SMARTRAC

INTERIM REPORT Q3.2012

In thousands of EUR		Consolidated nine months ended September 2012	Consolidated nine months ended September 2011	Change	Change in %
Consolidated income statement					
Revenues		189,297	138,799	50,498	36
EBITDA [1)]		17,448	14,557	2,891	20
Profit for the period [2)]		1,564	1,429	135	9
Financial position and liquidity					
Net cash provided by operating activities		15,230	2,394	12,836	536
Working capital		36,033	53,731	(17,698)	(33)
Capital expenditure [3)]		24,273	12,597	11,676	93
Total assets		331,383	247,281	84,102	34
Operating figures					
Basic earnings per share	EUR	0.08	0.09	(0.01)	(11)
Operating cash flow per share	EUR	0.80	0.15	0.65	433
Equity ratio [2)]	%	50.1	65.5	(15.4)	(24)
Headcount	at month's end	3,626	3,275	351	11

1) EBITDA is defined as operating profit for the period before depreciation, amortization, impairment, financial result, share of profits of associates, non-recurring items (exceptional 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) Including non-controlling interest.

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

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,

SMARTRAC has seen a compelling growth history over the past years. As every company, SMARTRAC has experienced highs and lows – from the selection as supplier to the U.S. e-passport, the IPO at the Frankfurt Stock Exchange in 2006, and the exceptional market growth in 2010 to the flood in Thailand in 2011 and the successful recovery in 2012.

During my seven years with the company, we have grown sales from EUR 25 million in 2005 to more than EUR 250 million revenues expected for 2012 - both organically and via acquisition. Over the past years, SMARTRAC has also become the global leader in the RFID market as developer, manufacturer, and supplier of transponders and inlays for limitless applications.

It was a great pleasure for me to be part of this exceptional development and to contribute to this success story. As communicated earlier, I resigned from my position as CEO and Chairman of the Management Board of SMARTRAC N.V. effective September 3, 2012, and I will resign as Director A and Member of the Management Board of SMARTRAC on December 31, 2012.

I am very pleased that Christian Uhl, Group CFO of SMARTRAC, who has accompanied and supported me from May 2006 onwards, was appointed Director A of SMARTRAC N.V. at the extraordinary general meeting of shareholders on October 29, 2012. Following his appointment, the SMARTRAC Management Board now consists of Wolfgang Schneider, Christian Uhl, Robert Harmzen, and me.

The SMARTRAC Management Board regrets the delay in the appointment of the future Chairman of the Management Board and CEO of SMARTRAC. The delay will, however, have no impact on our business, organization, and market presence. We will continue to pursue the course to further accelerate the growth of the company together with our customers and business partners while at the same time increasing the efficiency of our organization and the profitability of the Group.

Given the positive development which we have seen over the first nine months of 2012, we are confident to achieve these goals.

Total sales for the nine-month period ended September 30, 2012, increased by 36 percent from EUR 139 million in 2011 to EUR 189 million in 2012. In the third quarter of 2012, we exceeded quarterly sales of EUR 70 million for the first time in our company history. EBITDA for the first nine months of 2012, as per definition, excludes non-recurring items such as costs for restructuring and insurance payments. In total Group EBITDA from January to September 2012 increased by 20 percent from EUR 14.6 million in 2011 to EUR 17.4 million in 2012. The EBITDA margin accounted for 9 percent in the first nine months of 2012 as compared with 11 percent a year ago. Profit for the first nine months of 2012 increased by 9 percent from EUR 1.4 million in 2011 to EUR 1.6 million in 2012.

SMARTRAC OPERATIONAL DEVELOPMENT

BUSINESS UNITS

As part of the integration of the acquired businesses into the SMARTRAC Group, the business activities of former UPM RFID and the SMARTRAC Tickets & Labels business have been merged into the new Business Unit electronic Product Identification (ePI). As a result, the 2011 results on Business Unit level and the 2012 results on Business Unit level are not fully comparable. The former Business Unit Cards has been renamed to Business Unit CTA.

The reporting segments, however, have not changed and comprise the Security Segment and the Industry Segment.

SECURITY SEGMENT

The Security Segment consists of the Business Units eID and CTA.

The **eID Business Unit** covers high-security products for government identification documents such as e-passports, national e-ID cards, electronic driver's licenses, electronic visa documents and permanent resident cards, contactless health cards, and electronic social security cards. SMARTRAC is the global market leader for high-security RFID inlays and e-covers for electronic passports worldwide.

The eID business unit continued its positive development in the third quarter of 2012. The strong effects from the flood disaster in Thailand in the first quarter of 2012, however, could not be fully offset and are thus still perceivable in the results for the nine-month period. In total, sales in the eID business unit amounted to EUR 47.8 million in the first nine months of 2012 compared to EUR 53.2 million in the same period of 2011.

The **CTA Business Unit** provides card inlays, PRELAM® products, and transponders for automated fare collection in public transport, access control, and contactless payment and caters to card manufacturers as well as multinational system integrators with their own card manufacturing capabilities.

Market development in the cards business continued to develop favorably. Revenue for the first nine months increased from EUR 47.4 million in 2011 to EUR 60.6 million in 2012.

In the third quarter of 2012, SMARTRAC once again obtained certification for a number of its RFID PRELAM® products from AIT, the Austrian Institute of Technology. The SMARTRAC PRELAM® certification gives card manufacturers a clear advantage as it provides them with an easy, quick, and cost-efficient way to obtain card certification from AIT. Card manufacturers simply have to acquire a so-called "upgrade certificate" rather than passing a full certification process. The reduced complexity of the certification process results in time and cost savings and a much quicker time to market for card manufacturers seeking smart-card certification. The certified SMARTRAC PRELAM® products are used in applications such as automated fare collection in public transport, contactless micropayments, access control, and many more.

SMARTRAC was also pleased to announce that it surpassed the production milestone of 2 million PRELAM® products based on the Sony FeliCa™ RC-S962 IC chip in the third quarter of 2012. The benefits of the Sony FeliCa™ RC-S962 IC chip combined with the high reliability and durability of the SMARTRAC PRELAM® result in a sophisticated product which offers fast and convenient access, ticket validation, and payment functionalities and is used in applications such as automated fare collection (AFC) for public transport, access control, contactless micropayments, and loyalty schemes.

In total, Security Segment revenue amounted to EUR 108.3 million in the first nine months of 2012 compared to EUR 100.4 million in the same period of 2011. From January to September 2012, the Security Segment accounted for 57 percent of total Group sales compared to 72 percent a year ago.

INDUSTRY SEGMENT

The Industry Segment comprises the Industry & Logistics and electronic Product Identification (ePI) business units as well as the business from Neology and Dalton.

The **Industry & Logistics Business Unit** covers RFID tags for a variety of automotive, animal identification, logistics, industry, laundry, waste management, and medical applications.

Market development in the industry & logistics business continued to show a mixed picture. While the European automotive market still has to cope with declining sales volumes, non-European regions continue to show a strong development. Business with the established car immobilizer products and RFID transponders for the automotive industry was subject to those fluctuations in 2012. Revenues in the non-automotive business were not able to compensate for this variation. Sales of the Industry & Logistics business unit amounted to EUR 22.3 million in the first nine months of 2012 compared to sales of EUR 28.4 million in the same period of 2011.

The business unit is continuously broadening its product portfolio in the automotive and the non-automotive areas to support further growth. In the third quarter of 2012, the business unit has enlarged its product range by another high-temperature RFID tag. The new SMART-Ferro II-Tag has been developed to track and trace metallic objects over long reading distances in harsh and high temperature environments. The passive UHF tags are therefore ideally suited for logistics applications, shipping handling, incoming goods departments, and asset tracking as well as for applications in the petrochemical, automotive, aerospace, and maritime industries.

The business unit also added an even smaller version of the SMART-Mini-Tag to its standard product portfolio. The SMART-Mini6-Tag has a diameter of just 6mm and a thickness of only 0.8mm, which makes it the ideal solution for tagging small items. Due to its small footprint, the HF tag can easily be integrated into OEM equipment. Application fields include, for example, cable tagging in cable cabinets and cable harnesses (patch panels) and tool and tool trolley tagging, where every single tool is tagged with the SMART-Mini6-Tag.

The **ePI Business Unit** comprises the former UPM RFID and SMARTRAC Tickets & Labels business. The ePI Business Unit covers RFID inlays that cater to ticket and label converters and includes fields of application such as libraries and media management, mobile and smart media, apparel tracking, brand protection, electronic product identification, as well as applications in the pharmaceutical industry, retail, supply chain management, vehicle identification, and many more.

Sales in the ePI business unit increased from EUR 8.9 million in the first nine months of 2011 to EUR 44.4 million in the same period of 2012.

In the third quarter of 2012, SMARTRAC announced that it has teamed up with US-based application provider ClikGenie and partner FineLine Technologies to launch CLIKSecureTM, a mobile application for NFC-enabled product authentication. Consumers may tap the inlay using any NFC-enabled phone to receive information the brand owner wants to share, such as details on the vineyard, wine ratings, food pairings, and tasting notes. When the same inlay is tapped using a phone with the CLIKSecure™ app, the product's authenticity can be confirmed immediately.

Revenues from Neology and Dalton amounted to EUR 14.2 million in the first nine months of 2012 (2011: EUR 0).

In total, sales of the Industry Segment increased from EUR 37.4 million in the first nine months of 2011 to EUR 80.4 million in the first nine months of 2012. From January to September 2012, the Industry Segment accounted for 43 percent of total Group sales compared to 27 percent a year ago.

THE SMARTRAC SHARE

In the third quarter of 2012, the SMARTRAC share price ranged between EUR 11.20 (July 5, 2012) and EUR 10.21 (September 24, 2012). The SMARTRAC share started the year 2012 at a price of EUR 10.73 and reported its high for the nine-month period on January 13, 2012, at EUR 11.70. The SMARTRAC share reported its low for the nine-month period on June 8, 2012, at EUR 9.10 and closed the third quarter 2012 at a price of EUR 10.58.

The SMARTRAC share price decreased by 1 percent from January to September 2012 compared to a 19 percent increase of the German DAX and a 16 percent increase of the German TecDAX in the same period. Trading volumes in SMARTRAC shares in the first nine months of 2012 further decreased compared to the same period of 2011. The average number of shares traded per day on the XETRA trading platform in the period between January and September 2012 was some 540 shares, compared to around 1,400 shares in the first nine months of 2011.

Five brokers comment on the financial figures and operational development of SMARTRAC. A constantly updated overview of the banks and their current recommendations is presented in the Investor Relations section of the SMARTRAC website, under 'Research Reports'. Furthermore, SMARTRAC maintains regular and active communication with shareholders, potential investors, financial analysts, the media, and the financial community.

SHAREHOLDER STRUCTURE

In the third quarter of 2012, the Management Board of SMARTRAC N.V. was informed that OEP Technologie B.V. decided to initiate squeeze-out proceedings against all minority shareholders in SMARTRAC N.V. to have their shares in SMARTRAC N.V. transferred to OEP Technologie B.V. pursuant to article 2:92a of the Dutch Civil Code.

On July 20, 2012, the Management Board of SMARTRAC N.V. was furthermore informed that OEP Technologie B.V. intends to request the Enterprise Chamber of the Amsterdam Court of Appeal to order the minority shareholders to transfer their shares and to set the price of the shares to be transferred at EUR 11.00 per share.

On September 12, 2012, the Management Board of SMARTRAC N.V. resolved to apply for a delisting of the company's shares from the Frankfurt Stock Exchange (Prime Standard) and to propose to the general meeting of shareholders a change of the company's articles of association subject to the approval of the delisting.

At the extraordinary general meeting of shareholders on October 29, 2012, the proposed changes of the company's articles of association were approved with 99.9 percent of the casted votes.

The delisting of SMARTRAC N.V.'s shares will be subject to approval by the management board of the Frankfurt Stock Exchange. The application for the delisting has been made by the company to the management board of Frankfurt Stock Exchange. Subject to approval of the delisting application by the management board of the Frankfurt Stock Exchange, the final day of trading of the company's shares on the Frankfurt Stock Exchange is expected to be in the first half of 2013.

As of September 30, 2012, OEP Technologie B.V. held 19.287.868 shares in SMARTRAC N.V. representing 97.2 percent of the shares and voting rights in SMARTRAC N.V.; the free float amounted to 2.8 percent.

FINANCIAL PERFORMANCE

SMARTRAC REPORTS 36 PERCENT YEAR-ON-YEAR SALES GROWTH IN THE FIRST NINE MONTHS OF 2012

Group sales of EUR 189.3 million in the first nine months of 2012 represent an increase of 36 percent compared to sales of EUR 138.8 million in the same period of 2011. Group EBITDA increased by 20 percent from EUR 14.6 million in the first nine months of 2011 to EUR 17.4 million for the same period in 2012. Profit for the period from January to September increased by 9 percent from EUR 1.4 million in 2011 to EUR 1.6 million in 2012.

SEGMENT DEVELOPMENT

Revenues in the **Security Segment** (Business Units eID and CTA) amounted to EUR 108.3 million in the first nine months of 2012 as compared with sales of EUR 100.4 million in the same period of 2011. Security Segment EBITDA from January to September decreased from EUR 12.5 million in 2011 to EUR 11.1 million in 2012.

Revenues in the **Industry Segment** (Business Units Industry & Logistics and ePI, Neology and Dalton) increased to EUR 80.4 million in the first nine months of 2012 as compared with sales of EUR 37.4 million in the first nine months of 2011. The Industry Segment reported EBITDA from January to September of EUR 5.7 million in 2012 compared to an EBITDA of EUR 2.4 million in the same period of 2011.

BALANCE SHEET

As of September 30, 2012, total assets amounted to EUR 331 million as compared with EUR 264 million as of December 31, 2011. The increase in total assets was predominantly related to the inclusion of former UPM RFID as well as investments into property, plant and equipment in the first nine months of 2012 mainly to rebuild Thailand. Cash and cash equivalents increased from EUR 22 million as of December 31, 2011, to EUR 36 million as of September 30, 2012.

The ramp-up in Thailand and the strong sales growth have also had a significant impact on the working capital development in the first nine months of 2012 besides the inclusion of former UPM RFID. Inventories increased from EUR 30 million as of December 31, 2011, to EUR 44 million as of September 30, 2012, due to the increase of stock to serve the vast demand in the ePI business. Trade and non-trade receivables increased from EUR 35 million at the end of 2011 to EUR 46 million at the end of September 2012. This development mainly results from the increased business volume.

From January to September 2012, working capital decreased by 33 percent to EUR 36 million compared to EUR 54 million as of September 30, 2011.

SMARTRAC's Group equity amounted to EUR 166 million as of September 30, 2012, compared to EUR 139 million as of December 31, 2011. The increase in group equity mainly results from the proceeds from the capital increase conducted on March 31, 2012, in relation to the acquisition of former UPM RFID. The equity ratio decreased from 53 percent as of December 31, 2011, to 50 percent as of September 30, 2012.

CASH FLOW STATEMENT

Cash provided by operating activities amounted to EUR 19 million for the first nine months of 2012 compared to EUR 5 million cash provided in the same period of the previous year due to favorable cut-off effects in the working capital position. Net cash provided by operating activities amounted to EUR 15.2 million as of September 30, 2012, as compared with net cash provided of EUR 2.4 million for the first nine months of 2011.

Net cash used in investing activities amounted to EUR 30 million as of September 30, 2012 (2011: EUR 32), resulting from investments in property, plant and equipment related to the reconstruction in Thailand.

Net cash provided by financing activities amounted to EUR 29 million as of September 30, 2012 (2011: EUR 7 million) and related to the cash inflow from the proceeds of secured loans. In the second quarter of 2012, SMARTRAC has signed a EUR 100 million term and revolving facilities agreement replacing the syndicated EUR 65 million term and multicurrency revolving facilities agreement concluded in 2009.

BUSINESS OUTLOOK

We expect that the overall positive market trend in the RFID industry will continue over the last quarter of 2012 and that SMARTRAC will add another successful year of growth to its company history. Therefore, SMARTRAC confirms its target to increase Group sales to more than EUR 250 million in 2012.

From a strategic perspective, the SMARTRAC Management Board will pursue the target to optimize structures and processes in order to further improve overall efficiency of the company and profitability of the Group.

Let me take this opportunity to cordially thank the SMARTRAC Management Board, Group Executive Team, Supervisory Board, all of our employees worldwide, our customers, business partners, and shareholders for the successful and excellent collaboration over the past seven years.

For the Management Board

Dr. Christian Fischer
Amsterdam, November 2012

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 (2011)

In thousands of EUR	Note	Consolidated three months ended September 2012	Consolidated three months ended September 2011	Consolidated nine months ended September 2012	Consolidated nine months ended September 2011
Revenue	6	70,861	44,885	189,297	138,799
Cost of sales		(53,388)	(33,336)	(145,354)	(102,322)
Gross profit	**6**	**17,473**	**11,549**	**43,943**	**36,477**
Administrative expenses		(25,882)	(9,722)	(55,275)	(30,819)
Other operating income (expenses)		4,831	(443)	20,803	(704)
Total operating expenses		**(21,051)**	**(10,165)**	**(34,472)**	**(31,523)**
Operating profit before financial expenses		**(3,578)**	**1,384**	**9,471**	**4,954**
Financial income		2,932	1,729	9,364	4,372
Financial expenses		(4,907)	(2,549)	(15,130)	(8,062)
Net financial expenses	**8**	**(1,975)**	**(820)**	**(5,766)**	**(3,690)**
Share of loss of equity-accounted investees		(21)	(7)	(5)	(28)
Profit (loss) before tax		**(5,574)**	**557**	**3,700**	**1,236**
Income tax (expenses) / benefit	**9**	**(1,987)**	**25**	**(2,136)**	**193**
Profit for the period attributable to:		**(7,561)**	**582**	**1,564**	**1,429**
Owners of the company		(7,550)	582	1,613	1,429
Non-controlling interests		(11)	–	(49)	–
Profit (loss) for the period		**(7,561)**	**582**	**1,564**	**1,429**
Items that may be reclassified subsequently to profit or loss:					
Foreign exchange translation		22	460	2,764	(1,282)
Net fair value loss on hedging instruments entered into for cash flow hedges		(257)	–	(257)	–
Other comprehensive income (loss), net of tax		**(235)**	**460**	**2,507**	**(1,282)**
Total comprehensive income (loss) for the period attributable to:		**(7,796)**	**1,042**	**4,071**	**147**
Owners of the company		(7,785)	1,042	4,120	147
Non-controlling interests		(11)	–	(49)	–
Total comprehensive income (loss) for the period		**(7,796)**	**1,042**	**4,071**	**147**
Basic earnings per share (EUR)		(0.38)	0.04	0.08	0.09
Diluted earnings per share (EUR)		(0.38)	0.04	0.08	0.09

The accompanying notes (on page 18 to 32) are an integral part of the condensed consolidated interim financial statements.

CONSOLIDATED INTERIM BALANCE SHEET

AS AT SEPTEMBER 30, 2012 (AND DECEMBER 31, 2011)

In thousands of EUR	Note	Consolidated September 30, 2012	Consolidated December 31, 2011
Assets			
Intangible assets	11	111,058	107,030
Property, plant and equipment	10	79,853	56,371
Equity-accounted investees		1,149	1,115
Deferred tax assets		3,926	4,354
Other non-current assets		2,319	4,417
Total non-current assets		**198,305**	**173,287**
Inventories		43,738	29,500
Trade and non-trade receivables		45,755	35,178
Current income tax		735	685
Other current assets		6,291	3,330
Cash and cash equivalents		36,559	22,100
Total current assets		**133,078**	**90,793**
Total assets		**331,383**	**264,080**
Equity			
Share capital	12	9,924	8,872
Share premium	12	133,824	111,624
Reserves		4,697	2,192
Retained earnings		14,683	13,070
Equity attributable to owners of the company		**163,128**	**135,758**
Non-controlling interests		3,014	3,061
Total equity		**166,142**	**138,819**
Liabilities			
Secured loans	13	76,128	1,161
Employee benefits		757	663
Deferred tax liabilities		7,271	6,124
Other non-current liabilities		6,117	6,315
Deferred income from government grants		898	670
Total non-current liabilities		**91,171**	**14,933**
Bank overdraft		706	320
Current portion of secured loans		246	58,524
Non-secured loans		12,632	459
Trade and non-trade payables		29,535	20,050
Current income tax		2,185	1,286
Provisions	14	5,077	5,322
Other current liabilities		23,689	24,367
Total current liabilities		**74,070**	**110,328**
Total liabilities		**165,241**	**125,261**
Total equity and liabilities		**331,383**	**264,080**

The accompanying notes (on page 18 to 32) are an integral part of the condensed consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 (2011)

In thousands of EUR	Note	Consolidated nine months ended September 2012	Consolidated nine months ended September 2011
Cash flows from operating activities			
Profit for the period		1,564	1,429
Reconciliation of net profit to net cash provided by / (used in) operating activities:			
Income tax expenses (benefit)	9	2,136	(193)
Depreciation and amortization	6	13,443	9,177
Impairment tangible assets	6	526	–
Reversal of impairment on fixed assets	6	(69)	(18)
Equity-settled share-based payment transactions		129	183
Gain (loss) on disposal of assets		(92)	–
Interest income	8	(67)	(192)
Interest expense	8	3,356	2,608
Other non cash items		1,139	496
Provision for losses on accounts receivables		286	282
Provision for losses on inventory		221	816
Share of loss of equity-accounted investees		5	28
Changes in operational assets and liabilities:			
Inventories		(7,628)	(5,792)
Trade and non-trade receivables		(2,825)	2,732
Other current assets		(2,168)	(110)
Employee benefits		94	87
Trade and non-trade payables		7,115	(8,691)
Other non-current liabilities		(198)	–
Other current liabilities and provisions		2,028	1,739
Cash provided by operating activities		**18,995**	**4,581**
Interest paid		(2,545)	(2,254)
Interest received		64	178
Income taxes paid		(1,284)	(111)
Net cash provided by operating activities		**15,230**	**2,394**
Cash flows from investing activities			
Purchases of property, plant and equipment		(22,522)	(10,347)
Purchases of intangible assets		(3,708)	(1,769)
Proceeds from sale of equipment		107	23
Change in deposits paid for property, plant and equipment		1,957	(481)
Net cash inflow (outflow) on business combinations		(6,000)	(1,313)
Other investments		–	(17,047)
Investments in jointly controlled entities		–	(1,253)
Cash proceeds from deferred grants		221	–
Net cash used in investing activities		**(29,945)**	**(32,187)**

In thousands of EUR	Note	Consolidated nine months ended September 2012	Consolidated nine months ended September 2011
Cash flows from financing activities			
Transaction costs related to the capital increase		(20)	–
Proceeds from interest-bearing loans and borrowings and secured loans		95,402	6,943
Repayments of interest-bearing loans and borrowings and secured loans		(66,766)	(23)
Net cash provided by financing activities		**28,616**	**6,920**
Net change in cash and cash equivalents and bank overdrafts		13,902	(22,873)
Cash and cash equivalents and bank overdrafts at January 1		21,780	49,401
Effect of exchange rate fluctuations on cash and cash equivalents and bank overdrafts		171	(122)
Cash and cash equivalents and bank overdrafts at September 30		**35,853**	**26,406**

The accompanying notes (on page 18 to 32) are an integral part of the condensed consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 (2011)

In thousands of EUR	Note	Issued and paid-up share capital	Share premium	Translation reserve
Balance as at January 1, 2011		**8,167**	**96,743**	**2,051**
Profit for the period		–	–	–
Other comprehensive income (loss)		–	–	(1,282)
Total comprehensive income (loss) of the period		**–**	**–**	**(1,282)**
Share-based payment options		–	183	–
Balance as at September 30, 2011		**8,167**	**96,926**	**769**
Balance as at January 1, 2012		**8,872**	**111,624**	**2,192**
Profit for the period		–	–	–
Other comprehensive income (loss)		–	–	2,762
Total comprehensive income (loss) of the period		**–**	**–**	**2,762**
Share-based payment options		–	129	–
Par value of new shares – credited to share capital	12	1,052	–	–
Excess of gross proceeds over par share value – credited to share premium	12	–	22,091	–
Transaction costs related to the capital increase – charged to share premium	12	–	(20)	–
Balance as at September 30, 2012		**9,924**	**133,824**	**4,954**

The accompanying notes (on page 18 to 32) are an integral part of the condensed consolidated interim financial statements.

Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
–	**54,620**	**161,581**	**–**	**161,581**
–	1,429	1,429	–	1,429
–	–	(1,282)	–	(1,282)
–	**1,429**	**147**	**–**	**147**
–	–	183	–	183
–	**56,049**	**161,911**	**–**	**161,911**
–	**13,070**	**135,758**	**3,061**	**138,819**
–	1,613	1,613	(49)	1,564
(257)	–	2,505	2	2,507
(257)	**1,613**	**4,118**	**(47)**	**4,071**
–	–	129	–	129
–	–	1,052	–	1,052
–	–	22,091	–	22,091
–	–	(20)	–	(20)
(257)	**14,683**	**163,128**	**3,014**	**166,142**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

1. SIGNIFICANT EVENTS

On September 12, 2012, the Management Board resolved to apply for a delisting of the company´s shares from the Frankfurt Stock Exchange (Prime Standard) and to propose a change of the company´s articles of association subject to the approval of the delisting at the Extraordinary General Meeting on October 29, 2012. The delisting from the Regulated Market (Prime Standard) and from Xetra was filed with Deutsche Börse AG (General Stock Exchange) on October 30, 2012.

Dr. Christian Fischer resigned from his position as CEO and Chairman of the Management Board of SMARTRAC N.V. effective September 3, 2012. In his function as Director A and Member of the Management Board he will resign on December 31, 2012. Mr. Christian Uhl was appointed as Director A and Member of the Management Board of SMARTRAC N.V. at the Extraordinary General Meeting of Shareholders on October 29, 2012.

2. REPORTING ENTITY

SMARTRAC (´the Company`) is a company domiciled in The Netherlands. The condensed consolidated interim financial report of the Company as at and for the nine months ended September 30, 2012, comprises the Company and its subsidiaries (together referred to as `the Group`) and the Group´s interests in associates.

There were no changes in the composition of the reporting entity during the period from July 1, 2012 to September 30. Please refer to the interim report for the three months ended March 31, 2012 for information about the acquisition of the UPM RFID group.

Due to the Company's strategy to unite its core business under the family brand `SMARTRAC`, SMARTRAC TECHNOLOGY GmbH changed its company name into SMARTRAC TECHNOLOGY Stuttgart GmbH, SMARTRAC German Holding GmbH changed its company name into SMARTRAC Wehnrath Holding GmbH, SMARTRAC TECHNOLOGY GERMANY GmbH changed its company name into SMARTRAC TECHNOLOGY Wehnrath GmbH, UPM Raflatac RFID Co., China, changed its company name into SMARTRAC TECHNOLOGY (Guangzhou) Co. Ltd.

EMPLOYEES

As at September 30, 2012, the Group employed 3,626 employees (3,942 as of June 30, 2012; 3,275 as of September 30, 2011; 3,435 as of June 30, 2011).

THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

The Group's consolidated financial statements as at and for the year 2011 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.

3. 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, 2011.

This condensed consolidated interim financial information was authorized for issuance by the Management Board of the Company on November 7, 2012. The condensed consolidated interim financial statements for the period ended September 30, 2012, were not subject to a limited interim review.

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, 2011.

With respect to new, revised or amended to the Standards and Interpretations to be adopted as per the 2012 financial year, reference is made to the notes to the consolidated financial statements for the year ended December 31, 2011. These changes in Standards and Interpretations have an immaterial or no effect for the current and comparative period.

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, 2011.

6. SEGMENT REPORTING

The Group comprises the following main business segments:

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

– **Industry Segment:** the manufacture and sale of RFID and NFC transponders with embedded chips for use in a broad range of applications. RFID and NFC transponders for the industry sector are suited for automotive applications, for use in harsh environments such as industry, logistics, laundry, waste management, as well as for highly sensitive areas such as the medical sector and animal identification. In addition, this segment covers a broad range of standard and customized RFID transponders for ticket and label applications such as library, retail apparel and NFC. The Industry segment also comprises the business activities of Neology Inc. which serves the electronic vehicle registration and electronic toll collection market.

– **All other:** all other income/expense that cannot be attributed to the Security and Industry Segment.

Based on the integration of the acquired businesses into the SMARTRAC Group, the Company has renamed some of its business units. The reporting segments Security and Industry, however, have not changed.

– The Business Unit Cards (Security Segment) has been renamed to Business Unit CTA. As part of the integration of former KSW Microtec AG into the SMARTRAC Group, the access control business which previously was part of the Business Unit Industry & Logistics (Industry Segment) has been transferred to the Business Unit CTA (Security Segment).

– The former UPM RFID business and the former SMARTRAC Business Unit Tickets & Labels (Industry Segment) have been merged into the new Business Unit ePI.

CONSOLIDATED SEGMENT INFORMATION BY BUSINESS SEGMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 2012 (2011)

	Security	
In thousands of EUR	Nine months ended Sep 2012	Nine months ended Sep 2011
Segment revenue		
Revenue from external customers	108,250	100,436
Revenue from transactions with other segments	52	–
Total revenue	**108,302**	**100,436**
Segment result		
Gross profit	23,590	26,473
Operating income (expenses)	(2,576)	(19,476)
Operating profit (loss)	21,014	6,997
Net financial expenses		
Share of loss of jointly controlled entities		
Profit before tax benefit (expense)		
Income tax benefit (expense)		
Profit for the period		
Supplemental information		
Operating profit (loss)	21,014	6,997
Amortization, depreciation and impairment [4]	6,267	5,122
Exceptional items restructuring [2]	383	340
Exceptional items flood Thailand [2]	876	–
Insurance payments flood related [2]	(17,455)	–
Exceptional items acquisition costs [3]	–	–
Termination costs [2]	–	–
Exceptional others	–	–
Segment EBITDA [1]	**11,085**	**12,459**

1) EBITDA is defined as operating profit for the period before depreciation, amortization, impairment, financial result, share of profits of associates 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) Please refer to note 7.

3) Transaction costs arising from the acquisitions of the UPM Group in 2012.

4) Thereof impairment for machines and antenna line amounting to EUR 526,000.

	Industry		All other		Eliminations		Consolidated	
	Nine months ended Sep 2012	Nine months ended Sep 2011	Nine months ended Sep 2012	Nine months ended Sep 2011	Nine months ended Sep 2012	Nine months ended Sep 2011	Nine months ended Sep 2012	Nine months ended Sep 2011
	80,325	37,075	722	1,288	–	–	189,297	138,799
	118	284	3,731	4,436	(3,901)	(4,720)	–	–
	80,443	**37,359**	**4,453**	**5,724**	**(3,901)**	**(4,720)**	**189,297**	**138,799**
	20,165	9,089	1,180	1,512	(992)	(597)	43,943	36,477
	(21,682)	(10,393)	(10,509)	(1,699)	295	45	(34,472)	(31,523)
	(1,517)	(1,304)	(9,329)	(187)	(697)	(552)	9,471	4,954
							(5,766)	(3,690)
							(5)	(28)
							3,700	**1,236**
							(2,136)	193
							1,564	**1,429**
	(1,517)	(1,304)	(9,329)	(187)	(697)	(552)	9,471	4,954
	6,776	3,599	1,163	568	(306)	(130)	13,900	9,159
	1,113	74	–	30	–	–	1,496	444
	567	–	(27)	–	–	–	1,416	–
	(1,783)	–	–	–	–	–	(19,238)	–
	–	–	495	–	–	–	495	–
	–	–	9,390	–	–	–	9,390	–
	518	–	–	–	–	–	518	–
	5,674	**2,369**	**1,692**	**411**	**(1,003)**	**(682)**	**17,448**	**14,557**

REVENUES BY SUBSEGMENT

In thousands of EUR	Consolidated nine months ended September 2012	Consolidated nine months ended September 2011
Segment Security		
Business Unit eID	47,759	53,212
Business Unit CTA	60,556	47,390
Intrasegment eliminations	(13)	(166)
Subtotal	**108,302**	**100,436**
Segment Industry		
Business Unit ePI	44,398	8,916
Business Unit IndLog	22,262	28,443
Business Unit Neology, Dalton	14,153	–
Intrasegment eliminations	(370)	–
Subtotal	**80,443**	**37,359**
Segment All Other	**4,453**	**5,724**
Intersegment eliminations	(3,901)	(4,720)
Total	**189,297**	**138,799**

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 nine months ended September 2012	Consolidated nine months ended September 2011
Revenues		
Asia	48,721	24,948
Europe	76,512	79,655
Latin America	19,245	9,569
North America	42,671	24,002
Others	2,148	625
Total revenues	**189,297**	**138,799**

RECONCILIATIONS OF REPORTABLE SEGMENT REVENUES AND PROFIT OR LOSS BEFORE INCOME TAX

In thousands of EUR	Consolidated nine months ended September 2012	Consolidated nine months ended September 2011
Revenues		
Total revenue for reportable segments	188,745	137,795
Other revenue	4,453	5,724
Elimination of inter-segment revenue	(3,901)	(4,720)
Consolidated revenue	**189,297**	**138,799**
Profit or loss		
Total EBITDA for reportable segments	16,759	14,828
Other EBITDA	1,692	411
All EBITDA (before inter-segment elimination)	**18,451**	**15,239**
Elimination of inter-segment profits	(1,003)	(682)
Unallocated amounts:		
Financial result	(5,766)	(3,690)
Depreciation, amortization and impairment	(13,900)	(9,159)
Share of loss of jointly controlled entities	(5)	(28)
Exceptional items	5,923	(444)
Consolidated profit before income tax	**3,700**	**1,236**

7. EXCEPTIONAL ITEMS

Within the nine months ended September 30, 2012, operating profit included exceptional items totalling to an income of EUR 5.9 million. The most significant exceptional items refer to restructuring, the flood in Thailand and termination costs.

Restructuring expenses include severance and reorganizational expenses for the Dalton group (EUR 959,000), for the entity in Thailand (EUR 428,000) and for the production site in Malaysia (EUR 109,000). These are shown under “cost of sales” (EUR 468,000) and “administrative expenses” (EUR 1.0 million) in the consolidated interim statement of comprehensive income.

Due to the flood in Thailand and in the course of the reconstruction of the production facilities in Thailand exceptional expenses occurred in January and February amounting to EUR 1.4 million. During the nine months ended 30 September 2012, SMARTRAC received insurance payments totalling an amount of EUR 21.4 million for flood damages and business interruption. These are included in “other income” in the consolidated interim statement of comprehensive income.

Terminations costs in relation with the resignation of Dr. Christian Fischer as CEO and Chairman of the Management Board of SMARTRAC N.V. on September 3, 2012, amount to EUR 9.4 million and mainly contain termination benefits partly subject to certain conditions as well as compensation for legal expenses. Additionally Dr. Fischer waived his entitlement to options resulting in an additional option expense of EUR 44,000. These amounts are included in “administrative expenses” in the consolidated interim statement of comprehensive income.

8. NET FINANCIAL EXPENSES (INCOME)

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

In thousands of EUR	Consolidated three months ended September 2012	Consolidated three months ended September 2011	Consolidated nine months ended September 2012	Consolidated nine months ended September 2011
Change in fair value	379	18	1,161	802
Interest income	20	47	67	192
Foreign exchange gains	2,533	1,664	8,136	3,378
Financial income	**2,932**	**1,729**	**9,364**	**4,372**
Change in fair value	(263)	(548)	(1,474)	(809)
Interest expenses	(1,088)	(893)	(3,356)	(2,608)
Bank charges	(254)	(86)	(516)	(325)
Foreign exchange losses	(3,302)	(1,022)	(9,784)	(4,320)
Financial expenses	**(4,907)**	**(2,549)**	**(15,130)**	**(8,062)**
Net financial expenses	**(1,975)**	**(820)**	**(5,766)**	**(3,690)**

9. CORPORATE INCOME TAX

RECOGNIZED IN THE INCOME STATEMENT

In thousands of EUR	Consolidated three months ended September 2012	Consolidated three months ended September 2011	Consolidated nine months ended September 2012	Consolidated nine months ended September 2011
Current corporate tax expenses	(1,944)	(107)	(2,481)	(235)
Deferred tax (expense) / benefit	(43)	132	345	428
Income tax (expense) / benefit	**(1,987)**	**25**	**(2,136)**	**193**

RECONCILIATION OF EFFECTIVE INCOME TAX CHARGE

In thousands of EUR	Consolidated three months ended September 2012	Consolidated three months ended September 2011	Consolidated nine months ended September 2012	Consolidated nine months ended September 2011
(Loss) / profit before tax	**(5,574)**	**557**	**3,700**	**1,236**
Expected tax (expense) / benefit based on rate of 25.0 % (2011: 25.5 %)	1,394	(142)	(925)	(315)
Tax rate differences in foreign jurisdiction	1,394	(88)	837	(284)
Non-deductible expenses	(259)	(191)	(459)	(221)
Tax-exempt income relating to promotional privileges	(496)	933	3,362	2,348
Non-recognition of tax benefits on losses incurred	(4,471)	(572)	(5,288)	(1,564)
Use of tax loss carry forward previously unrecognized	97	145	258	494
Permanent differences	381	(61)	179	(276)
Current taxes from prior years	(44)	–	(132)	–
Others	17	1	32	11
Effective income tax (expense) / benefit	**(1,987)**	**25**	**(2,136)**	**193**

10. PROPERTY, PLANT AND EQUIPMENT

ACQUISITIONS WITHOUT BUSINESS COMBINATIONS

During the nine months ended September 30, 2012, the Group acquired tangible assets totalling EUR 22.5 million (nine months ended September 30, 2011: EUR 10.3 million).

11. INTANGIBLE ASSETS

DEVELOPMENT COSTS

Intangible assets include capitalized development costs (carrying amount) amounting to EUR 6.2 million as at September 30, 2012 (as at September 30, 2011: EUR 4.8 million).

12. CAPITAL INCREASE

The increase in share premium in the financial year 2012 is mainly due to the excess of proceeds over par value from the capital increase. Vesting expenses regarding options were credited to share premium.

On March 31, 2012, the Company increased its share capital from EUR 8,872,044 (17,744,088 bearer shares) to EUR 9.923.987 (19,847,974 bearer shares). Subscription rights for shareholders have been excluded.

The capital increase is associated with the closing of the transaction with UPM-Kymmene Corporation under which SMARTRAC takes over UPM´s RFID business while UPM-Kymmene Corporation obtains an indirect economic interest in SMARTRAC of 10.6% via OEP Technologie B.V.

The new shares will be issued to OEP Technologie B.V., each new share having a nominal value of EUR 0.50, for a cash consideration of EUR 11.00 per new share, to be effected by means of a set off against an obligation of SMARTRAC to pay EUR 23,142,746.00 to OEP Technologie B.V. for providing the above mentioned indirect economic interest in SMARTRAC.

SMARTRAC N.V. and OEP Technologie B.V. furthermore agreed that the new shares will not be admitted to trading on the Regulated Market of the Frankfurt Stock Exchange for a period of at least twelve month following the registration of the capital increase.

The transaction costs included bank arrangement and legal fees (EUR 20,000).

In thousands of EUR

Gross proceeds	23,143
Par value of new shares – credited to share capital	(1,052)
Excess of gross proceeds over par value credited to share premium	22,091
Less – Transaction costs of the capital increase charged to share premium	(20)
Net movement in share premium arising from capital increase	22,071

13. SECURED LOANS

SMARTRAC has signed on June 13, 2012 a EUR 100 million term and revolving facilities agreement in order to refinance the EUR 65 million terms and multicurrency revolving facilities agreement with maturity on June 30, 2012. The new EUR 100 million facilities agreement was concluded with a syndicate of five banks and contains standard market terms and conditions including a leverage, EBITDA and an equity covenant. This facilities agreement has an availability period until December 30, 2016. As at September 30, 2012 a total amount of EUR 22.5 million of the new EUR 100 million facilities agreement was unused.

14. PROVISIONS

As per 30 September 2012 provisions for restructuring Dalton Group amount to EUR 54,000 (2011: zero). There have been no major reversals or additions for any provisions during the interim period.

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

IDENTITY OF RELATED PARTIES

With respect to the relationship with related parties please refer to the annual report 2011.

The Group shows the following transactions with related parties:

In thousands of EUR	Transaction value nine months ended September 2012	Transaction value nine months ended September 2011
Sales		
Bibliotheca AG	2,882	4,538
Omnia Technologies Private Ltd.	214	170
Interest income		
RFID Technologie B.V.	–	18
Purchases		
Omnia Technologies Private Ltd.	417	104

The balances of receivables and payables and other positions are shown below:

In thousands of EUR	Consolidated September 30, 2012	Consolidated December 31, 2011
Trade and non trade receivables		
Bibliotheca AG	919	870
Dalton Property Holding UK Ltd.	–	4
Omnia Technologies Private Ltd.	48	104
Total	**967**	**978**
Trade payables and non trade payables		
Omnia Technologies Private Ltd.	27	106
Dalton Property Holding UK B.V.	–	3
Dalton EID Ltd.	22	–
Dalton Group Ltd.	–	25
Total	**49**	**134**
Other non-current assets		
Citywish Investments Ltd.	317	315
Total	**317**	**315**
Other current assets		
Bibliotheca AG	–	4
Dalton EID Ltd.	–	21
Total	**–**	**25**
Other non-current liabilities		
Dalton Group Ltd.	242	–
Capital contribution		
OEP Technologie B.V.	23,143	14,000
Manfred Rietzler	–	1,500
Capital increase		
Omnia Technologies Private Ltd.	–	309
Interest-bearing borrowings		
OEP Technologie B.V.	12,000	–

TRANSACTIONS WITH KEY MANAGEMENT

With regard to termination costs due to the resignation of Dr. Fischer please refer to the description exceptional items under note 7. Information about remuneration is provided in the annual report 2001.

TRANSACTIONS WITH SUPERVISORY BOARD

With respect to the remuneration of the Supervisory Board please refer to the annual report 2011.

17. SUBSEQUENT EVENTS

On October 30, 2012, Neology S. de R.L. de CV, Mexico, acquired 80% of the share capital of Controles Electromecánitos S.A. de CV, Mexico, for a cash consideration of USD 4.0 million plus a contingent consideration (earn out) limited up to an amount of USD 1.5 million. Controles is specialized in tolling solutions including the toll booth plaza, control and audit systems, hardware and equipment and also develops and installs vehicle classification equipment for tolling, parking and access control. Controles' and Neology's operations are complementary in the tolling business. Details of net assets acquired and goodwill could not be made because of the limited time period between acquisition date and the date of the authorization for issue of this report.

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