Interim Report
Q3.2010

In thousands of EUR		Consolidated nine months ended September 2010	Consolidated nine months ended September 2009	Change	Change in %
Consolidated income statement					
Revenues		130,928	92,194	38,734	42.0
EBITDA [1]		15,656	10,916	4,740	43.4
Profit for the period		5,926	3,094	2,832	91.5
Financial position and liquidity					
Net cash provided by (used in) operating activities		2,798	4,873	(2,075)	(42.6)
Working capital		40,810	28,625	12,185	42.6
Capital expenditure [2]		12,092	5,551	6,541	117.8
Total assets		222,865	180,048	42,817	23.8
Operating figures					
Basic earnings per share	EUR	0.40	0.23	0.17	73.9
Operating cash flow per share	EUR	0.19	0.37	(0.18)	(48.6)
Equity ratio	%	59.5	56.5	3.0	5.3
Headcount	at month's end	3,435	2,670	765	28.7

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.

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,

In the third quarter 2010, SMARTRAC, the leading developer, manufacturer and supplier of RFID transponders, continued to show strong development and achieved substantial milestones. In the period from July to September 2010, SMARTRAC surpassed the record sales level of EUR 50 million for a three-month period and reported sales of EUR 50.2 million for the quarter.

Looking at the first nine months of 2010, SMARTRAC reported sales of EUR 130.9 million, thereby already exceeding the full year figure for 2009 of EUR 127.9 million. This represents an increase of 42 percent compared to EUR 92.2 million a year ago.

Main drivers for the continued strong development were the Business Unit Industry & Logistics with a strong performance in the automotive and non-automotive businesses, the Business Unit eID, amongst others, with the successful ramp-up of a volume project related to the De La Rue framework agreement, as well as the Business Unit Cards with continued high order receipt in the e-Payment business.

Growing the business by over 50 percent from EUR 33.1 million in the third quarter 2009 to EUR 50.2 million in the third quarter 2010, however, provided challenges for the organizational and operational set-up of the company. An exceedingly high utilization level of the core factories, a significant investment program to increase production capacity as well as measures initiated to address the identified operational inefficiencies were parameters for the company in the first nine months of 2010.

Despite strong sales growth, the profitability development remained behind the company's possibilities. Group gross margin continued to report the level of the subsequent quarter, which to some extent could be ascribed to a customer-driven, continued high level of microchip sourcing activities which still had a significant dilution effect.

Although the initiated measures not yet became entirely effective, the Management Team is fully convinced that the initiated strategic and operational measures will prove successful in addressing the current challenges. In the end, the measures will further expand the company's leading market position in the global RFID market.

First improvements, however, became already visible in various fields during the third quarter 2010. SMARTRAC's site in the United States further improved its contribution to the Group's financial figures and the production location in Brazil also continued its successful path. The burden related to the ramp-up of operations in Malaysia stabilized in the course of the third quarter. Operational measures in SMARTRAC's core production plants in Thailand started to deliver first positive effects, too. Nevertheless, the implemented measures will require additional time to unfold their full potential.

EBITDA from January to September increased by 43 percent from EUR 10.9 million in 2009 to EUR 15.7 million in 2010, representing an EBITDA margin of 12 percent similar to the EBITDA margin a year ago. EBITDA for the first nine months of 2010 excluded extraordinary first legal and financial costs related to the strategic cooperation with One Equity Partners (OEP). Profit for the nine-month period increased by 92 percent, from EUR 3.1 million in 2009 to EUR 5.9 million in 2010.

Strategic cooperation between SMARTRAC and One Equity Partners

On August 30, 2010, SMARTRAC and One Equity Partners (OEP) announced the signing of a foundation agreement to enter into a strategic cooperation. It was the deliberate intention of the SMARTRAC Management Board to take on board a long-term committed, strong financial partner and anchor investor to financially back up the company's further growth. OEP is considered to be an ideal partner for SMARTRAC to support the company's proven strategy and business model with the established technology platform, production network, broad product offering and focus on customer needs. In addition, SMARTRAC will be able to benefit from OEP's network and M&A expertise.

The foundation agreement comprises various measures, which predominantly had been executed after the reporting period or are currently taking place:

1. Public tender offer

On October 11, OEP Technologie B.V. published a public tender offer for all SMARTRAC shares at an offer price of EUR 20.00 per share. The acceptance period for the Offer began upon publication of the Offer Document and will end at midnight on November 8, 2010. An additional acceptance period is expected to commence on November 13, 2010 and to end at midnight on November 26, 2010. The Management Board and the Supervisory Board recommend to the SMARTRAC shareholders that they carefully consider the Offer Document.

The Management Board and Supervisory Board support the Offer and have outlined their considerations in statements as required by Dutch and German law. The statements have been published on October 14, 2010, and are available on the SMARTRAC website.

An Extraordinary General Meeting of Shareholders was held in Amsterdam on October 21, 2010. The shareholders present or represented at the meeting held 7,205,175 shares and represented 44.11 percent of the issued share capital of 16,334,997 shares. The Management Board informed the Extraordinary General Meeting of Shareholders about the foundation agreement and the Public Tender Offer of OEP Technologie B.V. and discussed the Offer in accordance with article 18 of the Dutch Decree on Public Tender Offers.

The SMARTRAC Management Board and the Supervisory Board not only support the Offer by recommending to SMARTRAC shareholders to accept the Offer, but also accepted the Offer for shares they held: On October 22, 2010, Dr. Christian Fischer, CEO and Member of the Management Board, accepted the Offer for 98,035 SMARTRAC shares he holds. His wife accepted the Offer for the 10,000 SMARTRAC shares she holds on the same day.

Manfred Rietzler, CTO and one of the co-founders of SMARTRAC, and ICM Netherlands B.V. (ICM), an entity controlled by Manfred Rietzler, have accepted the Offer for 460,350 SMARTRAC shares on October 22, 2010. In addition, he has also entered into a Pooling and Lock-up Agreement with OEP Technologie B.V. with regard to his remaining holding of 1,569,650 shares.

The members of Supervisory Board holding SMARTRAC shares also intend to accept the Offer for their holding of 1.785 shares in total.

Each shareholder of SMARTRAC N.V. must make his own decision as to whether or not to accept the Offer. As of October 29, 2010 the Offer has been accepted for 2,904,718 shares representing 17.78 percent of the total issued share capital of 16,334,997 shares.

2. Capital Increase

As part of the foundation agreement, SMARTRAC conducted a 10 percent capital increase on October 15, 2010 issuing 1,484,998 new bearer shares which were fully signed by OEP Technologie B.V. at an issue price of EUR 17.50 payable in cash. Consequently, SMARTRAC increased its share capital from EUR 7,424,999.50 (14,849,999 bearer shares) to EUR 8,167,498.50 (16,334,997 bearer shares), excluding the subscription rights of shareholders. SMARTRAC took in gross proceeds in the amount of approximately EUR 26.0 million.

3. Expansion of the Supervisory Board
The Extraordinary General Meeting of Shareholders appointed Mr. Christopher von Hugo and Dr. Jörg Zirener, both Managing Directors of One Equity Partners Europe GmbH, as additional members of the Supervisory Board of SMARTRAC. Both appointments were approved by 100 percent of the votes cast. Following the appointment, the Supervisory Board consist of five members providing supervision and advice to the SMARTRAC Management Board.

SMARTRAC 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.

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. The position as the leading supplier of RFID transponders for e-Passports was strengthened in the course of the third quarter when SMARTRAC started volume production for a project resulting from the framework agreement with De La Rue Identity Systems. The Business Unit eID has also worked continuously on securing projects in e-Passport as well as national e-ID card tenders around the world including smaller sized projects as well as interesting volume projects.

Shipment volumes and capacity utilization for the U.S. e-Passport project were sustainable at a level to supply the underlying demand. The production and shipment of high-security e-Passport inlays in SMARTRAC's certified high-security production facility in Chanhassen, Minnesota, surpassed the milestone of 1 million units in a single month for the first time in July 2010. In addition to the progressive ramp-up of capacity and the workforce in the United States, the expansion of SMARTRAC's global high-security RFID inlay production network for e-ID products progressed according to schedule. The new production facility for the production of highly secure RFID inlays for electronic identification documents in Reichshof-Wehnrath, Germany, is expected to ramp up in the first quarter of 2011.

Sales of the Business Unit eID increased from EUR 29.4 million in the first nine months of 2009 to EUR 42.9 million in the same period of 2010. The supply of existing and the ramp-up of new projects accounted for 46 percent sales growth in the period January to September 2010.

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.

Continuous strong receipt of orders resulted in a high utilization of the production lines of the Business Unit Cards in the third quarter. Therefore, the business unit increased production capacity for the company's patent-protected wire-embedding technology to address the strong market demand.

Once again, the e-Payment application was the main driver of the positive development. In the period January to September 2010, shipment volumes of SMARTRAC's high-quality, dependable and durable PRELAM® and dual-interface card inlays for e-Payment applications increased by 57 percent compared to the same period last year. Besides a strong position in the North American market and in Asia, SMARTRAC gained momentum in additional regions of the world and accelerated its leading market position in the e-Payment business.

In the area of public transport systems and access control applications, SMARTRAC reported favorable performance with increasing demand for existing as well as new projects, resulting in a 26 percent sales growth in the most mature market of the RFID industry.

In total, the Business Unit Cards reported favorable sales growth of 36 percent in the nine month period ended September 30, 2010. Sales of the business unit increased from EUR 40.8 million in the first nine months of 2009 to EUR 55.3 million in the same period 2010.

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 third quarter 2010, the automotive business showed the usual seasonality over the summer period which resulted in a normal subsequent decline of sales. Looking at the reporting period from January to September, the automotive business achieved 51 percent growth compared to the same period a year ago.

The non-automotive business of the Business Unit Industry & Logistics accelerated its growth momentum and increased sales by 62 percent compared to the same period a year ago. Growth mainly resulted from additional projects and volume orders in the area of animal identification.

Due to accelerated growth in non-automotive applications and higher sales related to the recovery in the automotive business, sales in the Business Unit Industry & Logistics increased by 56 percent compared to last year's figure. In the nine-month period ended September 30, the Business Unit Industry & Logistics was the fastest growing business unit of the SMARTRAC Group, reporting sales of EUR 26.2 million in the first nine months of 2010 compared to EUR 16.9 million a year ago.

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. In the third quarter, the new operations team addressed the operational and organizational challenges, focusing on the antenna production process as well as the successive production procedures. With continuously rising market demand, the business unit increased its capacity for mass production in Malaysia progressively to meet customer demand and expectations. In addition to the established media management, ticketing and pharmaceutical applications, the business unit focused on the qualification processes of new high-volume applications to reduce complexity and contribute to further growth in the coming year.

In 2010, the Business Unit Tickets & Labels reported a sales increase of 11 percent compared to the same period of 2009. Sales of the Business Unit Ticket & Labels accounted for EUR 5.7 million in the first nine months of 2010 compared to EUR 5.2 million in 2009.

The SMARTRAC share

In the first nine months of 2010, the SMARTRAC share price developed in a range between EUR 12.95 (June 8, 2010) and EUR 20.00 (August 31, 2010). Starting at EUR 15.00 at the beginning of the year, the SMARTRAC share price closed the nine-month period at EUR 19.88 on September 30, 2010. This represents an increase of 33 percent in the period under review compared to a 5 percent increase of the German DAX and a decrease of 4 percent of the TecDAX. Main driver of the performance was the publication of the decision to launch an offer to the SMARTRAC shareholders at an offer price of EUR 20.00 by One Equity Partners on August 30, 2010. Since the announcement, the SMARTRAC share traded at around EUR 20.00 or slightly below this level. In the three months from July to September, the SMARTRAC share increased by 38 percent and the development can mainly be ascribed to the announcement of the intended public offer.

Trading volumes in SMARTRAC shares significantly increased in the third quarter of 2010. Once again, this was related to the announcement of the public tender offer. On August 30, 2010, SMARTRAC observed the highest trading volume in the stock market history of the company. 878,417 shares were traded on the XETRA trading platform, more than three times higher than the highest volume so far (252,803 on July 15, 2008). Consequently, the average number of shares traded per day on the XETRA trading platform in the period between January and September 2010 increased to some 89,000 shares compared to some 33,000 shares a year ago.

On September 30, 2010, SMARTRAC N.V. held 192,050 shares in treasury stock, representing 1.29 percent of the share capital as of recording date (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 26 of the report. As of October 29, 2010 SMARTRAC held no treasury stock.

In terms of SMARTRAC's shareholder structure as of September 30, 2010, Manfred Rietzler, the founder and CTO of SMARTRAC, continued to hold an interest of 13.67 percent in the company. As of September 30, 2010, the free float according to Deutsche Börse amounted to 85.01 percent. Within the free float, BNP Paribas Investment Partners SA disclosed on August 30, 2010 that its interest had decreased from 11.29 percent to 9.45 percent. In the third quarter 2010, Schroder plc, London, reduced its interest in SMARTRAC, holding no shares of the company as of the record date. 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, and disclosed on August 10, 2010 that the interest in SMARTRAC had fallen below the threshold of 5 percent to 4.85 percent. On August 30, 2010, Joh. Berenberg, Gossler & Co KG (Berenberg Bank) exceeded the threshold of 5 percent, amounting to 6.7 percent, and on September 1, 2010, the threshold of 10 percent was exceeded (11.89 percent). Subsequent to the reporting period, Berenberg Bank announced that on October 14, 2010, the interest in SMARTRAC had fallen below the thresholds of 5 percent and 10 percent, amounting to 1.29 percent.

On September 1, 2010 JP Morgan Chase & Co indirectly via OEP Technologie B.V. exceeded the threshold of 5 percent, amounting to 9.26 percent. Subsequent to the reporting period on October 13, 2010 the Pooling and Lock-up Agreement between Manfred Rietzler and OEP Technology B.V. entered into effect after all completion conditions of the Offer Document had been fulfilled on that day. Therefore Manfred Rietzler and JP Morgan Chase & Co disclosed voting rights announcements on October 13, 2010. On that day, Manfred Rietzler disclosed that his voting rights exceeded the threshold of 15 percent and 20 percent, amounting to 21.75 percent, of which 8.08 percent result from the Pooling and Lock-up Agreement with OEP Technologie B.V. Respectively, JP Morgan Chase & Co disclosed that its voting rights in SMARTRAC indirectly via OEP Technologie B.V. exceeded the thresholds of 10 percent and 15 percent, amounting to 19.83 percent, of which10.57 percent result from the Pooling and Lock-up Agreement with Manfred Rietzler.

On October 15, 2010 a capital increase consisting of the issuance of 1,484,998 new bearer shares completely signed by OEP Technologie B.V. was executed and resulted in voting rights announcements of Manfred Rietzler and JP Morgan Chase & Co. On that day, Manfred Rietzler exceeded the threshold of 25 percent, amounting to 28.86 percent, of which 16.44 percent result from the Pooling and Lock-up Agreement with OEP Technologie B.V. JP Morgan Chase & Co disclosed that its voting rights in SMARTRAC indirectly via OEP Technologie B.V. exceeded the thresholds of 20 percent and 25 percent, amounting to 27.12 percent, of which 9.61 percent result from the Pooling and Lock-up Agreement with Manfred Rietzler.

On October 22, 2010, Manfred Rietzler accepted the Offer from OEP Technologie B.V. for 2.82 percent of his stake, reducing his shareholding to 9.61 percent and his voting rights including the assigned voting rights from OEP Technologie B.V. to 26.05 percent.

In the third quarter 2010, analysts' valuation models were adjusted and some price targets and recommendations were changed following the publication of the results for the first half of 2010 and the increase in guidance. As of September 30, 2010, seven brokers cover SMARTRAC and provide regular updates on the financial figures and operational developments of the company to the capital markets. With the announcement of the decision to launch an Offer at EUR 20.00 and the respective share price movement, price targets of the analysts were reached and therefore recommendations were downgraded. Currently, five analysts rate the SMARTRAC share as a "hold/neutral". One analyst recommends to "sell" the share and one rates the stock as an "outperform". Price targets are between EUR 13.50 and EUR 22.00 resulting in an average of EUR 19.50.

Financial performance

SMARTRAC reported 42 percent sales growth from January to September 2010

Group sales of EUR 130.9 million in the first nine months of 2010 represented an increase of 42 percent compared to sales of EUR 92.2 million in the first nine months of 2009. Due to increased sales, Group EBITDA of EUR 15.7 million for January to September 2010 increased by 43 percent, compared to EBITDA of EUR 10.9 million for the same period in 2009. The Group EBITDA excluded first legal and financial costs related to the strategic cooperation with One Equity Partners in an amount of EUR 0.13 million. In the nine-month period ended September 30, 2010, SMARTRAC's profitability was again significantly burdened by the ramp-up of operations in Malaysia.

SMARTRAC reported a negative net financial result of EUR 2.1 million in the nine-month period 2010 compared to a negative net financial result of EUR 1.4 million a year ago. The negative net effect in 2010 predominantly resulted from exchange rate movements attributable to the U.S. dollar in the third quarter and from interest expenses related to the syndicated credit facility.

Profit for the reporting period increased by 92 percent from EUR 3.1 million in 2009 to EUR 5.9 million in 2010. For the first nine-month period ended September 30, 2010, SMARTRAC reported a total comprehensive income of EUR 7.6 million, which represents an increase of 197 percent compared to EUR 2.6 million for the same period in 2009.

Segment development

In the Security segment (Business Units Cards and eID), sales in the first nine months of 2010 amounted to EUR 98.2 million, which represents a growth of 41 percent compared to sales of EUR 69.7 million in the same period of the previous year. The proportion of the Security segment within the Group's product mix amounted to 75 percent of total Group sales in the first nine months of

2010 compared to 76 percent in the same period 2009. Customer-driven, increased microchip sourcing, especially in the Business Unit eID, resulted in a sub-proportional development of the segment EBITDA. In the nine-month period January to September, segment EBITDA increased by 14 percent from EUR 11.7 million in 2009 to 13.4 million in 2010.

In the Industry segment (Business Units Industry & Logistics and Tickets & Labels) SMARTRAC achieved sales of EUR 31.9 million in the first nine months of 2010. This represents an increase of 47 percent compared to sales of EUR 21.7 million in the previous year. The importance of the Industry segment within the Group's product mix remained at 24 percent of total Group sales. The favorable growth in the non-automotive business and the recovery of the automotive business, compared to last year's global economic crisis, in the Business Unit Industry & Logistics, were the main drivers for the segment growth. With EBITDA of EUR 2.1 million in the first nine months of 2010, the Industry segment provided an increased positive contribution to the Group EBITDA compared to an EBITDA of EUR 1.1 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 September 30, 2010, total assets amounted to EUR 222.9 million compared to EUR 208.3 million as of December 31, 2009. The increase in total assets was predominantly related to the increase in Working Capital and the increase in production capacity.

Inventories increased by 41 percent from EUR 21.3 million at year-end 2009 to EUR 30.0 million at the end of September 2010. The increase in inventories was, among others, attributable to the capacity situation of the microchip suppliers resulting in the decision to make use of the strong position of SMARTRAC to purchase microchips. In addition, the level of raw material stock increased in order to support the continued high production utilization. Trade receivables increased by 15 percent from EUR 33.8 million to EUR 38.9 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 28 percent from EUR 38.8 million to EUR 28.1 million, mainly attributable to cash flow used in investing activities.

Predominantly related to the accelerated growth, Working Capital increased by EUR 9.8 million in comparison to December 31, 2009, to EUR 40.8 million as of September 30, 2010. Looking at the amount of EUR 42.0 million as of June 30, 2010 the implemented measures to control Working Capital resulted in a sequential decline in Working Capital despite the ongoing strong growth.

As of September 30, 2010, SMARTRAC's Group equity amounted to EUR 132.6 million. This represents a 6 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. Taking the capital increase of October 15, 2010 into consideration, the equity ratio would have amounted to 64 percent with a net cash position.

Cash flow statement

Cash provided by operating activities amounted to EUR 5.4 million for the first nine months of 2010, compared to cash provided of EUR 7.4 million for the same period in the previous year. Despite an increased net profit in the first nine months 2010 compared to 2009, the disproportionately higher increase in Working Capital compared to the sales growth in the nine-month period 2010 resulted in the lower cash flow from operating activities in 2010 compared to 2009. Taking into account interest paid and received as well as payments for income taxes, the net cash provided by operating activities in the first nine months of 2010 amounted to EUR 2.8 million compared to net cash provided by operating activities of EUR 4.9 million in 2009.

Net cash used in investing activities amounted to EUR 13.5 million as of September 30, 2010, compared to net cash used of EUR 0.2 million for the same period of 2009. This development in 2010 was predominantly affected by capital expenditure in property, plant and equipment of EUR 9.7 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 2.4 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 3.6 million in the first nine months of 2009. In 2010, the financing activities were related to repayments of interest-bearing loans and borrowings in subsidiaries.

Business outlook

Effective November 1, 2010, Martin Kuschewski, Head of Business Unit eID, and Markus Spreng, Head of Business Unit Industry & Logistics, will be appointed to the Group Executive Team. The Management Board and the Supervisory Board are convinced that the enlarged SMARTRAC Group Executive Team and the two additional members of the Supervisory Board will support the further development of SMARTRAC.

Due to market dynamics and the continued strong business development in the first nine months of 2010, the Management is confident with regard to the final quarter of 2010 and the year 2011. SMARTRAC will benefit from its leading position as developer, manufacturer and supplier of RFID transponders and the investments in additional capacity. Therefore, the Management today increases its sales guidance for 2010 once more. Sales for the full year 2010 are expected to exceed EUR 175 million (previously: EUR 165 million) projecting at least 37 percent growth compared to sales of EUR 127.9 million in 2009.

The Management is convinced to be able to report improvements of the operational performance in the last quarter of 2010. However, it is currently difficult to foresee when the adjustments and adopted measures will positively affect SMARTRAC's overall profitability. Therefore, the Management will report an EBITDA for the fourth quarter 2010 which is expected to be reported in the range of the third quarter 2010. According to the company's definition of EBITDA, extraordinary, non-recurring legal and financial costs related to the public tender offer by OEP Technologie B.V. will be excluded. The Management is convinced that the projected improvement will only be postponed until the operational and organizational measures unfold their full potential and that the strong top-line performance will be turned into higher profitability in the coming quarters of 2011.

SMARTRAC is very well positioned to further benefit from the strong demand and to transform the favorable market development into profitable growth. With One Equity Partners as a strong financial partner, SMARTRAC will intensively continue to work on the opportunities provided by the global RFID market as well as on the consolidation of the RFID industry. SMARTRAC has the financial strength, the dedicated business model and the committed team to execute its strategy.

For the Management Board

Dr. Christian Fischer
Amsterdam, October 2010

Condensed consolidated interim financial information for the nine months ended September 30, 2010

Condensed consolidated interim statement of comprehensive income

For the nine and three months ended September 30, 2010 (2009)

In thousands of EUR	Note	Consolidated three months ended September 2010	Consolidated three months ended September 2009	Consolidated nine months ended September 2010	Consolidated nine months ended September 2009
Revenue	5	50,162	33,107	130,928	92,194
Cost of sales		(38,036)	(23,103)	(97,340)	(64,782)
Gross profit	5	**12,126**	**10,004**	**33,588**	**27,412**
Administrative expenses		(9,079)	(7,625)	(25,728)	(22,295)
Other operating income (expenses)		67	(116)	132	(205)
Total operating expenses		**(9,012)**	**(7,741)**	**(25,596)**	**(22,500)**
Operating profit before financial income (expenses)		**3,114**	**2,263**	**7,992**	**4,912**
Financial income		853	812	9,644	3,296
Financial expenses		(3,862)	(1,679)	(11,736)	(4,699)
Net financial expenses	6	**(3,009)**	**(867)**	**(2,092)**	**(1,403)**
Profit before tax		**105**	**1,396**	**5,900**	**3,509**
Income tax benefit (expenses)	7	52	(147)	26	(415)
Profit for the period attributable to the owners of the parent		**157**	**1,249**	**5,926**	**3,094**
Foreign exchange translation		(918)	(294)	1,712	(524)
Other comprehensive income (loss), net of tax		**(918)**	**(294)**	**1,712**	**(524)**
Total comprehensive income for the period attributable to the owners of the parent		**(761)**	**955**	**7,638**	**2,570**
Basic earnings per share (EUR)	8	0.01	0.09	0.40	0.23
Diluted earnings per share (EUR)	8	0.01	0.09	0.40	0.23

The accompanying notes (on page 16 to 31) are an integral part of the condensed consolidated interim financial information.

Condensed consolidated interim balance sheet
As at September 30, 2010 (and December 31, 2009)

In thousands of EUR	Note	Consolidated September 30, 2010	Consolidated December 31, 2009
Assets			
Intangible assets	10	62,807	61,302
Property, plant and equipment	9	51,600	45,502
Other investments		–	426
Deferred tax assets		2,659	2,422
Other non-current assets		915	885
Total non-current assets		**117,981**	**110,537**
Inventories		29,961	21,268
Trade receivables		38,862	33,756
Current income tax		967	1,150
Other current assets		6,385	2,224
Short-term investments		591	591
Cash and cash equivalents		28,118	38,819
Total current assets		**104,884**	**97,808**
Total assets		**222,865**	**208,345**
Equity			
Share capital		7,425	7,425
Share premium		74,879	75,047
Translation reserve		1,657	(55)
Retained earnings		54,473	48,547
Treasury stock	11	(5,790)	(6,344)
Total equity attributable to equity holders of the company		**132,644**	**124,620**
Liabilities			
Secured loans	13	50,584	50,532
Employee benefits		480	396
Deferred tax liabilities		3,097	3,343
Other non-current liabilities		286	1,598
Total non-current liabilities		**54,447**	**55,869**
Bank overdraft		8	5
Current portion of secured loans	13	401	490
Trade and non-trade payables		28,265	20,188
Current income tax		647	682
Provisions		124	432
Other current liabilities		6,329	6,059
Total current liabilities		**35,774**	**27,856**
Total liabilities		**90,221**	**83,725**
Total equity and liabilities		**222,865**	**208,345**

The accompanying notes (on page 16 to 31) are an integral part of the condensed consolidated interim financial information.

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

In thousands of EUR	Note	Consolidated nine months ended September 2010	Consolidated nine months ended September 2009
Cash flows from operating activities			
Net profit		5,926	3,094
Reconciliation of net profit to net cash provided by (used in) operating activities:			
Income tax expenses	7	(26)	415
Depreciation and amortization	5	7,515	6,004
Impairment on fixed assets		19	–
Equity-settled share-based payment transactions		344	892
Interest income	6	(96)	(315)
Interest expense	6	2,594	1,677
Other non-cash items		(176)	(38)
Changes in operational assets and liabilities			
Other non-current assets		(30)	62
Inventories		(8,818)	1,100
Trade receivables		(4,630)	(7,337)
Other current assets		(3,859)	(1,349)
Employee benefits		84	66
Trade and non-trade payables		6,877	2,460
Deferred tax liabilities		(118)	–
Other current liabilities and provisions		(246)	620
Cash provided by operating activities		**5,360**	**7,351**
Interest paid		(2,209)	(2,215)
Interest received		88	283
Income taxes paid		(441)	(546)
Net cash provided by operating activities		**2,798**	**4,873**
Cash flows from investing activities			
Purchases of property, plant and equipment		(9,667)	(3,170)
Purchases of intangible assets		(2,425)	(2,381)
Proceeds from sales of equipment		211	451
Other investments		–	(11)
Cash payments on purchase of consolidated subsidiaries, net of cash purchased		(1,306)	–
Cash proceeds on sale of short-term investments		–	4,880
Loans made to other parties		(294)	–
Net cash used in investing activities		**(13,481)**	**(231)**
Cash flows from financing activities			
Proceeds from interest-bearing loans and borrowings and secured loans		6	49,936
Repayments of interest-bearing loans and borrowings and secured loans		(294)	(53,545)
Proceeds from exercise of share options	11	42	–
Net cash used in financing activities		**(246)**	**(3,609)**
Net change in cash and cash equivalents and bank overdrafts		(10,929)	1,033
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		225	(50)
Cash and cash equivalents and bank overdrafts at September 30		**28,110**	**23,162**

The accompanying notes (on page 16 to 31) are an integral part of the condensed consolidated interim financial information.

Condensed consolidated interim statement of changes in shareholders' equity

For the nine months ended September 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		–	–	–	3,094	–	3,094
Other comprehensive income (loss), net of tax		–	–	(524)	–	–	(524)
Total comprehensive income of the period		**–**	**–**	**(524)**	**3,094**	**–**	**2,570**
Share-based payment – options	12	–	727	–	–	–	727
Share-based payment – shares	11	–	(546)	–	–	753	207
Share-based acquisition	11	–	(1,995)	–	–	1,995	–
Balance as at September 30, 2009		**6,750**	**55,097**	**(426)**	**46,580**	**(6,344)**	**101,657**
Balance as at January 1, 2010		**7,425**	**75,047**	**(55)**	**48,547**	**(6,344)**	**124,620**
Net profit for the period		–	–	–	5,926	–	5,926
Other comprehensive income (loss)		–	–	1,712	–	–	1,712
Total comprehensive income of the period		**–**	**–**	**1,712**	**5,926**	**–**	**7,638**
Share-based payment – options	12	–	191	–	–	–	191
Share options exercised	11	–	(33)	–	–	75	42
Share-based payment – shares	11	–	(326)	–	–	479	153
Balance as at September 30, 2010		**7,425**	**74,879**	**1,657**	**54,473**	**(5,790)**	**132,644**

The accompanying notes (on page 16 to 31) are an integral part of the condensed consolidated interim financial information.

Notes to the condensed consolidated interim financial information for the nine months ended September 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%
Jointly controlled entity				
Citywish Investments Ltd.	China	July 2, 2010	Trading/Holding	30%

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 the 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.

Investments

In the course of the third quarter of 2010, SMARTRAC TECHNOLOGY HONG KONG Ltd. and Mr. Chen Shyan Tser established the jointly controlled entity Citywish Investments Ltd. (Citywish) in which SMARTRAC has an interest of 30 %.

The aggregate amounts of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to the 30 % interest in Citywish are immaterial. The unrecognized share of losses of the jointly controlled entity, both for the three months and nine months ended 2010, amounts to EUR 80,000.

The business scope of Citywish is trading and making investment in mainland China.

SMARTRAC recognizes its interest in Citywish using the equity method.

Employees

As at September 30, 2010, the Group employed 3,435 employees (3,325 as of June 30, 2010; 2,670 as of September 30, 2009; 2,543 as of June 30, 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 October 29, 2010. The condensed consolidated interim financial statements for the period ended September 30, 2010 were not subject to a limited interim review.

3. 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 recognized 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.

4. 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.

5. Segment reporting

Consolidated segment information by business segments for the nine months ended September 2010 (2009)

	Security		Industry		All other		Eliminations		Consolidated	
In thousands of EUR	Nine months ended Sep 2010	Nine months ended Sep 2009	Nine months ended Sep 2010	Nine months ended Sep 2009	Nine months ended Sep 2010	Nine months ended Sep 2009	Nine months ended Sep 2010	Nine months ended Sep 2009	Nine months ended Sep 2010	Nine months ended Sep 2009
Segment revenue										
Revenue from external customers	98,202	69,618	31,895	21,650	831	926	–	–	130,928	92,194
Revenue from transactions with other segments	3	76	2	9	2,223	1,321	(2,228)	(1,406)	–	–
Total revenue	**98,205**	**69,694**	**31,897**	**21,659**	**3,054**	**2,247**	**(2,228)**	**(1,406)**	**130,928**	**92,194**
Segment result										
Gross profit	25,767	22,202	7,168	4,746	1,046	464	(393)	–	33,588	27,412
Operating income (expenses)	(16,383)	(13,733)	(8,228)	(6,082)	(975)	(2,685)	(10)	–	(25,596)	(22,500)
Operating profit (loss)	9,384	8,469	(1,060)	(1,336)	71	(2,221)	(403)	–	7,992	4,912
Financial result									(2,092)	(1,403)
Profit before tax (expense) benefit									**5,900**	**3,509**
Income tax (expense) benefit									26	(415)
Group profit for the period									**5,926**	**3,094**
Supplemental information										
Operating profit (loss)	9,384	8,469	(1,060)	(1,336)	71	(2,221)	(403)	–	7,992	4,912
Depreciation, amortization and impairment	3,989	3,265	3,116	2,426	508	313	(79)	–	7,534	6,004
Extraordinary items[2]	–	–	–	–	130	–	–	–	130	–
Segment EBITDA[1]	**13,373**	**11,734**	**2,056**	**1,090**	**709**	**(1,908)**	**(482)**	**–**	**15,656**	**10,916**

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.

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) Legal and financial consultancy with regard to the ongoing voluntary public takeover offer for SMARTRAC.

Revenues by subsegment were as follows:

In thousands of EUR	Consolidated nine months ended September 2010	Consolidated nine months ended September 2009
Segment Security		
eID	42,941	29,439
Cards	55,264	40,781
Intrasegment eliminations	–	(526)
Subtotal	**98,205**	**69,694**
Segment Industry		
Tickets & Labels	5,703	5,160
Industry & Logistics	26,243	16,853
Intrasegment eliminations	(49)	(354)
Subtotal	**31,897**	**21,659**
Segment All Other	**3,054**	**2,247**
Intersegment eliminations	(2,228)	(1,406)
Total	**130,928**	**92,194**

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 2010	Consolidated nine months ended September 2009
Revenues		
Asia	24,639	13,294
Europe	66,368	51,399
Latin America	8,313	5,637
North America	31,148	21,271
Others	460	593
Total revenues	**130,928**	**92,194**

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

In thousands of EUR	Consolidated nine months ended September 2010	Consolidated nine months ended September 2009
Revenues		
Total revenue for reportable segments	130,102	91,353
Other revenue	3,054	2,247
Elimination of intersegment revenue	(2,228)	(1,406)
Consolidated revenue	**130,928**	**92,194**
Profit or loss		
Total EBITDA for reportable segments	15,429	12,824
Other EBITDA	709	(1,908)
Elimination of intersegment profits	(482)	–
All EBITDA	**15,656**	**10,916**
Unallocated amounts:		
Financial result	(2,092)	(1,403)
Depreciation, amortization and impairment	(7,534)	(6,004)
Extraordinary items	(130)	–
Consolidated profit before income tax	**5,900**	**3,509**

6. Net financial expenses

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

In thousands of EUR	Consolidated three months ended September 2010	Consolidated three months ended September 2009	Consolidated nine months ended September 2010	Consolidated nine months ended September 2009
Change in fair value	828	–	1,042	97
Interest income	25	55	96	315
Foreign exchange gains	–	757	8,506	2,884
Financial income	**853**	**812**	**9,644**	**3,296**
Change in fair value	(202)	(79)	(1,329)	(432)
Interest expenses	(865)	(647)	(2,594)	(1,677)
Bank charges	(126)	(162)	(445)	(404)
Foreign exchange losses	(2,669)	(791)	(7,368)	(2,186)
Financial expenses	**(3,862)**	**(1,679)**	**(11,736)**	**(4,699)**
Net financial expenses	**(3,009)**	**(867)**	**(2,092)**	**(1,403)**

7. Corporate income tax

Recognized in income statement

In thousands of EUR	Consolidated three months ended September 2010	Consolidated three months ended September 2009	Consolidated nine months ended September 2010	Consolidated nine months ended September 2009
Current corporate tax expense	(349)	(464)	(457)	(485)
Deferred tax benefit	401	317	483	70
Income tax benefit (expense)	**52**	**(147)**	**26**	**(415)**

Reconciliation of effective income tax charge

In thousands of EUR	Consolidated three months ended September 2010	Consolidated three months ended September 2009	Consolidated nine months ended September 2010	Consolidated nine months ended September 2009
Profit before tax	**105**	**1,396**	**5,900**	**3,509**
Expected tax expense based on rate of 25.5 % (2009: 25.5 %)	(27)	(356)	(1,505)	(895)
Change in tax rate	(136)	–	(68)	–
Tax rate differences in foreign jurisdictions	(768)	105	(422)	109
Tax-exempt income relating to promotional privileges	250	913	2,512	2,307
Non-deductable expenses	(14)	–	(14)	–
Non-recognition of tax benefits on losses incurred	251	(752)	(927)	(1,853)
Use of tax loss carry forward previously unrecogniczed	458	–	458	–
Withholding tax reversal	–	–	–	(23)
Current taxes for prior years	82	–	16	–
Others	(44)	(57)	(24)	(60)
Effective income tax benefit (expense)	**52**	**(147)**	**26**	**(415)**

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.

8. Earnings per share

Profit attributable to ordinary shareholders

The calculation of basic and diluted earnings per share for the period ended September 30, 2010 is based on the profit attributable to ordinary shareholders and amounts to EUR 0.2 million for three months and EUR 5.9 million for nine months ended September 30, 2010 (three months ended September 30, 2009: EUR 1.2 million and nine months ended September 30, 2009: EUR 3.1 million).

Basic earnings per share

In thousands of EUR and shares, except earnings per share	Consolidated three months ended September 2010	Consolidated three months ended September 2009	Consolidated nine months ended September 2010	Consolidated nine months ended September 2009
Profit attributable to ordinary shareholders	157	1,249	5,926	3,094
Weighted average number of outstanding ordinary shares	14,656	13,289	14,652	13,269
Earnings per share (EUR)	**0.01**	**0.09**	**0.40**	**0.23**

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 September 2010	Consolidated nine months ended September 2010
Weighted average number of outstanding ordinary shares	14,656	14,652
Effect of potential dilutive shares:		
Share options	60	51
Weighted average number of ordinary and dilutive shares	**14,716**	**14,703**

Diluted earnings per share

In thousands of EUR and shares, except earnings per share	Consolidated three months ended September 2010	Consolidated nine months ended September 2010
Profit attributable to ordinary shareholders	157	5,926
Weighted average number of ordinary and dilutive shares	14,716	14,703
Diluted earnings per share (EUR)	**0.01**	**0.40**

9. Property, plant and equipment

Acquisitions

During the nine months ended September 30, 2010 the Group acquired tangible assets (accrual method) totalling EUR 10.5 million (nine months ended September 30, 2009: EUR 3.2 million).

10. Intangible assets

Development costs

Intangible assets include capitalized development costs (carrying amount) amounting to EUR 5.9 million as at September 30, 2010 (as at September 30, 2009 EUR 3.8 million).

11. 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. In March 2010, SMARTRAC granted 9,918 bonus shares (2009: 19,941 bonus shares) to a member of the Management Board and selected employees. Additionally, in August 2010, SMARTRAC granted 983 shares to a selected employee decreasing the treasury stock in total by EUR 479,000 (2009: EUR 753,000). Furthermore, 2,500 vested options of the Stock Option Scheme 2006 were exercised at an exercise price of EUR 17 and decreased the treasury stock by EUR 75,000.

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
August 2010 (bonus shares rendered)	(983)	30.14
September 2010 (exercise of share options)	(2,500)	30.14
Movement current year	**(18,401)**	**30.14**
Total as at September 30, 2010	**192,050**	**30.14**

12. Share-based payment

Stock option scheme

Total expenses for the SMARTRAC stock option schemes are recorded during the three months ended September 30, 2010 and during the nine months ended September 30, 2010. 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 and tranche nine is based on the SMARTRAC NV Stock Option Scheme 2010. It includes non-market performance conditions and a service condition. The calculation of tranche eight is based on the SMARTRAC NV 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 September 2010	Consolidated three months ended September 2009	Consolidated nine months ended September 2010	Consolidated nine months ended September 2009
Tranche 1	–	–	–	–
Tranche 2	–	(15)	–	116
Tranche 3	–	177	–	506
Tranche 4	(7)	21	35	56
Tranche 5	19	20	55	47
Tranche 6	5	2	12	2
Tranche 7	29	–	43	–
Tranche 8	34	–	46	–
Tranche 9	–	–	–	–
Total expenses	**80**	**205**	**191**	**727**

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, eighth and ninth tranche was based on the average price of the shares (based on the XETRA closing valuations) 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
Tranche 9	14.84	Aug 4, 2010	14.95	63 %	5 %	0.93 %	Aug 4, 2017

* The options of the fourth tranche have lapsed due to the non-fulfillment of the market conditions.

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
Tranche 9	6.31

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 o exercise.
During the third quarter of 2010, 2,500 vested stock options were exercised (2009: none).

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 15,901 shares during the first nine months of 2010 (nine months ended September 2009: decrease in treasury stock by 24,941 shares).

13. Secured loans

As at September 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.

14. 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.

15. Related parties

Related party transactions

The Group has the following transactions with related parties:

Transaction value in thousands of EUR	Three months ended September 2010	Three months ended September 2009	Nine months ended September 2010	Nine months ended September 2009
Sales				
Bibliotheca	1,438	–	3,307	–
Citywish Investments Ltd.*	–	–	–	–
Total sales	**1,438**	**–**	**3,307**	**–**
Cost recharge				
Bibliotheca	–	–	–	–
Citywish Investments Ltd.	267	–	267	–
Total cost recharge	**267**	**–**	**267**	**–**

* Please refer to note 1 'Investments'.

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

In thousands of EUR	Consolidated Sep 30, 2010	Consolidated Dec 31, 2009
Trade and non trade receivables		
Bibliotheca	1,352	437
Citywish Investments Ltd.	267	–
Total trade and non trade receivables	**1,619**	**437**
Other current assets		
Bibliotheca	–	–
Citywish Investments Ltd.	294	–
Total other current assets	**294**	**–**

Bibliotheca RFID Library Systems AG

SMARTRAC sells products for library solutions to Bibliotheca RFID Library Systems AG (Bibliotheca), Switzerland. Bibliotheca is a company indirectly controlled by Mr. Manfred Rietzler. Amounts were billed based on normal market rates for such products and were due and payable under normal payment terms.

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.

16. Subsequent events

Capital increase
On October 15, 2010, the Company increased its share capital from EUR 7,424,999.50 (14,849,999 bearer shares) to EUR 8,167,498.50 (16,334,997 bearer shares), excluding the subscription rights of shareholders.

The capital increase consisted of the issuance of 1,484,998 new bearer shares. All new shares were subscribed by OEP Technologie B.V. (OEP), Amsterdam, The Netherlands, at an issue price per share of EUR 17.50 payable in cash. The issued shares will be listed at the stock exchange at a later stage.

SMARTRAC realized gross proceeds (before deduction of transaction costs) in the amount of approximately EUR 26 million. The proceeds of the issuance will serve to increase financial flexibility for the further growth of the company.

Treasury stock
Subsequent to the reporting period SMARTRAC sold its 192,050 treasury shares (book value EUR 5.8 million) through the stock market and received a consideration of approximately EUR 3.8 million. Consequently, the equity position of SMARTRAC increased by approximately EUR 3.8 million.

Financial calendar

March 31, 2011
Publication of 2010 Annual Report
[Analysts' Conference Call]

May 10, 2011
Publication of Q1 Interim Report
[Analysts' Conference Call]

May 31, 2011
SMARTRAC Annual General Meeting
of Shareholders, Amsterdam

July 29, 2011
Publication of Q2 Interim Report
[Analysts' Conference Call]

November 8, 2011
Publication of Q3 Interim Report
[Analysts' Conference Call]

Further information:
www.smartrac-group.com

SMARTRAC TRANSFORMING RFID

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

Phone	+31 20 30 50150
Fax	+31 20 30 50155
Web	www.smartrac-group.com