per month by the end of 2007.

In 2008, we then decided to enter the up and coming consumer goods market. We started to develop products and build up manufacturing capacities in order to be ready for mass deployment, which is expected to occur in 2011. The current monthly production output of the SMARTRAC TECHNOLOGY GROUP reached close to 50 million transponders per month by the end of 2010. This makes us the largest RFID transponder manufacturer worldwide, and we are ready to continuously develop into further application fields as well.

Review 2010 & Outlook 2011

The year 2010 was a busy year for the entire team. We often had the impression that the world was trying to make up for the backlog which was created during the global financial crisis in 2009. We had a sustained high level of order entry in almost all business units and product lines throughout the year. Since our RFID products are used in a wide range of applications, including access control, public transport, e-payment, government ID, private ID, industry, and automotive, we soon felt the recovery from the global economic crisis and started an investment program to build up more capacities in order to fulfill the strong market demand.

We also made further progress in terms of technology in 2010. Over the course of the year, we opened a new development center for transponders in the UHF frequency range so as to be even better prepared for the huge growth potential that goes along with the further deployment of this frequency range in more and more application fields. The core of the new development center, which is located in Thailand, is our UHF test chamber, which is one of the most advanced tools to test UHF transponders including their 3-dimensional capabilities.

Last but not least, we also made good progress related to the ownership structure of the company as we were able to win One Equity Partners as a strategic partner and anchor investor.

From an overall perspective, 2010 was another very successful year for SMARTRAC in which we made good progress in all fields and we are optimistic that many more positive years with excellent growth perspectives are ahead of us.

Wolfgang Schneider holds the management position Head of Business Unit Cards. He joined SMARTRAC in 2001 and was responsible for the SMARTRAC Group's sales until the end of 2008. He became a member of the Group Executive Team with its inception at the end of 2007. Wolfgang Schneider holds a degree in engineering and studied mechanical engineering at the Universities of Konstanz and Aalen, Germany.

Wolfgang Schneider (53), Member of the Group Executive Team

Milestones from 10 Years at SMARTRAC

With the Cards Business Unit currently achieving an output of about 30 million PRELAM® products per month, it feels strange to think back to the times when the entire company struggled with a production capacity of 30.000 card inlays per month. The sales activities of SMARTRAC started at the beginning of 2001 when I went out to approach potential customers and win them over for a commitment to test our PRELAM® samples, once our production was ready to manufacture quality prototypes.

Just in time too! It seemed that card manufacturers had just been waiting for a component manufacturer who would be able to supply them with competitively priced high-quality PRELAM® products in large volumes, without posing a threat to their core business, the manufacture of printed cards. Our first real sales highlight was a „volume order" of 150,000 MIFARE™ PRELAM® products from South Korea which we manufactured and supplied safe and sound in May 2001. In the same year we started supplying high and low frequency PRELAM® products based on a volume purchase agreement for cards and tickets, of which many are still in use today, including in some alpine ski resorts.

In 2003, our R&D team developed the highly economical SMARTRAC PRELAM® which enabled our customers to kick start a number of high volume public transport projects worldwide.

2007 was the year in which U.S. credit card companies decided to go contactless on the basis of SMARTRAC microcontroller chip PRELAM® products. We are very pleased to have supported our customers in establishing and maintaining a leading market position in this application field since then.

The rapid change of market conditions from 2009 to 2010 paired with the speed and decisiveness with which SMARTRAC responded to the strong demand brought growth rates back to the Cards Business Unit last seen in 2006.

Review 2010 & Outlook 2011

2010 was a remarkable year for the entire RFID industry and particularly for us and our partners, customers and suppliers alike. The year as a whole was a struggle for manufacturing capacity. An increase in business for 2010 was to some extense foreseen by the industry, but certainly neither in this magnitude nor this intensity.

Thanks to our own machine building capacity and the timely integration of the just acquired MCT operations, we managed to cope with the ever increasing demand of our customers and their constant push for shorter lead-times in 2010. Based on our strong relationship with the major players in the IC industry and extensive purchase agreements, we were able to ease the consequences of shortages in the supply chain which many of our smaller customers where facing.

Besides the challenging market conditions, our card inlays and PRELAM® products were successfully certified with third parties, including AIT certification, MasterCard CQM certification in Thailand and Malaysia, and Sony Green Partner Certificate to name a few. The business unit also added several new products to its offering in 2010 such as card inlays based on biodegradable production materials, TI Tag-it™ HF-I Plus PRELAM® products, and PRELAM® products based on NXP's new MOA8 chip module.

In addition, we continued to diversify our manufacturing locations in 2010. The site in Kulim, Malaysia, that hitherto had only housed production for the Tickets & Labels Business Unit and our machine building subsidiary SMARTRAC AUTOMATION, has been expanded by a complete new card inlay production capability. Furthermore, the card inlay production in Manaus, Brazil, was enlarged with additional PRELAM® production equipment.

For 2011, we expect the industry to continue growing. As a result, we also expect growth for the Cards Business Unit. Today, SMARTRAC is even better prepared for dynamic market growth than one year ago due to the capacity increase at our global facilities and the new card inlay production lines in Kulim which are up and running.

The overutilization of our manufacturing capacity and the set up of new capacities to cope with the high customer demand strained the organization and to some degree resulted in profitability below our expectations in 2010. But we are confident that the initiated measures will prove beneficial for us, our customers and business partners and will also increase efficiency in 2011. The Business Unit aims to achieve healthy capacity utilization to meet the market demand and to also capitalize on ad-hoc orders of substantial size, which only our organization is capable of tackling in high-quality and at convenient lead times.

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

Christian Uhl (38), Member of the Group Executive Team, Group Chief Financial Officer (CFO)

Milestones from 5 Years at SMARTRAC

One of the most impressive aspects of my five years with SMARTRAC is the outstanding growth which we were able to achieve. The company has a compound annual growth rate of 48 percent despite the financial crisis in 2009. The performance of SMARTRAC during the global economic crisis is proof of the strength of the Company, the excellent business model, and focussed strategy as well as the strong commitment of the worldwide team.

When I joined the company, SMARTRAC was in the middle of the transformation from a privately held company to a publicly listed corporation. The IPO was the beginning of a new chapter in the company history with regard to the organizational structure as well as with regard to reporting requirements and processes. The preparations for the IPO, including the implementation of the holding structure and headquarters in the Netherlands, were both challenging and exciting. We spent a lot of time on the road explaining RFID technology, the Company's strengths, and its position in the value chain to potential investors. Back in 2006, hardly anyone outside of the RFID industry was familiar with the technology, its capabilities, and potential. Today, RFID is more and more accepted and is steadily entering new application fields, making the technology more familiar to the end user.

Another milestone of the past years was the acquisition of Sokymat Automotive GmbH in 2008. SMARTRAC had conducted several transactions prior to Sokymat Automotive, such as the acquisition of multitape GmbH and the acquisition of HEI Inc.'s RFID division in the U.S. But the acquisition of Sokymat Automotive was and remains our largest acquisition to date. The negotiations with the seller, the set-up of the financing structure, and the negotiations with the financial institutions, as well as the integration of the company into the SMARTRAC Group were well planned and executed. Sokymat Automotive, which was re-named to SMARTRAC TECHNOLOGY GERMANY GmbH, forms the core of our Industry & Logistics Business Unit and has developed into a third strong business unit within the Group.

Overall, SMARTRAC has always been a financially sound company with a solid financial basis, while growing steadily and strongly. The strategic partnership with OEP opens up a new chapter in the company history from the financial perspective. OEP is a long-term committed, strong partner who is able to provide us with the financial flexibility for our further growth. Besides the financial stability which OEP is committed to contributing to this partnership, we are also able to benefit from a reduced dependency on the international capital markets and their unpredictability. Thus, this strategic partnership is another milestone in our company history.

Review 2010 & Outlook 2011

In 2010, we saw strong growth in every business area. Our global production network was continuously used at highest capacity and we reported one sales record after another. Although profitability is still below our potential, we are confident that the strategic and operational measures which we initiated over the course of the year are suited to addressing the current challenges. First positive results already made themselves felt as early as the second half of 2010, clearing the way to return to a higher profitability in the future.

The capital increase which we resolved in October 2010 further strengthened our balance sheet. As part of the strategic partnership with OEP, we took in gross proceeds of approximately EUR 26 million, thus gaining financial flexibility. Combined with the investment program which was also initiated last year in response to the high market demand and order entry, we have set the prerequisites for future growth.

For 2011, we want to continue to work on the identified challenges and pursue further efforts streamlining our organization and processes. Based on our strengths, the passion and commitment of the global team and the growth potential of the RFID market, we look forward to continued growth.

Martin Kuschewski (43), Member of the Group Executive Team

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

Milestones from 10 Years at SMARTRAC

One of the first projects for the e-ID business was the "border crossing Mexico" project. It was not only a big project for us as a company, it was also one of the largest RFID implementations worldwide at that time. We worked hard to make the project a success and were very proud of what we achieved.

In terms of technology, 2003 was a very exciting year as we began our development efforts to integrate contactless chips into inlays to lay the foundation for e-passports. One of the most notable moments from the past ten years was the inclusion of SMARTRAC Durasoft® Inlays as a technical reference in a public e-passport tender document. The referral was clear evidence of our technological competency and superior technology. Based on this recommendation by a trusted third party, numerous market participants worldwide approached us to learn more about our products and to help them find the best solution for their e-ID projects. Literally speaking, the phone was ringing off the hook after this event.

From an organizational point of view, the IPO was a remarkable chapter in company history. Prior to the foundation of the Dutch holding company and the listing of the SMARTRAC share on the Frankfurt Stock Exchange, the organization of the company rather resembled a small family company run by a few key people. With the IPO, the Company transformed more and more into an international corporation. Several highly skilled employees joined SMARTRAC and the implementation of clear structures and processes was further reinforced. The inclusion in the TecDAX was a peak of this development.

The tremendous growth of the Company over the past ten years, excellent, highly motivated colleagues who share the "SMARTRAC spirit", and the evolution into a market leader in various business segments are experiences which I have enjoyed from a personal and professional perspective and which are key for our future success.

Review 2010 & Outlook 2011

We achieved several production milestones in our U.S. facility in Minnesota in 2010 and were able to increase production capacity as planned. The team on-site was also able to successfully complete NASPO certification, which is one of the strictest security certifications worldwide. NASPO certification adds to our global network of high-security production facilities and is clear proof of our commitment to highest security standards. Obtaining this security certification is therefore not only a great achievement for us, but also a great benefit for our business partners.

The enlargement of the production facility in Reichshof-Wehnrath, Germany, to include a high-security e-ID production facility progressed further in 2010. Construction work advanced as scheduled, and upon completion we will be able to support our customers and business partners even better. In addition to the strong increase in order intake and shipment levels, we were also able to further expand our market position with the winning of new contracts in 2010. The framework agreement with De La Rue Identity Systems was one of the milestones for the entire business unit last year. As our nomination as supplier followed a structured competitive e-tender process, we value the success as further evidence of our competency and technological excellence as well as a sign of trust from our business partner.

For 2011, it is our declared goal to further strengthen SMARTRAC's market leading position as a supplier of high-quality, high-security e-Passport and e-ID card inlays and thereby contribute to a higher level of security in the world of traveling and identification.

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

Markus Spreng (44), Member of the Group Executive Team

Milestones from 2 Years at SMARTRAC

One of my personal milestones over the last two years was the successful integration of the former Sokymat Automotive GmbH into the SMARTRAC TECHNOLOGY GROUP. The establishment of the four business units at the beginning of 2009 was an ideal platform for the combination of the existing business activities with the SMARTRAC product offering in the industry and logistics area. The resulting synergies were beneficial internally as well as for our customers and further strengthened the Group's position in the global RFID industry. The integration process was successfully completed with the renaming of the subsidiary in Reichshof-Wehnrath to SMARTRAC TECHNOLOGY GERMANY GmbH, while retaining the established brand Sokymat Automotive as a product brand for the automotive industry.

As part of the integration, we also took advantage of the global production network of the Group and expanded manufacturing for our non-automotive product portfolio in Thailand. We established and trained a team in Ayutthaya, implemented production processes, expanded production capacity, and launched several new products. The establishment of additional production lines for fields of applications, such as animal identification and laundry in particular, proved beneficial in 2010 when we experienced high market demand and were able to win several new projects and customers.

Review 2010 & Outlook 2011

The Industry & Logistics Business Unit was able to report sales of EUR 34.9 million in 2010. In the wake of the strong recovery from the automotive crisis, market demand and order entry for our automotive products developed well. We were also able to benefit from the strong growth in the markets for waste management, laundry, medical and healthcare applications in 2010. The animal identification business in particular showed strong growth resulting from several regulations which came into effect last year and created favorable demand for our glass tags, bolus transponders, and ear tag inlays.

To meet future demand, we also strengthened our business development activities, our competencies in the UHF frequency range, and our overall research and development efforts. Our efforts resulted in the enlargement of our product portfolio for laundry, waste management, and medical applications as well as in new products for the automotive industry in addition to our established car immobilizer product range. The new generation of laundry tags successfully obtained customer qualification and began mass production.

In parallel to the technical advancement, we also enhanced our workforce. We hired several new sales employees to benefit from the growth potential of our markets and broadened our global partner and distributor network.

For 2011, we intend to further improve our processes, strengthen our product offering, and increase our output quantities. We also plan to further expand our market position in Europe and worldwide and are currently preparing the business unit's organizational structure for accelerated growth.

Dato' Tan Soo Hee (52), Member of the Group Executive Team, Group Chief Operating Officer (COO)

Dato' Tan Soo Hee is member of the Group Executive Team and has held the position of Chief Operating Officer (COO) at SMARTRAC since June 1, 2010. He joined SMARTRAC from Infineon Technologies Kulim Sdn. Bhd., where he was responsible for the construction, start-up, and management of the wafer fabrication in Kulim and held the position of Managing Director. Dato' Tan Soo Hee holds a Master of Science (MSc) from Brown University, Rhode Island, United States of America. As a result of his professional and personal success, he was granted the title "Dato", the most common highly regarded title in Malaysia.

Milestones from 10 Months at SMARTRAC

When I joined SMARTRAC in June 2010 as new COO, the company had a very strong order entry and a high utilization level of the worldwide manufacturing sites. It was impressive to see how quickly the market had recovered from the world economic crisis and how the overall demand left its impact on our organization. Joining a company during such an exceptional time is a unique experience.

To keep pace with the sales development, we started the expansion of our global production capacity, which was both challenging and motivating for the team. One of the most impressive experiences during that time was the great passion and commitment of the people involved.

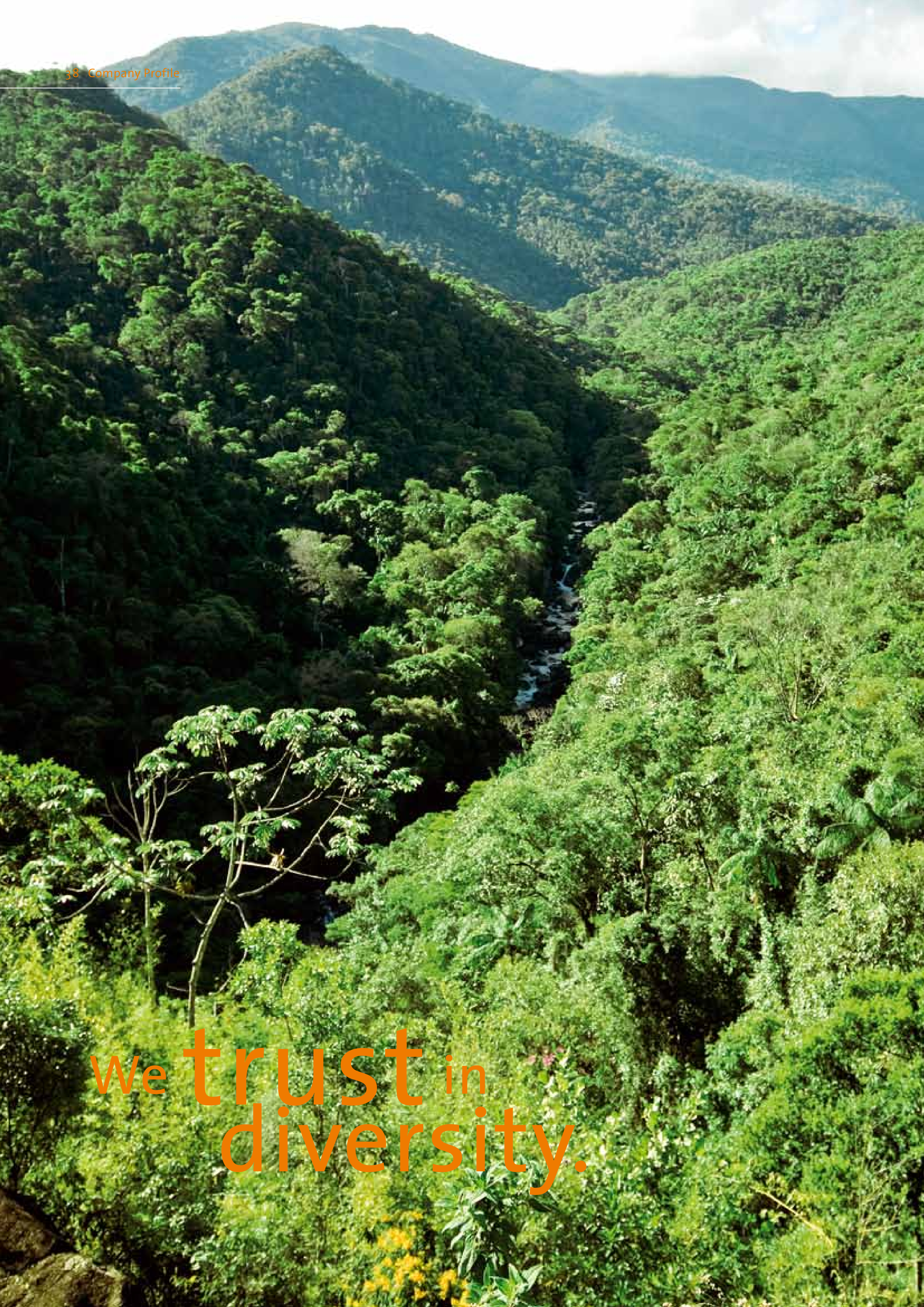
Review 2010 & Outlook 2011

In 2010, we not only enlarged our overall production capacity, we were also able to further strengthen the manufacturing excellence within our global production network. We achieved a reduction of lead times concurrent with the continued high order entry and the shortage of microchips in the semiconductor industry.

In addition to the successful management of day-to-day operations under these exceptional circumstances, we also initiated further strategic measures to cope with the identified inefficiencies. Further stabilization of processes and implementation of six sigma methods generated improvements which became visible from fall 2010 onwards. We also strengthened our focus on personnel development and skills training for our workforce.

In 2011, we aim to take advantage of our strengths and capitalize on the groundwork we implemented in 2010 in terms of advancement of systems and processes. The optimization and further streamlining of processes and technologies within our global manufacturing network will also be part of our focus for 2011. The overall target for our global operations is to even better meet the needs of our customers in terms of production volumes, quality requirements, and service response time.

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


We trust in diversity.

BRAZIL.

Over the past ten years, we have constantly broadened our technology base, product portfolio, and range of supported frequencies. We have also grown geographically and provide work for 3,488 employees comprised of around 20 nationalities worldwide.

Company profile

SMARTRAC is a world leading developer, manufacturer, and supplier of RFID transponders. The company has extensive technical and operating experience and a proven track record that amounts to more than 1.5 billion RFID transponders. SMARTRAC is the global market leader for high-quality RFID inlays for e-passports and National ID cards. Our dedication to delivering high-quality, intelligent, and secure products is confirmed by our many certifications, making SMARTRAC the global market leader for contactless e-payment cards as well.

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

The leading position which we hold today in various market segments of the RFID industry is the result of ten years of passion, excellence, and innovative power transformed into a deliberate strategic business model, outstanding products, and exceptional business relationships by a dedicated and highly motivated team.

10 Years of SMARTRAC – 10 Years of Transponder Manufacturing Excellence

SMARTRAC TECHNOLOGY Ltd., the cradle of today's group of companies, was founded in Thailand in 2000. Mass production of RFID inlays and transponders started at the beginning of 2001. Since then, SMARTRAC has developed from a contract manufacturer for RFID inlays into a worldwide leading player in the RFID industry with a broad portfolio of patents, technologies, process know-how, and products, with the single largest production capacity in the industry.

SMARTRAC has not only broadened its technology base, product portfolio, and range of supported frequencies over the past ten years, but has also grown geographically. Starting from just one production location in Thailand, supported by initial sales offices in Germany and Singapore, we have expanded our research and development, production, and sales network to locations in Asia, Europe, North America, and South America. Supplemented by sales offices in India, South Korea, and the Middle East as well as a joint venture in China, we are able to support our customers on a global basis.

Evolution To Market and Technology Leadership

The evolution of SMARTRAC into a market and technology leader has been the result of sustainable development and organic growth as well as via growth through selected acquisitions over the past ten years.

Founded by Richard Bird in Thailand, the success of SMARTRAC from the very beginning has been based on strong technologies combined with broad process competency and excellent manufacturing processes. In the first years of the company's existence, the business activities of SMARTRAC focused on the manufacture of high-frequency card inlays for access control and public transport cards.

From 2003 onwards, SMARTRAC expanded its research and development efforts as well as its product range towards a more diversified product portfolio, including high-security RFID inlays for e-passports and contactless payment cards. As such, the company stood at the forefront of the development of these new market segments. Electronic passports and contactless payment were applications which in 2003 and 2004 had hitherto only existed on paper. Being one of the first manufacturers in these fields, SMARTRAC collaborated with customers and partners to put these visions into practice from a technological perspective. As a result, the company was able to actively participate in the design of the basic standards.

In parallel with the augmentation of the product range and the entry into new market segments, the production capacity and the production location were also expanded gradually. The primary building in the Navanakorn Industrial Estate soon became too small. Consequently, the production location in the Hi-Tech Industrial Estate in Ayutthaya was opened on April 20, 2002. At the same location, a second production building was then put into operation in 2004, followed by a third manufacturing building in 2005 in order to meet the growing demand in the fields of access control, public transport, e-payment, and high-security inlays for e-passports. Between 2003 and 2005, SMARTRAC already manufactured and supplied some 100 million RFID transponders.

The broadening of the technology and product range was further advanced in the years 2006 and 2007. In addition to the established product range and the bandwidths high frequency and low frequency, research and development accomplishments led to the entry into the market segments bio and animal identification, industry and logistics applications as well as to an extension of the research focus to include the ultra high frequency bandwidth.

The opening of a manufacturing base in Manaus, Brazil, was carried out in 2007. Having an own production site in the South American market offers the opportunity to participate in the market growth in the region while limiting the burden of high import taxes. The acquisition of HEI Inc.'s RFID division in the U.S. in 2007 targeted the strategic development of the production network through a manufacturing location in the United States. A sales office in South Korea added in the same year further strengthened the company's presence in Asia.

With the acquisition of the German company multitape GmbH in 2007, SMARTRAC broadened its technology platform with the addition of etching capabilities. SMARTRAC was thus able to unite all established production processes for the manufacture of antennas and RFID transponders under one roof as early as 2007. From this day on and to date, SMARTRAC has been the only transponder manufacturer worldwide which is able to offer etched antennas and inlays based on copper and aluminum antennas as well as antennas and inlays based on its own proprietary manufacturing wire-embedding technology as required, and to serve all current frequency standards – LF, HF and UHF.

The acquisition of Sokymat Automotive GmbH in 2008 was technology- as well as market-driven. Sokymat Automotive possesses many years of manufacturing competency and experience in the production of glass transponders and has a broad range of manufacturing technologies and established products in the industry and logistics sector. The combining of products from SMARTRAC and Sokymat Automotive was therefore accompanied by wide-ranging synergies as well as by a strengthening of the market presence in the industry and logistics growth markets. With this acquisition, SMARTRAC furthermore obtained the strong brand Sokymat Automotive, which has been well established in the market for RFID-based car immobilizers for years and is synonymous with the optimum in quality and reliability.

The vigorous and continuous development of the company's technology range and process competence also contributed to growth in the patent portfolio. In 2005, SMARTRAC already held more than 155 own patents and patent applications and continuously further developed its intellectual property (IP) in the following years. In 2010, the number of patents and patent applications for technology, equipment, and the production of RFID components further increased to more than 300. In addition to its proprietary intellectual property, SMARTRAC also has extensive knowledge and experience in such processing technologies as chip module packaging capabilities, antenna-chip connecting technologies, and lamination. As a result, the company has been able to quickly respond to new trends and provide customers with appropriate products.

Besides its technological leadership, SMARTRAC has always worked on certification from independent authorities. In 2009, SMARTRAC obtained a site certificate for its e-passport production facility from the German Federal Office for Information Security (BSI) which supports product certifications up to the assurance level EAL5+. The site certificate for the manufacturing facility in Thailand covers the production environment and processes for personal electronic identification (e-ID) products, particularly RFID inlays for e-passports and contactless National ID cards. It also includes the initialization environment for e-IDs. SMARTRAC is the first inlay manufacturer to obtain security certification for both capabilities. In 2010, SMARTRAC's high-security production facility in Chanhassen, Minnesota, was found to meet all of the stringent security requirements to receive Security Assurance Certification from NASPO, the North American Security Products Organization.

In addition, the company's card inlays and PRELAM® range for MasterCard-branded e-payment products have continuously met the strict quality requirements of MasterCard and have therefore been consistently awarded MasterCard CQM certification over the past years. SMARTRAC also obtained certification from the AIT Austrian Institute of Technology for a range of its RFID PRELAM® and white card products in 2010, underlining the company's strong commitment to highest security and quality.

SMARTRAC's technologies are legally protected by patents in numerous countries worldwide. Nevertheless, market participants have tried to circumvent or challenge the company's technologies and patents throughout the course of company history. To date, SMARTRAC's patents have been recognized from numerous authorities and re-affirmed by various court rulings. In 2010, SMARTRAC again successfully enforced and defended its patents, including winning legal proceedings in Korea.

The protection of the company's IP as well as the technology leadership of SMARTRAC have been strengthened by own machine building capabilities in the course of the years as well. In 2005, the company already participated in the establishment of the Malaysian machine building company Xytec Solutions. From its early beginnings, Xytec constructed and supplied machinery exclusively for SMARTRAC. Technological excellence and customization of production machinery and equipment for the specific requirements of SMARTRAC were continuously improved and refined over time, resulting in an outstanding level of technological excellence.

In 2008, SMARTRAC took full ownership of Xytec Solutions and gained additional machine building capabilities and capacities with the acquisition of Sokymat Automotive GmbH and set up of machine building capabilities in Thailand. In addition, SMARTRAC has decided to use its AmaTech trademarks for selected machine building activities. The deliberate choice to build machinery and production equipment in-house is a strategic decision which on the one hand allows SMARTRAC to adequately protect its intellectual property and on the other hand provides the company with the ability to equip and step up production capacity quickly, cost-efficient, and at the highest technological level.

Based on the outlined developments, SMARTRAC is today the worldwide leading developer, manufacturer, and supplier of RFID transponders and will maintain and expand its leading position in the future as well. With the finalization of the joint venture in China in 2010, SMARTRAC now has a presence in all major growth markets worldwide with regard to production locations as well as sales activities. In addition, SMARTRAC took an interest of 50 percent in Omnia Technologies in February 2011. The Indian manufacturer of RFID tags will serve as strong partner in the region to further participate in the growth potentials of this market.

In 2010, SMARTRAC moreover initiated the largest investment program in the company's history to further heighten the global production capacity and thereby satisfy the continuing high market demand. Among other things, the site in Malaysia has been expanded to include card inlay production.

From 2001 through the end of 2010, SMARTRAC has produced and delivered a cumulative volume of more than 1.5 billion RFID transponders – not counting the transponders produced by former Sokymat Automotive GmbH prior to its acquisition by SMARTRAC on September 26, 2008. Market research company IDTechEx estimates that the world market for passive RFID transponders between 1945 and 2010 amounted to a total of 9.2 billion passive RFID transponders produced and sold (RFID Forecasts, Players and Opportunities 2011–2021). Taking these quantities into account, SMARTRAC's accomplishments and the company's position in the RFID industry are very apparent.

In addition to the production milestones which the company has realized in the past, SMARTRAC currently has a production capacity of close to 50 million RFID transponders per month. The capability to provide large numbers of RFID transponders based on technology leadership with short lead times and with excellent quality makes SMARTRAC the preferred partner for customers worldwide.

Development of a Strong Brand

SMARTRAC today is a strong brand recognized the world over. The company logo, the characteristic orange of the corporate colors, the SMARTRAC 'walking man', and the 'radio wave' are attributes which are well established in the RFID industry.

SMARTRAC stands for excellent quality, reliability, and innovation. The company and the brand have gained international recognition particularly through the leading position as developer, manufacturer, and supplier of high-security e-passport inlays. What also paid positively into the company and brand image are the service willingness and solution-oriented attitude of the employees as well as the clear strategic focus, technological competence, capability, and experience.

With the name change of the two Malaysian subsidiaries, Multitape Technology Malaysia into SMARTRAC TECHNOLOGY MALAYSIA and of Xytec Solutions into SMARTRAC AUTOMATION, in December 2010, the global corporate branding strategy has been successfully implemented for all entities and subsidiaries worldwide. As a sign of togetherness and commitment to the same values and principles, all entities and subsidiaries have been united under the family brand, sharing 'SMARTRAC' as part of their company name.

For the future, it is the declared intention of SMARTRAC to further strengthen the corporate brand on a global scale and to further establish it as a symbol of highest quality, technological excellence, and reliability.

Retaining The Unique SMARTRAC Spirit

One important aspect which has remained unchanged throughout the course of the ten-year company history is the unique SMARTRAC spirit characterized by passion, performance, and leadership.

Particularly the entrepreneurial spirit, which has remained strong over the past ten years, is a key element of the corporate culture, finds expression internally as well as externally and contributes significantly to the uniqueness of the company. In our everyday work, the entrepreneurial spirit is for instance reflected in the willingness to go the "extra mile" in order to successfully complete a project. It is also manifest in the self-image of creating value for customers. This entrepreneurial spirit is apparent in the fact that the global team actively strives to solve the challenges our customers face, in addition to offering a standard product range. These characteristics are highly valued by our business partners.

Despite the fact that the RFID industry is a highly dynamic industry and that particularly in young industries, seniority is rather seldom, SMARTRAC employs numerous talented and highly qualified employees who have been with the company since its incorporation and will actively shape the future of SMARTRAC in the future as well. Based on their experience, they will also contribute substantially to maintaining and fostering the original SMARTRAC spirit in the future.

Strategic Focus supported by Strong Partners

Another important aspect that has remained stable over the past ten years and which will also be retained in the future is the company's deliberate chosen business model as a developer, manufacturer, and supplier of RFID transponders. SMARTRAC's strategic position in the RFID value chain is the ideal basis for further enhancing the company's leading market position and global presence.

While other market participants expanded their business model over the years via backward or forward integration, SMARTRAC has remained true to itself and has successfully focused on its core competencies. This strategic focus was one of the keys to our past business success and has made SMARTRAC a reliable and trustworthy business partner. Over the years, SMARTRAC has grown via selected acquisitions, geographical expansion, and development into new application fields. Based on a strong technology portfolio and extensive process competency, the company has been able to quickly respond to new market trends and to broaden the existing portfolio to include new market segments.

Looking back on ten years of success, the dedicated and highly motivated workforce is one of the most important pillars of SMARTRAC's accomplishments. In order to be able to build on highly qualified and motivated employees in the future as well, the SMARTRAC management has initiated several programs in 2010 to foster the company's global workforce even more.

Another important pillar of SMARTRAC's success is the excellent relationship with customers and business partners. Professionalism, highest quality, and consummate service as well as the creation of an environment in which business partners enjoy working with SMARTRAC have led to lasting business relationships, which were vital for the company's sustainable growth. The fair, cooperative, and trusting collaboration with customers and business partners is also the declared intention of the company in the future.

Business Units & Markets

At year-end 2010, SMARTRAC looks back on two years of experience and success with its new business unit structure. Since January 1, 2009, SMARTRAC's business has been structured into the four business units eID, Cards, Industry & Logistics, and Tickets & Labels. This business unit structure is an efficient organizational approach that ensures optimized utilization of resources as well as ideal market cultivation and customer support for each of the respective market segments and their specific needs.

Business Unit eID

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

The e-ID Market

2010 was a special year for the e-ID market with the ICAO (International Civil Aviation Organization) requirement for the introduction of machine-readable passports (MRP) coming finally into effect in April 2010. Based on the long-term nature of passport projects, from the political decision-making and the technical realization to the issuance of the travel documents to citizens, numerous ICAO member states started several years ago to not only cover the minimum requirements but to introduce advanced e-passports. They thus decided at an early stage to invest in a future technology, which is today the status quo in many countries.

A key factor in the decision to introduce e-passports instead of basic MRP's are the benefits which come with electronic passports. The advantages of second and third generation identification documents derive from a higher level of security and thereby a much better protection against identity fraud as well as prevention of illegal immigration. In addition, e-passports offer substantial efficiency improvements for passenger processing at airports, land borders, and sea ports.

In 2010, the overall e-ID market recovered from the world economic crisis, which had caused many delays and projects to be put on hold. Over the course of the year though, several countries introduced electronic passports or revived their efforts to ensure interoperability and meet international travel standards.

Enhancement of the Strong Security Concept

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

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

In 2010, NASPO certification further elevated SMARTRAC's strong security commitment. Certification from the North American Security Products Organization (NASPO) is one of the strictest independent security certification processes worldwide. The Washington-based non-profit organization ensures that providers of security documents, labels, cards, packaging, materials, and technology operate under a certain set of operational standards and security protocols. NASPO certification can only be achieved by implementing and ensuring high-level security assurance standards and a solid framework of security processes and best practices. During an on-site audit, SMARTRAC's high-security production facility in Chanhassen, Minnesota, was found to meet all of the stringent security requirements.

The security certifications mentioned above are not only proof of the company's leadership for RFID-based e-covers and e-ID inlays. Customers throughout the value chain benefit from highest security standards and a future-proof strategy.

As a trusted supplier for government identification documents to more than 40 countries worldwide, SMARTRAC has continuously invested in the expansion of the existing security level and upgrading of its manufacturing sites into certified high-security production facilities and will continue this strategy in the future.

Projects and Milestones 2010

In 2010, SMARTRAC was able to benefit from the overall recovery of the e-ID market. Order intake and shipment levels related to the e-passport project in the United States continuously increased in the course of the year in order to supply the underlying demand. In addition, SMARTRAC was able to win several new projects in 2010. Due to the sensitivity of the e-passport projects and the corresponding non-disclosure agreements (NDAs), SMARTRAC is not able to give further particulars on the business partners and countries to which the respective volumes relate.

In March 2010, the company was pleased to announce a framework agreement with De La Rue Identity Systems for the provision of e-covers, a component part of biometric passports, for certain ongoing contracts. De La Rue selected SMARTRAC following a structured competitive e-tender process.

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 e-ID segment from the introduction of further identification documents. E-passports have to date accounted for the majority of RFID-based documents issued by governments. However, the trend indicates a need for a broader range of contactless identity documents, driven by the demand to provide e-services to citizens and to increase efficiency of administrative processes. National ID cards, pass cards for border crossing, driver's licenses, healthcare cards, public service cards, government employee ID cards, and electronic permanent resident cards are examples of further documents that are currently in the process of being evaluated in state projects or implemented by the authorities.

Business Unit Cards

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

The Market for Contactless Cards

The market showed strong recovery in 2010, driven by the introduction of contactless smart card technology in several large public transport projects, an increased demand in the access control sector, and by banks and financial institutions again reinforcing the introduction of contactless credit and debit cards (e-payment).

E-payment is continuously evolving. In 2010, growth of the e-payment market not only derived from the first-mover region Asia-Pacific, but also from the issuance of contactless smart cards on a global scale. Smart card technology has made steady progress over the past years, causing a technological shift and replacing the issuance of pure magnetic strip banking cards as well as reducing the use of cash payment. Contactless cards as means of convenient, secure, and fast payment are more and more accepted by consumers and offer the advantage of combining a variety of applications, such as access, payment, transport, and loyalty on a single form factor.

SMARTRAC works together with the major players in the e-payment market to offer the best solutions for contactless payment. Being a certified manufacturer for PRELAM® products that are the base for cards issued by major credit card companies, SMARTRAC has been able to benefit from the growing contactless payment market. What also contributes to SMARTRAC's leading position in the e-payment market is the company's leading technology portfolio, the adherence to highest quality and security standards, and the 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 a single card.

Deployment of contactless smart cards in the public transport market also developed favorably in 2010, propelled by proven advantages such as cost-savings through reduced maintenance efforts for equipment and a much quicker ticket validation process resulting in reduced waiting times and a convenient entry process for passengers. Large projects in the Asia-Pacific region, the Americas, Europe, and the U.S. which had been postponed due to the global economic crisis in 2009 were revisited in 2010.

In addition, private enterprise companies, institutions in the educational system, and government authorities equally focused on the introduction of advanced access control solutions in the form of contactless microcontroller chip based systems which combine user convenience with high security standards, such as biometric features.

In turn, SMARTRAC experienced strong order intake in 2010 right from the beginning of the year and lastingly high demand throughout the year, leading to a continued high utilization level of the company's global card inlay production capacities.

Projects and Milestones 2010

In 2010, the SMARTRAC business unit Cards successfully extended its smart card transponder product portfolio. In January, SMARTRAC introduced its TI Tag-it™ HF-I Plus PRELAM® to the market. The products are geared towards satisfying the growing demand for ISO plastic card PRELAM® products using Texas Instruments' Tag-IT™ HF-I Plus Chip and are suited for access control systems in the hotel and catering industry, among other applications.

Due to SMARTRAC's in-house chip packaging capabilities, the IC and the capacitor are seamlessly integrated into the card PRELAM® ensuring the highest level of transponder performance. Card manufacturers benefit from a fully developed PRELAM® that can be processed directly without any need for additional processes or changes to their current manufacturing processes. In addition, the SMARTRAC TI Tag-it™ HF-I Plus PRELAM® products ideally fit into the TI system and are fully compatible to other TI-based components such as RFID labels. This allows end-users to use both RFID cards and labels within the same system.

In June 2010, SMARTRAC again obtained certification for a range of its RFID PRELAM® and white card products from the AIT Austrian Institute of Technology. SMARTRAC is the first RFID transponder manufacturer to obtain certification for its entire MIFARE PRELAM® product range from AIT. The certification includes the company's range of high-quality, dependable, and durable MIFARE Classic PRELAM®, MIFARE DESFire PRELAM®, and MIFARE-compatible Infineon SLE66R35 PRELAM® products. In addition, SMARTRAC's MIFARE Classic ISO white cards, MIFARE DESFire ISO white cards, and MIFARE-compatible Infineon SLE66R35 ISO white cards have also been certified by AIT.

The AIT Austrian Institute of Technology, formerly known as 'Arsenal Research', is an independent, cutting-edge research institute of European format, which has now started qualifying RFID smart card inlays in addition to certifying complete RFID smart cards. AIT certification is a proof of quality, reliable functionality, and compatibility.

Customers benefit from increased flexibility and cost savings as they are now able to obtain certification of their finished smart cards based on SMARTRAC's qualified PRELAM® and certified white card products. In addition, the SMARTRAC certificates result in reduced complexity and time savings for card manufacturers seeking smart card certification and thereby much quicker time to market.

In fall 2010, SMARTRAC launched thin PRELAM® products based on NXP's new MOA8 chip module. The challenge of manufacturing the new products is the thickness of the new MOA8 chip module at 250 microns compared to the thickness of 320 microns of the MOA4 module. The extremely small and thin chip module package designed for the MIFARE memory chip family was marketed during the Cartes show in Paris.

In December 2010, the business unit officially opened its card inlay production at the manufacturing site in Kulim, Malaysia. The first batches of card inlay products have already been manufactured at the site. In addition, SMARTRAC has obtained Card Quality Management (CQM) Certification from MasterCard for its factory in Kulim, Malaysia. The CQM label has been granted to SMARTRAC's high frequency card inlays following an on-site audit. The MasterCard CQM label for the factory in Kulim is an important accomplishment and complements the existing MasterCard CQM label for high frequency card inlays, durable dual-interface (DDI) inlays, and the module packaging process in the company's production facility in Ayutthaya, Thailand.

CQM is a quality program ensuring high quality standards throughout the entire production process of MasterCard-branded products. With the recently awarded CQM certification, SMARTRAC's production processes have been formally verified to comply with the strict MasterCard quality requirements for the manufacturing facility, process management, testing, evaluation, and auditing.

The developments in 2010 are another proof of SMARTRAC's capability and competency and clearly underline the company's leading market position. Based on its excellent technology portfolio, manufacturing expertise, high-quality and high security products, the company is set to further participate in market growth and to support a global customer base.

Business Unit Industry & Logistics

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

The Tag Market

The automotive market, which had already started to recover at the end of 2009, showed a continued favorable development in the course of 2010, as did sales and volumes delivered for car immobilizers, remote controls, and keyless entry systems to various leading car manufacturers in Europe, Asia, and the Americas. In addition, the business unit was able to successfully expand its business into non-immobilizer applications in the automotive industry. Based on the excellent knowledge of the specific requirements of the market, an outstanding technology portfolio, and the established and trusted brand Sokymat Automotive, the business unit entered into additional RFID-based application fields. Several new development projects were launched, which have already or will soon result in sales.

The overall animal identification market was able to benefit from several new regulations becoming effective in 2010. In addition, the market is already preparing for mandatory RFID-based animal identification coming into effect in 2011 in Europe and the Asia-Pacific region. Besides regulatory requirements to ensure safety and integrity of the food chain, breeders and other market players value the benefits of RFID for optimizing breeding, herd management, and farm management. As a consequence, the SMARTRAC business unit was able to win additional customers and projects based on its broad selection of glass tags, RFID-based earmarks, and products for bolus application, which are designed to serve the livestock, pet identification, pigeon, and fishery tagging markets.

Adoption of RFID technology in industry and logistics also made further progress in 2010. From tagging containers and pallets to tracking single items and tools, RFID is replacing barcode technology more and more to ease product tracking, optimize the flow of commodities and inventory management, prevent product counterfeiting, improve processes, and realize gains in efficiency. With an established portfolio of standard products, customized solutions, and new developments, SMARTRAC has further enlarged its market share in the industry and logistics market segment. Particularly the segments medical, waste management, laundry, and factory automation developed favorably in 2010. In addition, the prerequisites were laid for development into further industry and logistics applications.

Tags for entry ID are among the most mature RFID applications. SMARTRAC's key fobs, iCap tags, and ISO and clamshell cards for entry ID applications provided customers with reliable and flexible solutions in 2010. The company's particular capabilities in molding and embedding transponders into specific housings, customizable designs, the high impact-resistance of the tags as well as a variety of shapes and form factors contributed to the further success of SMARTRAC's business activities in the entry ID application field. What also contributed to the favorable development of SMARTRAC's entry ID business is the large growth of this application field on a global scale. Due to its experience and capability, the company is well positioned to support the continued development towards deployment of entry ID tags in more and more secure applications. As leading supplier of HF transponders, SMARTRAC also has the ideal prerequisites to support the ongoing technological shift in the entry ID market from low frequency to high frequency and to support future growth and technology developments in this market segment.

Projects and Milestones 2010

In April 2010, SMARTRAC introduced SmartMiniGlassTag to the market. The transponder broadened the Industry & Logistics business unit's range of available passive glass transponders with the addition of a very small-size version. With a diameter of 2.12 millimeters, a length of 8.8 millimeters, and a weight of only 70 milligrams (mg), the SMARTRAC SmartMiniGlassTag accommodates the demand for reliable identification of very small animals and objects. Typical applications include tagging of mice, fish, and other small animals. In addition, the transponder is also suited for use in access control and general industry applications. Manufactured from biocompatible glass, the hermetically sealed transponder is characterized by robustness and high chemical resistance. In addition, the product also has a good storage capacity and enhanced security features such as write protection and password protection.

As one of the first RFID transponder manufacturers, SMARTRAC launched a new gamma radiation-proof RFID tag in July 2010. The new transponder, which is part of the company's established S-Tag product family, withstands gamma radiation of up to 45 kilogray (kGy) and is thus especially suited for use in medical applications where aseptic conditions are compulsory. Sanitizing medical equipment with gamma rays offers several benefits. As the irradiation destroys the DNA of any microorganisms, medical equipment is sanitized reliably. In addition, radiation sterilization is the only process in which products can be sanitized including their packaging, as the gamma rays permeate materials and casings such as metal containers easily and without any appreciable increase in temperature. Compared to heat and chemical sterilization, irradiation is therefore a fast, easy, effective, and environmentally friendly process that leaves no residues on the sanitized objects. The new transponder has been developed based on the company's S-Tag product family and is characterized by robustness, high mechanical durability, extended chemical and temperature resistance and compliance with the ISO/IEC 15693 standard. Besides medical applications, the new

S-Tag is also suited for use in aerospace, plant breeding, food irradiation, and laundry applications.

In addition, the business unit broadened the range of its established product offering in the waste management application field in 2010. Designed to withstand harsh environmental conditions, the SmartWasteBinTag 7.5 and the SmartPinTag transform slow, costly, and labor-intensive waste management and recycling procedures into smart and efficient processes.

All 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 is further expanding its research and development, business development, and sales capacities to benefit from the promising growth perspectives in its established business and to further expand into new fields.

Business Unit Tickets & Labels

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

Based on its established product portfolio for library and media management, the business unit was able to benefit from further adoption of RFID in libraries in 2010 and support users with reliable theft protection and an efficient process reducing manual processes. The range of additional services offered for the library market including printing and programming, customized formats as well as logistics using local service centers is a clear benefit which customers value as an asset.

Adoption of contactless entry systems in public transport did not only grow for high-quality access cards in 2010 but also for reliable paper tickets. As one of only few market participants, SMARTRAC is able to supply customers with both solutions and support them in reducing maintenance efforts and costs, a fast and convenient ticket validation process, and a quick and simple entry process for passengers. The company's proprietary ChipLink™ technology, one of the most innovative assembly processes in the market, which lowers the assembly costs significantly, is today well accepted in the market. With this technology, SMARTRAC is one of only a few manufacturers providing a fully integrated production process, from etching of the antenna to assembly and converting of the RFID ticket.

The use of RFID technology in vehicle and toll applications made further progress in 2010, driven by governments seeking to facilitate tax and toll collection. 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. The company's products thus create business opportunities in national, regional, and local vehicle identification, parking, and toll application projects.

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

Projects and Milestones 2010

Technology transfer from Germany to Malaysia was successfully completed in the course of 2010. Increasing production volumes in the Kulim factory made further progress as well as the organization of a worldwide supply chain to support the business unit's global customer base. The new operations team established in the second quarter of 2010 was able to support the business unit in terms of operational excellence and increase of capacities.

Despite its organizational and operational challenges, the Tickets & Labels business unit obtained successful customer qualification for new high-volume application fields in 2010 which provide interesting opportunities for further growth.

Research and development

In 2010, SMARTRAC further increased its R&D workforce. As of December 31, 2010, 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 laid the prerequisites for directly transforming technically mature innovations into mass production on a global basis.

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

Production of Card Inlays Based on Biodegradable Production Materials

In 2009, SMARTRAC launched a research project on biodegradable production materials, as RFID components are increasingly becoming part of everyday life. Being the leading RFID transponder manufacturer with the largest single production capacity in the industry, SMARTRAC is committed to also taking a leading role with regard to the sustainability of production concepts and materials. As a result of this research project, volume production of card inlays based on biodegradable production materials was initiated in 2010 and first orders for the technologically mature products were produced and supplied. With a growing market interest, SMARTRAC will be able to derive further growth from this new product range.

The successful launch of new products for the four business units was also a major accomplishment of the global research and development teams. In addition, the teams supported the business units in new technological developments as well as in customer qualification processes.

Implementation of a New UHF Development Centre

To further enhance its research and development efforts in the UHF frequency range, SMARTRAC has opened a new development center for UHF transponders at its location in Thailand. The core of the new development centre is a UHF test chamber, which is one of the most advanced tools to test UHF transponders including their 3-dimensional capabilities.

The company is thus even better prepared to support the growing demand for high-quality, reliable, and flexible UHF products and solutions.

Besides an innovative spirit, the company's technological expertise, flexibility, and ability to quickly transform innovation into mass production, 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, but is also able to take into account the latest specifications in product design even before new chip ICs are being launched.

Global Network

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

To meet the strong market demand, SMARTRAC initiated the largest investment program in company history in 2010 in order to increase the company's global production capacity. In addition, measures were initiated in 2010 to further improve efficiency and manufacturing excellence throughout the global production network.

In terms of certification, SMARTRAC's production facilities are all ISO 9001:2000 certified. In addition, ISO 9001:2008 certification has already been achieved or is being prepared at the company's global production facilities. The factories in Ayutthaya, Thailand, are also certified to the ISO 14001 standard, the most important standard in the area of environmental management throughout the world. 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. In addition, the company is steadily enhancing the certification level of its production facilities.

With a total of ten factories on four continents, of which three are high-security facilities, the Group is able to competitively respond to global projects by providing the best service and solutions for its customers. SMARTRAC maintains production facilities in Brazil, Germany, Malaysia, Thailand, and the USA. Besides its 100 percent controlled subsidiaries, the company also maintains a joint venture in China and holds an interest of 50 percent in Omnia Technologies since February 2011, an Indian manufacturer of RFID tags, to even better serve the local markets.

Brazil

Adoption of RFID technology in the Latin American market made further progress in 2010, particularly in the market segments of public transport and access control. As a result, SMARTRAC's local production facility in Manaus, in the Amazon state, was running at a high utilization throughout the entire year. New production records were achieved, which also led to growth in sales and profitability.

From February 2010 onwards, SMARTRAC Brazil also made provisions for upcoming electronic passport and ID card projects in South America. Adoption of e-passport and e-ID card technology is currently in the early stages in South America. The provisions at the local subsidiary are a strategic step in order to be prepared for future development in the region.

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

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

Germany

Based on the further recovery of the automotive market and the return to large volumes of RFID transponders for car immobilizers, remote control, and keyless entry systems as well as the growth in the non-automotive business segments, SMARTRAC TECHNOLOGY GERMANY GmbH further enlarged its overall production capacity in 2010. In addition, expansion of the site to include a high-security e-ID inlay production facility progressed as scheduled in the course of the year. SMARTRAC had started to expand the existing production facility in Reichshof-Wehnrath in November 2009 in order to accommodate a production environment for the manufacture of highly secure RFID inlays for electronic identification (e-ID) documents such as passports and national ID cards.

SMARTRAC TECHNOLOGY GERMANY GmbH also serves as the European competence center for the Group. Housing three of four business units under one roof is an ideal basis for synergies on a Group-wide level as well as for joint development efforts in the industrial segment.

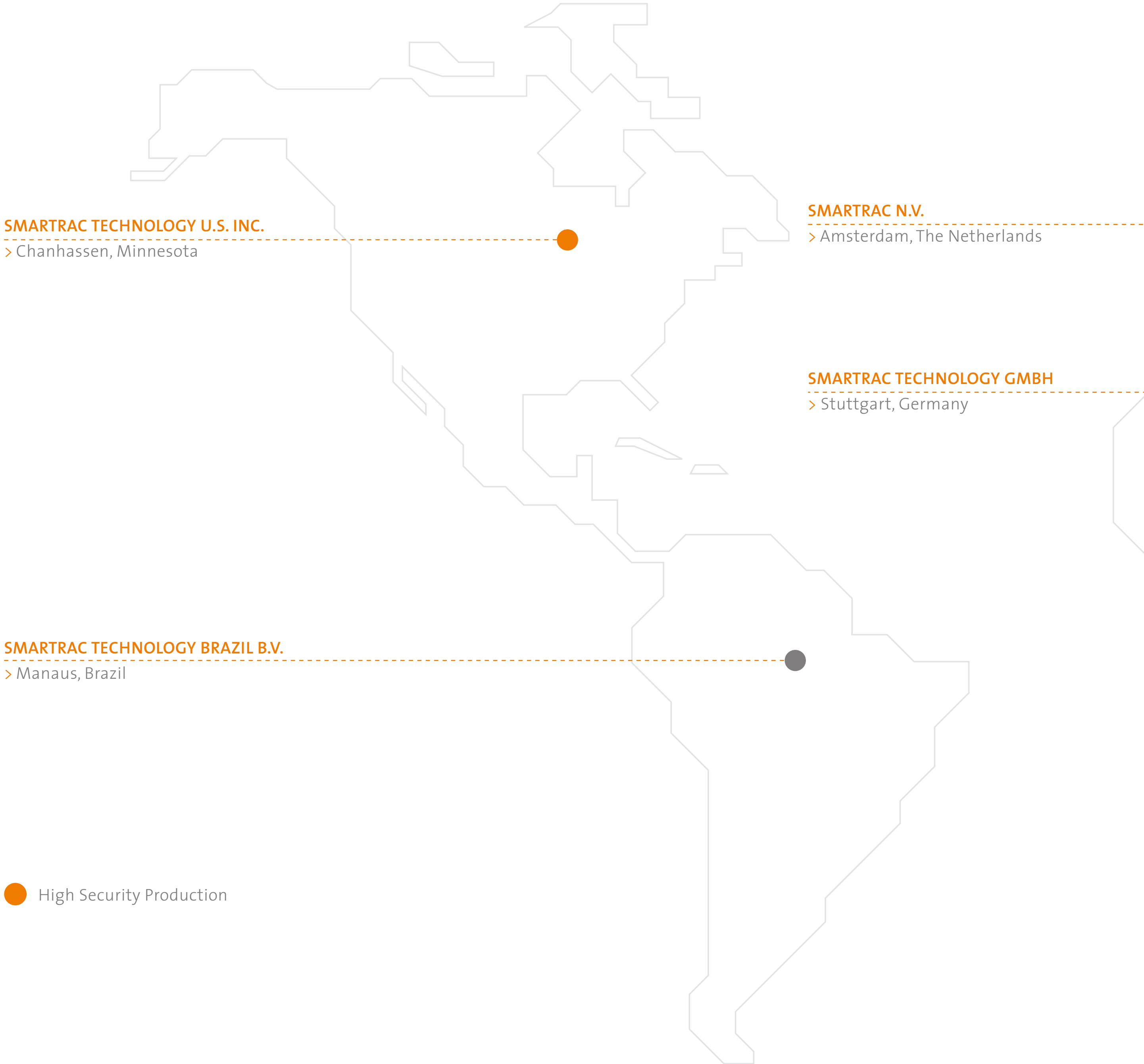
SMARTRAC TECHNOLOGY GROUP's corporate service center is also located in Germany. Based in Stuttgart, the team from the corporate service center is able to benefit from the local conditions, with Europe being in the median of different time zones. With regard to the developments in 2010, the corporate service center has been reinforced with additional employees to support the Group's global teams and business activities even better.

Malaysia

Technology transfer from Germany to Malaysia was completed successfully at the beginning of 2010. In addition, several new processes were developed at the site in Kulim that have been utilized for the development of new products and the successful completion of customer qualifications. The increase in mass production for label and ticket inlays as well as operational excellence was further backed by the implementation of a new team. Furthermore, in December 2010 Multitape Technology changed its name to SMARTRAC TECHNOLOGY MALAYSIA Sdn Bhd.

Expanding the production location in Kulim to include card inlay manufacturing capabilities was also completed in December 2010. SMARTRAC had started setting up card inlay production in its Malaysian production facility in fall 2010. First volumes of card inlay products have already been manufactured at the site. In addition, SMARTRAC has obtained Card Quality Management (CQM) certification from MasterCard for its factory in Kulim, Malaysia.

SMARTRAC's in-house machinery building subsidiary Xytec was able to further enhance its position as a key machine building center for the Group. In particular, the subsidiary served as a basic pillar for the global investment program and enlargement of SMARTRAC's overall global production capacity in 2010. Xytec also changed its company name in December 2010 and now operates under the name SMARTRAC AUTOMATION Sdn Bhd.



2000
- Foundation of SMARTRAC TECHNOLOGY Ltd.

2001/2002
- Start of mass production of RFID inlays in Thailand.
- Opening of new factory in Ayutthaya, Thailand.

2004/2005
- Start of proprietary chip module production.
- Opening of 2nd production facility in Thailand.
- Founding of Xytec Solutions.
- Opening of 3rd production facility in Thailand.

2006
- Implementation of Dutch holding SMARTRAC N.V. in Amsterdam.
- Opening of SMARTRAC European sales office in Stuttgart.
- Initial public offering (IPO) on the Frankfurt Stock Exchange.

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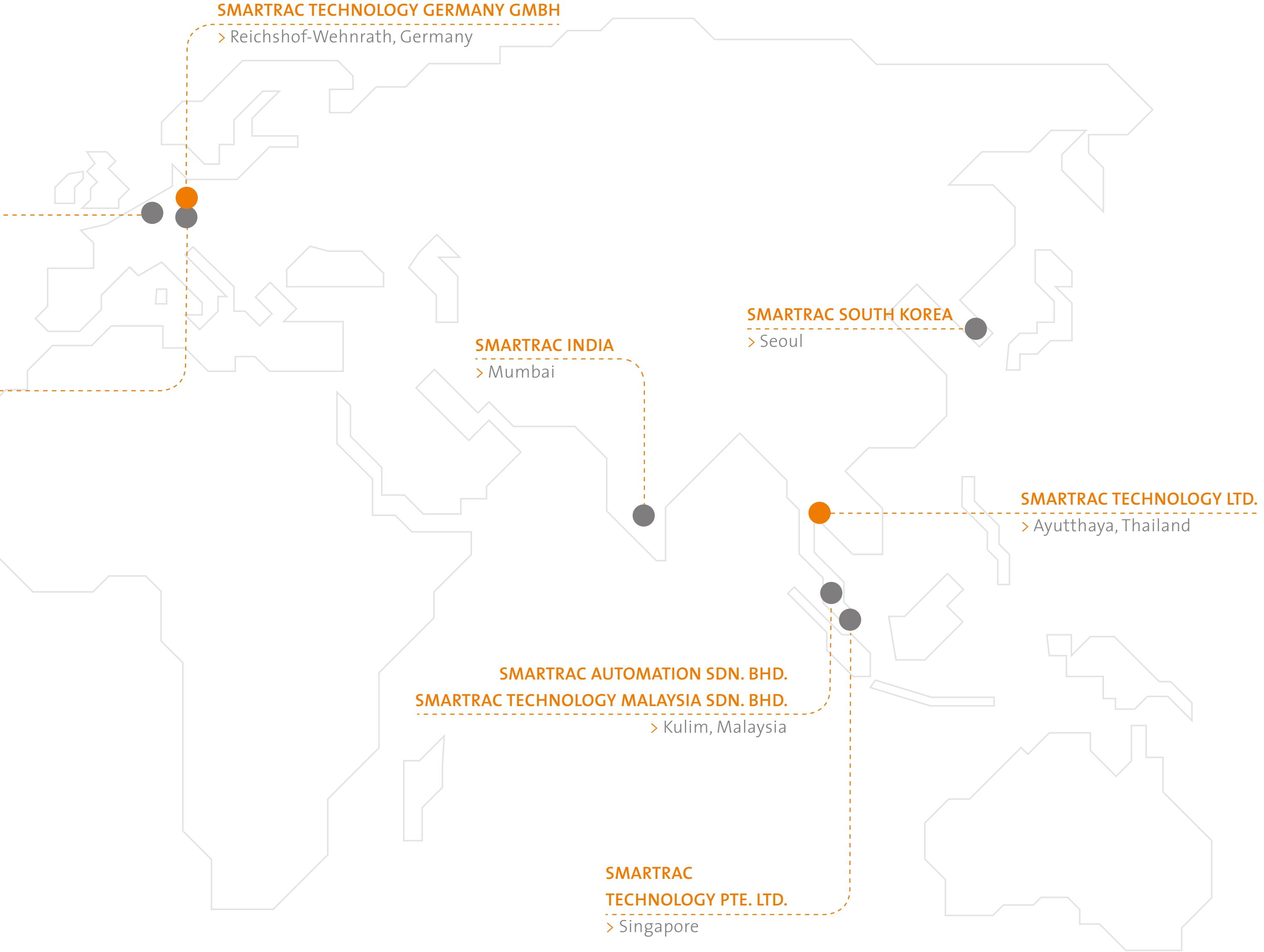


2007
- Opening of 4th production facility in Thailand.
- SMARTRAC N.V. acquires multitape GmbH.
- Local production of RFID components in Brazil started.
- SMARTRAC N.V. acquires HEI Inc.'s RFID division in the U.S.
- SMARTRAC opens sales office in South Korea.

2008
- SMARTRAC N.V. takes full ownership of Xytec Solutions Sdn. Bhd. Malaysia.
- SMARTRAC acquires Sokymat Automotive GmbH.

2009
- SMARTRAC implements the four business units eID, Cards, Industry & Logistics, Tickets & Labels.
- Opening of 5th production facility in Thailand.
- Completion of EAL5+ certification for RFID-based identity documents.
- Acquisition of assets and IP of OTI and MCT.

2010
- Extension of Asian production network
  - Volume ramp-up of label and ticket inlay production in Malaysia
  - Start of card inlay production in Malaysia
  - Finalization of Joint Venture in Shenzhen, China.
- NASPO Certification of U.S. high security facility.

Thailand

SMARTRAC's largest individual production site is based in Ayutthaya, Thailand. Due to the strong customer demand in 2010, production capacity was increased in the course of the year and extra shifts were run. As a result, the production facilities near Bangkok were able to report one production record after the next.

Besides installing equipment resulting from the acquisition of MCT at the site, new machines and equipment were added as part of the global investment program. New production lines were implemented and new teams were hired and trained. Furthermore, new products for the Industry & Logistics business unit were launched catering to fields of application such as laundry and waste management.

In addition to fulfilling current orders, the research and development efforts in the UHF frequency bandwidth on-site were supported with a new laboratory. The new UHF laboratory also includes a new full size UHF test chamber which represents the most recent technology to develop, optimize and qualify UHF transponders.

Concomitant with the enlargement of the workforce, management training and employee development programs in Thailand were enforced to support the teams and to maintain a high standard of technical expertise.

United States of America

The increase of production capacity at the facility in Chanhassen, Minnesota, was advanced progressively over the past months while at the same time ensuring that the highest security and quality standards are met. In December 2009, production of RFID components from SMARTRAC's production location in the U.S. reached 500,000 highly secure e-passport inlays in a single month for the first time. In July 2010, the company's certified high-security production facility surpassed the milestone of 1 million units in a single month.

The facility in the U.S. is part of SMARTRAC's global network of certified high-security production facilities in Asia, Europe, and the U.S., which comply with a variety of security standards. The site in the U.S. has been qualified by governmental authorities for production of high-security RFID inlays and obtained ISO 9001:2000 certification for its quality management processes and procedures. In November 2010, SMARTRAC TECHNOLOGY U.S. also obtained Security Assurance Certification from NASPO, the North American Security Products Organization which can only be achieved by implementing and ensuring high-level security assurance standards and a solid framework of security processes and best practices.

Security certification under the NASPO standard is another milestone in a number of security certifications which SMARTRAC has accomplished for its global high-security production network within the last months and years.

Employees

The total number of employees of the SMARTRAC TECHNOLOGY GROUP, including subcontracted workforce, amounted to 3,488 at the end of 2010 compared to 2,734 at the end of 2009, comprised of around 20 nationalities worldwide.

This increase of 27.6 percent comes as part of SMARTRAC's global investment program targeted at supporting our further growth strategy. Approximately 95 percent (including subcontracted employees) were employed in the global production facilities, but predominantly in the five factories in Ayutthaya, Thailand. Accordingly, 85 percent of our employees work in Asia, 10 percent in America (North/South), and 5 percent work in Europe.

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

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

We trust in internationality.

MALAYSIA.

SMARTRAC has grown from a single production location to research and development, production, and sales locations in Asia, Europe, North America, and South America. Based on our strong international footprint, we are able to support our customers on a global basis.

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
Designated Sponsor	CA Cheuvreux
First day of trading	July 20, 2006

The Share

Share Price Development

The development of the SMARTRAC share in the first half of 2010 in general reflected the overall market development, though with a higher level of volatility. The SMARTRAC share started 2010 at EUR 15.00 and recorded its low for the first six months on June 8, 2010, at EUR 12.95. The main driver of the performance of the share in the second half of 2010 was the publication of the decision by One Equity Partners (OEP) on August 30, 2010, to launch an offer to the SMARTRAC shareholders at an offer price of EUR 20.00. Since the announcement, the SMARTRAC share traded at around EUR 20.00 or slightly below this level and closed 2010 at EUR 18.31.

The German stock market index DAX finished 2010 with an increase of 16 percent at 6,914 points (XETRA closing). The DAX started 2010 at 5,957 points and recorded its low for the year on February 5, 2010 at 5,434 points, a decrease of 9 percent compared to the start of the reporting period. On December 21, 2010, the DAX reported its high for the year at 7,078 points, representing a 30 percent increase from its annual low.

The German technology index TecDAX closed 2010 with an increase of 4 percent at 851 points (XETRA closing). The TecDAX started 2010 at 818 points and moved to 863 points on January 14, 2010, an increase of 6 percent compared to the start of the year. The TecDAX recorded its low for the year on May 25, 2010, at 691 points, a decrease of 16 percent compared to the start of the year.

The year-end share price of the SMARTRAC share of EUR 18.31 constituted an increase of 22 percent in the 2010 fiscal year. The DAX and TecDAX indices increased by 16 percent and 4 percent, respectively, between January and the end of December 2010.

Earnings per share (EPS) is calculated by dividing the profit attributable to the equity holders of SMARTRAC

Key ratios of the SMARTRAC N.V. share	2010	2009	2008
Basic earnings per share in EUR	0.41	0.38	1.03
Operating cash flow per share in EUR	0.13	0.45	1.46
Share price at year-end in EUR (XETRA)	18.31	15.00	11.75
High in EUR (XETRA)	20.00	17.00	38.01
Low in EUR (XETRA)	12.95	6.50	8.57
Number of shares issued at year-end	16,334,997	14,849,999	13,500,000
Market capitalization in EUR million*	299	223	157

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

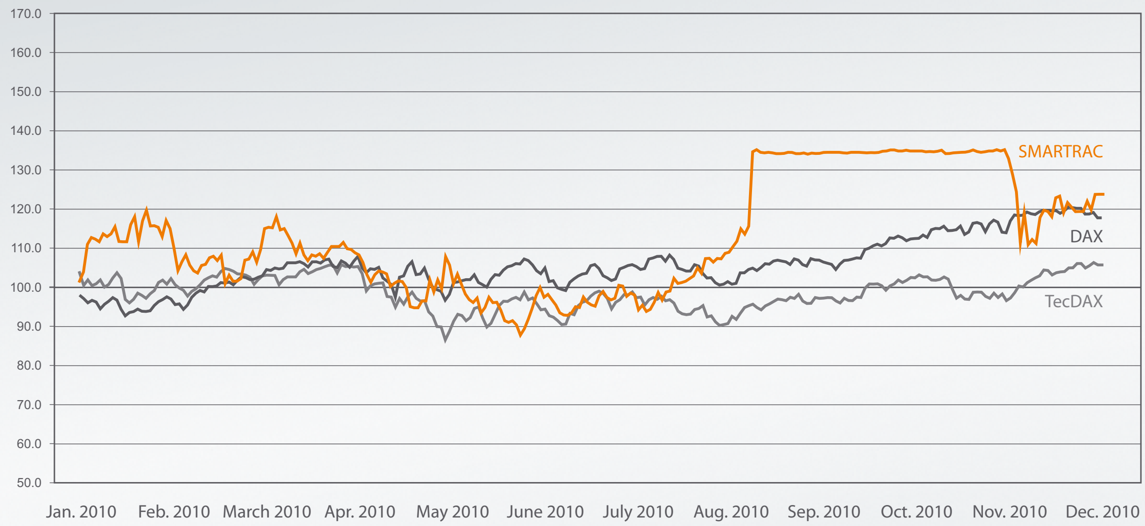
N.V. by the weighted average number of shares outstanding as of December 31, 2010. In the year under review, the number of shares outstanding averaged 14,984,966. Earnings per share for the financial year 2010 are EUR 0.41 and cash-flow per share amounts to EUR 0.13.

Dividend Policy and Dividend Proposal

The management of SMARTRAC intends to retain its earnings to finance the further growth and development of its business. No dividend was paid for the financial year 2009. This decision was approved by the SMARTRAC 2010 Annual General Meeting of Shareholders held on May 12, 2010, in Amsterdam. The Management Board intends to continue this dividend policy of adding profits to the profit reserve of the Company for the 2010 fiscal year.

SMARTRAC Increased its Share Capital

As part of the strategic partnership with OEP, the Management Board of SMARTRAC resolved to increase the share capital of the company. On October 15, 2010, SMARTRAC increased its share capital from EUR 7,424,999.50 (14,849,999 bearer shares) to EUR 8,167,498.50 (16,334,997 bearer shares), excluding subscription rights for shareholders. The capital increase, consisting of the issuance of 1,484,998 new bearer shares, was part of the foundation agreement between OEP Technologie B.V. (OEP) and SMARTRAC, dated August 30, 2010. As part of the strategic collaboration, OEP agreed to subscribe for the new shares at an issue price of EUR 17.50 payable in cash. The delivery and settlement of the new shares also occurred on October 15, 2010. SMARTRAC received gross proceeds in the amount of approximately EUR 26.0 million. The proceeds of the issuance served as means to increase financial flexibility for the further growth of the company.



Index share price performance 2010 (SMARTRAC, DAX, TecDAX)

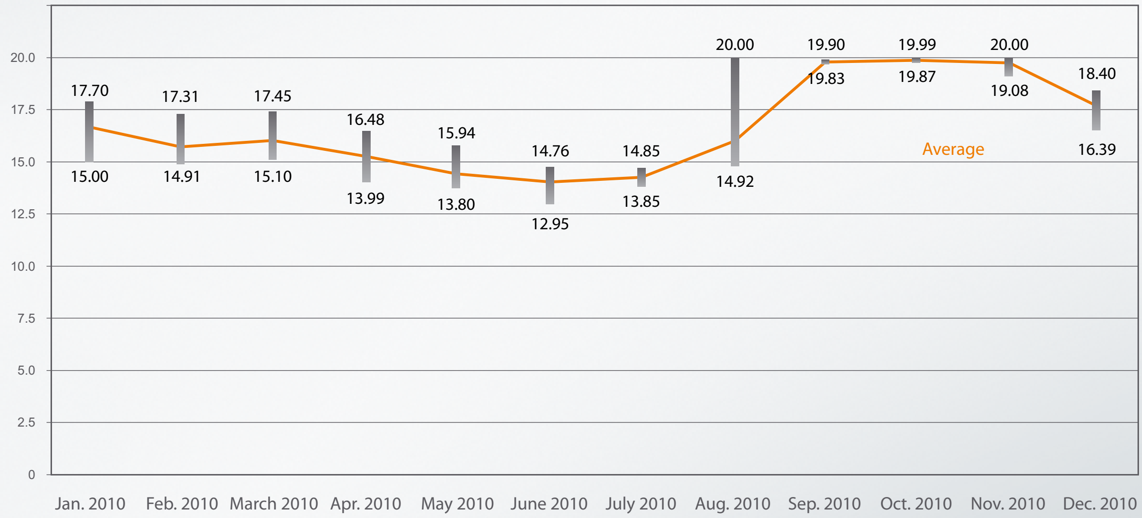
Shareholder Structure and Liquidity

The development of SMARTRAC's shareholder structure in 2010 was mainly influenced by the publication of the decision to launch a voluntary public tender offer to the SMARTRAC shareholders at an offer price of EUR 20.00 by One Equity Partners on August 30, 2010.

On September 1, 2010, JP Morgan Chase & Co indirectly via OEP Technologie B.V. exceeded the threshold of 5 percent, amounting to 9.26 percent. On October 13, 2010, the Pooling and Lock-up Agreement between Manfred Rietzler and OEP Technology B.V. entered into effect after all completion conditions of the Offer Document had been fulfilled on that day. As a result, Manfred Rietzler and JP Morgan Chase & Co disclosed voting rights announcements on October 13, 2010. On that day, Manfred Rietzler disclosed that his voting rights exceeded the thresholds of 15 percent and 20 percent, amounting to 21.75 percent, of which 8.08 percent result from the Pooling and Lock-up Agreement with OEP Technologie B.V. Respectively, JP Morgan Chase & Co disclosed that its voting rights in SMARTRAC indirectly via OEP Technologie B.V. exceeded the thresholds of 10 percent and 15 percent, amounting to 19.83 percent, of which 10.57 percent result from the Pooling and Lock-up Agreement with Manfred Rietzler.

On October 15, 2010, a capital increase consisting of the issuance of 1,484,998 new bearer shares completely signed by OEP Technologie B.V. was executed and resulted in voting rights announcements by Manfred Rietzler and JP Morgan Chase & Co. On that day, Manfred Rietzler exceeded the threshold of 25 percent, amounting to 28.86 percent, of which 16.44 percent result from the Pooling and Lock-up Agreement with OEP Technologie B.V. JP Morgan Chase & Co disclosed that its voting rights in SMARTRAC indirectly via OEP Technologie B.V. exceeded the thresholds of 20 percent and 25 percent, amounting to 27.12 percent, of which 9.61 percent result from the Pooling and Lock-up Agreement with Manfred Rietzler.

On October 22, 2010, Manfred Rietzler accepted the Offer from OEP Technologie B.V. for 2.82 percent of his stake, reducing his shareholding to 9.61 percent and his voting rights including the assigned voting rights from OEP Technologie B.V. to 26.05 percent. With the completion of the public offer to the SMARTRAC shareholders on November 26, 2010, OEP Technologie B.V. acquired a total of around 87 percent of SMARTRAC shares. As a result, the free float according to the definition of Deutsche Börse amounted to 3.4 percent. Based on the significant decline in the free float, the SMARTRAC share was excluded from TecDAX as of November 19, 2010.



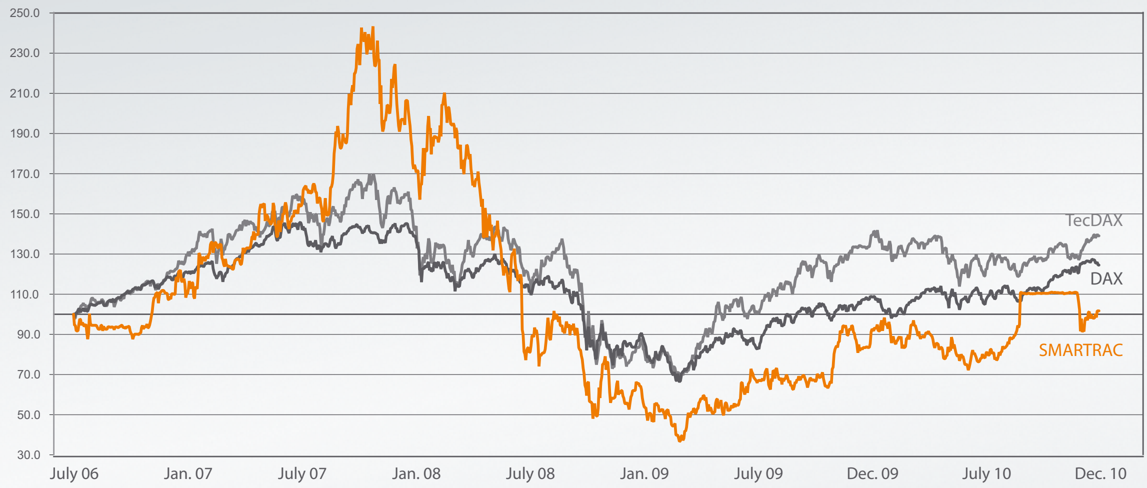
High, low and average price (Xetra), January 1 to December 31, 2010 in EUR

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

The majority of trading in SMARTRAC's share is carried out via the liquid XETRA trading system in Frankfurt/Main. 5.7 million SMARTRAC shares were traded on the XETRA trading system in the first half of 2010, as compared to 3.4 million one year ago. In the first half of 2010, the daily trading volume on the XETRA trading platform averaged close to 45,000 shares, compared with approximately 27,000 shares in the same period of 2009.

Trading volumes in SMARTRAC shares significantly increased in the second half of 2010 in response to the announcement of the voluntary public tender offer by OEP. On August 30, 2010, SMARTRAC observed the highest trading volume in the stock market history of the company. 878,417 shares were traded on the XETRA trading platform, more than three times higher than the highest volume to date (252,803 shares on July 15, 2008).

The acceptance period for the voluntary public tender offer ended on November 8, 2010. The additional acceptance period ended on November 26, 2010. Consequently, the average number of shares traded per day on the XETRA trading platform declined to an average of 8,400 shares from November 27 to the end of the reporting period, compared to an average of 26,400 shares in the same period in 2009.



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

Share Buyback Program and Treasury Stock

The Annual General Meeting of Shareholders held on April 29, 2009, authorized the Management Board to repurchase and acquire up to a maximum of 10 percent of the company's issued share capital. The authorization was granted for a period of 18 months following April 29, 2009. The Annual General Meeting of Shareholders held on May 12, 2010, 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 May 12, 2010.

In the course of 2010, the Management Board made no use of this authorization.

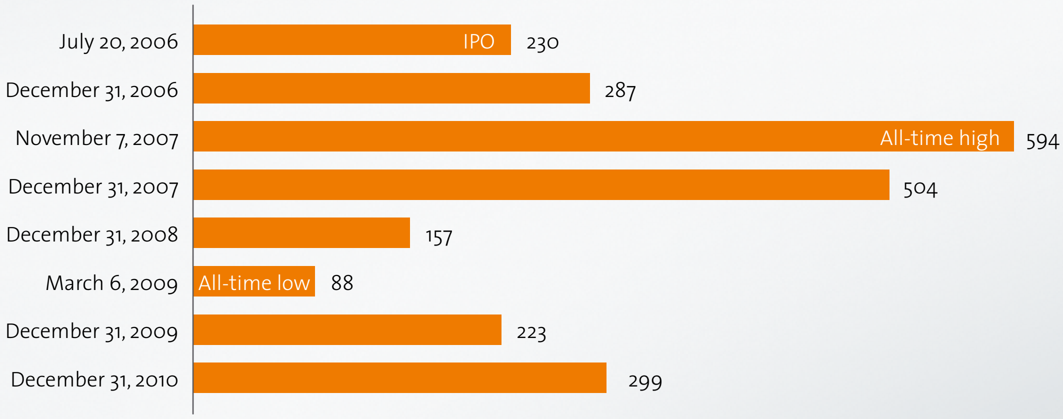
In October 2010, SMARTRAC sold its 192,050 treasury stock through the stock market and received a consideration of approximately EUR 3.8 million. Details on the changes in treasury stock in the course of fiscal year 2010 are provided in the Notes on page 135 of the Annual Report.

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

Information Policy

SMARTRAC's investor relations work in the 2010 fiscal year responded directly to the requirements of investors on the international capital markets. SMARTRAC maintained a continuous exchange of information and contact with the capital market and investors via frequent visits to the financial centers as well as participation in investor conferences. This increased communication is aimed at providing a better understanding of the business model and its value drivers and gaining a fair valuation on the capital market.

The investor relations program comprised 24 days dedicated to roadshows and investment conferences in Europe and North-America. In addition, management used site visits, sales briefings, and individual conference calls with investors to provide deeper insight into the business model, the financial results, and the Company's strategy. Firmly established parts of the communication with the



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

financial community are conference calls on the interim reports and important strategic transactions.

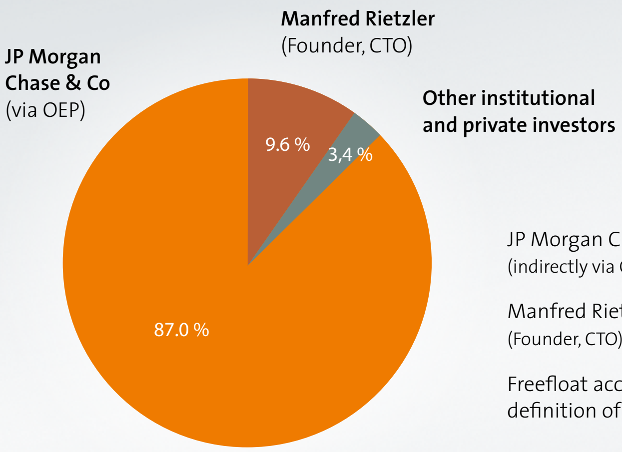
With all its individual activities, SMARTRAC's financial communication, which rigorously pursued the principles of credibility and transparency, was aimed at meeting the requirements of the global capital market, fostering confidence among investors and analysts, and as comprehensively as possible, providing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

In accordance with the regulatory framework for publicly listed companies, SMARTRAC is committed to 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.

Coverage Expanded and Positive Assessment

In 2010, the number of analysts that follow SMARTRAC was increased to seven national and international banks. Close Brothers Seydler initiated coverage in March 2010 with a price target of EUR 20 and a "buy" recommendation, which was changed to "hold" on August 30, 2010, following the voluntary public tender offer from OEP. Macquarie Capital initiated coverage of SMARTRAC in April after Sal. Oppenheim had terminated coverage in the first quarter of 2010. The analysts at Macquarie started their coverage with a price target of EUR 18 and an "outperform" rating, which was changed to "neutral" in July 2010 prior to publication of the Q2-2010 figures. With the announcement of the voluntary public tender



JP Morgan Chase & Co. (indirectly via OEP Technologie B.V.)	87.0 %
Manfred Rietzler (Founder, CTO)	9.6 %
Freefloat according to the definition of Deutsche Börse	3.4 %

Shareholder structure as of 31 December 2010

offer by OEP at EUR 20.00 and the respective share price movement, price targets of the analysts were reached and therefore recommendations were downgraded. Currently, five analysts rate the SMARTRAC share as a “hold/neutral”. One analyst recommends to “sell” the share and one rates the stock as an “underperform”. The seven sell-side analysts regularly comment on the financial figures and the business model of SMARTRAC and provide a comprehensive spectrum of opinion in the capital market. 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.

As of the reporting date of December 31, 2010, the analysts agreed in their valuations. The analysts saw the target price for the SMARTRAC share at the end of the year at EUR 19.35 on average, with the highest target being EUR 22.00. In the Investor Relations section of the website, under ‘Research reports’, SMARTRAC presents a constantly updated overview of the banks and their current recommendations.

Broker	Rating	Target Price	
Berenberg Bank	Hold	EUR	22
CA Cheuvreux	Underperform	EUR	19
Close Brothers Seydler	Hold	EUR	21
Deutsche Bank	Hold	EUR	20
DZ Bank	Sell	EUR	13.50
Macquarie	Neutral	EUR	20
UBS	Neutral	EUR	20

Recommendation as of December 31, 2010

Financial Calendar 2011

March 31, 2011	Publication of 2010 Annual Report Analysts' Conference Call
May 10, 2011	Publication of Q1 Interim Report (January to March 2011) Analysts' Conference Call
May 31, 2011	SMARTRAC Annual General Meeting of Shareholders, Amsterdam
July 29, 2011	Publication of Q2 Interim Report (April to June 2011) Analysts' Conference Call
November 8, 2011	Publication of Q3 Interim Report (July to September 2011) Analysts' Conference Call

The Investor Relations department of SMARTRAC is pleased to answer any questions regarding the share and the company by email or by telephone.

Investor Relations Contact

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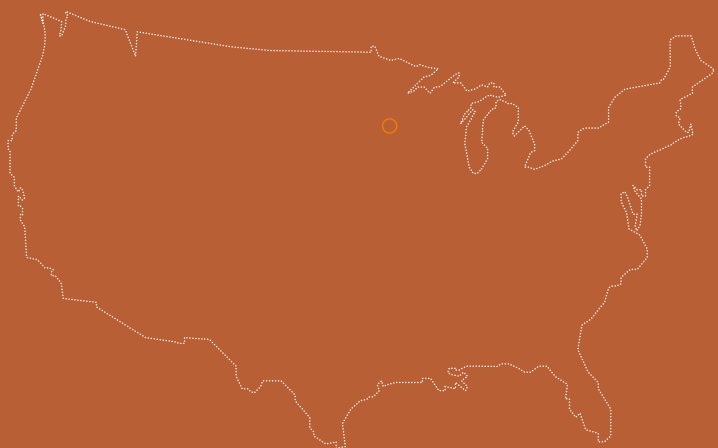
UNITED STATES OF AMERICA.

SMARTRAC stands for excellent quality, reliability, and innovation. We are the global market leader for high-quality and high-security RFID inlays for e-Passports, national ID cards, and contactless e-payment cards. We also hold a leading market position in the development, production, and supply 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.




We trust in
leadership.

Key Financial Figures 2010 and Business by Segments

Earnings Position

Key data in thousands of EUR	2010	2009	2008
Sales	180,111	127,862	112,301
Gross profit	46,492	38,134	41,231
EBITDA	19,725	15,933	21,015
EBITDA margin in %	11	13	19
Net profit	6,073	5,060	13,628
Basic earnings per share in EUR	0.41	0.38	1.03

SMARTRAC achieved sales of EUR 180.1 million in the fiscal year 2010, representing an increase of 41 percent compared to sales of EUR 127.9 million in the same period of 2009. All business units were able to benefit from the strong recovery of the market and contributed to the growth of the Group.

Sales divided by geographical location of customers showed to be Europe the largest sales region, but also substantiated the global coverage of SMARTRAC's customer base. 50 percent of total Group sales were generated in Europe (2009: 55 percent), followed by 24 percent attributable to North America (2009: 24 percent), 6 percent to South America (2009: 7 percent) and 19 percent to Asia (2009: 14 percent). A detailed breakdown can be found in the Notes on page 123 of this Annual Report.

Cost of sales primarily relate to raw materials including microchips and manufacturing supplies, personnel expenses, depreciation and amortization as well as other manufacturing costs. A detailed breakdown can be found in the Notes on page 125. The increase of 49 percent to EUR 133.6 million in 2010 resulted in part from a further change in the product mix as well as the continued high proportion of microchip sourcing recognized under 'raw materials and manufacturing supply'.

SMARTRAC's gross profit amounted to EUR 46.5 million in 2010, as compared with EUR 38.1 million in the previous year. The gross margin amounted to 26 percent, as compared with 30 percent one year ago.

All four quarters of 2010 were characterized by a strong market demand resulting in high production and shipment levels as well as a continued high utilization of the global production capacity. As a result, Group EBITDA (including EBITDA from other operations) increased by 24 percent to EUR 19.7 million compared to EBITDA of EUR 15.9 million in 2009. EBITDA, as per definition, for 2010 excludes extraordinary legal and financial costs relating to the strategic partnership with One Equity Partners (OEP). In total, the EBITDA remained clearly behind the Company's potential. Among other factors, significant reasons for this development are the further change in the product mix and the ongoing costs related to the ramp up of volume production in Malaysia. The Group EBITDA margin amounted to 11 percent in 2010, as compared with 13 percent one year ago.

Profit for the period amounted to EUR 6.1 million compared to EUR 5.1 million in 2009 representing an increase of 20 percent on the previous year's result.

Balance Sheet

SMARTRAC has a sound and solid financial position. In 2010, SMARTRAC further strengthened its balance sheet. As of December 31, 2010, total assets of the consolidated balance sheet amounted to EUR 248.5 million, representing an increase of 19 percent compared to the previous year figure of EUR 208.3 million. This increase mainly resulted from the equity increase carried out in 2010. The growth of 56 percent in inventories to EUR 33.2 million (2009: EUR 21.3 million) and the increase of 17 percent in trade receivables to EUR 39.5 million (2009: EUR 33.8 million) in 2010 reflected the business development with sustained high levels of production and shipment and resulting high levels of microchip sourcing. Trade and non-trade payables increased by 22 percent from EUR 20.2 million in 2009 to 24.7 million as of December 31, 2010.

The increase of 30 percent in total equity attributable to equity holders to a total of EUR 161.6 million primarily resulted from the capital increase conducted in October 2010 consisting of the issuance of 1,484,998 new bearer shares, which were completely signed by OEP Technologie B.V., from the termination of some of the employee option schemes as well as from the net profit of EUR 6.1 million. As of December 31, 2010, SMARTRAC held no treasury stock whereas treasury stock amounted to EUR 6.3 million at year-end 2009. SMARTRAC sold its treasury shares as part of the strategic partnership with OEP.
The equity ratio increased from 60 percent at the end of 2009 to 65 percent as of the 2010 reporting date, providing a solid financial structure for future growth.

Cash Flow Statement

Net cash provided by operating activities amounted to EUR 1.9 million in 2010, compared to EUR 6.1 million in the previous year. Despite a higher net profit of EUR 6.1 million in 2010, compared to EUR 5.1 million in 2009, the decrease in the operating cash flow mainly resulted from the increase of the working capital position in 2010 (taking translation effects into consideration). In particular, the inventories significantly increased by EUR 12.1 million in 2010 (2009: increase by EUR 1.8 million) to match the strong order entry on customer side. Among other things, safety stock for microchip ICs was increased to cope with the shortage in the semiconductor industry. Trade receivables stabilized from an increase by EUR 12.6 million in 2009 to an increase by EUR 5.9 million in 2010 however could not be fully counterbalanced by trade and non-trade payables increasing by EUR 2.4 million in 2010 (increase by EUR 5.8 million in 2009).

As a result of the investment program initiated by the management in the course of the year to enlarge overall production capacity, net cash used in investing activities increased to EUR 19.4 million as of December 31, 2010, compared with net cash used of EUR 5.5 million for the same period of 2009. In 2010, investments in the purchase of property, plant and equipment increased by EUR 8.7 million to an amount of EUR 14.9 million (2009: EUR 6.2 million), predominantly related to the expansion of the site in Malaysia to include card production capacities, the further volume ramp-up of the tickets and labels business in Malaysia, the build-up of additional production capacities in Brazil as well as the enlargement of the site in Reichshof-Wehnrath, Germany, by a high-security production location. Cash payments on the purchase of consolidated subsidiaries, net of cash purchased at an amount of EUR 1.7 million in 2010, related among other things to the purchase of IP from On Track Innovations Ltd. (OTI) and assets of OTI's subsidiary Millennium Card's Technology Ltd. (MCT) in 2009.

Net cash provided by financing activities amounted to EUR 27.7 million in 2010 compared to net cash provided of EUR 16.0 million in 2009. The increase of EUR 11.7 million resulted from the capital increase conducted in October 2010 consisting of the issuance of 1,484,998 new bearer shares which were completely signed by OEP Technologie B.V. as well as from proceeds from the sale of treasury stock in the amount of EUR 3.8 million. In addition, SMARTRAC did not decrease its external loan portfolio to the same extent as in 2009.

Cash and cash equivalents and bank overdrafts as of December 31, 2010, increased by 75 percent to EUR 38.8 million (2009: EUR 22.2 million) and related mainly to the proceeds from the increase of share capital.

Business Segments

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

The segment mix in the period under review did not change as compared with 2009. The Industry segment continued to contribute 24 percent of total Group sales in 2010, while the Security segment accounted for 75 percent of total Group sales.

Security Segment

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

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

SMARTRAC is the global market leader for high-security RFID inlays and e-covers for electronic passports worldwide. Government identification documents such as e-passports are usually issued with holding periods of between five and ten years. Based on the long period of use as well as the strict quality and security requirements for government documents, authorities place great demand on the components with which the documents are made, with the RFID inlay being the crucial element of an electronic passport. Wire-embedding technology has proven to be the technology of choice for customers worldwide when it comes to RFID inlays that must meet highest quality, reliability, and durability standards.

In 2010, SMARTRAC was able to further expand its market leading position on a global scale. The business unit participated in e-passport and national e-ID card tenders worldwide including smaller sized projects as well as interesting volume projects. The company's leading position was further strengthened by a framework agreement with De La Rue Identity Systems for the provision of e-covers, a component part of biometric passports. Volume production for a project resulting from the framework agreement was successfully launched in the third quarter of 2010.

Demand from the U.S. e-passport project recovered at the end of 2009 and in the first quarter of 2010 reached a stable level. The steady order entry was attended by the progressive advance of production capacity at SMARTRAC's high-security production facility in the United States to supply the underlying demand. By the end of 2010, SMARTRAC had been chosen as supplier for high-security inlays and e-Covers to national identification projects in more than 40 nations and continuously works on securing and expanding its leading market position.

The Cards Business Unit comprises card inlays and transponders for public transport, access control, e-Payment, and active card applications and caters to card manufacturers.

SMARTRAC's wire-embedding technology is successfully used for RFID transponders in public transport systems around the world. Along with contactless access cards for buildings, these applications represent the most mature market segment in the RFID industry and deliver reliable and sustainable growth from projects and application fields worldwide.

Within the e-Payment application, in which both durability and reliability are key criteria to supply the secure payment industry, SMARTRAC reported a strong performance in 2010. The company was successful in maintaining its leading market position and served the U.S. market as well as projects in Europe and Asia with its high-quality products. Due to the high order entry, the Cards Business Unit steadily increased its wire-embedding production capacity over the course of the year to meet the high demand. Expansion of the production site in Malaysia for card production capacities was completed successfully and the factory obtained Card Quality Management (CQM) Certification from MasterCard at year-end 2010.

Sales Security Segment

Sales in the Security segment increased by 43 percent from EUR 95.5 million in 2009 to EUR 136.3 million in 2010 as a result of the supply to ongoing projects and the successful start of new e-ID projects as well as favorable growth in the Cards Business Unit.

Sales of EUR 59.5 million from the eID Business Unit represented 44 percent of sales in the Security segment in 2010 compared to EUR 40.0 million in the previous year (42 percent of segment sales). The Cards Business Unit accounted for EUR 76.8 million in fiscal year 2010, representing 56 percent of sales in the Security segment. In 2009, sales of the Cards Business Unit were EUR 56.0 million and represented 59 percent of segment sales. In relation to total Group sales of EUR 180.1 million, the eID Business Unit accounted for 33 percent (2009: 31 percent) and the Cards Business Unit accounted for 43 percent (2009: 44 percent).

Gross Profit Security Segment

In 2010, gross profit in the Security segment amounted to EUR 36.0 million which is equivalent to a gross margin of 26 percent. The decrease compared to a margin of 32 percent in 2009 (gross profit EUR 30.7 million) is among other things attributable to effects from delivery commitments resulting from the acquisition of the assets of Millenium Cards Technology Ltd. (MCT), which are less profitable than the Company's core business and therefore affected SMARTRAC's profitability in the period under review. Supply to these projects was settled in the second and third quarters of 2010.

In thousands of EUR	Consolidated 2010	Consolidated 2009	Change	Change in %
Revenues	136,333	95,487	40,846	43
eID	59,549	40,003	19,546	49
Cards	76,784	56,017	20,767	37
Intrasegment elimination	–	(533)	533	
Gross profit	36,044	30,703	5,341	17
EBITDA	16,506	16,902	(396)	(2)

Security segment

EBITDA Security Segment

In the fiscal year 2010, the Security segment reported EBITDA of EUR 16.5 million. Compared to EBITDA of EUR 16.9 million achieved in 2009, this represents a decrease of 2 percent. The EBITDA margin of 12 percent (2009: 18 percent) was burdened by the ongoing high proportion of microchip sourcing to accommodate shortages in the semiconductor industry as well as by the identified operational inefficiencies which became particularly noticeable due to the high utilization level of the global production capacities in the period under review.

In summary, the Security segment delivered a performance below its potential. The identified operational inefficiencies have been addressed and the initiated investment program will contribute to the further profitable growth of the segment in the future.

Industry Segment

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

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

In the course of 2010, the technology transfer from Germany to Malaysia was completed successfully. In addition, the business unit made further progress in establishing the organization of a worldwide supply chain to support the business unit's global customer base.

Despite the organizational challenges and backed by the establishment of a new operations team to support the business unit in terms of operational excellence, several successful qualification processes were completed in 2010. The business unit also expanded its market share in the established market segments further.

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

A major market for the business unit is the automotive industry. SMARTRAC supplies RFID components for RFID-based car immobilizers, remote controls and passive keyless car systems under the established and trusted Sokymat Automotive brand. As demand for these transponders is directly linked to vehicle production, the business unit was able to benefit from the strong recovery in the automotive market at the end of 2009 and at the beginning of 2010. The stabilization in demand was recognized in all major markets of SMARTRAC's automotive business, such as Europe, South America, and Asia and led to increased sales levels over the course of 2010. In addition, new business opportunities in the automotive market were addressed together with leading OEMs. Customized solutions for the tagging of engines and car bodies in the production cycle as well as for the tagging of safety relevant parts were developed and are expected to contribute to further growth.

The business unit was also able to further accelerate its business activities and to broaden its product offering in the non-automotive sector successfully in 2010. The wide product portfolio includes RFID-based earmarks and glass tags for animal identification, standard and customized transponders for industry and logistics applications as well as hard tags for harsh environments in terms of temperature, chemical exposure or physical stress. The favorable development was a result of development contracts and volume agreements in areas such as laundry, waste management, medical, and factory automation applications during the course of 2010.

In thousands of EUR	Consolidated 2010	Consolidated 2009	Change	Change in %
Revenue	42,545	30,734	11,811	38
Tickets & Labels	7,674	7,324	350	5
Industry & Logistics	34,917	23,915	11,002	46
Intrasegment elimination	(46)	(505)	(459)	
Gross profit	9,408	6,447	2,961	46
EBITDA	2,091	1,007	1,084	108

Industry segment

Sales Industry Segment

Sales in the Industry segment accounted for EUR 42.5 million in 2010 representing an increase of 38 percent compared to sales of EUR 30.7 million in 2009. Growth resulted from the stable demand in the automotive business, additional projects in the non-automotive business as well as increased sales in the tickets and labels business.

Sales of EUR 7.7 million from the Tickets & Labels Business Unit represented 18 percent of sales in the Industry segment in 2010 compared with EUR 7.3 million in the previous year (24 percent of segment sales). The Industry & Logistics Business Unit accounted for EUR 34.9 million in the fiscal year 2010, representing 82 percent of sales in the Industry segment. In 2009, sales of the Industry & Logistics Business Unit amounted to EUR 23.9 million and represented 78 percent of segment sales. In relation to total Group sales of EUR 180.1 million in 2010, the Tickets & Labels Business Unit accounted for 4 percent (2009: 6 percent) and the Industry & Logistics Business Unit accounted for 19 percent (2009: 19 percent).

Gross Profit Industry Segment

Gross profit in the Industry segment amounted to EUR 9.4 million which is equivalent to a gross margin of 22 percent. The increase compared to a margin of 21 percent in 2009 (gross profit EUR 6.4 million) is attributable to the stable demand in the automotive business as well as to the strong development of the non-automotive business activities.

EBITDA Industry Segment

The Industry segment accounted for EBITDA of EUR 2.1 million and thus more than doubled compared to EBITDA of EUR 1.0 million reported in 2009. The EBITDA margin of 5 percent (2009: 3 percent) is still significantly burdened by the ramp-up cost for the production facility in Malaysia and nonrecurring restructuring cost related to the technology transfer to Malaysia.

In Summary, the Industry segment is a strong growth segment for SMARTRAC's business activities. The Industry & Logistics Business Unit, in particular, is on a dynamic growth course and is becoming the third strong pillar in SMARTRAC's business portfolio.

Overall, the SMARTRAC Group delivered further growth in all business segments in 2010. Profitability was affected by the ongoing high level of microchip sourcing resulting from the global shortage of microchip ICs in the semiconductor industry, the identified operational inefficiencies along with the high utilization level of the global production capacities, the burden from the ramp-up activities at the production facility in Malaysia as well as a significant investment program to increase overall production capacity. However, SMARTRAC has initiated strategic and operational measures to address the current challenges. In addition, the investment program will contribute to the expansion of the company's leading market position in the global RFID market.

SINGAPORE.

Our capability to create cutting-edge products and solutions and to continuously enhance our strong product offering is an important competitive factor. On the basis of our strong technology platform, we have the flexibility to integrate technical trends and developments worldwide.

We trust in flexibility.

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 2010, SMARTRAC analyzed and discussed the risk management situation on a permanent basis and in different panels. Furthermore, SMARTRAC had a clear focus on the enhancement of the existing management information system in 2010.

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

I. Strategic Risks

Management Risks

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

SMARTRAC's growth strategy requires a balanced financial structure. In the course of 2010, SMARTRAC further strengthened its equity position as a consequence of the strategic partnership with OEP. Nevertheless, if further negative developments impact the global capital market this may affect the ability to raise or re-finance debt, or could also lead to significant increases in the cost of such borrowing in the future. Furthermore, a negative development of the capital market may limit the possibility to raise equity in the future.

Organization Risk

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

Acquisition Risks

In order to strengthen, protect or expand its technology base, market presence, capacities, and product portfolio, SMARTRAC has completed different forms of acquisitions, and may continue to do so in the future, implying significant financial investments. 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. In order to provide products and competitive solutions in line with market requirements and customer needs it is crucial to achieve and maintain a leading market position. Our strategy is to position SMARTRAC as a pure and dedicated RFID player in the value chain in order to participate in the market development. A global recession could lead to a decrease in product demand and delays in or cancellation of RFID projects and therefore poses a risk also to the RFID industry.

Price Risks

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

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

Customer Risk

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

Reputation Risk

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

III. Financial Risks

Financial Risks

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

Liquidity Risk

In 2009, SMARTRAC signed an agreement on a syndicated multicurrency credit facility for EUR 65 million which matures on June 30, 2012, with standard market terms and conditions. If we are unable to generate sufficient cash flow, we may have difficulties repaying the outstanding indebtedness. SMARTRAC must comply with the terms and conditions and is exposed to the risk of offending against the terms and conditions of the agreement in case the operating performance negatively impacts the financial results.

Interest Risk

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

SMARTRAC has partly used debt instruments to refinance its acquisitions, other investments and working capital requirements. The debt service cost depends on the development of defined reference interest rates and of risk premiums for borrowers. In order to contain the risks of interest rate changes and risk premiums, SMARTRAC has secured a fixed interest rate for the main proportion of its syndicated credit facility signed in 2009. Nevertheless, a potential increase in 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 maintains a financial reserve at a significant level. These assets are invested in short-term bank deposits.

Currency Risk

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

Inflation Risk

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

Financial Market Risk

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

IV. Compliance Risks

Regulatory Risks

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

Policy Risks

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

Disclosure Risks

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

V. Performance Risks

Product Availability Risk

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

Procurement Risk

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

Product Liability Risk

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

VI. Political and Technological Risks

Country Risks

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

Regulation Risk

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

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

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

VII. Special Risks

Human Resources Risks

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

Information Technology Risks

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

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

Legal Risk – Protecting Intellectual Property

SMARTRAC holds a strong portfolio of patents in the RFID industry that has set standards across the industry. With more than 300 patents and patent applications for technology, equipment, and production of RFID components and the related processes, ongoing patent infringements by competitors therefore are a threat to the business operations and financial performance of SMARTRAC. The company views its intellectual property as one competitive advantage in a multitude of capabilities to reflect SMARTRAC's respected and trusted competence in high-security RFID technology.

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

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

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

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

Overall Risk Situation

In 2010, the evaluation of the risks did not indicate risks in the past fiscal year which could materially jeopardize the ongoing business health and viability of SMARTRAC. In addition, we are not aware of risks which could reasonably be expected to endanger the existence of the company whether alone or in conjunction with other risks.

Corporate Governance Report

General

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

In the Netherlands, the Dutch Corporate Governance Code ('the Dutch Code') became effective on January 1, 2004. The Code is applicable to SMARTRAC N.V., as it is incorporated in the Netherlands as a Dutch company, and is listed on the Frankfurt Stock Exchange (FSE). The amended Dutch Corporate Governance Code was published in December 2008 and came into effect from the start of fiscal year 2009. The corporate governance report for the financial reporting year 2010 therefore assesses the compliance with the amended code.

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

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

SMARTRAC complies with the Decree effecting article 10 of directive 2005/25/EC of the European Parliament and the European Council of April 21, 2004, on takeover bids. The requested information is provided in detail on page 178 to 179 of the report.

Management Board

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

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

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

As of December 31, 2010, SMARTRAC's Management Board consisted of the following individuals as listed below:

Name	Age*	Position
Dr. Christian Fischer Chief Executive Officer	42	Chairman of the Management Board
Manfred Rietzler Chief Technical Officer	49	Member of the Management Board

* Age as of December 31, 2010

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 95.

SMARTRAC has also established a Group Executive Team with seven members including the two members of the Management Board. Refer to page 22 for further explanation.

In accordance with provision II.1.5 of the Dutch Code the Management Board declares that the internal risk management and control systems are adequate and effective. In 2010, SMARTRAC has analyzed and discussed on a permanent basis and in different panels the risk management situation. Throughout 2010, SMARTRAC furthermore had a clear focus on the enhancement of the existing management information system, which was implemented in 2009. The established risk management processes ensure a comprehensive and integral assessment of SMARTRAC's major risks. The status of major risks is assessed by using risk maps. The risks were evaluated and classified according to probability of occurrence and loss amounts.

No transactions took place in 2010 in respect of which a member of the Management Board had conflict of interest that was 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 to the provisions of the Articles of Association. The meetings may be held in person or by telephone conference, or a combination thereof.

Major management decisions and the Company's strategy are discussed with the Supervisory Board. The Supervisory Board determines the major decisions of the Management Board which require its approval. The Supervisory Board will check its terms of reference regularly and intends to amend its terms of reference in the course of 2011 as appropriate.

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, except for Christopher von Hugo and Dr. Jörg Zirener who are Managing Directors of One Equity Partner Europe GmbH, an affiliate of OEP Technologie B.V., the major shareholder of SMARTRAC.

As of December 31, 2010, SMARTRAC's Supervisory Board consisted of the following individuals as listed below:

Name	Age*	Position
Prof. Dr. Bernd Fahrholz	63	Chairman of the Supervisory Board
Christopher von Hugo	47	Member of the Supervisory Board
Wolfgang Huppenbauer	56	Member of the Supervisory Board
Jan C. Lobbezoo	64	Member of the Supervisory Board
Dr. Jörg Zirener	38	Member of the Supervisory Board

* Age as of December 31, 2010

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 from January to October 21, 2010, did not consist of 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 light of the appointment of two additional members to the SMARTRAC Supervisory Board effective October 21, 2010, the Supervisory Board discussed adoption of the Dutch Corporate Governance provisions for the establishment of committees and agreed to establish two committees existing of an Audit Committee and a Strategy Committee. Due to the limited size of the Company, the Strategy Committee will also perform the tasks of a remuneration committee and a selection and appointment committee provided for by the Dutch Corporate Governance Code.

No transactions were reported in 2010 in which a member of the Supervisory Board had a conflict of interest that was of material significance to the company.

The Annual General Meeting of Shareholders determines the remuneration of the Supervisory Board members. Supervisory Board members receive a fixed annual remuneration. The remuneration of a Supervisory Board member is not dependent on the results of the company. More information on the remuneration of the Supervisory Board members can be found on page 96.

The Shareholders and General Meetings of Shareholders

Share Capital

The issued share capital of the company is equal to EUR 8,167,498.50 and is divided into 16,334,997 ordinary shares. The ordinary shares carry the right to cast one vote per share. The ordinary shares are bearer shares.

General Meetings of Shareholders

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

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

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

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

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

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

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

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

Provision of Information

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

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

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

On April 29, 2009, the Annual General Meeting of Shareholders approved the amendment to the Articles of Association of SMARTRAC N.V. The possibility to issue preference shares to an independent foundation may be considered to constitute a form of anti-takeover measure. As of December 31, 2010, an independent foundation had not been established and the Management Board made no use of the authorization with regard to preference shares in the fiscal year 2010. In view of the current shareholder structure of SMARTRAC, the Management Board currently has no intention of making use of this anti-takeover measure.

Restrictions on Non-Dutch Shareholders' Rights

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

Dividend

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

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

Financial Reporting

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

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

The Audit of the Financial Statements

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

Comply or Explain

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

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

II.2.4, II.2.5, II.2.11, II.2.12, II.2.13, III.1.1, III.2.2, III.3.1, III.3.6, III.4.1, III.4.3, III.5, III.6.5, IV.3.1, V.3.1

II.2.4. According to the SMARTRAC Stock Option Scheme 2006, 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. With the implementation of the new SMARTRAC Stock Option Scheme, the vesting period is now in compliance with the requested three years period.

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.

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

III.1.1. Terms of reference for the Supervisory Board, the Audit Committee and the Strategy Committee were not posted on the company's website. The Supervisory Board intends to amend the terms of reference for the Supervisory Board in the course of 2011. The amended terms of reference will be immediately posted on the company's website. The Supervisory Board will at that time also post the terms of reference for the Audit Committee and the Strategy Committee on the company's website.

III.2.2. Two of the members of the Supervisory Board are not independent, Mr. Jörg Zirener and Mr. Christopher von Hugo. Both are Managing Directors of One Equity Partner Europe GmbH, an affiliate of OEP Technologie B.V. In view of OEP Technologie B.V.'s share holding in the Company and taking into account the fact that the majority of the members of the Supervisory Board are independent, the Supervisory Board can fulfill its tasks properly.

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

III.4.1. 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.5. The Supervisory Board has not established a remuneration committee and a selection and appointment committee. Due to the size of the Company these tasks are performed by the Strategy Committee of the Supervisory Board. The establishment of two other committees is in the opinion of the Company not necessary.

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

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

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

Remuneration Report

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

The Supervisory Board determines the remuneration and further conditions of employment for every member of the Management Board within the scope of the company's remuneration policy and subject to the provisions mentioned in section 135 Book 2 of the Dutch Civil Code. The Supervisory Board has 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 where the actual performance delivered will lead to an unreasonable outcome. This authority can be used to make adjustments in both directions, i.e. both 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 Fiscal Year 2010

Dr. Christian Fischer is appointed as Director A and Chairman of the Management Board for a term of office ending with the Annual General Meeting of Shareholders of SMARTRAC in 2013. The term of contract of Manfred Rietzler as Director A and member of the Management Board ends on December 31, 2011.

According to their employment contracts which were entered into between the company, Dr. Fischer and Mr. Rietzler, for the fiscal years beginning 2010, Dr. Fischer and Mr. Rietzler received an annual base compensation of EUR 420,000 and EUR 230,000, respectively. Until his term of office ended in April 15, 2010, Stephen Juge received a base compensation amounting to EUR 58,000. In addition, the housing and related expenses of Mr. Rietzler in Thailand that amount to EUR 34,000 were borne by the company. Stephen Juge received EUR 11,000 for housing and related expenses. Dr. Fischer received an annual payment of 50 percent of his annual base compensation for the purpose of personal pension arrangement. The compensation of Dr. Fischer pursuant to his employment contract also consists of 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. In 2010, he received a variable bonus of EUR 403,000. His employment contract also comprises a change of control provision. In the event that a third party exercises a controlling influence, Dr. Christian Fischer has the right to terminate his contract and to receive a redundancy payment. In the context of the Voluntary Public Tender Offer from OEP Technologie B.V., he waived his extraordinary right of termination of his service agreement and a claim for an indemnity payment. This payment claim may be reinstated under certain circumstances.

The Management Board is eligible to participate in the company's Stock Option Scheme. The SMARTRAC 2010 Annual General Meeting of Shareholders approved the Stock Option Scheme 2010, in accordance with the principles of the Dutch Corporate Governance Code. The Options granted under the Stock Option Scheme 2010 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 2010. In 2010, Dr. Fischer received 18,000 conditional options based on the grant of the Tranche 7 of the Stock Option Scheme 2010 (see note 30 of the Notes to the Consolidated Financial Statements) in 2010, which are conditionally awarded on the achievement of non-market performance conditions measured over a three year-period. The minimum and maximum number of options that are conditionally granted are 0 and 36,000 vesting options (Tranche 7). The total vesting expenses for all non-vested Stock Option Schemes amounted to EUR 60,000 in 2010. As a consequence of the Voluntary Public Tender Offer from OEP Technologie B.V., the Management Board decided, based on the change of control clause of Stock Option Scheme 2008 (comprising Tranches 4, 5 and 6), to terminate and compensate all outstanding vested and unvested options under this scheme. Tranche 4 was not compensated because it had lapsed due to the non-fulfillment of its market conditions. The total vesting expenses of options include accelerated vesting expenses of EUR 2,000 for the 8,021 compensated options of Tranche 5 (exercise price of option: EUR 8.34; compensation price per option: EUR 20). On top of that, the company incurred additional compensation expenses for Tranche 5 amounting to EUR 15,000.

In the context of the Voluntary Public Tender Offer from OEP Technologie B.V., Dr. Fischer exercised all 5,000 vested options (1 option per share) of Option Tranche 1 at a share price of EUR 20. Throughout the year 2010, he held 15,000 options from Tranche 2 (exercise price: EUR 22.40, option life expiration: March 29, 2013) and 100,000 options from Tranche 3 (exercise price: EUR 39.20, option life expiration: November 23, 2013). Tranche 4 had lapsed as the performance condition had not been met. For further details with respect to the SMARTRAC Options Schemes, please refer to Note 30 of the Notes to the Consolidated Financial Statements. The options which were held by Stephen Juge (Tranche 4: 4,332 options; Tranche 5: 13,368 options) were forfeited as a result of the termination of his employment contract.

Dr. Christian Fischer is eligible to participate in the company's stock plan and received 6,312 shares in the course of the year 2010 (granted in March 2010: 16.45 EUR per share). In addition, Dr. Fischer converted a portion of his cash bonus for 2009 into 5,000 shares, based on the regulations of the Company's Stock Plan.

According to the Company's Stock Plan, restricted bonus shares are issued after a vesting period of two years. As a consequence of the Voluntary Public Tender Offer from OEP Technologie B.V., the Management Board decided based on the change of control clause of the Stock Plan to terminate the Stock Plan. In addition, regular vesting expenses based on IFRS 2 incurred and amounted to EUR 116,000, termination expenses based on IFRS 2 amounted to EUR 92,000.

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

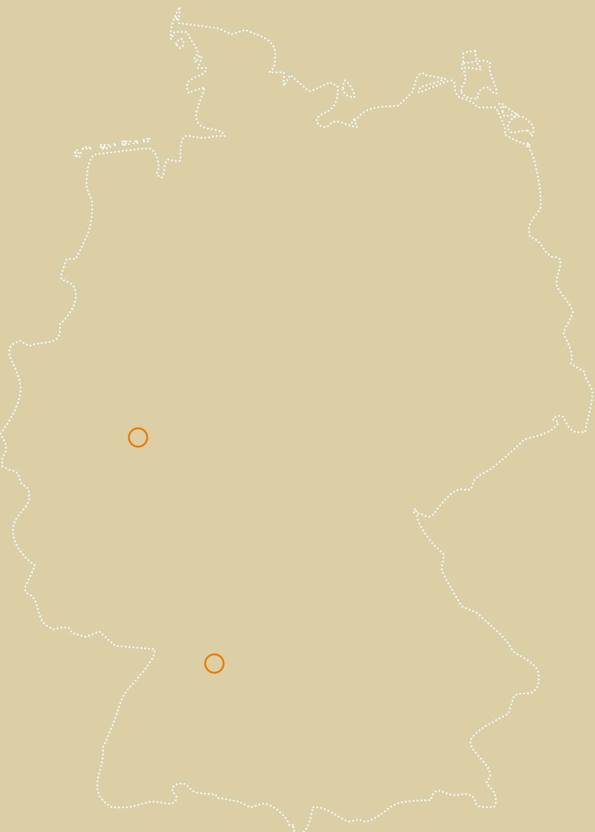
With the exception of the change of control clause of Dr. Fischer, the members of the Management Board are not entitled to receive redundancy payments. SMARTRAC has no pension scheme for members of the Management Board in place.

The compensation for members of the Supervisory Board amounted to EUR 30,000 (for Mr. Jan Lobbezoo and Mr. Wolfgang Huppenbauer) and the yearly remuneration of the Chairman of the Supervisory Board (for Prof. Dr. Bernd Fahrholz) amounted to EUR 90,000 in 2010. On October 21, two additional members of the Supervisory Board were appointed, Mr. Christopher von Hugo and Dr. Jörg Zirener, who waived their right to compensation for the year 2010.

During the year 2010, Prof. Dr. Bernd Fahrholz has held 20,000 options of Tranche 2 (exercise price: EUR 22.40, option life expiration: March 29, 2013) and 15,000 options of Tranche 3 (exercise price: EUR 39.20, option life expiration: November 23, 2013).

GERMANY.

The leading position which we hold today in various market segments of the RFID industry is the result of ten years of excellence, passion, and innovative power transformed into a deliberate strategic business model, outstanding products, and exceptional business relationships by a dedicated and highly motivated team.




We trust in excellence.

Consolidated statement of comprehensive income

For the years ended December 31

In thousands of EUR	Note	Consolidated 2010	Consolidated 2009
Revenue	6	180,111	127,862
Cost of sales	7	(133,619)	(89,728)
Gross profit		**46,492**	**38,134**
Administrative expenses	8	(37,183)	(29,737)
Other operating income (expenses)	10	(1,197)	(830)
Total operating expenses		**(38,380)**	**(30,567)**
Operating profit before financial income (expenses)		**8,112**	**7,567**
Financial income	11	13,703	4,587
Financial expenses	11	(16,125)	(6,590)
Net financial income (expenses)		**(2,422)**	**(2,003)**
Profit before tax		**5,690**	**5,564**
Income tax (expenses)	**12**	**383**	**(504)**
Profit for the period attributable to the owners of the parent		**6,073**	**5,060**
Foreign exchange translation		2,106	(153)
Other comprehensive income (loss), net of tax		**2,106**	**(153)**
Total comprehensive income for the period attributable to the owners of the parent		**8,179**	**4,907**
Basic earnings per share (EUR)	13	0.41	0.38
Diluted earnings per share (EUR)	13	0.40	0.38

The accompanying notes (on page 104 to 165) are an integral part of the consolidated financial statements.

Consolidated balance sheet

As at December 31

In thousands of EUR	Note	Consolidated 2010	Consolidated 2009
Assets			
Intangible assets	16	63,206	61,302
Property, plant and equipment	15	54,852	45,502
Other investments		–	426
Investment in jointly controlled entity	5	1	–
Deferred tax assets	12	2,720	2,422
Other non-current assets		1,644	885
Total non-current assets		**122,423**	**110,537**
Inventories	17	33,204	21,268
Trade and non-trade receivables	18	39,501	33,756
Current income tax		751	1,150
Other current assets	19	2,965	2,224
Short-term investments	20, 28	–	591
Cash and cash equivalents	21, 28	49,613	38,819
Total current assets		**126,034**	**97,808**
Total assets		**248,457**	**208,345**
Equity			
Share capital	1, 22	8,167	7,425
Share premium	1, 22	96,743	75,047
Translation reserve		2,051	(55)
Retained earnings		54,620	48,547
Treasury stock	14	–	(6,344)
Total equity attributable to equity holders of the company		**161,581**	**124,620**
Liabilities			
Secured loans	23	50,246	50,532
Employee benefits	24	543	396
Deferred tax liabilities	12	2,761	3,343
Other non-current liabilities	4	–	1,598
Total non-current liabilities		**53,550**	**55,869**
Bank overdraft	21, 23	212	5
Current portion of secured loans	23	415	490
Trade and non-trade payables	25	24,684	20,188
Current income tax		798	682
Provisions	26	105	432
Other current liabilities	27	7,112	6,059
Total current liabilities		**33,326**	**27,856**
Total liabilities		**86,876**	**83,725**
Total equity and liabilities		**248,457**	**208,345**

The accompanying notes (on page 104 to 165) are an integral part of the consolidated financial statements.

Consolidated statement of cash flows
For the years ended December 31

In thousands of EUR	Note	Consolidated 2010	Consolidated 2009
Cash flows from operating activities			
Net profit		6,073	5,060
Reconciliation of net profit to net cash provided by (used in) operating activities:			
Income tax benefits / (expenses)		(383)	504
Depreciation and amortization	7, 8	10,382	8,114
Impairment on investments		–	251
Expenses for share based payment schemes	14, 30	552	1,270
(Reversal of) write down of inventories	10	206	281
Impairments on trade and other receivables	10	1,413	85
(Gains) or losses on disposal of fixed assets	10	(144)	19
Interest income	11	(163)	(353)
Interest expense	11	3,414	2,574
Other non cash items		(621)	(587)
Changes in operational assets and liabilities:			
Other non-current assets		(57)	35
Inventories		(12,142)	(1,749)
Other current assets		(695)	1,141
Trade receivables		(5,911)	(12,595)
Employee benefits		147	79
Trade and non-trade payables		2,365	5,767
Other current liabilities and provisions		453	(666)
Cash provided by operating activities		**4,889**	**9,230**
Interest paid		(3,043)	(2,913)
Interest received		185	317
Income taxes paid		(91)	(571)
Net cash provided by operating activities		**1,940**	**6,063**
Cash flows from investing activities			
Net cash inflow (outflow) on business combinations	4	(1,743)	(5,866)
Other investments		–	(11)
Proceeds from sale of equipment		385	403
Purchases of intangible assets	16	(3,311)	(3,522)
Purchases of property, plant and equipment	15	(14,484)	(5,651)
Deposits paid for property, plant and equipment	19	(412)	(500)
Cash proceeds on sale of short-term investments	20	450	9,672
Loans made to other parties		(296)	–
Net cash used in investing activities		**(19,411)**	**(5,475)**
Cash flows from financing activities			
Net proceeds from issue of share capital	22	25,462	20,247
Proceeds from sale of treasury stock	14	3,841	–
Proceeds from interest-bearing loans and borrowings and secured loan	23	5	49,519
Repayments of interest-bearing loans and borrowings and secured loan	23	(687)	(53,727)
Payments for termination and exercise of stock option schemes	14	(964)	–
Net cash provided by financing activities		**27,657**	**16,039**
Net change in cash and cash equivalents and bank overdrafts		10,186	16,627
Cash and cash equivalents and bank overdrafts at January 1	21	38,814	22,179
Effect of exchange rate fluctuations on cash and cash equivalents and bank overdrafts		401	8
Cash and cash equivalents and bank overdrafts at December 31	**21**	**49,401**	**38,814**

The accompanying notes (on page 104 to 165) are an integral part of the consolidated financial statements.

Consolidated statement of changes in shareholders' equity

For the years ended December 31

In thousands of EUR	Note	Issued and paid-up share capital	Share premium	Translation reserve	Retained earnings*	Treasury stock	Equity attributable to SMARTRAC's shareholders
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	30	–	922	–	–	–	922
Share based payment – restricted stock	30	–	182	–	–	–	182
Share based payment – shares	14	–	(546)	–	–	753	207
Share based acquisition	14	–	(1,995)	–	–	1,995	–
Balance as at December 31, 2009		**7,425**	**75,047**	**(55)**	**48,547**	**(6,344)**	**124,620**
Balance as at January 1, 2010		**7,425**	**75,047**	**(55)**	**48,547**	**(6,344)**	**124,620**
Net profit for the period		–	–	–	6,073	–	6,073
Other comprehensive income (loss)		–	–	2,106	–	–	2,106
Total comprehensive income (loss) of the period		**–**	**–**	**2,106**	**6,073**	**–**	**8,179**
Par value of new shares – credited to share capital	22	742	–	–	–	–	742
Excess of gross proceeds over par share value credited to share premium	22	–	25,245	–	–	–	25,245
Transaction costs of the capital increase charged to share premium	22	–	(525)	–	–	–	(525)
Option expense – share based option schemes	30	–	292	–	–	–	292
Reclassification of restricted stock (stock plan)	30	–	(109)	–	–	–	(109)
Issuance of stock plan	14	–	(219)	–	–	479	260
Excercise and termination of stock option schemes	30	–	(1,039)	–	–	75	(964)
Sale Treasury Stock	14	–	(1,949)	–	–	5,790	3,841
Balance as at December 31, 2010		**8,167**	**96,743**	**2,051**	**54,620**	**–**	**161,581**

The accompanying notes (on page 104 to 165) are an integral part of the consolidated financial statements.

* The retained earnings as at December 31, 2010, include a legal reserve for capitalized development costs amounting to EUR 6.2 million (2009: EUR 4.8 million).

Notes to the consolidated financial statements for the year ended December 31, 2010

1. Reporting entity

a) General

SMARTRAC N.V. ('The Company') is a company domiciled at Strawinskylaan 851, 1077 XX Amsterdam, The Netherlands. The shares of the company are listed in the Prime Standard segment at Frankfurt Stock Exchange (ISIN NL 0000186633). The company acts as the holding company for the SMARTRAC Group ('The Group'), comprising of the following subsidiaries and jointly controlled entities as at December 31, 2010:

Company	Country of incorporation	Date of incorporation/ inclusion	Business type	Ownership and voting interest
Direct Holdings				
SMARTRAC TECHNOLOGY Ltd.	Thailand	January 1, 2000	Manufacturing	100 %
SMARTRAC TECHNOLOGY GmbH	Germany	November 17, 2003	Manufacturing/ Service Center	100 %
SMARTRAC TECHNOLOGY Pte. Ltd.	Singapore	October 7, 2005	Sales Service	100 %
SMARTRAC TECHNOLOGY Brazil B.V.	The Netherlands	February 27, 2007	Holding	100 %
SMARTRAC TECHNOLOGY US Inc.	USA	August 31, 2007	Manufacturing	100 %
SMARTRAC IP B.V.	The Netherlands	January 18, 2007	IP Management	100 %
multitape Holding B.V.	The Netherlands	September 3, 2007	Holding	100 %
SMARTRAC AUTOMATION Sdn. Bhd.** (formerly: Xytec Solutions Sdn. Bhd.)	Malaysia	January 21, 2008	Manufacturing	100 %
SMARTRAC German Holding GmbH*	Germany	Januar 26, 2007	Holding	100 %
SMARTRAC TECHNOLOGY HONG KONG Ltd. (formerly: 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 %
SMARTRAC TECHNOLOGY MALAYSIA Sdn. Bhd.** (formerly: Multitape Technology (M) Sdn. Bhd.)	Malaysia	October 3, 2007	Manufacturing	100 %
SMARTRAC TECHNOLOGY GERMANY GmbH	Germany	September 26, 2008	Manufacturing	100 %
AmaTech Automation GmbH	Germany	May 31, 2010	Manufacturing/ IP Management	100 %
Jointly controlled entity				
Citywish Investments Ltd.	China	July 2, 2010	Trading/Holding	30 %

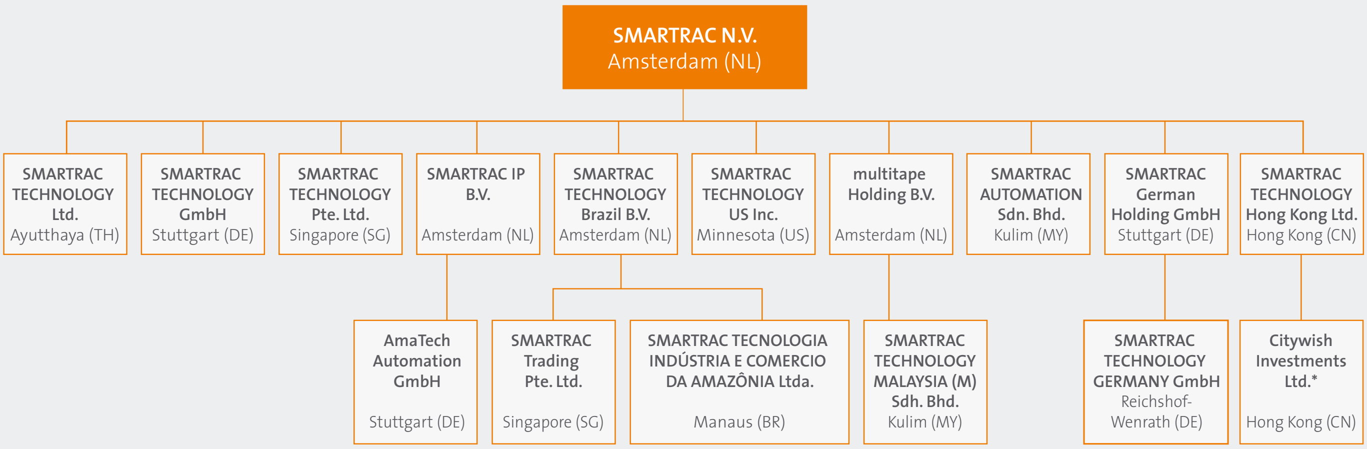
* During the second quarter of 2010, a sidestep-merger of SMARTRAC German Holding GmbH into multitape GmbH was performed, followed by the change of the company´s name 'multitape GmbH' into 'SMARTRAC German Holding GmbH'.

** In the last quarter of the year 'Multitape Technology (M) Sdn. Bhd.' has changed the company's name to 'SMARTRAC TECHNOLOGY MALAYSIA Sdn. Bhd.' and 'Xytec Solutions Sdn. Bhd.' has changed the company's name to 'SMARTRAC AUTOMATION Sdn. Bhd.' The change of name is part of the global branding strategy which has been initiated in spring 2009 and has the target to build and enforce the strong global SMARTRAC brand.

b) Activities

The Group is a leading developer, manufacturer, and supplier of RFID transponders for e-passports and contactless credit cards and also produces transponders for public transport, access control, animal identification, industry and logistics applications. A transponder is an electronic device (pre-product) with an integrated contactless chip and an antenna for contactless identification.

c) Group structure



Ownership 100 % if not noted differently.

* Ownership 30 %

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

d) Financial year

According to the Articles of Association of SMARTRAC N.V., the financial reporting year ends at December 31, 2010.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements 2010 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, 2010, and adopted by the European Union (EU) and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

The financial statements have been prepared by the Management Board of the Company and authorized for issue on March 23, 2011, and will be submitted for adoption to the Annual General Meeting of Shareholders on May 31, 2011.

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, 2010, together with a description of the principal risks that the Group is confronted with.

Amsterdam, March 23, 2011

Dr. Christian Fischer
Chairman of the Management Board, CEO

Manfred Rietzler
Member of the Management Board, CTO

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 12)
- Valuation of intangible assets, especially goodwill (note 16)
- Allowance for doubtful accounts (note 10, 18)
- Valuation of provisions (note 26)

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 2010, the Group established an additional company (afterwards jointly controlled, please refer to note 5) and obtained control over one company (please refer to note 4).

2. Subsidiaries

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

3. Investment in jointly controlled entities

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

4. Transactions eliminated on consolidation

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

5. Business combinations

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

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	2010 Period end rate	2010 Period average rate	2009 Period end rate	2009 Period average rate
USD to EUR	1.33	1.33	1.43	1.39
THB to EUR	40.02	42.42	47.66	47.42
SGD to EUR	1.71	1.81	2.01	2.02
BRL to EUR	2.21	2.35	2.45	2.75
MYR to EUR	4.09	4.29	4.91	4.89
HKD to EUR	10.32	10.33	11.12	10.79
JPY to EUR	108.08	116.58	132.19	130.04

c) Property, plant and equipment

1. Recognition and measurement

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

2. Subsequent costs

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

3. Depreciation

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

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

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

d) Intangible assets

1. Goodwill

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

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

2. Patents and patent rights

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

3. Software

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

4. Research and development

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

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

5. Other intangible assets

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

6. Amortization

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

e) Trade and other receivables

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

f) Inventories

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

g) Financial instruments

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

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

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

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

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

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

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

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

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

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

Hedge contracts and measurement
The Group enters into certain foreign currency transactions 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), deferred tax assets (see accounting policy p), assets arising from employee benefits and financial assets (see accounting policy g) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy i. 1.).

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

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

1. Calculation of recoverable amount

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

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

2. Reversals of impairment

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

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

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

j) Employee benefits

1. Defined benefit plans

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

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

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

2. Share-based payment transactions

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

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

k) Trade and non-trade payables

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

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

The business segment 'Security' includes products for personal electronic identification documents in governmental use such as e-Passports, National e-ID cards, electronic driver's licenses, electronic Visas, e-Health cards, e-Social security cards, as well as transponders for public transport, access control, e-Payment, and active card applications.

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

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, 2010, the Goup applies the following mandatory standards and interpretations:

– IFRS 3 (revised) "Business Combinations" and the consequential amendment to IAS 27 "Consolidated and Separate Financial Statements" and IAS 31 "Interests in Joint Ventures" prospectively for business combinations for which the acquisition date is on or after January 1, 2010. These standards introduced changes in the accounting for business combinations that will impact the amount of goodwill recognized and the results reported in the period of acquisition and thereafter:
  - Costs relating to an acquisition are expensed as incidental item on the line other operating income (expenses) in the statement of income and no longer in acquisition cost.
  - For each business combination, the non-controlling interest is now measured either at fair value or at the proportionate share in the identifiable assets of the acquired company. Under the old IFRS 3, the non-controlling interest (formerly known as minority interest) was measured at the proportionate share in the identifiable assets of the acquired company.
  - All effects from transactions with non-controlling interests are recorded in equity if there is no change in control; these transactions will no longer result in goodwill.

– Amendment to IAS 24, "Related Party Disclosures" clarifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The revised standard also clarifies that disclosure is required for any commitments of a related party to do something if a particular event occurs or does not occur in the future.

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, 2010, and have not been applied in preparing these consolidated financial statements. Among others these are:

– Amendment to IFRS 2, "Share-based Payment" which clarifies how an individual subsidiary in a group should account for share-based payment arrangements in its own financial statements. This amendment is not applicable to our consolidated financial statements.

– IFRS 9, "Financial Instruments" (replacement of IAS 39) will become effective as from 2013, with earlier adoption permitted. IFRS 9 introduced new requirements for classifying and measuring financial assets and liabilities. This standard encompasses an overall change of accounting principles for financial instruments and will eventually replace IAS 39. The 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.

– IASB's annual improvements project 2009 resulted in many smaller amendments to several IFRSs effective as from 2010. They have not materially impacted the Group's consolidated financial statements.

– IASB's annual improvements project 2010 will result in many smaller amendments to several IFRSs effective as from 2011. They have not materially impacted our consolidated financial statements.

– Amendment to IAS 32, "Financial Instruments: Presentation" addressing the accounting for rights issues such as options and warrants, denominated in a currency other than the functional currency of the issuer. This amendment became effective in 2010 but has not impacted the Group' s consolidated financial statements.

– Amendment to IFRIC 14 on minimum funding requirements corrects an unintended consequence of the originally issued interpretation. The amendment is effective as from 2011, with earlier application permitted. There is no impact on our financial statements.

– IFRIC 17 "Distribution of Non-cash Assets to Owners" will apply prospectively as from 2010. There is no impact on our financial statements.

– IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments" applies when a debtor extinguishes a liability fully or partly by issuing equity instruments to the creditor. The interpretation will be effective as from 2011. There is no impact on our financial statements.

– Amendment to IAS 39, "Financial Instruments: Recognition and Measurement" addresses two separate hedge accounting issues. It clarifies the requirements when options are used for hedging and it regulates inflation-linked hedge relationships. This amendment is not applicable to our consolidated financial statements.

4. Business combinations

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

In thousands of EUR	Date of first time inclusion	Percentage of voting equity instruments acquired	Goodwill / bargain purchase	Revenue since inclusion	Profit and loss since inclusion
Company / business					
AmaTech Automation GmbH	May 31, 2010	100 %	–	–	(40)
Total			**–**	**–**	**(40)**

AmaTech Automation GmbH

On May 31, 2010 (acquisition date), control over AmaTech Automation GmbH, Pfronten, Germany, was obtained due to the settlement of the insolvency proceedings. The company was therefore included for the first time as of this date. The purpose of the company is the development and sale of machinery for the smart card industry and the grant of rights of production of machinery and the usage thereof.

The tables below present a breakdown of the values of the net assets of AmaTech Automation GmbH included during the reporting period:

In thousands of EUR	Total
Purchase consideration	
Cash paid	10
Total cash paid for acquisition	**10**
Liabilities assumed	405
Total purchase consideration	**415**
Carrying amount of net assets acquired	415
Goodwill	**–**

Detailed overview of the net assets acquired in the course of the financial year 2008:

In thousands of EUR	Carrying value prior to acquisition	Adjustment	Carrying value upon acquisition
Cash and cash equivalents	139	–	139
Contractual rights	–	394	394
Deferred income tax liability	–	(118)	(118)
Net assets acquired	**139**	**276**	**415**
Total purchase consideration settled in cash	–	–	(415)
Cash and cash equivalents acquired	–	–	139
Cash outflow on acquisition	**–**	**–**	**(276)**

The total purchase consideration was made in the financial year 2008 when 100 % of the shares of AmaTech Automation GmbH were acquired. Since the acquisition date the company has not generated revenues and incurred a loss of EUR 40,000.

Business of MCT and OTI

Based on contractual obligations to pay for assets acquired from On Track Innovation Ltd. and from Millenium Card's Technology Ltd. in the year 2009, an amount of EUR 1,743,000 (including interests according to the effective interest method) was paid in 2010 (2009: EUR 5,866,000).

5. Investment in a jointly controlled entity

In the course of the third quarter of 2010, SMARTRAC TECHNOLOGY HONG KONG Ltd. and Mr. Chen Shyan Tser established the jointly controlled entity Citywish Investments Ltd. (Citywish) in which SMARTRAC has an interest of 30 %.

The aggregate amounts of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to the 30 % interest in Citywish are immaterial. The unrecognized share of losses of the jointly controlled entity amounts to EUR 80,000.

The business scope of Citywish is trading and making investment in mainland China.

SMARTRAC recognizes its interest in Citiywish using the equity method.

6. Segment reporting

The Group comprises the following main business segments:

- Security segment: the manufacture and sale of RFID transponders carrying microchips with high-security features such as sophisticated data encryption, controlled data access and mutual authentication, for use in applications such as e-Passports, National e-ID cards, electronic driver's licenses, electronic Visas, e-Health cards, e-Social security cards, public transport, e-Payment, access control and active card applications.

- Industry segment: the manufacture and sale of RFID transponders with embedded chips for use in a broad range of applications. RFID transponders for the industry and logistics sector are suited for automotive applications, for use in harsh environments such as industry, logistics, laundry, waste management, as well as for highly sensitive areas such as the medical sector and animal identification. In addition, this segment covers a broad range of standard and customized RFID transponders for ticket and label applications such as library, ticketing and airline luggage.

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

Consolidated segment information by business segments

In thousands of EUR	Security 12 months ended Dec. 2010	Security 12 months ended Dec. 2009	Industry 12 months ended Dec. 2010	Industry 12 months ended Dec. 2009	All other 12 months ended Dec. 2010	All other 12 months ended Dec. 2009	Eliminations 12 months ended Dec. 2010	Eliminations 12 months ended Dec. 2009	Consolidated 12 months ended Dec. 2010	Consolidated 12 months ended Dec. 2009
Segment revenue										
Revenue from external customers	136,330	95,481	42,543	30,656	1,238	1,725	–	–	180,111	127,862
Revenue from transactions with other segments	3	6	2	78	3,960	2,583	(3,965)	(2,667)	–	–
Total revenue	**136,333**	**95,487**	**42,545**	**30,734**	**5,198**	**4,308**	**(3,965)**	**(2,667)**	**180,111**	**127,862**
Segment result										
Gross profit	36,044	30,703	9,408	6,447	1,819	1,303	(779)	(319)	46,492	38,134
Operating income (expenses)	(25,104)	(18,269)	(11,559)	(8,711)	(1,702)	(3,459)	(15)	(128)	(38,380)	(30,567)
Thereof impairment loss on trade receivables***	(1,300)	–	–	–	–	–	–	–	(1,300)	–
Operating profit (loss)	10,940	12,434	(2,151)	(2,264)	117	(2,156)	(794)	(447)	8,112	7,567
Financial result									(2,422)	(2,003)
Profit before tax expense / benefit									**5,690**	**5,564**
Income tax expense / benefit									383	(504)
Group profit for the period									**6,073**	**5,060**
Supplemental information										
Operating profit (loss)	10,940	12,434	(2,151)	(2,264)	117	(2,156)	(794)	(447)	8,112	7,567
Amortization, deprecia-tion and impairment on investment	5,566	4,468	4,242	3,271	685	680	(111)	(53)	10,382	8,366
Extraordinary items**	–	–	–	–	1,231	–	–	–	1,231	–
Segment EBITDA*	**16,506**	**16,902**	**2,091**	**1,007**	**2,033**	**(1,476)**	**(905)**	**(500)**	**19,725**	**15,933**

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

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

*** Please refer to note 18.

Revenues by subsegment were as follows

In thousands of EUR	Consolidated 2010	Consolidated 2009
Segment Security		
eID	59,549	40,003
Cards	76,784	56,017
Intrasegment eliminations	–	(533)
Subtotal	**136,333**	**95,487**
Segment Industry		
Tickets & Labels	7,674	7,324
Industry & Logistics	34,917	23,915
Intrasegment eliminations	(46)	(505)
Subtotal	**42,545**	**30,734**
Segment All Other	**5,198**	**4,308**
Intersegment eliminations	(3,965)	(2,667)
Total	**180,111**	**127,862**

Major customers

Revenue from one customer of the Group´s Security segment represents approximately EUR 39.0 million (2009: EUR 13.0 million) of the Group´s total revenues. The strong increase is reflected in the increase of sales in the Security segment.

Category of revenue

In thousands of EUR	RFID transponders	Royalties	Total revenues
2010	**179,500**	**611**	**180,111**
2009	127,067	795	127,862

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 2010	Consolidated 2009
Revenues		
Asia	34,199	17,360
Europe	90,534	70,173
North America	43,441	30,914
Latin America	11,093	8,740
Others	844	675
Total revenues	**180,111**	**127,862**
Revenues from external customers attributed to SMARTRAC entities (country of domicile)		
Asia	113,203	86,184
Europe	33,853	29,092
North America	22,587	6,172
Latin America	10,468	6,414
Total revenues	**180,111**	**127,862**
Non-current assets*		
Asia	51,608	40,462
Europe	56,989	56,697
North America	5,019	5,726
Latin America	6,087	5,231
Total non-current assets	**119,703**	**108,116**

* The non-current assets are excluding the deferred tax assets.

Property, plant and equipment and intangibles acquired

In thousands of EUR	Consolidated 2010	Consolidated 2009
Property, plant and equipment		
Asia	8,998	10,430
Europe	4,068	1,274
North America	1,865	1,379
Latin America	352	68
Total property, plant and equipment	**15,283**	**13,151**
Intangibles		
Asia	2,335	3,964
Europe	1,090	1,181
North America	245	48
Latin America	35	–
Total intangibles	**3,705**	**5,193**

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

In thousands of EUR	2010	2009
Revenues		
Total revenue for reportable segments	178,878	126,221
Other revenue	5,198	4,308
Elimination of inter-segment revenue	(3,965)	(2,667)
Consolidated revenue	**180,111**	**127,862**
Profit or loss		
Total EBITDA for reportable segments	18,597	17,909
Other EBITDA	2,033	(1,476)
All EBITDA (before inter-segment elimination)	**20,630**	**16,433**
Elimination of inter-segment profits	(905)	(500)
Unallocated amounts:		
Financial result	(2,422)	(2,003)
Depreciation, amortization and impairment on investment	(10,382)	(8,366)
Extraordinary items	(1,231)	–
Consolidated profit before income tax	**5,690**	**5,564**
Assets		
Security segment	110,452	89,424
Industry segment	90,453	80,860
Total assets for reportable segments	**200,905**	**170,284**
Other assets	113,560	72,990
Elimination	(66,008)	(34,929)
Consolidated total assets	**248,457**	**208,345**
Liabilities		
Total liabilities for reportable segments	85,671	55,236
Other liabilities	65,190	62,233
Elimination	(63,985)	(33,744)
Consolidated total liabilities	**86,876**	**83,725**

7. Cost of sales

In thousands of EUR	Consolidated 2010	Consolidated 2009
Raw materials and manufacturing supplies	99,948	62,915
Personnel expenses (note 9)	17,667	11,458
Depreciation and amortization (note 15 and 16)	7,592	5,752
Other manufacturing costs	8,412	9,603
Total cost of sales	**133,619**	**89,728**

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

8. Administrative expenses

In thousands of EUR	Consolidated 2010	Consolidated 2009
Personnel expenses (note 9)	20,597	16,856
Professional fees	4,683	3,771
Depreciation and amortization (note 15 and 16)	2,790	2,362
Rental expenses	879	602
Transportation	2,113	1,294
Research and Development	2,395	2,037
Other administrative expenses	3,726	2,815
Total administrative expenses	**37,183**	**29,737**

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

9. Personnel expenses

In thousands of EUR	Consolidated 2010	Consolidated 2009
Wages and salaries	32,414	24,562
Compulsory social security contributions	1,999	1,717
Subcontractor fees	3,613	1,976
Other	238	59
Total	**38,264**	**28,314**

Personnel expenses are classified in the income statement as follows:

In thousands of EUR (except headcount)	Consolidated 2010	Consolidated 2009
Cost of sales	17,667	11,458
Administrative expenses	20,597	16,856
Total	**38,264**	**28,314**
Number of staff employees	2,941	2,011
Number of subcontractors	547	723
Total	**3,488**	**2,734**

10. Other operating income (expenses)

In thousands of EUR	Consolidated 2010	Consolidated 2009
Reversal of / (write down) of inventories	(206)	(281)
Gain / (loss) on disposal of fixed assets	144	(19)
Impairment loss on trade receivables	(1,413)	(92)
Impairment loss on investment Hong Kong	–	(251)
Restructuring expenses multitape GmbH	–	(294)
Others	278	107
Total	**(1,197)**	**(830)**

In the fourth quarter of 2010, impairment losses amounting to EUR 1,300,000 were recognized for one customer of the Business Unit Cards which has not met the payment obligation.

11. Net financial income (expenses)

In thousands of EUR	Consolidated 2010	Consolidated 2009
Change in fair value	1,480	166
Interest income	163	353
Foreign exchange gains	12,060	4,068
Financial income	**13,703**	**4,587**
Change in fair value	(2,350)	(672)
Interest expense	(3,414)	(2,574)
Bank charges	(575)	(483)
Foreign exchange losses	(9,786)	(2,861)
Financial expenses	**(16,125)**	**(6,590)**
Net financial income (expenses)	**(2,422)**	**(2,003)**

The strong increases in foreign exchange gains and losses in 2010 reflect the ongoing significant volatility of important currency rates over the whole reporting period. In comparison to 2009 the net foreign exchange result (2010: 2.3 million) has improved (2009: 1.2 million).

12. 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 31), SMARTRAC TECHNOLOGY Ltd. is entitled to the following corporate income tax facility relating to its production and sale of transponders in Thailand:

– Exemption from corporate income tax for seven years (until 2011), or a maximum of THB 183.5 million (approximately EUR 3.8 million), whichever occurs first (BOI 2).
– 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 (BOI 3).

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

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

SMARTRAC 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).

SMARTRAC TECHNOLOGY MALAYSIA 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 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 2010	Consolidated 2009
Current corporate tax expense	(615)	(670)
Deferred tax benefit	998	166
Income tax (expense) / benefit	**383**	**(504)**

The income tax (expense) / benefit is composed as follows:

In thousands of EUR	Consolidated 2010	Consolidated 2009
Current income tax (expense) / benefit		
The Netherlands	–	(6)
Other countries	(615)	(664)
Total current income tax (expense) / benefit	**(615)**	**(670)**
Deferred income tax (expense) / benefit		
The Netherlands	(250)	–
Other countries	1,248	166
Total deferred income tax (expense) / benefit	**998**	**166**
Total income tax (expense) / benefit	**383**	**(504)**

Reconciliation of effective tax charge

In thousands of EUR	Consolidated 2010	Consolidated 2009
Profit before tax	**5,690**	**5,564**
Expected tax expense based on rate of 25.5 % (2009: 25.5 %)	(1,451)	(1,419)
Change in tax rate	10	–
Tax rate differences in foreign jurisdiction	(541)	140
Tax exempt income relating to promotional activities	3,814	3,121
Non-recognition of tax benefits on losses incurred	(1,692)	(2,194)
Non-deductible expenses	(285)	(213)
Use of tax loss carry forward previously unrecognized	587	–
Current taxes from prior years	12	142
Others	(71)	(81)
Actual tax expense	**383**	**(504)**

Deferred tax assets

Movements in deferred tax assets recognized are as follows:

In thousands of EUR	Consolidated 2010	Consolidated 2009
Balance January 1	2,422	2,141
Recognized in income statement	298	281
Balance December 31	**2,720**	**2,422**

Deferred tax liabilities

In thousands of EUR	Consolidated 2010	Consolidated 2009
Balance January 1	3,343	3,228
Recognized in the income statement	(700)	115
Acquired through business combinations	118	–
Balance December 31	**2,761**	**3,343**

Movements in temporary differences during the year

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

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 (DTA)				
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)
Offset DTA & DTL	–	–	–	–
Total deferred tax assets	**2,141**	**281**	**–**	**2,422**
Deferred tax liabilities (DTL)				
Intangible assets	2,811	(349)	–	2,462
Property, plant and equipment	417	454	–	871
Trade receivables	–	10	–	10
Offset DTA & DTL	–	–	–	–
Total deferred tax liabilities	**3,228**	**115**	**–**	**3,343**

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 1.9 million (2009: EUR 1.8 million) an amount of EUR 0 (2009: EUR 0) is related to entities that have suffered a loss in either 2010 or 2009 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, 2010 amounts to EUR 6.7 million (2009: EUR 6.4 million).

The amount of the tax loss carry forward for which no deferred tax assets have been recognized as at December 31, 2010, is EUR 18.4 million (December 31, 2009: EUR 14.3 million) whereof EUR 5.2 million (2009: EUR 4.2 million) will expire within the period until 2015.

13. Earnings per share

Profit attributable to ordinary shareholders

The calculation of basic earnings per share at December 31, 2010, was based on the profit attributable to ordinary shareholders and amounts to EUR 6.1 million (2009: EUR 5.1 million).

In thousands of shares	2010	2009
Number of ordinary shares as at January 1	**14,639**	**13,198**
Capital increase	310	168
Treasury Stock sold	24	–
Shares given out for acquisition	–	50
Employee bonus shares	12	19
Weighted average number of ordinary shares at December 31	**14,985**	**13,435**

Basic earnings per share

In thousands of EUR and shares, except earnings per share	Consolidated 2010	Consolidated 2009
Profit attributable to ordinary shareholders	6,073	5,060
Weighted average number of ordinary shares at December 31	14,985	13,435
Earnings per share (EUR)	**0.41**	**0.38**

Weighted average number of ordinary shares for the purpose of diluted earnings per share

The weighted average number of ordinary shares for the purpose of diluted earnings per share includes the dilutive potential shares of SMARTRAC stock option scheme of the tranche seven, eight and nine. The other tranches do not have a dilutive effect.

- The average market share price was EUR 22.29 (2009: EUR 11.29).
- The effective tax rate is 0 %.

In thousands of shares	Consolidated 2010	Consolidated 2009
Weighted average of ordinary shares outstanding	14,985	13,435
Effect of potential dilutive shares		
Share options	43	21
Weighted average of ordinary shares at December 31	**15,028**	**13,456**

Diluted earnings per share

In thousands of EUR and shares, except earnings per share	Consolidated 2010	Consolidated 2009
Profit attributable to ordinary shareholders	6,073	5,060
Weighted average number of ordinary shares at December 31	15,028	13,456
Diluted earnings per share (EUR)	**0.40**	**0.38**

14. Treasury stock

No shares were acquired during the financial year 2010.

In conjunction with the stock plan, 5,000 shares (2009: 5,000 shares) were converted from the bonus of a member of the Management Board in March 2010. In March 2010, SMARTRAC granted 9,918 bonus shares (2009: 19,941 bonus shares) to a member of the Management Board and selected employees. Additionally, in August 2010, SMARTRAC granted 983 shares to a selected employee. These movements decreased the treasury stock in total by EUR 479,000 (2009: EUR 753,000). Furthermore, 2,500 vested options of the Stock Option Scheme 2006 were exercised at an exercise price per option of EUR 17 and decreased the treasury stock by EUR 75,000.

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

The table below shows the development of treasury stock:

Month	Number of shares	Average share price in EUR
Total as at January 1, 2009	**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 of Xytec)	(66,184)	30.14
Total as at January 1, 2010	**210,451**	**30.14**
March 2010 (bonus shares rendered)	(9,918)	30.14
March 2010 (conversion of bonus into shares according to stock plan)	(5,000)	30.14
August 2010 (bonus shares rendered)	(983)	30.14
September 2010 (exercise of share options)	(2,500)	30.14
October 2010 (sale Treasury Stock)	(192,050)	30.14
Movement current year	**(210,451)**	**30.14**
Total as at December 31, 2010	**–**	**–**

15. Property, plant and equipment

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

* Reclassified to intangible assets from property, plant and equipment

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

16. Intangible assets

With the exception of internally and externally generated development costs (2010: EUR 2.3 million; 2009: EUR 2.7 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, 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**
Cost						
Balance at January 1, 2010	44,410	4,071	2,294	5,485	8,635	64,895
Acquired through business combinations	–	394	–	–	–	394
Additions	–	478	341	2,472	20	3,311
Reclassification	–	141	56	(108)	(57)	32
Disposals	–	–	(7)	(158)	(1)	(166)
Currency effects	748	54	34	243	130	1,209
Balance at December 31, 2010	**45,158**	**5,138**	**2,718**	**7,934**	**8,727**	**69,675**
Amortization						
Balance at January 1, 2010	–	696	597	732	1,568	3,593
Amortization	–	457	377	1,041	992	2,867
Disposals	–	–	(10)	–	–	(10)
Currency effects	–	–	10	6	3	19
Balance at December 31, 2010	**–**	**1,153**	**974**	**1,779**	**2,563**	**6,469**
Carrying amounts						
At January 1, 2010	44,410	3,375	1,697	4,753	7,067	61,302
At December 31, 2010	**45,158**	**3,985**	**1,744**	**6,155**	**6,164**	**63,206**

* Reclassified from property, plant and equipment

Non-amortizable intangible assets are primarily comprised of goodwill and development costs for projects which have not yet been completed (carrying amount at December 31, 2010: EUR 1.8 million; carrying amount at December 31, 2009: EUR 1.3 million).

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

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	2010
eID	1,993
Cards	4,636
Industry & Logistics	37,200
Tickets & Labels	1,329
Total	**45,158**

SMARTRAC performed its annual goodwill impairment tests at December 31, 2010. 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 from 9.0 % to 11.1 %, on a pre-tax basis. The cash flows were based on the Groups budget and were planned on a detailed basis covering period of four to six 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. Development costs are comprised of projects for product and process development. 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.

17. Inventories

In thousands of EUR	Consolidated 2010	Consolidated 2009
Raw materials and consumables	24,697	14,279
Work in progress	4,381	3,432
Finished goods	4,126	3,557
Total inventories	**33,204**	**21,268**

In the financial year 2010, inventories (raw materials) of EUR 206,000 have been written off to zero (2009: EUR 281,000).

18. Trade and non-trade receivables

In thousands of EUR	Consolidated 2010	Consolidated 2009
Third parties	41,034	34,407
Allowance for doubtful accounts	(1,533)	(651)
Total trade receivables	**39,501**	**33,756**

Trade receivables are shown net of impairments amounting to EUR 1,533,000 (2009: EUR 651,000) of which EUR 1,300,000 (2009: EUR 406,000 arise from five customers that went bankrupt) arise from the allowance for doubtful receivables for one customer of the Business Unit Cards which has not met the payment obligation and is facing significant financial difficulty. Impairment losses recognized in profit or loss are disclosed under other operating expenses (note 10). The short-term receivables were valued based on the present value of estimated future cash flows. The future cash flows are based on assumptions concerning the liquidation value of customer's fixed assets and inventory items for which the Group holds a legal title.

Furthermore, there is a security deposit included in the receivables amounting to EUR 1,673,000 which is not payable within one year (2009: EUR 1,461,000).

19. Other current assets

In thousands of EUR	Consolidated 2010	Consolidated 2009
Advance for equipment purchases	–	603
Prepayments to vendors	501	42
Prepaid expenses	1,513	1,091
FX-hedging contracts	–	8
Other	951	480
Total	**2,965**	**2,224**

The FX-hedging contracts consist mainly of one EUR/USD forward instrument, one USD/THB forward instrument and several USD/THB options. The fair value changes are booked through profit and loss (financial income / expenses: change in fair value).

20. Short-term investments

At December 31, 2010, SMARTRAC had invested EUR 0,00 in securities (2009: EUR 591,000). 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).

21. Cash and cash equivalents

In thousands of EUR	Consolidated 2010	Consolidated 2009
Cash	14,506	9,676
Short-term cash deposits	35,107	29,143
Cash and cash equivalents	**49,613**	**38,819**
Bank overdraft	(212)	(5)
Cash and cash equivalents and bank overdrafts as stated in the cash flow statement	**49,401**	**38,814**

At December 31, 2010, the Group held a total of EUR 35.1 million (2009: EUR 29.1 million) in short-term deposits with banks of which EUR 35.1 million (2009: EUR 29.1 million) have a total period less than two months.

In the total amount of cash and cash equivalents are cash positions included denominated in MYR (MYR 1,378,000) and BRL (BRL 8,000). These cash positions are restricted from a foreign exchange regulations point of view.

22. Equity

Share capital

In thousands of shares	Consolidated 2010	Consolidated 2009
Outstanding at January 1	14,639	13,198
Issued for cash	1,485	1,350
Shares rendered for acquisition	–	66
Employee bonus shares	19	25
Sale Treasury Stock	192	–
Outstanding at December 31	**16,335**	**14,639**

With respect to treasury stock, reference is made to note 14.

Authorized share capital

The authorized share capital of the Company is EUR 30 million, divided into 30 million ordinary shares, each having a par value of EUR 0.50, and 30 million preference shares, each having a par value of EUR 0.50. 16.3 million ordinary shares are issued and fully paid.

Share premium reserve

The increase in share premium in the financial year 2010 is mainly due to the excess of proceeds over par value from the capital increase. Additionally bonus shares were granted. Vesting expenses regarding options were credited to share premium and compensation payments were debited to share premium.

Capital increase

On October 15, 2010, the Company increased its share capital from EUR 7,424,999.50 (14,849,999 bearer shares) to EUR 8,167,498.50 (16,334,997 bearer shares), excluding the subscription rights of the shareholders.

The capital increase consisted of the issuance of 1,484,998 new bearer shares. All new shares were subscribed by OEP Technologie B.V. (OEP), Amsterdam, The Netherlands, at an issue price per share of EUR 17.50 payable in cash. The issued shares were listed at the stock exchange on December 20, 2010.

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

The transaction costs consisted of bank arrangement and legal fees (EUR 525,000).

SMARTRAC realized gross proceeds (before deduction of transaction costs) in the amount of approximately EUR 26 million. The proceeds of the issuance will serve to increase financial flexibility for the further growth of the company.

In thousands of EUR		Consolidated 2010
Gross proceeds		25,987
Par value of new shares – credited to share capital		(742)
Excess of gross proceeds over par value credited to share premium		25,245
Less	– Transaction costs of the capital increase charged to share premium	(525)
	– Tax effect of transaction costs credited to share premium	–
Net movement in share premium arising from capital increase		**24,720**

23. Financial liabilities

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

In thousands of EUR	Consolidated 2010	Consolidated 2009
Non-current liability		
Secured loans	50,246	50,532
	50,246	**50,532**
Current liabilities		
Current portion of secured loans	415	490
Bank overdraft	212	5
	627	**495**
	50,873	**51,027**

Secured loans

On July 14, 2009, SMARTRAC signed an agreement on a syndicated multicurrency credit facility for EUR 65 million, which matures on June 30, 2012. The syndicated multicurrency credit facility has standard market terms and conditions including a leverage and an equity covenant. In the financial year 2010, the covenants were fulfilled at any time. As of December 31, 2010, EUR 50.1 million of this facility was used. 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. The facility usage is EUR 526,000 and is secured by a pledge on a securities account of SMARTRAC N.V. with a maximum pledge amount of EUR 2 million. The Maturity of the credit facility is in December 2012.

Bank overdraft

As of December 31, 2010, EUR 212,000 of the existing EUR 12 million revolving umbrella credit facility which was agreed between Deutsche Bank AG and SMARTRAC N.V. in 2008, are used in cash (2009: EUR 5,000).

24. Employee benefits

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

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

Development of benefit obligation

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

In thousands of EUR	Consolidated 2010	Consolidated 2009
Balance at the beginning of the year	635	453
Acquisition through business combinations	–	–
Current service costs	138	147
Interest on obligation	30	25
Actuarial losses or (gains)	27	10
Defined benefit obligation as at end of the year	**830**	**635**

No benefits were paid in 2010 and 2009.

Development of plan assets

The following table shows the change in plan assets:

In thousands of EUR	Consolidated 2010	Consolidated 2009
Balance at the beginning of the year	192	136
Acquisition through business combinations	–	–
Contribution by employer	33	34
Expected return on plan assets	7	5
Actuarial (losses) or gains on plan assets	(8)	17
Plan assets as at end of the year	**224**	**192**

Pension plan assets fully consist of a life insurance.

Breakdown of the net benefit liability

In thousands of EUR	Consolidated 2010	Consolidated 2009
Defined benefit obligation unfunded	439	310
Defined benefit obligation wholly or partly funded	391	325
Plan assets	(224)	(192)
Unrecognized actuarial (losses) or gains	(63)	(47)
Defined benefit liability	**543**	**396**

Expense recognized in the income statement

In thousands of EUR	Consolidated 2010	Consolidated 2009
Current service costs	138	147
Interest on obligation	30	25
Actuarial losses or (gains)	27	10
Expected return on plan assets	(7)	(5)
Actuarial losses or (gains) on plan assets	8	(17)
Total	**196**	**160**

These expenses were classified under administrative expenses.

The Group expects to contribute EUR 90,000 to its defined benefits plans in 2011 (2010: EUR 61,000)

Weighted average assumptions

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

In thousands of EUR	Consolidated 2010	Consolidated 2009
Discount rate at December 31	4.33 %	4.22 %
Future salary increases	3.75 %	6.00 %
Price inflation	3.50 %	2.96 %
Return on plan assets	4.00 %	4.00 %

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

25. Trade and non-trade payables

In thousands of EUR	Consolidated 2010	Consolidated 2009
Trade payables	21,889	18,318
Total trade payables	**21,889**	**18,318**
Non-trade payables	2,795	1,870
Total non-trade payables	**2,795**	**1,870**
Total trade and non-trade payables	**24,684**	**20,188**

26. Provisions

In thousands of EUR	Warranties	Restructuring	Total
Balance at January 1, 2010	177	255	432
Assumed in a business combination	–	–	–
Provisions made during the period	–	–	–
Provisions used during the period	(55)	(255)	(310)
Provisions reversed during the period	(45)	–	(45)
Currency effects	28	–	28
Balance at December 31, 2010	**105**	**–**	**105**

Warranty provisions for former machinery sales of MCT/OTI result from the MCT/OTI asset deal in 2009.
Provisions for restructuring of multitape GmbH were used for rent (EUR 150,000), renovation (EUR 50,000), downsizing (EUR 45,000) and lawyer costs (EUR 10,000).

27. Other current liabilities

In thousands of EUR	Consolidated 2010	Consolidated 2009
Accrued expenses	3,550	2,476
Prepayments from customers	519	1,106
Other liabilities	2,850	2,380
FX-hedging contracts	193	97
Total other current liabilities	**7,112**	**6,059**

The FX-hedging contracts consist mainly of one EUR/USD forward instrument, one USD/THB forward instrument and several USD/THB options. The fair value changes are booked through profit and loss (financial income / expenses: change in fair value).

28. Financial instruments

The Group has an exposure to the following financial risks: liquidity, credit and market risk. This note presents information about the exposure to each of the above mentioned risks and the Group's management of capital.

SMARTRAC´s Group Treasury Department is responsible for the management of financial risks. In July 2009 a Group Treasury Guideline was implemented in order to secure the identification, measurement and management of financial risks. In addition a Group Risk Management Committee was implemented to analyze the risk profile of SMARTRAC and to review and develop risk management strategies. Members of the Group Risk Management Committee are the CEO, Group CFO and Head of Corporate Finance and Controlling of SMARTRAC TECHNOLOGY Group. The Risk Management Committee meets on a regular basis.

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

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

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

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

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

As of December 31, 2010, the Group reports a very low level of indebtedness. The net financial debt position at the end of 2010 was EUR 1.3 million (2009: net debt position amounting to EUR 11.6 million). The liquidity reserve was EUR 49.6 million.

A revolving umbrella credit facility amounting to EUR 12 million was implemented in 2008 until further notice for working capital financing purposes of the Group. The credit facility was agreed between SMARTRAC N.V. and Deutsche Bank AG and can be used for general corporate purposes. Collateral is not provided. The credit facility amount is allocated to different SMARTRAC entities as overdraft, credit and guarantee facilities. As at December 31, 2010, EUR 0.2 million of the cash facilities and EUR 2.2 million of the guarantee facilities are drawn and a total of EUR 9.6 million of the umbrella credit facility amount is unused (December 31, 2009: EUR 9.7 million).

On July 14, 2009, SMARTRAC signed an agreement on a syndicated multicurrency credit facility for EUR 65 million which ends on June 30, 2012, with standard market terms and conditions including a leverage and an equity covenant. This credit facility is provided by Deutsche Bank Luxembourg S.A. and Berenberg Bank and can be used for acquisition, working capital, and capital expenditure purposes. SMARTRAC N.V. has provided collateral by pledging its shares of SMARTRAC TECHNOLOGY Ltd. The largest tranche with an amount of EUR 50 million has a fixed rate convention until maturity on June 30, 2012. The effective interest rate is 6.35 %. As of December 31, 2010, a total notional amount of EUR 50.6 million was drawn. A total of EUR 14.4 million of the credit facility is unused as at December 31, 2010.

Credit risk

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

The credit management strategy of SMARTRAC is to focus on the diversification of counterparties and to avoid or reduce concentration risks.

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

Bank deposits and the conclusion of derivatives are only made with counterparties that have a long-term rating of at least A, if available.

At December 31, 2010 and 2009, significant concentrations of credit risk of a few key accounts were identified. In general, those accounts are closely monitored by analyzing their financial statements on a regular basis, if available, via a market information system and the usage of business information reports. Those key accounts did show a solid financial situation.

The liquidity reserve, which is maintained to manage the liquidity risk, is currently 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 2010	Consolidated 2009
Trade receivables	39,228	33,729
Non-trade receivables	273	27
Other current assets	1,709	485
Short-term investments	–	591
Cash and cash equivalents	49,613	38,819
Total	**90,823**	**73,651**

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

The short-term investment into a security with a market value of EUR 591,000 as of December 31, 2009, was repaid in the course of 2010 and resulted in a negative fair value adjustment of EUR 141,000.

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

In thousands of EUR	Consolidated 2010	Consolidated 2009
Asia	5,822	3,088
Europe	23,218	20,974
North America	7,580	6,667
Latin America	2,559	2,866
Others	49	134
Total	**39,228**	**33,729**

The aging of trade receivables at the reporting date was:

In thousands of EUR	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not past due	26,741	–	25,321	45
Past due 0 – 30 days	6,559	–	4,464	8
Past due 31 – 60 days	3,119	–	1,535	–
Past due 61 – 90 days	1,890	–	308	–
More than 90 days	2,452	1,533	2,752	598
Total	**40,761**	**1,533**	**34,380**	**651**

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

In thousands of EUR	Consolidated 2010	Consolidated 2009
Balance at January 1	651	559
Impairment loss recognized	1,413	92
Settlement impairment	(531)	–
Balance at December 31	**1,533**	**651**

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, 2010, nominal EUR 50.0 million of the total financial liabilities of the Group have a fixed interest rate. In relation to the liquidity reserve maintained, it was decided to focus primarily 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, 2010, an increase of 1 % in interest rates of financial instruments would increase the Group's profit for the year before tax by EUR 321,000 (2009: increase by EUR 260,000) taking into the account already fixed interest periods.

Foreign currency risk

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

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

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

The majority of the Group's bank borrowings and loans at December 31, 2010 and 2009 were in Euro. Please refer to note 23.

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 265,000 for the year 2010 (2009: EUR 63,000).

The tables below show the net foreign exchange exposure by major currencies as of December 31, 2010 and 2009.

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

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)**

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

Fair values

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

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

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

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

Derivatives
At December 31, 2010, the Group has derivatives with a total negative market value of EUR 193,000 (2009: EUR 89,000). 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 2010, the return on equity was 3 % (2009: 4 %) calculated on the profit for the period.

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

- SMARTRAC Stock Option Scheme 2006
- SMARTRAC Stock Option Scheme 2008
- SMARTRAC Stock Option Scheme 2010
- 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 14 '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.

29. Leases

Leases as lessee

Operating leases

Non-cancellable operating lease rentals are payable as follows:

In thousands of EUR	Consolidated 2010	Consolidated 2009
Less than one year	1,294	925
Between one and five years	1,475	1,730
Longer than five years	907	–
Total	**3,676**	**2,655**

The Group has contractual operating leases over office equipment amounting to EUR 37,000 (2009: EUR 3,000), buildings amounting to EUR 1.6 million (2009: EUR 1.6 million) and vehicles amounting to EUR 507,000 (2009: EUR 418,000). During year ended December 31, 2010, an amount of EUR 1,476,000 (2009: EUR 975,000) was recognized as an expense in profit and loss in respect to operating leases.

Finance leases

SMARTRAC leases machinery under finance leases. In 2010 and 2009, finance lease arrangements existed.

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

In thousands of EUR	Consolidated 2010	Consolidated 2009
Machinery		
Acquisition value	7	417
Accumulated depreciation	(1)	(88)
Net carrying amount	**6**	**329**

The following reconciliation provides a breakdown at year end:

	Consolidated 2010			Consolidated 2009		
In thousands of EUR	Minimum lease payment	Interest component	Present value	Minimum lease payment	Interest component	Present value
Less than one year	3	1	2	93	14	79
Between one and five years	3	–	3	177	12	165
More than five years	–	–	–	–	–	–
Total	**6**	**1**	**5**	**270**	**26**	**244**

The material finance leasing arrangements contain machinery. The uncancellable duration is 36 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).

30. Share based payment

Stock Option Schemes

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

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

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

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

Following approval by the SMARTRAC Annual General Meeting on May 12, 2010, the Company's Management Board established a new stock option scheme (Stock Option Scheme 2010) for members of the Management Board, members of the Group Executive Team, Executive Vice Presidents and Senior Vice Presidents. This Stock Option Scheme 2010 is applicable to the seventh and ninth tranche. The quantity of the vesting stock options granted under the Stock Option Scheme 2010 is subject to a performance condition on the basis of a defined 3 year average sales growth and 3 year average EBITDA margin.

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

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

In thousands of EUR	Consolidated 2010	Consolidated 2009
Tranche 1	–	–
Tranche 2	–	116
Tranche 3	–	666
Tranche 4	35	76
Tranche 5	83	58
Tranche 6	21	6
Tranche 7	71	–
Tranche 8	81	–
Tranche 9	1	–
Total expenses	**292**	**922**

As a consequence of the Voluntary Public Offer of OEP Technologie B.V., the Management Board decided, based on the change of control clause of Option Scheme 2008 (comprising Tranches 4,5 and 6), to terminate and compensate all outstanding vested and unvested options under this scheme. The termination of the Option Scheme 2008 resulted in a compensation payment amounting to EUR 978,000 of which an amount of EUR 837,000 was treated as a capital payback (deduction of share premium). Tranche 4 was not compensated because it lapsed due to the non-fulfillment of its market conditions. Option expenses include accelerated vesting expenses for Tranche 5 (EUR 22,000) and for Tranche 6 (EUR 9,000).

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

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

Consolidated 2010	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
Tranche 7	15.24	May 14, 2010	14.19	63 %	0 %	1.26 %	May 14, 2017
Tranche 8	14.13	May 26, 2010	14.00	63 %	5 %	1.26 %	May 26, 2017
Tranche 9	14.84	August 4, 2010	14.95	63 %	5 %	0.93 %	August 4, 2017

Stock option activity of the SMARTRAC Group during 2010 was as follows:

Consolidated 2010	Outstanding Jan. 1, 2010	Granted	Exercised	Terminated	Lapsed	Forfeited	Outstanding Dec. 31, 2010
Tranche 1	53,250	–	(2,500)	(50,750)	–	–	–
Tranche 2	145,700	–	–	–	–	–	145,700
Tranche 3	152,000	–	–	–	–	–	152,000
Tranche 4	46,966	–	–	–	(46,966)	–	–
Tranche 5	78,896	–	–	(76,496)	–	(2,400)	–
Tranche 6	12,000	–	–	(10,800)	–	(1,200)	–
Tranche 7	–	46,000	–	–	–	–	46,000
Tranche 8	–	81,100	–	–	–	(5,250)	75,850
Tranche 9	–	1,000	–	–	–	–	1,000
Total	**488,812**	**128,100**	**(2,500)**	**(138,046)**	**(46,966)**	**(8,850)**	**420,550**

In the financial year 2010, 128,100 options were granted and 420,550 options were outstanding as at December 31, 2010.

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
Tranche 7	6.25
Tranche 8	5.90
Tranche 9	6.31

Total expenses for the first to the ninth 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 14) decreased by 15,901 shares (2009: 24,941 shares). With respect to restricted bonus shares, please refer to note 34. According to the company's stock plan, restricted bonus shares are issued after a vesting period of two years. As a consequence of the Voluntary Public Offer of OEP Technologie B.V., the Management Board decided, based on the change of control clause of the Stock Plan, to terminate the Stock Plan. This led to a settlement of the restricted bonus shares and a reclassification of EUR 109,000 from share premium into position other current liabilities. The fair value of the instrument was remeasured at the date of settlement.

31. 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 12).
– Exemption from corporate income tax on dividends received from companies using similar promotional privileges.
– Exemption from withholding tax deductions on distributions of net earnings of promoted activities paid to foreign shareholders during the tax exemption period.
– Permission to transfer foreign exchange in and out of Thailand.

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

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

SMARTRAC TECHNOLOGY Ltd. must also comply with specific conditions contained within the promotional certificates such as maintaining appropriate books and records, working capital and quality standards. Until December 31, 2010, the company complied with these conditions.

Furthermore, SMARTRAC Technologia Industria E Commercio Da Amazonia Ltda. operates within the Manaus Freetrade Zone, Brazil, and therefore benefits under privileges described under note 12 'Corporate income tax'.

SMARTRAC TECHNOLOGY MALAYSIA Sdn. Bhd. received the official approval for the pioneer status by the MITI (Ministry of International Trade and Industry) in July 2009. The pioneer status entitles the company SMARTRAC TECHNOLOGY MALAYSIA 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.

32. Capital commitments

As at December 31, 2010, capital commitment amounting to EUR 186,000 exists with respect to land and buildings (2009: EUR 7,000).

As at December 31, 2010, the Group has outstanding purchase orders for machinery amounting to EUR 110,000 (2009: EUR 28,000). The Group has done down payments on these purchase orders in 2010 amounting to EUR 92,000 (2009: EUR 0). Additionally the Group has orders for tools and equipment amounting to EUR 52,000 (2009: EUR 104,000).

Based on cooperation and frame contracts, the Group is committed to incur capital expenditure for machinery amounting to 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.

33. Contingencies

Legal proceedings

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

Off balance sheet commitments

At December 31, 2010, the Group has bank guarantees granted to utility suppliers and for litigation costs amounting approximately EUR 2.3 million (2009: EUR 2.3 million). The guarantees are mainly in the context of e-Passport tenders, utility service agreements and cooperation- / frame purchase agreement.

34. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 1), with its (former) directors, supervisory directors, executive officers, entities controlled by its directors and executive officers, jointly controlled entities and the ultimate controlling party. In the ordinary course of business, the Group has transactions with various organizations with which certain of its members of the Supervisory Board or Management Board are associated but no transactions responsive to this item were conducted in 2010. The members of the Management Board and the Group Executive Team are considered to be the key management personnel as defined in IAS 24 'Related parties'.

Jointly controlled entity

In the course of the third quarter of 2010, SMARTRAC TECHNOLOGY HONG KONG Ltd. and Mr. Chen Shyan Tser established the jointly controlled entity Citywish Investments Ltd. (Citywish) in which SMARTRAC has an interest of 30 %.

Controlling shareholder

During the year ended December 31, 2010, a majority of the Company´s shares were acquired by OEP Technologie B.V. (OEP).

Bibliotheca RFID Library Systems AG

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

The Group has the following transactions with related parties:

Transaction values in thousands of EUR	Consolidated ended December 2010	Consolidated ended December 2009
Sales		
Bibliotheca AG	4,332	956
Citywish Investments Ltd.	–	–
OEP Technologie B.V.	–	–
Cost recharge		
Bibliotheca AG	–	–
Citywish Investments Ltd.	267	–
OEP Technologie B.V.	–	–

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

In thousands of EUR	Consolidated ended December 2010	Consolidated ended December 2009
Trade and non trade receivables		
Bibliotheca AG	1,513	667
Citywish Investments Ltd.	–	–
OEP Technologie B.V.	–	–
Total	**1,513**	**667**
Other current assets		
Bibliotheca AG	–	–
Citywish Investments Ltd.	303	–
OEP Technologie B.V.	–	–
Total	**303**	**–**
Capital contribution		
OEP Technologie B.V.	25,987	–

Transactions with key management

As at December 31, 2010, directors of the Company and their immediate relatives control 9.6 % of the voting shares of the Company (December 31, 2009: 22.3 %).

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

Remuneration of key management

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

In thousands of EUR	2010	2009
Short-term employee benefits	1,321	1,412
Share-based payment	341	778
Housing and related expenses	45	57
Total	**1,707**	**2,247**

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

Share-based payment

In 2010, 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. In the course of 2010, options of Tranche 5 and restricted stock grants were compensated as a consequence of the terminations of the Stock Option Scheme 2008 and the Stock Plan. The terminations were decided for in consequence of the successful Voluntary Public Offer by OEP Technologie B.V..

Stock Option Scheme

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

Number of options granted Management Board	Beginning balance	Granted	Exercised	Compensated	Lapsed	Forfeited	Ending balance
Tranche 1 (vested)							
2006	5,000	–	(5,000)	–	–	–	–
Tranche 2 (vested)							
2007	15,000	–	–	–	–	–	15,000
Tranche 3 (vested)							
2007	100,000	–	–	–	–	–	100,000
Tranche 4 (lapsed in 2010)							
2008	22,529	–	–	–	(22,529)	–	–
Tranche 5 (terminated in 2010)							
2009	21,389	–	–	(8,021)	–	(13,368)	–
Tranche 7 (not vested)							
2010	–	18,000	–	–	–	–	18,000
Total quantity	**163,918**	**18,000**	**(5,000)**	**(8,021)**	(22,529)	(13,368)	**133,000**

For further details on above tranches of the SMARTRAC Stock Option Schemes, please refer to note 30.

Stock Plan

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

Number of shares granted (Stock Plan) Management Board	Total
2010	**11,312***
2009	18,195*

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

The fair value of shares granted to members of the Management Board according to the Stock Plan amounted to EUR 105,000 in 2010 (2009: EUR 111,000). The grant was done based on an observable market price of EUR 16.45 (2009: EUR 8.69).

The expenses (based on IFRS 2) for restricted stock bonus of members of the Management Board amounted to EUR 208,000 (2009: EUR 182,000), thereof EUR 24,000 for 5,936 shares converted in 2008 (Share Grant 1) that were settled in cash. Due to the termination of the Stock Plan as a consequence of the Voluntary Public Offer of OEP Technologie B.V., all residual restricted stock (5,000 shares from share grant 2009 and 5000 shares from share grant 2010) were compensated in form of cash compensation in 2010 (compensation price: EUR 20 per share).

Remuneration of the Supervisory Board

In 2010, the compensation for members of the Supervisory Board amounted to EUR 150,000 (2009: EUR 150,000). In addition, a member of the Supervisory Board has held 20,000 options of Tranche 2 (exercise price: EUR 22.40, option life expiration: March 29, 2013) and 15,000 options of Tranche 3 (exercise price: EUR 39.20, option life expiration: November 23, 2013). No options were exercised or expired during financial year 2010 and 2009.

Since 2008, no options have been granted to members of the Supervisory Board based on a change in the regulations of the Stock Option Schemes.

Other related party transactions and balances

Related parties are summarized below.

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

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

35. Auditor's fees and services

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

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

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**

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

Professional fees for other accounting services primarily relate to fees for the review of the interim financial statements. Tax consulting fees primarily include professional fees for tax consulting services performed as part of current or planned transactions. Fees for advisory services mainly relate to consulting services and assistance.

36. Subsequent events

There are no subsequent events to be reported.

Company Financial Statements 2010 of SMARTRAC N.V.

Company balance sheet before appropriation of profits

As at December 31

In thousands of EUR	Note	2010	2009
Assets			
Property, plant and equipment		15	22
Intangible assets	4	156	169
Investment in subsidiaries	5	76,741	51,354
Deferred tax assets	6	1,500	1,750
Other non-current assets		302	–
Total non-current assets		**78,714**	**53,295**
Loans to subsidiary companies	7	90,280	84,586
Trade receivables	8	751	160
Other current assets	9	7,214	7,562
Short-term investments	10	–	591
Cash and cash equivalents	11	37,659	30,013
Total current assets		**135,904**	**122,913**
Total assets		**214,618**	**176,208**
Equity			
Issued capital	12	8,167	7,425
Share premium	13	96,743	75,047
Translation reserve	13	2,051	(55)
Retained earnings	13	54,620	48,547
Treasury stock	13	–	(6,344)
Total equity attributable to the holders of the company		**161,581**	**124,620**
Secured loan	14	50,130	49,867
Total long-term liabilities		**50,130**	**49,867**
Non-trade payables	15	703	870
Current liabilities to subsidiary companies	16	1,164	408
Other current liabilities	17	1,040	443
Total current liabilities		**2,907**	**1,721**
Total equity and liabilities		**214,618**	**176,208**

The accompanying notes on page 168 to 175 are an integral part of the company financial statements.

Company income statement

For the years ended December 31

In thousands of EUR	2010	2009
Income after tax from investment in group companies	5,665	4,845
Other income (loss) after tax	408	215
Profit for the period attributable to the owner of the parent	**6,073**	**5,060**

The accompanying notes on page 168 to 175 are an integral part of the company financial statements.

Notes to the Company Financial Statements of SMARTRAC N.V. for the Year ended 2010

1. Reporting entity

Where the financial statements reflect the same information as the consolidated financial statements, the note numbers refer to these notes.

2. Basis of preparation

The consolidated financial statements are prepared according to the standards laid down by the International Accounting Standards Board and adopted by the European Union (hereinafter referred to as IFRS). In setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its separate financial statements, SMARTRAC N.V. has made up use of the option provided in Article 362.8 of Part 9, Book 2 of the Netherlands Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the separate financial statements of SMARTRAC N.V. are the same as those applied for the consolidated IFRS financial statements. Associates and subsidiaries, over which significant influence is exercised, are stated on the basis of the equity method. Reference is made to the accounting principles as described in note 2 and 3 of the consolidated financial statements. The disclosures in the company financial statements are provided pursuant to Part 9 Book 2 of the Netherlands Civil Code.

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

3. Significant accounting policies

Investments in subsidiaries

Investments in subsidiary companies are carried at equity value. For the principles of valuation of assets and liabilities and for determination of results reference is made to the notes to the consolidated financial statements.

4. Intangible assets

The intangible assets in 2010 and in 2009 consist of patents. The decrease in intangibles results from amortization of the patents on a regular basis.

5. Investments in subsidiaries

In thousands of EUR	2010	2009
Carrying value of investment at January 1	**51,354**	**52,653**
Investments during the year	17,616	11
Equity accounted earnings	5,665	4,845
Dividends received	–	(6,002)
Currency translation effects	2,106	(153)
Carrying value of investment at December 31	**76,741**	**51,354**

As per December 31, 2010, all investments are owned for 100 % (2009: 100 %).

6. Deferred tax assets

The deferred tax asset mainly results from unused taxable losses incurred in the course of the Initial Public Offering in 2006. It can be used up until year 2013. Also refer to note 12 of the notes to the consolidated financial statements.

7. Short-term loans to subsidiaries

In thousands of EUR	2010	2009
Subsidiary		
SMARTRAC TECHNOLOGY GmbH	2,040	1,890
SMARTRAC TECHNOLOGY Pte. Ltd.	3,807	3,187
SMARTRAC TECHNOLOGY Brazil B.V.	2,210	2,210
SMARTRAC IP B.V.	5,125	4,726
SMARTRAC German Holding GmbH (formerly multitape GmbH)*	–	1,377
SMARTRAC TECHNOLOGY US Inc.	9,813	5,428
SMARTRAC TECHNOLOGY MALAYSIA Sdn. Bhd. (formerly Multitape Technology (M) Sdn. Bdh.)*	24,730	12,572
SMARTRAC AUTOMATION Sdn. Bhd. (formerly Xytec Solutions Sdn. Bdh.)*	–	200
SMARTRAC TECNOLOGIA INDÚSTRIA E COMERCIO DA AMAZÔNIA Ltda.	4,350	3,600
SMARTRAC German Holding GmbH*	32,466	43,355
multitape Holding B.V.	1,072	1,042
SMARTRAC TECHNOLOGY GERMANY GmbH	1,100	–
SMARTRAC Trading Pte. Ltd.	3,567	5,000
Total short-term loans to subsidiaries	**90,280**	**84,586**

All loans have a residual repayment term of less than 12 months and were granted at market interest rates, except a loan to SMARTRAC German Holding GmbH of EUR 30.8 million which is due on June 29, 2012.

* Please refer to the Group statement note 1a.

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	2010	2009
Receivables from subsidiaries	6,572	7,007
Other current assets	642	555
Total other current assets	**7,214**	**7,562**

10. Short-term investments

The short-term investment into a security with a market value of EUR 591,000 as of December 31, 2009, was repaid in the course of 2010 and resulted in a negative fair value adjustment of EUR 141,000.

11. Cash and cash equivalents

In thousands of EUR	2010	2009
Cash and cash equivalents	37,659	30,013

At December 31, 2010, SMARTRAC held EUR 34.9 million in seven short-term bank deposits with a maximum maturity of one month.

12. Share capital

On October 15, 2010, the Company increased its share capital from EUR 7,424,999.50 (14,849,999 bearer shares) to EUR 8,167,498.50 (16,334,997 bearer shares), excluding the subscription rights of the shareholders.

The capital increase consisted of the issuance of 1,484,998 new bearer shares. All new shares were subscribed by OEP Technologie B.V. (OEP), Amsterdam, The Netherlands, at an issue price per share of EUR 17.50 payable in cash. The issued shares were listed at the stock exchange on December 20, 2010.

Subscription rights of shareholders were excluded on the basis of Article 28.2 of the Articles of Association by a resolution of the Management Board. The transaction costs consisted of bank arrangement and legal fees (EUR 525,000).

Please also refer to note 22 of the Group statement.

	2010	2009
Issued ordinary share of EUR 0.50 each	16,334,997	14,849,999

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, 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**
Balance as at January 1, 2010	**7,425**	**75,047**	**(55)**	**48,547**	**(6,344)**	**124,620**
Net profit for the period	–	–	–	6,073	–	6,073
Other comprehensive income (loss)	–	–	2,106	–	–	2,106
Total comprehensive income (loss) of the period	**–**	**–**	**2,106**	**6,073**	**–**	**8,179**
Par value of new shares – credited to share capital	742	–	–	–	–	742
Excess of gross proceeds over par share value credited to share premium	–	25,245	–	–	–	25,245
Transaction costs of the capital increase charged to share premium	–	(525)	–	–	–	(525)
Option expense – share based options scheme	–	292	–	–	–	292
Reclassification of restricted stock (stock plan)	–	(109)	–	–	–	(109)
Issuance of stock plan	–	(219)	–	–	479	260
Exercise and termination of stock option schemes	–	(1,039)	–	–	75	(964)
Sales Treasury Stock	–	(1,949)	–	–	5,790	3,841
Balance as at December 31, 2010	**8,167**	**96,743**	**2,051**	**54,620**	**–**	**161,581**

* The retained earnings as at December 31, 2010, include a legal reserve for internal development costs at a carrying amount of EUR 6.2. million (2009: EUR 4.1 million).

14. Secured loan

In thousands of EUR	2010	2009
Usage of syndicated credit facility	**50,130**	**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. The syndicated multicurrency credit facility has standard market terms and conditions including a leverage and equity covenant. In the financial year 2010, the covenants were fulfilled at any time.

The effective interest rate is 6.35 %.

15. Non-trade payables

In thousands of EUR	2010	2009
Wage tax	181	118
Other non-trade payables	522	752
Total non-trade payables	**703**	**870**

16. Current liabilities to subsidiary companies

In thousands of EUR	2010	2009
SMARTRAC TECHNOLOGY Ltd.	868	146
SMARTRAC TECHNOLOGY GmbH	41	62
SMARTRAC TECHNOLOGY Pte. Ltd.	153	3
SMARTRAC Technology Brazil B.V.	–	10
SMARTRAC IP B.V.	–	179
SMARTRAC AUTOMATION Sdn. Bhd. (formerly Xytec Solutions Sdn. Bdh.)*	–	8
SMARTRAC TECHNOLOGY GERMANY GmbH	–	–
SMARTRAC TECHNOLOGY US Inc.	18	–
SMARTRAC German Holding GmbH*	12	–
SMARTRAC TECNOLOGIA INDÚSTRIA E COMERCIO DA AMAZÔNIA Ltda.	23	–
SMARTRAC TECHNOLOGY MALAYSIA Sdn. Bhd. (formerly Multitape Technology (M) Sdn. Bdh.)*	29	
SMARTRAC TECHNOLOGY GERMANY GmbH	20	–
Total current liabilities to subsidiary companies	**1,164**	**408**

* Please refer to the Group statement note 1a

17. Other current liabilities

In thousands of EUR	2010	2009
FX-hedging contracts	189	95
Other current liabilities	851	348
Total other current liabilities	**1,040**	**443**

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).

18. Compensation by key management

With respect to the remuneration of the members of the Supervisory Board reference is made to note 34 of the consolidated financial statements.

The detailed remuneration of the members of the Management Board is outlined in note 34 of the consolidated financial statements and the remuneration report (being part of the Annual Report 2010).

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

In thousands of EUR	Salary without Bonus	Bonuses	Others	Total
2010	688	403	11	1,102
2009	830	324	36	1,190

The total share based payment expenses for the Management Board compensated by SMARTRAC N.V. amounted in fiscal 2010 to EUR 341,000 (2009: 778,000).

For details about the remuneration policy of members of the Management Board please refer to the section 'Corporate Governance Report' of the Annual Report.

19. Related parties

Please refer to note 34 of the consolidated statement.

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 35 of the consolidated financial statements.

Amsterdam, March 23, 2011

The Management Board

Dr. Christian Fischer
Chief Executive Officer

Manfred Rietzler
Chief Technical Officer

The Supervisory Board

Prof. Dr. Bernd Fahrholz
Chairman

Christopher von Hugo
Member

Wolfgang Huppenbauer
Member

Jan C. Lobbezoo
Member

Dr. Jörg Zirener
Member

Independent Auditor's Report

To: the Annual General Meeting of Shareholders of SMARTRAC N.V.

Report on the financial statements

We have audited the accompanying financial statements 2010 of SMARTRAC N.V., Amsterdam as set out on pages 98 to 175. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2010, 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 the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at December 31, 2010, the company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management reports in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of SMARTRAC N.V. as at December 31, 2010, 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, 2010, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the management reports, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the management reports as set out on pages 6 to 97 to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, March 23, 2011
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 2010, the Company has issued 16,334,997 common shares with par value of EUR 0.50 each, which account for 100 percent of the issued share capital of the Company. The Company has not issued preferred shares.

Article 1b: Not applicable.

Article 1c: As at December 31, 2010 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-e: Not applicable.

Article 1f: OEP Technologie B.V. and Manfred Rietzler entered into an agreement to exercise the voting rights relating to their shares in the Company jointly.

Article 1g: Shares granted to the members of the Management Board in accordance with SMARTRAC's Stock Plan contain restrictions on the transfer of shares.
As a consequence of the voluntary public tender offer by OEP, SMARTRAC's Management Board decided to terminate the existing SMARTRAC Stock Plan.

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 2010				
JP Morgan Chase & Co. (via OEP Technologie B.V.)	14,205,241	86.96	14,205,241	86.96
Mr. Manfred Rietzler (CTO of SMARTRAC)	1,569,650	9.61	1,569,650	9.61

The appointment of an A director or B director may take place by way of a binding nomination naming at least two persons for each vacancy to be filled and prepared by the Supervisory Board within three months after the vacancy has arisen. If a binding nomination has not been prepared within the above period, the General Meeting shall be unrestricted in its choice. The General Meeting of Shareholders shall also be unrestricted in its choice if it renders the nomination non-binding by means of a resolution adopted by at least two-thirds of the valid votes cast, representing more than half of the issued capital.

The General Meeting shall appoint the Supervisory Board members and shall at all times be empowered to suspend or dismiss each and any Supervisory Board member. The Supervisory Board may make a non-binding nomination for each vacancy within three months of the vacancy arising. In the event of nomination for the appointment of a Supervisory Board member, the candidate's age, profession, the nominal amount of the shares held by him or her in the Company's capital and the positions which he or she holds or has held, to the extent relevant to the performance of the duties of a Supervisory Board member, shall be stated. The legal entities in which he or she already holds an office on a Supervisory Board shall also be indicated. Where these legal entities include companies belonging to the same group, it shall be sufficient to designate that group. The reasons for any recommendation or proposal for appointment or re-appointment shall be stated. In the event of reappointment, the manner in which the candidate has performed her or his duties as a Supervisory Director shall be taken into account.

Resolutions to amend the articles of association shall be capable of being passed, if the proposal to that effect has been made by the Management Board, with an absolute majority of the votes validly cast. If such proposal has not been made by the Management Board, then these resolutions shall only be capable of being passed with a majority of at least two thirds of the votes validly cast in a General Meeting, in which at least three quarters of the issued share capital is represented.

Article 1i: The Management Board is authorized until April 28, 2014 to issue shares, or to issue rights to acquire shares until the issued share capital amounts to EUR 13,000,000 and to exclude pre-emption right.

At the SMARTRAC Annual General Meeting of Shareholders on May 12, 2010, the Management Board was granted the authority to repurchase up to 10 percent of the company's issued share capital, with due observance of the relevant law provisions, for a period of 18 months following May 12, 2010. The consideration for the shares to be repurchased will be at least 80 percent of the opening stock price of the shares of the company at the date of such repurchase and at the most 120 percent of the opening stock price.

Article 1j: Not applicable.

Article 1k: The contract of Dr. Fischer, CEO of SMARTRAC, comprises a change of control provision. In the event a third party exercises a controlling influence, Dr. Fischer has the right to terminate his contract and receives a redundancy payment. In the context of the voluntary public offer of OEP Technologie B.V. announced with a press release on August 30, 2010, Dr. Fischer waived his extraordinary right of termination of his service agreement and a claim for an indemnity payment. This payment claim may be reinstated under certain circumstances.

Appropriation of the Result in Accordance with the Articles of Association

Pursuant to Article 24, section 1 of the articles of association, the profit shown in the adopted annual accounts, after deducting all tax owed by SMARTRAC N.V. (the Company), shall first be applied for the addition to the reserves of such an amount as the Management Board shall determine. The profit which then remains shall be at the unrestricted disposal of the General Meeting of Shareholders. The General Meeting of Shareholders can add the profits to the Company's reserves or distribute the profits in accordance with the dividend and reserves policy adopted by the General Meeting of Shareholders.

For the financial year 2010, 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 31, 2011 to be retained as retained earnings.

SMARTRAC – TRANSFORMING RFID

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