

Interim Report
Q2.2010

| In thousands of EUR | Consolidated six months ended June 2010 | Consolidated six months ended June 2009 | Change | Change in % | |
|---|---|---|--------|-------------|-------|
| Consolidated income statement | | | | | |
| Revenues | 80,766 | 59,087 | 21,679 | 36.7 | |
| EBITDA ¹⁾ | 9,786 | 6,608 | 3,178 | 48.1 | |
| Profit for the period | 5,769 | 1,845 | 3,924 | 212.7 | |
| Financial position and liquidity | | | | | |
| Net cash used in operating activities | (1,725) | (1,509) | (216) | (14.3) | |
| Working capital | 41,976 | 31,935 | 10,041 | 31.4 | |
| Capital expenditure ²⁾ | 8,206 | 3,578 | 4,628 | 129.3 | |
| Total assets | 220,566 | 174,283 | 46,283 | 26.6 | |
| Operating figures | | | | | |
| Basic earnings per share | EUR | 0.39 | 0.14 | 0.25 | 178.6 |
| Operating cash flow per share | EUR | (0.12) | (0.11) | (0.01) | (9.1) |
| Equity ratio | % | 60.4 | 57.7 | 2.7 | 4.7 |
| Headcount | at month's end | 3,325 | 2,543 | 782 | 30.8 |

SMARTRAC at a glance

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

2) Capital expenditure (CAPEX) is defined as expenditure for property, plant and equipment, intangible assets and the change in deposits paid.

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Disclaimer:

To the extent that this report contains forward-looking statements, such statements are based on assumptions, planning and forecasts at the time of publication of this report. Forward-looking statements always involve uncertainties. Business and economic risks and developments, the conduct of competitors, political decisions and other factors may cause the actual results to be materially different from the assumptions, planning and forecasts at the time of publication of this report. Therefore, SMARTRAC N.V. does not assume any responsibility relating to forward-looking statements contained in this report. Furthermore, SMARTRAC N.V. does not assume any obligation to update the forward-looking statements contained in this report.

Dear Shareholders, Dear Friends of Our Company,

After the challenging year 2009, the RFID industry showed dynamic growth in the first six months of 2010. SMARTRAC, the leading developer, manufacturer and supplier of RFID transponders, was not only able to substantially benefit from the momentum but even exceeded market dynamics. For the first time in the ten year company history, and well ahead of SMARTRAC's growth plans, the company was able to achieve sales of over EUR 40 million in one single quarter in Q2/2010 (EUR 44.0 million). For the six-month period January to June, SMARTRAC reported sales of EUR 80.8 million in 2010 compared to EUR 59.1 million a year ago which represents an increase of 37 percent.

Main growth drivers for this development were the Business Unit eID with recovered underlying demand in the U.S. e-Passport business, the Business Unit Cards reporting favorable growth in the e-Payment business as well as the Business Unit Industry & Logistics in which the recovery of the automotive business and strong growth in the non-automotive product lines contributed to the Group's performance.

The satisfactory increase of SMARTRAC's Group sales was however accompanied by a gross margin development which does not conform to the company's expectations and possibilities. This was mainly attributable to increased, customer-driven microchip sourcing activities which had a significant dilution effect as well as to the burden from the ongoing ramp-up of operations in Malaysia. In addition, SMARTRAC assumed delivery commitments in the first half of 2010 resulting from the

acquisition of the assets of Millennium Card's Technology Ltd. (MCT). Supply into these projects, which will be settled in the second but also in the third quarter 2010, is less profitable than the company's key business and therefore affected SMARTRAC's profitability in the period under review. As already anticipated at the beginning of 2010, the identified operational inefficiencies became considerably apparent with the increasingly high utilization level of the core factories in the first six months 2010. Consequently, the company initiated measures and instated a new operations team in the course of the second quarter. Under the leadership of the new Chief Operating Officer Dato' Tan Soo Hee, who joined SMARTRAC on June 1, 2010, the new operations team is expected to address the identified inefficiencies and to tap further potentials. SMARTRAC is looking forward to achieving improvements in its operational key performance figures in the course of the third and the fourth quarter 2010.

EBITDA from January to June increased by 48 percent from EUR 6.6 million in 2009 to EUR 9.8 million in 2010, representing an EBITDA margin of 12 percent compared to 11 percent a year ago. Excluding the losses related to the ramp-up of operations in Malaysia, which accounted for approximately 2 percent negative EBITDA performance, SMARTRAC's EBITDA margin would have equaled above 14 percent.

Profit for the reporting period increased by 213 percent from EUR 1.8 million in 2009 to EUR 5.8 million in 2010, exceeding the full year profit of 2009 (EUR 5.1 million) by now.

Operational development

Business units

Security segment

The Security segment consists of the Business Units eID and Cards. The **Business Unit eID** covers high-security RFID-products for personal identification documents in governmental use such as e-Passports, national e-ID cards, electronic driver's licenses and electronic visas.

In the first six months of 2010, SMARTRAC further expanded its position as the leading supplier of RFID transponders for e-Passports and national e-ID cards. The Business Unit eID started supplying several new projects in the period January to June 2010. As of today, SMARTRAC is the trusted technology partner and supplier of high security inlays for e-Passport and national e-ID card projects in more than 40 countries worldwide, and continuously works on securing and expanding its leading market position in a project driven environment.

The increased shipment volumes for the U.S. e-Passport project to supply the underlying demand and supply of existing and new projects accounted for 36 percent sales growth in the period January to June 2010 in the Business Unit eID compared to 2009. Sales of the Business Unit eID increased from EUR 19.4 million in the first half 2009 to EUR 26.4 million in the same period of 2010.

SMARTRAC also proceeded in the expansion of its global high-security RFID inlay production network for e-ID products. Enlargement of the existing production facility in Reichshof-Wehnrath, Germany, to accommodate a production environment for manufacturing highly secure RFID inlays for electronic identification documents, progressed according to schedule.

The **Business Unit Cards**, the second contributor to the company's Security segment, comprises card inlays and transponders for public transport, access control, e-Payment and active card applications.

Based on a strong performance in the area of e-Payment, the business unit reported favorable sales growth of 29 percent in the first six months of 2010. Sales of the Business Unit Cards increased from EUR 26.1 million in the first half of 2009 to EUR 33.7 million in the same period 2010. Continuous strong order intake resulted in a high utilization of capacities in the second quarter. In addition, visibility of the further development in terms of demand and capacity utilization increased to a historically unseen level. To address the ongoing strong demand, SMARTRAC made provisions to increase production capacity for the company's patent-protected wire-embedding technology in the course of the second half-year.

In the period January to June 2010, shipment volumes of SMARTRAC's high-quality, dependable and durable PRELAM® and dual-interface card inlays for e-Payment applications increased by 54 percent compared to the same period last year. SMARTRAC holds a leading market position in the e-Payment business. Besides its strong stake in the North-American market and in Asia, the company was able to win further contracts and expand its market share in additional regions in the first six months 2010.

In the area of public transport systems and access control applications, SMARTRAC reported favorable performance with increasing demand for existing projects and the supply of newly initiated projects such as an Airline project in Oceania.

Industry segment

The Industry segment consists of the Business Units Industry & Logistics and Tickets & Labels. The **Business Unit Industry & Logistics** produces and supplies RFID tags for application fields such as automotive, animal identification, logistics, industrial, laundry and medical.

In the period January to June 2010, the automotive business showed a 77 percent growth compared to the same period a year ago, when the industry recorded the peak of the automotive crisis. In addition to the established car

immobilizing applications, new business opportunities in the automotive market were addressed in cooperation with leading OEMs. Customized solutions for the tagging of engines and car bodies in the production cycle as well as for the tagging of safety-relevant parts were developed and are expected to contribute to future growth.

The non-automotive business of the Business Unit Industry & Logistics increased by 47 percent compared to the same period a year ago. Growth mainly resulted from additional projects and volume orders in the area of animal identification and laundry applications.

Determined by the recovery in the automotive business and supported by growth in non-automotive applications, sales in the Business Unit Industry & Logistics increased by 65 percent compared to last year's figure. The Business Unit Industry & Logistics reported sales of EUR 17.0 million in the first six months of 2010 compared to EUR 10.3 million a year ago.

To accelerate further growth, the business unit continuously broadens its product portfolio with standardized and customized transponders for a multitude of RFID applications. In the first half of 2010, two new glass tags for animal identification have entered mass production and two new transponders were added to the company's established waste management product portfolio. In addition, a new RFID transponder suited for medical, plant breeding and food irradiation applications has been introduced to the market receiving great interest due to its capability to withstand gamma radiation of up to 45 kilogray (kGy) which amongst others is a necessary premise for fast, easy, effective and environmentally friendly gamma radiation sterilization processes.

The **Business Unit Tickets & Labels** manufactures and supplies RFID inlays for ticket and label converters including applications such as media management, ticketing, apparel, airline luggage, pharmaceuticals, vehicle identification and toll applications.

The RFID inlays provided by the business unit are based on etched antennas and manufactured at SMARTRAC's production site in Malaysia. With continued rising market demand, the business unit is still facing operational and organizational challenges resulting from the set up of mass production in Malaysia as well as the organization of a worldwide supply chain to meet customer demand and expectations. In the second quarter 2010, a new operations team was established to support the business unit in terms of operational excellence and increase of capacities. Thus, SMARTRAC is confident to have set the stage for further progress in the course of the second half.

The Business Unit Tickets & Labels reported a decline of 15 percent compared to 2009 due to the operational challenges in Malaysia and the discontinuation of the German production facility. Sales of the Business Unit Ticket & Labels accounted for EUR 3.2 million in the first six months of 2010 compared to EUR 3.7 million in 2009.

Based on positive qualification processes and sample testing, SMARTRAC observes strong demand in electronic ticketing for public transport systems, media management applications and several new fields of application. In order to seize these opportunities and fulfill the favorable demand, improvement in the operational performance is required and initiated to achieve the monthly break-even target by year end 2010.

The SMARTRAC share

In the first six months of 2010, the SMARTRAC share price developed in a range between EUR 12.95 (June 8, 2010) and EUR 17.70 (January 26, 2010). Starting at EUR 15.00 at the beginning of the year, the SMARTRAC share price closed the six-month period at EUR 14.40 on June 30, 2010. This represents a decrease of 4 percent in the period under review compared to an unchanged development of the German DAX and a decrease of 10 percent of the TecDAX. In the three months April to June, the SMARTRAC

share decreased by 11 percent and followed the overall development of technology stocks with the TecDAX reporting a decline of 10 percent. The DAX reported a 3 percent decrease in the second quarter 2010.

Trading volumes in SMARTRAC shares further increased in the first half of 2010. The average number of shares traded per day on the XETRA trading platform in the period between January to June 2010 increased to some 45,000 shares compared to 27,000 shares a year ago.

On June 30, 2010, SMARTRAC N.V. held 195,533 shares in treasury stock, representing 1.32 percent of the share capital (December 31, 2009: 210,451 shares) at an average share price of EUR 30.14. Details on the utilization of the treasury stock are provided in the notes on page 24 of the report.

In terms of SMARTRAC's shareholder structure, Manfred Rietzler, the founder and CTO of SMARTRAC, continued to hold an interest of 13.67 percent in the company. As of June 30, 2010, taking SMARTRAC's treasury stock (1.32 percent) into account, the free float according to Deutsche Börse amounted to 85.01 percent. Within the freefloat, BNP Paribas Investment Partners SA (formerly: Fortis Investment Management SA) increased its interest from 9.62 percent to 11.29 percent disclosed on April 1, 2010. Schroder plc, London, held an unchanged interest in SMARTRAC (5.13 percent) that was above the reporting thresholds. Subsequent to the reporting period, Henderson Global Investors Limited, London, notified on July 1, 2010, that the interest in SMARTRAC exceeded the threshold of 5 percent amounting to 5.23 percent.

Analyst's valuation models were only slightly adjusted in the second quarter of 2010 following the publication of the results for the first quarter. As of June 30, 2010, seven brokers covered SMARTRAC and provided regular updates on the financial figures and operational developments of the company to the capital markets. As of June 30, 2010, all analysts recommended SMARTRAC as a "buy" or "outperform" with price targets between EUR 18 and EUR 22, resulting in an average of EUR 20.50.

The Annual General Meeting of Shareholders was held in Amsterdam on May 12, 2010. The shareholders present or represented at the meeting held 2,980,891 shares and represented 20.07 percent of the issued share capital of 14,849,999 shares. All items on the agenda were approved by at least 84 percent of the votes cast with the majority of the items approved by 100 percent of the votes cast. The votes and documents related to the Annual General Meeting of Shareholders are made public in the Investor Relations section of the SMARTRAC website.

Financial performance

SMARTRAC reported 37 percent sales growth from January to June 2010

Group sales of EUR 80.8 million in the first six months of 2010 represented an increase of 37 percent compared to sales of EUR 59.1 million in the first half of 2009. Due to increased sales, Group EBITDA of EUR 9.8 million from January to June 2010 increased by 48 percent compared to EBITDA of EUR 6.6 million for the same period in 2009. Nevertheless SMARTRAC's profitability was burdened by the ongoing ramp-up of operations in Malaysia.

SMARTRAC reported a positive net financial result of EUR 0.9 million compared to a negative net financial result of EUR 0.5 million a year ago. The positive net effect predominantly resulted from exchange rate movements. In the first six months of 2010, the financial result was mainly driven by interest expenses related to the syndicated credit facility and foreign exchange losses which were overcompensated by foreign exchange gains, predominantly attributable to the U.S. dollar. In the respective period of 2009, the financial result was predominantly affected by foreign exchange gains which could not fully compensate the foreign exchange losses and interest expenses of a bridge financing facility.

Profit for the reporting period increased by 213 percent from EUR 1.8 million in 2009 to EUR 5.8 million in 2010. For the first six-month period ended June 30, 2010,

SMARTRAC reported a total comprehensive income of EUR 8.4 million which represents an increase of 420 percent compared to EUR 1.6 million for the same period in 2009.

Segment development

In the **Security segment** (Business Units Cards and eID), sales in the first six months of 2010 amounted to EUR 60.1 million which represents a growth of 34 percent compared to sales of EUR 45.0 million in the same period of the previous year. The proportion of the Security segment within the Group's product mix amounted to 74 percent of total group sales in the first half 2010 compared to 76 percent in the same period 2009. Customer-driven, increased microchip sourcing especially in the Business Unit eID and the mentioned operational issues resulted in a sub-proportional development of the segment EBITDA. In the six-month period January to June segment EBITDA increased by 17 percent from EUR 7.7 million in 2009 to 9.1 million in 2010.

In the **Industry segment** (Business Units Industry & Logistics and Tickets & Labels) SMARTRAC achieved sales of EUR 20.1 million in the first six months of 2010. This represents an increase of 47 percent compared to sales of EUR 13.6 million in the previous year. The importance of the Industry segment within the Group's product mix further increased from 23 percent of total group sales in the first half 2009 to 25 percent in the same period 2010. The favorable recovery of the automotive business compared to last year's crisis, and the growth in the non-automotive business of the Business Unit Industry & Logistics, were the main drivers for the segment growth. With EBITDA of EUR 1.4 million in the first six months of 2010, the Industry segment provided an increased positive contribution to the Group EBITDA compared to an EBITDA of EUR 0.5 million reported in 2009. The strong performance of the Business Unit Industry & Logistics supported the EBITDA margin of the Industry segment, but a negative result from the production facility in Malaysia continued to significantly burden the profitability of the segment and the company in total.

Balance sheet

As of June 30, 2010, total assets amounted to EUR 220.6 million compared to EUR 208.3 million as of December 31, 2009. The increase in total assets was predominantly related to capital expenditure associated to capacity increase and an increase in Working Capital to maintain the growth path of SMARTRAC.

Inventories increased by 35 percent from EUR 21.3 million at year end 2009 to EUR 28.8 million at the end of June 2010. The increase in inventories was amongst others attributable to higher microchip purchase to secure availability for SMARTRAC and our customers, as some suppliers were at full capacity utilization and on volume allocation for selected microchips. In addition, changes in operational processes and continued high production utilization required an increased level of raw material stock to maintain flexibility. Trade receivables increased by 20 percent from EUR 33.8 million to EUR 40.4 million mainly attributable to the accelerated sales growth compared to the end of last year. On the balance sheet date, cash and cash equivalents decreased by 26 percent from EUR 38.8 million to EUR 28.6 million, mainly attributable to cash flow used in investing activities.

Predominantly related to the accelerated growth, Working Capital in comparison to December 31, 2009 increased by EUR 10.9 million to EUR 42.0 million as of June 30, 2010.

As of June 30, 2010 SMARTRAC's Group equity amounted to EUR 133.3 million. This represents a 7 percent increase compared to year end 2009 of EUR 124.6 million, and was mainly attributable to the profit of the period. The equity ratio remained unchanged at 60 percent.

Cash flow statement

Cash used by operating activities amounted to EUR 0.1 million for the first six months of 2010, compared to cash provided of EUR 0.2 million for the same period in the previous year. The increased net profit in the first half 2010 was compensated by the increase in Working

Capital. Taking into account interest paid and received as well as payments for income taxes, the net cash used by operating activities in the first six months of 2010 amounted to EUR 1.7 million compared to net cash used by operating activities of EUR 1.5 million in 2009.

Net cash used in investing activities amounted to EUR 8.9 million as of June 30, 2010, compared to net cash provided of EUR 1.6 million for the same period of 2009. This development in 2010 was predominantly affected by capital expenditure in property, plant and equipment of EUR 6.4 million. The investments were related to capacity increase in several production sites and the construction work for the enlargement of the site in Reichshof-Wehnrath, Germany. In addition, EUR 1.5 million were invested in intangible assets.

Net cash used in financing activities amounted to EUR 0.2 million compared to net cash used of EUR 3.1 million in the first six months of 2009. In 2010, the financing activities were related to repayments of interest-bearing loans and borrowings in subsidiaries.

Business outlook

The business development of the first half of 2010, and especially the progress in the second quarter, provided evidence of the growth dynamics of SMARTRAC's dedicated RFID business model. It has always been the company's intention to turn SMARTRAC's leading position as developer, manufacturer and supplier of RFID transponders into growth above the RFID market perspectives. Due to the current visibility into the second half of the year and backed by the initiated capacity increase, the Management is confident for the further development of 2010.

Consequently, the Management today increases its sales guidance for 2010. Sales for the full year 2010 are expected to be approximately EUR 165 million (previously: EUR 140 – 150 million) projecting 29 percent growth compared to sales of EUR 127.9 million in 2009.

The Management team's top priority for the second half of 2010 is the improvement of operational performance in order to turn the encouraging top-line development into an increasing profitability. The identified weaknesses and potentials, the already implemented measures as well as the new operations team headed by the new Chief Operating Officer along with further progress in the company's supply chain management, production and monitoring tools and methods are expected to tap further potentials and increase operational excellence in the course of the second half.

In terms of profitability, the Management intends to be back in shape in the fourth quarter 2010. This implies that the adopted measures can be realized as scheduled, and that operations in Malaysia achieve the targeted break-even in the course of the fourth quarter. Consequently, the Management is confident to achieve an EBITDA improvement in the course of the second half-year and confirms the guidance to exceed the full-year profitability margin of 2009.

SMARTRAC has accelerated on the path of profitable growth and the Management is convinced that the necessary adjustments and large-scale changes are pre-conditions for SMARTRAC to achieve the next level of maturity. The Management team is looking forward to tapping the potentials and working on the opportunities provided by the further development of the RFID market.

For the Management Board

Dr. Christian Fischer
Amsterdam, July 2010

Condensed consolidated interim financial information for the six months ended June 30, 2010

Condensed consolidated interim statement of comprehensive income For the six and three months ended June 30, 2010 (2009)

| In thousands of EUR | Note | Consolidated three months ended June 2010 | Consolidated three months ended June 2009 | Consolidated six months ended June 2010 | Consolidated six months ended June 2009 |
|---|----------|--|--|--|--|
| Revenue | 6 | 43,985 | 29,718 | 80,766 | 59,087 |
| Cost of sales | | (33,056) | (21,321) | (59,304) | (41,679) |
| Gross profit | 6 | 10,929 | 8,397 | 21,462 | 17,408 |
| Administrative expenses | | (8,845) | (7,228) | (16,649) | (14,670) |
| Other operating income (expenses) | | 59 | (83) | 65 | (89) |
| Total operating expenses | | (8,786) | (7,311) | (16,584) | (14,759) |
| Operating profit before financial income (expenses) | | 2,143 | 1,086 | 4,878 | 2,649 |
| Financial income | | 5,733 | 1,090 | 8,791 | 2,484 |
| Financial expenses | | (4,834) | (1,800) | (7,874) | (3,020) |
| Net financial income (expenses) | 7 | 899 | (710) | 917 | (536) |
| Profit before tax | | 3,042 | 376 | 5,795 | 2,113 |
| Income tax (expenses) | 8 | 129 | (115) | (26) | (268) |
| Profit for the period attributable to the owners of the parent | | 3,171 | 261 | 5,769 | 1,845 |
| Foreign exchange translation | | 1,391 | (191) | 2,630 | (230) |
| Other comprehensive income (loss), net of tax | | 1,391 | (191) | 2,630 | (230) |
| Total comprehensive income for the period attributable to the owners of the parent | | 4,562 | 70 | 8,399 | 1,615 |
| Basic earnings per share (EUR) | 9 | 0.22 | 0.02 | 0.39 | 0.14 |
| Diluted earnings per share (EUR) | 9 | 0.22 | 0.02 | 0.39 | 0.14 |

The accompanying notes (on page 14 to 27) are an integral part of the condensed consolidated interim financial information.

Condensed consolidated interim balance sheet

As at June 30, 2010 (and December 31, 2009)

| In thousands of EUR | Note | Consolidated June 30, 2010 | Consolidated December 31, 2009 |
|---|------|-------------------------------|-----------------------------------|
| Assets | | | |
| Intangible assets | 11 | 63,230 | 61,302 |
| Property, plant and equipment | 10 | 50,885 | 45,502 |
| Other investments | | – | 426 |
| Deferred tax assets | | 2,505 | 2,422 |
| Other non-current assets | | 1,138 | 885 |
| Total non-current assets | | 117,758 | 110,537 |
| Inventories | | 28,771 | 21,268 |
| Trade receivables | | 40,404 | 33,756 |
| Current income tax | | 980 | 1,150 |
| Other current assets | | 3,433 | 2,224 |
| Short-term investments | | 591 | 591 |
| Cash and cash equivalents | | 28,629 | 38,819 |
| Total current assets | | 102,808 | 97,808 |
| Total assets | | 220,566 | 208,345 |
| Equity | | | |
| Share capital | | 7,425 | 7,425 |
| Share premium | | 74,847 | 75,047 |
| Translation reserve | | 2,575 | (55) |
| Retained earnings | | 54,316 | 48,547 |
| Treasury stock | 12 | (5,895) | (6,344) |
| Total equity attributable to equity holders of the company | | 133,268 | 124,620 |
| Liabilities | | | |
| Secured loans | 14 | 50,580 | 50,532 |
| Employee benefits | | 452 | 396 |
| Deferred tax liabilities | | 3,344 | 3,343 |
| Other non-current liabilities | | 805 | 1,598 |
| Total non-current liabilities | | 55,181 | 55,869 |
| Bank overdraft | | 59 | 5 |
| Current portion of secured loans | 14 | 446 | 490 |
| Trade and non-trade payables | | 24,782 | 20,188 |
| Current income tax | | 386 | 682 |
| Provisions | | 130 | 432 |
| Other current liabilities | | 6,314 | 6,059 |
| Total current liabilities | | 32,117 | 27,856 |
| Total liabilities | | 87,298 | 83,725 |
| Total equity and liabilities | | 220,566 | 208,345 |

The accompanying notes (on page 14 to 27) are an integral part of the condensed consolidated interim financial information.

Condensed consolidated interim statement of cash flows
For the six months ended June 30, 2010 (2009)

| In thousands of EUR | Note | Consolidated six months ended June 2010 | Consolidated six months ended June 2009 |
|---|------|--|--|
| Cash flows from operating activities | | | |
| Net profit | | 5,769 | 1,845 |
| Reconciliation of net profit to net cash provided by (used in) operating activities: | | | |
| Income tax expenses | 8 | 26 | 268 |
| Depreciation and amortization | 6 | 4,890 | 3,959 |
| Impairment on fixed assets | 6 | 18 | – |
| Equity-settled share-based payment transactions | | 249 | 687 |
| Interest income | 7 | (71) | (260) |
| Interest expense | 7 | 1,729 | 1,030 |
| Other non-cash items | | (838) | (84) |
| Changes in operational assets and liabilities | | | |
| Other non-current assets | | (253) | 64 |
| Inventories | | (7,593) | 1,505 |
| Trade receivables | | (6,715) | (6,035) |
| Other current assets | | (942) | (633) |
| Employee benefits | | 56 | 37 |
| Trade and non-trade payables | | 3,994 | (1,405) |
| Other non current liabilities | | 87 | – |
| Deferred tax liabilities | | (118) | – |
| Other current liabilities and provisions | | (359) | (752) |
| Cash used in (provided by) operating activities | | (71) | 226 |
| Interest paid | | (1,461) | (1,639) |
| Interest received | | 64 | 275 |
| Income taxes received (paid) | | (257) | (371) |
| Net cash used in operating activities | | (1,725) | (1,509) |
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | | (6,428) | (2,002) |
| Purchases of intangible assets | | (1,517) | (1,576) |
| Proceeds from sales of equipment | | 132 | 303 |
| Other investments | | – | (11) |
| Deposits paid for property, plant and equipment | | (261) | – |
| Cash payments on purchase of consolidated subsidiaries, net of cash purchased | | (868) | – |
| Cash proceeds on sale of short-term investments | | – | 4,880 |
| Net cash used in (provided by) investing activities | | (8,942) | 1,594 |
| Cash flows from financing activities | | | |
| Proceeds from interest-bearing loans and borrowings and secured loans | | 15 | – |
| Repayments of interest-bearing loans and borrowings and secured loans | | (264) | (3,118) |
| Net cash used in financing activities | | (249) | (3,118) |
| Net change in cash and cash equivalents and bank overdrafts | | (10,916) | (3,033) |
| Cash and cash equivalents and bank overdrafts at January 1 | | 38,814 | 22,179 |
| Effect of exchange rate fluctuations on cash and cash equivalents and bank overdrafts | | 672 | 134 |
| Cash and cash equivalents and bank overdrafts at June 30 | | 28,570 | 19,280 |

The accompanying notes (on page 14 to 27) are an integral part of the condensed consolidated interim financial information.

Condensed consolidated interim statement of changes in shareholders' equity
For the six months ended June 30, 2010 (2009)

| In thousands of EUR | Note | Issued and paid-up share capital | Share premium | Translation reserve | Retained earnings | Treasury stock | Equity attributable to SMARTRAC's shareholders |
|---|------|----------------------------------|---------------|---------------------|-------------------|----------------|--|
| Balance as at January 1, 2009 | | 6,750 | 56,911 | 98 | 43,486 | (9,092) | 98,153 |
| Net profit for the period | | – | – | – | 1,845 | – | 1,845 |
| Other comprehensive income (loss), net of tax | | – | – | (230) | – | – | (230) |
| Total comprehensive income of the period | | – | – | (230) | 1,845 | – | 1,615 |
| Share-based payment – options | 13 | – | 521 | – | – | – | 521 |
| Share-based payment – shares | 12 | – | (544) | – | – | 753 | 209 |
| Share-based acquisition | 12 | – | (1,995) | – | – | 1,995 | – |
| Balance as at June 30, 2009 | | 6,750 | 54,893 | (132) | 45,331 | (6,344) | 100,498 |
| Balance as at January 1, 2010 | | 7,425 | 75,047 | (55) | 48,547 | (6,344) | 124,620 |
| Net profit for the period | | – | – | – | 5,769 | – | 5,769 |
| Other comprehensive income (loss) | | – | – | 2,630 | – | – | 2,630 |
| Total comprehensive income of the period | | – | – | 2,630 | 5,769 | – | 8,399 |
| Share-based payment – options | 13 | – | 112 | – | – | – | 112 |
| Share-based payment – shares | 12 | – | (312) | – | – | 449 | 137 |
| Balance as at June 30, 2010 | | 7,425 | 74,847 | 2,575 | 54,316 | (5,895) | 133,268 |

The accompanying notes (on page 14 to 27) are an integral part of the condensed consolidated interim financial information.

Notes to the condensed consolidated interim financial information for the six months ended June 30, 2010

1. Reporting entity

SMARTRAC N.V. as the holding company for the SMARTRAC TECHNOLOGY Group (the Group) comprises the following consolidated entities:

| Company | Country of incorporation | Date of incorporation/ inclusion | Business type | Ownership and voting interest |
|---|--------------------------|----------------------------------|----------------------------------|-------------------------------|
| Direct Holdings | | | | |
| SMARTRAC TECHNOLOGY Ltd. | Thailand | January 1, 2000 | Manufacturing | 100% |
| SMARTRAC TECHNOLOGY GmbH | Germany | November 17, 2003 | Manufacturing/ Service Center | 100% |
| SMARTRAC TECHNOLOGY Pte. Ltd. | Singapore | October 7, 2005 | Sales Service | 100% |
| SMARTRAC TECHNOLOGY Brazil B.V. | The Netherlands | February 27, 2007 | Holding | 100% |
| SMARTRAC TECHNOLOGY US Inc. | USA | August 31, 2007 | Manufacturing | 100% |
| SMARTRAC IP B.V. | The Netherlands | January 18, 2007 | IP Management | 100% |
| multitape Holding B.V. | The Netherlands | September 3, 2007 | Holding | 100% |
| Xytec Solutions Sdn. Bhd. | Malaysia | January 21, 2008 | Manufacturing | 100% |
| SMARTRAC German Holding GmbH | Germany | September 2, 2008 | Holding | 100% |
| SMARTRAC TECHNOLOGY HONG KONG Ltd. (formerly: Project B Hong Kong Limited) | China | December 10, 2009 | Holding | 100% |
| Indirect Holdings | | | | |
| SMARTRAC TECNOLOGIA INDÚSTRIA E COMERCIO DA AMAZÔNIA Ltda. | Brazil | July 15, 2007 | Manufacturing | 100% |
| SMARTRAC Trading Pte. Ltd. | Singapore | March 22, 2007 | Trading | 100% |
| Multitape Technology (M) Sdn. Bhd. | Malaysia | October 3, 2007 | Manufacturing | 100% |
| SMARTRAC TECHNOLOGY GERMANY GmbH | Germany | September 26, 2008 | Manufacturing | 100% |
| AmaTech Automation GmbH | Germany | May 31, 2010 | Manufacturing/ IP Management | 100% |

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

Business Combinations

AmaTech Automation GmbH

On May 31, 2010 (acquisition date), control over AmaTech Automation GmbH, Pfronten, Germany, was obtained due to the settlement of the insolvency proceedings. The company was therefore included for the first time as of this date.

The purpose of the company is the development and sale of machinery for smart cards and the grant of rights of production of machinery and the usage thereof. The operating business is currently inactive while all existing legal rights remain active.

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

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

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

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

The total purchase consideration was made in the financial year 2008 when 100 % of the shares of AmaTech Automation GmbH were acquired. Since acquisition date the company has not generated revenues and incurred a loss of EUR 5,000.

Employees

As at June 30, 2010, the Group employed 3,325 employees (3,056 as of March 31, 2010; 2,543 as of June 30, 2009; 2,604 as of March 31, 2009).

The Group's consolidated financial statements

The Group's consolidated financial statements as at and for the year 2009 are available upon request from the company's registered office at Strawinskylaan 851, 1077 Amsterdam, The Netherlands or can be downloaded via www.smartrac-group.com.

2. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 as adopted by the European Union. They do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended December 31, 2009.

This condensed consolidated interim financial information was authorized for issuance by the Management on July 27, 2010. The condensed consolidated interim financial statements for the period ended June 30, 2010 were not subject to a limited interim review.

3. Declaration of the Board of Management

We confirm, to the best of our knowledge that the condensed consolidated interim financial statements and the interim report of the Management Board have been prepared in accordance with the generally accepted principles for interim financial reporting under IFRS and accurately present the Group's net assets, financial position and results of operations. The interim Group management report presents a true and fair view of the

actual operations of the Group, including the results of operations and the position of the Group, and describes the material opportunities and risks of the Group's future development in the remainder of the fiscal year.

Amsterdam, July 27, 2010

Dr. Christian Fischer

Manfred Rietzler

4. Significant accounting policies and methods of computation

The accounting policies and methods of computation applied by the Group in the condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements of the Group as at and for the year ended December 31, 2009.

With respect to the Standards and Interpretations to be adopted as per the 2010 financial year, reference is made to the notes to the consolidated financial statements for the year ended December 31, 2009. These Standards and Interpretations have minor or no effect.

As from January 1, 2010 the Group applies the following mandatory standard:

Revised IFRS 3 Business Combinations incorporates the following changes that are likely to be relevant to the Group's operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent considerations will be measured at fair value, with subsequent changes therein recognised in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

5. Estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's consolidated financial statements as at and for the year ended December 31, 2009.

6. Segment reporting

Consolidated segment information by business segments for the six months ended June 2010 (2009)

| In thousands of EUR | Security | | Industry | | All other | | Eliminations | | Consolidated | |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | Six months ended June 2010 | Six months ended June 2009 | Six months ended June 2010 | Six months ended June 2009 | Six months ended June 2010 | Six months ended June 2009 | Six months ended June 2010 | Six months ended June 2009 | Six months ended June 2010 | Six months ended June 2009 |
| Segment revenue | | | | | | | | | | |
| Revenue from external customers | 60,106 | 44,987 | 20,111 | 13,634 | 549 | 466 | – | – | 80,766 | 59,087 |
| Revenue from transactions with other segments | 2 | – | 2 | 2 | 1,509 | 1,114 | (1,513) | (1,116) | – | – |
| Total revenue | 60,108 | 44,987 | 20,113 | 13,636 | 2,058 | 1,580 | (1,513) | (1,116) | 80,766 | 59,087 |
| Segment result | | | | | | | | | | |
| Gross profit | 16,491 | 14,224 | 4,673 | 2,889 | 641 | 303 | (343) | (8) | 21,462 | 17,408 |
| Operating income (expenses) | (10,006) | (8,625) | (5,344) | (3,971) | (1,221) | (2,171) | (13) | 8 | (16,584) | (14,759) |
| Operating profit (loss) | 6,485 | 5,599 | (671) | (1,082) | (580) | (1,868) | (356) | – | 4,878 | 2,649 |
| Financial result | | | | | | | | | 917 | (536) |
| Profit before tax (expense) benefit | | | | | | | | | 5,795 | 2,113 |
| Income tax (expense) benefit | | | | | | | | | (26) | (268) |
| Group profit for the period | | | | | | | | | 5,769 | 1,845 |
| Supplemental information | | | | | | | | | | |
| Operating profit (loss) | 6,485 | 5,599 | (671) | (1,082) | (580) | (1,868) | (356) | – | 4,878 | 2,649 |
| Depreciation, amortization and impairment | 2,601 | 2,143 | 2,022 | 1,620 | 332 | 196 | (47) | – | 4,908 | 3,959 |
| Segment EBITDA* | 9,086 | 7,742 | 1,351 | 538 | (248) | (1,672) | (403) | – | 9,786 | 6,608 |

The Group comprises the following main business segments:

- Security segment: the manufacture and sale of RFID inlays with embedded chips with high-security features such as sophisticated data encryption, controlled data access and mutual authentication, for use in applications such as e-Passports, eID Cards, eDriving licenses, eVisas, eHealth cards, eSocial security cards, public transport, e-Payment, access and active card applications.
- Industry segment: the manufacture and sale of RFID transponders with embedded chips for use in a broad range of applications. RFID transponders for the industry and logistics sector are suited for automotive applications, for use in harsh environments as well as for highly sensitive areas such as the medical sector. In addition this segment covers a broad range of standard and customized RFID inlays for tickets and labels.
- All other: all other income/expense that cannot be attributed to the Security and Industry segment.

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

Revenues by subsegment were as follows:

| In thousands of EUR | Consolidated six months ended June 2010 | Consolidated six months ended June 2009 |
|---------------------------|--|--|
| Segment Security | | |
| eID | 26,379 | 19,443 |
| Cards | 33,729 | 26,064 |
| Intrasegment eliminations | – | (520) |
| Subtotal | 60,108 | 44,987 |
| Segment Industry | | |
| Tickets & Labels | 3,194 | 3,747 |
| Industry & Logistics | 16,968 | 10,298 |
| Intrasegment eliminations | (49) | (409) |
| Subtotal | 20,113 | 13,636 |
| Segment All Other | 2,058 | 1,580 |
| Intersegment eliminations | (1,513) | (1,116) |
| Total | 80,766 | 59,087 |

Geographical segments

In reporting information on the basis of geographical areas, revenues are based on the geographical location of customers. The Group's principal geographical areas are Asia, Europe, Latin America and North America.

| In thousands of EUR | Consolidated six months ended June 2010 | Consolidated six months ended June 2009 |
|-----------------------|--|--|
| Revenues | | |
| Asia | 12,798 | 8,514 |
| Europe | 37,591 | 32,459 |
| Latin America | 6,892 | 3,435 |
| North America | 23,214 | 14,317 |
| Others | 271 | 362 |
| Total revenues | 80,766 | 59,087 |

Reconciliations of reportable segment revenues and profit or loss before income tax

| In thousands of EUR | Consolidated six months ended June 2010 | Consolidated six months ended June 2009 |
|--|--|--|
| Revenues | | |
| Total revenue for reportable segments | 80,221 | 58,623 |
| Other revenue | 2,058 | 1,580 |
| Elimination of intersegment revenue | (1,513) | (1,116) |
| Consolidated revenue | 80,766 | 59,087 |
| Profit or loss | | |
| Total EBITDA for reportable segments | 10,437 | 8,280 |
| Other EBITDA | (248) | (1,672) |
| Elimination of intersegment profits | (403) | – |
| All EBITDA | 9,786 | 6,608 |
| Unallocated amounts: | | |
| Financial result | 917 | (536) |
| Depreciation, amortization and impairment | (4,908) | (3,959) |
| Consolidated profit before income tax | 5,795 | 2,113 |

7. Net financial income (expenses)

The following table provides a breakdown of the net financial income (expenses):

| In thousands of EUR | Consolidated three months ended June 2010 | Consolidated three months ended June 2009 | Consolidated six months ended June 2010 | Consolidated six months ended June 2009 |
|--|--|--|--|--|
| Change in fair value | – | 39 | 214 | 96 |
| Interest income | 31 | 101 | 71 | 260 |
| Foreign exchange gains | 5,770 | 950 | 8,506 | 2,128 |
| Financial income | 5,801 | 1,090 | 8,791 | 2,484 |
| Change in fair value | (808) | (192) | (1,127) | (353) |
| Interest expenses | (861) | (204) | (1,729) | (1,030) |
| Bank charges | (156) | (147) | (319) | (242) |
| Foreign exchange losses | (3,077) | (1,257) | (4,699) | (1,395) |
| Financial expenses | (4,902) | (1,800) | (7,874) | (3,020) |
| Net financial income (expenses) | 899 | (710) | 917 | (536) |

8. Corporate income tax

Recognized in income statement

| In thousands of EUR | Consolidated three months ended June 2010 | Consolidated three months ended June 2009 | Consolidated six months ended June 2010 | Consolidated six months ended June 2009 |
|---|--|--|--|--|
| Current corporate tax benefit (expense) | 75 | 139 | (108) | (21) |
| Deferred tax benefit (expense) | 54 | (254) | 82 | (247) |
| Income tax benefit (expense) | 129 | (115) | (26) | (268) |

Reconciliation of effective income tax charge

| In thousands of EUR | Consolidated three months ended June 2010 | Consolidated three months ended June 2009 | Consolidated six months ended June 2010 | Consolidated six months ended June 2009 |
|--|--|--|--|--|
| Profit before tax | 3,042 | 376 | 5,795 | 2,113 |
| Expected tax expense based on rate of 25,5 % | (776) | (96) | (1,478) | (539) |
| Change in tax rate | – | – | 68 | – |
| Tax rate differences in foreign jurisdictions | 185 | (44) | 346 | 4 |
| Tax-exempt income relating to promotional privileges | 1,508 | 580 | 2,262 | 1,394 |
| Non-recognition of tax benefits on losses incurred | (788) | (491) | (1,178) | (1,101) |
| Withholding tax reversal | – | (23) | – | (23) |
| Current taxes for prior years | – | – | (66) | – |
| Others | – | (41) | 20 | (3) |
| Effective income tax benefit (expense) | 129 | (115) | (26) | (268) |

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

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

9. Earnings per share

Profit attributable to ordinary shareholders

The calculation of basic and diluted earnings per share for the period of the three months and six months ended June 30, 2010 is based on the profit attributable to ordinary shareholders and amounts to EUR 3.2 million for three months ended June and EUR 5.8 million for six months ended June (three months ended June 30, 2009: EUR 0.3 million and six months ended June 30, 2009: EUR 1.9 million).

Basic earnings per share

| In thousands of EUR and shares, except earnings per share | Consolidated three months ended June 2010 | Consolidated three months ended June 2009 | Consolidated six months ended June 2010 | Consolidated six months ended June 2009 |
|---|---|---|---|---|
| Profit attributable to ordinary shareholders | 3,171 | 261 | 5,769 | 1,845 |
| Weighted average number of outstanding ordinary shares | 14,654 | 13,289 | 14,649 | 13,259 |
| Earnings per share (EUR) | 0.22 | 0.02 | 0.39 | 0.14 |

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's stock option schemes:

| In thousands of shares | Consolidated three months ended June 2010 | Consolidated six months ended June 2010 |
|--|---|---|
| Weighted average number of outstanding ordinary shares | 14,654 | 14,649 |
| Effect of potential dilutive shares: | | |
| Share options | 38 | 46 |
| Weighted average number of ordinary and dilutive shares | 14,692 | 14,695 |

Diluted earnings per share

| In thousands of EUR and shares, except earnings per share | Consolidated three months ended June 2010 | Consolidated six months ended June 2010 |
|---|---|---|
| Profit attributable to ordinary shareholders | 3,171 | 5,769 |
| Weighted average number of ordinary and dilutive shares | 14,692 | 14,695 |
| Diluted earnings per share (EUR) | 0.22 | 0.39 |

10. Property, plant and equipment

Acquisitions

During the six months ended June 30, 2010 the Group acquired tangible assets totaling EUR 6.4 million (six months ended June 30, 2009: EUR 2.0 million).

11. Intangible assets

Development costs

Intangible assets include capitalized development costs (carrying amount) amounting to EUR 5.7 million as at June 30, 2010 (six months ended June 30, 2009: EUR 3.4 million).

12. Treasury stock

In conjunction with the stock plan 5,000 shares (2009: 5,000 shares) were converted from the bonus of a member of the Management Board in March 2010. Also in March 2010, SMARTRAC granted 9,918 bonus shares (2009: 19,941 bonus shares) to a member of the Manage-

ment Board and selected employees decreasing the treasury stock in total by EUR 450,000 (2009: EUR 753,000).

The table below shows the development of treasury stock:

| Month | Number of shares | Average share price in EUR |
|--|------------------|----------------------------|
| Total as at January 1, 2009 | 301,576 | 30.14 |
| March 2009 (bonus shares rendered) | (19,941) | 30.14 |
| March 2009 (conversion of bonus in shares according to stock plan) | (5,000) | 30.14 |
| March 2009 (share-based acquisition of Xytec) | (66,184) | 30.14 |
| Total as at January 1, 2010 | 210,451 | 30.14 |
| March 2010 (bonus shares rendered) | (9,918) | 30.14 |
| March 2010 (conversion of bonus in shares according to stock plan) | (5,000) | 30.14 |
| Movement current year | (14,918) | 30.14 |
| Total as at June 30, 2010 | 195,533 | 30.14 |

13. Share-based payment

Stock option scheme

Total expenses for the SMARTRAC stock option schemes are recorded during the six months ended June 30, 2010 and during the six months ended June 30, 2009. They are reported under administrative expenses and as an increase in shareholder's equity (share premium) at the same time. The Black-Scholes model was used for the valuation.

For the description of the SMARTRAC stock option schemes for tranches one to six please refer to the annual report 2009.

The calculation of tranche seven is based on the SMARTRAC N.V. Stock option scheme 2010. It includes non-market performance conditions and a service condition. The calculation of tranche eight is based on the SMARTRAC N.V. Stock option scheme 2010 rules for selected employees. It includes a service condition.

The expenses for the stock option schemes for the period are as follows:

| In thousands of EUR | Consolidated three months ended June 2010 | Consolidated three months ended June 2009 | Consolidated six months ended June 2010 | Consolidated six months ended June 2009 |
|-----------------------|--|--|--|--|
| Tranche 1 | – | – | – | – |
| Tranche 2 | – | – | – | 131 |
| Tranche 3 | – | 162 | – | 328 |
| Tranche 4 | 21 | 21 | 42 | 35 |
| Tranche 5 | 17 | 20 | 37 | 27 |
| Tranche 6 | 2 | – | 8 | – |
| Tranche 7 | 14 | – | 14 | – |
| Tranche 8 | 11 | – | 11 | – |
| Total expenses | 65 | 203 | 112 | 521 |

For the determination of the exercise prices of the tranches one to six, please refer to the annual report 2009.

The exercise price of the seventh and eighth tranche was based on the weighted average price of the company's shares during a period of five business days before the grant date (including).

The exercise price, the grant dates and the underlying assumptions for each tranche are as follows:

| Tranche | Exercise price in EUR | Grant date | Current price of underlying shares at grant date in EUR | Expected volatility | Expected annual employee turnover rate | Risk-free interest rate | Option life expiration |
|------------|-----------------------|----------------|---|---------------------|--|-------------------------|------------------------|
| Tranche 1 | 17.00 | Aug 17, 2006 | 16.80 | 55 % | 5 % | 3.60 % | Aug 17, 2012 |
| Tranche 2 | 22.40 | March 29, 2007 | 22.11 | 40 % | 5 % | 3.97 % | March 29, 2013 |
| Tranche 3 | 39.20 | Nov 23, 2007 | 34.50 | 40 % | 0 % | 3.67 % | Nov 23, 2013 |
| Tranche 4* | 14.80 | Aug 8, 2008 | 16.55 | 45 % | 5 % | 4.02 % | Aug 8, 2014 |
| Tranche 5 | 8.34 | March 24, 2009 | 8.69 | 55 % | 5 % | 2.21 % | March 24, 2015 |
| Tranche 6 | 12.04 | Aug 20, 2009 | 12.18 | 55 % | 5 % | 2.11 % | Aug 20, 2015 |
| Tranche 7 | 15.24 | May 14, 2010 | 14.19 | 63 % | 0 % | 1.26 % | May 14, 2017 |
| Tranche 8 | 14.13 | May 26, 2010 | 14.00 | 63 % | 5 % | 1.26 % | May 26, 2017 |

* The vesting of the options of the fourth tranche is subject to the fulfillment of the market condition. Due to the ranking of the share of SMARTRAC in the performance period of the condition, the granted options of the fourth tranche will not become unconditional on the vesting date and consequently lapsed.

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

| Tranche | Fair value in EUR |
|-----------|-------------------|
| Tranche 1 | 6.66 |
| Tranche 2 | 6.86 |
| Tranche 3 | 9.11 |
| Tranche 4 | 3.44 |
| Tranche 5 | 1.87 |
| Tranche 6 | 2.57 |
| Tranche 7 | 6.25 |
| Tranche 8 | 5.90 |

The expenses for all tranches are reported under administrative expenses and as an increase in shareholder's equity.

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

Stock plan

In conjunction with bonus shares granted and the conversion of bonus into shares to the Management Board and selected employees of SMARTRAC, treasury stock decreased by 14,918 shares during the first six months of 2010 (six months ended June 2009: decrease in treasury stock by 24,941 shares).

14. Secured loans

As at June 30, 2010 a total amount of EUR 14.4 million of the existing syndicated EUR 65 million term and multi-currency revolving facilities agreement is unused. This credit agreement was signed on July 14, 2009 with standard market terms and conditions. The availability period of the credit facility is until June 30, 2012.

15. Contingencies

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.

16. Related parties**Transactions with key management**

With respect to the remuneration of key management please refer to the annual report 2009.

Transactions with Supervisory Board

With respect to the remuneration of the Supervisory Board please refer to the annual report 2009.

17. Subsequent events

There are no subsequent events to be reported.

Financial calendar

November 3, 2010

Publication of Q3 Interim Report
(July to September 2010)
[Analysts' Conference Call]

Further information:
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