

## **Explanatory notes to the agenda for the SMARTRAC 2008 Annual General Meeting of Shareholders**

### **Item 2 - Report by the Management Board for 2007**

The Management Board will present the company's annual accounts for the financial year ended on December 31, 2007, together with the annual report.

### **Item 3 – Adoption of the 2007 annual accounts (resolution)**

It is proposed to adopt the annual accounts 2007 as prepared by the management and audited by KPMG.

### **Item 4 and 5 - Discharge of the Management Board for its management and the Supervisory Board for its supervision (resolutions)**

It is proposed to discharge the Management Board for its management and the Supervisory Board for its supervision in 2007.

### **Item 6a - Discussion of reserve and dividend policy**

The Management Board will discuss the reserve and dividend policy of the company.

### **Item 6b - Appropriation of the 2007 profits (resolution)**

It is proposed that the 2007 profits will be added to the profit reserve of the company and that no dividend will be paid to the shareholders. This is in line with the dividend policy of the company, not to pay out any dividend but to invest the profits of the company into the company for further growth.

### **Item 7 - Authorisation of the Management Board in relation to the repurchase of shares (resolution)**

It is proposed to grant to the Management Board the authority to repurchase up to 10 percent of the company's issued share capital, with due observance of the relevant law provisions, for a period of 18 months following April 25, 2008. The consideration for the shares to be repurchased will be at least 80 percent of the stock price (opening stock price) of the shares of the company at the date of such repurchase and at the most 120 percent of such stock price.

### **Item 8 – Appointment of auditor for 2008 (resolution)**

It is proposed to reappoint KPMG as auditor for the financial year 2008.

In line with the corporate governance code the Supervisory Board proposes the shareholders meeting to reappoint KPMG as auditor of the company for the financial year 2008.

### **Item 9 – Implementation of Stock Option Scheme 2008 (resolution)**

A new Stock Option Scheme is proposed in accordance with the draft made available on the website of the company under [www.smartrac-group.com](http://www.smartrac-group.com) as from the date of the announcement of the meeting.

SMARTRAC currently operates a share option plan, the SMARTRAC Stock Option Scheme Rules, which aims to encourage senior management to focus on the growth of long-term sustainable value for shareholders. The current plan was adopted by the general meeting of February 8, 2006. A variable number of senior managers

**Explanatory notes to the agenda for the SMARTRAC 2008 Annual General Meeting of Shareholders**

participate, as well as the members of the Management Board and the members of the Supervisory Board.

The share option plan will be discontinued as of 2008 and will be replaced by the Stock Option Scheme 2008. The primary objective of the Stock Option Scheme 2008 is strongly to align individual rewards with business performance.

At the grant date, a recipient will be awarded a number of stock options at the average share price of the previous five trading days. The stock options will vest two years after grant and may be exercised during a period of four years from vesting, subject to having met the performance condition. The performance measure used is relative Total Shareholder Return ("TSR").

The proposed share based incentive plan includes the following elements:

Term	6 years after granting; vesting period 2 years: - A vesting period of 2 years is a specific design feature for SMARTRAC to reflect the short business cycles of the industry.
Exercise price	Average 5-day closing price before the grant of the options
Grant periods	Within three weeks after the publication of the quarterly results
Performance measure	Group performance will be measured by:  TSR will determine the performance of the company. TSR is a concept used to compare the performance of different companies' shares over time. It combines share price appreciation and dividends distributed to show the total return to the shareholder.  The absolute level of TSR will vary with the stock markets, but the relative position reflects SMARTRAC's performance compared to a reference ("peer") group.  The Company will calculate TSR for each peer group company over the two year period following each grant. The peer group companies will be ranked in descending order of generated TSR to determine the relative position of SMARTRAC.

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Peer group Companies	<ol style="list-style-type: none"> <li>1. Infineon (DE)</li> <li>2. STMicroelectronics (FR)</li> <li>3. Assa Abloy (SE)</li> <li>4. Avery Dennison (US)</li> <li>5. Checkpoint Systems (US)</li> <li>6. ID Systems (US)</li> </ol>	<ol style="list-style-type: none"> <li>7. IRIS Corporation (MY)</li> <li>8. Kudelski (CH)</li> <li>9. On Track Innovations (IL)</li> <li>10. Muehlbauer (DE)</li> <li>11. Gemalto (NL)</li> <li>12. Oberthur (FR)</li> </ol>																		
	<p>The peer group has been established in order to reflect important companies of the SMARTRAC specific value chain.</p> <p>The composition of the peer group may be changed by the Management Board with the approval of the Supervisory Board.</p> <p>This applies just to the options which will be granted and does not apply to the options which are already granted.</p>																			
Conditions for Vesting	<p>Total Shareholder Return relative to the peer group as follows:</p> <table border="1" data-bbox="451 1077 1345 1491"> <thead> <tr> <th data-bbox="451 1077 903 1189">TSR peer group ranking</th> <th data-bbox="903 1077 1345 1189">% vesting of original granted stock options</th> </tr> </thead> <tbody> <tr> <td data-bbox="451 1189 903 1223">1<sup>st</sup></td> <td data-bbox="903 1189 1345 1223">150%</td> </tr> <tr> <td data-bbox="451 1223 903 1256">2<sup>nd</sup></td> <td data-bbox="903 1223 1345 1256">133%</td> </tr> <tr> <td data-bbox="451 1256 903 1290">3<sup>rd</sup></td> <td data-bbox="903 1256 1345 1290">117%</td> </tr> <tr> <td data-bbox="451 1290 903 1323">4<sup>th</sup></td> <td data-bbox="903 1290 1345 1323">100%</td> </tr> <tr> <td data-bbox="451 1323 903 1357">5<sup>th</sup></td> <td data-bbox="903 1323 1345 1357">83%</td> </tr> <tr> <td data-bbox="451 1357 903 1391">6<sup>th</sup></td> <td data-bbox="903 1357 1345 1391">67%</td> </tr> <tr> <td data-bbox="451 1391 903 1424">7<sup>th</sup></td> <td data-bbox="903 1391 1345 1424">50%</td> </tr> <tr> <td data-bbox="451 1424 903 1491">8<sup>th</sup> - 13<sup>th</sup></td> <td data-bbox="903 1424 1345 1491">0%</td> </tr> </tbody> </table>		TSR peer group ranking	% vesting of original granted stock options	1 <sup>st</sup>	150%	2 <sup>nd</sup>	133%	3 <sup>rd</sup>	117%	4 <sup>th</sup>	100%	5 <sup>th</sup>	83%	6 <sup>th</sup>	67%	7 <sup>th</sup>	50%	8 <sup>th</sup> - 13 <sup>th</sup>	0%
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Eligibility	<p>Members of the Management Board, senior management and selected employees of SMARTRAC or any of its affiliates. Members of the Supervisory Board are not eligible under the Stock Option Scheme 2008.</p>																			
Maximum number of stock options granted	<p>At maximum 6% of share capital for full program of which 1.5% reserved for Board of Directors.</p>																			

The Supervisory Board has discussed the Stock Option Scheme 2008 and proposes the general meeting to adopt the Stock Option Scheme 2008 including the possibility to grant up to 1.5 percent of the issued share capital as options to the members of the Management Board.

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### **Item 10 - Amendment of the Stock Plan (resolution)**

It is proposed to amend the Stock Plan which has been approved by the general meeting of shareholders last year.

The proposal is to change the Stock Plan to the effect that no shares can be granted to the members of the Supervisory Board.

The Management Board and Supervisory Board propose to make such amendment of the Stock Option Plan because according to the corporate governance code the supervisory board directors should not receive any shares as part of their remuneration.

### **Item 11 - Remuneration of the members of the Supervisory Board (resolution)**

It is proposed to increase the yearly remuneration of ordinary members of the Supervisory Board to EUR 30,000 and the yearly remuneration for the chairman of the Supervisory Board to EUR 90,000.

The increase shall take effect from the date following the shareholders meeting and shall apply retroactively as of January 1, 2008.

The reason for the increase of the remuneration of the members of the Supervisory Board is that they will not be entitled to share options and shares as part of their remuneration anymore. The proposed remuneration is in line with the remuneration paid by companies comparable to the Company.

### **Item 12 - Appointment of Stephen Juge as member B of the Management Board (resolution)**

It is proposed to appoint Mr Stephen Juge as director and member B of the Management Board of the company as from the date of the meeting for a term of office of two years. The chairman of the meeting will explain this proposal.

The Supervisory Board makes the nomination to appoint Mr. Stephen Juge as member B of the Management Board. This nomination is non-binding. Therefore, the resolution to appoint Mr. Stephen Juge shall be adopted by an absolute majority of the votes cast.

Mr. Stephen Juge is Head of the Dutch office and Chief Legal Counsel of SMARTRAC.

### **CV of Stephen Juge**

Stephen Juge (54) is an American citizen and holds a law degree from Tulane University, New Orleans, Louisiana, USA, and also studied law at Oxford University, England, on a Marshall Scholarship. He worked for international companies such as Walt Disney where after different management positions in the field of legal affairs he was Senior Vice President and General Counsel of Walt Disney International - Europe. He was also Executive Vice President and General Counsel of Gemplus



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International S.A. and subsequently at Gemalto N.V., he was Deputy General Counsel and Deputy Company Secretary before joining SMARTRAC.