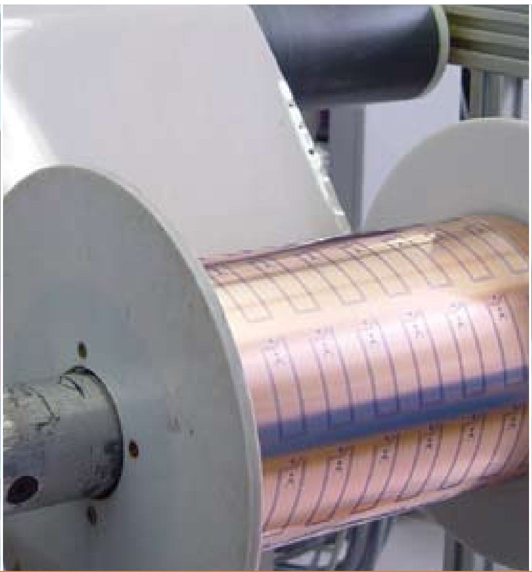



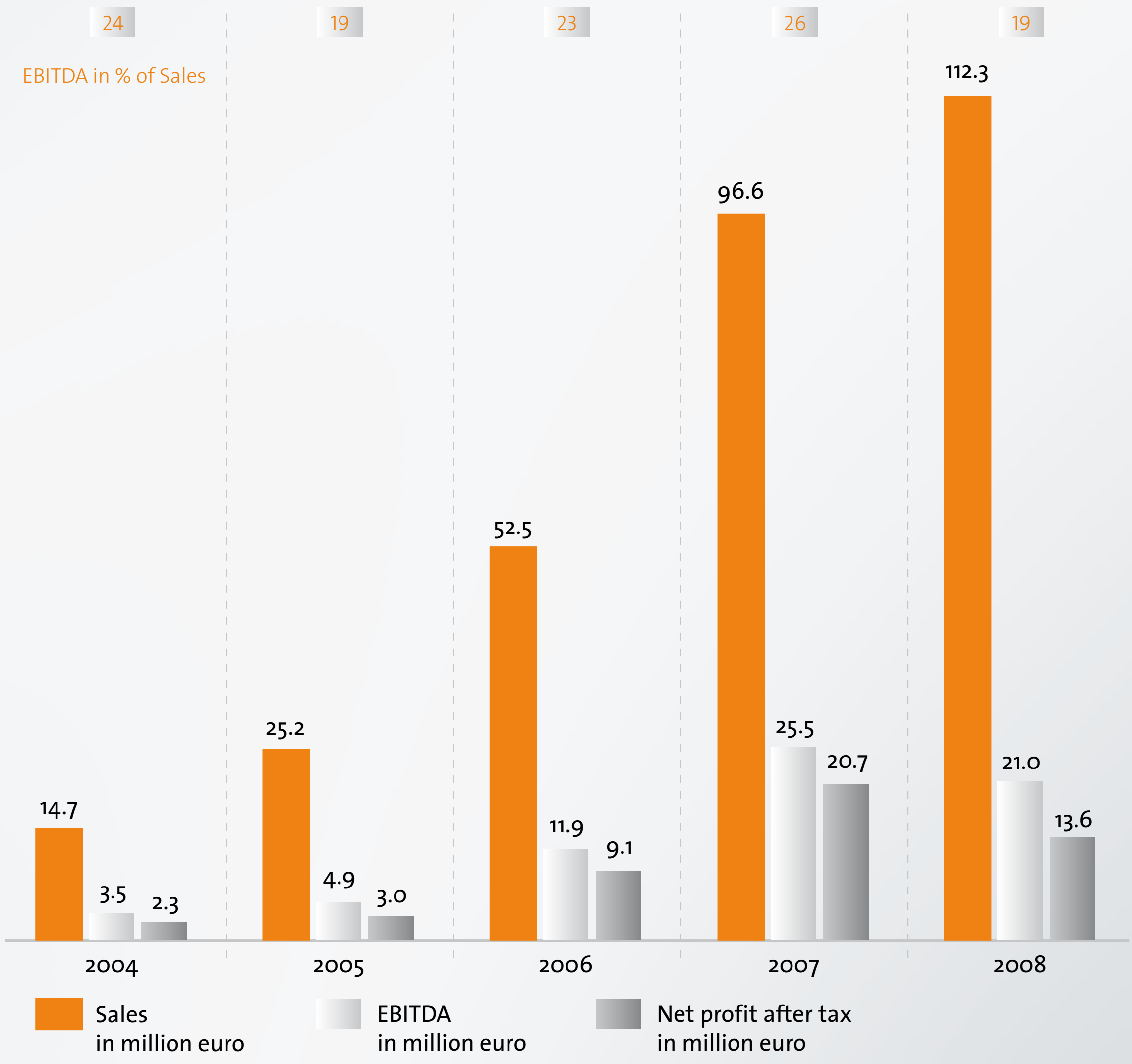

2008
Annual Report

SMARTRAC N.V.

In thousands of euro		Consolidated 12 months ended December 2008	Consolidated 12 months ended December 2007	Change	Change in %
Consolidated income statement					
Revenues		112,301	96,566	15,735	16.3
EBITDA [1]		21,015	25,520	(4,505)	(17.7)
Net profit after tax		13,628	20,740	(7,112)	(34.3)
Financial position and liquidity					
Cash flow from operating activities		19,253	16,710	2,543	15.2
Working capital		23,839	21,211	2,635	12.4
Capital expenditure [2]		13,584	11,875	1,709	14.4
Total assets		177,387	116,490	60,897	52.3
Operating figures					
Basic earnings per share	euro	1.03	1.55	(0.52)	(33.5)
Operating cash flow per share	euro	1.46	1.25	0.21	16.8
Equity ratio	%	55.3	74.0	(19.7)	(26.7)
Headcount	at month's end	2,786	2,625	161	6.1

1) EBITDA is defined as operating profit for the period before depreciation, amortization, 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.


24
19
23
26
19
EBITDA in % of Sales
14.7
3.5
2.3
25.2
4.9
3.0
52.5
11.9
9.1
96.6
25.5
20.7
112.3
21.0
13.6
2004
2005
2006
2007
2008
Sales in million euro
EBITDA in million euro
Net profit after tax in million euro

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 81 and on page 160.

Dr. Christian Fischer, CEO of SMARTRAC

Dear Shareholders,
Dear Friends of our Company,

Despite a turbulent global economy, today we can report on another good year for SMARTRAC. In 2008 we further increased our sales as well as operational cash flow and we held our profitability at an attractive level. Our long-term strategy, our commitment to RFID and our technological capability have proven to be correct in an economy surrounded by uncertainty. And there are good reasons to continue systematically along this strategic path. We are well positioned, we believe in our strength, and we stand for leading technology and reliable products.

Reviewing 2008, it is on the one hand essential to understand the effects of the severe financial and economic crises, but on the other hand and even more important to highlight the progress of SMARTRAC both strategically and operationally. The challenges and achievements of the financial year 2008 comprise five major elements I would like to emphasize in the following:

1. Pure and dedicated RFID business model

SMARTRAC is a leading manufacturer and supplier of RFID transponders. SMARTRAC is committed to RFID and has a prime position in the global RFID value chain. Our international customers value and acknowledge our technological expertise, our flexibility in implementing their needs, as well as the dependability and durability of our products. We combine the most important technologies in our industry under one roof and hold more than 200 patents and patent applications worldwide. In addition to our key wire-embedding technology, we possess qualified expertise in coil winding and etching technology as the base for our transponder manufacturing. These technologies are deployed in our global network of research & development centers, manufacturing facilities and sales offices to successfully solve our customers' needs. Beyond that, we cover all frequency standards in the global RFID market. We have continually expanded our product portfolio, significantly increased our manufacturing capacities and strengthened the operational and financial basis of our company.

2. Compensating a significant decline in the U.S. ePassport business

Our focused RFID business model with its broad product and application portfolio enabled SMARTRAC to successfully balance the effects of the global economic and financial crises. In the second half of the year, the U.S. recession led to a significant reduction in demand for passports as people trimmed down travel activities and companies cut business travels. Including the effects of a decline due to large inventory within the value chain in the second quarter, we delivered over 40 percent fewer inlays to our customers for the U.S. passport in the course of 2008. But, we were able to compensate for a portion of the reduction in U.S. ePassport volume by winning new passport projects worldwide. In the course of 2008 we more than doubled the non-U.S. passport business and increased our market share. This development was strongly supported by 54 percent growth in product line ePayment and an 80 percent growth in the product lines allocated in SMARTRAC's standard segment such as mass transit, access control and automotive. In total the business model has shown good results, even in a period of global uncertainty where projects were postponed and volumes cancelled in some cases. At the end of the financial year 2008 we actually achieved a 16 percent growth in group sales.

3. Expanding manufacturing capacity to record level

In 2008, SMARTRAC impressively strengthened its position as a leading provider of RFID transponders with the largest production capacity worldwide. We provide dedicated high security manufacturing facilities in Asia, Europe and America. With targeted investments in plants and machinery as well as improvements in the organization and manufacturing processes, we were able to increase our capacities to record levels. During the course of only one year, our capacity grew – just in the four plants in Thailand – from 15 million units to 24 million units per month by year-end 2008. In July 2008, we produced over 20 million inlays for the first time. In addition, we were able to complete the construction and security certification of our U.S. plant and integrate it into our global manufacturing network. In the U.S. the focus is on manufacturing high-security inlays for the U.S. passport and additional government-related projects. The manufacturing facilities in Brazil and Germany showed a positive development in their production volumes as well.

4. Strategic acquisition of Sokymat Automotive GmbH

In September 2008, after long and intensive negotiations, we were able to acquire Sokymat Automotive GmbH. In the course of the fourth quarter we successfully integrated the largest acquisition in the company's history. Overall we invested about euro 50 million in acquiring 100 % of Sokymat Automotive GmbH, backed on a euro 70 million acquisition credit facility. It is an investment that, for the following reasons, we view as being substantial in the further development of the SMARTRAC Group.

Firstly, Sokymat Automotive GmbH and SMARTRAC have very similar positions in the global RFID value chain. The long-term expertise of Sokymat Automotive GmbH in low-frequency RFID transponder production – including

Wire-embedding technology

its own machinery building capabilities and proprietary know-how – strengthens SMARTRAC's technology base. Other synergies are also expected to arise from joint research & development activities.

Secondly, the acquisition of Sokymat Automotive GmbH broadens SMARTRAC's product portfolio and strengthens the company's market position especially in industrial, logistics and animal ID applications. We have implemented a new platform to accelerate the combined business activities.

Thirdly, the acquisition provides access to the market of RFID components for the automotive industry, where Sokymat Automotive GmbH holds a strong market position. Despite the current challenging environment, we strongly believe that RFID technology in the automotive industry in general will provide additional growth opportunities in the future.

Finally, the acquisition represents an important step toward a more balanced business portfolio. The activities of Sokymat Automotive GmbH including the respective business lines of SMARTRAC represent one of the four business units implemented as of 1 January 2009.

5. Inclusion in the TecDAX

The last milestone in 2008 was on 22 December when we were listed on the Deutsche Börse (German Stock Exchange) technology index (TecDAX). In only a little over two years of being a listed company, our company has developed into one of the 30 largest technology companies traded on the German Stock Exchange. The inclusion in the TecDAX is confirmation of our dedicated business model and will allow us to increase the international awareness of SMARTRAC.

In summary, we face a deep global recession and we monitor the effects on our business very closely. In 2008, we decisively advanced SMARTRAC both strategically and operationally. Therefore, we are confident that we are prepared to face the challenges and opportunities in the coming year.

Key financial figures 2008

As expected, SMARTRAC continued to grow in the financial year 2008. With sales of euro 112.3 million, we generated 16 % growth over last year's sales of euro 96.6 million, and thereby reached the corridor communicated in November. The EBITDA of euro 21.0 million (previous year: euro 25.5 million) is equivalent to an EBITDA margin of 19 %, and is also within the realm of the forecasted range of around 20 %. The expected reduction in profitability in 2008 was prompted by the changing product mix, the proportion of microchip sourcing in the revenues, our investments for the plants in Malaysia, the U.S. and Thailand, as well as extraordinary legal fees for the protection of our intellectual property. Considering the difficult environment and various one-time charges, we are generally satisfied with the sales and the results we achieved.

With an equity ratio of 55 %, an operating cash flow of euro 19.3 million, and net debt of euro 22.4 million, SMARTRAC possesses a solid financial basis for the future development of the company.

Let me now provide a more detailed analysis of our two business segments "High Security" and "Standard".

High Security segment

SMARTRAC's High Security segment includes RFID components for electronic passports and ID cards, and inlays for credit cards, as well as – since 2008 – for so-called active cards. Our customers place the highest demands on quality and security in both development and manufacturing. SMARTRAC possesses the appropriate security certifications: For example, our products in this area are ICAO-compatible (International Civil Aviation Organization) and our plants in Germany, the U.S. and Thailand are certified as high-security manufacturing facilities. Through many existing and new projects in 2008, we were able to prove our capabilities.

In the reporting year, the High Security segment with the product lines ePassport and ePayment achieved sales of euro 60.6 million, or 54 % of 2008 total sales. In the previous year, the percentage of total sales was over 70 %, or euro 67.7 million. The reduction of 10 % in comparison to the previous year was influenced by a reduction of ePassport sales despite gaining new projects and market share. This reduction could not be compensated by an increase in ePayment sales.

ePassport

SMARTRAC is the world's leading provider of RFID inlays for ePassports; a position which we were able to systematically expand upon in 2008. Globally, an increasing number of countries are furnishing their documents with RFID components and choosing SMARTRAC as their partner. This is solid evidence of our technological strength and the dependability of our products.

During the reporting year, we were able to acquire several new customers. Over 25 countries worldwide now trust their electronic passports to our patented wire-embedding technology which, in terms of quality and durability, has become a leading technology standard.

On account of its size, the U.S. ePassport project assumes a special place in this field. It is the largest ePassport project in the world by far and SMARTRAC consistently delivers the only qualified inlay for this passport. Despite close and intensive cooperation with our customers and the GPO, we were still hit hard twice during the reporting year. First, the orders were drastically reduced because of a large inventory within the value chain, and in the second half of the year, the global financial crisis and U.S. recession led to a significant reduction in demand for passports. As a result, in 2008 we delivered over 40 percent fewer inlays to our customers for the U.S. passport. This unanticipated development was the reason why, for the first time in the company's history, we had to revise our forecast downward.

The ePassport sales were reduced by 24 % to euro 43.2 million (previous year: euro 56.5 million), despite the fact that we were able to compensate to a certain extend the reduction in U.S. ePassport volume.

ePayment

In the ePayment product line, in which both consistency and dependency also play an important role, we were able to record an extraordinary dynamic trend. Almost 100 million inlays were shipped to our customers and integrated into the leading contactless credit cards, which are mainly delivered to the U.S. Our inlay technology is compatible with all combinations of microchips and operating systems for payment functions such as PayPass or PayWave. Despite the financial crisis, the introduction of contactless credit cards has enjoyed strong growth and we currently do not have any indications of any significant weakening.

High-security inlays for active cards represent a new product line. These products differ from conventional RFID card inlays in terms of their components and functionality. For example, these cards can include a battery, switch, display and microchip, and are able to generate one-time passwords (OTP). A first volume order was placed and delivered in late 2008.

The sales trend in the ePayment area reflects the market dynamics. In comparison to the previous year (euro 11.3 million), sales grew by 54 % to euro 17.4 million.

Standard segment

Our Standard segment comprises the production of RFID components for mass transit, access control, automotive, animal ID applications and logistics, as well as tickets and labels. These segments are growth areas – some of them at an early stage – and in the fiscal year 2008 recorded sales growth of 80 % to euro 52.1 million (previous year: euro 29.0 million). At the end of 2008, the percentage of total sales they accounted for was 46 %, compared with 30 % during the previous year.

Simple implementation, outstanding performance and durability are the main characteristics of SMARTRAC's Standard segment products. With customized solutions for both card-related and non-card-related applications, SMARTRAC is able to satisfy market needs.

Mass transportation & access control

SMARTRAC's technology is successfully used in mass transportation systems around the world. In 2008, Masria Card chose SMARTRAC as its RFID partner for the Cairo Metro project, helping us to further strengthen our leading position in this area.

Regular access cards for buildings and office complexes as well as tickets and contactless ski passes are other examples of applications in the area of access control.

Sales related to mass transportation & access control increased by 67 % from euro 25.6 million to euro 42.6 million.

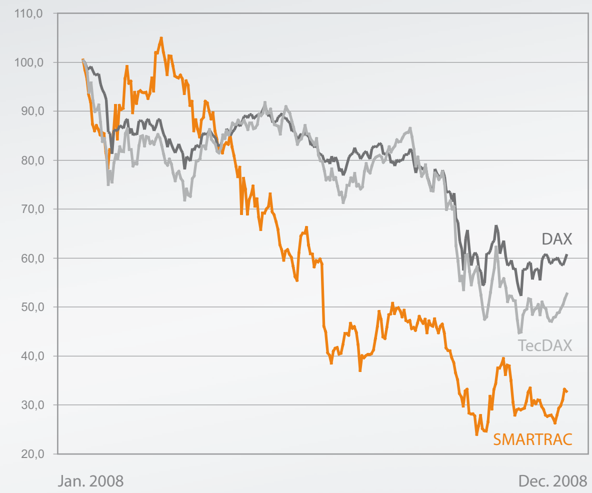
Industry & logistics

In the field of animal identification, we were able to complete our first high-volume projects and expect the synergies created through the combination of SMARTRAC's activities with those of Sokymat Automotive GmbH to stimulate business.

With the acquisition of Sokymat Automotive GmbH, the multifaceted applications of RFID components in the automotive industry now form a part of our product portfolio. RFID products are already being used in the mass production of electronic immobilizers, radio remote controls and keyless car systems. The business activities of Sokymat Automotive GmbH have been consolidated in the SMARTRAC Group since the end of September. In 2008, they accounted for sales of euro 5.5 million in the Standard segment. Sales in the industry & logistics business line increased by 178 % to euro 9.4 million compared to euro 3.4 million a year ago.

The development of the manufacturing facilities for the Tickets and Labels business in Malaysia is taking longer than expected and desired. The advancements in the development processes, the market potential and the positive feedback from our customers confirm nevertheless our strategy. Based on the latest prototyping and processing results, we expect a contribution to the manufactured volumes within the SMARTRAC Group in 2009.

SMARTRAC RFID inlay



Indexed share price performance 2008

Protecting intellectual property

SMARTRAC holds a strong portfolio of patents in the RFID industry, covering a wide spectrum of relevant technologies. SMARTRAC views its intellectual property as an important competitive advantage. Ongoing patent infringements by competitors are therefore a threat to our business. Furthermore, some competitors challenge the validity of SMARTRAC's patents in some jurisdictions. The company constantly strives to protect its patents by taking legal action or actively seeking agreements where this is more favorable.

After a long period of intensive consultation, SMARTRAC and Aontec Teoranta, Ireland agreed, in October 2008, that Aontec acknowledged the patents and will become a sub-licensee under the existing license agreement between SMARTRAC and Assa Abloy AB. This finally resolves a long-running dispute and provides a stable framework for the companies involved.

We will continue to make efforts to protect effectively our intellectual property as we are and will be challenged continuously by infringements and legal actions by our competitors.

Share Price Development

The share price trend in 2008 was unfavorable. By year-end, the share had lost almost 68 % of its value compared to the beginning of 2008. The Management team itself is invested in the company with more than 20 % and together with our investors, had to register a closing share price of euro 11.75 on 31 December 2008. On account of the global financial crisis, the stock markets registered across-the-board losses. Technology shares and small cap stocks were disproportionately affected. The necessity to adjust our expectations during the course of the year unfortunately compounded the trend for the SMARTRAC share.

The market currently values the SMARTRAC share price only slightly over the intrinsic value of the company. Based on the Xetra closing price on 31 December 2008 (euro 11.75), a market capitalization of euro 159 million faces equity of euro 98.2 million. Currently, the capital market barely acknowledges our leading market position or the long-term growth opportunities in the global RFID market and calculates high risk premiums into the models. We have to accept this. In 2009, the management and the entire SMARTRAC team will do everything in their power, with the operating business, to create conditions to change this assessment.

Outlook

2009 will be a challenging year. The repercussions of the deep global recession and the ongoing financial crisis are currently difficult to gauge. Nevertheless, we expect that in the coming years RFID will remain a growth market with average growth rates of up to 25 % per year. As the market leader, SMARTRAC has a very good opportunity to participate the most from this trend. SMARTRAC possesses a patented and tried-and-true technology, the world's largest manufacturing capacity in the industry, global sales and research & development centers, as well as a prime position in the RFID value chain.

For these reasons, we will put our management focus toward securing and expanding our existing market position, developing new market opportunities, promptly completing our integration and development projects, as well as increasing the overall efficiency of our organization.

Right at the outset of 2009 we implemented – in our opinion – a both significant and necessary step toward this further development. We transferred our organization into a business unit structure. The business units are equipped with a management team that bears complete responsibility for the operational and financial performance of the business unit. With the business units eID (ePassports, eID cards, etc.), Cards (ePayment, mass transport, access control, active card applications), Industry and Logistics (automotive, animal identification, logistics, etc.), and Tickets and Labels (eTicket, windshield tag, luggage tracking applications based on etched antennas), we are in the position to address our customers' demands, different markets and applications with even greater dedication. In this fashion, we can more closely connect all elements of the value chain and therefore further improve the quality of the services to our customers.

Looking forward, 2009 will be a challenging year. SMARTRAC is confronted with a demanding global market environment, particularly so in the first half of 2009. But we are convinced that SMARTRAC will surmount this exceptional situation. Our focused strategy, strong financial base and market position are key assets to go through such a difficult environment successfully. Decisively committed to our dedicated RFID business model, SMARTRAC will continue to be a profitable and cash generating company with apparent growth opportunities. Based on our market leadership and our diversified product and technology portfolio, we are confident to grow our business organically in the course of 2009.

On behalf of the entire Group Executive Team, I would like to thank all of our employees for their outstanding performance, untiring efforts and reliability in 2008. We in the management team are convinced that we have gathered the best team in the industry to master the challenges facing us and best exploit the opportunities offered by the RFID market.

To conclude, I would like to draw your attention to the interviews with Members of our Group Executive Team starting on page 42 of this report. Here you will find more details on all the issues that our management team addressed in their respective spheres of responsibility in 2008. I hope you enjoy reading this annual report for 2008 and wish you, and all of us, a successful year in 2009.

Yours sincerely,

Dr. Christian Fischer
CEO of SMARTRAC

Amsterdam, 13 March 2009

Report of the SMARTRAC Supervisory Board

General

Supervision of and advice to the Management Board is according to Dutch law 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. Dutch law prohibits that members of the Management Board or employees of the Group become members of the Supervisory Board.

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

Composition of the Supervisory Board

The SMARTRAC Supervisory Board consists of three members: Prof. Dr. Bernd Fahrholz (Chairman), Wolfgang Huppenbauer and Jan C. Lobbezoo. In 2008, the composition of the Supervisory Board was unchanged. All of the members of the SMARTRAC Supervisory Board fulfill the requirements of independent members of the Supervisory Board as set out by the Dutch Corporate Governance Code under Best Practise Provisions III.2.2.

Activities of the Supervisory Board

The SMARTRAC Supervisory Board held ten meetings during the financial year 2008 which were also attended by members of the SMARTRAC Management Board and Group Executive Team. Five meetings were plenary sessions with the full Management Board present and, with one exception represented by proxy, attended by all members of the Supervisory Board, due to the global spread of its members occasionally via telephone. Five meetings were arranged via conference call with all members of the Supervisory Board dialing in, with one exception represented by proxy.

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

In 2008, the Supervisory Board again devoted considerable time to discussions on the company's strategy, in particular the broadening of the Group Executive Team and the acquisition of Sokymat Automotive GmbH. The Supervisory Board reviewed and discussed in-depth with the Board of Management the overall company strategy and strategic options, including objectives, associated risks and the company's financial position as well as the Business Unit structure of SMARTRAC effective as of January 1, 2009.

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

Prof. Dr. Bernd Fahrholz (61*)

Chairman of the Supervisory Board

Appointment effective with the date of the admission resolution by the FSE

Term of office ends in 2009

Re-election to be proposed to Annual General Meeting 2009

Lawyer, German Citizen, Home Domicile is Berlin, Germany

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

Wolfgang Huppenbauer (54*)

Member of the Supervisory Board

Appointment effective with the date of the admission resolution by the FSE

Term of office ends in 2009

Re-election to be proposed to Annual General Meeting 2009

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 (62*)

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)
- Board member of FEI Company, USA and of TMC Eindhoven, The Netherlands

* Age as of December 31, 2008

The Supervisory Board further reviewed the performance of the Management Board and the performance of its individual members with and also in absence of the members of the Management Board. The Supervisory Board also discussed its profile, composition and competence as well as its own functioning and that of its individual members.

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

Audit committee tasks

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

Remuneration committee tasks

The remuneration of the management was discussed by the Supervisory Board at its regular meetings. The remuneration policy of SMARTRAC is based upon the two pillars of a base salary and variable performance-based compensation which is closely linked to the achievement of individual and company objectives. Compensation of the Management Board consists of a fixed salary and variable components. Variable compensation includes one-time and annual payments linked to business performance, as well as long-term components containing risk elements, such as stock options (SMARTRAC Stock Option Scheme 2008) or other equity-based compensation (SMARTRAC Stock Plan). A detailed remuneration report can be found on pages 77 to 81 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 75 to 76 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 attractive and competitive compensation packages cannot be overestimated in this context.

Selection and appointment committee tasks

In 2008, the Supervisory Board made the proposal to the SMARTRAC Annual General Meeting of shareholders, which took place in Amsterdam on 25 April 2008, to appoint Stephen Juge as director and member B of the Management Board as from the date of the meeting for a term of office of two years. The appointment has been approved with 100 % of the casted votes. The Supervisory Board welcomes Stephen Juge as member of the Management Board.

The Supervisory Board has assessed the implementation of the Group Executive Team at the beginning of 2008. In the period under review, the Supervisory Board agreed and welcomed the decision of the Management Board to select Franz Vollmann and Christian Uhl as further members of the Group Executive Team.

Financial statements 2008

The general meeting of shareholders will be asked on 29 April 2009 to adopt the financial statements of SMARTRAC for the financial year 2008, as prepared by the Board of Management and examined and approved by the Supervisory Board in its meeting of 13 March 2009. The consolidated and the company financial statements on pages 84 to 157 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 158 and 159.

We recommend that the general meeting of shareholders adopt the 2008 financial statements as presented in this Annual Report. We likewise recommend to the shareholders that they discharge the members of the Board of Management and the members of the Supervisory Board.

The term of office of Prof. Dr. Bernd Fahrholz (Chairman of the Supervisory Board) and Wolfgang Huppenbauer (Member of the Supervisory Board) expire as of the close of the Annual General Meeting of shareholders of SMARTRAC to be held on 29 April 2009 in Amsterdam. Prof. Dr. Bernd Fahrholz (Chairman of the Supervisory Board) and Wolfgang Huppenbauer will stand for re-election.

The Supervisory Board thanks SMARTRAC's Management Board, Group Executive Team and all our employees for their dedication and hard work for the company in 2008. Equally we also would like to thank our partners and customers for their support and their commitment to SMARTRAC as well.

Amsterdam, 13 March 2009

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

The business address of the members of the SMARTRAC Supervisory Board is:

SMARTRAC N.V.
Strawinskylaan 851
1077 XX Amsterdam
The Netherlands

Company profile

SMARTRAC is a leading manufacturer and supplier of RFID transponders, dedicated to delivering high-quality, smart and secure products. Being one of only a few pure RFID players in the market, SMARTRAC is the global leader in high-quality RFID inlays for passports with integrated, contactless chips (ePassports) and contactless credit cards (ePayment). In the rapidly growing RFID sector, SMARTRAC also holds a leading position in the production of ready-made as well as customized transponders for public transport, access control, animal identification, industry and logistics.

What differentiates SMARTRAC from other market participants in the RFID industry is the company's strategic position in the value chain, its proprietary, patented technology and technological expertise over all applications and current frequency standards. SMARTRAC's highly dedicated and experienced workforce, global research & development, production and sales network and the single biggest production capacity in the industry are the pillars of the company's success.

Strategy

SMARTRAC's overall focus is to continuously advance and enhance its market position in key segments of the RFID industry. The company has grown both organically and through acquisitions and will pursue this path in the future as well.

Acquisitions so far have been driven by the strategy to unite major manufacturing technologies under one roof, thus being able to quickly adapt to newly developing segments of the RFID market while advancing the core business steadily.

Based on lean structures, yet nonetheless with a worldwide network and customer base, the company has the prerequisites to expand its business globally and satisfy customer needs directly on location.

“SMARTRAC – Transforming RFID”

Excellence, the passion to succeed and outstanding quality in technology, production and customer service are the cornerstones of SMARTRAC.

We transform electronic components into high performance RFID transponders that offer increased security, more reliability, faster transactions and greater convenience for the end customer. As a pacesetter in the global RFID industry, we transform the challenges our customers face into prime quality products and customized solutions.

Working closely with our clients, we transform customer relationships into long-lived partnerships. Our successful business relationship with suppliers and customers is based on partnership, reliability, expertise, competitiveness and technological leadership.

Ahead of trends and developments, we transform opportunities into business. Employing some of the most skilled experts in the RFID industry, we transform individual strengths into an all-embracing product offering centered on customer needs.

Technology leadership

SMARTRAC not only leads the market in terms of manufacturing capacity. With more than 200 patents and patent applications for technology, equipment and production of RFID components and related processes, the company is a technology leader and has been able to set standards in several fields. In 2008 more than 10 new patents have been filed worldwide.

The company unites three main antenna technologies under one roof: wire-embedding, etching and coil winding. SMARTRAC has many years of experience in wire-embedding technology and holds the key patents for this reliable and superior antenna technology. The wire-embedding technology is primarily used for RFID inlays for high-class applications that have to fulfill the highest standards regarding security, durability and mechanical robustness.

Etching technology offers the advantage of manufacturing several elaborate antenna structures during the same process. Etched antennas are used to produce RFID inlays for applications where a special antenna design is required, such as eTickets and also applications such as mass transport, airline luggage, labelling and more.

Coil winding is the technology of choice for the production of small glass transponders for applications such as animal identification and car immobilizers. Packaged into a rugged encapsulation, such transponders are also suited for use in harsh environments such as laundry, logistics and factory automation.

In addition to these three main antenna technologies, Sokymat Automotive GmbH has added another advanced technology, Direct Chip Antenna Connect, to the group's technological range. Direct Chip Antenna Connect has proven to be best suited for very small and tiny connections between chip and antenna, exactly what is needed in small transponders such as glass tube tags.

SMARTRAC also has extensive knowledge and experience in processing technologies such as lamination. After collating all of the different layers together including the assembly of all electronic parts, the whole package is fixed. Subsequently, the inlay is laminated, fusing the single layers together under pressure and high temperature in special lamination press machinery.

In January 2008, SMARTRAC agreed to acquire the remaining shares in Xytec Solutions Sdn. Bhd. Malaysia. This machinery manufacturer produces high quality and customized new machinery for the entire SMARTRAC TECHNOLOGY GROUP. The acquisition of Sokymat Automotive GmbH in September equipped the Group with further machinery building competence. Cost advantages and short delivery times are among the strategic advantages that result from these acquisitions and contribute to the overall success of SMARTRAC.

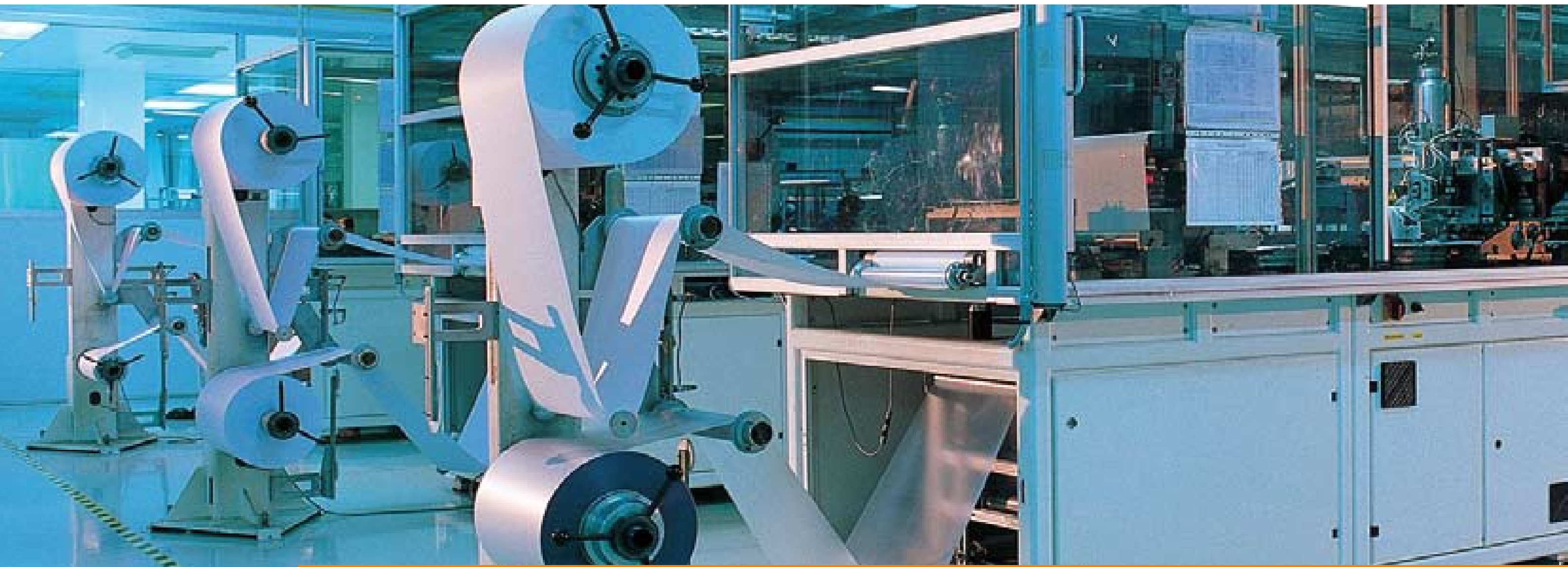
Patent protected wire-embedding technology

Research & Development

The ability of our research & development teams to create cutting-edge products and solutions and continuously enhance our strong product offering is an important competitive factor. The acquisition of Sokymat Automotive further strengthens the research & development capabilities. As of 31 December 2008 the Group employed some 80 highly skilled development experts. With research & development competence centers and prototyping facilities in Asia, Europe and the U.S. SMARTRAC has set the prerequisites to directly transform technically mature innovations into volume production on a global basis. The focus in 2008 was to broaden the range of transponders in order to prepare the entry into new application areas. As a further result of our research & development efforts, SMARTRAC was able to file about 10 new patent applications.

What also adds to the company's technological expertise and flexibility is its close collaboration with the most important RFID IC manufacturers. SMARTRAC is not only able to process chips from all renowned RFID IC manufacturers, the company is also able to consider the latest specifications in the product design even before new chip ICs are launched.

In 2008, SMARTRAC and Sony Corporation entered into an agreement by which SMARTRAC will be the first RFID inlay manufacturer using wire-embedding technology to support Sony's FeliCa contactless integrated circuit (IC) chip technology outside Japan with the new Sony chip RC-S962 available for the global market. The Sony FeliCa microchip platform combines processing, storage and communication functions and is used for various applications including access control, secure electronic payment transactions and membership or loyalty reward systems. In Japan and other international markets such as Hong Kong, FeliCa is the de facto standard for contactless payment, mass transit and access control. Combining SMARTRAC's durable and dependable RFID inlays with Sony's next generation, RC-S962 chips will offer customers flexible and reliable solutions.



Production of RFID components: SMARTRAC fulfills highest requirements regarding quality and security

Products

SMARTRAC offers a broad range of RFID transponders for various fields of application in all current frequency standards. The company delivers ready-made as well as customized RFID transponders. As a specialist for the production of integrated mini transponders, SMARTRAC so far has been focusing on the manufacturing and sales of so-called passive RFID components. Not holding a self-contained power supply, passive components obtain the energy for transmission of the data kept on the chip from the reader.

The background for this focusing on passive transponders was the fact that they can be built in small sizes and accordingly, can be integrated in any shape factor such as chip cards, passports, coins or animal implants no larger than a grain of rice without changing the original size of the object.

By contrast, active transponders in the past could only be built in large mounting forms due to their self-contained power supply. Comparable to the size of a mobile phone, it was not possible to integrate them invisibly in already existing shape factors and therefore, they were not suited for use in cards or coins.

Broadening the scope

As electronic components get increasingly smaller and thinner, this disadvantage of active transponders can be put into perspective. Hence, it is possible today to combine a self-contained power supply with the requirements of a compact construction method. For this reason, SMARTRAC for the first time was able to manufacture an RFID inlay equipped with a battery and a display in credit card size. First volumes of these inlays have been delivered in 2008 and have since been an inherent part of the new product line 'active cards'.

The current application for these active card inlays is One Time Password (OTP) cards that increase the security of ePayment processes significantly. As the generated password is only valid for one transaction, it helps prevent bank customers from data abuse - especially in situations where the card is not used physically for the payment process. In addition, customers benefit from greater user convenience as the card format is much more comfortable than the usual bulky security tokens.

Future application areas of the new active card inlay technology include multipurpose card applications, such as contactless cards, combining payment, customer loyalty and public transportation functionality on one card with a display. These multipurpose applications are already being evaluated in Asia for example.

Improving and enhancing a strong product portfolio

SMARTRAC is continuously improving and enhancing its product portfolio. Growth in the core business as well as in new market segments will be increased through a close cooperation with business partners, continued research & development efforts and, if reasonable, also through further acquisitions.

The company has extensive experience in the manufacturing of HF and LF products and has successfully expanded its product portfolio to UHF transponders. A new UHF Gen2 card inlay has been developed and was introduced to the market in 2008.

Security concerns of travelers have been decisive for the development of an ePassport cover that comes with Chip Activation Protection (CAP). The new SMARTRAC eCover with CAP feature allows personal information stored on the chip of an electronic passport to only be read from authorized parties as it prevents the antenna from transmitting any data for as long as the passport is closed.
In addition to these new products, SMARTRAC has enlarged its existing product portfolio with various

advancements. Besides an extremely thin card inlay with a thickness of only 300 micrometers, new versions of Durable Dual Interface (DDI) inlays have been added to the company's product range.

Award-winning product line strategy

Since the founding of the company in 2000, SMARTRAC has successfully expanded its product range, technological scope and research & development efforts in order to quickly respond to new trends and provide customers with appropriate products and time and again sets new standards in the RFID industry.

As a result of the ongoing efforts, SMARTRAC was awarded the 2008 Frost & Sullivan Asia Pacific Industrial Technologies Award for its Product Line Strategy in RFID Inlays for both the low and high frequency markets. This award is presented each year to the company that has demonstrated superior practices in its product line strategy within the RFID industry.

The 2008 Frost and Sullivan Asia Pacific Industrial Technologies Award for Product Line Strategy is already the second industry award rewarded to SMARTRAC by Frost and Sullivan. In 2007, SMARTRAC was honored with the Frost and Sullivan Vertical Market Penetration Leadership Award for Smart Cards ePassport Application (APAC).

Production on internationally aligned standards

Most of SMARTRAC's production facilities are already ISO 9001:2000 certified and the remaining will complete certification during 2009. In addition, the company's ePayment products attained MasterCard CQM certification and VISA Card certification. SMARTRAC's RFID inlays for ePassports, electronic driver's licenses, national identity cards and health cards are all compatible with the International Civil Aviation Organization.

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

RFID in public transportation: cost-savings and convenience

Markets and applications

SMARTRAC serves a global customer base in a steadily growing market. Key customers are card manufacturers, system integrators and security printing houses worldwide.

RFID applications have already been adopted in various fields of application and industries. Market penetration with the individual implementations, and thus growth potentials, vary however from segment to segment and region to region.

Higher security for personal identification

Growth in the eID sector is mainly fueled by international government decisions to raise security standards for personal identification documents. While electronic passports in the meantime have been introduced in numerous countries around the world, governments are now heading for the next challenge – the introduction of further contactless identification documents based on RFID.

Electronic National ID cards and driver's licences are the next coherent step on the way to switch from purely printed identification documents to a more secure and convenient identification including a secure microchip. While serving the existing demand for high-quality ePassport inlays on a consistent level and expanding supply to additional countries, SMARTRAC will be able to derive further growth in the eID segment from these newly introduced ID documents. Besides its manufacturing experience from ePassport inlays, the company's network of certified high security facilities in Asia, North America and Europe will also contribute to enhance SMARTRAC's market position in this highly attractive market segment.

Fast and convenient transactions with contactless payment

Contactless payment was one of the fastest growing applications in the RFID market in 2008. Although market experts forecasted this segment to achieve broad market penetration much earlier, electronic payment has now reached a level that goes beyond a testing stage in the U.S. and Asia.

In European and Latin American markets successful pilot projects have just been launched. The main drivers for the introduction of contactless payment are the profitable small transaction business as well as user convenience with credit card companies and banks standing at the forefront of this development.

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

Increased efficiency for public transportation

The manufacturing of contactless card inlays for public transportation and access control is the business SMARTRAC started with back in 2001. Contactless RFID-cards for large metro systems and other traffic systems offer numerous benefits compared to conventional contact-based tickets. As the ticket validation is carried out without direct contact to a reader, public transportation organizations are able to realize cost-savings through reduced maintenance efforts for mechanically heavily stressed equipment in conventional, contact-based mass transportation systems. Furthermore, the ticket validation process is much quicker than manual stamping thus reducing waiting queues and offering a convenient entry process for passengers.

Public transportation is a highly attractive market segment with several millions of passengers per day that need to be equipped with reliable and convenient access solutions. SMARTRAC has been producing contactless card inlays for various metro systems such as the Metro System in Cairo, Egypt.

The adoption of contactless entry systems in public transportation is growing not only for high-quality access cards. Public carriers increasingly seek to improve their systems with comprehensive solutions that cover the entire range of tickets used. Therefore, SMARTRAC has started to build a factory in Kulim, Malaysia that is suited to satisfy the growing demand for contactless daily tickets as well. Compared to plastic ISO cards, which are produced with the company’s proprietary wire-embedding technology, paper ticket inlays are manufactured based on etching technology as the requirements in terms of life-time and durability are different.

Enhanced security for car drivers

The acquisition of Sokymat Automotive GmbH in September 2008 has provided SMARTRAC with a foothold in the market for RFID components for the automotive industry where Sokymat Automotive GmbH holds a strong market position, particularly in the field of car immobilizers and entry systems.

Car manufacturers are obliged to provide every new car with a car immobilizer due to requirements by insurance companies since the mid-nineties. Whether integrated in immobilizers, remote controls or in passive keyless car systems, the company’s products are used in many applications throughout the world and by various leading car manufacturers in Europe, Asia and the Americas.

As a member of the SMARTRAC TECHNOLOGY GROUP, Sokymat Automotive GmbH is able to benefit from the group's global manufacturing and sales presence. In turn, the depth of experience of Sokymat Automotive GmbH in low frequency RFID transponder production including its own machinery building capabilities and proprietary know-how contributes to strengthening the group's overall technology base. Consequently, SMARTRAC will be able to generate additional growth in the newly created Industry & Logistics business unit despite a challenging market environment in the automotive industry.

Greater reliability for the food chain

Food scandals and the fast spread of animal diseases across country borders have instigated governments around the globe to pass several regulations for animal identification to ensure a traceable food supply and compliance with certain public health requirements with regard to human consumption.

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

SMARTRAC offers RFID earmarks as well as glass tags for injection. Accordingly, the company is able to serve both the livestock and the pet markets. When the regulations become effective in the respective regions, SMARTRAC is confident it can extend its market share steadily.

Increased efficiency for industry and logistics

Despite a special focus on the automotive industry, Sokykmat Automotive GmbH has continuously developed new products for other market segments as well. Currently, the company offers a wide range of products in various applications, including RFID transponders for the industrial, logistics, bio and science businesses.

Combining these solutions with SMARTRAC's established product portfolio in these market segment, enables the group as a whole to work very efficiently, to optimize utilisation of resources and to serve customer demands even more effectively.

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

SMARTRAC offers transponders for the industry and logistics sector that are suited for use in harsh environments as well as for highly sensitive areas such as the medical sector. Being able to offer customized solutions as well as standard products, SMARTRAC will be able to further expand its market share as the adoption of RFID technology in this market segment gains momentum.

Well positioned for the entry into new marketes

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

Global network

With a total of ten factories on four continents and some 2,800 employees by the end of 2008, the group is able to competitively address global projects by providing the best service and solution to its customers. SMARTRAC maintains production facilities in Brazil, Germany, Malaysia, Thailand and the USA.

Prearrangements for market entry in China

In July, SMARTRAC signed a contract with respect to the formation of RFTAG Holding based in Hong Kong, China. According to this contract, SMARTRAC will acquire 30 percent of the shares in RFTAG Holding and have an option to take over the remaining shares. Both companies will work together in order to produce RFID inlays for the local Chinese market under the local subsidiary RFTAG based in Shenzhen, China.

China has seen strong growth during the last years. A growing population and rapid industrialization create the need for efficient public transportation systems. Entering into a joint venture will help SMARTRAC gain access to this highly attractive market, as a local presence and strong relationships are key success factors for business in China.

Third production site in Germany

The SMARTRAC TECHNOLOGY GROUP already maintained two production facilities in Germany. In addition, the Group's corporate service center is located in Stuttgart as Europe is the ideal location for group-wide communication across different time zones. In September 2008, SMARTRAC added another German-based production location to its global network with the acquisition of Sokymat Automotive GmbH from Swiss Swatch Group Ltd.

Sokymat Automotive's company history dates back to the early nineteen sixties. Founded in 1963 in Granges, Switzerland, Sokymat initially produced coils and micro coils for the Swiss watch and clock making industry. The first fully automated transponder production machine was developed in 1988.

The German Sokymat Automotive GmbH that was the subject of the acquisition was founded in 1995. Its headquarters and only production facility are located 40 km to the east of Cologne. The company elaborated the production method for coils in the early nineties by using the newly invented 'direct bonding' technology. The first fully automated production line for car immobilizers using the direct bonding technology was brought into operation in 1997. In 2003, Sokymat GmbH was acquired by the Swiss Swatch Group and its name was changed to Sokymat Automotive GmbH.

Joint venture based in Hong Kong to establish business in China

Quality and reliability are top concerns

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

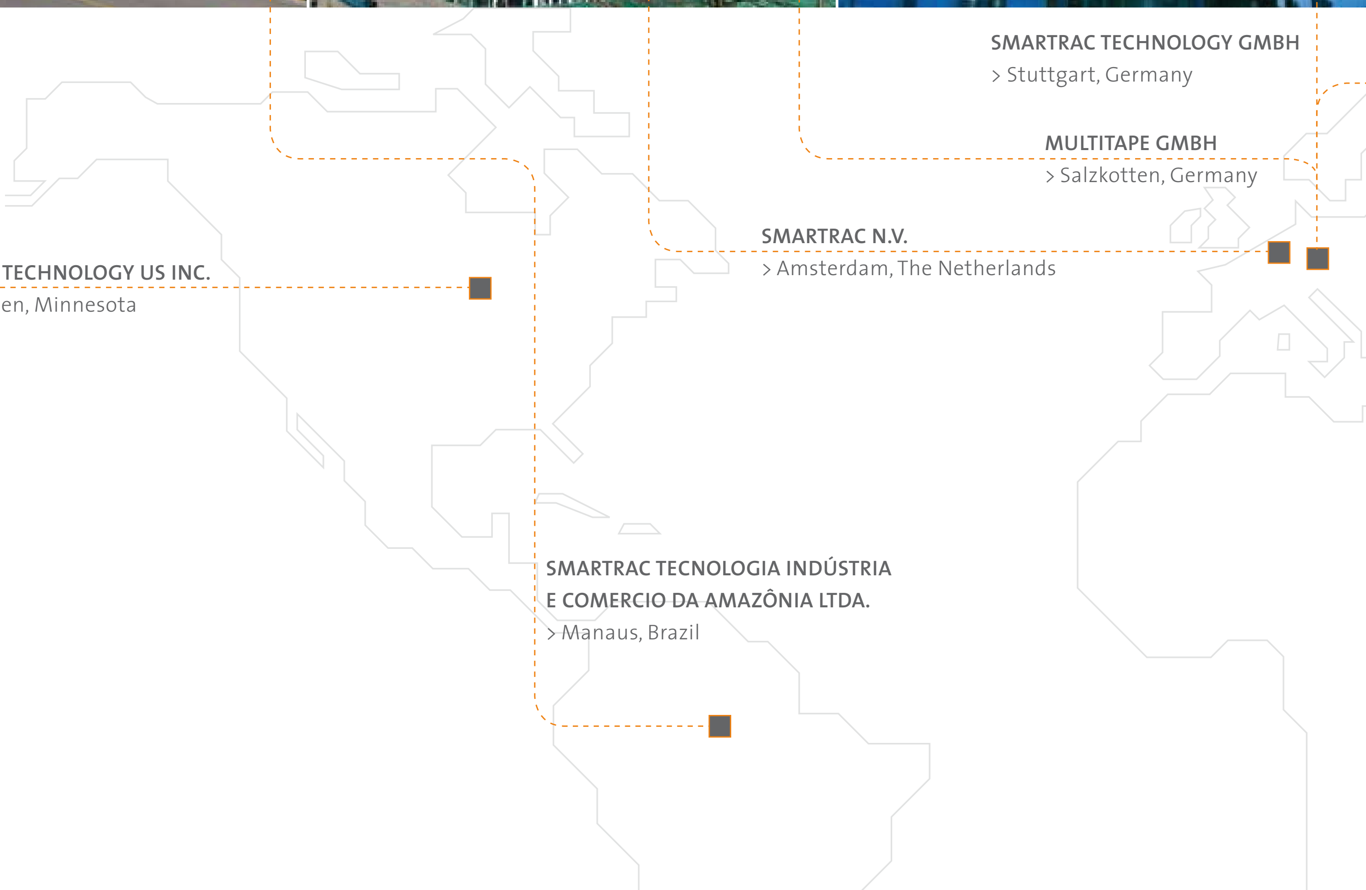
Based on this clear strategic focus, technology leadership and a lean, market-oriented organizational structure, SMARTRAC has developed from being a RFID inlay manufacturer into a leading global supplier of RFID transponders with a comprehensive and attractive product offering that suits all applications in the current RFID market.

The company's global structure perfectly satisfies customer demands and makes the TecDax company also an attractive workplace for highly skilled and motivated employees.

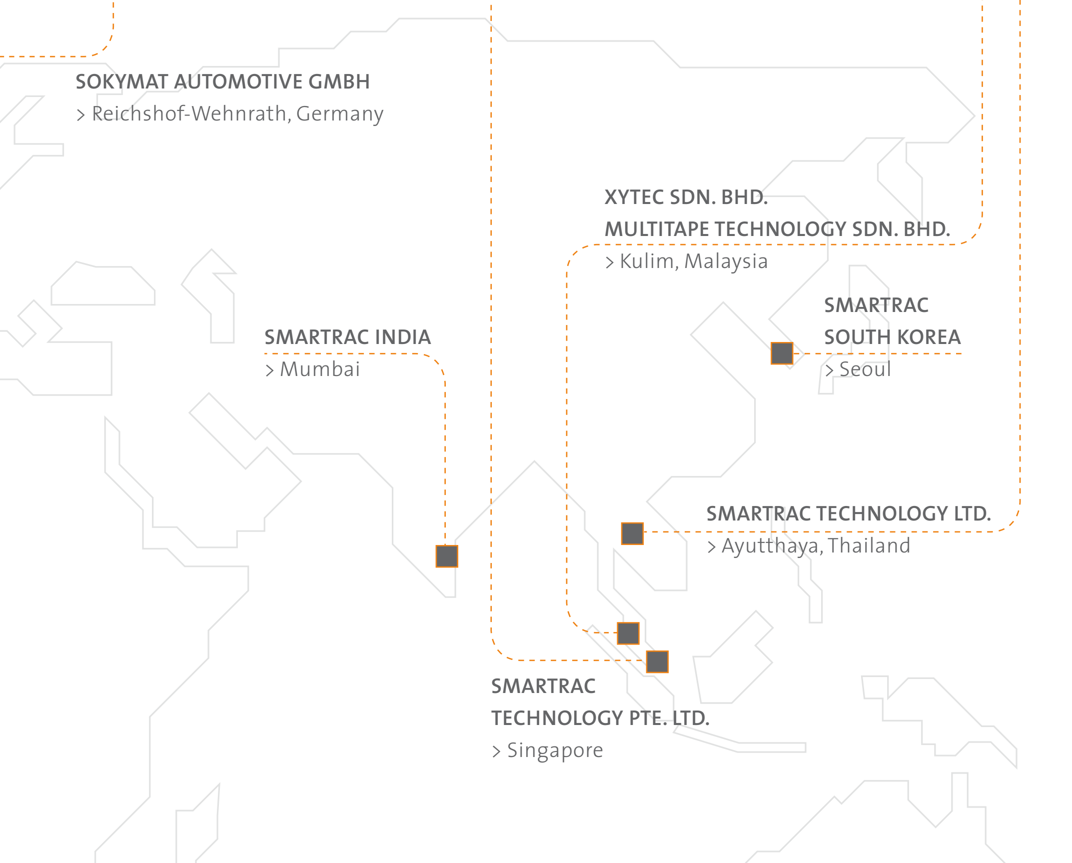
Employees

The total number of employees of the SMARTRAC TECHNOLOGY GROUP was 2,786 at the end of 2008 with around 20 nationalities worldwide compared to 2,625 at the end of 2007. The increase of 6 percent is mainly attributable to the expansion of the production capacity. Approximately 83 percent (including subcontracted employees) were employed in the global production facilities, but predominantly in the five factories in Ayutthaya, Thailand. Accordingly 86 percent of our employees work in Asia, 8 percent in America (North/South) and 6 percent in Europe. The strongest age group is represented by employees between 21 and 35 years of age. From a gender perspective SMARTRAC is proud to employ almost as many men as women.

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



2000	2001/2002	2004	2005	2006
Foundation of SMARTRAC Technology Ltd.	Mass production of RFID inlays began in Thailand. New factory opened in Ayutthaya, Thailand.	Start of proprietary chip module production. Official opening of 2nd production facility in Thailand.	Acquisition of ePassport activities of multitape GmbH. Founding of Xytec Solutions. Official opening of 3rd production facility in Thailand.	Official opening of SMARTRAC European sales office. SMARTRAC becomes the world's largest supplier of RFID inlays for electronic passports. Initial public offering (IPO), SMARTRAC shares first listed on the Frankfurt Stock Exchange.



2007

Official opening of 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.

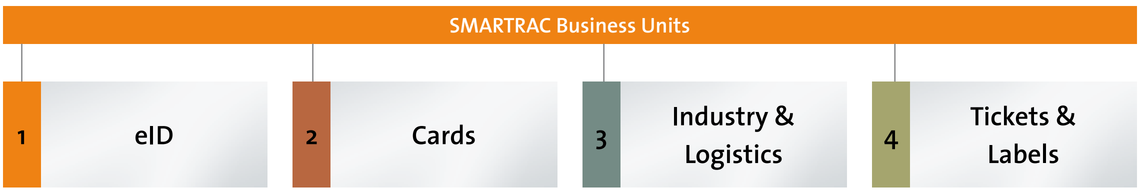
2008

SMARTRAC N.V. takes full ownership of Xytec Solutions Sdn. Bhd. Malaysia.
SMARTRAC N.V. agrees on joint venture to acquire 30 percent of RFTAG Holding Hong Kong to enter Chinese market.
SMARTRAC acquires Sokymat Automotive GmbH.

New organizational structure

To retain the strategic advantage of a lean and efficient organization and as a result of the ongoing growth of SMARTRAC and also the purchase of new companies such as Sokymat Automotive GmbH, SMARTRAC has reorganized its business from a functional organization to a Business Unit structure.

Effective 1 January 2009, SMARTRAC's business is structured into the four Business Units: eID, Cards, Industry & Logistics and Tickets & Labels.



Glass tube production

The **Business Unit eID** covers products for personal electronic identification in governmental use such as ePassports, National eID cards, electronic driver's licenses and electronic Visa.

The **Business Unit Cards** comprises card inlays for transport, access, ePayment and active card applications and caters to card manufactures.

Sokymat Automotive GmbH which is part of the SMARTRAC TECHNOLOGY Group since September 2008 is the platform on which the new **Business Unit Industry & Logistics** will be accelerated. It covers RFID tags for fields of application such as automotive, animal identification, logistics, industrial, laundry and medical.

The **Business Unit Tickets & Labels** covers RFID inlays that cater to tickets and label converters and includes fields of application such as library, ticketing and airline luggage.

The Business Units are led by a dedicated management team consisting of the Head of the Business Unit, a Head of Operations, a Head of Sales and a Head of Administration. In addition, the Business Units have full responsibility for the results they generate, the strategy for further market development within their market segments and the utilization of capacity at the respective factories that are assigned to the single Business Unit.

Changing the structure into a Business Unit organization is an important step for SMARTRAC's future development. The new structure will enable the company to optimize utilization of resources and to work even more efficiently. In addition, it provides SMARTRAC with a strategic platform to open up new markets in key segments of the RFID industry. For the existing customer base, the new structure means an even stronger focus on their respective requirements and needs.

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

The share

Share price development

In the period under review, the crisis in the financial markets has resulted in a global recession that has clearly affected the international equity markets. The key share indices worldwide decreased significantly.

The German stock market index DAX finished 2008 with a decrease of nearly 40 % at 4,810 points (XETRA closing rate). The DAX started 2008 with 7,949 points already representing its year-high. The DAX recorded its year-low on 21 November 2007 at 4,127 points and a decrease of 48 % compared with the start of the year.

The German technology index TecDAX closed 2008 with a decrease of 48 % at 508 points (XETRA closing rate). The TecDAX started 2008 with its year-high at 971 points. The TecDAX recorded its year-low on 20 November 2007 at 432 points and a decrease of 56 % compared with the start of the year.

The development of the SMARTRAC share price was affected disproportionately in this adverse market environment, accelerated in the context of a weaker than expected second quarter. The SMARTRAC share started 2008 at euro 36.40. On February 28, 2008, the share price reached its year-high at euro 38.01, followed by a period of steady decline, reaching its year-low on October 21, 2008 with a share price of euro 8.57. The year-end share price of euro 11.75 represents a decrease of 68 percent in 2008. The DAX and TecDAX indices lost 40 percent and 48 percent, respectively, between January and the end of December 2008.

Earnings per share for the financial year are euro 1.03 and cash-flow per share amounts to euro 1.46.

Key ratios of the SMARTRAC N.V. share	2008	2007	2006
Basic earnings per share in euro	1.03	1.55	0.79
Operating cash flow per share in euro	1.46	1.25	0.53
Share price at year-end in euro (XETRA)	11.75	37.30	21.29
High in euro (XETRA)	38.01	44.00	21.29
Low in euro (XETRA)	8.57	19.41	15.75
Number of shares issued	13,500,000	13,500,000	13,500,000
Market capitalization in euro million*	157	504	287

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

Dividend policy and dividend proposal

As a general strategic decision, the management of SMARTRAC intends to retain its earnings to finance the further growth and development of its business. No dividend was paid for the financial year 2007. This decision had been approved by the SMARTRAC 2008 Annual Meeting of Shareholders which was held on 25 April 2008 in Amsterdam. The Management Board intends to continue the dividend policy of adding profits to the profit reserve of the company for the financial year 2008.

Shareholder structure and liquidity

The development of SMARTRAC's shareholder structure in 2008 was mainly characterized by a change in the holding controlled by Manfred Rietzler, founder and CTO of SMARTRAC. In the course of off-market share transactions during March 2008, the equity interest controlled directly and indirectly by Manfred Rietzler decreased to 10.95 percent from 23.15 percent at the beginning of 2008.
On 7 March 2008, Manfred Rietzler placed 1,610,000 SMARTRAC shares of which Wolfgang Schneider, Member of the Group Executive Team purchased 220,000 shares. In June, November and December 2008 Manfred Rietzler purchased in various share transactions directly and indirectly 902,000 shares, increasing his stake in SMARTRAC to 17.63 percent and at year-end, he remained the biggest shareholder of SMARTRAC. The free float according to the definition of Deutsche Börse amounted to 82.37 percent.

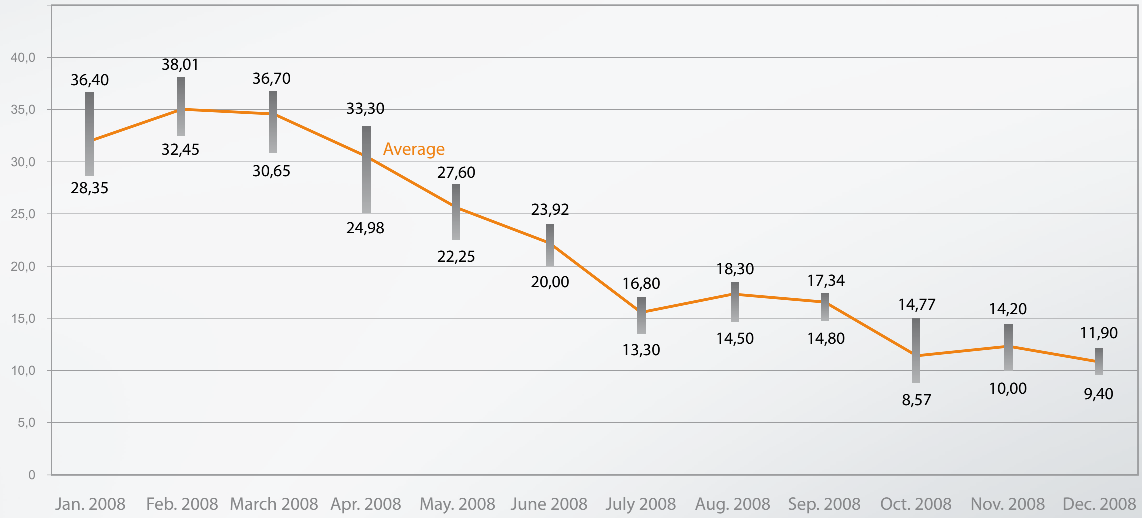
Index share price performance 2008 (SMARTRAC, DAX, TecDAX)

Within the free float Wolfgang Schneider, Member of the Group Executive Team of SMARTRAC, controls a stake of 3.70 percent. In January, March and July of 2008, Wolfgang Schneider purchased in total 275,000 SMARTRAC shares at a price between euro 17.00 and 36.00 per share. In November of 2008, CEO Dr. Christian Fischer and Group CFO Christian Uhl purchased 60,000 shares and 26,000 shares respectively at euro 13.065. At year-end 2008 the position of the Group Executive Team in the company amounted to 22.65 percent, providing congruency between the interest of shareholders and senior management.

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. They can also be obtained from the company's website.

At the reporting date, investments of Fortis OBAM at 8.89 percent and Schroders Investment Management at 5.13 percent exceeded the thresholds subject to reporting requirements. Subsequent to record date, Fortis Investment Management N.V. informed the company in January 2009 that its interest in SMARTRAC exceeded the threshold of 10 percent and amounted to 10.51 percent including the former Fortis OBAM position.

The free float according to the definition of Deutsche Börse of over 80 percent has a positive impact on the tradability of the SMARTRAC share. The daily trading volume on the XETRA trading platform in 2008 averaged more than 50,000 shares. In July, SMARTRAC's shares saw the highest level of activity in the company's stock exchange history. During this month, an average of around 105,000 shares were traded per day.



High, low and average price (Xetra), January 1 to December 31, 2008 in euro

SMARTRAC included in TecDAX

The Working Committee for Equity Indices decided on 3 December 2008 on the inclusion of SMARTRAC in the TecDAX of Deutsche Börse. SMARTRAC became a member of the TecDAX as of 22 December 2008.

SMARTRAC values its inclusion in the TecDAX as an appreciation of its development to date and as an inducement to enhance continuously its business. With SMARTRAC, RFID technology is represented in the TecDAX for the first time.

Established on 24 March 2003, the TecDAX of Deutsche Börse comprises stocks of different technology sectors. The TecDAX tracks the 30 largest and most liquid issues from the various technology sectors of the Prime Standard Segment beneath the DAX.

Share buyback program and treasury stock

The SMARTRAC Annual General Meeting on 22 June 2007, authorized the Management Board to repurchase and acquire up to a maximum of 10 percent of the company's issued share capital. The Management Board made use of this authorization in the reporting period.

On 4 February 2008, the Management Board of SMARTRAC decided to start a share buyback program and buy back shares in the company up to a maximum value of euro 7,500,000. SMARTRAC authorized a bank to conduct the share buyback. The buyback of shares was conducted via the stock exchange. The share buyback was completed by 8 April 2008.

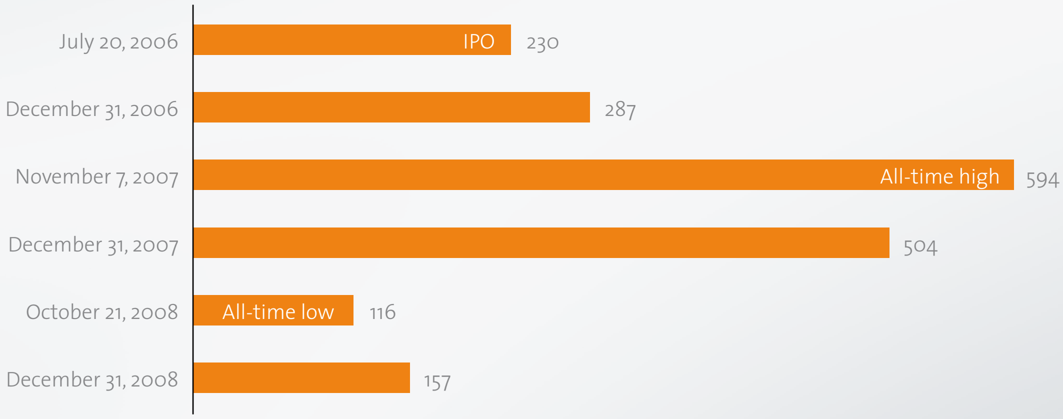
Share price (indexed, July 20, 2006 = 100) – SMARTRAC, DAX, TecDAX

In the course of the share buyback, an overall number of 220,170 shares have been bought back at an average price of euro 34.06 per share for a total value of euro 7,499,762 (excluding transaction costs). The SMARTRAC Management Board intends to utilise the shares from the buyback for acquisitions and the company's employee share and stock option programs.

The share buyback takes place in accordance with Commission Regulation (EC) No. 2273/2003 dated 22 December 2003, implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buyback programs and stabilization of financial instruments. SMARTRAC has regularly published information about the progress of the share buyback on the company's website at www.smartrac-group.com in the Investor Relations section.

At SMARTRAC's Annual General Meeting on 25 April 2008, the authorization of the Management Board was renewed to repurchase and acquire up to a maximum of 10 percent of the company's issued share capital. The authorization is for a period of 18 months following 25 April 2008.

On 31 December 2008, SMARTRAC N.V. holds 301,576 treasury shares at an average purchase price of euro 30.14.



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

Information policy

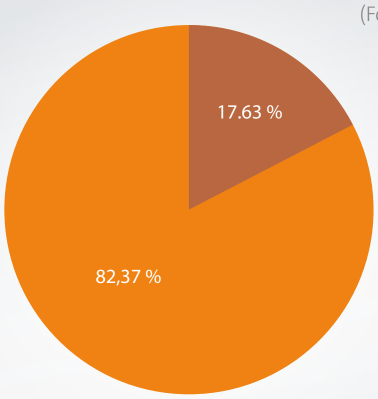
In accordance with the regulatory framework for publicly listed companies, SMARTRAC is committed to informing all stakeholders of the company as comprehensively and timely as possible, thereby facilitating transparency of the company's overall development, strategy and prospects.

The operative development, strategic milestones and the perception of the business case in general were the focus of intensive communication with the capital market. Here, SMARTRAC strove towards continuous exchange of information with analysts and investors, both within The Netherlands, Germany and abroad. The management explained the business model, the financial results and the company's strategy at roadshows in the finance centers of Europe and North America. There were also quarterly telephone conferences and an increasing number of one-on-one meetings at SMARTRAC offices.

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.

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

The company succeeded at broadening its investor base. Expanded roadshow activities and an increased number of investment conferences attracted new institutional investors, especially in the U.S. Substantial holdings can be allocated to institutional investors in the major finance centers in Europe and the U.S.



Manfred Rietzler
(Founder, CTO)

Freefloat*

thereof:

Wolfgang Schneider	3.70 %
Fortis OBAM N.V.	8.89 %
Schroders Plc.	5.13 %

* according to the definition of Deutsche Börse

Shareholder structure as of 31 December 2008

Analysts assess SMARTRAC N.V. positively

In 2008, the SMARTRAC share was covered by four sell-side analysts. The analysts regularly comment on the financial figures and the business model of SMARTRAC. The company values the financial analysts' function as central multipliers to increase investors' understanding of the business model, its drivers and its profitability. SMARTRAC intends to increase the number of brokers that follow the company in order to ensure a comprehensive spectrum of opinion.

As of the reporting date of 31 December 2008, the analysts agreed in their valuations: All four banks recommended a Buy for the SMARTRAC N.V. share. The analysts saw the upside target for the SMARTRAC security at the end of the year as being between euro 12.00 and euro 24.00. On its Investor Relations Internet page, under 'Research reports', SMARTRAC presents a constantly updated overview of the banks and their current recommendations.

Broker	Rating	Target Price
Berenberg Bank	Buy	euro 17
Deutsche Bank	Buy	euro 19
Sal. Oppenheim	Buy	euro 24
UBS	Buy	euro 12

Recommendation as of 31 December 2008

RFID inlays with etched antennas

Financial Calendar 2009

17 March 2009	Publication of 2008 Annual report Analysts' Conference Call
29 April 2009	SMARTRAC Annual General Meeting, Amsterdam
12 May 2009	Publication of Q1 Interim Report (January to March 2009) Analysts' Conference Call
30 July 2009	Publication of Q2 Interim Report (April to June 2009) Analysts' Conference Call
5 November 2009	Publication of Q3 Interim Report (July to September 2009) Analysts' Conference Call

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

Investor Relations contact:

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

Group Executive Team

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

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

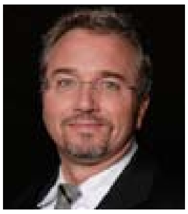
The Group Executive Team follows the main rationel of preparing and implementing strategic decisions, supporting decision making processes of the SMARTRAC Management Board as well as contributing to coordination and allocation of company resources.

The Members of the Management Board and Group Executive Team

DR. CHRISTIAN FISCHER

Chairman of the Management Board

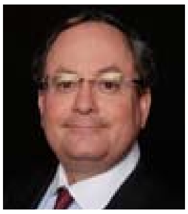
Chief Executive Officer (CEO)



MANFRED RIETZLER

Member of the Management Board

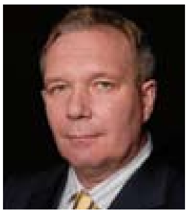
Chief Technical Officer (CTO)



STEPHEN JUGE

Member of the Management Board

Chief Legal Counsel



WOLFGANG SCHNEIDER

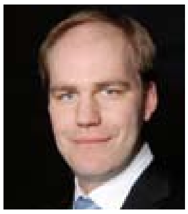
Member of the Group Executive Team

Head of Business Unit Cards

FRANZ VOLLMANN

Member of the Group Executive Team

Group Chief Operating Officer (COO)



CHRISTIAN UHL

Member of the Group Executive Team

Group Chief Financial Officer (CFO)

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

Dr. Christian Fischer (40), Chairman of the Management Board, Chief Executive Officer (CEO)

Interview with Dr. Christian Fischer

Dr. Fischer, SMARTRAC is a pure and dedicated RFID company. What is the idea behind 'SMARTRAC – Transforming RFID'?

Our business model is focused on developing and manufacturing RFID transponders. We transform electronic components into high performance RFID transponders and inlays with our patent protected wire-embedding technology and other established technologies with expertise over all current frequencies.

SMARTRAC is a major player and pacemaker in the global RFID industry with strategic position in the value chain. Our dedicated and experienced team transforms challenges into high quality products and customized solutions.

We are well positioned to address our customers' needs and thereby transform customer relationships into long-lasting partnerships. We provide resources in research & development centers and prototyping in Asia, Europe and the U.S. and work closely with our customers via our global sales network. The advanced production technology and the largest production capacity in the industry give us the flexibility to drive and respond quickly to market developments, thereby transforming RFID opportunities into business.

The Management team is convinced that our business model and the positioning of the company in the value chain is the right platform to leverage the full potential and so assist our growth strategy in the future. Transforming business into growth.

Is SMARTRAC's growth strategy based on organic growth or are you growing via acquisition?

The RFID market is a growth market. We expect the market to grow on average between 15 percent and 25 percent per year. But our strategy is a two-pronged strategy. With our leading market position, our ability to develop and introduce new product lines as well as our global production capacity, we will benefit from the growth in the worldwide market for RFID components. In addition, we consider acquisitions in order to broaden our technology base and product portfolio where appropriate.

SMARTRAC acquired Sokymat Automotive GmbH in September 2008? The right decision to enter the automotive sector?

From our perspective the acquisition of Sokymat Automotive GmbH was the strategic decision for the further development of SMARTRAC.

Automotive is only one side of the coin, where we believe – despite the current challenging environment – Sokymat Automotive GmbH is well positioned and provides a reliable, profitable business. The products of Sokymat Automotive GmbH will contribute to a balanced SMARTRAC business portfolio.

Both companies are highly complementary with regard to their products, technologies, market segments and positioning in the value chain and with our customers. The acquisition further strengthens SMARTRAC's market position and will lead to additional market shares on a global scale.

The acquisition of Sokymat Automotive GmbH will broaden SMARTRAC's existing product portfolio and strengthen the company's market position especially in the industrial, logistics and animal ID applications. We established a joint platform to develop the combined business activities. Sokymat Automotive GmbH is the main entity in our newly established Business Unit Industry & Logistics. The Business Unit Industry & Logistics is one Business Unit out of four introduced beginning of 2009.

Why did SMARTRAC implement a Business Unit structure effective January 1, 2009?

With the broadening of the product portfolio and the expansion of our global production facilities, the functional organization was no longer suitable. The newly established Business Unit organization allows us to address the needs of customers, product line specific aspects and market segments in a more efficient way to the benefit of our customers.

The new structure allows the SMARTRAC Management Team to establish a Business Unit management, which is given full responsibility for the entire process, the financials and the strategic development of the Business Unit.

SMARTRAC was included in the German TecDAX in December. What does this mean for SMARTRAC?

We view the inclusion in the TecDAX as an appreciation of our development to date and as an inducement to continuously enhance our business. With SMARTRAC, for the first time RFID technology is represented in the TecDAX of Deutsche Börse.

We saw an increase in the visibility for SMARTRAC in the financial community and the media and we do hope to broaden our coverage in order to increase the available opinions on our business model and its profitability.

SMARTRAC is a profitable company. At what point in time can investors expect to receive a dividend?

SMARTRAC is a profitable company and SMARTRAC has obvious growth perspectives. At this point in time our dividend policy is clearly driven by the growth opportunities. We continue to invest our earnings in the expansion and the development of SMARTRAC to maintain and expand our leading position in the global RFID industry. We might consider dividend payments in the future.

What are the expectations for the business year 2009?

Without a doubt, we are facing a challenging economic environment. But, SMARTRAC is well positioned as the leading player in the worldwide RFID industry to participate in the expected RFID market growth. Our broad product portfolio is suitable to balance different developments in the four Business Units and even within one single Business Unit. For example, the growth perspectives in animal ID, industry and logistic applications are expected to compensate to some extent the anticipated decline in the automotive business.

We have to be realistic: SMARTRAC is confronted with a challenging global market environment, in particular in the first half of 2009. But we are convinced that SMARTRAC will surmount this exceptional situation. Our focused strategy, strong financial base and market position are key assets to getting through such a difficult environment successfully. Decisively committed to our dedicated RFID business model, SMARTRAC will continue to be a profitable and cash generating company with apparent growth opportunities. Based on our market leadership and our diversified product and technology portfolio, we are confident to grow our business organically in the course of 2009. Therewith, SMARTRAC might be one of only few companies heading for growth in the current fiscal year.

What was your personal highlight of SMARTRAC in 2008?

In an exciting, challenging and, in the end, good year for SMARTRAC my personal highlights were the successful acquisition and integration of Sokymat Automotive GmbH and the adoption in the German TecDAX. Both events were strategic milestones in the development of our company.

Effective on 1 July 2007, Manfred Rietzler took over the newly created position as Chief Technical Officer (CTO) of SMARTRAC. Manfred Rietzler joined SMARTRAC Technology Limited (Thailand) as a major shareholder in 2001 and was Chief Executive Officer from 2003 until June 2007. Since January 2006, Manfred Rietzler has been a member of the Management Board of the company. He holds a degree in electrical engineering from the Technical University of Munich and has specialized in electrical engineering and automated production technologies. He is an expert in RFID technology, semiconductor packaging, SmartCard technologies and transponder applications. Manfred Rietzler is married with two children. Manfred Rietzler holds an interest of 17.63 percent in SMARTRAC.

Manfred Rietzler (47), Member of the Management Board, Chief Technical Officer (CTO)

Interview with Manfred Rietzler

Manfred Rietzler, wire-embedding is a core technology in the RFID industry. What is the competitive advantage of the technology?

The competitive advantage is the durability, reliability and mechanical robustness of our proprietary wire-embedding technology. With wire embedding, a copper antenna is embedded into a substrate using ultrasonic energy and then connected to a microchip. With this production process SMARTRAC has set standards worldwide, mainly for RFID inlays which have to fulfill the highest standards in terms of security and quality especially for secure applications. Wire embedding is therefore primarily suited for applications such as ePassports and ePayment. SMARTRAC applies the wire-embedding technology also to RFID applications in public transport, in access control and logistics.

We have great depth of experience in wire-embedding technology and hold the key patents for this reliable and superior antenna technology.

SMARTRAC unites the leading technologies under one roof. What are the other technologies used by SMARTRAC?

We have consistently expanded our technology base in order to strengthen our technological leadership. Besides the wire embedding technology, which is mainly used for high frequency (HF), we have in-house the coil winding technology for all low frequency applications (LF) and lately we installed the etching technology to cover ultra high frequency (UHF) and a wide range of consumer RFID applications.

Etching technology offers the advantage of manufacturing RFID antennas in a endless roll-to-roll process. The roll-to-roll process in RFID is mainly used for applications where the volumes are high but the security and lifetime requirements are much lower than in pure smart card applications. This includes applications such as RFID labels for items or single ride tickets.

Coil winding is the technology of choice for the production of small glass transponders for applications such as animal identification and car immobilizers. Packaged into a rugged encapsulation, coils are also suited for use in harsh environments such as laundry, logistics and factory automation.

What is the next trend in the RFID industry?

The penetration of RFID will increase and we will see a broadening of the adoption in already existing areas as well as the development of new fields of application.

One example is the development of active cards. SMARTRAC for the first time was able to manufacture an RFID card inlay equipped with a battery and a display in credit card size. The current application area for these active card inlays is One Time Password (OTP) cards that increase the security of ePayment processes significantly. Future applications of the new active card inlay technology are, for example, multipurpose card applications such as contactless cards combining payment, customer loyalty and public transportation functionality on one card. These multipurpose applications are already being evaluated. They will help to lift the security level on electronic transactions up to the next higher level, which is critical given today's level of internet usage for monetary transactions.

Another development we see and already address is the combination of different frequencies in one transponder. Here we see signs that UHF transponders will be used in the future. UHF transponders offer more read distance than HF transponders, which makes them more suitable for all object tracking applications, where the distance between reader and transponders should bridge a couple of meters.

However we do not see a tendency that UHF will replace HF. The mechanism is rather that UHF enables new applications where long distance is required, such as item tracking through complete supply chain. In all secure applications, we still see the high frequency technology (HF at ISO14443) as THE standard of choice to provide the best security for all confidential data. This means that in the future all three frequencies will coexist and will be used according to the best fit for the application:

LF	Used for Animal ID and Industrial Applications
HF	Used for Secure Applications, Smart Card Applications and Industrial where a short distance between Reader and Tag (typically app. 10 cm) is required
UHF	Used for all Tracking Applications where a long distance (several meters) is required.

What is the focus of research and development activities?

True to the motto 'SMARTRAC – transforming RFID', our research & development experts always focus on the customers' needs when transforming trends and opportunities into business. With great success. The focus in 2008 was to widen the range of our transponders to prepare the entry into new applications. More specifically, this involved a new product group of 'hard-shell-tags' for industrial applications, the new generation of ePassport inlays, and the development of the basic technology for our ticket and label products. Besides this, the ground work for our entry into the UHF technology was completed. As a result of these efforts, we were able to file about ten new patent applications in 2008 .

We develop prime quality products and customized solutions to solve efficiently the requests our customers make of us. We can provide this service on a global basis with our research & development centers and prototyping facilities in Asia, Europe and the United States.

In 2008, your shareholding in SMARTRAC changed. You sold shares in March 2008 and purchased shares at the end of 2008. What was the reason behind the transactions?

We have to look at the two transactions separately as the financial markets changed significantly in the course of the year 2008. In March 2008 the capital markets were still in good shape. It was obvious an increase of the free float would improve the liquidity of the share and the awareness of SMARTRAC as a listed company. With our adoption into the TecDAX later in the year the strategy proved to be right, even though equity markets and the SMARTRAC share suffered in the changing environment. This leads to the other side of the story. Within the financial turmoil, the valuation of the SMARTRAC shares declined significantly. Members of the Group Executive Team and myself decided to increase our stake in SMARTRAC to document our long-term commitment and strengthen the management position within the shareholder structure. My stake added to 17.6 percent and together with my colleagues, the Group Executive Team controls over 22 % of SMARTRAC.

What is your strategic approach with your stake in SMARTRAC?

SMARTRAC represents a significant proportion within my personal asset allocation. For me SMARTRAC is a long-term investment and I am convinced that the company is positioned in a way to generate the returns investors do expect.

The congruency of the interests of Management and shareholders provides security and flexibility and improves the ability to strategically develop the company.

At the end of the day, we all have an interest to change the valuation of SMARTRAC.

What was your personal highlight of SMARTRAC in 2008?

My personal highlight of SMARTRAC was not only a single event, it was rather to see the continous growth of SMARTRAC into new areas of RFID. This relates to territorial growth as well as the growth in new areas. This growth happened within the core business of SMARTRAC, which is the volume manufacturing of RFID data carriers (the so called transponders). Therfore, we were able to make the best use of our industrial network as well as our technical skills and expertise. The territorial growth relates specifically to the ramp-up of new factories in Brazil and USA to cover our strategic presence in North and South America. The growth into new applications relates to our entry into the Automotive and Industrial field, as well the preparation for our entry into the Ticket&Label market. As these markets behave similar to our historical core markets, we expect a lot of synergies between our historical core areas.

The ongoing growth in our core areas as well as the upcoming growth in our new areas confirm the overall growth potential of RFID and confirms our positioning strategy within the value chains.

In January 2008, Stephen Juge took over the management position of Head of Legal Affairs and Chief Legal Counsel. The SMARTRAC 2008 Annual General Meeting held on 25 April 2008 approved the proposal to appoint Stephen Juge as member of the Management Board. He holds a law degree from Tulane University, New Orleans, USA, and also studied law at Oxford University, England on a Marshall Scholarship. Stephen Juge is married with one child.

Stephen Juge (55), Member of the Management Board, Chief Legal Counsel

Interview with Stephen Juge

Stephen Juge, at SMARTRAC legal affairs is one broad avenue. What are the main issues?

SMARTRAC is incorporated in the Netherlands under Dutch law with its registered headquarters in Amsterdam. Since 2006 the SMARTRAC shares have been listed in Germany on the Frankfurt Stock Exchange (FSE). Accordingly we comply with the Dutch legal framework as well as the requirements of the German exchange authorities.

The company and its Management are committed to high standards of business integrity and ethical value. We are subject to the Dutch Corporate Governance Code which sets out the principals of good corporate governance. We follow the best practice provisions with exceptions which we believe are justified by our individual circumstances and which are disclosed as called for by the Dutch Corporate Governance Code.

As a market leader in the global RFID industry, we analyze acquisition and joint venture opportunities on an ongoing basis in order to further strengthen the technology base, market position, capacity and product portfolio. Legal and tax efficient structures of our M&A activities are essential to the success of potential investments.

SMARTRAC holds a bundle of over 200 patents and patent applications including those with respect to our core wire-embedding technology and various production processes. As we value our intellectual property as an important competitive advantage, we monitor the situation closely and take legal actions where appropriate to protect our position as global leader in the supply of RFID components.

Did infringements of SMARTRAC's Intellectual Property increase in 2008?

Patent infringements are always a severe threat to our business. On an ongoing basis, our competitors make an assault on SMARTRAC's patent rights. In addition, competitors attempt by patent opposition or cancellation proceedings in various jurisdictions to challenge the validity of our patents.

In 2008 we enhanced our efforts to protect our intellectual property. We initiated warnings, carried out seizure on trade fair and other occasions, took legal actions and reached agreements. We incur substantial costs related to these activities but we consider legal expenses associated with intellectual property in 2008 to some extent as extraordinary items. And we successfully resolved a long-running dispute.

In October 2008, SMARTRAC and Aontec Teoranta, Ireland agreed that Aontec will become a sub-licensee under the existing license agreement between SMARTRAC and Assa Abloy AB. These were intensive consultations which now finally provide a stable framework for both companies. This agreement was a milestone with regard to our core wire-embedding technology.

SMARTRAC will be exposed to infringements by others of our patent rights in the future as we continuously file new applications for patents. In 2008, about ten new patent applications have been filed in several new RFID applications. The international standard for the duration of patents is typically 20 years.

SMARTRAC is about to enter the Chinese Market. What is your strategy?

In terms of units, China is the single biggest RFID market in the world with tremendous further growth opportunities. We consider a Joint Venture to be the best way to open up the important Chinese market for SMARTRAC. In July 2008, we signed a contract with respect to the formation of RFTAG Holding based in Hong Kong, China.

It is our joint intention to produce RFID inlays for the local Chinese market under the local subsidiary based in Shenzhen, China. The subsidiary will receive a non-exclusive license for the application of SMARTRAC's proprietary wire-embedding technology in the manufacturing of RFID inlays. This means that RFTAG will be the only Chinese manufacturer authorized to use this patented production technology.

The presence in the market will also enable us to take further actions to protect our intellectual properties in China as well.

SMARTRAC N.V. is a Dutch holding company. The listing is in Germany and the roots of the company are in Thailand. Could you provide a little insight into the structure?

First of all, SMARTRAC is a global player. We have a worldwide network of production facilities, sales offices and research & development center. Our customers and approached projects are all around the world.

But there is no doubt: the roots of SMARTRAC are in Thailand. Our founder, major shareholder and current CTO Manfred Rietzler started the mass production of RFID components in 2001 and today we are producing over 20 million inlays per month in our five factories in Ayutthaya, Thailand.

Europe and especially the Dutch environment in Amsterdam, where I am domiciled, is an ideal location for our global business. It is easily possible to work with all the time zones around the world in one single day. Therefore it is perfect for managing our global network.

In 2006, SMARTRAC decided to turn public in order to finance its expansion of production capacities, enhance its market position and fund strategic investments. Together with our lead manager of the transaction, we determined the Prime Standard of Deutsche Börse to be our choice. In December 2008, we were affiliated to TecDAX, the technology index of Deutsche Börse, proving the case for the strategy.

What was your personal highlight of SMARTRAC in 2008?

The privilege of integrating into the SMARTRAC Group Executive Team and participating in exciting growth projects such as the Sokymat Automotive GmbH acquisition and our expansion plans into China.

Wolfgang Schneider is co-founder of SMARTRAC and was responsible for the SMARTRAC Group's sales until the end of 2008. He became member of the Group Executive Team with its implementation in the end of 2007. Wolfgang Schneider holds a degree in engineering and studied mechanical engineering at the universities of Konstanz and Aalen. He currently holds the management position as Head of the Business Unit Cards. Wolfgang Schneider controls an interest of 3.70 percent in SMARTRAC.

Wolfgang Schneider (51), Member of the Group Executive Team

Interview with Wolfgang Schneider

Wolfgang Schneider, what is your résumé for 2008?

In a difficult market environment, we were able to increase sales by 16 percent to exceed the threshold of euro 100 million in sales for the first time in the company's history. Sales of euro 112.3 million is the result of a strong team performance working closely with our customers.

We have broadened our client base and were successful in winning a significant number of new projects with existing customers as well as with new customers.

The high security segment saw a very favorable performance of the ePayment business. But together with new project wins in the ePassport business, it could not fully offset the slowdown in the U.S. Passport project. At the end of the year we closed the books with an 11 percent decrease in the segment.

Our standard segment delivered 80 percent growth and now represents 46 percent of total group sales. The main driver was the business line mass transit and access control.

What is the structure of SMARTRAC's customer base?

SMARTRAC relies on a diversified customer portfolio of system integrators, secure printing houses, smart card manufacturers and ticket converters. The acquisition of Sokymat Automotive GmbH, the leading global supplier of control and security systems for the automotive industry, enriches our portfolio. In the course of 2008, we have enlarged our customer base and reduced our exposure to individual customers. At year end 2008, no customer represented more than 15 % of Group total sales. We have established and cultivated a close and trustful relationship with our key accounts and serve all our customers on a reliable and competitive basis with high quality products and services.

How is the geographical split of the business?

The geographical split illustrates the global structure of the business. Our worldwide network in sales but also in production and research & development allows SMARTRAC to provide our customers with the products, quality and services they require directly on location.

Our sales split based on the geographical location of our customers shows that 51 percent of sales can be allocated to Europe, 34 percent to the Americas and 15 percent to Asia.

How has the financial crisis and economic recession affected SMARTRAC and its customers?

We have to distinguish between the RFID environment and the overall economic development. It is our and market experts' expectation that the RFID market remains robust with further growth expectations, but a lot of our customers are not dedicated RFID companies. They are fully exposed to an economic downturn to the full extent in the non-RFID business. We have to monitor closely how this might affect their RFID activities which could have an impact on our business.

For SMARTRAC the economic environment provided ups and downs. Let me give you an example: Business travel and leisure travel in the U.S. have declined significantly due to the financial crises and the recession. As a result, the demand for passports has fallen below the level just after 11 September 2001, as people postpone passport renewals until they start to travel again. For us this meant a significant drop in inlays provided to the U.S. ePassport project. On the other hand, we saw new countries around the world selecting SMARTRAC's wire-embedding technology as their technology of choice for their ePassport inlays. Another example is the area of mass transport. With an economic downturn we recognize an increase in the use of public transport systems which increases demand for contactless tickets. Governmental investment programs in infrastructure imply opportunities with regard to public transport.

How will the sales organization change in 2009?

With the implementation of the business unit structure the members of our sales team are dedicated to one of the four business units. This new structure provides a closer link with research & development as well as the production capacity of the business unit.

This will provide more flexibility, reliability and quality to our customers as we can work in a more focused way on their needs and market developments.

Wolfgang Schneider, you control close to 4 % of the SMARTRAC shares. Do you consider euro 11.75 at year-end to represent a fair value of your investment?

By no means and you can believe me that I feel with all my fellow investors. But it is the markets valuation at that point in time. SMARTRAC holds an excellent position in the RFID industry. With our leading technology, highest quality standards and trusting relation to our worldwide customer base we will benefit from the growth perspectives. We are one of the key drivers of the industry.

We have to transform this into sales and profitability so that we deliver our financial figures. This will change our valuation going forward.

What are your personal targets for 2009?

Firstly, to foster the strategic partnerships with our core customers, but also to further develop SMARTRAC sales in Asia, the Middle East and the Americas over-proportionally and so to drive our share value back to the levels seen in early 2008.

What was your personal highlight of SMARTRAC in 2008?

It is hard to single out a special event in an eventful year, but what always warms my heart, is to experience the outstanding spirit, dedication and determination, particularly of our Thai colleagues, to always meet our targets and those of our customers.

Effective 11 February 2008, Franz Vollmann took over the management position as Group Chief Operating Officer (COO) of SMARTRAC and became a member of the Executive Team. He holds a masters degree in business administration from Vienna University of Economics, Austria. Franz Vollmann is married with three children.

Franz Vollmann (42), Member of the Group Executive Team, Group Chief Operating Officer (COO)

Interview with Franz Vollmann

Franz Vollmann, you started in February 2008 as Group Chief Operating Officer. What were the main tasks?

I took over the position from Ron Brown who has accompanied the build-up of the production in Thailand. SMARTRAC started 2001 with the mass production of RFID inlays in Thailand. In 2002 our first factory in Ayutthaya, about 50 kilometers north of Bangkok, Thailand, started production, followed by the second facility in 2004. In 2005 and in 2007 two new factories were opened to cope with the dynamic growth.

At the time when I started with SMARTRAC limited capacity was the bottleneck. Consequently, increasing our capacity to keep up with the fast growing demand was the main task. In 2008 we achieved a substantial expansion with improvements to the organization, work-flow, production process and equipment in all factories. With the opening of our fifth factory in 2009 we implemented centralized stock-keeping to increase efficiency.

In addition we ramped-up additional production facilities in Germany, Brazil, the United States and in Malaysia. SMARTRAC today has a global production network with the largest production capacity in the RFID industry.

How do you allocate where customer projects will be produced?

In some cases, customers have a clear requirement with regards to production location. For instance, ePassport projects with the U.S. Government Printing Office are manufactured in the United States and the German ePassport runs at a location in Germany.

However, in most of the projects production is allocated to the facility within the SMARTRAC global network which provides the most efficient option in terms of availability, quality and cost.

How did capacity in Thailand and the other production sites develop?

In 2008 we increased our monthly capacity in our four factories in Thailand from 15 million to 24 million units by year end. In July 2008 we exceeded the threshold of 20 million units in one single month for the first time.

A clear competitive advantage is the fact that with Xytec Solutions we have our own machine building capacity within the SMARTRAC group. This provides us with the flexibility, speed and cost efficiency required to almost double our capacity. Further improvement activities include the upgrading of existing machines to high-speed wire embedding, lean activities and continuous improvement of processes, people and equipment.

We also started and ramped-up our production facility in Malaysia for products based on etched antennas. There we are behind schedule with respect to the start of mass production, but we are confident we can solve the final issues in 2009.

In Brazil, we provide a monthly capacity of up to 2.5 million units. The ramp-up in the United States will provide a targeted monthly volume of 1.5 to 2.0 million units. With the inclusion of Sokymat Automotive GmbH in our worldwide production network an additional capacity of around 33 million units is available that is dedicated mostly to automotive applications.

The acquisition of Sokymat Automotive GmbH broadens the production base. How is the integration process designed?

Sokymat Automotive GmbH has successfully implemented a fully automatic production that guarantees highest levels of quality. In addition, Sokymat Automotive GmbH brings a wealth of experience in the production of glass transponders into the SMARTRAC group. With regard to the integration, we continue to operate the automotive business in Reichshof-Wehnrath, Germany. The combined activities in the non-automotive business are concentrated in our production facility in Ayutthaya, Thailand.

The new Business Unit structure will affect operations. What will change?

With the new Business Unit structure, we are in the position to act more customer and market oriented. We have allocated dedicated production facilities to the Business Units which operate under the management of the Business Units. This enables us to closely link sales, research & development and operations to the benefit of our customers.

At the end of the year, we saw anti-government protests and an airport blockade in Thailand. How was the situation on site and how did it affect production?

SMARTRAC has a lot of experience in working and producing in Thailand. We see the Thai authorities as reliable partners and Thailand as one of the best places in the world to conduct our business. Political protest including military intervention is part of Thai history. Typically the protest is focused on hot spots in Bangkok. In Ayutthaya, 50 kilometers north of Bangkok, hardly any impact was recognized.

We truly value and rely on our Thai employees who represent 80 % percent of our total group staff of around 2,800 employees.

The airport blockade only caused minor delays in our delivery schedule as we were quickly able to identify alternative shipping routes via Singapore and Kuala Lumpur. So no major impact was recognized on the business. All our customers were in close contact to determine priorities and alternatives that served their particular needs. Due to safety stocks in place, many of them actually waited until the reopening of the airport.

What was your personal highlight of SMARTRAC in 2008?

The highlight of 2008 was the success at nearly doubling our capacity in Thailand in such a short period of time. This was a result of great teamwork and dedication and this very well expresses the SMARTRAC spirit of transforming RFID.

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

Christian Uhl (36), Member of the Group Executive Team, Group Chief Financial Officer (CFO)

Interview with Christian Uhl

Christian Uhl, SMARTRAC delivered 16 percent top-line growth. At the beginning of 2008 SMARTRAC's expectation was a 30 percent growth. What happened in the course of the year?

The world has changed completely. What started in 2007 among subprime mortgages in the United States has spread to other markets and to much of the rest of the world. In the course of 2008 it has resulted in a global recession. Despite the fact that the RFID market still is a growth market, our business model is not fully resistant against the global turmoil.

But, it was a new experience for us to see which product lines have been affected. We would have considered the ePayment business to suffer in a financial crises and a U.S. ePassport to be solid as a rock. It turned out completely the other way around. We have seen record volumes in inlays for credit cards and have been faced with a significantly higher than expected decrease in demand for ePassports in the U.S., which could not fully be offset by the gained market share in ePassports overall. This was the reason why we had to change our forecast.

We revised our guidance to a range of euro 110 million to euro 120 million in the course of the year and delivered sales of euro 112.3 million, in line with the guidance provided. 2008 was, without a doubt, a difficult year but at the end of the day, a new record for SMARTRAC.

In 2008 we saw a disproportionate increase in operating expenses. What were the reasons and what can we expect for 2009?

2008 was characterized by investments in the development of SMARTRAC. We implemented structures and added personnel required to further professionalize our organization. We invested in our capacities and our global network of production sites. This investment increased our operational expenses to euro 25.4 million or 23 percent of sales compared to euro 19.7 million or 20 percent of sales a year ago. We have established a team and a set up for SMARTRAC to exploit business opportunities in the future.

For 2009, we expect an operational expense to evolve that is more aligned with our overall business development.

In terms of profitability, 2008 saw a significant decline. Can you provide more insight on the reasons?

For 2008, we guided an EBITDA level of around 20 %. With the EBITDA margin of 19 % percent, we consider we are in line with our guidance. In 2007, we achieved a record level of 26 % EBITDA margin. The anticipated and communicated decline in the profitability of SMARTRAC is determined by several factors which I would like to comment on.

The main factor is a change in SMARTRAC's product mix. We broadened our product portfolio and the relative importance of the U.S. ePassport project decreased due to the already mentioned decline in demand. Our Standard Segment increased the proportion of total sales to 46 percent compared to 30 percent one year ago. With this increase, the proportion of microchip sourcing included in total sales went up. The level of microchip sourcing in some product lines (i.e. mass transport exceeds 90 percent) consequently leads to lower overall-margins.

Other factors to mention are the ramp-up costs and legal expenses to protect our intellectual property. In 2008, we built up our operations in Malaysia and in the United States and our legal expenses are approximately euro 1 million above last year's level.

In times of the financial crisis, people are focusing on the financing situation of companies. How is SMARTRAC's position?

SMARTRAC has a sound and solid financial foundation. We generated a cash-flow from operating activities of euro 19.3 million and a free cash-flow of euro 5.9 million. Our balance sheet shows equity of euro 98.2 million with an equity ratio of 55 percent. As of record date, SMARTRAC has available cash, cash equivalents and short-term investments of euro 32.9 million.

We were able to finance the largest acquisition in the history of SMARTRAC, our investment in Sokymat Automotive GmbH, via an acquisition credit facility provided by Deutsche Bank. As of 31 December 2008, our net debt position increased to euro 22.4 million.

What are the financing requirements for SMARTRAC in 2009 and what is your approach?

In terms of capital expenditure we expect a decline to euro 5 - 6 million from euro 13.6 million in 2008 due to the termination of the ramp-up in the United States and main investments in Malaysia being done. Our capital expenditure requirements for 2009 will be financed by the operating cash flow.

Our acquisition credit facility expires in August 2009. We are already in discussions to replace the credit bridge financing facility by a long-term debt financing. We do not expect any capital market transactions in the current market environment.

The SMARTRAC share closed the year 2008 at euro 11.75. A fair value for the company?

Capital markets undertake the valuation of SMARTRAC and we have to accept that the market currently takes this view. We have to focus on the operational business. Global valuations have significantly declined in the second half of 2008 and SMARTRAC, as a small cap company, has been affected disproportionately. In addition we have already had our lesson in the first half of 2008 when we, for the first time in the history of the company, had to revise our guidance.

Based on the year-end share price, SMARTRAC is valued at 1.7 times equity, 1.4 times 2008 sales and 7.5 times EBITDA. This is a valuation that nobody regarded as reasonable a year ago. But as I stated at the beginning: the world has changed completely.

What was your personal highlight of SMARTRAC in 2008?

It is the acquisition of Sokymat Automotive GmbH which kept us busy a long time before we finally signed the contract at the end of September 2008. The transaction is a strategic milestone in SMARTRAC's development as we further diversify our technology and product portfolio, and strengthen our operational basis.

Key financial figures 2008 and Business by segments

Earnings position

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

As a leading manufacturer and supplier of RFID transponders, SMARTRAC generated sales of euro 112.3 million in 2008. This represents an increase of 16 percent from the previous year figure of euro 96.6 million. The increase is due in particular to the favorable performance of the ePayment business and growth in the mass transport and access control business. Sales of 5.5 million is attributable to Sokymat Automotive GmbH, which was incorporated as of 26 September 2008. A detailed breakdown by segment of the sales and profit contribution can be found on page 107 of the report.

The geographical segments based on the geographical location of the customers substantiate the global coverage of the RFID industry in general and of SMARTRAC in particular. 51 percent of sales are allocated to Europe, followed by 27 percent attributable to North America and 15 percent to Asia. A detailed breakdown can be found in the notes on page 108.

Cost of sales primarily relate to raw materials and manufacturing supplies, personnel expenses, depreciation and amortization as well as other manufacturing costs. A detailed breakdown can be found in the notes on page 110. The disproportionate increase of 30 percent to euro 71.1 million is mainly due to a higher proportion of microchip sourcing.

Gross profit of euro 41.2 million remained flat on the previous year's euro 41.7 million, particularly as a result of a change in product mix and an increased level of microchip sourcing.

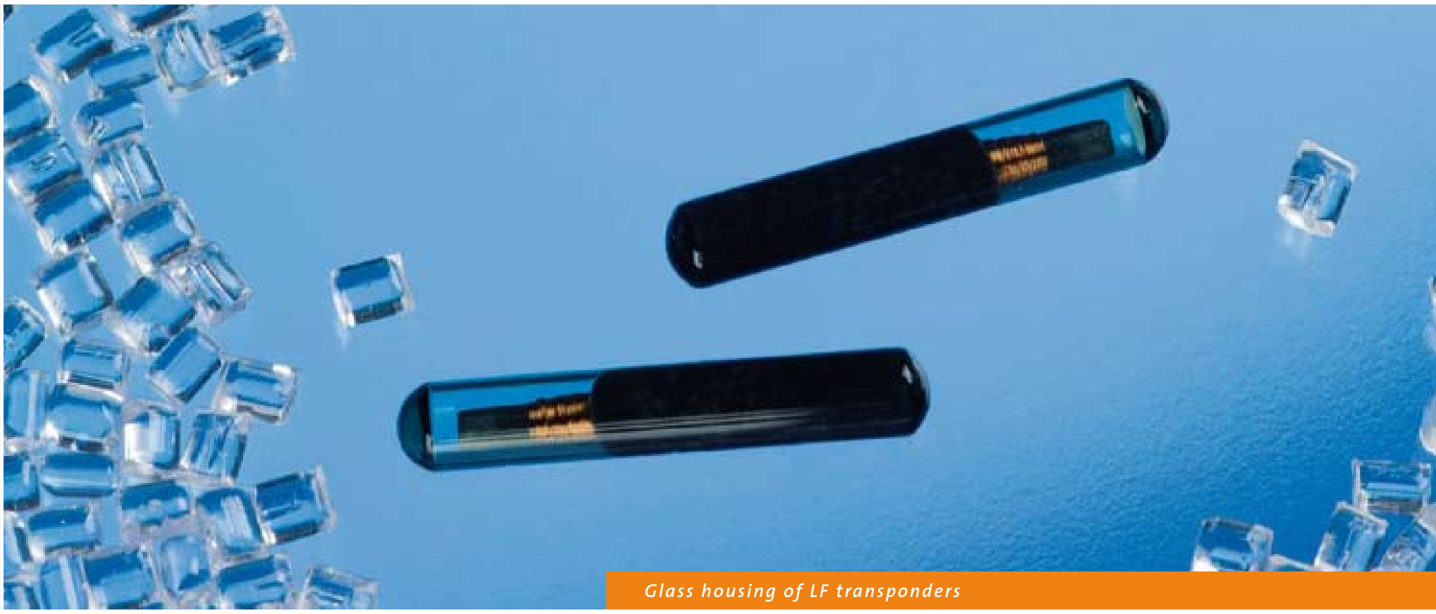
Due to the change in the product mix as well as the ramp-up of new production sites, operating expenses related to the further development of SMARTRAC and legal expenses, Group EBITDA (including EBITDA from other operations) of euro 21.0 million decreased by 18 percent compared to EBITDA of euro 25.5 million in 2007.

At euro 13.6 million, profit for the period attributable to the equity holders of the company was down 34 percent on the previous year's euro 20.7 million. Beside a lower operating result, increased financial expenses and a slightly increased tax burden resulted in a disproportionate decrease of the net profit.

Cash flow statement

In 2008, net cash provided by operating activities amounted to euro 19.3 million compared to euro 16.7 million in the prior year, which is mainly due to the Group's earnings of euro 13.6 million (2007: euro 20.7 million).

Management of working capital resulted in a decline of trade receivables (minus euro 6.7 million; 2007: plus euro 11.7 million) and inventories (plus euro 3.8 million; 2007: plus euro 5.3 million). Trade and non-trade payables decreased by euro 5.3 million after an increase of euro 4.6 million in 2007.



Glass housing of LF transponders

Net cash used in investing activities accumulated to euro 49.5 million in 2008 compared to euro 40.5 million in financial year 2007. This is primarily due to the use of cash of euro 47.6 million for the purchase of subsidiaries, mainly Sokymat Automotive GmbH. Purchases of short-term investments amounting to euro 11.8 million consist mainly of government bonds and investment certificates. Expenditures in 2008 for intangibles and property, plant and equipment amounted to euro 13.6 million compared to euro 11.9 million in 2007. The increase can be allocated mainly to the expansion of the production capacity as well as the ramp-up of new factories.

Net cash provided by financing activities in 2008 amounted to euro 38.1 million compared to euro 3.0 million provided in 2007. The major financing activities in 2008 were the share buyback which led to a cash outflow of euro 7.5 million, offset by the net cash inflow from new interest bearing loans of euro 46.5 million, mainly related to the acquisition of Sokymat Automotive GmbH.

Cash and cash equivalents and bank overdrafts on 31 December increased by 55 percent to euro 22.2 million (2007: euro 14.3 million) mainly related to cash inflow from the divestment of short-term investments.

Balance sheet

At euro 177.4 million, the consolidated balance sheet total as at 31 December 2008 was 52 percent higher than the previous year figure of euro 116.5 million. This increase is mainly due to the acquisition and first time consolidation of Sokymat Automotive GmbH, which increased intangible assets (mainly goodwill) from euro 8.9 million to 58.4 million. Due to the financing via the usage of a credit facility, interest bearing loans and borrowings increased from euro 6.9 million to 53.4 million.

The increase of 49 percent in inventories to euro 19.4 million (2007: euro 13.1 million) and the decrease of 16 percent in trade receivables to euro 21.2 million (2007: euro 25.4 million) in 2008 reflects the overall business development in terms of sales and related expenses.

The total increase of 14 percent in equity in 2008 to a total of euro 98.2 million can be primarily attributed to the net profit of euro 13.6 million. Treasury stock that was built up in the course of the share buyback in 2008 amounted to 9.1 million at year end. The equity ratio declined from 74 percent at the end of 2007 to 55 percent at record date 2008. This is attributable to an increase in external borrowings related mainly to the debt financing of the acquisition of Sokymat Automotive GmbH.

In thousands of euro	Consolidated 2008	Consolidated 2007	Change	Change in %
Revenues				
Mass Transport and Access Control	42,642	25,563	17,079	67
Logistics	9,412	3,387	6,025	178
Gross Profit	**11,558**	**7,739**	**3,819**	**49**
EBITDA	**4,604**	**3,736**	**868**	**23**

Standard Segment

Standard segment

Based on SMARTRAC's division of its product lines, the Standard segment comprises RFID components which are used in the fields of mass transport, access control, animal ID and logistics. With the acquisition of Sokymat Automotive GmbH, RFID components dedicated to the automotive sector were included to the product portfolio of SMARTRAC and have particularly strengthened our position in the Standard segment. SMARTRAC plays a key role in the global market for the development and manufacturing of inlays for the Standard segment. The inlays for contactless data transmission in the Standard segment contain a memory chip which supports basic security features such as password authentication and basic encryption functionalities.

In 2008, SMARTRAC ramped-up a high volume production facility in Malaysia in order to fully exploit its potential in the etching technology. The building-up of the production and the start of volume production is behind schedule and is expected to fully support the production capacity and sales in the course of 2009.

Sales Standard segment

Sales in the Standard segment amounted to euro 52.1 million in 2008 representing a favorable increase of 80 percent compared to sales of euro 29.0 million in 2007. The 2008 sales represent a 46 percent share in the overall sales of the company compared to 30 percent a year ago. This share in the overall sales figures illustrates the fact that the Standard segment applications gained significant importance in the product mix of SMARTRAC.

Mass transit and access control continued to drive the Standard segment business in 2008. A predominant share of 82 percent or euro 42.6 million of the segment sales have been contributed by these applications. The remaining share of euro 9.4 million or 18 percent has been generated by automotive applications (consolidated as of 26 September 2008), animal ID and logistics applications.

The percentage of microchips bought by SMARTRAC is significantly higher in the Standard segment than it is in the High Security segment and has grown in 2008 compared to 2007. Our margins on the resale of microchips are significantly lower than on the design and manufacturing of inlays, which consequently leads to lower overall-margins in the Standard segment compared to the High Security segment. Profitability in the Standard segment has also been affected by ramp-up cost for the operations in Malaysia as well as for investments in the animal ID and logistics applications.

Gross profit Standard segment

The gross profit in the Standard segment was euro 11.6 million in 2008, which represents a margin of 22 percent, compared to 2007, when gross profit amounted to euro 7.7 million and the margin was 27 percent. The decrease in the gross profit margin is attributable to an increase in microchip sourcing and ramp-up costs.

EBITDA Standard segment

The Standard segment achieved an EBITDA of euro 4.6 million in 2008. Compared to euro 3.7 million in 2007, this is an increase of 23 percent. The EBITDA margin decreased from 13 percent in 2007 to 9 percent in the financial year 2008 and was affected by the aforementioned investments and ramp-up costs in new locations.

High Security segment

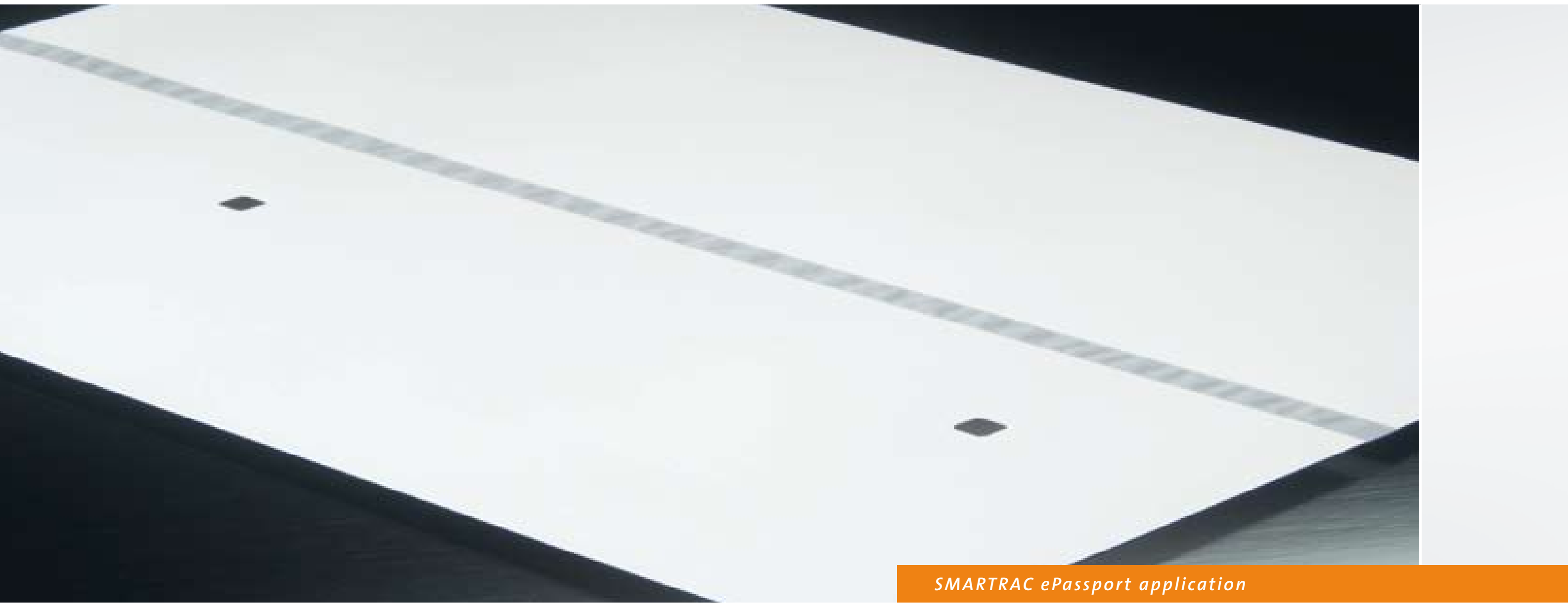
The High Security segment of SMARTRAC includes RFID components for its eID (electronic identification) and ePayment (electronic payment) product lines.
Inlays in the High Security segment contain microcontroller chips that include sophisticated encryption functions and permit advanced calculations and encryptions to be made.

Based on superior and proprietary production technology, extensive production capacity, expertise, the latest test equipment as well as a worldwide sales organization with excellent customer relations, the High Security segment continued to represent the most important pillar of SMARTRAC's overall business.

ePassports

SMARTRAC is the leading supplier of RFID inlays for ePassports worldwide. Official personal travel documents like ePassports are normally issued with holding periods of between 5 and 10 years. This places a great demand on the components with the RFID inlay being the crucial element of an electronic passport. Wire-embedding technology is therefore the technology of choice for customers worldwide when it comes to inlays that have to meet the highest quality and durability standards.

The U.S. ePassport project, to which SMARTRAC provides the only certified inlay since 2006, remains an important project for the company. Due to a high inventory level and a significant decline in the demand for ePassports in the U.S. related to the financial crises, the number of inlays provided to our customers decreased by over 40 percent. SMARTRAC was able to compensate this to some extent, because in 2008, other ePassport projects worldwide have chosen the company as their supplier for ePassport initiatives. SMARTRAC currently supplies volume to more than 25 projects worldwide. Production capacities to provide RFID inlays for their ePassport solutions are in SMARTRAC's main location in Thailand, Germany and in the United States. SMARTRAC has completed the build-up



SMARTRAC ePassport application

of its factory in Chanhassen, Minnesota in 2008, and started volume production of secure RFID components for ePassports and further government applications.

ePayment

In 2008, the growth in the ePayment market and the number of inlays delivered to our customers clearly exceeded SMARTRAC's expectation. Around 100 million inlays were delivered to our ePayment customers, reinforcing our market leadership in ePayment applications. Credit cards with contactless payment applications are particularly strong in the U.S. where banks drive the implementation of this technology. Pilot projects were initiated in some European and Asian countries to identify the potential of this technology.

SMARTRAC's ePayment inlays attained MasterCard CQM Certification and VISA Card Certification. The company is able to offer a full range of RFID inlay products for the secure payment industry.

Sales in the High Security segment

Sales in 2008 amounted to euro 60.6 million, which is equivalent to a decrease of 11 percent compared to sales of euro 67.7 million in the 2007 financial year. The decline is due mainly to the slowdown in the U.S. ePassport project which could not be fully offset by new project wins in the other ePassport projects and the favorable development of the ePayment business.

The relative revenue contributions from the High Security business to overall company sales in 2008 compared to 2007 declined with respect to the High Security segment. In 2007 this segment accounted for 70 percent of the total revenues (euro 96.6 million) and 54 percent of overall revenues in 2008 (euro 112.3 million).

Sales of euro 43.2 million from the ePassport product line represent 71 percent of sales in the High Security segment and 38 percent of the overall sales of the company (euro 112.3 million).

In thousands of euro	Consolidated 2008	Consolidated 2007	Change	Change in %
Revenues				
ePayment	17,394	11,267	6,127	54
ePassport	43,223	56,480	(13,257)	(23)
Gross Profit	**29,606**	**33,959**	**(4,353)**	**(13)**
EBITDA	**18,840**	**23,267**	**(4,427)**	**(19)**

High Security segment

Sales from the ePayment applications exceeded expectations in 2008 and reached euro 17.4 million, representing 54 percent growth compared to euro 11.3 million in financial year 2007.

Compared to the Standard segment, where the percentage of microchips bought by SMARTRAC is significantly higher, we buy a smaller percentage of microchips in the ePassport and ePayment business. Microchips for these product lines are consigned to us by our customers. Taking into consideration the fact that our margins on the resale of microchips are significantly lower than those from the design and manufacturing of inlays, this also contributes to higher margins in the High Security segment overall compared to the margins from Standard segment applications.

Gross profit High Security segment

Gross profit in the High Security segment during 2008 was euro 29.6 million which is equivalent to a gross margin of 49 percent. Compared to a margin of 50 percent in 2007 (Gross profit euro 34.0 million), the 2008 gross margin remained relatively stable.

EBITDA High Security segment

In financial year 2008, the High Security segment reached EBITDA of euro 18.8 million. Compared to EBITDA of euro 23.3 million from High Security applications in 2007, this represents a decrease of 19 percent. The EBITDA margin of 31 percent in 2008 was below the margin of 34 percent achieved in 2007, mainly due to ramp-up cost for high security production in the United States.

Summarizing, SMARTRAC successfully developed the business segments toward a more balanced portfolio with even more equally weighted business segments and a healthy group profitability.

Risk report

Doing business inherently involves taking risks. 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. Our target of pursuing sustainable growth and creating economic value requires entrepreneurial activities while avoiding and managing inappropriate risks.

The Management Board has currently identified the following risks, which could have a considerable negative impact on the asset, financial and earnings situation of SMARTRAC but are not limited to them.

Market risks

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

Operational risks

Product availability risk

In order to broaden the product portfolio and participate in the growth of additional product lines of the RFID market, SMARTRAC has made significant investments in the development and acquisitions 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.

Product liability risk

As in many other markets, product liability is a potential risk in the production, marketing and sale of RFID components as well. Regardless of the fact that SMARTRAC is currently not subject to any significant product liability claims, it cannot be guaranteed that there will be no liability claims against the company in the future. Liability claims could in any case have a negative impact on the reputation and the financial performance of the company.

Price risks

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

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

Customer risk

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

Technology risks

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

Acquisition risks

In 2008 SMARTRAC continued its acquisition activities in order to strengthen its technology base and to further expand its market presence, capacities and product portfolio. In this respect, SMARTRAC made significant financial investments and closed the largest transaction in the company's history. In addition, SMARTRAC may make further acquisitions in the future. 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, we 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.

Organization risk

SMARTRAC implemented a Business Unit structure effective 1 January 2009. Business Unit managers are responsible for sales and production in their Business Units and are given responsibility for sales and profitability 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. Any inability to do so could have a materially adverse effect on our results of operations.

Financial risks

It is SMARTRAC's policy with regard to financial instruments to avoid risks. 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. In order to manage risks and opportunities, SMARTRAC has implemented a financial market information system.

Liquidity risk

In 2008, SMARTRAC used an acquisition credit facility in order to refinance the purchase of Sokymat Automotive GmbH. If we are unable to generate sufficient cash flow we may have difficulty repaying the outstanding indebtedness.

The acquisition credit facility matures in August 2009. SMARTRAC intends to refinance the credit facility via long-term debt financing. The recent financial crisis affecting the banking system and financial markets has resulted in a tightening in the credit markets. Despite our strong financial basis, we are exposed to the current financial environment when considering refinancing activities.

Interest risk

SMARTRAC has also used debt capital to refinance its acquisitions, other investments and working capital requirements. The debt service cost depends strongly on the development of defined reference interest rates. In addition, the current situation on the financial markets has led to a general rise of risk premiums for borrowers. A potential increase of the interest rate could negatively affect the profitability of SMARTRAC.

Currency risk

Due to our global business activities and centralized financing approach we have to conduct transactions in several currencies. This is linked to several risks related to currency fluctuations between these different currencies. This 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. We also face the risk of increasing inflation with regard to one or more currencies in which we have receivables and savings.

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 our business.

Human resources risks

In view of 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 success 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.

SMARTRAC is exposed to the general risk associated with employee turnover. We consider attractive working conditions and comprehensive compensation as key to attract and retain the desired employees.

Information technology risks

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

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

Legal risk

Protecting intellectual property

SMARTRAC holds patents in the wire-embedding technology for the production of high-quality RFID inlays that have set standards across the industry. Wire-embedding technology is a core competency of SMARTRAC and the company views its intellectual properties as an important competitive advantage. Ongoing patent infringements by competitors therefore are a severe threat to the business operations and financial performance of SMARTRAC and its position as a global leader in the supply of RFID components. Furthermore some competitors attempt, by patent opposition or cancellation proceedings in various jurisdictions, to challenge the validity of SMARTRAC's patents, including as a reaction to SMARTRAC's warnings or legal actions for infringement and enforcement of its patent rights against them, or attempt to reduce or eliminate SMARTRAC's competitive advantage as patent holder. Also, not all of the countries in the world protect our intellectual property rights to the same extent as other countries. 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 continue to make efforts to protect effectively its intellectual property. These efforts do not come without incurring 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 significantly dilute and weaken the company's market position and financial performance.

Regulation risk

SMARTRAC follows a global business strategy with manufacturing sites and offices in various countries around the world. We are faced with varying practices of regulatory, tax, judicial and administrative bodies. A negative political or economic development might affect our business activities. Changes in law and stock exchange regulations imply additional risks.

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.

In 2008, SMARTRAC has further internationalized its business operations. 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.

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 2008, the evaluation of the risks did not indicate risks in the past financial year which could materially jeopardize the ongoing business health and viability of SMARTRAC. In addition, we are not aware of risks which could reasonably be expected to endanger the existence of the company whether alone or in conjunction with other risks.

Corporate governance report

In the Netherlands, the Dutch Corporate Governance Code ('the Dutch Code') became effective on 1 January 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). SMARTRAC is aware that the amended Dutch corporate governance code has been published in December 2008. As this code will become effective as per financial reporting year 2009, the Supervisory Board intends to assess the compliance with the amended code in the course of 2009.

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 Managing Board and the Supervisory Board and shareholders.

SMARTRAC N.V. and its subsidiaries are committed to high standards of business integrity, ethical values and professionalism in all of their activities. The Management Board recognizes the importance of clear and straightforward rules on corporate governance and the directors are accountable to the shareholders for such rules.

Corporate structure

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

Management Board

The Management Board is responsible for the day-to-day management of the company's operations under the supervision of the Supervisory Board. It is responsible for defining and achieving SMARTRAC's strategy, policies, results and operational targets. 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 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.

Currently, SMARTRAC's Management Board consists of the following individuals as listed below:

Name	Age*	Position
Dr. Christian Fischer Chief Executive Officer	40	Chairman of the Management Board
Manfred Rietzler Chief Technical Officer	47	Member of the Management Board
Stephen Juge Chief Legal Counsel and Head of the Dutch Office	55	Member of the Management Board

* Age as of 31 December 2008

The remuneration of the members of the Management Board is outlined in the remuneration report on page 77.

SMARTRAC has also established a Group Executive Team with six members including the three members of the Management Board. Refer to page 42 for further explanation.

In accordance with provision II.1.4 of the Dutch Code, the Management Board declares that the internal risk management and control systems are adequate and effective. Although no formalized risk monitoring process is in place, the Management gives top priority to managing company risks and is putting the right control system in place.

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 and advises the Management Board. The Supervisory Board acts in the interest of the company and its group companies and takes into account the interests of the relevant stakeholders.

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.

Currently, SMARTRAC's Supervisory Board consists of the following individuals as listed below:

Name	Age*	Position
Prof. Dr. Bernd Fahrholz	61	Chairman of the Supervisory Board
Wolfgang Huppenbauer	54	Member of the Supervisory Board
Jan C. Lobbezoo	62	Member of the Supervisory Board

* Age as of 31 December 2008

Board committees

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

Shareholders' rights

Share capital

The issued share capital of the Company is equal to euro 6,750,000 divided into 13,500,000 ordinary shares. The ordinary shares carry the right to cast one vote per share. The ordinary shares are bearer shares.

Financial Statements

Within 4 months from the end of a fiscal year the Management Board prepares the financial statements and the annual report. The financial statements and the annual report are submitted to the Supervisory Board. Thereafter the financial statements together with the annual report are submitted to the general meeting of shareholders for adoption.

General meeting of shareholders

Within 6 months of the end of a fiscal year the ordinary general meeting of shareholders is held. The report of the Management Board, the adoption of the annual account, discharge of the Management Board and of the Supervisory Board have to be put on the agenda of the ordinary general meeting of shareholders. The Management Board can put other items on the agenda of the general meeting of shareholders.

Other general meetings of shareholders are held as often as a member of the Supervisory Board or a member of the Management Board deems necessary.

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

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

Restriction on non-Dutch shareholders' right

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 general meeting of shareholders on proposal of the Management Board.

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

Amendment of the articles of association, dissolution, legal merger, demerger, reduction of capital

The general meeting of shareholders may pass resolutions to effect a merger (juridische fusie), split up (splitsing), dissolution (liquidatie) of the company or the amendment of the articles of association or a reduction of the share capital.

Appointment, dismissal, suspension of members of the Management Board and the Supervisory Board

The general meeting of shareholders appoints, dismisses and suspends the members of the Management Board and the members of the Supervisory Board.

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

The audit of the financial statements

The external auditor is appointed at the general meeting of shareholders. The external auditor is invited to attend the meeting of the Supervisory Board at which the financial statements are discussed and is also invited to the general meeting of shareholders at which the financial statements are adopted.

Comply or Explain

SMARTRAC is positively disposed to the Dutch Code. The company has applied most of the principles and applicable best practices provisions of the Dutch Code. In the course of 2008, SMARTRAC complied to the provisions II.2.2, II.2.4 and III.7.1. In the following we indicate which specific provisions of the Dutch Code SMARTRAC do not apply and why.

II.1.3, II.1.6, II.2.1, II.2.3, II.2.6, II.2.13, III.1.1, III.3.1, III.3.6, III.4.3, III.7.3, IV.1.1.

II.1.3. The Group manages its various significant risks within the strategic, operational and financial areas. Although an effective system of internal controls is in place, and these processes take cognizance of risks pertaining to the Group as a whole, no formalized risk monitoring process is in place. The management gives top priority to managing company risks and is putting the right control systems in place, following a traceable strategy with clearly defined milestones in this respect.

The Management Board meets at least once a year in order to define and update the business and market risks of the company. In the course of this process, each risk is discussed in depth including an assessment of the probability of occurrence and the severity of the adverse effect it could have on the conduct of business of the company. Furthermore the quality of the measures to reduce the risk is assessed as well and further procedures defined.

II.1.6. In 2008, SMARTRAC did not introduce a whistle blower code. The Management Board is discussing various alternatives of a policy which serves this purpose and will be applicable for all companies within the Group. The introduction of a whistle blower policy in accordance with the Dutch Code is still on the agenda.

II.2.1. The vesting period of options granted to members of the Management Board is two years and not three years. The company is of the opinion that, in the specific case of SMARTRAC, given the short industry and business cycles a vesting period of two years is appropriate, while maintaining the effectiveness of the incentive.

II.2.3. 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.2.6. The Supervisory Board has not drawn up regulations concerning ownership of and transactions in securities other than securities issued by SMARTRAC N.V. by members of the Management Board because the Supervisory Board trusts that members of the Management Board do not trade other shares or securities in an illegal way.

II.2.13. Following a decision of the Supervisory Board, the remuneration report is not directly published on the company's website, but can be reached via a hyperlink to the Annual Report. The Supervisory Board places more value on the explanatory power of the remuneration report as part of the Annual Report.

III.1.1 The regulation for the Supervisory Board existed throughout 2008 and has not yet been posted on the website of the company. We intend to do so in the course of 2009.

III.3.1. The profile and the composition of the Supervisory Board were not defined by the Supervisory Board. In light of the limited number of members of the Supervisory Board we consider it unnecessary to establish a profile.

III.3.6. The Supervisory Board has not established a formal retirement scheme for the Supervisory Board. In light of the limited number of members of the Supervisory Board we consider it unnecessary to establish a retirement scheme.

III. 4.3. We believe that the regulation of implementing a company secretary is not applicable due to the current size of the company.

III.7.3. The regulation governing ownership of and transactions in securities other than securities issued by SMARTRAC N.V. by members of the Supervisory Board was not drawn up because the Supervisory Board trusts that members of the Supervisory Board do not trade in other shares or securities in an illegal way.

IV.1.1. The company deviates from this provision, in that a binding nomination by the Supervisory Board can only be overruled by a majority of two thirds of the votes cast representing more than 50 percent of the issued share capital. We are of the opinion that the Supervisory Board should have significant influence over the appointment and the dismissal of managing directors, especially in the first years of the company's existence.

Remuneration report

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

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

The goals of the SMARTRAC remuneration policy for the members of the Management Board are to attract, retain and reward talented management by offering a compensation that is competitive, motivates members to meet the company's business objectives and aligns the interests of management with the interests of the shareholders.

To structure remuneration of the members of the Management Board into an annual base compensation and a variable component as well as the applied percentages of base compensation and variable component is common practice for management remuneration in the industry.

The overall remuneration policy 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. The overall remuneration of the members of the Management Board, assuming that challenging but achievable targets have been set and met, should be clearly above the market average of the remuneration practices of the comparison group.

Compensation for members of the Management Board

Remuneration for the financial year 2008

The amended employment contracts with Dr. Christian Fischer and Manfred Rietzler started on 1 January 2008 and were approved by the SMARTRAC 2007 Annual General Meeting in Amsterdam on 22 June 2007. The regular term of the contracts with Dr. Christian Fischer and Manfred Rietzler ends 31 December 2011.

The compensation of Dr. Christian Fischer pursuant to his employment contract consists of an annual base compensation of euro 420,000 and a variable annual compensation of two percent of Group EBITDA. If Group EBITDA exceeds euro 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 euro 100 million. The contract of Dr. Christian Fischer 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. Dr. Fischer has been provided with a company car. Dr. Fischer is eligible to participate in the company's stock option program and received 18,197 conditional options. Dr. Christian Fischer is eligible to participate in the company's stock plan and received 6,818 shares in the course of the year 2008. In addition, Dr. Christian Fischer converted 5,936 SMARTRAC shares from his 2007 cash bonus at a share price of euro 32.95.

According to his employment contract, Manfred Rietzler received an annual base compensation of euro 250,000 in 2008. In addition, the housing and related expenses of Manfred Rietzler in Thailand were borne by the company and a company car has been provided.

In January 2008, Stephen Juge took over the newly created management position of Head of Legal Affairs and Chief Legal Counsel of SMARTRAC. The Annual General Meeting of Shareholders, which was held on April 25, 2008, in Amsterdam, appointed Stephen Juge as director and member of the Board of Directors of SMARTRAC with a term of office of two years. According to his employment contract Stephen Juge received an annual base compensation of euro 200,000. The variable annual compensation of Stephen Juge comprises a cash bonus of euro 50,000 for 2008. Stephen Juge is eligible to participate in the company's stock plan and stock option program. In 2008, Stephen Juge received 1,623 shares and 4,332 conditional options. Stephen Juge is entitled to a company car and received a reimbursement for housing and related expenses. The term of office ends in 2010.

Anthony Driessen's contractual term as member of the Management Board ended at the Annual General Meeting of Shareholders, on 25 April 2008. In 2008, the annual compensation from the company of euro 25,000 was received by Anthony Driessen on a pro-rata basis.

In 2008, the members of the Management Board were not entitled to receive redundancy payments. SMARTRAC has no pension scheme in place.

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

Management Board – compensation in thousands of euro	Dr. Christian Fischer	Manfred Rietzler	Stephen Juge	Ronald Brown	Anthony E. Driessen	Total
Salary						
2008	**420**	**250**	**192***	**–**	**8***	**870**
2007	420	180	–	240	25	865
Bonus (non-share based)						
2008	**439**	**–**	**50**	**–**	**–**	**489**
2007	383	–	–	285	–	668
Housing and others						
2008	**–**	**38**	**35**	**–**	**–**	**73**
2007	–	38	–	3	–	41
Total						
2008	**859**	**288**	**277**	**–**	**8**	**1,432**
2007	803	218	–	528	25	1,574

* pro-rata for the time of employment

Management Board – long-term compensation

The SMARTRAC 2008 Annual General Meeting of Shareholders approved the Stock Option Scheme 2008. In accordance with the principles of the Dutch Corporate Governance Code the options granted under the Stock Option Scheme 2008 depend on achieving certain criteria. In accordance with the principles of the Dutch Corporate Governance Code, members of the Supervisory Board are not eligible under the Stock Option Scheme 2008. In 2008, 22,529 conditional options were granted to the Management Board. No options were exercised or expired during financial year 2008 and 2007. The aggregate numbers of (performance-related) stock options held by the members and the related option expenses (IFRS 2) of the Board of Management were as follows:

Management Board – long-term compensation	Exercise price in euro	Dr. Christian Fischer	Manfred Rietzler	Stephen Juge	Ronald Brown	Anthony E. Driessen	Grand Total
Tranche 1 (vested)							
2006	17.00	5,000	–	–	5,000	–	10,000
Tranche 2 (not yet vested)							
2007	22.40	15,000	–	–	2,500	5,000*	22,500
Tranche 3 (not yet vested)							
2007	39.20	100,000	–	–	–	–	100,000
Tranche 4 (not yet vested)							
2008	**14.80**	**18,197**	**–**	**4,332**	**–**	**–**	**22,529**
Total							
2008		**18,197**	**–**	**4,332**	**–**	**–**	**22,529**
2007		115,000	–	–	2,500	5,000*	122,500
2006		5,000	–	–	5,000	–	10,000

* Options forfeited in 2008

Expenses for vesting options (IFRS 2) in thousands of euro	Dr. Christian Fischer	Manfred Rietzler	Stephen Juge	Ronald Brown	Anthony E. Driessen	Total
Tranche 1 (vested)						
2008	**10**	**–**	**–**	**10**	**–**	**20**
2007	17	–	–	17	–	33
Tranche 2 (not yet vested)						
2008	**51**	**–**	**–**	**9**	**–**	**60**
2007	39	–	–	6	–	45
Tranche 3 (not yet vested)						
2008	**456**	**–**	**–**	**–**	**–**	**456**
2007	38	–	–	–	13*	51
Tranche 4 (not yet vested)						
2008	**13**	**–**	**3**	**–**	**–**	**16**
2007	–	–	–	–	–	–
Total						
2008	**530**	**–**	**3**	**18**	**–**	**551**
2007	93	–	–	23	13	129

* Options forfeited in 2008

The SMARTRAC 2008 Annual General Meeting of Shareholders amended the Stock Plan. The amendment changed the approved Stock Plan to the effect that no shares can be granted to the members of the Supervisory Board. According to the amended Stock Plan, members of the Management Board of the company, key employees of the company or of an affiliate of the company may receive compensation components in shares or may convert part of his or her bonus, if any, into shares of the capital of the company. In 2008, 14,377 shares have been granted to the Management Board.

Number of shares granted (stock plan)	Dr. Christian Fischer	Manfred Rietzler	Stephen Juge	Ronald Brown	Anthony E. Driessen	Total
2008	**12,754***	**–**	**1,623**	**–**	**–**	**14,377**
2007	–	–	–	–	–	–

* Thereof 5,936 shares converted from 2007 cash bonus at a share price of euro 32.95

Fair value of shares granted (Stock plan)	Dr. Christian Fischer	Stephen Juge	Total
2008	**107,793**	**25,660**	**133,453**
2007	–	–	–

Compensation for members of the Supervisory Board

The SMARTRAC 2008 Annual General Meeting of Shareholders approved an increase of the yearly remuneration paid to the Supervisory Board members. The reason for the increase of the remuneration is the fact that the members of the Supervisory Board are no longer entitled to share options or shares as part of their remuneration.

In 2008, the yearly remuneration of the ordinary members of the Supervisory Board amounts to euro 30,000 and the yearly remuneration of the chairman of the Supervisory Board amounts to euro 90,000.


SMARTRAC
TECHNOLOGY

Financial statements

Consolidated income statement
For the years ended 31 December

In thousands of euro	Note	Consolidated 2008	Consolidated 2007
Revenue	5	112,301	96,566
Cost of sales	7	(71,070)	(54,870)
Gross profit		**41,231**	**41,696**
Administrative expenses	8	(25,426)	(19,657)
Other operating income and expenses	10	33	(88)
Total operating expenses		**(25,393)**	**(19,745)**
Operating profit before financial income (expenses)		**15,838**	**21,951**
Financial income		3,561	601
Financial expenses		(5,434)	(1,546)
Net financial income (expenses)	11	**(1,873)**	**(945)**
Share of (loss) /profit of associates	6	–	(211)
Profit before tax		**13,965**	**20,795**
Income tax (expense) / benefit	12	(338)	(55)
Profit for the period attributable to the equity holders of the company		**13,628**	**20,740**
Basic earnings per share (euro)	13	1.03	1.55
Diluted earnings per share (euro)	13	1.03	1.54

The accompanying notes (on page 88 to 147) are an integral part of the consolidated financial statements.

Consolidated balance sheet

As at 31 December

In thousands of euro	Note	Consolidated 2008	Consolidated 2007
Assets			
Intangible assets	16	58,351	8,885
Property, plant and equipment	15	38,440	26,879
Other investments	4	415	–
Investment in associates	6	–	240
Deferred tax assets	12	2,141	2,068
Other non-current assets		920	32
Total non-current assets		**100,267**	**38,104**
Inventories	17	19,428	13,072
Trade receivables	18	21,246	25,415
Current income tax		890	26
Other current assets	19	2,624	3,224
Short-term investments	20, 27	10,399	22,060
Cash and cash equivalents	21, 27	22,532	14,589
Total current assets		**77,120**	**78,386**
Total assets		**177,387**	**116,490**
Equity			
Share capital	1, 22	6,750	6,750
Share premium	1, 22	56,911	54,463
Translation reserve		98	(86)
Retained earnings		43,487	29,859
Treasury stock	14	(9,092)	(4,798)
Total equity attributable to equity holders of the company		**98,154**	**86,188**
Liabilities			
Secured loans	23	1,142	2,112
Employee benefits	24	317	103
Deferred tax liabilities	12	3,228	321
Total non-current liabilities		**4,687**	**2,536**
Bank overdraft	21	353	271
Current portion of secured loan	23	462	194
Interest-bearing loans and borrowings	23	53,382	6,878
Trade and non-trade payables	25	14,423	15,289
Current income tax	26	341	20
Other current liabilities	26	5,586	5,114
Total current liabilities		**74,547**	**27,766**
Total liabilities		**79,234**	**30,302**
Total equity and liabilities		**177,387**	**116,490**

The accompanying notes (on page 88 to 147) are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

For the years ended 31 December

In thousands of euro	Note	Consolidated 2008	Consolidated 2007
Cash flows from operating activities			
Net profit		13,628	20,740
Reconciliation of net profit to net cash provided by (used in) operating activities:			
Depreciation and amortisation	7, 8	5,176	3,569
Expenses for share based payments	14, 29	1,692	943
(Reversal of) write down of inventories	10	56	270
Impairments on trade and other receivables		17	152
(Gains) or losses on disposal of assets	10	33	(24)
Share of loss (profit) of associates	6	–	211
Other non cash items		(187)	425
Changes in operational assets and liabilities:			
Other non-current assets		(14)	55
Inventories		(3,800)	(5,282)
Other current assets		1,188	(1,259)
Trade receivables		6,639	(11,664)
Employee benefits		49	53
Trade and non-trade payables		(5,281)	4,642
Other current liabilities		57	3,879
Net cash provided by operating activities		**19,253**	**16,710**
Cash flows from investing activities			
Net cash inflow (outflow) on purchase of subsidiaries	4	(47,565)	(6,795)
Other investments	4	(415)	–
Cash payment on purchase of short-term investments		11,834	(22,206)
Proceeds from sale of equipment		234	369
Purchases of intangible assets	16	(3,178)	(287)
Purchases of property, plant and equipment	15	(10,406)	(10,460)
Deposits paid for property, plant and equipment	19	–	(1,128)
Net cash used in investing activities		**(49,496)**	**(40,507)**
Cash flows from financing activities			
Share buyback	14	(7,529)	(5,020)
Proceeds from interest-bearing loans and borrowings and secured loan		46,504	9,105
Repayments of interest-bearing loans and borrowings and secured loan		(868)	(1,117)
Net cash provided by financing activities		**38,107**	**2,968**
Net change in cash and cash equivalents and bank overdrafts		7,864	(20,829)
Cash and cash equivalents and bank overdrafts at 1 January		14,318	35,044
Effect of exchange rate fluctuations on cash and cash equivalents and bank overdrafts		(3)	151
First time inclusion of subsidiaries on cash and cash equivalents and bank overdrafts		–	(48)
Cash and cash equivalents and bank overdrafts at 31 December	**21**	**22,179**	**14,318**

The accompanying notes (on page 88 to 147) are an integral part of the consolidated financial statements.

Net cash provided by operating activities comprise interests received amounting to euro 442,000 (2007: euro 481,000), interests paid amounting to euro 351,000 (2007: euro 87,000) and taxes paid amounting to euro 854,000 (2007: euro 124,000).

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2007 and 2008

In thousands of euro	Issued and paid-up share capital	Share premium	Translation reserve	Retained earnings*	Treasury stock	Total
Balance – beginning of year 2007	**6,750**	**53,548**	**24**	**9,119**	**–**	**69,441**
Foreign exchange translation	–	–	(110)	–	–	(110)
Net profit for the period	–	–	–	20,740	–	20,740
Total recognized income and expenses of the period	**–**	**–**	**(110)**	**20,740**	**–**	**20,630**
Share buyback – treasury stock (note 14)	–	–	–	–	(5,020)	(5,020)
Reversal of IPO costs credited to share premium	–	194	–	–	–	194
Share bonus (note 14)	–	–	–	–	222	222
Share based payment (note 29, note 14)	–	721	–	–	–	721
Balance – end of year 2007	**6,750**	**54,463**	**(86)**	**29,859**	**(4,798)**	**86,188**
Balance – beginning of year 2008	**6,750**	**54,463**	**(86)**	**29,859**	**(4,798)**	**86,188**
Foreign exchange translation	–	–	184	–	–	184
Net profit for the period	–	–	–	13,628	–	13,628
Total recognized income and expenses of the period	**–**	**–**	**184**	**13,628**	**–**	**13,812**
Share buyback – treasury stock (note 14)	–	–	–	–	(7,529)	(7,529)
Settlement of asset deal SonSun (note 14)	–	24	–	–	1,437	1,461
Share based acquisition Xytec (note 4)	–	1,876	–	–	–	1,876
Share based payment – shares (note 14)	–	(732)	–	–	1,798	1,066
Share based payment – options (note 29)	–	1,279	–	–	–	1,279
Balance – end of year 2008	**6,750**	**56,911**	**98**	**43,487**	**(9,092)**	**98,154**

The accompanying notes (on page 88 to 147) are an integral part of the consolidated financial statements.

* The retained earnings as at 31 December 2008 include a legal reserve for capitalized internal development costs amounting to euro 1,749,000 (2007: euro 0). Retained earnings in 2007 included an amount of euro 432,000 relating to the share of profits of a former associate, which was not yet distributed to SMARTRAC N.V.

Notes to the consolidated financial statements for the year ended 31 December 2008

1. Reporting entity

a) General

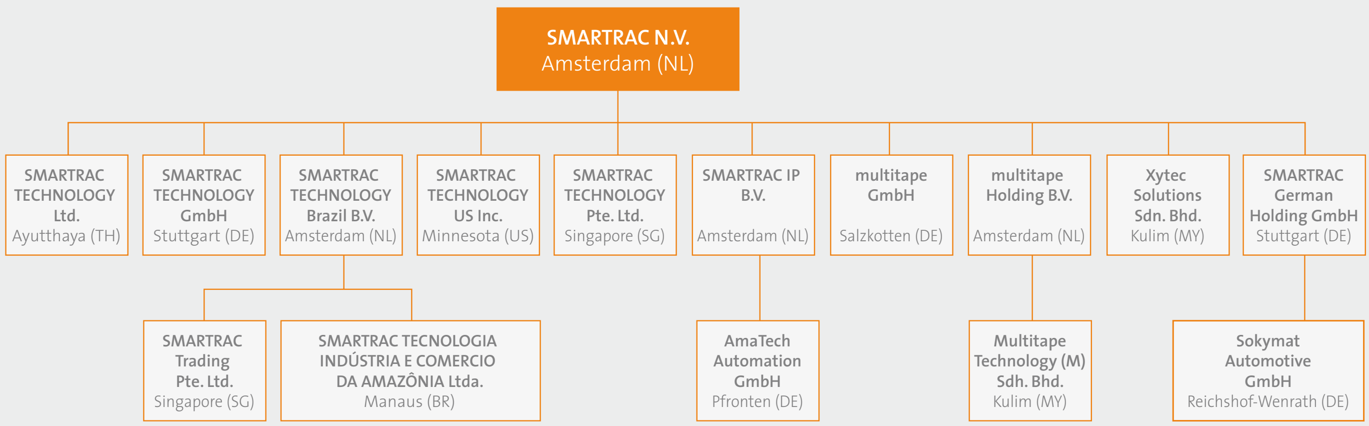
SMARTRAC N.V. ('the Company') is a company domiciled at Strawinskylaan 851, 1077 XX Amsterdam, The Netherlands. The shares of the company are listed in the Prime Standard at Frankfurt Stock Exchange (ISIN NL 0000186633). The company acts as the holding company for the SMARTRAC Group ('the Group'), comprising of the following consolidated entities as at 31 December 2008:

Company	Country of incorporation	Date of incorporation/ inclusion	Business type	Ownership and voting interest
Direct Holdings				
SMARTRAC TECHNOLOGY Ltd.	Thailand	1 January 2000	Manufacturing	100 %
SMARTRAC TECHNOLOGY GmbH	Germany	17 November 2003	Manufacturing/ Service Centre	100 %
SMARTRAC TECHNOLOGY Pte. Ltd.	Singapore	7 October 2005	Sales Service	100 %
multitape GmbH	Germany	26 January 2007	Manufacturing	100 %
SMARTRAC TECHNOLOGY Brazil B.V.	The Netherlands	27 February 2007	Holding	100 %
SMARTRAC TECHNOLOGY US Inc.	USA	31 August 2007	Manufacturing	100 %
SMARTRAC IP B.V.	The Netherlands	18 January 2007	IP Management	100 %
multitape Holding B.V.	The Netherlands	3 September 2007	Holding	100 %
Xytec Solutions Sdn. Bhd.	Malaysia	21 January 2008	Manufacturing	100 %
SMARTRAC German Holding GmbH	Germany	2 September 2008	Holding	100 %
Indirect Holdings				
SMARTRAC TECNOLOGIA INDÚSTRIA E COMERCIO DA AMAZÔNIA Ltda.	Brazil	15 July 2007	Manufacturing	100 %
SMARTRAC Trading Pte. Ltd.	Singapore	22 March 2007	Trading	100 %
Multitape Technology (M) Sdn. Bhd.	Malaysia	3 October 2007	Manufacturing	100 %
Sokymat Automotive GmbH	Germany	26 September 2008	Manufacturing	100 %

b) Activities

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

c) Group structure



d) Financial year

According to the Articles of Association of SMARTRAC N.V., the financial reporting year ends at 31 December 2008.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the International Accounting Standards Board (IASB) effective as at 31 December 2008 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 13 March 2009 and will be submitted for adoption to the Annual General Meeting of Shareholders on 29 April 2009.

b) Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit of the company and 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 31 December 2008, together with a description of the principal risks that the Group is confronted with.

Amsterdam, 13 March 2009

Dr. Christian Fischer
Chairman of the Management Board, CEO

Manfred Rietzler
Member of the Management Board, CTO

Stephen Juge
Member of the Management Board, Chief Legal Counsel

c) Basis of measurement

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

- Investments in associates are stated using the equity method
- Short-term investments are stated at fair value through profit and loss
- 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

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 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
- Valuation of intangible assets, especially goodwill

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 2008 the Group acquired additional subsidiaries and established additional companies (please refer to note 4).

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

3. Associates
Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

4. Transactions eliminated on consolidation
Intragroup balances and any unrealized gains and losses or income and expenses arising from intragroup 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 remeasured (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). Remeasurement 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 euros. Assets and liabilities have been translated into euros 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 transaction date.

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 recognised in profit or loss when the gain or loss on disposal is recognised.

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 translation at year-end of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Currency	2008 Period end rate	2008 Period average rate	2007 Period end rate	2007 Period average rate
EUR / USD	1.40	1.46	1.47	1.37
EUR / THB	48.35	47.84	43.82	44.54
EUR / SGD	2.03	2.07	2.13	2.06
EUR / BRL	3.30	2.64	2.60	2.62*
EUR / MYR	4.89	4.86	4.88	4.72
EUR / CHF	1.48	1.58	1.66	1.64

* Currency average exchange rate in 2007 is not the full year 2007 average rate which is due to acquisition reporting period.

c) Property, plant and equipment

1. Recognition and measurement

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

2. Subsequent costs

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

3. Depreciation

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

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

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

d) Intangible assets

1. 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 (5.)) and impairment losses (see accounting policy i).

2. Software

Software acquired by the Group is stated at cost less accumulated amortization (see accounting policy d (5.)) and impairment losses (see accounting policy i).

3. 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.

4. Research and development

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

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

5. 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 are 10 to 20 years and for software are 5 years. The estimated useful life for capitalized development expenditure is generally 3 years. The amortization methods, residual values and useful lives are subject to annual reassessment. The amortization period of other intangible assets depends on the useful life of the particular asset and varies between 4 months and 10 years.

e) Trade and other receivables

Trade and other receivables are stated at amortized cost using the effective interest method less impairment losses (see accounting policy i).

f) Inventories

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

g) Financial instruments

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

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

Interest-bearing borrowings
Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, 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, based on management objective of risk avoidance. 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 call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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

i) Impairment

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

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

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

1. Calculation of recoverable amount

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

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Key assumptions on which management has based its determination of value in use include the 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 Thai Government bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

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

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

2. Share-based payment transactions

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

k) Trade and other payables

Trade and other payables are stated at amortized cost.

l) Revenue

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer (following the applicable Incoterms). 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.

m) 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.

n) 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 provided 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.

o) 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.

p) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The business segments are determined based on the Group's management and internal reporting structure.

q) New accounting policies

As from 1 January 2008, the Group applies the following mandatory standards and interpretations:

– IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (mandatory 2008) requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 requires a retrospective application. This IFRIC has no effect on the consolidated financial statements.

r) New standards and interpretations

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

– IFRS 8 Operating Segments introduces the 'management approach' to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments. Under the management approach, the Group will present segment information in respect of the business unit structure that is implemented with the beginning of the year 2009.

– IAS 23 Borrowing Costs (revised) (mandatory 2009) removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. The Group expects only a limited effect from this standard.

– IFRIC 13 Customer Loyalty Programs (mandatory 2009) addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programs for their customers. It relates to customer loyalty programs under which the customer can redeem credits for awards such as free or discounted goods or services. The Group expects to have no effect from this standard.

– Revised IAS 1 Presentation of Financial Statements (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.

Revised IAS 1, becomes mandatory for the Group's 2009 consolidated financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 consolidated financial statements.

– Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on its 2009 consolidated financial statements.

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

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

– Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are expected to have no or a limited effect on Group's consolidated financial statements.

– Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2, that will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application, are expected to have no effect on Group's consolidated financial statements.

– IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies that availability of pension assets is the case when, at the balance sheet date, there is an unconditional right to the surplus now or in the future by means of reimbursements and/or reductions in future contributions. Minimum funding requirements may have an impact on the availability. IFRIC 14, which becomes mandatory for the Group's 2009 consolidated financial statements, with limited retrospective application, is expected to have no or only a limited effect on Group's consolidated financial statements.

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation discusses a number of issues in relation to hedging currency risks on foreign operations (net investment hedges). IFRIC 16 specifically confirms only the risk from differences between the functional currencies of the parent and the subsidiary can be hedged. Additionally, currency risks can only be hedged by every (direct or indirect) parent company, as long as the risk is only hedged once in the consolidated financial statements. IFRIC 16 also determines the hedge instrument of a net investment hedge can be held by every group company, except for foreign operation itself. IFRIC 16, which becomes mandatory for the Group's 2009 consolidated financial statements, with prospective application, is expected to have an effect on Group's consolidated financial statements since it is not unlikely that the Group will make use of hedging activities with respect to IFRIC 16

- IFRIC 17 Distributions of Non-cash Assets to Owners addresses the treatment of distributions in kind to shareholders. Outside the scope of IFRIC 17 are distributions in which the assets being distributed are ultimately controlled by the same party or parties before and after the distribution (common control transactions). A liability has to be recognised when the dividend has been appropriately authorised and is no longer at the discretion of the entity, to be measured at the fair value of the non-cash assets to be distributed. IFRIC 17, which becomes mandatory for the Group's 2010 consolidated financial statements, with prospective application, is expected to have no or only a limited effect on Group's consolidated financial statements.

- IFRIC 18 Transfers of Assets from Customers addresses the accounting by access providers for property, plant and equipment contributed to them by customers. Recognition of the assets depends on who controls it. When the asset is recognised by the access provider, it is measured at fair value upon initial recognition. The timing of the recognition of the corresponding revenue depends on the facts and circumstances. IFRIC 18, which becomes mandatory for the Group's 2010 consolidated financial statements, with prospective application is expected to have no effect on Group's consolidated financial statements.

- Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate revises, amongst others, the accounting for 'pre-acquisition dividends' received from participating interests. Those dividends should be recognised as revenue, but such dividends may imply an indicator for the impairment of the participating interest. The amendment, which becomes mandatory for the Group's 2009 consolidated financial statements, with prospective application is expected to have no effect on Group's consolidated financial statements.

- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items provides additional guidance concerning specific positions that qualify for hedging ('eligible hedged items'). The amendment to IAS 39, which becomes mandatory for the Group's 2010 consolidated financial statements, with retrospective application, is expected have no effect on Group's consolidated financial statements.

- Improvements to IFRSs (2008) is a collection of minor improvements to existing standards. This collection, which becomes mandatory for the Group's 2009 consolidated financial statements is expected to have no or only a limited effect on Group's consolidated financial statements.

- IFRIC 15 'Agreement for the Construction of Real Estate' applies to companies which develop real estate and becomes effective in 2009. As we do not have activities in this area, we do not expect any impact from.

4. Business combinations

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

Company	Date of first time inclusion	Percentage of voting equity instruments acquired	Transaction costs	Goodwill	Revenues since inclusion	Profit & loss since inclusion	Revenues since 1 Jan. 2008	Profit & loss since 1 Jan. 2008
Xytec Solutions Sdn. Bhd.	21 Jan. 2008	70 %	66	1,309	–*	–*	–*	–*
SMARTRAC German Holding GmbH	2 Sep. 2008	100 %	–	3	–	(2)	–	(2)
Sokymat Automotive GmbH	26 Sep. 2008	100 %	1,465	37,197	5,514	586	25,249	2,272
Total			**1,531**	**38,509**	**5,514**	**584**	**25,249**	**2,270**

* No third party transactions

Transaction costs mainly comprice legal and consultancy fees as well as a signing bonus.

Xytec Solutions Sdn. Bhd.

On 21 January, 2008 SMARTRAC N.V. agreed to acquire the remaining seventy percent of the issued share capital of Xytec Solutions Sdn. Bhd., Pulau Pinang, Malaysia. The acquisition costs contain the purchase price according to the Share Purchase Agreement of 66,184 shares in SMARTRAC plus the incidental acquisition costs of euro 53,000. The fair value of the SMARTRAC shares was determined at euro 28.35 per share. It was assumed that the published price at the date of exchange of a quoted equity instrument provides the best evidence of the instrument's fair value. The shares were not issued to the acquiree as at 31 December 2008. The fair value of the shares to be issued amounted to euro 1,876,000. This amount was credited to share premium.

Xytec provides SMARTRAC with specialized machinery for the production of RFID inlays which are patent protected for SMARTRAC. On this basis, SMARTRAC has continuously built up production capacities for RFID inlays which are produced using patent-protected wire embedding technology.

SMARTRAC plans to increase the portfolio of Xytec and to apply its expertise also to new areas. Xytec currently does not realize any revenues with 3rd parties. The goodwill amounting to euro 1,309,000 is mainly attributable to anticipated savings due to synergies.The tables below present a summarized breakdown of the values of Xytec's net assets acquired (70 %) during the reporting period:

In thousands of euro	Total
Purchase consideration	
Cash paid	–
Total cash paid for acquisition	**–**
Thereof (euro 1,876,000 to be granted in SMARTRAC shares, euro 66,000 transaction costs)	1,943
Total purchase consideration	**1,943**
Fair value of net assets acquired	634
Goodwill	**1,309**

Detailed overview of the net assets acquired (70 %) in the course of the financial year 2008:

In thousands of euro	Carrying value prior to acquisition	Adjustment	Carrying value upon acquisition
Plant and equipment	599	–	599
Goodwill	–	1,309	1,309
Software	11	–	11
Other intangible assets	–	163	163
Other non-current assets	373	–	373
Inventories	229	–	229
Receivables	702	–	702
Other current assets	101	22	123
Cash and cash equivalents	969	–	969
Bank overdrafts	(8)	–	(8)
Payables	(1,881)	–	(1,881)
Other current liabilities	(598)	–	(598)
Deferred tax liabilities	–	(48)	(48)
Net assets acquired	**497**	**1,446**	**1,943**
Total purchase consideration settled in cash			–
Cash and cash equivalents acquired			961
Cash inflow on acquisition			**961**

SMARTRAC German Holding GmbH

SMARTRAC German Holding GmbH, located in Stuttgart, Germany, was acquired in September 2008 to act as a holding company for Sokymat Automotive GmbH, as described in the following paragraphs.

The tables below present a summarized breakdown of the values of SMARTRAC German Holding's net assets acquired during the reporting period:

In thousands of euro	Total
Purchase consideration	
Cash paid	28
Total cash paid for acquisition	**28**
Purchase price liabilities	–
Total purchase consideration	**28**
Carrying amount of net assets acquired	25
Goodwill	**3**

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

In thousands of euro	Carrying value prior to acquisition	Adjustment	Carrying value upon acquisition
Goodwill	–	3	3
Cash and cash equivalents	25	–	25
Bank overdrafts	–	–	–
Net assets acquired	**25**	**3**	**28**
Total purchase consideration settled in cash			(28)
Cash and cash equivalents acquired			25
Cash outflow on acquisition			**(3)**

Sokymat Automotive GmbH

By contracts dated 22 September 2008 and 18 November 2008, SMARTRAC German Holding acquired seventy five percent (75 %) from the Swatch Group AG, Neuchatel, Switzerland, and twenty five percent (25 %) from Padma Netherlands B.V., Amsterdam, The Netherlands, in total one hundred percent (100 %), of the issued share capital of Sokymat Automotive GmbH located in Reichshof-Wehnrath, Germany. Padma Netherlands B.V. is a company controlled by Mr. Manfred Rietzler, CTO of SMARTRAC. Applicable provisions of Dutch Corporate Governance Code have been complied with.

Sokymat Automotive GmbH holds a strong position in the market of RFID components for the automotive industry. Sokymat also produces RFID inlays and discs that are applied in manufacturing industries, logistics, laundry, animal identification and science applications. As a result of the acquisition, a new platform will be created on which to accelerate growth in the existing industrial and logistics business of SMARTRAC by combining it with the respective business lines of Sokymat Automotive. The goodwill amounting to euro 37,197,000 is mainly attributable to positive future income effects and anticipated savings due to synergies. The purchase price allocation was finalized as of 31 December 2008.

The tables below present a summarized breakdown of the values of Sokymat's net assets acquired during the reporting period.

In thousands of euro	Total
Purchase consideration	
Cash paid (thereof euro 1,216,000 transaction costs)	50,694
Total cash paid for acquisition	**50,694**
Purchase price liabilities (transaction costs)	249
Total purchase consideration	**50,943**
Carrying amount of net assets acquired	13,746
Goodwill	**37,197**

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

In thousands of euro	Carrying value prior to acquisition	Adjustment	Carrying value upon acquisition
Plant and equipment	3,515	1,107	4,622
Goodwill	–	37,197	37,197
Software	75	39	114
Research and development	–	1,337	1,337
Other intangible assets	–	7,078	7,078
Inventories	2,285	–	2,285
Receivables	2,844	–	2,844
Other current assets	3,038	–	3,038
Cash and cash equivalents	1,943	–	1,943
Current portion of secured installment loan	(166)	–	(166)
Employee benefits	(165)	–	(165)
Payables	(5,414)	–	(5,414)
Other current liabilities	(796)	–	(796)
Deferred tax liabilities	(106)	(2,868)	(2,974)
Net assets acquired	**7,053**	**43,890**	**50,943**
Total purchase consideration settled in cash			(50,694)
Cash and cash equivalents acquired			1,943
Cash outflow on acquisition			**(48,751)**

Other investments

On 19 May 2008 SMARTRAC acquired 100 % of the equity interests of the insolvent AmaTech Automation GmbH, located in Pfronten, Germany. SMARTRAC cannot gain control in the stage of insolvency and therefore AmaTech Automation GmbH has not been consolidated. The purchase price amounted to euro 415,000. The company holds specific patented technology.

On 10 July 2008, SMARTRAC signed a contract on the formation of RFTAG based in Shenzhen, China. According to this contract, SMARTRAC will acquire 30 percent of the shares in RFTAG Holding and have an option to take over the remaining shares. Both companies will work together in order to produce RFID inlays for the local Chinese market at the local subsidiary, RFTAG, based in Shenzhen, China. The contract is subject to standard closing conditions.

Under the contract, the local Chinese production subsidiary will receive a non-exclusive license for the application of SMARTRAC's proprietary wire-embedding technology in the manufacturing and sales of RFID inlays within China. This means that RFTAG will be the only Chinese manufacturer authorized to use this patented production technology.

5. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Other operating expenses have been allocated to segments based on the volume of units produced by each segment. Assets and liabilities and capital expenditure are not allocated to segments because they are utilized in the production of both Standard and High Security components.

Where production/trade of a unit only affects one segment, the total depreciation of this unit was allocated to this segment. Where a unit produced for both segments, the depreciation was allocated according to the segment's portion of the shipment volume (pieces; depreciation within cost of sales) and according to the segment's portion of sales revenues (depreciation within administrative expenses).

Business segments

The Group comprises the following main business segments:

- Standard components: the manufacture and sale of RFID inlays with embedded memory chips that have basic security features, such as password authentification and basic encryption, for use in applications such as access control, mass transportation, logistics and animal identification.
- High Security components: the manufacture and sale of RFID inlays with embedded memory chips with high security features such as sophisticated data encryption, controlled data access and mutual authentication, for use in applications such as ePayment and ePassport.
- Other operations: the disposal of assets and other income/expenses that cannot be attributed to standard or high security components.

Consolidated segment information by business segments

	Standard segment		High Security segment		Other operations		Eliminations		Consolidated	
In thousands of euro	**12 months ended Dec. 2008**	**12 months ended Dec 2007**	**12 months ended Dec 2008**	**12 months ended Dec 2007**	**12 months ended Dec 2008**	**12 months ended Dec 2007**	**12 months ended Dec 2008**	**12 months ended Dec 2007**	**12 months ended Dec 2008**	**12 months ended Dec 2007**
Segment revenue										
Revenues	**52,054**	**28,950**	**60,617**	**67,747**	**67**	**–**	**(437)**	**(131)**	**112,301**	**96,566**
thereof to external customers	52,054	28,950	60,180	67,616	67	–	–	–	112,301	96,566
Segment result										
Gross profit	11,558	7,739	29,606	33,959	67	(2)	–	–	41,231	41,696
Operating income (expenses)	(9,401)	(5,377)	(13,437)	(12,870)	(2,554)	(1,498)	–	–	(25,393)	(19,745)
Operating profit (loss)	2,157	2,362	16,169	21,089	(2,487)	(1,500)	–	–	15,838	21,951
Net financial income (expenses)									(1,873)	(945)
Share of profit of associates									–	(211)
Income tax (expense) benefit									(338)	(55)
Profit for the period									**13,628**	**20,740**
Supplemental information										
Operating profit (loss)	2,157	2,362	16,169	21,089	(2,487)	(1,500)	–	–	15,838	21,951
Depreciation and amortization	2,447	1,374	2,671	2,178	58	17	–	–	5,176	3,569
Segment EBITDA*	**4,604**	**3,736**	**18,840**	**23,267**	**(2,429)**	**(1,483)**	**–**	**–**	**21,015**	**25,520**

* EBITDA is defined as operating profit for the period before depreciation, amortization, financial result, share of profit of associates, and income tax result. EBITDA is not a measure of operating performance or liquidity under IFRS. EBITDA as presented may not be comparable to measures with similar names as presented by other companies.

Revenues by subsegment were as follows:

In thousands of euro	**Consolidated 2008**	**Consolidated 2007**
Standard components		
Mass transportation / access control	42,642	25,563
Logistics	9,412	3,387
Subtotal	**52,054**	**28,950**
High security components		
ePayment	17,394	11,267
ePassport	43,223	56,480
Subtotal	**60,617**	**67,747**
Other operations	**67**	**–**
Total before eliminations	**112,738**	**96,697**
Segment eliminations	(437)	(131)
Total revenue	**112,301**	**96,566**

Geographical segments

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

In thousands of euro	Consolidated 2008	Consolidated 2007
Revenues		
Asia	16,593	7,397
Europe	57,180	67,133
North America	30,497	16,683
Latin America	7,514	4,239
Others	517	1,114
Total revenues	**112,301**	**96,566**
Assets		
Asia	71,746	69,296
Europe	91,707	37,845
North America	6,844	2,480
Latin America	7,090	6,869
Total assets	**177,387**	**116,490**
Liabilities		
Asia	14,942	19,626
Europe	60,982	5,549
North America	909	194
Latin America	2,402	4,933
Total liabilities	**79,234**	**30,302**

Property, plant and equipment and intangibles acquired

In thousands of euro	Consolidated 2008	Consolidated 2007
Property, plant and equipment		
Asia	9,410	8,186
Europe	4,827	1,699
North America	1,267	309
Latin America	379	1,631
Total property, plant and equipment	**15,883**	**11,825**
Intangibles		
Asia	3,127	219
Europe	47,190	2,219
North America	46	1,272
Latin America	225	3,409
Total intangibles	**50,588**	**7,119**

6. Investment in an associate

In 2007 the Group had a 30 % equity interest in Xytec Solutions Sdn. Bhd. (Xytec). The investment was accounted for under the equity method. Xytec was the only investment the Group has in associates. The acquisition of 70 % of the equity interest in Xytec is discussed in note 4 'Business Combinations'.

All transfers of funds from Xytec to the Group, i.e. distribution of cash dividends, are subject to the approval of at least 51 % of all shareholders of the associate. Prior to the full acquisition of Xytec shares, the Group has received a dividend amounting to euro 215,000.

7. Cost of sales

In thousands of euro	Consolidated 2008	Consolidated 2007
Raw materials and manufacturing supplies	50,576	39,756
Personnel expenses (note 9)	10,878	7,545
Depreciation and amortisation (note 15 and 16)	3,970	2,961
Other manufacturing costs	5,646	4,608
Total cost of sales	**71,070**	**54,870**

8. Administrative expenses

In thousands of euro	Consolidated 2008	Consolidated 2007
Personnel expenses (note 9)	13,497	10,493
Rental expenses	546	323
Sales commission expenses	5	453
Professional fees	3,998	3,055
Depreciation and amortisation (note 15 and 16)	1,206	608
Other administrative expenses	6,174	4,725
Total administrative expenses	**25,426**	**19,657**

Within the administrative expenses research and development expenses amounted to euro 1,138,000 (2007: euro 636,000).

9. Personnel expenses

In thousands of euro	Consolidated 2008	Consolidated 2007
Wages and salaries	19,772	15,036
Compulsory social security contributions	886	524
Employee benefits	37	21
Subcontractor fees	3,420	2,454
Other	260	3
Total	**24,375**	**18,038**

Personnel expenses are classified in the income statement as follows:

In thousands of euro (except headcount)	Consolidated 2008	Consolidated 2007
Cost of sales	10,878	7,545
Administrative expenses	13,497	10,493
Total	**24,375**	**18,038**
Number of staff employees	1,977	1,676
Number of subcontractors	809	949
Total	**2,786**	**2,625**

10. Other operating income (expenses)

In thousands of euro	Consolidated 2008	Consolidated 2007
Scrap sales	–	42
Reversal of / (write down) of inventories	(56)	(270)
Gain / (loss) on disposal of fixed assets	(33)	24
Impairment loss on trade receivables	(17)	–
Others	139	116
Total	**33**	**(88)**

11. Net financial income (expenses)

In thousands of euro	Consolidated 2008	Consolidated 2007
Change in fair value	279	–
Interest income	609	443
Foreign exchange gains	2,673	158
Financial income	**3,561**	**601**
Change in fair value	(423)	(263)
Interest expenses	(1,052)	(208)
Bank charges	(438)	(240)
Foreign exchange losses	(3,521)	(835)
Financial expenses	**(5,434)**	**(1,546)**
Net financial income (expenses)	**(1,873)**	**(945)**

The strong increase of foreign exchange gains and losses in 2008 was affected by a significant volatility of important currency rates over the whole year. Due to the debt financed acquisition of Sokymat Automotive GmbH, the interest expenses increased strongly.

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 Government (see note 30), SMARTRAC Technology Limited is entitled to the following corporate income tax facility relating to its production and sale of transponders in Thailand:

– Exemption from corporate income tax for seven years (until 2011), or a maximum of THB 183.5 million (approximately euro 3.8 million), whichever occurs first, on taxable profits generated under the subsidiary's second Board of Investment license.
– Exemption from corporate income tax for seven years (until 2013) or a maximum of THB 1,990 million (approximately euro 41.2 million) whichever occurs first.

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

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

Recognized in the income statement

In thousands of euro	Consolidated 2008	Consolidated 2007
Current corporate tax expense	(404)	(130)
Deferred tax benefit	66	75
Income tax (expense) / benefit	**(338)**	**(55)**

Reconciliation of effective tax charge

In thousands of euro	Consolidated 2008	Consolidated 2007
Profit before tax	**13,965**	**20,795**
Expected tax expense based on rate of 25.5 % (2007: 25.5 %)	(3,561)	(5,303)
Tax exempt income relating to promotional activities	4,737	5,812
Non-recognition of tax benefits on losses incurred	(1,774)	(545)
Non-deductible permanent differences	(201)	(91)
Tax rate differences in foreign jurisdictions	161	74
Other	300	(2)
Actual tax (expense) / income	**(338)**	**(55)**

Deferred tax assets

Movements in deferred tax assets recognised are as follows:

In thousands of euro	Consolidated 2008	Consolidated 2007
Balance 1 January	2,068	1,993
Recognised in income statement	73	75
Balance 31 December	**2,141**	**2,068**

Deferred tax liabilities

In thousands of euro	Consolidated 2008	Consolidated 2007
Balance 1 January	321	–
Recognized in the income statement	(7)	–
Acquired through business combinations	2,914	321
Balance 31 December	**3,228**	**321**

Movements in temporary differences during the year

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

In thousands of euro	Balance at 1 January 2007	Recognized in profit or loss	Acquired in business combinations	Balance at 31 December 2007
Deferred tax assets				
Intangible assets	–	14	–	14
Property, plant and equipment	–	150	–	150
Inventories	–	40	–	40
Trade receivables	–	59	–	59
Tax loss carry forward	3,085	166	–	3,251
./. Allowance	(1,092)	(354)	–	(1,446)
Total deferred tax assets	**1,993**	**75**	**–**	**2,068**
Deferred tax liabilities				
Intangible assets	–	–	(283)	(283)
Property, plant and equipment	–	–	(38)	(38)
Total deferred tax liabilities	**–**	**–**	**(321)**	**(321)**

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 euro 1,805,000 an amount of euro 0 is related to entities that have suffered a loss in either 2008 or 2007 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 unrecognized deferred tax asset as at 31 December 2008 amounts to euro 3,220,000 (2007: euro 1,446,000).

13. Earnings per share

Profit attributable to ordinary shareholders

The calculation of basic earnings per share at 31 December 2008 was based on the profit attributable to ordinary shareholders and amounts to euro 13,628,000 (2007: euro 20,740,000).

In thousands of shares	2008	2007
Number of ordinary shares	13,309	13,500
Effect of share buyback	(188)	(133)
Shares given out for acquisition	42	–
Employee bonus shares	24	1
Weighted average number of ordinary shares at 31 December	**13,187**	**13,368**

Basic earnings per share

In thousands of euro and shares, except earnings per share	Consolidated 2008	Consolidated 2007
Profit attributable to ordinary shareholders	13,628	20,740
Weighted average number of ordinary shares at 31 December	13,187	13,368
Earnings per share (euro)	**1.03**	**1.55**

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 first and fourth tranche. The second and third tranche do not have a dilutive effect.

– Average market share price: The average market share price was euro 21.65 (2007: euro 29.19).
– Effective tax rate: The effective tax rate is 0 %.

In thousands of shares	Consolidated 2008	Consolidated 2007
Weighted average of ordinary shares outstanding	13,187	13,368
Effect of potential dilutive shares		
Share options	28	69
Potential shares to be issued for Xytec acquisition	66	–
Weighted average of ordinary shares at 31 December	**13,281**	**13,437**

Diluted earnings per share

In thousands of euro and shares, except earnings per share	Consolidated 2008	Consolidated 2007
Profit attributable to ordinary shareholders	13,628	20,740
Weighted average number of ordinary shares at 31 December	13,281	13,437
Diluted earnings per share (euro)	**1.03**	**1.54**

14. Treasury stock

220,170 shares were acquired in the course of the year 2008. All purchases were concluded on the basis of the publicly announced buyback program. The buyback program, which started on 4 February 2008, was conducted via the stock exchange. The share buyback was completed on 8 April 2008. In conjunction with the share buyback program 220,170 shares were acquired in 2008. SMARTRAC authorized a bank to conduct the share buyback. The SMARTRAC Management Board intends to utilize the shares from the current buyback in the context of acquisitions as well as for the company's own employee share programs.

In March 2008 49,470 shares were granted to the sellers of the SonSun business with a fair value of euro 1,461,000.

In conjunction with the stock plan 5,936 shares were issued to a member of the Management Board as on 1 April 2008 and on 13 August 2008 SMARTRAC granted 24,176 bonus shares to its employees with a fair value of euro 381,000. The treasury stock therefore decreased by euro 728,000.

Moreover, SMARTRAC granted 29,656 locked shares with a fair value of euro 496,000 euro to an executive officer of a SMARTRAC group entity.

On 22 November 2007 SMARTRAC granted 8,856 bonus shares to its employees with a fair value of euro 305,000.

The table below sets out the monthly purchases under the share buyback program and the development of treasury stock with respect to the bonus share issuance:

Month	Number of shares	Average share price in euro
April 2007 (acquisition)	99,641	23.35
May 2007 (acquisition)	99,859	26.74
November 2007 (bonus shares rendered)	(8,856)	25.16
Total as at 31 December 2007	**190,644**	
February 2008 (acquisition)	86,189	35.19
March 2008 (acquisition)	101,132	33.91
March 2008 (SonSun asset deal settlement)	(49,470)	29.05
April 2008 (conversion of bonus in shares according to stock plan)	(5,936)	29.90
April 2008 (acquisition)	32,849	32.49
August 2008 (bonus shares rendered)	(24,176)	30.13
September 2008 (restricted stock bonus)	(29,656)	30.13
Subtotal current year	**110,932**	
Total as at 31 December 2008	**301,576**	**30.14**

15. Property, plant and equipment

In thousands of euro	Land	Buildings and building improvements	Vehicles
Cost			
Balance at 1 January 2007	754	4,162	41
Acquired through business combinations	–	–	–
Acquisitions	–	400	–
Reclassification*	–	2,468	–
Disposals	–	–	–
Balance at 31 December 2007	**754**	**7,030**	**41**
Accumulated depreciation			
Balance at 1 January 2007	–	869	34
Depreciation charge for the year	–	718	4
Reclassification*	–	–	–
Disposals	–	–	–
Balance at 31 December 2007	**–**	**1,587**	**38**
Carrying amounts			
At 1 January 2007	754	3,293	7
At 31 December 2007	**754**	**5,443**	**3**
Cost			
Balance at 1 January 2008	754	7,030	41
Acquired through business combinations	176	1,648	66
Acquisitions	321	2,615	96
Reclassification*	–	1,291	–
Disposals	–	(37)	–
Currency effects	–	22	(9)
Balance at 31 December 2008	**1,251**	**12,569**	**194**
Accumulated depreciation			
Balance at 1 January 2008	–	1,587	38
Depreciation charge for the year	–	788	28
Disposals	–	(17)	–
Currency effects	–	2	(1)
Balance at 31 December 2008	**–**	**2,360**	**65**
Carrying amounts			
At 1 January 2008	754	5,443	3
At 31 December 2008	**1,251**	**10,209**	**129**

* Reclassified to property, plant and equipment from intangible assets

	Machinery	Tools and equipment	Furniture and fixtures	Office equipment	Construction in progress	Consolidated
	14,335	1,896	612	542	2,630	24,972
	1,320	–	–	–	–	1,320
	5,972	823	218	354	2,738	10,505
	1,269	145	(256)	163	(4,399)	(610)
	(338)	(5)	(9)	–	(38)	(390)
	22,558	**2,859**	**565**	**1,059**	**931**	**35,797**
	3,688	697	181	217	–	5,686
	1,846	497	94	150	–	3,309
	(8)	30	(47)	(8)	–	(33)
	(31)	(2)	(9)	(2)	–	(44)
	5,495	**1,222**	**219**	**357**	**–**	**8,918**
	10,647	1,199	431	325	2,630	19,286
	17,063	**1,637**	**346**	**702**	**931**	**26,879**
	22,558	2,859	565	1,059	931	35,797
	3,016	3	9	87	461	5,466
	4,369	709	107	307	1,893	10,417
	1,275	17	11	12	(2,420)	186
	(48)	–	(5)	(5)	(212)	(307)
	(90)	5	(9)	(1)	1	(81)
	31,080	**3,593**	**678**	**1,459**	**654**	**51,478**
	5,495	1,222	219	357	–	8,918
	2,423	570	104	246	–	4,159
	(17)	–	(1)	(2)	–	(37)
	(6)	1	(1)	3	–	(2)
	7,895	**1,793**	**321**	**604**	**–**	**13,038**
	17,063	1,637	346	702	931	26,879
	23,185	**1,800**	**357**	**855**	**654**	**38,440**

16. Intangible assets

With the exception of internally generated development costs (2008: euro 1.749.000; 2007: euro 0) all additions to intangible assets were due to acquisitions.

In thousands of euro	Goodwill	Patents and patent rights	Software	Development costs	Others	Total
Cost						
Balance at 1 January 2007	–	1,733	40	–	–	1,773
Acquired through business combinations	5,572	700	3	–	492	6,767
Additions	–	79	257	–	15	351
Reclassification*	–	(6)	608	–	–	602
Currency effects	(65)	(62)	–	–	(14)	(141)
Balance at 31 December 2007	**5,507**	**2,444**	**908**	**–**	**493**	**9,352**
Amortization						
Balance at 1 January 2007	–	141	36	–	–	177
Amortization	–	150	52	–	58	260
Reclassification*	–	–	30	–	–	30
Balance at 31 December 2007	**–**	**291**	**118**	**–**	**58**	**467**
Carrying amounts						
At 1 January 2007	–	1,592	4	–	–	1,596
At 31 December 2007	**5,507**	**2,153**	**790**	**–**	**435**	**8,885**
Cost						
Balance at 1 January 2008	5,507	2,444	908	–	493	9,352
Acquired through business combinations	38,692	116	130	1,336	7,124	47,398
Additions	–	620	821	1,749	–	3,190
Reclassification*	–	–	–	(171)	(15)	(186)
Disposals	–	–	–	–	–	(1)
Currency effects	48	(7)	(7)	2	7	43
Balance at 31 December 2008	**44,247**	**3,173**	**1,851**	**2,916**	**7,609**	**59,796**
Amortization						
Balance at 1 January 2008	–	291	118	–	58	467
Acquired through business combinations	–	–	7	–	–	7
Amortization	–	170	167	78	602	1,017
Reclassification*	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Currency effects	–	(47)	(1)	–	1	(46)
Balance at 31 December 2008	**–**	**414**	**292**	**78**	**661**	**1,445**
Carrying amounts						
At 1 January 2008	5,507	2,153	790	–	435	8,885
At 31 December 2008	**44,247**	**2,759**	**1,560**	**2,838**	**6,948**	**58,351**

* Reclassified to property, plant and equipment

Goodwill results from business combinations of the financial year 2008 and 2007 please refer to note 4 'Business combinations'.

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 euro	Consolidated 2008	Consolidated 2007
High Security	1,787	1,084
Standard	42,460	4,423
Total	**44,247**	**5,507**

SMARTRAC performed its annual goodwill impairment tests at December 31, 2008. 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 10.2 % to 11.1 %, on a pre-tax basis. The cash flows were based on the Group's budget and were planned on a detailed basis covering period of three years. The growth rate used to extrapolate cash flow projections beyond the period covered is 1.4 %.

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.

17. Inventories

In thousands of euro	Consolidated 2008	Consolidated 2007
Raw materials and consumables	14,706	11,670
Work in progress	2,000	440
Finished goods	2,722	962
Total inventories	**19,428**	**13,072**

In financial year 2008 inventories (raw materials) of euro 56,000 have been written off (2007: euro 270,000) to zero.

18. Trade receivables

In thousands of euro	Consolidated 2008	Consolidated 2007
Trade receivables with related parties	–	373
Third parties	21,804	25,571
Impairments	(559)	(529)
Total trade receivables	**21,246**	**25,415**

Trade receivables are shown net of impairments amounting to euro 559,000 (2007: euro 529,000) of which euro 306,800 (2007: euro 343,000) arise from three customers that have gone bankrupt; euro 146,000 is from a related party, SMARTRAC Technology AG (a former sales agent of SMARTRAC Technology Ltd.) which has been outstanding since 2003 and is no longer considered recoverable; and the remaining amount is due from non-related parties.

19. Other current assets

In thousands of euro	Consolidated 2008	Consolidated 2007
Deposits paid	–	1,128
Prepayments to vendors	651	160
Prepaid expenses	888	540
Foreign currency option contracts	181	–
Other	904	1,422
Total	**2,624**	**3,250**

The foreign currency options are plain vanilla EUR/USD- and USD/THB-FX-Options. The fair value changes are booked through profit and loss.

20. Short-term investments

At 31 December 2008 SMARTRAC had invested euro 10,399,000 in securities (2007: euro 22,060,000). These financial assets consist of German Government Bonds of euro 9,784,000 (2007: euro 0) and other securities of euro 614,000 (2007: euro 5,588,000). They were designated on initial recognition as one to be measured at fair value with fair value changes in profit and loss.

21. Cash and cash equivalents

In thousands of euro	Consolidated 2008	Consolidated 2007
Cash	11,029	9,522
Short-term cash deposits	11,503	5,067
Cash and cash equivalents	**22,532**	**14,589**
Bank overdraft	(353)	(271)
Cash and cash equivalents and bank overdrafts as stated in the cash flow statement	**22,179**	**14,318**

At 31 December 2008, the Group held a total of euro 11,503,000 (2007: euro 5,067,000) of which euro 11,503,000 (2007: euro 5,067,000) in short-term deposits have a total period less than two months.

22. Equity

Share capital

Ordinary shares of SMARTRAC N.V. in thousands of shares	Consolidated 2008	Consolidated 2007
Outstanding at 1 January	13,309	13,500
Issued for cash	–	–
Share buyback	(220)	(200)
Shares rendered for acquisition	49	–
Employee bonus shares	60	9
Outstanding at 31 December	**13,198**	**13,309**

The Company holds own shares. Reference is made to note 14.

Authorized share capital

The authorized share capital of the Company is euro 25,000,000, comprising of 50,000,000 shares with a par value of euro 0.50 each, of which 13,500,000 shares are issued and fully paid. Please also refer to note 14.

Share premium reserve

The increase in share premium in the financial year 2008 and in the financial year 2007 is mainly due to the bonus shares granted and options vested in the course of the year 2007. Please refer to note 29. Additionally, reference is made to note 4.

23. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's financial liabilities. For more information about the Group's exposure to interest rate and foreign currency risk, see note 27.

In thousands of euro	Consolidated 2008	Consolidated 2007
Non-current liability		
Secured loan	1,142	2,112
	1,142	**2,112**
Current liabilities		
Current portion of secured loan	462	194
	462	**194**
Interest-bearing loans and borrowings		
Short-term bank borrowings	53,382	6,878
	53,382	**6,878**
	54,986	**9,184**

Secured loan

The secured bank borrowings are mainly borrowings under a credit facility agreed with Deutsche Bank S.A. in Brazil and used to refinance the buildup of the Brazilian SMARTRAC entity. Maturity of the credit facility is in December 2012. The bank borrowings totaling euro 1,249,000 are secured by a pledge on a securities account of SMARTRAC N.V. with a maximum pledge amount of euro 2,000,000.

Short term bank borrowings

For working capital financing purposes a revolving umbrella credit facility in the amount of euro 12,030,000 was agreed between Deutsche Bank AG and SMARTRAC N.V. The umbrella credit facility amount is allocated to different SMARTRAC entities as overdrafts, credit and guarantee facilities. As at 31 December 2008 short-term bank borrowings amounting to euro 2,971,000, bank overdrafts amounting to euro 100,000 and bank guarantees amounting to euro 87,000 were used under the revolving umbrella credit facility.

In addition to increase financial flexibility SMARTRAC N.V. has agreed with Deutsche Bank Luxembourg S.A. a euro 70,000,000 multicurrency revolving credit facility in August 2008, to be repaid before August 2009.

As at 31 December 2008 euro 50,478,000 were drawn under the credit facility.

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

In thousands of euro	Consolidated 2008	Consolidated 2007
Balance at the beginning of the year	147	91
Acquisition through business combinations	190	–
Current service costs	89	46
Interest on obligation	26	8
Actuarial gain or loss	1	2
Defined benefit obligation as at end of the year	**453**	**147**

Development of plan assets

In thousands of euro	Consolidated 2008	Consolidated 2007
Balance at the beginning of the year	–	–
Acquisition through business combinations	108	–
Contribution by employer	33	–
Expected return on plan assets	(5)	–
Plan assets as at end of the year	**136**	**–**

Pension plan assets fully consist of a life insurance.

Development of net liability

In thousands of euro	Consolidated 2008	Consolidated 2007
Defined benefit obligation unfunded	174	147
Defined benefit obligation wholly or partly funded	279	–
Plan assets	(136)	–
Unrecognised actuarial gains and losses	–	(44)
Defined benefit liability	**317**	**103**

Expense recognised in the income statement

In thousands of euro	Consolidated 2008	Consolidated 2007
Current service costs	89	46
Interest on obligation	26	8
Actuarial gain or loss	1	2
Expected return on plan assets	(5)	–
Total	**111**	**56**

These expenses were classified under administrative expenses.

The Group expects to contribute euro 93,000 to its defined benefits plans in 2009.

Weighted average assumptions

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

In thousands of euro	Consolidated 2008	Consolidated 2007
Discount rate at 31 December	6.00 %	6.00 %
Future salary increases	6.00 %	6.00 %
Price inflation	3.50 %	3.50 %

The Group has used the yield on 16-year Thai Government Bonds as the discount rate and nominal salary inflation in Thailand 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 euro	Consolidated 2008	Consolidated 2007
Trade payables due to related parties	–	25
Other trade payables	11,337	11,217
Total trade payables	**11,337**	**11,242**
Non-trade payables due to related parties	–	1,272
Other non-trade payables	3,086	2,775
Total non-trade payables	**3,086**	**4,047**
Total trade and non-trade payables	**14,423**	**15,289**

26. Other current liabilities

In thousands of euro	Consolidated 2008	Consolidated 2007
Accrued expenses	3,409	4,490
Prepayments from customers	542	90
Other liabilities	1,635	554
Total other current liabilities	**5,586**	**5,134**

Accrued expenses

In thousands of euro	Consolidated 2008	Consolidated 2007
Order related loss	506	2,366
Employment related	1,287	1,403
Other	1,616	721
Total accrued expenses	**3,409**	**4,490**

27. Financial instruments

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

SMARTRAC has implemented last year a Group Treasury Department. The two main fields of activities of this department are risk management and financing. The intensification of the financial crisis during the year has confirmed this step. As a consequence of the significant changes at the financial markets risk management activities were further enhanced. Furthermore to manage potential risks more efficiently and to follow the developments at the financial markets in real time SMARTRAC has implemented a financial market information system.

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

Liquidity risk

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

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

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

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

To closely monitor the liquidity position of SMARTRAC Group and its entities a weekly Treasury Reporting was implemented showing the development of the cash position of SMARTRAC Group and its entities. In addition a weekly cash flow planning on a rolling basis was implemented to ensure the permanent solvency of SMARTRAC Group and its entities.

Even after the acquisition of Sokymat Automotive GmbH in September 2008 the Group reports a comparably low level of indebtedness. The net financial debt position at the end of 2008 was euro 22,485,000 (2007: net cash position amounting to euro 14,318,000). The liquidity reserve was euro 32,934,000 (cash and cash equivalent euro 22,535,000 and liquid short-term investments euro 10,399,000).

A revolving umbrella credit facility in the amount of euro 12,030,000 was implemented 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. As at 31 December 2008, a total of euro 8,870,000 of the umbrella credit facility amount is unused (31 December 2007: euro 3,079,000).

In order to ensure financial flexibility and in the context of the acquisition of Sokymat Automotive GmbH, SMARTRAC N.V. has acquired a euro 70,000,000 multi-currency revolving credit facility. This credit facility was agreed in August 2008 with Deutsche Bank Luxembourg S.A. and matures in August 2009. The credit facility can only be used for acquisition purposes. Collateral or financial covenants are not provided. The interest rate is based on EURIBOR plus a margin of 0.5 %. As at 31 December 2008 a total amount of euro 50,478,000 was drawn. A total of euro 19,521,000 of the credit facility is unused as at 31 December 2008.

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 and derivative positions with banks and short term investment positions with issuers of securities or certificates in relation to liquidity management activities of SMARTRAC.

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

A credit policy for credit limits and payment terms for customers is in place. To closely monitor the credit risk positions a weekly Treasury Reporting was implemented.

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

At 31 December 2007 and 2008 significant concentrations of credit risk of a few key accounts were identified. In general those accounts are closely monitored by analyzing its financial statements on a regular basis. Those key accounts did show a solid balance sheet structure.

As a consequence of the current situation in the financial markets the management has decided to reallocate partly the liquidity reserve from investments in different certificates with a higher risk degree into investments in German government bonds.

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 euro	Consolidated 2008	Consolidated 2007
Trade receivables	21,246	25,415
Other current assets	1,085	1,422
Short-term investments	10,399	22,060
Cash and cash equivalents	22,532	14,589
Total	**55,262**	**63,486**

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

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

In thousands of euro	Consolidated 2008	Consolidated 2007
Asia	2,099	469
Europe	12,732	20,292
North America	4,652	3,612
Latin America	1,738	1,022
Other	25	20
Total	**21,246**	**25,415**

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

The major part of Group's financial borrowings for working capital financing as well as for the refinancing of acquisitions and investments are currently short-term with defined floating reference interest rates agreed. On the other hand, there is some kind of natural hedge in relation to existing interest bearing financial instruments with short term interest periods from the liquidity reserve. It is planned in the course of 2009 to refinance the existing borrowings with the clear targets to fix interest period also medium- to long-term and to diversify the maturity profile of the interest periods.

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.

To closely monitor the interest rate risk exposure of SMARTRAC Group and its entities a weekly Treasury Reporting was implemented.

Sensitivity analyis

From an accounting and treasury point of view at 31 December 2008, an increase of 1 % in interest rates of financial instruments decreases the Group's profit for the year before tax by euro 314,000 (2007: increase by euro 24,000) taking into 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, Thai Baht and Brazilian Real.

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

To closely monitor the foreign exchange risk exposure of SMARTRAC Group and its entities a weekly Treasury Reporting and cash flow planning was implemented.

The majority of the Group's bank borrowings and loans at 31 December 2008 and 2007 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 euro 669,000 for the year 2008 (2007: euro 250,000).

The tables below show the net foreign exchange exposure by major currencies as of Dec 31, 2008 and 2007.

As at 31 December 2008 Denominated in thousands of foreign currency	USD	THB	Effect in euro
Trade receivables	22,467	4,084	
Other current assets	376	7,921	
Financial assets	**22,843**	**12,006**	
Trade payables	3,928	204,763	
Non trade payables	650	28,832	
Loans	2,384	440	
Financial liabilities	**6,962**	**234,035**	
Gross balance sheet exposure (not hedged)	**15,881**	**(222,029)**	
Effect of 10 % appreciation of the euro, denominated in thousands of euro	(1,128)	459	(669)
Effect of 10 % appreciation of the euro, other foreign currencies, denominated in thousands of euro			–
Total foreign currency effect	**(1,128)**	**459**	**(669)**

As at 31 December 2007 Denominated in thousands of foreign currency	USD	THB	Effect in euro
Trade receivables	19,404	5,130	
Other current assets	157	8,393	
Financial assets	**19,561**	**13,523**	
Trade payables	5,724	166,597	
Non trade payables	73	48,090	
Loans	2,671	6,420	
Financial liabilities	**8,468**	**221,107**	
Gross balance sheet exposure (not hedged)	**11,093**	**(207,584)**	
Effect of 10 % appreciation of the euro, denominated in thousands of euro	(754)	474	(280)
Effect of 10 % appreciation of the euro, other foreign currencies, denominated in thousands of euro			30
Total foreign currency effect			**(250)**

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 disclo sure purposes only.

Derivatives

At 31 December 2008 the Group has derivatives with a total market value of euro 181,000. The derivatives were concluded to hedge identified cash risk exposures related to EUR/USD and USD/THB exchange rate fluctuations. Plain vanilla foreign exchange options were used here as hedging instrument.

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 2008 the return on equity was 14 % (2007: 24 %).

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

- SMARTRAC stock option scheme 2008
- SMARTRAC stock plan

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

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. The shares are intended to be used in the context of acquisitions as well as for the Group's own share programs. Reference is made to note 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.

28. Leases

Leases as lessee

Operating leases

Non-cancellable operating lease rentals are payable as follows:

In thousands of euro	Consolidated 2008	Consolidated 2007
Less than one year	1,105	699
Between one and five years	3,095	1,670
Longer than five years	121	–
Total	**4,321**	**2,369**

The Group has contractual operating leases over office equipment amounting to euro 56,000 (2007: euro 187,000), buildings amounting to euro 2,449,000 (2007: euro 1,784,000) and vehicles amounting to euro 637,000 (2007: euro 398,000).

Finance leases

SMARTRAC leases machinery under finance leases. In 2008 and 2007 finance lease arrangements existed.

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

In thousands of euro	Consolidated 2008	Consolidated 2007
Machinery		
Acquisition value	417	387
Accumulated depreciation	(46)	(6)
Net carrying amount	**371**	**381**

The following reconciliation provides a breakdown at year end:

	Consolidated 2008			Consolidated 2007		
In thousands of euro	**Minimum lease payment**	**Interest component**	**Present value**	**Minimum lease payment**	**Interest component**	**Present value**
Within 1 year	93	20	73	86	23	63
In 1 to 3 years	186	23	163	259	41	218
In 3 to 5 years	84	3	81	79	3	76
After 5 years	–	–	–	–	–	–
Total	**363**	**46**	**317**	**424**	**67**	**357**

The material finance leasing arrangements contain machinery. The uncancellable duration is 48 months. There is the possibility of renewal and a purchase option.

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

29. Share based payment

Stock option plan

On 8 February 2006, the Company's Management Board established a stock option plan (the Stock Option Plan) for members of Management and Supervisory Boards, Senior Management and selected employees of the Group which is applicable for the Company's financial year 2007.

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

The determination of the expected volatility is based on the 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 option

Stock options under the Stock Option Plan provide rights to purchase shares in the Company. Total expenses for the first to the fourth tranche of the SMARTRAC stock option scheme recorded at 31 December 2008. They are reported under administrative expenses and as an increase in shareholder's equity (share premium) at the same time. The Black Scholes model was used for the evaluation.

The total expenses for the Stock Option Scheme are as follows:

In thousands of euro	Consolidated 2008	Consolidated 2007
Tranche 1	108	170
Tranche 2	479	395
Tranche 3	659	73
Tranche 4	33	–
Total expenses	**1,279**	**638**

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 options granted thereafter were based on the weighted average price of the Company's shares during the ten 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 2007	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	17 August 2006	16.80	55 %	5 %	3.60 %	17 August 2012
Tranche 2	22.40	29 March 2007	22.11	40 %	5 %	3.97 %	29 March 2013
Tranche 3	39.20	23 Nov. 2007	34.50	40 %	0 %	3.67 %	23 Nov. 2013
Tranche 4	14.80	8 August 2008	16.55	45 %	5 %	4.02 %	8 August 2014

Stock option activity of the SMARTRAC Group during 2008 was as follows:

Consolidated 2008	Outstanding 1 Jan. 2008	Granted	Exercised	Forfeited	Outstanding 31 Dec. 2008
Tranche 1	55,750	–	–	(2,500)	53,250
Tranche 2	162,700	–	–	(15,250)	147,450
Tranche 3	152,000	–	–	–	152,000
Tranche 4	–	53,806	–	(4,368)	49,438
Total	**370,450**	**53,806**	**–**	**(22,118)**	**402,138**

In the financial year 2007 370,450 options (tranche 1 to 3) were granted and outstanding as at 31 December 2007.

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 euro	Consolidated 2008
Tranche 1	6.66
Tranche 2	6.86
Tranche 3	8.50
Tranche 4	3.44

Total expenses for the first to the fourth tranche are reported under administrative expenses 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 employees of SMARTRAC, treasury stock (see note 14) decreased by 59,768 shares.

30. Promotional privileges

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

– Exemption from corporate income tax on net earnings from the promotional activities for up to seven years (see note 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.

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 31 December 2008, 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'.

31. Capital commitments

As at 31 December 2008 no capital commitments existed with respect to land and buildings (31 December 2007: euro 0).

As at 31 December 2008, the Group has outstanding purchase orders for machinery amounting to euro 371,000 (31 December 2007: euro 294,000) of which with related parties euro 0 (31 December 2007: euro 120,000). The Group has done down payments on these purchase orders in 2008 amounting to euro 134,000 (2007: euro 30,000).

32. Contingencies

Legal proceedings

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

Off balance sheet commitments

At 31 December 2008 and 2007, the Group has bank guarantees granted to utility suppliers and for litigation costs amounting approximately euro 255,000 (2008) and euro 99,000 (2007).

33. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 1), associate (see note 6), and with its (former) directors, supervisory directors, executive officers and entities controlled by its directors and executive officers. In the ordinary course of business the Group has transactions with various organizations with which certain of its members of the Supervisory Board or Board of Management are associated but no transactions responsive to this item were conducted in 2008. Likewise, there have been no transactions with members of the Supervisory Board or Board of Management, member of the executive committee, any other senior management personnel or any family member of such persons. The members of the Board of Management and the Executive Committee are considered to be the key management personnel as defined in IAS 24 'Related parties'.

Transactions with key management

As at 31 December 2008 directors of the Company and their immediate relatives control 22.7 % of the voting shares of the Company (31 December 2007: 24.2 %).

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):

In thousands of euro	Dr. Christian Fischer	Manfred Rietzler	Stephen Juge	Ronald Brown	Anthony E. Driessen	Total
Salary						
2008	**420**	**250**	**192***	**–**	**8***	**870**
2007	420	180	–	240	25	865
Bonus (non-share based)						
2008	**439**	**–**	**50**	**–**	**–**	**489**
2007	383	–	–	285	–	668
Housing and others						
2008	**–**	**38**	**35**	**–**	**–**	**73**
2007	–	38	–	3	–	41
Total						
2008	**859**	**288**	**277**	**–**	**8**	**1,432**
2007	803	218	–	528	25	1,574

* pro-rata for the time of employment

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

Incentives

In 2008, stock options and shares were granted to the members of the Management Board. No options were excercised or expired during financial year 2008 and 2007. The aggregate numbers of (performance-related) stock options held by the members and the related option expenses (IFRS 2) of the Management Board were as follows:

Management Board – long-term compensation	Exercise price in euro	Dr. Christian Fischer	Manfred Rietzler	Stephen Juge	Ronald Brown	Anthony E. Driessen	Grand Total
Tranche 1 (vested)							
2006	17.00	5,000	–	–	5,000	–	10,000
Tranche 2 (not yet vested)							
2007	22.40	15,000	–	–	2,500	5,000*	22,500
Tranche 3 (not yet vested)							
2007	39.20	100,000	–	–	–	–	100,000
Tranche 4 (not yet vested)							
2008	**14.80**	**18,197**	**–**	**4,332**	**–**	**–**	**22,529**
Total		**138,197**	**–**	**4,332**	**7,500**	**5,000***	**155,029**
2008		**18,197**	**–**	**4,332**	**–**	**–**	**22,529**
2007		120,000	–	–	7,500	5,000*	132,500

Expenses for vesting options (IFRS 2) in thousands of euro	Dr. Christian Fischer	Manfred Rietzler	Stephen Juge	Ronald Brown	Anthony E. Driessen	Total
Tranche 1 (vested)						
2008	**10**	**–**	**–**	**10**	**–**	**19**
2007	17	–	–	17	–	33
Tranche 2 (not yet vested)						
2008	**51**	**–**	**–**	**9**	**–**	**60**
2007	39	–	–	6	–	45
Tranche 3 (not yet vested)						
2008	**456**	**–**	**–**	**–**	**–**	**456**
2007	38	–	–	–	13*	51
Tranche 4 (not yet vested)						
2008	**13**	**–**	**3**	**–**	**–**	**16**
2007	–	–	–	–	–	–
Total						
2008	**530**	**–**	**3**	**18**	**–**	**551**
2007	93	–	–	23	13	129

* Options forfeited in 2008

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

Number of shares granted (stock plan)	Dr. Christian Fischer	Stephen Juge	Total
2008	12,754*	1,623	14,377
2007	–	–	–

* Therof 5,936 shares converted from 2007 bonus

Fair value of shares granted (Stock plan)	Dr. Christian Fischer	Stephen Juge	Total
2008	107,793	25,660	133,452
2007	–	–	–

Remuneration of the Supervisory Board

In thousands of euro	Prof. Dr. Bernd Fahrholz	Wolfgang Huppenbauer	Jan C. Lobbezoo	Total
Base compensation				
2008	90	30	30	150
2007	75	25	25	125

Grant of options to a member of the Supervisory Board

Number of options granted	Prof. Dr. Bernd Fahrholz
Tranche 2 (not yet vested)	
2007	20,000
Tranche 3 (not yet vested)	
2007	15,000

Due to the new 2008 Stock Option Scheme, no options are granted to members of the Supervisory Board starting 2008. No options were excercised or expired during financial year 2008 and 2007.

Expenses for vesting options (IFRS 2) in thousands of euro	Prof. Dr. Bernd Fahrholz
Tranche 2 (not yet vested)	
2008	**69**
2007	51
Tranche 3 (not yet vested)	
2008	**68**
2007	6
Total	
2008	**137**
2007	57

Grant of shares to members of the Supervisory Board

Number of shares granted (stock plan)	Prof. Dr. Bernd Fahrholz	Wolfgang Huppenbauer	Jan C. Lobbezoo	Total
2008	–*	–*	–*	–*
2007	1,275	255	255	1,785

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

Transactions with Supervisory Board members

The law firm Dewey & LeBoef LLP. Frankfurt, in which Prof. Dr. Fahrholz is maintaining the position as a partner, invoiced SMARTRAC for legal assistance rendered for an amount of euro 20,000 in the financial year 2007.

Transactions with associates

During the year ended 31 December 2007, the Group purchased goods from its associate (Xytec) worth euro 5,032,000. Transactions with associates are priced on an arm's length basis. No dividends were received from associates. In 2008 Xytec was fully consolidated.

Other related party transactions and balances

Related parties are summarised below.

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

Name	Type of business	Relationship	Directors/shareholders
Emsquares AG	Development and sale of reading devices	Shareholder	Mr. Manfred Rietzler Mr. Martin Kuschewski
Xytec Solutions Sdn. Bhd.	Trading	Shareholder	SMARTRAC N.V.
Padma Netherlands B.V.	Holding	Shareholder	Mr. Manfred Rietzler

The Group had the following transactions with related parties:

In thousands of euro	Consolidated 2008	Consolidated 2007
Other operating income		
Xytec Solutions Sdn. Bhd.	–	750
Purchases of machinery		
Xytec Solutions Sdn. Bhd.	–	5,032
Total	**–**	**5,782**

Other operating income consists of royalty income for intellectual property rights granted.

The balances of receivable and payables with related parties are shown below:

In thousands of euro	Consolidated 2008	Consolidated 2007
Trade receivables		
Xytec Solutions Sdn. Bhd.*	–	357
Emsquares AG	–	16
	–	**373**
Deposits paid		
Emsquares AG	–	30
Xytec Solutions Sdn. Bhd.*	–	2,112
	–	**2,142**
Trade payables		
Xytec Solutions Sdn. Bhd.*	–	23
	–	**23**
Non-trade payables		
Safehaven Trading	–	4
Xytec Solutions Sdn. Bhd.*	–	908
	–	**912**

* Fully consolidated in the financial year 2008

In the course of the year 2008 SMARTRAC acquired 25 % of the interest of Sokymat GmbH from Padma Netherlands B.V. , a company owned by Manfred Rietzler. This acquisition was priced at arms-length. The same conditions were applied in the acquisition of the 75 % stake from the Swatch Group AG.

34. Auditor's fees and services

The following table provides a breakdown of auditing fees recognized as expenses in the 2008 financial year:

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

In thousands of euro	KPMG Accountants N.V.	Other KPMG	KPMG Network total 2007
Audit services	132	148	280
Non audit (review)	60	48	108
Fiscal advice	–	123	123
Advisory services	–	50	50
Total	**192**	**369**	**561**

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. Other professional fees mainly relate to consulting services and assistance.

35. Subsequent events

There are no subsequent events to be reported.

Company financial statements 2008 of SMARTRAC N.V.

Company balance sheet before appropriation of profits

As at 31 December

In thousands of euro	Note	2008	2007
Assets			
Property, plant and equipment		28	32
Intangible assets	4	181	194
Investment in subsidiaries	5	52,653	43,473
Investment in associate	6	–	465
Deferred tax assets	7	1,750	1,831
Total non-current assets		**54,612**	**45,995**
Loans to subsidiary companies	8	68,629	10,426
Other current assets	9	6,797	2,949
Short-term investments	10	10,399	22,060
Cash and cash equivalents	11	12,087	7,241
Total current assets		**97,912**	**42,676**
Total assets		**152,524**	**88,671**
Equity and liabilities			
Issued capital	12	6,750	6,750
Share premium	13	56,911	54,463
Translation reserve	13	98	(86)
Retained earnings	13	43,487	29,859
Treasury stock	13	(9,092)	(4,798)
Shareholders' equity		**98,154**	**86,188**
Non-trade payables	14	988	750
Current liabilities to subsidiaries	15	1,778	512
Interest-bearing loan	16	50,478	–
Other current liabilities	17	1,126	1,221
Total current liabilities		**54,370**	**2,483**
Total shareholders' equity and liabilities		**152,524**	**88,671**

The accompanying notes on page 150 to 157 are an integral part of the company financial statements.

Company income statement
For the years ended 31 December

In thousands of euro	2008	2007
Income after tax from investment in subsidiary companies and associates	13,913	21,371
Other income (loss) after tax	(285)	(631)
Result attributable to shareholders	**13,628**	**20,740**

The accompanying notes on page 150 to 157 are an integral part of the company financial statements.

Notes to the company financial statements of SMARTRAC N.V. for the year ended 2008

1. Reporting entity

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

2. Basis of preparation

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

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

3. Significant accounting policies

Investments in subsidiary companies

Investments in subsidiary companies are stated on the basis of the equity method. 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 2008 and in 2007 consist of patents. The decrease in intangibles results from amortisation of the patents on a regular basis

5. Investments in subsidiaries

In thousands of euro	2008	2007
Carrying value of investment at 1 January	**43,473**	**19,214**
Investments during the year	9,905	3,305
Equity accounted earnings	13,913	21,064
Dividends received	(14,822)	–
Currency translation effects	184	(110)
Carrying value of investment at 31 December	**52,653**	**43,473**

All investments are owned for 100 %.

6. Investment in associate

During the year 2008 SMARTRAC N.V. acquired the remaining 70 % of shares in Xytec Solutions Sdn. Bhd. For this reason this investment is shown under 'Investments in subsidiaries' in 2008.

7. Deferred tax asset

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

From the total amount of recognized deferred tax assets of euro 1,750,000 an amount of euro 0 is related to entities that have suffered a loss in either 2008 or 2007 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.

8. Short-term loans to subsidiaries

In thousands of euro	2008	2007
Subsidiary		
SMARTRAC TECHNOLOGY GmbH	1,290	1,290
SMARTRAC TECHNOLOGY Ltd.	–	2,043
SMARTRAC TECHNOLOGY Pte. Ltd.	3,401	2,981
SMARTRAC TECHNOLOGY Brazil BV	2,210	50
SMARTRAC IP BV	3,552	150
multitape GmbH	1,129	1,229
SMARTRAC TECHNOLOGY US Inc.	2,534	1,383
Multitape Technology Sdn. Bdh.	7,651	1,300
Xytec Solutions Sdn. Bdh.	210	–
SMARTRAC Limitada	2,550	–
SMARTRAC German Holding GmbH	43,100	–
Multitape Holding BV	1,002	–
Total short-term loans to subsidiaries	**68,629**	**10,426**

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

9. Other current assets

In thousands of euro	2008	2007
Receivables from subsidiaries	6,173	2,720
Other receivables	624	229
Other current assets	**6,797**	**2,949**

10. Short-term investments

In thousands of euro	2008	2007
Short-term investments	10,399	22,060

The short-term investments consist of one investment certificate which the company expects to be returned by the issuer in the near future and of two 'AAA' rated bonds of the Bundesrepublik Deutschland valued at fair-value through profit and loss.

11. Cash and cash equivalents

In thousands of euro	2008	2007
Cash and cash equivalents	12,087	7,241

At 31 December 2008, SMARTRAC held euro 9,851,000 in two short-term bank deposits with a total maturity of one month. At 31 December 2007, SMARTRAC held euro 5,067,000 in a short-term bank deposit with a total period of one month. The amount in 2008 does not include accrued interest (in 2007 euro 13,000).

12. Share capital

In thousands of euro	2008	2007
Authorised		
50,000,000 shares of euro 0.50 each	25,000	25,000
Issued		
13,500,000 shares of euro 0.50 each	6,750	6,750
Balance at end of period	**6,750**	**6,750**

13. Company statement of changes in capital and reserves

In thousands of euro	Issued and paid-up share capital	Share premium	Translation reserve	Retained earnings*	Treasury stock	Total
Balance – beginning of year 2007	**6,750**	**53,548**	**24**	**9,119**	**–**	**69,441**
Foreign exchange translation (expenses directly recognised in equity)	–	–	(110)	–	–	(110)
Net profit for the period	–	–	–	20,740	–	20,740
Total income of the period			**(110)**	**20,740**		**20,630**
Share buyback – treasury stock	–	–	–	–	(5,020)	(5,020)
Reversal of IPO costs credited to share premium	–	194	–	–	–	194
Share bonus charged to share premium	–	–	–	–	222	222
Share based payment	–	721	–	–	–	721
Balance – end of year 2007	**6,750**	**54,463**	**(86)**	**29,859**	**(4,798)**	**86,188**
Balance – beginning of year 2008	**6,750**	**54,463**	**(86)**	**29,859**	**(4,798)**	**86,188**
Foreign exchange translation (expenses directly recognised in equity)	–	–	184	–	–	184
Net profit for the period	–	–	–	13,628	–	13,628
Total income of the period	**–**	**–**	**184**	**13,628**	**–**	**13,812**
Share buyback – treasury stock	–	–	–	–	(7,529)	(7,529)
Settlement of asset deals	–	24	–	–	1,437	1,461
Share based acquisition	–	1,876	–	–	–	1,876
Share based payment – shares	–	732	–	–	1,798	1,066
Share based payment – options	–	1,279	–	–	–	1,279
Balance – end of year 2008	**6,750**	**56,911**	**98**	**43,487**	**(9,092)**	**98,154**

* The retained earnings as at 31 December 2008 include a legal reserve for capitalized internal development costs amounting to euro 1,749,000 (2007: euro 0). Retained earnings in 2007 included an amount of euro 432,000 relating to the share of profits of a former associate, which was not yet distributed to SMARTRAC N.V.

14. Non-trade payables

In thousands of euro	2008	2007
Creditors – professional fees	715	479
Wage tax	273	271
Total non-trade payables	**988**	**750**

15. Current liabilities to subsidiary companies

In thousands of euro	2008	2007
SMARTRAC TECHNOLOGY Ltd.	229	30
SMARTRAC TECHNOLOGY GmbH	37	467
SMARTRAC TECHNOLOGY Pte. Ltd.	–	5
SMARTRAC Brazil Technology BV	10	10
Sokymat Automotive GmbH	1,502	–
Total current liabilities to subsidiary companies	**1,778**	**512**

16. Interest-bearing loan

In thousands of euro	2008	2007
Loan with Deutsche Bank Luxemburg S.A.	50,478	–
Total interest-bearing loan	**50,478**	**–**

In August of the year 2008, the company made use of a credit facility with Deutsche Bank Luxemburg S.A. . This loan is mainly used to fund the acquisition of Sokymat Automotive GmbH via SMARTRAC German Holding GmbH.

17. Other current liabilities

In thousands of euro	2008	2007
Other current liabilities	**1,126**	**1,221**

18. Compensation by key management

With respect to the remuneration of the members of the Supervisory Board refer to note 33 to the consolidated financial statements.

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

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

In thousands of euro	Salary without Bonus	Bonuses	Others	Total
2008	**620**	**489**	**35**	**1,144**
2007	445	668	–	1,113

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

The fair value vested for options to members of the Management Board in the financial year 2008 based on the principles of IFRS 2 amounted to euro 533,000 (2007: euro 106,000).

19. Auditor's fees and services

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

20. Contingencies

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.

Amsterdam, 13 March 2009

The Management Board

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

The Supervisory Board

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

Auditor's report

To: the annual general meeting of shareholders of SMARTRAC N.V.

Report on the financial statements

We have audited the accompanying financial statements 2008 of SMARTRAC N.V., Amsterdam, as set out on pages 84 to 157. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2008, income statement, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2008, the company income statement for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of SMARTRAC N.V. as at 31 December 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of SMARTRAC N.V. as at 31 December 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report, as set out on pages 6 to 81, is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 13 March 2009

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 21 April 2004 on takeover bids ('the Decree') by providing the following information requested by the respective articles of the Decree:

Article 1a: As at 31 December 2008 the company has issued 13,500,000 common shares with par value of euro 0.50 each, which account for 100 percent of the issued share capital of the company.

Article 1b: Not applicable

Article 1c: As at 31 December 2008 SMARTRAC is aware and had been notified of participations in the company which there is a notification requirement as provided for in articles 5:34, 5:35 and 5:43 Act on Financial Supervision ('Wet financieel toezicht'):

Article 1d-f: Not applicable

Article 1g: No longer applicable since former lock-up agreements of shareholders which are known to the company and containing restrictions on the transfer of shares have expired at 20 January 2008.

Article 1h: The General Meeting of Shareholders shall appoint the directors (as A director or B director) and may at any time suspend or dismiss directors. Resolutions to suspend or dismiss directors shall be capable of being passed if the proposal to that effect has been made by the Supervisory Board, with an absolute majority of the votes cast. If such proposal has not been made by the Supervisory Board, then these resolutions shall only be capable of being passed with a majority of at least two third of the votes validly cast representing more than half of the issued share capital.

Name/institution	Number of shares	% of total shares	Number of voting rights	% of total voting rights
Share capital interest and voting rights of major shareholders as at 31 December 2008				
Fortis OBAM N.V.	1,200,000	8.89	1,200,000	8.89
Schroders Plc.	691,984	5.13	691,984	5.13
Mr. Manfred Rietzler (CTO of SMARTRAC)	2,380,000	17.63	2,380,000	17.63

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

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

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

Article 1i: The Management Board is authorised until 9 March 2011 to issue shares, or to issue rights to acquire shares until the issued share capital amounts to euro 13,000,000.

The Management Board is authorised until 25 September 2009 to repurchase and acquire up to 10 percent of the issued share capital of the Company for a consideration of at least 80 percent of the stock price of the shares of the Company at the date of such repurchase and for a maximum consideration of 120 percent of such stock price.

Article 1j: Not applicable

Article 1k: The contract of Dr. Fischer, CEO of SMARTRAC, comprises a change of control provision. In the event a third party exercises a controlling influence, Dr. Fischer has the right to terminate his contract and receives a redundancy payment.

Appropriation of the result in accordance with the articles of association

Pursuant to Article 24, section 1 of the articles of association, the profit shown in the adopted annual accounts, after deducting all tax owed by SMARTRAC N.V. (the Company), shall first be applied for the addition to the reserves of such an amount as the Management Board shall determine. The profit which then remains shall be at the unrestricted disposal of the General Meeting of Shareholders. The General Meeting of Shareholders can add the profits to the Company's reserves or distribute the profits in accordance with the dividend and reserves policy adopted by the General Meeting of Shareholders.

For the financial year 2008, 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 29 April 2009 to be retained as retained earnings.

SMARTRAC TRANSFORMING RFID

SMARTRAC N.V.
Strawinskylaan 851
1077 XX Amsterdam
The Netherlands
Phone +31 20 30 50150
Fax +31 20 30 50155
Web www.smartrac-group.com