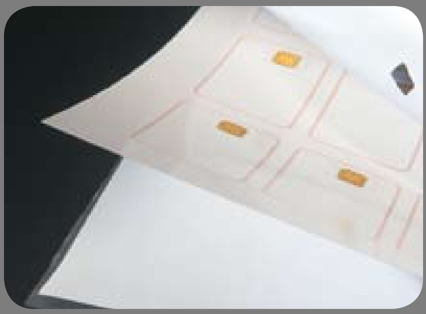
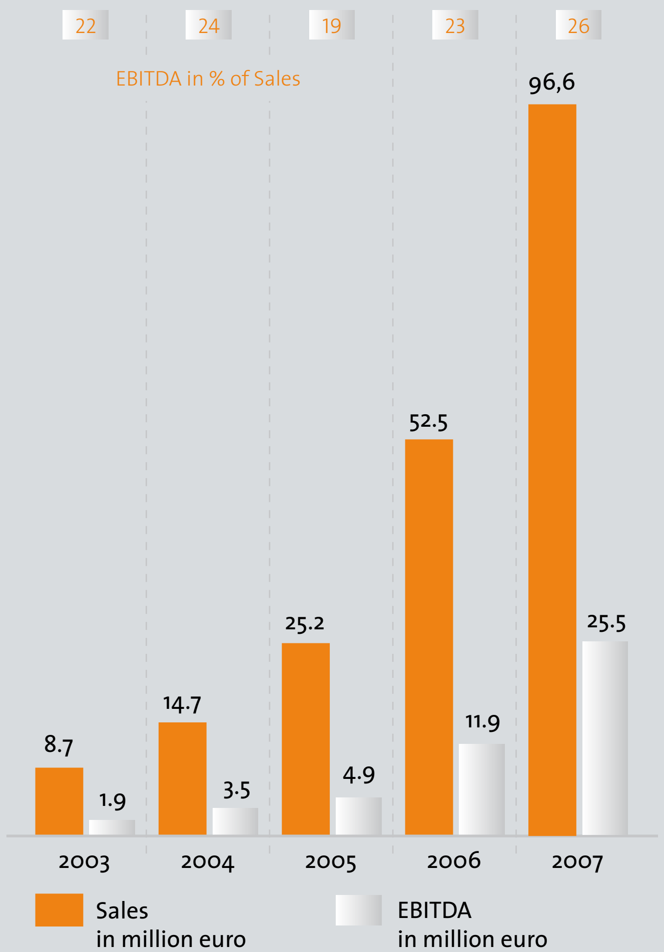
Annual Report 2007



In thousands of euro		Consolidated 12 months ended December 2007	Consolidated 12 months ended December 2006	Change	Change in %
Consolidated income statement					
Revenues		96,566	52,465	44,101	84.1
EBITDA [1]		25,520	11,913	13,607	114.2
Net profit after tax		20,740	9,119	11,621	127.4
Financial position and liquidity					
Cash flow from operating activities		16,710	6,122	10,588	173.0
Working capital		21,211	11,983	9,228	77.0
Capital expenditure [2]		11,875	11,254	621	5.5
Total assets		116,490	80,732	35,758	44.3
Operating figures					
Basic earnings per share	euro	1.55	0.79	0.76	96.2
Cash flow per share	euro	1.25	0.53	0.72	135.8
Equity ratio	%	74.0	86.0	(12.00)	(14.0)
Headcount	at month's end	2,625	1,756	869	49.5

1) EBITDA is defined as operating profit for the period before depreciation, amortisation, IPO costs, 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.

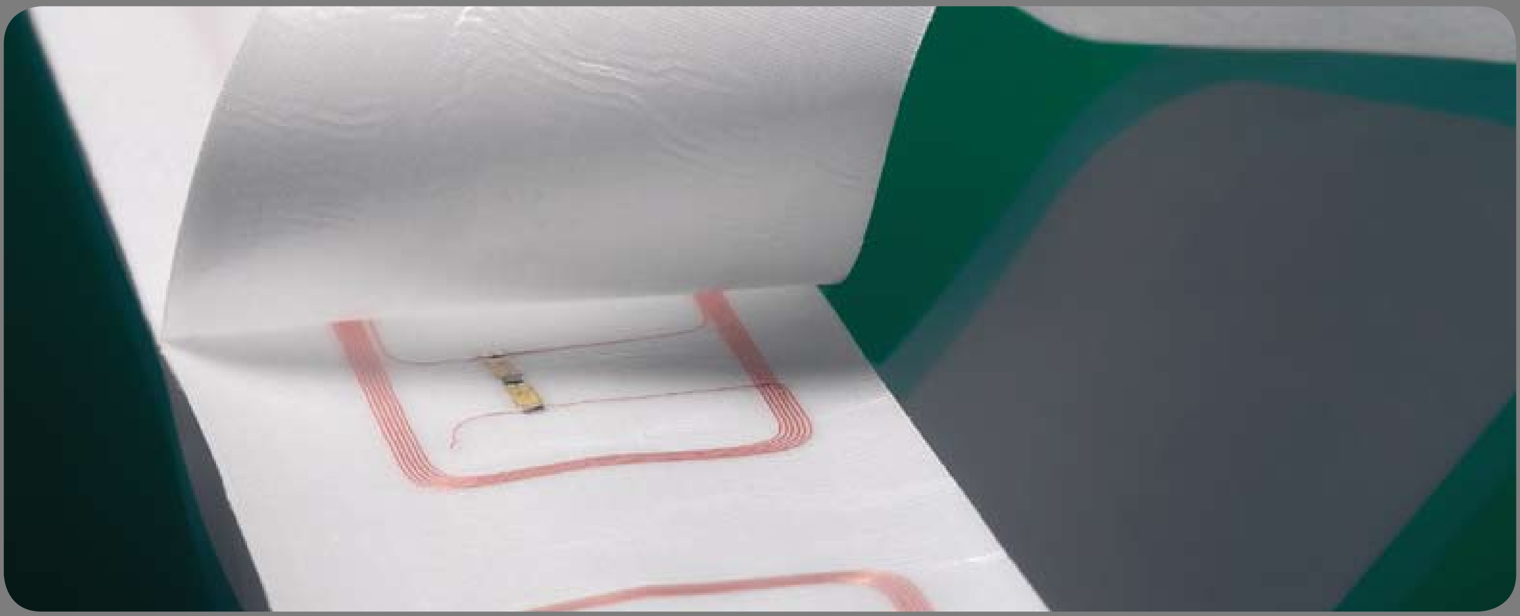
2) Capital expenditure is defined as expenditure for property, plant and equipment, intangible assets and the change in deposits paid. Capital expenditure in 2006 included property, plant and equipment and related deposits paid (euro 11,254,000). In 2007 SMARTRAC also included expenditures for intangible assets according to the method stated above and therefore changed the comparative 2006 figure.



SMARTRAC at a glance:

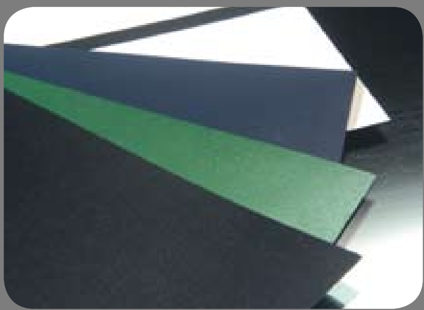
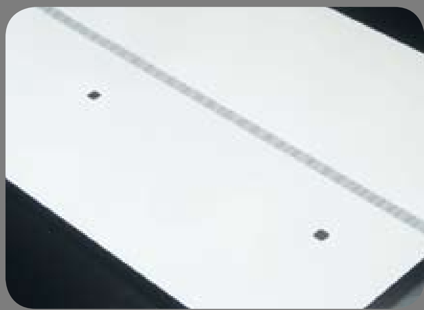
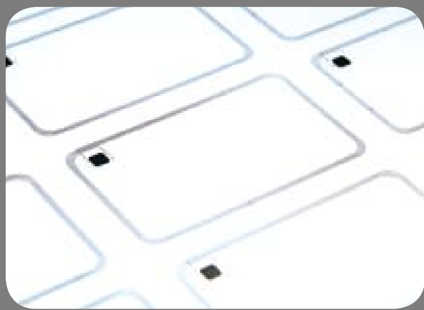
superior financial track record

The information required by 2:391 of the Netherlands Civil Code is provided in the following sections of this annual report on page 20 to 53: Letter of the CEO, Business by segments, disclosure about market risks, and corporate governance report.



Products

PRELAM® and inlays for ePassports and ePayment cards



HIGH SECURITY SEGMENT

ePassports, eID cards and ePayment cards

SMARTRAC has divided its products into the High Security and the Standard segment. The range of products comprises a complete collection of standardised and customised components for a variety of RFID applications. With its expertise in RFID components for low frequency, high frequency and ultra high frequency applications, SMARTRAC covers all of the current frequencies in the worldwide RFID market. SMARTRAC is thus able to offer a comprehensive range of RFID transponders across all product lines and is well prepared to enter into additional market segments.

SMARTRAC today is a leading supplier of RFID inlays and a major player in the RFID industry. Our successful business relationship with suppliers and customers is based on partnership, reliability, expertise, competitiveness and technological leadership. Our RFID components fulfil the highest requirements in terms of security and quality. SMARTRAC's business primarily consists of manufacturing and supplying RFID components, as opposed to producing completed cards and readers or providing related system integration services. Overall, this model as a focused inlay manufacturer, located between suppliers and customers, has turned out to be very successful.

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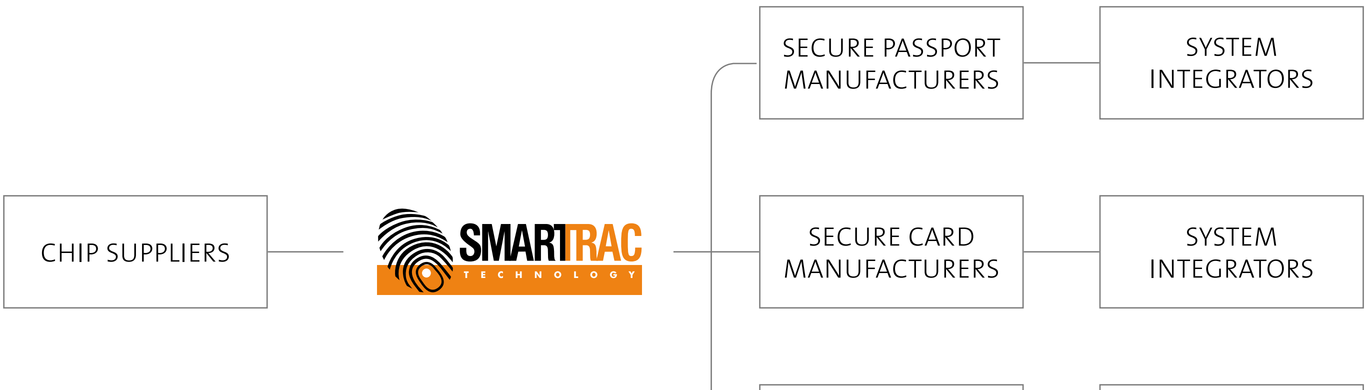
PRELAM® and white cards

STANDARD SEGMENT

Products and tags for mass transport, access control, bio, logistics and entry ID

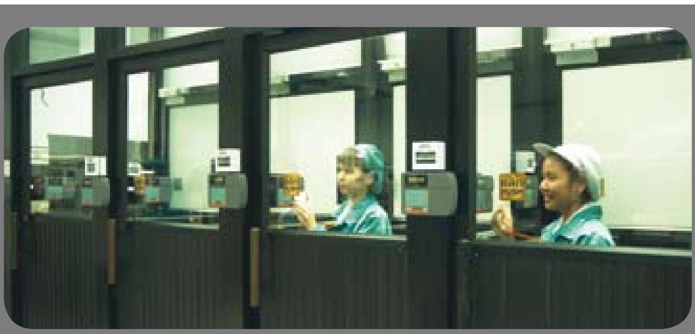


With its successful business model as a leading supplier of RFID components, SMARTRAC is well positioned in the worldwide RFID value chain.

Technology

Cell concept in production

Secure access control within production facility



Wire-embedding of antenna for contactless cards

Etched antenna manufacturing

SMARTRAC responds to the demanding business environments of today by strengthening its position as the technological and quality leader in the field of RFID inlays. With its extensive technological base, SMARTRAC is one of the most experienced manufacturers of RFID components worldwide.

SMARTRAC is focussed on the development of new products, the optimisation of existing production technologies and the integration of new ones as well as the proactive assessment of market opportunities.

With a focused dedication of resources in research and development competence centers and prototyping facilities in Asia, Europe and the U.S., we are well positioned to address our customers' needs directly on location. Our advanced production technology and the largest production capacity in the industry give us the flexibility to respond quickly to market developments.

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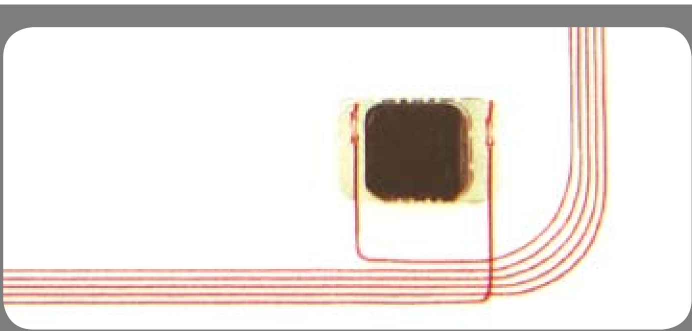
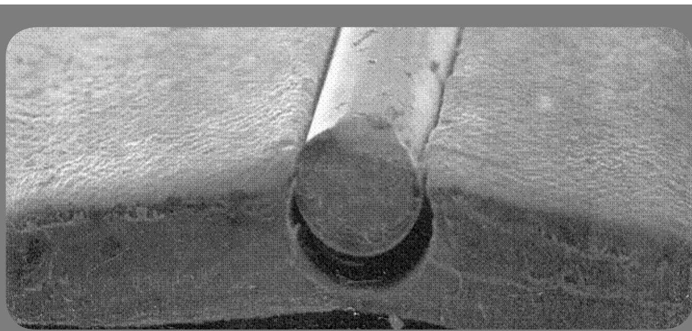
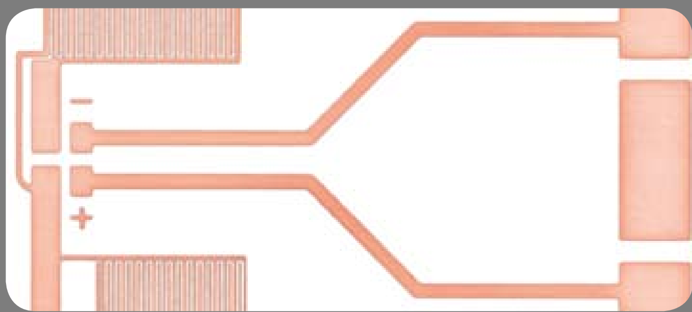
Wire-embedding technology:
An antenna is embedded into a carrier substrate using ultrasonic energy.



Cross sectional view of the planar embedded copper wire in a PC inlay sheet



Coil winding technology:
The antenna is embedded into different packagings.



Etching technology:
Antenna structures are etched out of a metallised carrier substrate.

Global network

SMARTRAC TECHNOLOGY US INC.
> Chanhassen, Minnesota

SMARTRAC N.V.
> Amsterdam, The Netherlands

MULTITAPE GMBH
> Salzkotten, Germany

SMARTRAC TECNOLOGIA INDÚSTRIA E COMERCIO DA AMAZÔNIA LTDA.
> Manaus, Brazil

2000
Foundation of SMARTRAC Technology Ltd.

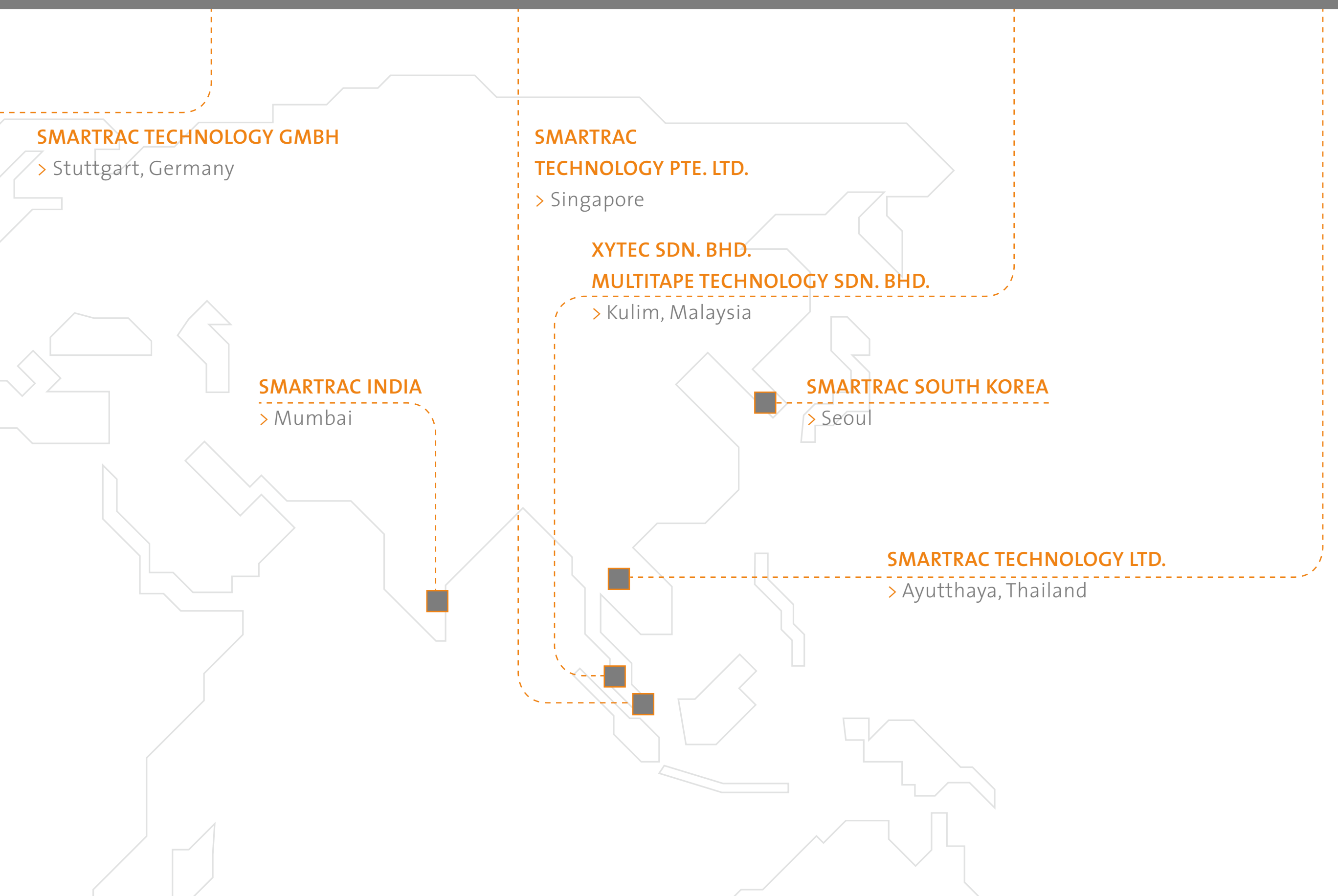
2001
Mass production of RFID inlays began in Thailand.

2002
New factory opened in Ayutthaya, Thailand.

2004
Official opening of 2nd production facility in Thailand.

2005
Acquisition of ePassport activities of multitape GmbH. Co-founding of Xytec Solutions. Official opening of 3rd production facility in Thailand.

From our sales offices in Asia, America and Europe our worldwide sales force can provide our customers with the service they need. In order to maintain our lead, we are concentrating on the expansion of our global production and sales network and we will continue to expand our production capacities. On the foundation of our strong technology base and our global production and sales network we will further develop our product portfolio and continue to deliver the best to our customers.



2006

Official opening of SMARTRAC European sales office.

SMARTRAC became world's largest supplier of RFID inlays for electronic passports.

Initial public offering (IPO), SMARTRAC shares 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.

2008

SMARTRAC completely takes over Xytec Solutions.

>> >> >> >>

Share information

Initial public offering (IPO):	July 20, 2006
Shares issued:	13,500,000
ISIN (International Securities Identification Number):	NL 0000186633
WKN (German Securities Identification Number):	AOJEHN
Stock abbreviation:	SM7
Listed in the Prime Standard at Frankfurt Stock Exchange (FSE):	DEUTSCHE BÖRSE PRIME STANDARD

Information policy

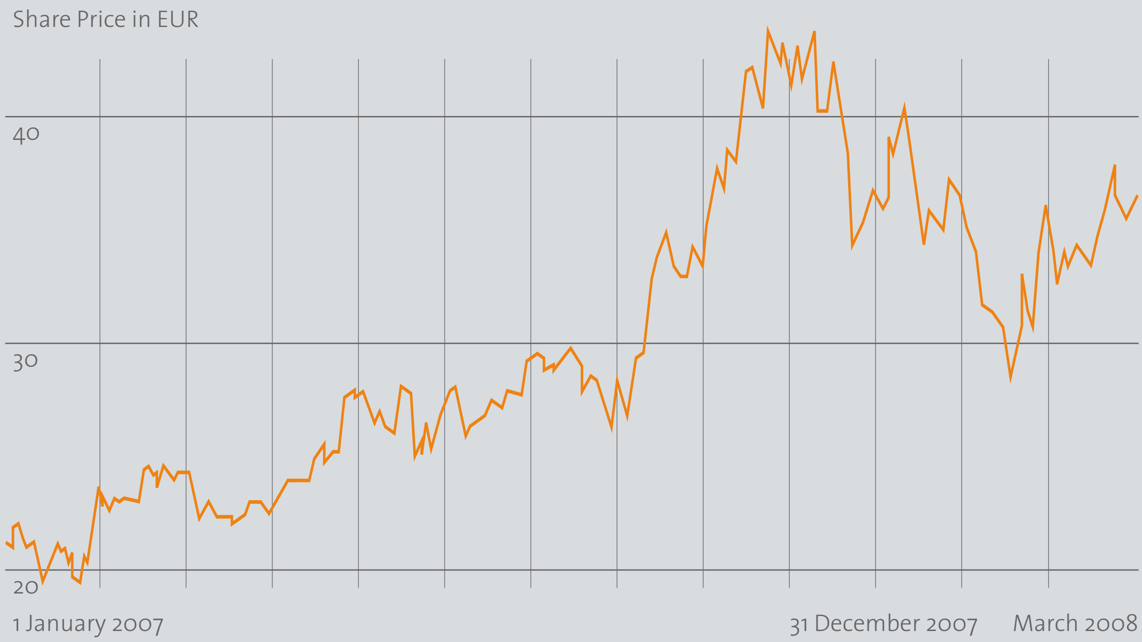
In accordance with the regulatory framework for publicly listed companies, SMARTRAC is committed to informing all stakeholders of the company as comprehensively and timely as possible, thereby facilitating transparency of the company's overall development, strategy and prospects.

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.

The management of the company is of the opinion that the positioning of SMARTRAC's business case and the perception of its strategy and prospects by the public is a key success factor for continued profitable growth. Members of SMARTRAC's management have therefore invested the time needed to increase the perception of the company, especially by the capital markets and financial community.

The company succeeded at broadening its investor base by means of continuous roadshow activities throughout 2007 and other information communication efforts tailored to the needs of each specific audience.

The company has taken care to explain its financial results and the progress of its strategic projects to investors and analysts during telephone conferences held on the occasion of quarterly reports.



In financial year 2007, members of the SMARTRAC management were present at investors conferences across Europe as well as in the U.S., primarily at one-on-ones with the representatives of institutional investors. Roadshows with a strong focus on European financial capitals and to a certain extent the U.S., also contributed to broadening the investor base of the company. In addition, the management also responded to numerous individual requests for telephone calls with investors and analysts.

Share price development*

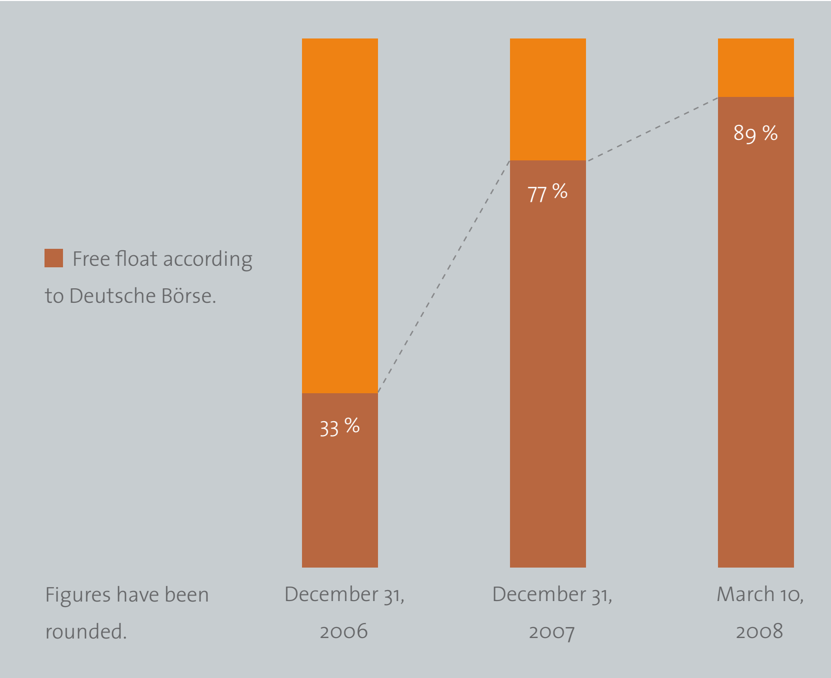
On December 28, 2007, the price of SMARTRAC shares stood at euro 37.30. Compared to a price of euro 20.90 on January 2, 2007, this represents an increase of 78 percent in 2007.

In November 7, 2007, the share price went up to euro 44.91, the highest share price in financial year 2007. Earnings per share for the financial year are euro 1.55. As of March 11, 2008, the share price stands at euro 35.11.

* All share prices are XETRA closing prices.

Dividend policy and dividend proposal

As a general strategic decision, the management of SMARTRAC intends to retain its earnings to finance the growth and development of its business. This decision had been reiterated at the SMARTRAC 2007 Annual Meeting of Shareholders which was held on June 22, 2007, in Amsterdam. The general direction also applies for the financial year 2007.



Shareholder structure: free float significantly increased

Shareholder structure

The development of SMARTRAC's shares in 2007 was mainly characterised by a significant improvement of the free float and liquidity which was basically initiated and facilitated by a secondary placement of shares on March 15, 2007.

In the course of this transaction, a total of 5,487,500 shares of SMARTRAC N.V. were placed on the market, mainly with institutional investors. 4,737,500 of the shares came from the interest of Richard Bird, Vice Chairman of the company's Supervisory Board at that time, who sold his entire holding of SMARTRAC shares in the process. Another 550,000 shares came from the equity interest of TCL Netherlands B.V., controlled by Elisabeth Rietzler, the wife of Manfred Rietzler, who was CEO of SMARTRAC at the time. An additional 200,000 shares were sold by Wolfgang Schneider, Chief Sales Officer of SMARTRAC.

In the course of additional share transactions during 2007, the equity interest controlled by the Rietzler family decreased to some 23 percent, which as of December 31, 2007 was held by Manfred Rietzler. Therefore the free float according to the definition of Deutsche Börse amounted to approx. 77 percent. In a secondary placement of shares on March 7, 2008, Manfred Rietzler sold 1,610,000 shares from his equity interest in the company. As a result of this transaction, the free float of SMARTRAC's shares increased to some 89 percent. The interest of Manfred Rietzler in the company decreased to some 11 percent. Nevertheless, he remained the biggest shareholder of SMARTRAC.

Wolfgang Schneider, the Chief Sales Officer of SMARTRAC, bought 220,000 additional shares on March 7, 2008, and increased his interest in the company. This means that in addition to the interest of Manfred Rietzler, approximately 4.5 percent of SMARTRAC's shares are held by the company's management, of which Wolfgang Schneider, the Chief Sales Officer of SMARTRAC, holds some 4 percent.

All of the directors' dealings from the SMARTRAC management 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.

Share buyback programmes

With a share buyback programme announced on April 2, 2007, SMARTRAC made limited use of a decision of the SMARTRAC Annual General Meeting on February 8, 2006, by which the Management Board was authorised to repurchase and acquire up to a maximum of 10 percent of the company's issued share capital. The buyback was conducted via the stock exchange. SMARTRAC had authorised a bank to conduct the share buyback. The conclusion of the share buyback was announced on June 4, 2007.

In the course of the share buyback, an overall number of 199,500 shares have been bought back at an average price of euro 25.05 per share for a total value of euro 4,997,000 (excluding transaction costs). The SMARTRAC Management Board utilises the shares from the buyback for acquisitions and the company's employee share programmes.

The share buyback took place in accordance with Commission Regulation (EC) No. 2273/2003 dated December 22, 2003, implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buyback programmes and stabilisation 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.

On February 4, 2008, the Management Board of SMARTRAC has decided to start another share buyback programme and buy back shares in the company up to a maximum value of euro 7,500,000. SMARTRAC authorised a bank to conduct the share buyback. The buyback of shares is conducted via the stock exchange and information about the progress is published in the company's website. The share buyback should be completed by April 30, 2008, at the latest.

The share buyback takes place in accordance with Commission Regulation (EC) No. 2273/2003 dated December 22, 2003, implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buyback programmes and stabilisation of financial instruments.

Research reports

Four analysts have rated the development and prospects of SMARTRAC's shares positively.

Broker	Rating	Latest publication
Berenberg Bank	Buy	February 21, 2008
Deutsche Bank	Buy	November 9, 2007
Sal. Oppenheim	Buy	February 18, 2008
UBS	Buy	February 26, 2008

Financial Calendar 2008

February 26, 2008:	Publication of preliminary results 2007 Analysts' Conference Call
March 14, 2008:	Publication of 2007 Annual report Analysts' Conference Call
April 25, 2008:	SMARTRAC Annual General Meeting, Amsterdam
May 6, 2008:	Publication of Q1 Interim Report (January to March 2008) Analysts' Conference Call
July 30, 2008:	Publication of Q2 Interim Report (April to June 2008) Analysts' Conference Call
November 6, 2008:	Publication of Q3 Interim Report (July to September 2008) Analysts' Conference Call

Report of the SMARTRAC Supervisory Board

The SMARTRAC Supervisory Board would like to report on its activities for the year 2007.

All of the current members of the SMARTRAC Supervisory Board fulfil the requirements of independent members of the Supervisory Board as set out by the Dutch Corporate Governance Code under Best Practise Provisions III.2.1. The Chairman of the SMARTRAC Supervisory Board is Prof. Dr. Bernd Fahrholz. Wolfgang Huppenbauer and Jan C. Lobbezoo are members of the SMARTRAC Supervisory Board. Jan C. Lobbezoo was appointed by the SMARTRAC 2007 Annual General Meeting which was held on June 22, 2007, in Amsterdam, as Supervisory Director for a term of four years beginning June 22, 2007.

The Supervisory Board is of the opinion, that the composition of the Supervisory Board fulfils all of the requirements of the Dutch Corporate Governance Code. Jan C. Lobbezoo further contributes through his financial and industrial expertise.

Jan C. Lobbezoo replaced Richard Bird who retired from his position as Vice Chairman of the SMARTRAC Supervisory Board on April 3, 2007. In March 2007, Richard Bird sold his entire holding in the company. Upon his early retirement from the Supervisory Board, he has fully withdrawn from his involvement in SMARTRAC. The Supervisory Board would like to take this opportunity to express its gratitude towards Richard Bird, the co-founder of the company. Outstanding entrepreneurial personality that he is, Richard Bird significantly contributed to shaping the company with his vision and great experience, professional attitude and strong personal commitment and has therefore played a decisive role in the success of SMARTRAC.

The SMARTRAC Supervisory Board held seven meetings during financial year 2007 which were also attended by members of the SMARTRAC Management Board. The Supervisory Board discussed a broad range of topics with a focus on the following issues:

- The strategy of the company
- The financial performance as well as the commercial and technical development of the company
- The organisational structure and HR development
- The risks related to the strategy and the business of the company
- The overall status of mergers and acquisitions projects including the acquisitions of multitape GmbH, HEI Inc., Xytec Solutions and the market entry in Brazil.

Without the management being present, the Supervisory Board also discussed the functioning of the Management Board and its individual members. The Supervisory Board also discussed its profile, composition and competence as well as its own functioning and that of its individual members.

All members of the Supervisory Board took part in its meetings, due to the global spread of its members occasionally via telephone.

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 for the occasion of announcing the quarterly reports. 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 prioritises risk management issues adequately and that the management follows a traceable strategy in implementing appropriate target oriented instruments, processes and control systems.

Prof. Dr. Bernd Fahrholz (60)

Chairman of the Supervisory Board

Appointment effective with the date of the admission resolution by the FSE
Term of office ends in 2009
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*

Remuneration committee tasks

The remuneration of the management, which includes variable compensation instruments such as stock options and bonus shares, was discussed by the Supervisory Board at its regular meetings. A detailed remuneration report can be found on pages 51 to 53 of this report. 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. In order to make SMARTRAC an attractive company for existing and additional skilled managers and employees, the remuneration policy is continuously adjusted to cater for market developments in a set competitive comparison as well as to the specifications required in the Dutch Corporate Governance Code. Any deviation in the remuneration instruments from the code is explained on pages 48 to 50 of this report under the section 'Corporate governance report'. The Supervisory Board is of the opinion that further development of the SMARTRAC remuneration policy will contribute to the goal of attracting the right people and that the need to offer attractive and competitive compensation packages cannot be overestimated in this context.

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
German Citizen, Home Domicile is Singapore

- *President and CEO of Daimler Thailand*
- *Former various management positions in Australia, Asia and Europe for Daimler AG*

Selection and appointment committee tasks

The performance of the tasks of a selection and appointment committee was a focal point for the Supervisory Board during 2007 as far as appointments in the senior management and discussion of tasks and responsibilities in the company's management are concerned. This focus is mainly due to the fact that the allocation of management resources and ongoing refinement of structures and responsibilities are major strategic items on the SMARTRAC agenda.

Important achievements in broadening the management base and defining responsibilities were made by the recruiting activities of SMARTRAC's management in 2007 which are expected to further contribute to the positive development of the company in the future. In particular, the Supervisory Board views the decision of

Jan C. Lobbezoo (61)

Member of the Supervisory Board

Appointment effective with the SMARTRAC 2007 Annual General Meeting
Term of office ends in 2011
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*

the Management Board to establish a SMARTRAC Group Executive Team as an adequate measure for structuring the tasks and responsibilities of senior management. The Supervisory Board welcomes Mr. Stephen Juge and Mr. Franz Vollmann as new members of this Group Executive Team.

Annual Accounts 2007

The consolidated and the company financial statements on pages 56 to 121 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 122 and 123. We propose that the shareholders approve the SMARTRAC 2007 Annual Report and the treatment of the results contained therein.

The Supervisory Board would like to thank each SMARTRAC employee and member of the management for their individual contribution to the benefit and prosperity of the company.

Amsterdam, March 11, 2008

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

The business address of the members of the SMARTRAC Supervisory Board is:
Strawinskylaan 851, 1077 XX Amsterdam
The Netherlands

Dear shareholders,

Dr. Christian Fischer, CEO of SMARTRAC

We are happy to add another successful chapter to SMARTRAC's company records with this annual report.

The financial year of 2007 has been another prosperous and exciting one for our company and on behalf of the SMARTRAC Management Board I would like to report on our financial performance and results as well as our strategic achievements and prospects for the future.

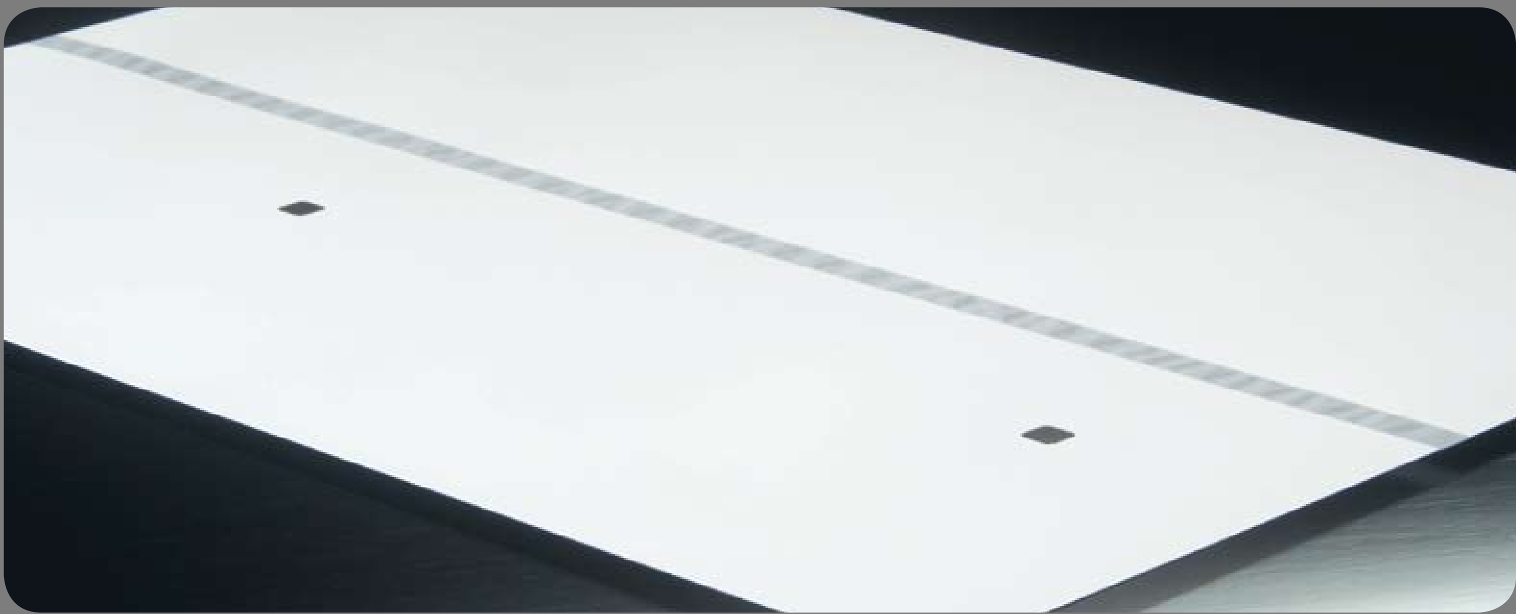
Altogether, our business model as a focused inlay manufacturer and supplier with an ideal position in the worldwide RFID value chain has proven to be successful on a sustained basis. In this regard we have taken important strategic decisions and managed to build upon our strong and successful relationship with our suppliers and customers. We have further strengthened our leading position as a supplier and major player in the global RFID industry.

The management of SMARTRAC is convinced that the business model of the company is exactly the right platform to leverage the full potential of our company and facilitate the growth of SMARTRAC. Integration of business activities further along the value chain will not be the course pursued by SMARTRAC. In other words, the further growth of SMARTRAC will be in those segments of the RFID market already served by SMARTRAC and those additional segments for which we will develop new products. As a dedicated RFID company, we possess the knowledge and expertise that is required to do this successfully.

Reviewing the reporting period, we can say that we have maintained the momentum of the previous years. We have made further important and groundbreaking decisions for SMARTRAC and we have successfully started their implementation.

Key financial figures 2007

SMARTRAC continued along its path of constant growth in 2007. At euro 96.6 million in 2007, representing an increase of 84 percent on the euro 52.5 million gener-



ated in 2006, the group's sales developed favourably. The growth rate of our company's EBITDA is even steeper. Compared to 2006, when EBITDA was at euro 11.9 million, our operations in financial year 2007 generated a rise of 114 percent in EBITDA which rose to an overall figure of euro 25.5 million.

High Security segment

Financial year 2007 has shown that developments in the High Security segment since the previous reporting period are based on a sustained worldwide trend in the RFID industry. High Security applications therefore remained the main growth driver and continued to set the trend. Compared to 2006 when the High Security segment accounted for euro 27.1 million or 52 percent of overall revenues, the contribution in 2007 amounted to euro 67.7 million or 70 percent, which is the equivalent of a growth of 150 percent compared to 2006.

The ePassport projects in 2007 carried over the momentum from the prior year and continued to contribute significantly to SMARTRAC's profitable growth. In 2007, SMARTRAC generated revenues of euro 56.5 million with RFID inlays for ePassports, growing by 158 percent compared to 2006 (euro 21.9 million). ePayment applications showed a favourable development as well and gained momentum throughout 2007. Revenues in 2007 went up to euro 11.3 million, growing by 117 percent from euro 5.2 million in 2006.

SMARTRAC Durasoft inlay: standard ePassport application developed by SMARTRAC that fulfils the long life-cycle expectations of the secure document industry

Standard segment

The Standard segment which comprises RFID components for mass transit, access control, bio and logistics as well as tickets and labels, accounted for revenues of euro 29.0 million in 2007, growing 17 percent on revenues of euro 24.7 million in 2006. To a certain extent the results from the Standard segment have been affected by investments in the ramp-up of the bio logistics product line which is expected to contribute to Standard segment sales in 2008 and beyond.

	Standard components		High Security components		Other operations		Consolidated	
In thousands of euro	12 months ended Dec. 2007	12 months ended Dec. 2006	12 months ended Dec. 2007	12 months ended Dec. 2006	12 months ended Dec. 2007	12 months ended Dec. 2006	12 months ended Dec. 2007	12 months ended Dec. 2006
Segment revenue								
Revenues	**28,950**	**24,725**	**67,747**	**27,109**	**–**	**631**	**96,566**	**52,465**
Segment result								
Gross profit	7,739	5,060	33,959	12,790	(2)	631	41,696	18,481
Operating expenses	(5,377)	(3,461)	(12,870)	(4,132)	(1,498)	(1,283)	(19,745)	(8,876)
Operating profit (loss)	2,362	1,599	21,089	8,658	(1,500)	(652)	21,951	9,605
Financial result							(945)	(758)
Share of (loss) / profit of associates					(211)	110	(211)	110
Income tax (expense) / benefit							(55)	162
Profit for the period							**20,740**	**9,119**
Supplemental information								
Operating profit (loss)	2,362	1,599	21,089	8,658	(1,500)	(652)	21,951	9,605
Depreciation and amortisation	1,374	1,212	2,178	1,096	17	–	3,569	2,308
Segment EBITDA	**3,736**	**2,811**	**23,267**	**9,754**	**(1,483)**	**(652)**	**25,520**	**11,913**

Other operations

They contain the result, that cannot be attributed to Standard or High Security components, such as non-allocable management expenses, royalty payments or losses on disposal of fixed assets.

Financial and operational development

Net cash provided by operating activities amounted to euro 16.7 million in the past twelve months compared to euro 6.1 million in the prior year, which is mainly due to the Group earnings of euro 20.7 million (2006: euro 9.1 million).

Cash from operating activities rose by euro 10.6 million on the previous year, an increase that is more than double the net result.

To a certain extent this effect was counterbalanced by a rise in working capital, notably the rise of trade receivables (plus euro 11.7 million; 2006: plus euro 6.2 million) and inventories (plus euro 5.3 million; 2006: plus euro 3.3 million) that could not be fully financed by the increase in short term liabilities (plus euro 8.5 million; 2006: plus euro 3.8 million).

Net cash used in investing activities accumulated to euro 40.5 million in 2007 compared to euro 11.4 million in financial year 2006. This is due to a purchase of short-term marketable instruments amounting to euro 22.2

million. Additionally, cash of euro 6.8 million was used for the purchase of additional subsidiaries as well as the closing of asset deals in the course of 2007. Expenditures in 2007 for intangibles and property, plant and equipment amounted to euro 11.9 million compared to euro 11.7 million in 2006.

Net cash provided by financing activities in 2007 amounted to euro 3.0 million, well down from the euro 39.9 million provided in 2006. The net receipts in the previous year were a result of the successful IPO in July 2006 as well as the subsequent realignment of our financing structure. The major financing activities in 2007 were the share buyback which led to a cash outflow of euro 5.0 million offset by the net cash inflow from new interest bearing liabilities of euro 8.0 million.

Net cash and cash equivalents decreased in 2007 by 59.1 percent to euro 14.6 million (2006: euro 35.0 million), primarily due to the purchase of short-term marketable instruments amounting to euro 22.2 million. Besides the net increase of property plant and equipment of euro 7.6 million, SMARTRAC capitalised goodwill and other identified intangible assets associated with the acquisition of subsidiaries and asset deals (euro 6.8 million).

The increase of 81.8 percent in inventories to euro 13.1 million (2006: euro 7.2 million) and the increase of 93.9 percent in trade receivables to euro 25.4 million (2006: euro 13.1 million) in 2007 reflects the overall business development in terms of sales and related expenses.

The total increase of 24.1 percent in equity in 2007 to a total of euro 86.2 million can be attributed to the net profit of euro 20.7 million. Treasury stock that was built up in the course of the share buyback in 2007 amounted to 4.8 million at year end. With an equity ratio of 74 percent in 2007, SMARTRAC refinanced its activities to a very large extent through equity.

SMARTRAC used the net increase of euro 8.5 million in external borrowings to finance working capital and capital expenditures by subsidiaries. Additionally, selected investments in subsidiaries and asset deals have been financed by external borrowings.

The increase in trade and non-trade payables to euro 15.3 million in 2007 (2006: euro 8.4 million) and other current liabilities to euro 5.1 million (2006: euro 1.3 million) reflects the overall increase in business activity. Additionally, the increase in other current liabilities arose mainly from an increase in accrued expenses for rebate obligations and other outstanding invoices.

Acquisitions and strategic achievements

From a strategic perspective, the financial year 2007 has been characterised by:

- the further expansion of our global network in research and development, production and sales,
- the significant broadening of our technology base,
- the further development of our market position in our existing product lines,
- the preparation of our entry into new markets with additional product lines, and
- the further consolidation of structures and processes and the continued development of our management capacities.

Fourth factory opened in Thailand

In February 2007, we opened our fourth factory and increased our production capacity in Thailand in the province of Ayutthaya near Bangkok where SMARTRAC has its main production location. This factory primarily produces RFID inlays for card-related products. By releasing additional capacity at our other locations, the fourth site also contributes towards strengthening production in the High Security segment at the other factories in Thailand.

Agreement in patent issue with Silone

Also in February we have settled an dispute with Silone MagCard, Inc. California, regarding the use of SMARTRAC's patents in the production of RFID components and entered into a settlement agreement pursuant to which Silone acknowledged the respective patent rights of

SMARTRAC. Silone agreed that it will cease U.S. production and sales of its RFID components that are made according to the processes disclosed and claimed in SMARTRAC's patents.

little or no presence to date. In the meantime, we have already successfully initiated several projects in order to turn this potential into profitable growth.

SMARTRAC iGlass tags: contribution to sales revenues from products for animal identification expected in the second half of 2008

Acquisition of multitape GmbH

After already acquiring a 25 percent stake in multitape GmbH in January, SMARTRAC availed itself of an option previously agreed on with multitape and announced the complete takeover of multitape GmbH in May. The access to multitape's etching skills is a perfect addition to wire-embedding technology, which is the core competence of SMARTRAC.

With the takeover, SMARTRAC broadened its technology base and combines under one roof the decisive core technologies used in the manufacture of RFID components, thus consolidating its position on the market for RFID inlays. Etching technology is a complementary technology to wire-embedding in certain applications in the Standard segment. It also enables SMARTRAC access to segments of the RFID market in which the company has

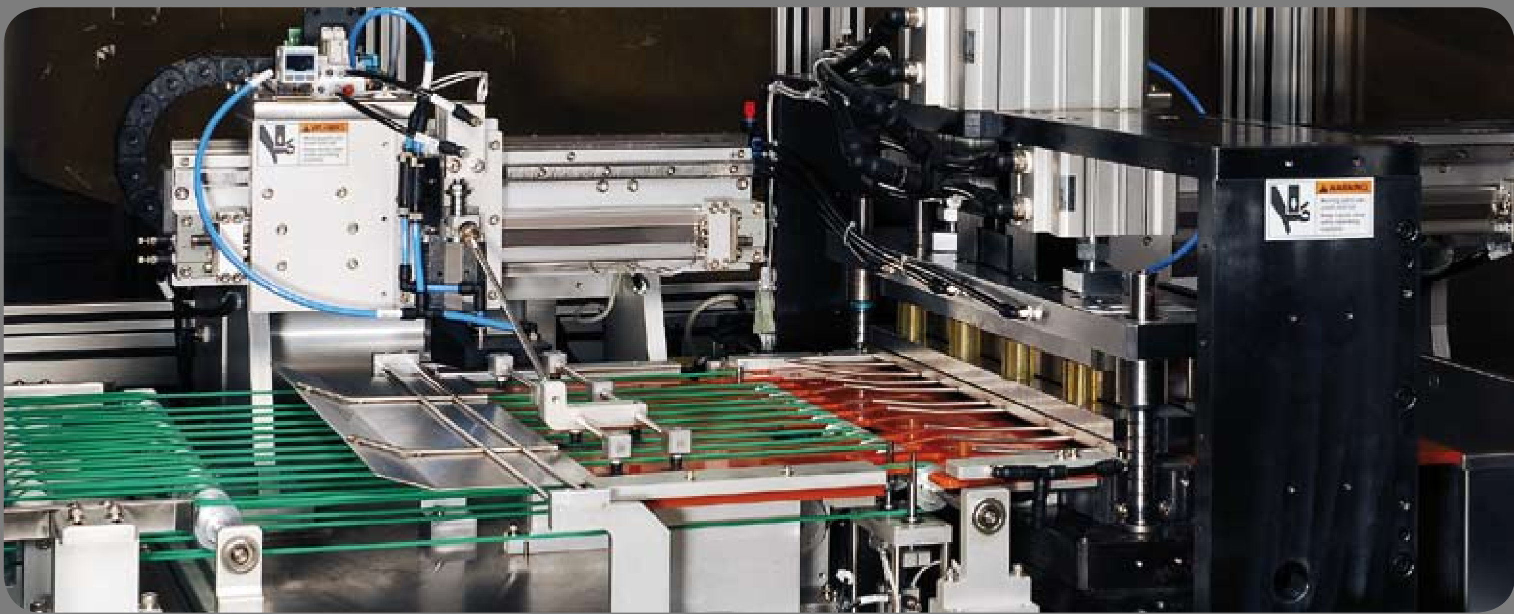
Production starts in Brazil

In July, SMARTRAC started production in Brazil and facilitated the entry into this market with locally produced RFID inlays for public transport and access control. In addition, however, SMARTRAC sees prospects in Brazil for RFID applications in bio logistics and for ePassports and contactless credit cards and is now prepared to participate in these local growth segments as well.

Brazil is one of the world's most important RFID growth markets. Due to the regulatory conditions and the high market entry barriers for external suppliers, a local production in Brazil is indispensable to holding a competitive position in the Brazilian market. With our local production facility we are superbly positioned to open up the potential of this market for SMARTRAC. Production capacity in Brazil had been expanded to some 2.5 million units by the end of 2007. The location in Manaus in the Amazonas province is therefore currently the second biggest production location of the company's worldwide production network.

Takeover of Xytec Solutions

In order to ensure the strategic advantage of having an inhouse machinery builder, SMARTRAC and the major shareholder of Xytec Solutions signed an agreement in



Acquisition of HEI

In August we acquired substantially all of the assets of the RFID division of the U.S. company HEI Inc. This acquisition opened up interesting prospects for SMARTRAC with new products and access to an additional customer base. We now also have our own location in the important U.S. market and are currently in the process of integrating the existing RFID business of HEI into SMARTRAC's operations.

The location in Chanhassen in the U.S. state of Minnesota also fulfils all of the prerequisites to serve as a high security location for the production of RFID inlays for the U.S. ePassport project, which is required by the U.S. authorities to a certain extent.

November by which SMARTRAC announced the intention to take over 100 percent of the shares in the Malaysian company. SMARTRAC held 30 percent of the shares in Xytec at that time. In January 2008, SMARTRAC and the major shareholder of Xytec signed the purchase contract over the remaining 70 percent of the shares of Xytec. This acquisition marks the execution of a crucial strategic decision.

The access to state-of-the-art machinery for the production of RFID components is a decisive competitive advantage in our industry. We are now in the position to make full use of the advantages this potential can give SMARTRAC. The know-how of the Xytec engineers, cost advantages as well as the exploitation of short delivery times for new machinery will contribute to maintaining our technological leadership and to allocating production capacities for further profitable growth in good time.

Xytec machinery for the production of RFID components: inhouse machinery building capacities will contribute to maintaining technological leadership

Production location in Germany

Our production capacities in Regensburg, Germany, have also been ramped up successfully, and we now supply the RFID inlays for German ePassports directly from there, thus fulfilling the contractual requirements regarding local content in supplies to this national ePassport project.

Wire-embedding technology: patent protected core competency of SMARTRAC

Research and development

The acquisitions of multitape and HEI contributed additional expertise, know-how and research and development facilities. This strengthens the company's worldwide network in research and development, which is headquartered in Thailand.

The ability to quickly respond to customers' needs in the development of both existing and new products and RFID applications is an important competitive factor. To be closer to customers with research and development competence centers and prototyping facilities in Asia, Europe and the U.S. reinforces this strategic SMARTRAC advantage.

Global network

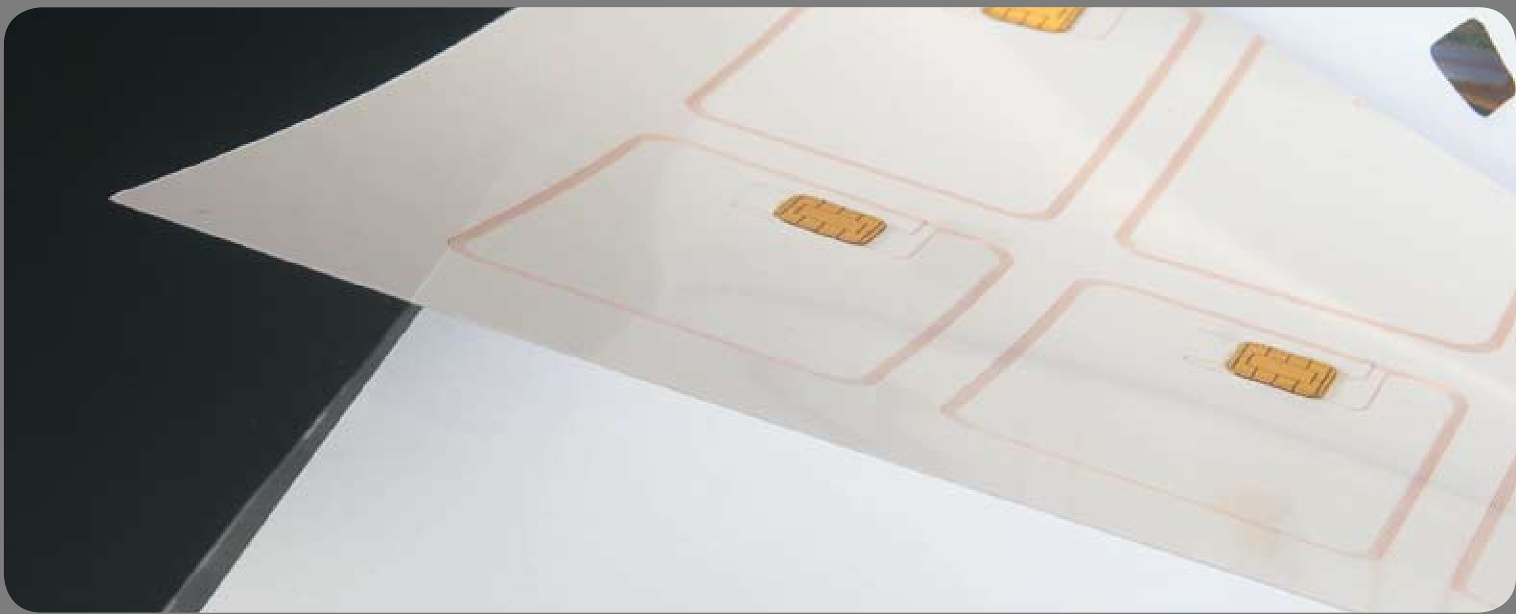
Altogether, we invested euro 11.6 million in property, plant and equipment in the reporting period of 2007. SMARTRAC has developed its position as a global leader in the supply of RFID components with production locations in Thailand, Brazil, USA, Malaysia and Germany. Today the company is operating from a much more global base than it did at the end of the previous financial year. The worldwide production capacity of SMARTRAC at year end was some 20 million units a month and is still growing.

Given the highest production capacity in the industry and our market share in key segments of the RFID industry, it is very likely that if you travel and show your ePassport at border control, if you make a contactless payment with your ePayment credit card, if you enter public transportation systems in London, Singapore, Sao Paulo or several other capitals of the world with a contactless card, or if you enter your office building by just holding a key fob or an entry card towards a contactless reader device, you are probably doing so holding a piece of SMARTRAC in your hands.

Share development

The liquidity of our shares and the perception of the company in the capital markets were enhanced in 2007.

the capital markets continue to look favourably upon the development of our company. The development of the price of SMARTRAC's shares in 2007 confirmed this assessment.



In the course of a secondary placement of shares in March, approximately 40 percent of all SMARTRAC shares were placed on the market. Together with minor share transactions in the course of 2007, by which management sold shares, this resulted in a significant increase of the free float of SMARTRAC's shares to some 77 percent and has thus also contributed to a significant increase in the liquidity on the market.

Another 12 percent of shares from the equity interest of Manfred Rietzler have been placed on the market on March 7, 2008. As a result of this transaction, the free float of SMARTRAC's shares was again increased and is currently at some 89 percent. Nevertheless, with an equity interest of approximately 11 percent, Manfred Rietzler remains the biggest shareholder of SMARTRAC.

From our continuous roadshow activities and discussions with investors in Europe and the U.S. we can say that

Management reshuffle

As a result of an ongoing review of structures and processes and also a consequence of the optimisation of the corporate organisation, the company focused its management resources through a reshuffle of responsibilities within the SMARTRAC Management Board announced in May 2007. The changes became effective on July 1, 2007.

Following the decision of the Management Board, Manfred Rietzler took over the newly created position of a Chief Technical Officer (CTO) of SMARTRAC and Dr. Christian Fischer took over the responsibility as Chief Executive Officer (CEO) of SMARTRAC. The proposal of the Supervisory Board to extend Mr. Fischer's and Mr. Rietzler's appointments as members of the Management Board ahead of time for another four years, starting on January 1, 2008, was approved by the SMARTRAC Annual General Meeting in Amsterdam on June 22, 2007.

SMARTRAC RFID inlay: several thin layers with the microchip and the antenna in the center are laminated to a homogenous sheet

Etched antenna production: SMARTRAC will enter the market of eTickets that require low cost etched antenna inlays in 2008

The rationale behind the realignment of management responsibilities was to leverage SMARTRAC's management expertise in all areas of the Management Board. Research and the development of products as well as production technologies are gaining more and more importance when it comes to maintaining our leading position. It is crucial for our company to be up to date with all technological trends and new technological developments in the RFID industry.
Therefore, it was a logical decision to combine the relevant responsibilities in a top management position. In his new position, Manfred Rietzler is even more focused on the optimisation of existing production technologies, the integration of new ones as well as on the ongoing monitoring and assessment of new technological trends.

Dr. Christian Fischer, the CEO of SMARTRAC, is focused on driving the implementation of SMARTRAC's strategic development and also on serving international capital markets' expectations in order to continuously improve the external representation of the company.

Personnel changes on the Supervisory Board

As far as the SMARTRAC Supervisory Board is concerned, there was a personnel change after Richard Bird retired from his position as Vice Chairman in April 2007. Richard Bird is an outstanding entrepreneurial personality. As a founder of SMARTRAC he is closely connected to our company's success. With his vision and great experience, his professional attitude and strong personal commitment, he significantly contributed to shaping the company. He has therefore played a decisive role in the success of SMARTRAC. On behalf of the Management Board I would like to take this opportunity to express our gratitude towards Richard Bird for his contribution.

The SMARTRAC Annual General Meeting in Amsterdam on June 22, 2007, approved the appointment of Jan C. Lobbezoo as Supervisory Director for a term of four years. Mr. Lobbezoo is a Dutch citizen and an acknowledged industry and financial specialist with many years of international business experience. We believe that he possesses the right expertise for supervising our company's business. We are happy to have him on board and that we can rely on his professional advice.

Establishment of the SMARTRAC Group Executive Team

The ability to allocate management resources in an efficient way and further expand our management base

is definitely one of the most crucial success factors for managing a rapidly growing and highly dynamic company like SMARTRAC. Recruiting activities were therefore a major item on the agenda of the SMARTRAC management in 2007. The achievements reached by these activities will benefit the company in 2008 and beyond.

The implementation of the SMARTRAC Group Executive Team at the end of 2007 is a major element in this respect. It comprises all of the members of the SMARTRAC Management Board and selected members of the senior management of the company and serves as a platform for discussing strategic issues across all of SMARTRAC's activities and also for preparing decisions of the Management Board.

Personnel changes among SMARTRAC's Top Management

In January 2008 we announced two new members to the Group Executive Team. We are happy that we have been able to win additional highly skilled managers with proven track records for our management team. SMARTRAC will definitely benefit from their years of international experience and expertise.

Stephen Juge took over the management position of Head of Legal Affairs and Chief Legal Counsel of SMARTRAC. This position has been newly created. Stephen will be based in our Group headquarters in Amsterdam and will be responsible for the full scope of our company's legal affairs with a strong focus on the protection of SMARTRAC's intellectual property. Among other things, the employment of Stephen is a clear signal to the market that SMARTRAC will continue to bring action against any party infringing our patents and has placed this issue on the agenda as a strategic issue of crucial importance for our company.

Quality control in inlay production: outstanding performance, durability and quality are main characteristics of SMARTRAC's products

At the SMARTRAC 2008 Annual General Meeting of Shareholders, which will be held in Amsterdam on April 25, 2008, it is planned that the SMARTRAC Supervisory Board will propose the appointment of Stephen Juge as a director and member of the Board of Directors of SMARTRAC.

Since February 11, 2008, Franz Vollmann has occupied the position of the Chief Operating Officer of SMARTRAC. He replaced Ron Brown who retired at the end of January 2008. Ron Brown will continue to support the company as a consultant to the Group Executive Team. He has been with the company since 2005 and has made a crucial contribution to our company's success and has played a vital role in the success of our Thai operations, the nucleus of our company. On behalf of the Management Board, I would like to say that we are most happy that we can continue to count on the expertise and experience of Ron in the future.

Franz Vollmann will have his main office at our production location in Thailand and will drive the further integration of our worldwide production facilities and the improvement of efficiency and productivity across all of SMARTRAC's operations.

Corporate governance and control systems

As far as corporate governance is concerned, we are convinced that we are following the right approach and that we comply with all of the relevant legislations and regulations of which the Dutch Corporate Governance Code for us is particularly decisive. Good corporate governance is a claim of high importance which the SMARTRAC Management Board recognises and applies in its business conduct.

At our locations around the world we have the financial reporting systems and personnel in place to make sure that our reporting is performed in an accurate and timely manner and that the Management Board acts upon a solid foundation of comprehensive information. In 2007 we have implemented SAP in Thailand and will continue to benefit from this system as it is rolled out in all of our locations.

Transparency for external audiences and target groups is facilitated as well by means of regular quarterly reports and ad hoc releases and press releases on the occasion of strategic decisions.

To safeguard a sustained implementation of risk management and control systems, we have also significantly strengthened our financial staff at senior management level. This should translate into a positive impact on our future hedging activities.

In 2007, the SMARTRAC Management Board also introduced a corporate human resources function, thus emphasising the progress on the group-wide development and implementation of uniform processes and instruments in human resources based on best practices. The main focus for 2007 and 2008 is to ensure integration of managers and employees from acquired entities, to streamline and align hierarchical levels, draft a group-wide remuneration system and support our recruiting activities throughout the world, which have intensified significantly.

Altogether, we have made good progress in 2007, but nevertheless we have not yet implemented the full scope of best practice instruments and processes. Further improvement of our risk management and control systems is a declared goal of the SMARTRAC Management Board. We will stay focused and keep it on the agenda.

Outlook

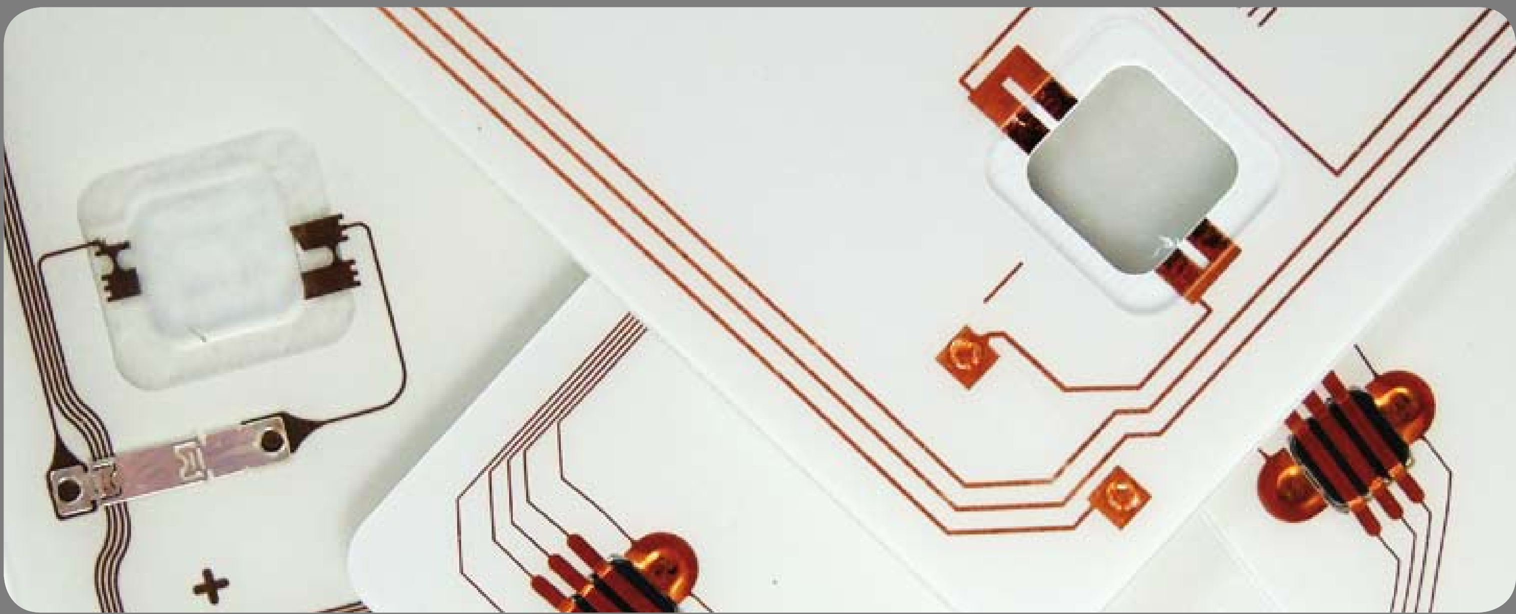
We expect additional growth in the worldwide market for RFID components. From our current perspective we can say that we have laid the cornerstones in 2007 for further success and that we are in a good position to realise profitable growth for SMARTRAC in future.

As a dedicated and focused RFID company, SMARTRAC will continue to participate in the potential of the RFID market. We expect to maintain our leading position in our existing market segments and expect an additional contribution from new RFID product lines which are designed to meet the profitability targets of our company. Whereas financial year 2007 was predominantly shaped by developments in the High Security segment, the ratio is expected to change in favour of the Standard segment to a certain extent in 2008. This is mainly due to the fact that applications in animal identification and eTickets will show up in revenues in 2008 which according to the company's segmentation belong to the Standard segment and have not been in the company's portfolio to date.

The company anticipates a stable development of its business because a significant portion of sales is public order driven or will be triggered by regulatory requirements. Once started, the sale of these products follows a traceable path providing good visibility for future sales forecasts.

Animal identification will become mandatory in an increasing number of regions worldwide. This will open up additional market areas for RFID applications in bio-logistics. The bio-logistics segment of the RFID market has therefore been identified as an important area with growth potential for SMARTRAC. Additional skilled specialists in product development, production and sales were employed in 2007.

Product development and qualification of new products were driven forward resolutely. SMARTRAC is now well prepared to turn the potential of these new bio-logistics products into profit. Investments are expected to pay off soon and the management has evidence that the bio-logistics product line is expected to meet the company's



Inlays with etched antenna: complementary to wire embedded inlays for certain applications profitability targets and make a contribution to sales revenues in the second half of 2008 already.

Additional contribution is expected from new product lines when etching technology comes into play. SMARTRAC is currently implementing additional production capacities in Malaysia for RFID products on the basis of etched antennas and will enter the market of eTickets and labels in 2008. We have all of the expertise it takes to make the additional Malaysian operations a profitable business.

Despite the positive development for SMARTRAC in the ePayments sector and our ability to defend our leading position in the market as the supplier of RFID inlays, we still have higher expectations regarding the potential of this product line, a view which is shared by external assessments as well. SMARTRAC therefore looks favourably upon the prospects with ePayment applications.

After an unexpectedly steep ramp-up in the production of ePassport inlays in 2007, there will be a certain consolidation phase in 2008 with focus being placed on existing projects. Additional projects will nevertheless also contribute towards maintaining the momentum in this product line in 2008 as SMARTRAC has already been chosen as supplier or well-positioned as potential supplier for still outstanding ePassport projects worldwide.

With the introduction of eID cards in the European Union and other regions of the world, with initial thought being given to eDrivers licences as well, the next interesting market segments for RFID applications are already visible on the horizon and SMARTRAC is well prepared to participate in the growth potential of these product lines.

With a focused dedication of resources in research and development competence centers and prototyping facilities in Asia, Europe and the U.S., we are well positioned to address our customers' needs directly on location.

Our advanced production technology and the largest production capacity in the industry give us the flexibility to respond quickly to market developments. From our sales offices in Asia, America and Europe our worldwide sales force can provide our customers with the service they need.

We believe that our company's success and prospects are built upon the right strategy, a focused and target-oriented allocation of resources and the ongoing improvement and implementation of projects, structures and processes, not to mention our unique position in the worldwide RFID value chain and the support of our stakeholders.

But once more, the individual performance and expertise of each employee at all of our worldwide operations are just as important to our success. The Management Board is well aware of the high level of commitment of our employees, and on behalf of the Management Board and the Group Executive Team, I would like to thank each and every one for her or his contribution. We will continue to focus our management efforts on maintaining that very special SMARTRAC spirit and to leverage this important asset for our company.

Amsterdam, March 11, 2008

Dr. Christian Fischer
CEO of SMARTRAC

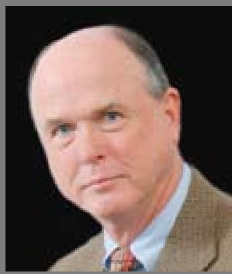
Group Executive Team

DR. CHRISTIAN FISCHER

Chief Executive Officer (CEO), Chairman of the Management Board

MANFRED RIETZLER

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



RONALD BROWN

Chief Operating Officer (COO), Member of the Management Board[1]

ANTHONY DRIESSEN

Head of Dutch office, Member of the Management Board

The decision to set up the SMARTRAC Group Executive Team was decided on at the end of 2007 and immediate steps were initiated.

The Group Executive Team serves as a platform for discussing strategic issues across all of SMARTRAC's activities in research and development, technology, production, sales, legal as well as human resources matters. It comprises all of the members of the SMARTRAC Management Board and selected members of the senior management of the company.

The Group Executive Team shall serve the main purposes of:

- contributing to coordination and allocation of company resources
- preparing and implementing strategic decisions
- supporting decision-making processes of the SMARTRAC Management Board

The non-board members of the Group Executive Team have a consulting function and serve as a sounding board for the SMARTRAC Management Board. They inform the SMARTRAC Management Board of recent developments and the progress made in strategic projects. From their

STEPHEN JUGE

Chief legal counsel[2]

FRANZ VOLLMANN

Chief Operating Officer (COO)[3]

WOLFGANG SCHNEIDER

Chief Sales Officer (CSO)

area of responsibility, non-board members provide market background, detailed information from the business segments themselves and specific functional expertise.

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

1 Ron Brown retired at the end of January 2008.

2 In January 2008, Stephen Juge took over the management position of Head of Legal Affairs and Chief Legal Counsel of SMARTRAC. The SMARTRAC Supervisory Board will propose the SMARTRAC 2008 Annual General Meeting of Shareholders, which will be held on April 25, 2008, in Amsterdam, to appoint Stephen Juge as director and member of the Board of Directors of SMARTRAC.

3 Since February 11, 2008, Franz Vollmann has occupied the position of the Chief Operating Officer of SMARTRAC.

Dr. Christian Fischer

Chairman of the Management Board

Chief Executive Officer (CEO)

Effective on July 1, 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 started his career at Robert Bosch GmbH in 1996 where he was a project manager in corporate planning and controlling. In 1999, Dr. Fischer joined Roland Berger Strategy Consultants Competence Center Restructuring and Corporate Finance where he became partner in 2003. In 2004, Dr. Fischer was appointed chief financial officer and chief restructuring officer of Walter Bau AG and became a member of the Management Board.

Manfred Rietzler

Member of the Management Board

Chief Technical Officer (CTO)

Effective on July 1, 2007, Manfred Rietzler took over the newly created position of a Chief Technical Officer (CTO) of SMARTRAC. Mr. Rietzler joined SMARTRAC Technology Limited (Thailand) as a major shareholder in 2001 and became Chief Executive Officer in 2003 until June 2007. Since January 2006, Mr. Rietzler has been a member of the Management Board of the Company. Mr. Rietzler has a degree in electrical engineering from the Technical University of Munich and is an expert in RFID technology, semiconductor packaging, SmartCard technologies and transponder applications. He has specialised in electrical engineering and automated production technologies. After graduation from University, Mr. Rietzler worked as a scientific assistant in a research project at the University of Munich in 1987. From 1987 to 1993, Mr. Rietzler was the head of electronic assembly of Maho AG, Pfronten (Germany). Mr. Rietzler gained extensive management experience in the AmaTech-group. At AmaTech GmbH & Co. KG, Mr. Rietzler served in various functions, from 1993 to 2000. From 2000 to 2001, Mr. Rietzler was a 20 percent shareholder in and held the function of a general manager of Louda Systems GmbH in Gersthofen (Germany).

Ronald Brown

Member of the Management Board

Chief Operating Officer (COO)

At the end of January 2008, Ron Brown retired from his management position as Chief Operating Officer (COO) of SMARTRAC. Ron Brown will continue to work for the company as a consultant to the Group Executive Team. Mr. Brown joined SMARTRAC in 2005 and became a member of the Management Board in March 2006 when he took over the position of the Chief Operating Officer of SMARTRAC. Mr. Brown has over 35 years of experience in the high-tech electronics industry in the fields of manufacturing, purchasing and operations and has held multiple senior management positions within these areas. Mr. Brown has acquired extensive experience in Asia.

Anthony Driessen

Member of the Management Board

Head of Dutch Office

As of March 2006, in addition to his consultancy position with NautaDutilh N.V., Mr. Driessen has become a member of the Management Board of the Company. Mr. Driessen currently also sits on the management boards of Sierra European Retail Real Estate Asset Holdings B.V. (The Netherlands) and Cairn Energy Netherlands Holding B.V. (The Netherlands). Mr. Driessen is the President of the Supervisory Board of Waarborg, Platina, Goud en Zilver N.V. (The Netherlands). Effective January 1, 2008, Mr. Driessen is a member of the Management Board of Tullow Overseas Holdings B.V. (The Netherlands) and a number of its subsidiaries. Mr. Driessen graduated from Leiden University law faculty in 1962 and became a partner of NautaDutilh N.V., an international Dutch law firm, in 1970, to which, after his retirement in 2002, he still acts as an advisor. Mr. Driessen has been extensively involved in oil and gas related matters and is specialised in corporate law, M&A, joint ventures and reorganisations.

Business by segments

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 and bio-logistics. SMARTRAC plays a key role in the global market for the developing 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. The RFID components from SMARTRAC enable efficient identification control with different levels of security.

Simple implementation, high security standards, outstanding performance and durability are the main characteristics of SMARTRAC's Standard segment products. With customised solutions for card-related applications, the traditional products of SMARTRAC, as well as non-card related applications in both traditional and new product lines, SMARTRAC is able to meet customers' needs in all of the segments of the worldwide RFID market.

Acquisitions in 2007 have particularly strengthened our position in the Standard segment and will impact 2008 and beyond. The fourth factory in Thailand, which was officially opened in February 2007, is fully dedicated to the production of card-related products and, with its state-of-the-art machinery and processes, is a benchmark for the production of RFID components.

Contactless access control in mass transit: RFID technology offers advantages for transit companies around the world

The acquisition of multitape GmbH enabled full access to etching technology which will be applied to additional product lines in the field of eTickets and labels.

entering the field of bio-logistics for animal identification. Investments in product development and hiring additional engineers and sales experts will start to pay off in the second half of 2008.

Lifestock RFID identification: market growth will mainly be driven by regulatory requirements

SMARTRAC is currently building up additional production capacity in Malaysia in order to fully exploit its potential in etching technology.

The production of RFID components at SMARTRAC's location in Brazil in July 2007 has added some 2.5 million additional units of production capacity per month and has already made a significant contribution to overall sales of the Standard segment in 2007.

The acquisition of the RFID division of HEI Inc. in August 2007 opened up access to an additional customer base and interesting prospects in the Standard segment with customer specific RFID tags, mainly in the field of logistics.

The financial year 2007 also saw development of additional products in the Standard segment aimed at

Sales Standard segment

Sales in the Standard segment amounted to euro 29.0 million in 2007 which is an increase of 17 percent compared to sales of euro 24.7 million in 2006. The 2007 sales represent a 30 percent in the overall sales of the company (2006: 47 percent). This share in the overall sales figures illustrates the fact that the High Security segment continued to grow in importance. Nevertheless, Standard segment applications remain an important part of SMARTRAC's business and the applications for eTickets and labels mentioned previously, as well as animal identification, will lead to sales from the Standard segment accounting for a greater share of the company's total sales.

Mass transit and access control continued to drive the Standard segment business in 2007. A predominant share of 88 percent or euro 25.6 million of the segment sales have been contributed by these applications. The remaining share of euro 3.4 million or 12 percent has been generated by logistics applications. This ratio within the Standard segment will change in future due to the additional products in eTickets and labels as well as bio-logistics.

In thousands of euro	Consolidated 2007	Consolidated 2006	Change	Change in %
Revenues				
Mass Transport and Access Control	25,563	24,217	1,346	5.6
Logistics	3,387	508	2,879	566.7
Gross Profit	**7,739**	**5,060**	**2,679**	**52.9**
EBITDA	**3,736**	**2,811**	**925**	**32.9**

The percentage of microchips bought by SMARTRAC is significantly higher in the Standard segment than it is in the High Security segment. Our margins on the resale of microchips are significantly lower than on the design and manufacture 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 Brazilian and the U.S. operations as well as for investments in the bio-logistics product lines which have been incurred in the course of the financial year 2007.

Gross Profit Standard segment

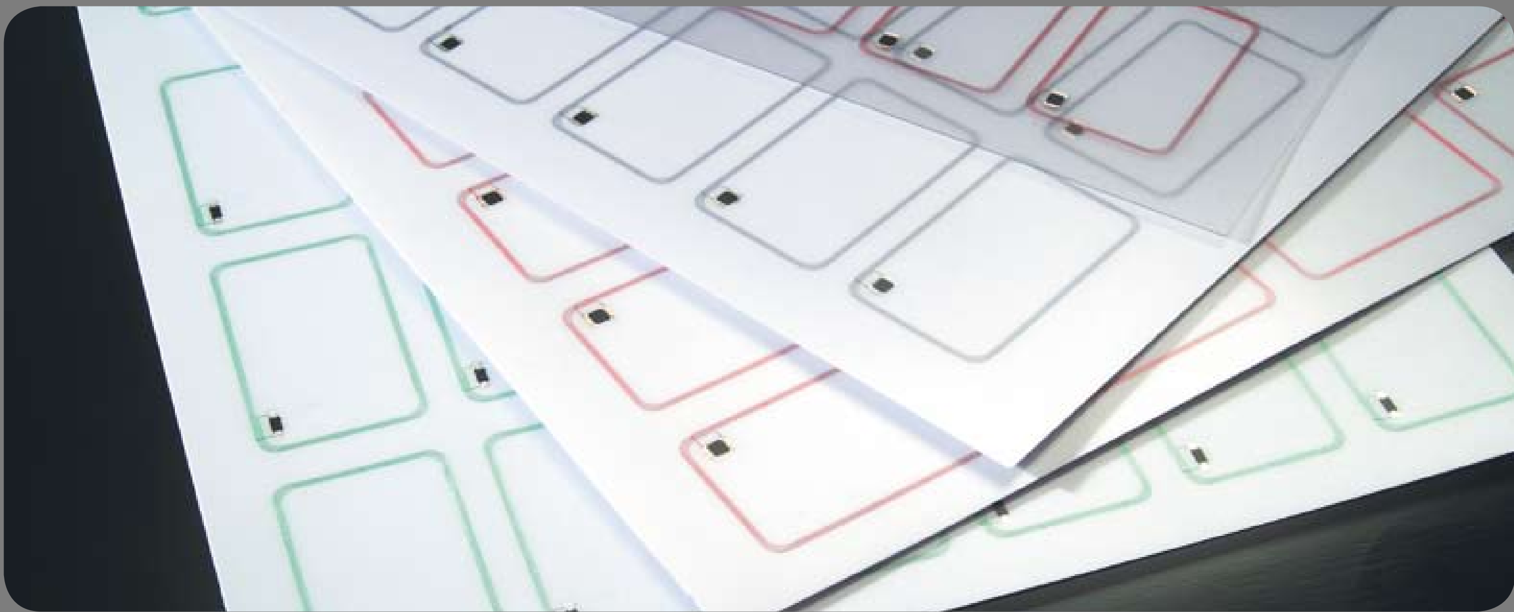
The gross profit in the Standard segment was euro 7.7 million in 2007, which represents a margin of 26.7 percent. Compared to 2006, when the margin was 20.5 percent or euro 5.1 million, this represents a significant improvement in financial year 2007.

EBITDA Standard segment

The Standard segment achieved EBITDA of euro 3.7 million in 2007. Compared to euro 2.8 million in 2006, this is an increase of 32.9 percent. The EBITDA margin increased from 11.4 percent in 2006 to 12.9 percent in the financial year 2007. Despite the aforementioned investments and ramp-up costs in new locations and product lines, the overall profitability of the Standard segment improved in financial year 2007 compared to the previous financial year.

High Security segment

The High Security segment of SMARTRAC includes RFID components for its eID (electronic identification) and ePayment (electronic payment) product lines.



Inlays for contactless data transmission: RFID components from SMARTRAC enable efficient identification control with different levels of security

Inlays in the High Security segment contain microcontroller chips that include sophisticated encryption functions and permit advanced calculations and encryptions to be made.

The company has developed flexible and customised solutions in the field of eID with a focus on electronic passports. RFID integration in the ePayment sector provides protection against forgery and counterfeiting.

ePassport inlays accounted for all eID business in financial year 2007 and will continue to do so to a large extent in 2008. Nevertheless, RFID technology offers advantages for other official personal documents as well. Applications such as eID cards, eDrivers licenses, eHealth Cards or eSocial Security Cards are expected to generate additional volumes in the midterm. There are already several tangible projects involving SMARTRAC in the pipeline.

Based on superior and proprietary production technology, extensive production capacity, expertise, the latest test equipment as well as a worldwide sales organisation with excellent customer relations, the High Security segment has become an important pillar of SMARTRAC's overall success and promises well for the future.

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.

SMARTRAC's ePassport RFID inlays have passed the most stringent tests and met qualification standards set by customers around the globe. Inlays for ePassports and other eID applications are all ICAO (International Civile Aviation Organisation) compatible. The U.S. ePassport project, to which SMARTRAC has been an inlay supplier since 2006, is an important reference project for the company. In addition to other current projects, this positions SMARTRAC well for new ePassport projects.

In 2007, ePassport projects worldwide have either been initiated or picked up speed as more and more countries make use of the advantages that ePassports offer. Production capacities in SMARTRAC's main locations in Thailand have been expanded throughout 2007. Production of RFID inlays for the German ePassport project have been ramped up in Regensburg. Additional capacity to meet the requirements for local content in supplying the U.S. ePassport will be built up in SMARTRAC's U.S. location in Minnesota.

With the highest production capacity in the industry and its officially approved high security production environment, SMARTRAC has what it needs to meet the rising demand for ePassport inlays. SMARTRAC currently supplies volume to more than 20 projects worldwide and is involved in some 30 additional projects as a potential supplier of inlays.

ePayment

SMARTRAC's ePayment inlays attained MasterCard CQM-Certification and VISA Card certification under the status as a chip embedder. We are able to offer a full range of RFID inlay products for the secure payment industry. SMARTRAC is also a leader in the world market in the ePayment business. Credit cards with contactless payment applications are particularly strong in the U.S. where customers appreciate the convenience of this technology. Some Asian countries have initiated promising pilot projects and some European countries have started to identify the potential of this technology with pilot projects. Banks are the driving force behind the introduction of ePayment cards which also offer advantages for merchants.

Although the growth in 2007 developed favourably for SMARTRAC, this business did not meet the full expectations as posted by industry experts and independent studies. Nevertheless, SMARTRAC takes the positive development in 2007 and beyond as evidence that the ePayment market offers highly interesting growth perspectives. SMARTRAC is in the starting blocks to meet rising demand from ePayment customers and to maintain its lead in ePayment applications.

Reliability is as crucial for ePayment cards as it is for eID applications. Customer acceptance is based on the convenient and reliable functionality of credit cards for contactless payment transactions. Our sustained success depends mainly on the proper functioning of the components combined on the RFID inlay. In this respect, SMARTRAC's proven technology, know-how and robust RFID inlays have set the standards in this business as well.

In thousands of euro	Consolidated 2007	Consolidated 2006	Change	Change in %
Revenues				
ePayment	11,267	5,205	6,062	116.5
ePassport	56,480	21,904	34,576	157.9
Gross Profit	**33,959**	**12,790**	**21,169**	**165.5**
EBITDA	**23,267**	**9,754**	**13,513**	**138,5**

Increasing safety requirements: RFID in personal identification documents increases national security, speeds the border control process, safeguards convenience for travellers

Sales in the High Security segment

Sales in 2007 amounted to euro 67.7 million, which is equivalent to an increase of 150 percent compared to sales of euro 27.1 million in the 2006 financial year.

The relative revenue contributions from the high security business to overall company sales in 2007 compared to 2006 continued to develop in favour of the High Security segment. In 2006 this segment accounted for 52 percent of the overall revenues (euro 52.5 million) and 70 percent of overall revenues in 2007 (euro 96.6 million).

Sales of euro 56.5 million from the ePassport product line represent 84 percent of sales in the High Security segment and 59 percent of the overall sales of the company (euro 96.6 million). These percentages illustrate the ongoing strong contribution of ePassport inlays to the overall profitable growth of SMARTRAC. The company managed to keep the momentum from the reporting period 2006 when ePassport inlays had already been the main growth driver.

Sales from the ePayment applications developed favourably in 2007 and reached euro 11.3 million, representing a plus of 117 percent compared to euro 5.2 million in financial year 2006.

Compared to the Standard segment, where the percentage of microchips bought by SMARTRAC is significantly higher, we only buy a small 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 manufacture 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 2007 was euro 34.0 million which is equivalent to a gross margin of 50.1 percent. Compared to a margin of 47.2 percent in 2006, the 2007 gross margin was relatively stable.

EBITDA High Security segment

In financial year 2007, the High Security segment reached EBITDA of euro 23.3 million. Compared to EBITDA of euro 9.8 million from High Security applications in 2006, this represents an increase of 138 percent. The EBITDA margin of 34 percent in 2007 remained comparable to the margin of 36 percent achieved in 2006.

Risks related to our business

We are exposed to and aware of a number of risks related to our business, international operations, competitive situations and market developments. The overall objective of our risk management is to identify, evaluate and manage any risk which might adversely affect the financial performance and prospects of SMARTRAC, especially financial results, profitability and liquidity. Specific risk factors identified by the management of SMARTRAC include the following considerations but are not limited to them.

We might not reach the expected benefits from strategic acquisitions and additional technologies.

During 2007 SMARTRAC increased 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. The integration has not been finalised yet. 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.

We might miss the development of new technologies rival to our existing core technologies.

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 economic and have the potential to partially or fully substitute production technologies applied by SMARTRAC in the production of RFID components.

We might fail to successfully introduce additional product lines to the market and to position the company in additional market segments.

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.

We might be exposed to the risk of product liability.

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 can not 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.

We might not be able to protect successfully our intellectual property rights.

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 to 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.

We are exposed to certain risks due to our customer relations and market situation.

We operate in a high-tech industry that is relatively new and where the markets have yet to stabilise in some regards. A significant portion of our sales is generated from just a few key customers. 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 accounts for a significant percentage of SMARTRAC's sales, our sales development is exposed to the risk of not being able to maintain or replace the relationship to these key customers. To a certain extent SMARTRAC also has business relationships with customers in countries with a low rating and therefore faces a certain credit risk in this respect as well in the event that these customers become insolvent or fail to fulfil 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 behaviours.

We are exposed to certain risks as a result of changing requirements towards IT security.

The requirements towards IT security 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.

We are facing certain price risks with regard to raw materials.

Most of our products are based on plastic materials such as PVC. These materials are oil-based and exposed to changes in oil prices. We also depend on raw materials such as copper and aluminium 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.

We are facing price risks on chip prices.

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 to our own account at unfavourable prices.

We might not be able to allocate the required management resources.

The ability to recruit and retain talented personnel in our company and to allocate sufficient management resources in a timely manner and at acceptable terms is a critical success factor for a fast growing company like SMARTRAC. 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 material adverse impact on our operations and the development of our company.

Currency fluctuations and foreign exchange regulations might affect our business.

Due to our international customer and supplier base and operations 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 internationalisation 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 efficiently manage these risks and fail to implement the right hedging instruments and processes and thus face negative impacts which could affect our financial results and cash position. Also certain local exchange control regulations in the countries where we have invested capital resources could limit the international transfer and optimal allocation of capital resources within the Group.

The company might lose tax benefits.

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, 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 stronger extent than projected.

To a certain extent we are exposed to political risks.

Regardless of the further internationalisation and globalisation of our business operations in the course of 2007 and beyond, a predominant portion of our sales is still generated in our production locations in Thailand. Political changes going on in Thailand could lead to unexpected changes in regulatory requirements and basic provisions of the Thai authorities regarding investor-friendly investment and tax environment of which SMARTRAC benefits. The company might therefore lose tax benefits earlier than scheduled and projected. Social turbulences in the course of fundamental political and social changes could in a worst case scenario also interfere with our business or even lead to production downtimes. This could have an adverse material effect on our business and the financial performance of our operations.

We face the risk of increasing inflation with regard to one or more currencies.

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 significant receivables and savings.

Our asset management is exposed to certain financial market risks.

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.

Corporate governance report

SMARTRAC N.V. and its subsidiaries are committed to high standards of business integrity, ethical values and professionalism in all of their activities. As an essential part, the Management Board is committed to achieving high standards of corporate governance and the directors are accountable to the shareholders for doing so.

Management structure

The company has a two-tier board structure consisting of a Management Board ('Raad van Bestuur') and a Supervisory Board ('Raad van Commissarissen').

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. The Management Board is required to keep the Supervisory Board informed, consult with the Supervisory Board on important matters and submit 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.

Supervisory Board

The Supervisory Board is responsible for supervising the conduct of and providing advice to the Management Board and supervising the company's business in general. In performing its duties, the Supervisory Board is required to act in the interest of the company's business as a whole. The members of the Supervisory Board are not authorised to represent the company in dealings with third parties.

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.

Dutch Corporate Governance Code

SMARTRAC N.V. is incorporated in the Netherlands as a Dutch company, and is listed at the Frankfurt Stock Exchange (FSE). It is subject to the Dutch Corporate Governance Code ('the Dutch Code') which sets out principles of good corporate governance and best practice provisions. The company has, to the extent possible, applied (or shall as it becomes appropriate to do so apply) the principles and applicable best practices of the Dutch Code, with the exception of the following best practice provisions:

II.1.3, II.1.6, II.2.1, II.2.2, II.2.4, II.2.6, II.2.13, III.1.1, III.3.1, III.3.6, III.4.3, III.7.1; 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 control is in place, and these processes take cognisance of risks pertaining to the Group as a whole, no formalised 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 which results in an assessment of the probability of occurence and the severeness 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 are assessed as well and further procedures are defined.

II.1.6. We do not yet have a whistle blower code at this point in time. The Management Board is discussing various alternatives of a policy which serves this purpose and will be applicable for all companies within the Group. We intend to introduce a whistle blower policy in accordance with the Dutch Code as soon as possible.

II.2.1. The vesting period of options granted to members of the Management Board is two years and not three years. The exercise of the options is not dependent on the fulfillment of pre-determined criteria, but solely on the lapse of the vesting period of two years. The company is of the opinion that, because other employees also have a vesting period of two years, management should not be treated differently. Also, the company believes that, in view of the very short history of the company, it is not required, nor possible to set pre-determined criteria for the exercise of options. This may change over time, and will be closely monitored.

II.2.2. The company has granted unconditional options to members of the Management Board as a variable portion of the salary. The reason is that the salary should depend to a high extent on the performance of the company. It will depend on the performance of the Management Board whether the stock option price for the company's shares will be higher after the vesting period than the exercise price. The company is of the opinion, that additional specific performance criteria are not required. 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, because other employees have a vesting period of two years, management should not be treated differently.

As far as II.2.1 and II.2.2 are concerned and subsequent to the financial year 2007, SMARTRAC reviews its option scheme.

II.2.4. The company's Stock Option Plan, provides for a period of ten trading days, instead of five, for the fixing of the exercise price of options, because we believe that due to the limited trading in our shares ten days give a fairer exercise price than the average over five days.

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 has been published on the company's website in conjunction with the publication of the Annual Report. The Supervisory Board places more value on the explanatory power of the remuneration report by including the actual amounts of the variable remunerations of the Management Board members for the respective period.

III.1.1 The regulation for the Supervisory Board existed throughout 2007 and has due to other priorities within the Group not yet been posted on the website of the company. We intend to do so in the course of 2008.

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.7.1. The company deviates from this provision. The company has granted options and shares to all members of the Supervisory Board in 2007. The company believes that this does not have a negative effect upon the performance of a director, and, on the other hand, will attract qualified members to the Supervisory Board.

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 are common practice in the management remuneration of 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 2007

Pursuant to his employment contract, Mr. Rietzler received total annual compensation of EUR 180,000. In addition, the housing and related expenses of Mr. Rietzler in Thailand were borne by the company.

The compensation of Dr. Fischer pursuant to his employment contract in 2007 consisted of an annual base compensation of EUR 420,000 and a variable annual compensation of 1.50 percent of Group EBITDA. Dr. Fischer is eligible to participate in the company's stock option programme. In addition to his base and variable cash compensation, Dr. Fischer received 115,000 options in the course of the year 2007.

As a member of the Management Board, Mr. Ronald Brown received an annual base compensation of euro 240,000 and a variable annual compensation of 0.75 percent of Group EBITDA. In addition, Mr. Brown was granted a bonus amounting to euro 93,000. Ron Brown is eligible to participate in the company's stock option programme. In addition to his base and variable cash compensation, Mr. Brown received 2,500 options in the course of the year 2007.

Mr. Driessen received annual compensation from the company of euro 25,000. Anthony Driessen is eligible to participate in the company's stock option programme. In addition to his cash compensation, Mr. Driessen received 5,000 options in the course of the year 2007.

In addition to the remuneration mentioned above, Dr. Fischer, Mr. Rietzler and Mr. Brown have been provided with a company car.

In 2007, the members of the Management Board were not entitled to receive redundancy payments. The term of their respective employment agreements are equal to the term of their appointment as directors.

The options that were granted to date do not depend on achievements of certain criteria. This is also explained in the Corporate governance report on pages 48 to 50 of this annual report.

The SMARTRAC 2007 Annual General Meeting of Shareholders, which was held on June 22, 2007, in Amsterdam, approved a Stock Plan as an additional remuneration element. According to this Stock Plan, members of the Management Board of the company, members of the Supervisory Board of the company or key employees of the company or of an affiliate of the company may receive compensation components in shares or may convert part of his bonus, if any, into shares of the share capital of the company. The Stock Plan was not applied in 2007.

We refer to note 33 to the consolidated financial statements for further details regarding the compensation paid to Supervisory Board members.

Remuneration for the financial years beginning 2008

In May 2007, the SMARTRAC Management Board decided upon a reshuffle of management responsibilities, by which Manfred Rietzler took over the position of the Chief Technical Officer (CTO) of SMARTRAC. Dr. Christian Fischer took over the position of CEO of SMARTRAC. The proposal of the Supervisory Board to extend Mr. Fischer's and Mr. Rietzler's appointments as members of the Management Board ahead of time for another four years, starting on January 1, 2008, was approved by the SMARTRAC 2007 Annual General Meeting in Amsterdam on June 22, 2007. The regular term of the contract with Mr. Rietzler and Dr. Fischer ends December 31, 2011. In the course of this extension and also as a result of the changing tasks and responsibilities of Dr. Fischer and Manfred Rietzler in a growing company, the Supervisory Board has made changes to the remuneration paid to Dr. Fischer and Manfred Rietzler.

The compensation of Dr. Fischer under his amended employment contract consists of an annual base compensation of EUR 420,000 and a variable annual compensation of two percent of Group EBITDA. Dr. Fischer is eligible to participate in the company's stock option programme.
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. A change of control provision was added to the contract of Dr. Fischer. In the event that at least 50 percent of the shares of SMARTRAC should fall under the control of a third party, Dr. Fischer will receive a redundancy payment of three times his annual compensation.

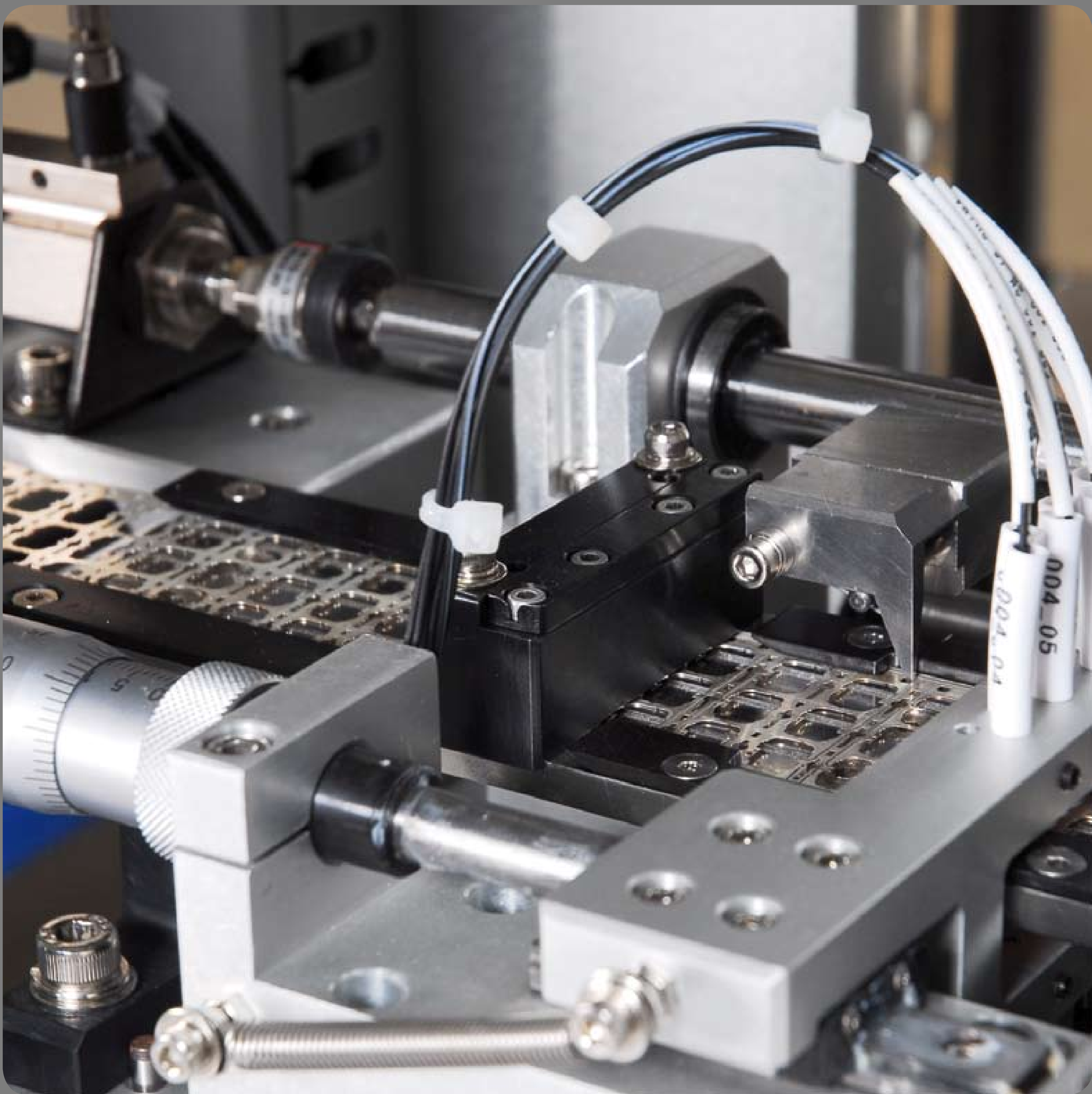
According to his amended employment contract, Manfred Rietzler shall receive an annual base compensation of euro 250,000 in 2008 and euro 300,000 in 2009. In addition, the housing and related expenses of Mr. Rietzler in Thailand shall be borne by the company.

Ron Brown, who was originally hired until the first General Meeting of Shareholders in 2008, retired early as of January 31, 2008.

The remuneration of Anthony Driessen has remained unchanged. Mr. Driessen's contractual term as member of the Management Board ends at the first General Meeting of Shareholders in 2008.

In January 2008, Stephen Juge took over the newly created management position of Head of Legal Affairs and Chief Legal Counsel of SMARTRAC. He will be based at the headquarters of SMARTRAC in Amsterdam. It is planned that the SMARTRAC Supervisory Board will propose to the SMARTRAC 2008 Annual General Meeting of Shareholders, which will be held on April 25, 2008, in Amsterdam, the appointment of Stephen Juge as director and member of the Board of Directors of SMARTRAC with a term of office of two years. Stephen Juge shall receive an annual base compensation of euro 200,000. The variable annual compensation of Stephen Juge comprises a cash bonus with an expected amount of 50 percent of his base compensation up to a maximum amount of 75 percent of his base compensation as well as shares with a lock up of 2 years amounting to a maximum value of 12.5 percent of his base compensation. Stephen Juge will be eligible to participate in the company's stock option programme up to a maximum value of 12.5 percent of his base compensation per year. He will receive a company car and a reimbursement for housing and related expenses.

Financial statements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Consolidated income statement
For the years ended 31 December

In thousands of euro	Note	Consolidated 2007	Consolidated 2006
Revenues	5	96,566	52,465
Cost of sales	7	(54,870)	(33,984)
Gross profit		**41,696**	**18,481**
Administrative expenses	8	(19,657)	(8,711)
Other operating income and expenses	10	(88)	(165)
Total operating expenses		**(19,745)**	**(8,876)**
Operating profit before financial income (expenses)		**21,951**	**9,605**
Financial income		601	507
Financial expenses		(1,546)	(1,265)
Net financial income (expenses)	11	**(945)**	**(758)**
Share of (loss) /profit of associates	6	(211)	110
Profit before tax		**20,795**	**8,957**
Income tax (expense) / benefit	12	(55)	162
Profit for the period attributable to the equity holders of the company		**20,740**	**9,119**
Basic earnings per share (euro)	13	1.55	0.79
Diluted earnings per share (euro)	13	1.54	0.79

The accompanying notes (on page 60 to 111) are an integral part of the consolidated financial statements.

Consolidated balance sheet

As at 31 December

In thousands of euro	Note	Consolidated 2007	Consolidated 2006
Assets			
Property, plant and equipment	15	26,879	19,286
Intangible assets	16	8,885	1,596
Investment in associates	6	240	158
Deferred tax assets	12	2,068	1,993
Other non-current assets		32	87
Total non-current assets		**38,104**	**23,120**
Inventories	17	13,072	7,190
Trade receivables	18	25,415	13,106
Other current assets	19	3,250	1,430
Short-term investments	20	22,060	–
Cash and cash equivalents	21	14,589	35,886
Total current assets		**78,386**	**57,612**
Total assets		**116,490**	**80,732**
Equity			
Share capital	1, 22	6,750	6,750
Share premium	1, 22	54,463	53,548
Translation reserve		(86)	24
Retained earnings		29,859	9,119
Treasury stock	14	(4,798)	–
Total equity attributable to equity holders of the company		**86,188**	**69,441**
Liabilities			
Secured loans	23	2,112	148
Deferred tax liabilities		321	–
Total non-current liabilities		**2,433**	**148**
Bank overdraft	21	271	842
Current portion of secured loan	23	194	244
Interest-bearing loans and borrowings	23	6,878	314
Employee benefits	24	103	50
Trade and non-trade payables	25	15,289	8,377
Other current liabilities	26	5,134	1,316
Total current liabilities		**27,869**	**11,143**
Total liabilities		**30,302**	**11,291**
Total equity and liabilities		**116,490**	**80,732**

The accompanying notes (on page 60 to 111) 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 2007	Consolidated 2006
Cash flows from operating activities			
Net profit		20,740	9,119
Reconciliation of net profit to net cash provided by (used in) operating activities:			
Depreciation and amortisation	7, 8	3,569	2,308
Interest expenses	11	–	448
Expenses for share based payments	14, 29	943	77
(Reversal of) write down of inventories	10	270	(20)
Impairments on trade and other receivables		152	–
(Gains) or losses on disposal of assets	10	(24)	517
Share of loss / (profit) of associates	6	211	(110)
Tax expense / (benefit)	12	55	(162)
Other non cash items		370	–
Changes in operational assets and liabilities:			
Other non-current assets		55	(16)
Inventories		(5,282)	(3,346)
Other current assets		(1,259)	469
Trade receivables		(11,664)	(6,230)
Employee benefits		53	12
Trade and non-trade payables		4,642	3,542
Deferred tax liabilities		–	–
Other current liabilities		3,879	(486)
Net cash provided by operating activities		**16,710**	**6,122**
Cash flows from investing activities			
Cash payment on purchase of subsidiaries	4	(6,795)	–
Cash payment on purchase of short-term investments	20	(22,206)	–
Proceeds from sale of equipment		369	251
Purchases of intangible assets	16	(287)	(408)
Purchases of property, plant and equipment	15	(10,460)	(10,532)
Deposits paid for property, plant and equipment	19	(1,128)	(722)
Net cash used in investing activities		**(40,507)**	**(11,411)**
Cash flows from financing activities			
Share buyback	14	(5,020)	–
Proceeds from issue of new share equity		–	1,750
Proceeds from increase in share premium due to issue of new shares net of related costs		–	57,750
Payment of transaction costs		–	(10,990)
Proceeds from interest-bearing loans and borrowings and secured loan		9,105	6,608
Repayments of interest-bearing loans and borrowings and secured loan		(1,117)	(14,662)
Interests paid		–	(526)
Net cash provided by financing activities		**2,968**	**39,930**
Net change in cash and cash equivalents and bank overdrafts		(20,829)	34,641
Cash and cash equivalents and bank overdrafts at 1 January		35,044	293
Effect of exchange rate fluctuations on cash and cash equivalents and bank overdrafts		151	110
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	**14,318**	**35,044**

The accompanying notes (on page 60 to 111) are an integral part of the consolidated financial statements.

Consolidated statement of changes in shareholders' equity
For the year ended 31 December 2006 and 2007

In thousands of euro	Issued and paid-up share capital	Share premium	Translation reserve	Retained earnings*	Treasury stock	Total
Balance – beginning of year 2006	**5,000**	**4,923**	**–**	**–**	**–**	**9,923**
Foreign exchange translation (income directly recognised in equity)	–	–	24	–	–	24
Net profit for the period	–	–	–	9,119	–	9,119
Total income of the period			**24**	**9,119**		**9,143**
Par value of new shares credited to share capital	1,750	–	–	–	–	1,750
Excess of gross proceeds over par value credited to share premium	–	57,750	–	–	–	57,750
IPO costs charged to share premium	–	(10,990)	–	–	–	(10,990)
Deferred tax effect of IPO costs credited to share premium	–	1,788	–	–	–	1,788
Share based payment	–	77	–	–	–	77
Balance – end of year 2006	**6,750**	**53,548**	**24**	**9,119**	**–**	**69,441**
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 (note 14)	–	–	–	–	(5,020)	(5,020)
Reversal of IPO costs credited to share premium	–	194	–	–	–	194
Share bonus charged to share premium (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**

The accompanying notes (on page 60 to 111) are an integral part of the consolidated financial statements.

* Retained earnings include an amount of euro 432,000 (2006: euro 125,000) relating to the share of profits of the associate, which has not been yet distributed to SMARTRAC N.V.

Notes to the consolidated financial statements for the year ended 31 December 2007

1. Reporting entity

a) General

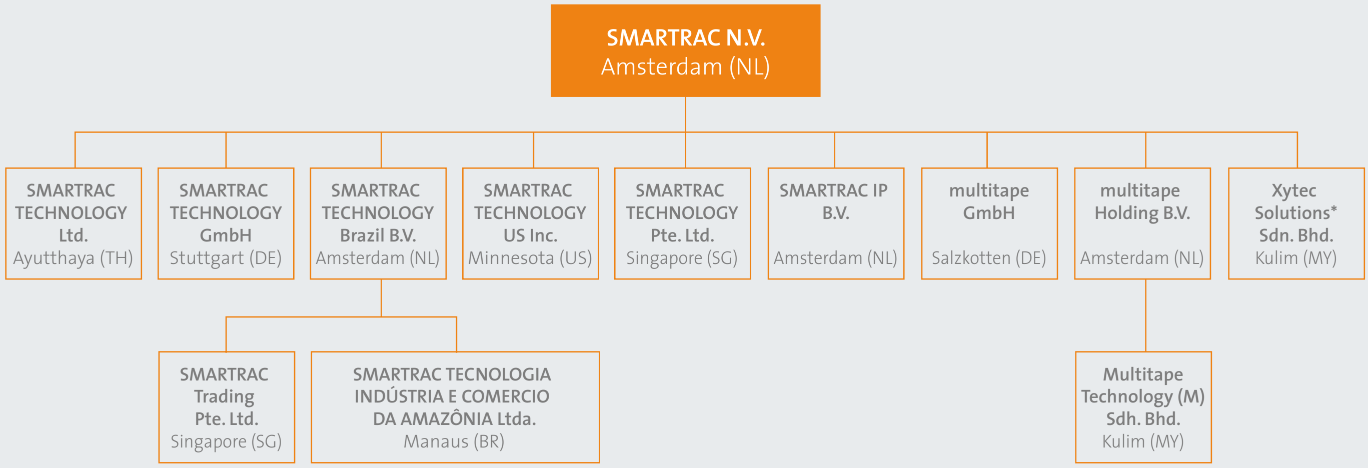
SMARTRAC N.V. ('the Company') is a company domiciled in Strawinskylaan 851, 1077 XX Amsterdam, The Netherlands. The shares of the Company are listed in the Prime Standard of the Frankfurt Stock Exchange (ISIN NL 0000186633). The Company acts as the holding company for the SMARTRAC Group ('the Group'),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

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 %
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 %
Associate				
Xytec Solutions Sdn. Bhd.	Malaysia	13 December 2004	Manufacturing	30 %

b) Activities

The Group is a leading supplier of inlays for passports and credit cards and also standard applications with integrated contactless chips and an antennas.

c) Group structure



* Xytec Solutions: 30 %, after completion of purchase agreement in 2008 100 %

d) Financial year

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

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements 2007 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 2007 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 authorised for issue on 11 March 2008 and will be submitted for adoption to the Annual General Meeting of Shareholders on 25 April 2008.

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 or loss of the Group, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Amsterdam, 11 March 2008

Dr. Christian Fischer

Manfred Rietzler

Anthony Driessen

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 at equity
- Receivables are stated at amortised cost less impairment losses
- Short-term investments are stated at fair value through profit and loss
- Cash equivalents are stated at fair value
- Loans are stated initially at fair value less attributable transaction costs and subsequently at amortised cost
- Payables are stated at amortised cost
- A Stock Option Plan allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity

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 recognised 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 respective notes, if any.

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

The consolidated financial statements were initially prepared in 2006 by using the historical cost method in a manner similar to the uniting of interests method as the restructuring involved companies under common control during the relevant periods. This method of presentation reflects the economic substance of the combined companies as a single economic enterprise, although the legal parent-subsidiary relationships were not established until February 2006. The 2006 consolidated financial statements were a combination or aggregation of all the financial statements of the companies in the Group as a single economic enterprise from either the first day of the first reporting period presented or the date they became commonly controlled. In the financial year 2007 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 recognised 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 unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated when preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised 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 recognised at their fair values at the acquisition date. Goodwill arising on acquisition is recognised 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 recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised 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, such as for a Thai company, 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 recognised in the income statement.

c) Property, plant and equipment

1. Recognition and measurement

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

2. Subsequent costs

The Group recognises 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 recognised in the income statement as an expense as incurred.

Currency	2007 Period end rate	2007 Period average rate	2006 Period end rate	2006 Period average rate
EUR / USD	1.47	1.37	1.32	1.26
EUR / THB	43.82	44.54	47.46	47.68
EUR / SGD	2.13	2.06	2.03	2.00
EUR / BRL*	2.60	2.62	–	–
EUR / MYR	4.88	4.72	–	–
EUR / CHF	1.66	1.64	–	–

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

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 amortisation (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 amortisation (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 net 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 has to be 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 recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised 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. The expenditure capitalised includes the cost of materials, direct labor and directly attributable costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses (see accounting policy i).

5. Amortisation

Amortisation 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 lives for patents and patent rights are 10 to 20 years and for software 5 years. The amortisation methods, residual values and useful lives are subject to annual reassessment.

e) Trade and other receivables

Trade and other receivables are stated at amortised 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 realisable value. Net realisable 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 at cost. Transaction costs are included. Subsequent measurement of financial instruments is either at fair value or amortised cost as set out in the applicable note.

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

– Financial instruments recognised at fair value with effect on income,
– Held-to-maturity investments,
– Loans and receivables originated by the entity, and
– Available-for-sale investments.

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

– Financial instruments recognised at fair value with effect on income and financial instruments held for trading, and
– Other liabilities.

Measurement of financial instruments is either at fair value or amortised 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 recognised option price models or discounting future cash flows with the market interest rate.

Amortised 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.

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 o), 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 recognised 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 are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised 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 amortised 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.

2. Reversals of impairment

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

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 amortisation, if no impairment loss had been recognised.

j) Interest-bearing borrowings

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

k) 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 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 recognised 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 recognised immediately in the income statement.

Actuarial gains and losses that arise in calculating the Group's obligation in respect of a plan are recognised in the income statement in accordance with IAS 19.93.

2. Share-based payment transactions

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

l) Trade and other payables

Trade and other payables are stated at amortised cost.

m) Revenue

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised 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.

n) Expenses

1. Operating lease payments

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

2. Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method. Interest income is recognised in the income statement as it accrues, using the effective interest method.

o) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised 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 recognised. The amount of deferred tax provided is based on the expected manner of realisation 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 recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

p) 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.

q) 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 rewards that are different from those of other segments.

r) New accounting policies

As from 1 January 2007, the Group applies the following mandatory standards and interpretations:

– IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks.

s) New standards and interpretations

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

- IFRS 8 – Operating Segments (mandatory 2009) introduces the management approach to segment reporting. IFRS 8 will require the 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.

- IAS 23 – Borrowing Costs (revised) (mandatory 2009) removes the option to expense borrowing costs and requires that an entity capitalise 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 capitalisation of borrowing costs commences on or after the effective date. The Group expects only a limited effect from this standard.

- IFRIC 11 – 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. The Group has not yet determined the potential effect of the interpretation.

- IFRIC 12 – Service Concession Arrangements (mandatory 2008) provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. The Group expects no effects from this interpretation.

- IFRIC 13 – Customer Loyalty Programmes (mandatory 2009) addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. The Group has not yet determined the potential effect of the interpretation.

- IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (mandatory 2008) clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 requires a retrospective application. The Group expects only limited effects from this interpretation.

4. Business combinations

The following company was acquired during the accounting period and consolidated for the first time:

Company	Country of incorporation	Date of first time inclusion	Percentage of acquisition
multitape GmbH	Germany	26 January 2007	100 %

On 26 January 2007 SMARTRAC obtained control over a 100% share of multitape GmbH, Salzkotten, Germany. multitape GmbH has expertise in etching technology which is a supplement to the Group's core competence, the wire-embedding technology. Goodwill results from the first time inclusion of multitape GmbH which amounted to euro 1,329,000.

Additionally to the acquisition of multitape GmbH, the following company was acquired during the accounting period and consolidated for the first time:

Company	Country of incorporation	Date of first time inclusion	Percentage of acquisition
SMARTRAC TECNOLOGIA INDÚSTRIA E COMERCIO DA AMAZÔNIA Ltda.	Brazil	15 July 2007	100 %

After the acquisition of SMARTRAC Tecnologia Indústria E Comercio Da Amazônia Ltda. the RFID business of SonSun Indústrial E Comercial Tecnologica Da Amazônia Ltda., Manaus, Brazil was acquired.

In sum, the business combination between SMARTRAC and the RFID business of SonSun Indústrial E Comercial Technologica Da Amazônia Ltda., Manaus, Brazil is the final result of the following transactions:

By contract dated 4 June 2007, effective 15 July 2007, SMARTRAC Technology Brazil B.V., Amsterdam, The Netherlands (99.99 %) and SMARTRAC N.V., Amsterdam, The Netherlands (1 share) jointly acquired 99.99 % of the shares in SMARTRAC Tecnologia Indústria E Comercio Da Amazônia Ltda. (SMARTRAC Brazil), Manaus, Brazil. SMARTRAC Technology Brazil B.V., the intermediary holding company of SMARTRAC Brazil, was founded 27 February 2007 by SMARTRAC N.V. Thereafter SMARTRAC Tecnologia Indústria E Comercio Da Amazônia Ltda., Manaus, Brazil acquired by contract dated 4 June 2007, effective 15 July 2007 all tangible assets allocable to the RFID business of SonSun Indústrial E Comercial Tecnologica Da Amazônia Ltda., Manaus, Brazil within the framework of an asset deal. Subsequent to the above mentioned acquisition, one share was acquired by SMARTRAC and SMARTRAC owns the full 100 % of the shares.

Due to the takeover of the RFID division of SonSun, SMARTRAC Brazil has become one of the leading manufacturers and distributors of RFID components in Brazil. The most important distribution channels in the Brazilian economy concentrate on the two main metropolises, Sao Paulo and Rio de Janeiro. The largest Brazilian customers are active in public transport. Production is located in Manaus, Brazil.

SMARTRAC Brazil and the RFID business are consolidated from 15 July 2007 on – the acquisition date at which SMARTRAC obtained control over the business. Goodwill in conjunction with the asset deal resulted from the first time inclusion of SMARTRAC Tecnologia Indústria E Comercio Da Amazônia Ltda. and amounted to euro 3,094,000.

Moreover, the following company was also acquired during the accounting period:

Company	Country of incorporation	Date of first time inclusion	Percentage of acquisition
SMARTRAC TECHNOLOGY US Inc.	USA	31 August 2007	100 %

After the incorporation of SMARTRAC TECHNOLOGY US Inc. the RFID business of the Delaware HEI US Inc., Chanhassen, Minnesota, USA was acquired.

In sum, the business combination between SMARTRAC and the RFID business of HEI US Inc., Chanhassen, Minnesota, USA is the final result of the following transactions:

By contract dated 31 August 2007, SMARTRAC TECHNOLOGY US Inc. acquired all the tangible assets allocable to the RFID and Smart Card division business of HEI US Inc., Chanhassen, Minnesota, USA, within the framework of an asset deal.

Due to the takeover of the RFID and Smart Card division of HEI, SMARTRAC USA opens up interesting prospects for SMARTRAC N.V. with new products and access to an additional customer base, which intensifies SMARTRAC's presence in the U.S. market. The largest American customers are located in Sweden and Italy, where HEI is active in modules, laminated cards, keyfobs, coins, and foam-back labels. Production is located in Chanhassen, Minnesota, USA.

SMARTRAC USA was consolidated from 31 August 2007 on – the acquisition date at which SMARTRAC obtained control over the business. Goodwill in conjunction with the asset deal resulted from the first time inclusion of SMARTRAC TECHNOLOGY US Inc. amounted to euro 1,149,000.

Additionally, the following company was established during the accounting period and consolidated for the first time:

Company	Country of incorporation	Date of first time inclusion	Percentage of acquisition
Multitape Technology (M) Sdn. Bhd.	Malaysia	3 October 2007	100 %

By notarial certification dated 3 October 2007, multitape Holding B.V. established a new subsidiary, Multitape Technology (M) Sdn. Bhd. in Kulim, Malaysia. Multitape Malaysia was founded for the production and selling of competitive tags and labels on its own internally constructive assembly line that is currently being built up.

The tables below presents a summarised breakdown of the values of the net assets acquired during the reporting period:

In thousands of euro	Total
Purchase consideration	
Cash paid	6,290
Costs directly attributable to the acquisition	457
Total cash paid for acquisition	**6,747**
Purchase price liabilities (to be granted in SMARTRAC shares)	1,461
Total purchase consideration	**8,208**
Fair value of net assets acquired	2,636
Goodwill	**5,572**

Goodwill recognised on the acquisitions is attributable mainly to the skills and technical talent of the acquired business work forces.

Detailed overview of the net assets acquired in the course of the financial year 2007:

In thousands of euro	Carrying value prior to acquisition	Adjustment	Carrying value upon acquisition
Plant and equipment	1,083	237	1,320
Goodwill	–	5,572	5,572
Patents	–	700	700
Other intangible assets	3	490	493
Inventories	873	–	873
Receivables	1,086	–	1,086
Other current assets	14	–	14
Cash and cash equivalents	85	–	85
Bank overdrafts	(133)	–	(133)
Interest bearing loans	(552)	–	(552)
Payables	(929)	–	(929)
Deferred income tax liability	–	(321)	(321)
Net assets acquired	**1,530**	**6,678**	**8,208**
Total purchase consideration settled in cash			(6,747)
Cash and cash equivalents acquired			(48)
Cash outflow on acquisition			**(6,795)**

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 utilised 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 manufacturing 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 and logistics.

– 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 for 2007 and 2006 by business segments

In thousands of euro	Standard components 12 months ended Dec. 2007	Standard components 12 months ended Dec. 2006	High Security components 12 months ended Dec. 2007	High Security components 12 months ended Dec. 2006	Other operations 12 months ended Dec. 2007	Other operations 12 months ended Dec. 2006	Eliminations 12 months ended Dec. 2007	Eliminations 12 months ended Dec. 2006	Consolidated 12 months ended Dec. 2007	Consolidated 12 months ended Dec. 2006
Segment revenue										
Revenues	**28,950**	**24,725**	**67,747**	**27,109**	**–**	**631**	**(131)**	**–**	**96,566**	**52,465**
Segment result										
Gross profit	7,739	5,060	33,959	12,790	(2)	631	–	–	41,696	18,481
Operating expenses	(5,377)	(3,461)	(12,870)	(4,132)	(1,498)	(1,283)	–	–	(19,745)	(8,876)
Operating profit (loss)	2,362	1,599	21,089	8,658	(1,500)	(652)			21,951	9,605
Financial result									(945)	(758)
Share of (loss) / profit of associates					(211)	110			(211)	110
Income tax (expense) / benefit									(55)	162
Profit for the period									**20,740**	**9,119**
Supplemental information										
Operating profit (loss)	2,362	1,599	21,089	8,658	(1,500)	(652)			21,951	9,605
Depreciation and amortisation	1,374	1,212	2,178	1,096	17	–			3,569	2,308
Segment EBITDA*	**3,736**	**2,811**	**23,267**	**9,754**	**(1,483)**	**(652)**			**25,520**	**11,913**

* EBITDA is defined as operating profit for the period before depreciation, amortisation, IPO costs, 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.

Revenues by subsegment were as follows:

In thousands of euro	Consolidated 2007	Consolidated 2006
Standard components		
Mass transportation / access control	25,563	24,217
Logistics	3,387	508
Subtotal	**28,950**	**24,725**
High security components		
ePayment	11,267	5,205
ePassport	56,480	21,904
Subtotal	**67,747**	**27,109**
Other operations	**–**	**631**
Total before eliminations	**96,697**	**52,465**
Segment eliminations	(131)	–
Total revenue	**96,566**	**52,465**

Geographical segments

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

In thousands of euro	Consolidated 2007	Consolidated 2006
Revenues		
Asia	7,397	5,954
Europe	67,133	35,654
North America	16,683	7,681
Latin America	4,239	2,864
Others	1,114	312
Total revenues	**96,566**	**52,465**
Assets		
Asia	69,296	43,768
Europe	37,845	36,964
North America	2,480	–
Latin America	6,869	–
Total assets	**116,490**	**80,732**
Liabilities		
Asia	19,626	8,116
Europe	5,549	3,175
North America	194	–
Latin America	4,933	–
Total liabilities	**30,302**	**11,291**

Property, plant and equipment and intangibles acquired

In thousands of euro	Consolidated 2007	Consolidated 2006
Property, plant and equipment		
Asia	8,186	9,814
Europe	1,699	719
North America	309	–
Latin America	1,631	–
Total property, plant and equipment	**11,825**	**10,533**
Intangibles		
Asia	219	198
Europe	2,219	210
North America	1,272	–
Latin America	3,409	–
Total intangibles	**7,119**	**408**

6. Investment in an associate

The Group has a 30% equity interest in Xytec Solutions Sdn. Bhd. (Xytec). The investment is accounted for under the equity method. Xytec is the only investment the Group has in associates.

		Ownership	
Company	Country of incorporation	Consolidated 2007	Consolidated 2006
Xytec Solutions Sdn. Bhd.	Malaysia	30 %	30 %

Xytec shares are not listed on a stock exchange and hence the fair value of its shares cannot be determined. Financial information can be summarised as follows:

In thousands of euro	Consolidated 2007	Consolidated 2006
Assets	2,987	2,299
Liabilities	1,219	1,743
Revenues	5,095	3,539
Profit	1,024	367
thereof 30 %	307	110
Elimination of profits	(518)	–
Profit attributable to the Group	**(211)**	**110**

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. The Group has not received any dividends from the associate.
For information about the full acquisition of Xytec shares in 2008, please refer to note 34 'Subsequent events'.

7. Cost of sales

In thousands of euro	Consolidated 2007	Consolidated 2006
Raw materials and manufacturing supplies	39,756	24,903
Personnel expenses (note 9)	7,545	4,135
Depreciation and amortisation (note 15 and 16)	2,961	1,910
Other manufacturing costs	4,608	3,036
Total cost of sales	**54,870**	**33,984**

8. Administrative expenses

In thousands of euro	Consolidated 2007	Consolidated 2006
Personnel expenses (note 9)	10,493	4,389
Rental expenses	323	381
Sales commission expenses	453	258
Professional fees	3,055	984
Depreciation and amortisation (note 15 and 16)	608	398
Other administrative expenses	4,725	2,301
Total administrative expenses	**19,657**	**8,711**

9. Personnel expenses

In thousands of euro	Consolidated 2007	Consolidated 2006
Wages and salaries	15,036	5,746
Compulsory social security contributions	524	129
Employee benefits	21	89
Subcontractor fees	2,454	2,414
Other	3	146
Total	**18,038**	**8,524**

Personnel expenses are classified in the income statement as follows:

In thousands of euro (except headcount)	Consolidated 2007	Consolidated 2006
Cost of sales	7,545	4,135
Administrative expenses	10,493	4,389
Total	**18,038**	**8,524**
Number of staff employees	1,676	863
Number of subcontractors	949	893
Total	**2,625**	**1,756**

10. Other operating income (expenses)

In thousands of euro	Consolidated 2007	Consolidated 2006
Scrap sales	42	–
Reversal of / (write down) of inventories	(270)	20
Gain / (loss) on disposal of fixed assets	24	(517)
Others	116	332
Total	**(88)**	**(165)**

11. Net financial income (expenses)

In thousands of euro	Consolidated 2007	Consolidated 2006
Interest income	443	447
Foreign exchange gains	158	60
Financial income	**601**	**507**
Change in fair value	(263)	–
Interest expenses	(208)	(448)
Bank charges	(240)	(76)
Foreign exchange losses	(835)	(741)
Financial expenses	**(1,546)**	**(1,265)**
Net financial income (expenses)	**(945)**	**(758)**

12. Corporate income tax

Tax privileges

A material portion of the taxable income of the Group in 2007 and 2006 was generated in Thailand by SMARTRAC Technology Limited. 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 facilities relating to its production and sale of transponders in Thailand:

– Exemption from corporate income tax for seven years (until 2008) on taxable profits generated under the subsidiary's first Board of Investment license,
– Exemption from corporate income tax for seven years (until 2011), or a maximum of THB 183.5 million (approximately euro 3.9 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 1,975 million (appr. euro 41.6 million) whichever occur first.

SMARTRAC Tecnologia Indústria E Comercio Da Amazônia Ltda. operates within the Manaus Free Trade Zone and therefore benefits from the following privileges:

– Reduction in the import duty;
– 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 extent they use those products in the production process of other products).

Recognised in the income statement

In thousands of euro	Consolidated 2007	Consolidated 2006
Current corporate tax expense	(130)	(6)
Deferred tax benefit	75	168
Income tax (expense) / benefit	**(55)**	**162**

Reconciliation of effective tax charge

In thousands of euro	Consolidated 2007	Consolidated 2006
Profit before tax	**20,795**	**8,957**
Expected tax expense based on rate of 25.5 % (2006: 30 %)	(5,303)	2,687
Tax exempt income relating to promotional activities	5,812	(2,921)
Non-recognition of tax benefits on losses incurred	(545)	–
Non-deductible permanent differences	(91)	(19)
Tax refund from loss carry back	79	–
Tax rate differences in foreign jurisdictions	74	(47)
Other	(81)	(6)
Actual tax (expense) / income	**(55)**	**162**

Deferred tax assets

Movements in deferred tax assets recognised are as follows:

In thousands of euro	Consolidated 2007	Consolidated 2006
Balance 1 January	1,993	37
Recognised in income statement	75	168
Recognised directly in equity	–	1,788
Balance 31 December	**2,068**	**1,993**

Deferred tax liabilities

In thousands of euro	Consolidated 2007	Consolidated 2006
Balance 1 January	–	–
Acquired through business combinations	321	–
Balance 31 December	**321**	**–**

Movements in temporary differences during the year

In thousands of euro	Balance at 1 January 2006	Recognised in profit or loss	Recognised in equity	Acquired in business combinations	Balance at 31 December 2006
Deferred tax assets					
Intangible assets	–	–	–	–	–
Property, plant and equipment	–	–	–	–	–
Inventories	–	–	–	–	–
Trade receivables	–	–	–	–	–
Tax loss carry forward	–	77	3,008	–	3,085
./. Allowance	–	(77)	(1,015)	–	(1,092)
Total deferred tax assets	**–**	**–**	**1,993**	**–**	**1,993**
Deferred tax liabilities					
Intangible assets	–	–	–	–	–
Property, plant and equipment	–	–	–	–	–
Total deferred tax liabilities	**–**	**–**	**–**	**–**	**–**

In thousands of euro	Balance at 1 January 2007	Recognised in profit or loss	Recognised in equity	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)**

13. Earnings per share

Profit attributable to ordinary shareholders

The calculation of basic earnings per share at 31 December 2007 was based on the profit attributable to ordinary shareholders and amounts to euro 20,740,00 (2006: euro 9,119,000).

In thousands of shares	2007
Number of ordinary shares	13,500
Effect of share buyback 2007	(133)
Employee bonus shares	1
Weighted average number of ordinary shares at 31 December 2007	**13,368**

In thousands of shares	2006
Issued ordinary shares after restructuring	5,000
Effect of stock split on 7 February 2006	5,000
Effect of 3.5 million shares issued in July 2006	1,556
Weighted average number of ordinary shares at 31 December 2006	**11,556**

Basic earnings per share

In thousands of euro and shares, except earnings per share	Consolidated 2007	Consolidated 2006
Profit attributable to ordinary shareholders	20,740	9,119
Weighted average number of ordinary shares at 31 December	13,368	11,556
Earnings per share (euro)	**1.55**	**0.79**

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 tranche (and the second tranche). The third tranche does not have a dilutive effect.

- Average market share price: euro 29.19.
- Effective tax rate: The effective tax rate is 0 %.
- Exercise Price: The exercise price of the stock options is euro 17.00 (Second tranche: euro 22.40)

In thousands of shares	Consolidated 2007	Consolidated 2006
Weighted average of ordinary shares outstanding	13,368	11,556
Effect of potential dilutive shares		
Share options	69	2
Weighted average of ordinary shares at 31 December	**13,437**	**11,558**

Diluted earnings per share

In thousands of euro and shares, except earnings per share	Consolidated 2007	Consolidated 2006
Profit attributable to ordinary shareholders	20,740	9,119
Weighted average number of ordinary shares at 31 December	13,436	11,558
Diluted earnings per share (euro)	**1.54**	**0.79**

14. Treasury Stock

A total of euro 5,020,000 has been spent by the company since April 2007 on buying its own shares to be held as treasury shares. 199,500 shares have been acquired during the months of April and May of the year 2007. All purchases were through the publicly announced buyback programme. The buyback programme, which started on 3 April 2007, was conducted via the stock exchange. On 31 May 2007 the share buyback was completed. SMARTRAC authorised a bank to conduct the share buyback. The SMARTRAC Management Board intends to utilise the shares from the buyback in the context of acquisitions as well as for the company's own employee share programmes.

In conjunction with an acquisition 49,470 shares have been granted but not yet issued to a selling party as at 31 December 2007.

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 programme and the development of treasury stock with respect to the share bonus 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 (share bonus granted)	(8,856)	25.16
Total	**190,644**	**25.16**

15. Property, plant and equipment

In thousands of euro	Land	Buildings and building improvements	Vehicles
Cost			
Balance at 1 January 2006	448	2,643	58
Acquisitions	306	1,519	–
Disposals	–	–	(17)
Balance at 31 December 2006	**754**	**4,162**	**41**
Accumulated depreciation			
Balance at 1 January 2006	–	407	28
Depreciation charge for the year	–	462	11
Disposals	–	–	(5)
Balance at 31 December 2006	**–**	**869**	**34**
Carrying amounts			
At 1 January 2006	448	2,236	30
At 31 December 2006	**754**	**3,293**	**7**
Cost			
Balance at 1 January 2007	754	4,162	41
Acquisitions from consolidation	–	–	–
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**

* Reclassified to intangibles

Machinery	Tools and equipment	Furniture and fixtures	Office equipment	Construction in progress	Consolidated
10,356	1,110	264	371	–	15,250
4,748	811	348	171	2,630	10,533
(769)	(25)	–	–	–	(811)
14,335	**1,896**	**612**	**542**	**2,630**	**24,972**
2,437	439	80	125	–	3,516
1,269	270	101	92	–	2,205
(18)	(12)	–	–	–	(35)
3,688	**697**	**181**	**217**	**–**	**5,686**
7,919	671	184	246	–	11,734
10,647	**1,199**	**431**	**325**	**2,630**	**19,286**
14,335	1,896	612	542	2,630	24,972
1,320	–	–	–	–	1,320
6,047	823	218	354	2,738	10,505
1,269	145	(256)	163	(4,399)	(610)
(338)	(5)	(9)	–	(38)	(390)
22,633	**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
17,138	**1,637**	**346**	**702**	**931**	**26,879**

16. Intangible assets

In thousands of euro	Consolidated 2007	Consolidated 2006
Patents and patent rights	2,153	1,592
Software	790	4
Goodwill	5,507	–
Other	435	–
Total intangible assets	**8,885**	**1,596**

In the financial year 2007 (2006) all additions to intangible assets were due to acquisitions.

In thousands of euro	Goodwill	Patents and patent rights	Software	Others	Total
Cost					
Balance at 1 January 2006	–	1,333	40	–	1,373
Acquisitions	–	408	–	–	408
Disposals (-)	–	(8)	–	–	(8)
Balance at 31 December 2006	**–**	**1,733**	**40**	**–**	**1,773**
Amortisation					
Balance at 1 January 2006	–	52	28	–	80
Amortisation	–	94	8	–	102
Disposals (-)	–	(5)	–	–	(5)
Balance at 31 December 2006	**–**	**141**	**36**	**–**	**177**
Carrying amounts					
At 1 January 2006	–	1,281	12	–	1,293
At 31 December 2006	**–**	**1,592**	**4**	**–**	**1,596**
Cost					
Balance at 1 January 2007	–	1,733	40	–	1,773
Acquired through business combinations	5,572	700	3	492	6,767
Acquisitions	–	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**
Amortisation					
Balance at 1 January 2007	–	141	36	–	177
Amortisation	–	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**

* Reclassified from property, plant and equipment

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

The patents and patent rights relate to technical innovations 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 2007	Consolidated 2006
Raw materials and consumables	11,670	6,226
Work in progress	440	498
Finished goods	962	466
Total inventories	**13,072**	**7,190**

In financial year 2007 inventories (raw materials) of euro 270,000 have been written off (2006: euro 20,000 reversed).

18. Trade receivables

In thousands of euro	Consolidated 2007	Consolidated 2006
Trade receivables with related parties	373	541
third parties	25,571	12,942
Impairments	(529)	(377)
Total trade receivables	**25,415**	**13,106**

Trade receivables are shown net of impairments amounting to euro 529,000 of which 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 2007	Consolidated 2006
Deposits paid	1,128	722
Prepayments to vendors	160	30
Prepaid expenses	540	176
Other	1,422	502
Total	**3,250**	**1,430**

20. Short-term investments

At 31 December 2007 SMARTRAC had invested euro 22,060,000 in securities. These financial assets consist of investment certificates (euro 16,472,000) and other securities (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 2007	Consolidated 2006
Cash	9,522	2,713
Cash equivalents	–	33,173
Short-term cash deposits	5,067	–
Cash and cash equivalents	**14,589**	**35,886**
Bank overdraft	(271)	(842)
Cash and cash equivalents and bank overdrafts as stated in the cash flow statement	**14,318**	**35,044**

At 31 December 2007, SMARTRAC held euro 5,067,000 (including accrued interests of euro 13,000) in a short-term bank deposit with a total period of one month.

22. Equity

Share capital

Ordinary shares of SMARTRAC N.V. in thousands of shares	Consolidated 2007	Consolidated 2006
On issue at 1 January	13,500	10,000
Issued for cash	–	3,500
Share buyback	(200)	–
Employee bonus shares	9	–
On issue at 31 December – fully paid	**13,309**	**13,500**

Authorised share capital

SMARTRAC N.V. was incorporated on 23 January 2006 with an authorised share capital of 25,000,000 shares of euro 1.00 each and issued and paid up share capital of 5,000,000 shares of euro 1.00 each. On 7 February 2006, the shareholders resolved to amend the Company's Articles of Association by splitting and converting each existing euro 1.00 share into two shares of euro 0.50 each. Following this amendment the authorised share capital of the Company is euro 25,000,000, comprising 50,000,000 shares with a par value of euro 0.50 each.

Share premium reserve

The increase in share premium 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.

23. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loan and bank borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 27.

In thousands of euro	Consolidated 2007	Consolidated 2006
Non-current liability		
Secured loan	2,112	148
	2,112	**148**
Current liabilities		
Current portion of secured loan	194	102
Trust receipt	–	142
	194	**244**
Interest-bearing loans and borrowings		
Short-term bank borrowings	6,878	314
	6,878	**314**
	9,184	**706**

Terms and debt repayment schedule

A secured four-year loan (denominated in THB) totalling of euro 131,000 (31 December 2006: euro 250,000) is with Siam Commercial Bank in Thailand. The loan is secured by land and buildings and it matures in 2008. Interest on the loan is calculated based on the bank's Minimum Loan Rate which is 6.88 % per annum as at 31 December 2007. Monthly repayments are approximately euro 11,900.

The trust receipt on a letter of credit (denominated in THB) amounting to euro 0 (31 December 2006: euro 142,000) was with Siam Commercial Bank in Thailand matured in 2007.

Secured short-term bank borrowings (denominated in euro) totalling euro 5,000,000 (2006: euro 0) were with Deutsche Bank Thailand and were guaranteed by a related party.

Umbrella credit facility

To ensure the solvency of SMARTRAC a revolving credit facility in the amount of euro 7,030,000 was implemented and allocated to different SMARTRAC entities. The proceeds of the facility are to be used for general corporate purposes.

As a part of the Umbrella credit facility a long-term installment loan (denominated in USD) was implemented which amounts to euro 1,817,000 as at 31 December 2007 (31 December 2006: euro 0). Furthermore, a short-term loan amounted to euro 1,866,000 and bank overdrafts (euro 268,000) fell also under the Umbrella credit facility.

As at 31 December 2007, a total of euro 3,079,000 of the credit facility was unused (31 December 2006: euro 2,271,000).

24. Employee benefits

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

In thousands of euro	Consolidated 2007	Consolidated 2006
Present value of unfunded obligations	147	51
Unrecognised actuarial gains and losses	(44)	(1)
Total employee benefits (net liability)	**103**	**50**

Development of net liability

In thousands of euro	Consolidated 2007	Consolidated 2006
Net liability at the beginning of the year	50	36
Current service costs	46	13
Interest costs	5	1
Actuarial gain or loss	2	–
Net liability as at of year end	**103**	**50**

Expense recognised in the income statement

In thousands of euro	Consolidated 2007	Consolidated 2006
Current service costs	46	13
Interest on obligation	8	1
Actuarial gain or loss	2	–
Total	**56**	**14**

These expenses were classified under administrative expenses.

Liability for defined benefit obligations

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

In thousands of euro	Consolidated 2007	Consolidated 2006
Discount rate at 31 December	6.00 %	5.00 %
Future salary increases	6.00 %	7.00 %
Price inflation	3.50 %	3.00 %

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 unrecognised 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 2007	Consolidated 2006
Trade payables due to related parties	25	4
Other trade payables	11,217	3,624
Total trade payables	**11,242**	**3,628**
Non-trade payables due to related parties	1,272	1,069
Other non-trade payables	2,775	3,680
Total non-trade payables	**4,047**	**4,749**
Total trade and non-trade payables	**15,289**	**8,377**

26. Other current liabilities

In thousands of euro	Consolidated 2007	Consolidated 2006
Accrued expenses	4,490	962
Prepayments from customers	90	24
Other liabilities	554	330
Total other current liabilities	**5,134**	**1,316**

Accrued expenses

In thousands of euro	Consolidated 2007	Consolidated 2006
Order related loss	2,366	19
Employment related	1,403	247
Other	721	696
Total accrued expenses	**4,490**	**962**

27. Financial instruments

The Group has exposure to the following risks from its use of financial instruments: 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.

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 always 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.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses as well as to service financial obligations. On corporate level the working cash flow management of the operational entities is closely monitored. The group maintains a strong position in cash and cash equivalents (net cash position 2007: euro 14,318,000; 2006 euro 35,044,000) and liquid short-term investments (2007: euro 22,060,000; 2006 euro 0) (note 20 & 21). Additionally, to ensure the solvency of SMARTRAC a revolving umbrella facility in the amount of euro 7,030,000 was implemented (note 23).

Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and bank debit balances.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

Deposits are only made with counterparties that have good credit ratings. Given their good credit ratings, management does not expect any financial counterparty to fail to meet its obligations.

At 31 December 2006 and 2007 significant concentrations of credit risk existed with key accounts in the ePassport subsegment. Key accounts are monitored by analyzing their financial statements on a regular basis. Most important debtors show a solid balance sheet structure.

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 2007	Consolidated 2006
Trade receivables	25,415	13,106
Other current assets	1,422	502
Short-term investments	22,060	–
Cash and cash equivalents	14,589	35,886
Total	**63,486**	**49,494**

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 2007	Consolidated 2006
Asia	469	404
Europe	20,292	11,427
North America	3,612	841
Latin America	1,0,22	321
Other	20	114
Total	**25,415**	**13,106**

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

Most of the Group's borrowings are short-term with interest rates based on current market rates at that time. The effective interest rates on financial assets and financial liabilities do not differ significantly from the nominal rates disclosed in these notes.

Sensitivity analyis

At 31 December 2007, an increase of 1% in interest rates of financial instruments with variable interest rates would increase the Group's profit for the year before tax by euro 24,000 (2006: increase by euro 68,000).

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, bank debit balances and borrowings 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 USD and Thai Baht.

The majority of the Group's bank borrowings and loans at 31 December 2007 were in euro (31 December 2006: Thai Baht) Please refer also to note 23.

Sensitivity analyis

The foreign exchange rate 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. This foreign currency exposure is determined based on the respective functional currencies of the exposed SMARTRAC's entities. An assumed appreciation of 10% of the euro against all other currencies would have decreased the operating profit before tax by euro 250,000 for the year 2007 (2006: euro 337,000 decrease).

In the financial year 2006 the Group used a profit and loss oriented approach rather than the balance sheet oriented approach adopted for the years 2007 and comparably 2006 to describe the foreign currency risk.

The tables below show the net foreign exchange exposure by major currencies as of Dec 31, 2007 and 2006.

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**	**(207,583)**	
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)**

As at 31 December 2006 Denominated in thousands of foreign currency	USD	THB	Effect in euro
Trade receivables	9,226	3,660	
Other current assets	179	507	
Financial assets	**9,405**	**4,167**	
Trade payables	660	88,895	
Non trade payables	32	22,733	
Loans	–	11,981	
Financial liabilities	**692**	**123,609**	
Gross balance sheet exposure (not hedged)	**8,713**	**(119,442)**	
Effect of 10 % appreciation of the euro, denominated in thousands of euro	(660)	254	(406)
Effect of 10 % appreciation of the euro, other foreign currencies, denominated in thousands of euro			69
Total foreign currency effect			**(337)**

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 transaction risk is included in the sensitivity analysis. Effects from currency fluctuations on the translation of net asset 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 summarises 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 of the loans and borrowings.

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

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

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. The board monitors the return on capital, which the Group defines as net result divided by total shareholders' equity.

The Board's target is to provide incentives to key employees of the Group by offering a range of share-based benefits:

- SMARTRAC stock option plan
- SMARTRAC stock plan
- Bonus grants in form of SMARTRAC stock

At present employees (excluding board members) would hold ca. 1 % of ordinary shares, assuming that all outstanding share options are vested and exercised.

The 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 2007 the return on equity was 24 % (2006: 13 %).

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. For this SMARTRAC authorised a bank to conduct the share buyback by the stock exchange. In the course of the share buyback in 2007 an overall number of 199,500 shares were bought back with a total value of euro 5,020,000. In February 2008 the board again decided to buy back shares up to a maximum value of euro 7.5 million. The shares are intended to be used in the context of acquisitions as well as for the Group's own share programmes.

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 2007	Consolidated 2006
Less than one year	699	68
Between one and five years	1,670	80
Longer than five years	–	–
Total	**2,369**	**148**

The Group has contractual operating lease over office equipment amounting to euro 187,000 (2006: euro 52,000), buildings amounting to euro 1,784,000 (2006: euro 96,000) and vehicles amounting to euro 398,000.

Finance leases

SMARTRAC leases machinery under finance leases. In 2006, no finance lease arrangements existed. The following table shows the net carrying amounts at the year end:

In thousands of euro	Consolidated 2007	Consolidated 2006
Machinery		
Acquisition value	387	–
Accumulated depreciation	(6)	–
Net carrying amount	**381**	**–**

The following reconciliation provides a breakdown at year end:

	Consolidated 2007			Consolidated 2006		
In thousands of euro	Minimum lease payment	Interest component	Present value	Minimum lease payment	Interest component	Present value
Within 1 year	86	23	63	–	–	–
In 1 to 3 years	259	41	218	–	–	–
In 3 to 5 years	79	3	76	–	–	–
After 5 years	–	–	–	–	–	–
Total	**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 recognised 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. 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.

Stock options under the Stock Option Plan provide rights to purchase shares in the Company. Total expenses for the first to the third tranche of the SMARTRAC stock option scheme are recorded at 31 December 2007. 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 2007	Consolidated 2006
Tranche 1	170	77
Tranche 2	395	–
Tranche 3	73	–
Total expenses	**638**	**77**

The exercise price of stock options granted within six weeks of the Company's IPO will be 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 %	18 August 2012
Tranche 2	22.40	29 March 2007	22.11	40 %	5 %	3.97 %	30 March 2013
Tranche 3	39.20	23 Nov. 2007	34.50	40 %	0 %	3.67 %	23 Nov. 2013

Stock option activity of the SMARTRAC Group during 2007 was as follows:

Consolidated 2007	Outstanding 1 Jan. 2007	Granted	Exercised	Forfeited	Outstanding 31 Dec. 2007
Tranche 1	68,250	–	–	(12,500)	55,750
Tranche 2	–	175,000	–	(12,300)	162,700
Tranche 3	–	152,000	–	–	152,000
Total	**68,250**	**327,000**	**–**	**(24,800)**	**370,450**

In the financial year 2006 68,250 options (tranche 1) were granted and outstanding as at 31 December 2006.

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

In euro	Consolidated 2007
Tranche 1	6.66
Tranche 2	6.86
Tranche 3	8.50

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

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

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

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. As of 31 December 2007, the company has complied with these conditions.

Furthermore, SMARTRAC Tecnologia Indústria E Commercio Da Amazônia 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 2007, the Group had outstanding purchase orders for machinery amounting to euro 294,000 (31 December 2006: euro 2,776,000), thereof with Xytec (related party) euro 120,000 (31 December 2006: euro 2,542,000).

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 2007 and 2006, the Group had bank guarantees granted to utility suppliers and for litigation costs amounting to approximately euro 99,000 (2007) and euro 82,000 (2006).

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.

Transactions with key management

As at 31 December 2007 directors of the Company and their immediate relatives control 24.2% of the voting shares of the Company (31 December 2006: 33.9 %).

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

Transactions with the Supervisory Board

As remuneration for his position as the Chairman of the Supervisory Board, Prof. Dr. Bernd Fahrholz received an amount of euro 50,000 for the financial year ended 31 December 2007. Furthermore, Dr. Fahrholz received 1,275 SMARTRAC shares and 35,000 options. In the year 2006, an amount of euro 21,000 was accrued.

The law firm Dewey & LeBoeuf 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.

For his function as a member of the supervisory board, Mr. Huppenbauer received an amount of euro 15,000. Furthermore, he received 255 SMARTRAC shares. In the financial year 2006, an amount of euro 4,167 was accrued.

Remuneration of key management

In thousands of euro	Consolidated 2007	Consolidated 2006
Directors	1,703	1,380
Executive officers	804	304
	2,507	**1,684**

The total base salary of members of the Management Board amounted to euro 865,000 (2006: 592,000), variable contractual bonuses amounted to euro 575,000 (2006: 747,000). An extraordinary bonus was granted to Ronald Brown (euro 93,000). The fair value vested for 132,500 options (2006: 10.000 options) for members of the Management Board in the financial year 2007 based on the principles of IFRS 2 amounted to euro 129,000 (2006: euro 33,000). For housing and other related costs SMARTRAC reimbursed euro 41,000 (2006: euro 41,000).

For detailed information regarding the composition of salaries of directors of the management board please refer to the section 'Corporate governance report' of the Annual Report.

Mr. Jan C. Lobbezoo was appointed at the Annual Shareholder's meeting on 22 June 2007 as Supervisory Director of the company for a term of four years. In the financial year 2007, Mr Lobbezoo received an amount of euro 10,000. Furthermore, he received 255 SMARTRAC shares.

Mr. Richard Bird in his function as member of the Supervisory Board of SMARTRAC N.V. indirectly controlled 34.2 % of the voting shares as at 31 December 2006. On 15 March 2007, Mr. Bird sold his complete interest in SMARTRAC. Regarding his function as Vice President of the Supervisory Board, an amount of euro 4,167 was accrued as at 31 December 2006. In the year 2007, Mr. Bird waived the receipt of this amount.

Transactions with associates

During the year ended 31 December 2007 (31 December 2006), the Group purchased goods from its associate worth euro 5,032,000 (euro 3,442,000). Transactions with associates are priced on an arm's length basis. No dividends were received from associates.

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. Wolfgang Schneider is Chief Sales Officer and shareholder of SMARTRAC N.V.. Mr. Martin Kuschewski is only shareholder of SMARTRAC N.V.. Mr. Richard Bird was executive officer of SMARTRAC Technology Ltd. and Vice Chairman of the Supervisory Board in 2006 and was a major shareholder of SMARTRAC N.V..

Name	Type of business	Relationship	Directors/shareholders
SMARTRAC Technology AG	Trading	Shareholder	Mr. Manfred Rietzler Mr. Martin Kuschewski
Safehaven Trading	Trading	Shareholder	Mr. Richard Bird
Emsquares AG	Development and sale of reading devices	Shareholder	Mr. Manfred Rietzler Mr. Martin Kuschewski
Xytec Solutions Sdn. Bhd.	Trading	30 % shareholder	SMARTRAC N.V.

The Group had the following transactions with related parties:

In thousands of euro	Consolidated 2007	Consolidated 2006
Other operating income		
Xytec Solutions Sdn. Bhd.	750	–
Purchases of machinery		
Xytec Solutions Sdn. Bhd.	5,032	3,442

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

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

In thousands of euro	Consolidated 2007	Consolidated 2006
Trade receivables		
Xytec Solutions Sdn. Bhd.	357	380
Emsquares AG	16	15
SMARTRAC Technology AG	–	146
	373	**541**
Other current assets		
Emsquares AG	30	30
Xytec Solutions Sdn. Bhd.	2,112	703
	2,142	**733**
Trade payables		
Xytec Solutions Sdn. Bhd.	23	4
	23	**4**
Non-trade payables		
Safehaven Trading	4	317
Xytec Solutions Sdn. Bhd.	908	681
Mr. Richard Bird	–	71
	912	**1,069**

Other current assets mainly consist of deposits paid. The outstanding balances of the receivables with Emsquares AG (formerly SMARTRAC Technology AG) were fully provided for as at 31 December 2007 and 31 December 2006.

34. Subsequent events

Business combination

On January 21, 2008 SMARTRAC acquired the remaining seventy per cent of the issued share capital of Xytec Solutions Sdn. Bhd., Pulau Pinang, Malaysia (subject to conditions precedent). 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 amounts recognised for 70 percent of each class of the acquiree's assets, liabilities and contingent liabilities were as follows:

In thousands of euro	Book value	Fair value
Goodwill	–	818
Other intangible assets	–	185
Property, plant and equipment	93	93
Current assets	1,035	1,035
Current liabilities	1,118	1,118
Deferred tax liabilities	1	47

Intangible assets that were not realised separately from goodwill were immaterial.

Share buyback

On February 4, 2008, the Management Board of SMARTRAC N.V. decided to buy back shares in the company up to a maximum value of euro 7,500,000. The buyback programme is conducted via the stock exchange and should be completed by April 30, 2008, at the latest. This decision referred to the general meeting of shareholders of June 22, 2007, where the Managing Board had been authorised for a period up to eighteen months after that date to repurchase and acquire up to 10 % of the Company's issued share capital. The Management Board intends to utilise the shares from the current buyback in the context of potential acquisitions as well as for the company's own employee share programmes.

Since the beginning of the share buyback programme on February 4, 2008, 116,635 shares have been bought at an average price of euro 35.26 (until March 11, 2008). The total amount paid for the shares amounted to euro 4,113,000 as of March 11, 2008.

Company financial statements 2007 of SMARTRAC N.V.

Company balance sheet before appropriation of profits

As at 31 December

In thousands of euro	Note	2007	2006
Assets			
Property, plant and equipment		32	–
Intangible assets	4	194	210
Investment in subsidiaries	5	43,473	19,214
Investment in associate	6	465	158
Deferred tax assets	7	1,831	1,831
Total non-current assets		**45,995**	**21,413**
Loans to subsidiary companies	8	10,426	16,350
Other current assets	9	2,949	733
Short-term investments	10	22,060	–
Cash and cash equivalents	11	7,241	33,722
Total current assets		**42,676**	**50,805**
Total assets		**88,671**	**72,218**
Equity and liabilities			
Issued capital	12	6,750	6,750
Share premium	12	54,463	53,548
Translation reserve	13	(86)	24
Retained earnings	13	9,119	–
Profit for the period	13	20,740	9,119
Treasury stock	13	(4,798)	–
Shareholders' equity		**86,188**	**69,441**
Non-trade payables	14	750	2,493
Current liabilities to subsidiaries	15	512	67
Other current liabilities		1,221	217
Total current liabilities		**2,483**	**2,777**
Total shareholders' equity and liabilities		**88,671**	**72,218**

Company income statement

For the years ended 31 December

In thousands of euro	2007	2006
Income after tax from investment in subsidiary companies and associates	21,371	9,377
Other income (loss) after tax	(631)	(258)
Result attributable to shareholders	**20,740**	**9,119**

Notes to the company financial statements of SMARTRAC N.V. for the year ended 2007

1. Reporting entity

Where the company financial statements of SMARTRAC N.V. ('the Company') 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 company financial statements, SMARTRAC N.V. has made 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 company 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 subsidiaries

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

Investment in associate

The share in the result of associate consists of the share of SMARTRAC N.V. in the result of the associate. Results on transactions, where the transfer of assets and liabilities between SMARTRAC N.V. and its associate are not incorporated insofar as they can be deemed to be unrealised.

4. Intangible assets

The intangible assets in 2007 and in 2006 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	Country of incorporation	2007	2006
Carrying value of investment at 1 January		**19,214**	**9,923**
Investments during the year		3,305	–
Equity accounted earnings		21,064	9,267
Currency translation effects		(110)	24
Carrying value of investment at 31 December		**43,473**	**19,214**

As per 31 December 2007 (2006), all investments are owned for 100 %.

6. Investment in associate

In thousands of euro	Country of incorporation	Carrying value 2007	Carrying value 2006
Associate			
Xytec Solutions Sdn. Bhd. (30 %)	Malaysia	158	48
Carrying value of investment at 1 January		**158**	**48**
Equity accounted earnings for the year		307	110
Carrying value of investment at 31 December		**465**	**158**

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

8. Short-term loans to subsidiaries

In thousands of euro	2007	2006
Subsidiary		
SMARTRAC TECHNOLOGY GmbH	1,290	1,120
SMARTRAC TECHNOLOGY Ltd.	2,043	12,599
SMARTRAC TECHNOLOGY Pte. Ltd.	2,981	2,631
SMARTRAC TECHNOLOGY Brazil BV	50	–
SMARTRAC IP BV	150	–
SMARTRAC TECHNOLOGY US Inc.	1,383	–
multitape GmbH	1,229	–
Multitape Technology Sdn. Bdh.	1,300	–
Total short-term loans to subsidiaries	**10,426**	**16,350**

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	2007	2006
Receivables from subsidiaries	2,720	733
Other receivables	229	–
Other current assets	**2,949**	**733**

10. Short-term investments

In thousands of euro	2007	2006
Short-term investments	**22,060**	**–**

The short-term investments consist of four listed funds valued at fair-value through profit and loss.

11. Cash and cash equivalents

In thousands of euro	2007	2006
Cash and cash equivalents	**7,241**	**33,722**

At 31 December 2007, SMARTRAC held euro 5,067,000 (including accrued interests of euro 13,000) in a short-term bank deposit with a total period of one month.

12. Share capital

In thousands of euro	2007	2006
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*	Profit for the period*	Treasury stock	Total
Balance – beginning of year 2006	**5,000**	**4,923**	**–**	**–**	**–**	**–**	**9,923**
Foreign exchange translation (income directly recognised in equity)	–	–	24	–	–	–	24
Net profit for the period	–	–	–	–	9,119	–	9,119
Total income of the period			**24**	**–**	**9,119**		**9,143**
Par value of new shares credited to share capital	1,750	–	–	–	–	–	1,750
Excess of gross proceeds over par value credited to share premium	–	57,750	–	–	–	–	57,750
IPO costs charged to share premium	–	(10,990)	–	–	–	–	(10,990)
Deferred tax effect of IPO costs credited to share premium	–	1,788	–	–	–	–	1,788
Share based payment	–	77	–	–	–	–	77
Balance – end of year 2006	**6,750**	**53,548**	**24**	**–**	**9,119**	**–**	**69,441**
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 (note 14)	–	–	–	–	–	(5,020)	(5,020)
Reversal of IPO costs credited to share premium	–	194	–	–	–	–	194
Share bonus charged to share premium (note 14)	–	–	–	–	–	222	222
Share based payment (note 29, note 14)	–	721	–	–	–	–	721
Balance – end of year 2007	**6,750**	**54,463**	**(86)**	**9,119**	**20,740**	**(4,798)**	**86,188**

* Retained earnings include an amount of euro 125,000 (2006: euro 15,000), the net profit for the period includes an amount of euro 307,000 (2006: 110,000) relating to the share of profits of the associate, which has not been yet distributed to SMARTRAC N.V.

Equity as at the beginning of 2006 is the pro forma equity of SMARTRAC N.V. at its incorporation date 23 January 2006, as if SMARTRAC N.V. already existed as at 31 December 2005.

14. Non-trade payables

In thousands of euro	2007	2006
Creditors – professional fees	479	2,446
Wage tax	271	47
Total non-trade payables	**750**	**2,493**

15. Current liabilities to subsidiary companies

In thousands of euro	2007	2006
SMARTRAC TECHNOLOGY Ltd.	30	29
SMARTRAC TECHNOLOGY GmbH	467	32
SMARTRAC TECHNOLOGY Pte. Ltd.	5	6
SMARTRAC Brazil Technology BV	10	–
Total current liabilities to subsidiary companies	**512**	**67**

16. Compensation by key management

The remuneration of the directors during the year was as follows:

In thousands of euro	Salary without Bonus	Bonuses	Total
2007	445	668	1,113
2006	260	715	975

The figures have been compiled on an accrual basis.

Additional interest of directors in share options of the Company at year end are:

Share options	2007	2006
First tranche	10,000	10,000
Second tranche	22,500	–
Third tranche	100,000	–

The fair value vested for 132,500 options (2006: 10.000 options) for members of the Management Board in the financial year 2007 based on the principles of IFRS 2 amounted to euro 129,000 (2006: euro 33,000).

For a breakdown of the individual remuneration of the members of the Management Board refer to the section 'remuneration report' of the annual report 2007.

17. 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 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.

In case of potential insolvency of SMARTRAC Technology PTE Ltd., SMARTRAC N. V. is, at written requirement of SMARTRAC Technology PTE Ltd. and SMARTRAC Technology GmbH, obliged to fulfil all obligations of these subsidiaries.

18. Consolidated tax filing

In the financial year 2007, SMARTRAC N.V. established a consolidated tax filing status with SMARTRAC TECHNOLOGY Brazil B.V., SMARTRAC IP B.V. and multitape Holding B.V.

Amsterdam, March 11, 2008

The Management Board

Dr. Christian Fischer
Chief Executive Officer

Manfred Rietzler
Chief Technical Officer

Anthony E. Driessen
Member

The Supervisory Board

Prof. Dr. Bernd Fahrholz
Chairman

Jan C. Lobbezoo
Member

Wolfgang Huppenbauer
Member

Auditor's report

To: the shareholders of SMARTRAC N.V.

Report on the financial statements

We have audited the financial statements 2007 of SMARTRAC N.V., Amsterdam, as set out on pages 56 to 121. 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 2007, the income statement, statement of changes in shareholders' equity and cash flow statement 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 2007, the company income statement for the year then ended and the notes.

Management's responsibility

The Management Board 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 2007, 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 2007, 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 e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report, as set out on pages 20 to 53, is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, March 11, 2008

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 2007 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: Participations in the company regarding 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'):

Schroder Investment Management Limited, London, informed SMARTRAC on February 8, 2008, that via shares the voting rights of Schroders Plc, London, in SMARTRAC N.V. have fallen below the 5 percent threshold on February 5, 2008. Schroders held 4.90 percent of the voting rights in SMARTRAC N.V. (this corresponds to 661,984 voting rights) at that time.

On February 20, 2008, Schroder Investment Management Limited, London, informed SMARTRAC that via shares the voting rights of Schroders Plc, London, in SMARTRAC N.V. went above the 5 percent threshold on February 19, 2008. Schroders currently holds 5.13 percent of the voting rights in SMARTRAC N.V. (this corresponds to 691,984 voting rights).

On March 7, 2008, a total of 1,610,000 shares from the equity stake of Manfred Rietzler or approximately 12 percent of the share capital of SMARTRAC N.V. have been placed with mainly institutional investors. Following the share transaction, Manfred Rietzler remains the biggest shareholder of SMARTRAC with an equity interest of some 11 percent (this corresponds to 1,478,000 voting rights).

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 as disclosed in the annual accounts 2006 have expired at 20 January 2008.

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 2007				
Avenue Capital Management LP	657,062	4.87	657,062	4.87
Fortis OBAM N.V.	1,200,000	8.89	1,200,000	8.89
Schroders Plc.	964,299	7.14	964,299	7.14
Mr. Manfred Rietzler (CTO of SMARTRAC)	3,088,000	22.87	3,088,000	22.87

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

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

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

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

Article 1i: The Management Board is 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 22 December 2008 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: A change of control provision was added to the contract of Dr. Fischer, the CEO of SMARTRAC. For the case in which at least 50 percent of the shares of SMARTRAC should be acquired by a third party, Dr. Fischer would receive a redundancy payment of three times his annual compensation.

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 2007, the Management Board determines the profit shown in the attached annual accounts which is subject to the adoption of the General Meeting of Shareholders in April 2008 to be retained as retained earnings.

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