Interim Report

Q1.2011

In thousands of EUR		Consolidated 3 months ended March 2011	Consolidated 3 months ended March 2010	Change	Change in %
Consolidated income statement					
Revenues		48,962	36,781	12,181	33.1
EBITDA [1]		5,216	5,024	192	3.8
Profit for the period		568	2,598	(2,030)	(78.1)
Financial position and liquidity					
Net cash used in operating activities		(961)	(742)	(219)	29.5
Working capital		48,997	36,539	12,458	34.1
Capital expenditure [2]		4,305	3,272	1,033	31.6
Total assets		245,510	212,233	33,277	15.7
Operating figures					
Basic earnings per share	EUR	0.03	0.18	(0.15)	(83.3)
Operating cash flow per share	EUR	(0.06)	(0.05)	(0.01)	20.0
Equity ratio	%	65.6	60.7	4.9	8.1
Headcount	at month's end	3,555	3,056	499	16.3

SMARTRAC at a glance: profitable business model

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.

Dr. Christian Fischer, CEO of SMARTRAC

Dear Shareholders,
Dear Friends of Our Company,

After the exceptionally strong market upturn in the post-crisis year 2010, demand continued to develop favorably at the beginning of 2011. As anticipated, market growth and order entry returned to a more moderate level in the first quarter of 2011 compared to the levels seen in the second half of 2010. SMARTRAC was able to continue its positive business development and, compared to the first three months of 2010, even expand its revenues in the first three months of 2011.

SMARTRAC also progressed further in its growth strategy in the first quarter of 2011. The acquisition of 50 percent of Omnia Technologies, an Indian manufacturer of RFID tags, perfectly complements SMARTRAC's product and technology range in the industry and logistics area and fosters the company's participation in the growth potentials of the Indian RFID market.

Total sales for the three-month period ended March 31 increased by 33 percent from EUR 36.8 million in 2010 to EUR 49.0 million in 2011. Solid revenue expansion in the company's eID, Cards, and Industry & Logistics business units contributed to the sales growth.

EBITDA from January to March increased by 4 percent from EUR 5.0 million in 2010 to EUR 5.2 million in 2011. The EBITDA margin for the period under review accounted for 11 percent compared to 14 percent a year ago. This decrease is mainly attributable to the ongoing change in the product mix, the continued high level of microchip sourcing, costs related to the ramp-up of operations in Malaysia, as well as to a certain increase of commodity prices.

Profit for the first quarter decreased by 78 percent from EUR 2.6 million in 2010 to EUR 0.6 million in 2011.The decrease in profit is mainly due to the negative development of the financial results in the first quarter of 2011 which is for the most part attributable to conversion effects based on an unfavorable development of the underlying currencies.

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 products for electronic identity documents issued by governments and state authorities such as e-passports, e-national ID cards, electronic driver's licenses, electronic visa documents, contactless healthcare cards, electronic social security cards, and electronic permanent resident cards.

Based on the strong growth in 2010, the management team of the Business Unit eID was expanded with the appointment of a BU eID Head of Sales and a BU eID Head of Technology. The appointments recognize the strong individual contribution of the respective BU eID staff members and also provide the basis to further strengthen SMARTRAC's leading market position as a manufacturer and supplier of high security RFID transponders for government identification documents. ISO 9001:2008 Certification for SMARTRAC's high-security production facility in the United States at the beginning of 2011 further underscored the company's commitment to the highest security and quality standards.

Business related to the supply of high-security RFID products for e-Passport projects progressed stably from January to March 2011. With the implementation of electronic permanent resident cards (e-PR) in several European countries, demand for these identification documents has increased further. With the technical and operating experience gained from manufacturing and supplying more than 150 million e-ID products to over 40 e-ID projects worldwide, SMARTRAC was able to support its customers with high-security products for new e-PR projects.

Business Unit eID sales increased from EUR 12.0 million in the first three months of 2010 to EUR 19.1 million in the same period of 2011. The supply of existing and the ramp-up of new projects accounted for a 59 percent increase in sales in the period January to March 2011 compared to the same period in 2010.

The **Business Unit Cards** comprises card inlays for public transport, access control, e-payment, and active card applications and caters to card manufacturers as well as multinational system integrators with their own card manufacturing capabilities.

SMARTRAC started setting up card inlay production in the company's Malaysian production facility in fall 2010. At year-end 2010, the facility obtained Card Quality Management (CQM) Certification from MasterCard for the production of high frequency card inlays. From January to March 2011, the production location was also qualified by various customers for the production of high-quality and high-security RFID card inlays completing the set-up of a production location for card inlay and PRELAM™ products in Malaysia.

The Business Unit Cards reported sales of EUR 18.2 million from January to March 2011 compared to sales of EUR 14.8 million in the same period a year ago. The sales growth of 23 percent mainly resulted from the demand in public transport, access control, and e-Payment applications. Despite the positive start into the year, we expect a temporary weaking in the market development.

In total, sales of the Security Segment increased by 39 percent compared to revenues in the same period of 2010. From January to March 2011, the Security Segment accounted for 76 percent of total Group sales compared to 73 percent a year ago.

Industry Segment

The Industry Segment consists of the Business Units Industry & Logistics and Tickets & Labels.

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

Business with the established car immobilizer products and RFID transponders for the automotive industry developed well in the first quarter of 2011. Revenues in the automotive business increased by 20 percent compared with the same period in 2010. In addition, new business opportunities and product development projects were initiated from January to March 2011.

Revenues in the non-automotive business also developed favourably in the first quarter of 2011. Key contract wins, especially in the area of industry applications and entry ID, supported the sales growth of the business unit between January and March 2011 and also provide the basis for future growth in the non-automotive product lines of the business unit. Newly hired sales employees, recent product development projects and the acquisition of 50% of Omnia Technologies will support the business units' further growth from a strategic point of view.

In the period January to March, sales of the Business Unit Industry & Logistics accounted for EUR 9.4 million in 2011 representing an increase of 22 percent compared to sales of EUR 7.7 million in 2010.

The **Business Unit Tickets & Labels** covers RFID inlays that cater to ticket and label converters and includes fields of application such as media management for libraries, ticketing for mass transit, apparel tracking, vehicle identification, and toll applications. The solutions provided by the business unit focus on transponders based on etched antennas that are manufactured at SMARTRAC's production site in Malaysia.

The Business Unit Tickets & Labels reported sales of EUR 2.1 million between January and March 2011 compared to sales of EUR 2.2 million in the same period a year ago.

In total, sales of the Industry Segment increased by 18 percent compared to revenues in the same period of 2010. From January to March 2011, the Industry Segment accounted for 24 percent of total Group sales compared to 27 percent a year ago.

The SMARTRAC Share

In the first quarter of 2011, the SMARTRAC share price ranged between EUR 18.78 (January 6, 2011) and EUR 14.44 (March 22, 2011). The SMARTRAC share price started at EUR 18.47 at the beginning of the year and closed the three-month period at EUR 15.43. This represents a decrease of 16.5 percent in the period under review compared to a 0.7 percent increase of the German DAX and an 8 percent increase of the German TecDAX.

The first quarter of 2011 saw decreased trading volumes in SMARTRAC shares compared to 2010, resulting from a free float of only 3.4 percent. The average number of shares traded per day on the XETRA trading platform in the period between January and March 2011 was some 1,400 shares compared to some 36,000 shares a year ago.

On March 31, 2011, SMARTRAC N.V. held no treasury stock (March 31, 2010: 195,533 shares). Details on the development of treasury stock are provided in the Notes on page 22 of the report.

Between January and March 2011, SMARTRAC's shareholder structure showed no changes. As of March 31, 2011, Manfred Rietzler, CTO of SMARTRAC, holds an interest of 9.61 percent in the company. OEP Technologie B.V. holds a total of around 87 percent of SMARTRAC shares. The free float according to the definition of the Deutsche Börse amounts to 3.4 percent.

Seven brokers comment on the financial figures and operational development of SMARTRAC. The analysts valued the target price of the SMARTRAC share on March 31, 2011, at EUR 18.79 on average, with the highest target being EUR 22.00 and the lowest target being EUR 13.50. The analysts' valuation models and recommendations were partly adjusted in April 2011 as a consequence of the reporting of the full-year figures 2010 and the guidance for the fiscal year 2011. SMARTRAC presents a constantly updated overview of the banks and their current recommendations in the Investor Relations section of the website, under 'Research reports'.

The publication of the full-year figures on March 31, 2011, was as usual accompanied by a conference call as part of the firmly established communication with the capital market. Despite a free float of only 3.4 percent, SMARTRAC will continue regular and active communication with potential investors, analysts, and the financial community.

Financial Performance

SMARTRAC Reports 33 Percent Year-on-year Sales Growth in Q1-2011

Group sales of EUR 49.0 million in the three-month period ending March 31, 2011, represent an increase of 33 percent compared to sales of EUR 36.8 million in the same period of 2010. Group EBITDA of EUR 5.2 million from January to March 2011 increased by 4 percent compared to EBITDA of EUR 5.0 million for the same period in 2010.

SMARTRAC reported a negative net financial result of EUR 1.9 million in the first three months of 2011 compared to a balanced net financial result a year ago. The negative net effect in 2011 mainly resulted from conversion effects based on an unfavorable development of the underlying currencies.

Profit for the period from January to March decreased from EUR 2.6 million in 2010 to EUR 0.6 million in 2011.

Segment Development

In the **Security Segment** (Business Units Cards and eID), sales in the first three months of 2011 reached EUR 37.3 million, representing a growth of 39 percent compared to sales of EUR 26.8 million in the same period of the previous year. Segment EBITDA in the three-month period increased from EUR 4.8 million a year ago to 4.9 million in 2011.

Sales of EUR 11.6 million in the **Industry Segment** (Business Units Industry & Logistics and Tickets & Labels) for the first three months of 2011 are 18 percent higher compared to sales of EUR 9.8 million in the previous year. The increase is mainly attributable to stable demand in the automotive business and the accelerated growth in the non-automotive business of the Business Unit Industry & Logistics. The Industry Segment reported EBITDA of EUR 0.6 million in the first three months of 2011 compared to an EBITDA of EUR 0.7 million in the same period in 2010.

Balance Sheet

As of March 31, 2011, total assets amounted to EUR 245.5 million compared to EUR 248.5 million as of December 31, 2010. The decrease in total assets was predominantly related to the decrease in cash and cash equivalents. Cash and cash equivalents decreased by 15 percent from EUR 49.6 million to EUR 42.3 million, which is mainly attributable to cash flow used in investing activities.

Inventories increased from EUR 33.2 million as of December 31, 2010, to EUR 34.0 million as of March 31, 2011, in order to maintain flexibility in serving customer requirements at short notice. Trade and non-trade receivables increased by 3 percent from EUR 39.5 million at the end of 2010 to EUR 40.5 million on March 31, 2011.

From January to March 2011, working capital increased by 12 percent to EUR 49.0 million compared to EUR 43.8 million as of December 31, 2010. In addition to minor increases in other current assets, trade and non-trade receivables, and inventories, the increase is mainly attributable to a decrease in trade payables of 11 percent from EUR 24.7 million at the end of 2010 to EUR 21.9 million as of March 31, 2011.

SMARTRAC's Group equity amounted to EUR 161.1 million as of March 31, 2011, compared to EUR 161.6 million as of December 31, 2010. The equity ratio increased from 65 percent as of December 31, 2010, to 66 percent as of March 31, 2011.

Cash Flow Statement

Cash used in operating activities amounted to EUR 0.3 million for the first three months of 2011, equaling the EUR 0.3 million used in the same period of the previous year. Taking into account interest payments and receipts as well as payments and repayments for income taxes, the net cash used in operating activities in the first three months of 2011 amounted to EUR 1.0 million compared to net cash used by operating activities of EUR 0.7 million in 2010.

Net cash used in investing activities amounted to EUR 6.0 million as of March 31, 2011, compared to net cash used of EUR 3.4 million for the same period of 2010. This development in 2011 is mostly a result of the ongoing investment program.

Net cash used in financing activities amounted to EUR 0.03 million compared to net cash used of EUR 0.2 million in the first three months of 2010 related to repayments of interest-bearing loans and borrowings.

Business Outlook

Based on the solid start into 2011 and the inherent growth potential of the RFID industry in general, SMARTRAC confirms its target to increase Group sales to EUR 200 million in 2011.

SMARTRAC's unique position in the RFID market and the broad and diversified product portfolio provides wide-ranging growth opportunities. Organizational changes which are to take place subsequent to the reporting period will support the future success of the company. Ahead of schedule, it is proposed to re-appoint Dr. Christian Fischer as CEO and Director A of SMARTRAC until the annual general meeting of SMARTRAC in 2017.

Manfred Rietzler, member of the Management Board of SMARTRAC, intends to resign from his position effective May 31, 2011. Manfred Rietzler's decision to resign from his current responsibilities is based on his intention to serve the Company as a member of the SMARTRAC Supervisory Board, subject to approval by the SMARTRAC Annual General Meeting of Shareholders to be held on May 31, 2011.

Furthermore, Manfred Rietzler intends to focus on strategic developments, in particular as chairman of the new Technology Council, which will be comprised of internal and external experts to support the Management Board in shaping the technology strategy of SMARTRAC.

It is also proposed to appoint Tobias Reich, Investment Professional of One Equity Partners Frankfurt, Germany, to the SMARTRAC Supervisory Board until the annual general meeting of shareholders in 2015. At the same time, Jan Lobbezoo will not be re-elected at the SMARTRAC Annual General Meeting of Shareholders 2011.

Furthermore, the Supervisory Board has taken the decision to propose the appointment of Wolfgang Schneider, Head of Business Unit Cards of SMARTRAC, as Director A of the Company until the annual general meeting of shareholders in 2015. It is also proposed to appoint Robert Harmzen, Director and Owner of Harmzen Accountants & Consultants and Director of the Dutch entities of One Equity Partners, as Director B of SMARTRAC until the annual general meeting of shareholders in 2013.

Subject to approval by the SMARTRAC Annual General Meeting of Shareholders to be held on May 31, 2011, the intended developments will further strengthen the company’s strategic focus and future growth.

For the Management Board

Dr. Christian Fischer
Amsterdam, May 2011

Condensed Consolidated Interim Financial Information for the Three Months ended March 31, 2011

Condensed consolidated interim statement of comprehensive income

For the three months ended March 31, 2011 (2010)

In thousands of EUR	Note	Consolidated three months ended March 2011	Consolidated three months ended March 2010
Revenue	5	48,962	36,781
Cost of sales		(36,384)	(26,248)
Gross profit	5	**12,578**	**10,533**
Administrative expenses		(10,310)	(7,804)
Other operating income (expenses)		91	6
Total operating expenses		**(10,219)**	**(7,798)**
Operating profit before financial income (expenses)		**2,359**	**2,735**
Financial income		1,169	3,058
Financial expenses		(3,073)	(3,040)
Net financial expenses (income)	6	**(1,904)**	**18**
Profit before tax		**455**	**2,753**
Income tax (expenses)	7	113	(155)
Profit for the period attributable to the owners of the parent		**568**	**2,598**
Foreign exchange translation		(1,075)	1,239
Other comprehensive income (loss), net of tax		**(1,075)**	**1,239**
Total comprehensive income for the period attributable to the owners of the parent		**(507)**	**3,837**
Basic earnings per share (EUR)	8	0.03	0.18
Diluted earnings per share (EUR)	8	0.03	0.18

The accompanying notes (on pages 14 to 26) are an integral part of the condensed consolidated interim financial information.

Condensed consolidated interim balance sheet
As at March 31, 2011 (and December 31, 2010)

In thousands of EUR	Note	Consolidated March 31, 2011	Consolidated December 31, 2010
Assets			
Intangible assets	10	62,837	63,206
Property, plant and equipment	9	53,930	54,852
Investment in jointly controlled entities		1,254	1
Deferred tax assets		2,777	2,720
Other non-current assets		3,102	1,644
Total non-current assets		**123,900**	**122,423**
Inventories		33,972	33,204
Trade and non-trade receivables		40,533	39,501
Current income tax		788	751
Other current assets		4,013	2,965
Cash and cash equivalents		42,304	49,613
Total current assets		**121,610**	**126,034**
Total assets		**245,510**	**248,457**
Equity			
Share capital		8,167	8,167
Share premium		96,804	96,743
Translation reserve		976	2,051
Retained earnings		55,188	54,620
Total equity attributable to equity holders of the company		**161,135**	**161,581**
Liabilities			
Secured loans	13	50,291	50,246
Employee benefits		572	543
Deferred tax liabilities		2,650	2,761
Total non-current liabilities		**53,513**	**53,550**
Bank overdraft		164	212
Current portion of secured loans	13	389	415
Trade and non-trade payables		21,870	24,684
Current income tax		665	798
Provisions		102	105
Other current liabilities		7,672	7,112
Total current liabilities		**30,862**	**33,326**
Total liabilities		**84,375**	**86,876**
Total equity and liabilities		**245,510**	**248,457**

The accompanying notes (on pages 14 to 26) are an integral part of the condensed consolidated interim financial information.

Condensed consolidated interim statement of cash flows

For the three months ended March 31, 2011 (2010)

In thousands of EUR	Note	Consolidated three months ended March 2011	Consolidated three months ended March 2010
Cash flows from operating activities			
Net profit		568	2,598
Reconciliation of net profit to net cash provided by (used in) operating activities:			
Income tax expenses	7	(113)	155
Depreciation and amortization	5	2,875	2,271
(Reversal of) impairment on fixed assets	5	(18)	18
Equity-settled share-based payment transactions		61	292
Interest income	6	(67)	(40)
Interest expense	6	852	868
Other non-cash items		1,184	16
Changes in operational assets and liabilities			
Other non-current assets		(50)	(115)
Inventories		(1,158)	(3,345)
Trade and non-trade receivables		(2,041)	(574)
Other current assets		(1,128)	(1,683)
Employee benefits		29	27
Trade and non-trade payables		(2,170)	(364)
Other non-current liabilities		438	–
Other current liabilities and provisions		491	(425)
Cash used in operating activities		**(247)**	**(301)**
Interest paid		(729)	(723)
Interest received		55	22
Income taxes received (paid)		(40)	260
Net cash used in operating activities		**(961)**	**(742)**
Cash flows from investing activities			
Purchases of property, plant and equipment		(2,009)	(2,550)
Purchases of intangible assets		(888)	(722)
Proceeds from sales of equipment		1	–
Deposits paid for property, plant and equipment		(1,408)	–
Cash payments on purchase of consolidated subsidiaries, net of cash purchased		(438)	(132)
Investments in jointly controlled entities		(1,253)	–
Net cash used in investing activities		**(5,995)**	**(3,404)**
Cash flows from financing activities			
Repayments of interest-bearing loans and borrowings and secured loans		(26)	(243)
Net cash used in financing activities		**(26)**	**(243)**
Net change in cash and cash equivalents and bank overdrafts		(6,981)	(4,389)
Cash and cash equivalents and bank overdrafts at January 1		49,401	38,814
Effect of exchange rate fluctuations on cash and cash equivalents and bank overdrafts		(280)	334
Cash and cash equivalents and bank overdrafts at March 31		**42,140**	**34,759**

The accompanying notes (on pages 14 to 26) are an integral part of the condensed consolidated interim financial information.

Condensed consolidated interim statement of changes in shareholders' equity
For the three months ended March 31, 2011 (2010)

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, 2010		**7,425**	**75,047**	**(55)**	**48,547**	**(6,344)**	**124,620**
Net profit for the period		–	–	–	2,598	–	2,598
Other comprehensive income (loss)		–	–	1,239	–	–	1,239
Total comprehensive income of the period		**–**	**–**	**1,239**	**2,598**	**–**	**3,837**
Share-based payment – options	12	–	47	–	–	–	47
Share-based payment – shares	11	–	(205)	–	–	450	245
Balance as at March 31, 2010		**7,425**	**74,889**	**1,184**	**51,145**	**(5,894)**	**128,749**
Balance as at January 1, 2011		**8,167**	**96,743**	**2,051**	**54,620**	**–**	**161,581**
Net profit for the period		–	–	–	568	–	568
Other comprehensive income (loss)		–	–	(1,075)	–	–	(1,075)
Total comprehensive income of the period		**–**	**–**	**(1,075)**	**568**	**–**	**(507)**
Share-based payment – options	12	–	61	–	–	–	61
Balance as at March 31, 2011		**8,167**	**96,804**	**976**	**55,188**	**–**	**161,135**

The accompanying notes (on pages 14 to 26) are an integral part of the condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information for the Three Months ended March 31, 2011

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 %
SMARTRAC AUTOMATION Sdn. Bhd.	Malaysia	January 21, 2008	Manufacturing	100 %
SMARTRAC German Holding GmbH	Germany	Januar 26, 2007	Holding	100 %
SMARTRAC TECHNOLOGY HONG KONG Ltd.	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 %
SMARTRAC TECHNOLOGY MALAYSIA 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 entities				
Citywish Investments Ltd.	China	July 2, 2010	Trading/Holding	30 %
Omnia Technologies Private Ltd.	India	March 1, 2011	Manufacturing	50 %

Investment in Omnia Technologies Private Ltd.

On March 1, 2011, SMARTRAC bought 50% of Omnia Technologies Private Ltd shares and established therewith a jointly controlled entity with Mr. Ashish Bhutani and Mr. Ajay Bhutani. The business scope of Omnia Technologies Private Ltd. is manufacturing of RFID tags in India and worldwide distribution. SMARTRAC recognizes its interest in Omnia Technologies Private Ltd. using the equity method. The aggregate amounts of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses are immaterial. Omnia's reporting period deviates from that used by the Group and ends end of March.

Employees

As at March 31, 2011, the Group employed 3,555 employees (3,488 as of December 31, 2010; 3,056 as of March 31, 2010; 2,734 as of December 31, 2009).

The Group's consolidated financial statements

The Group's consolidated financial statements as at and for the year 2010 are available upon request from the company's registered office at Strawinskylaan 851, 1077 Amsterdam, The Netherlands, and are available for download from the investor relations section of the Company website 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, 2010.

This condensed consolidated interim financial information was authorized for issuance by the Management Board of the Company on May 4, 2011. The condensed consolidated interim financial statements for the period ended March 31, 2011 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, 2010.

With respect to the Standards and Interpretations to be adopted as per the 2011 financial year, reference is made to the Notes to the consolidated financial statements for the year ended December 31, 2010. These Standards and Interpretations have minor or no effect.

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, 2010.

5. Segment reporting

Consolidated segment information by business segments for the three months ended March 2011 (2010)

	Security		Industry		All other		Eliminations		Consolidated	
In thousands of EUR	Three months ended March 2011	Three months ended March 2010	Three months ended March 2011	Three months ended March 2010	Three months ended March 2011	Three months ended March 2010	Three months ended March 2011	Three months ended March 2010	Three months ended March 2011	Three months ended March 2010
Segment revenue										
Revenue from external customers	37,270	26,773	11,510	9,811	182	197	–	–	48,962	36,781
Revenue from transactions with other segments	–	2	43	2	693	1,146	(736)	(1,150)	–	–
Total revenue	**37,270**	**26,775**	**11,553**	**9,813**	**875**	**1,343**	**(736)**	**(1,150)**	**48,962**	**36,781**
Segment result										
Gross profit	9,568	8,159	2,719	2,269	339	447	(48)	(342)	12,578	10,533
Operating income (expenses)	(6,324)	(4,542)	(3,186)	(2,484)	(724)	(758)	15	(14)	(10,219)	(7,798)
Operating profit (loss)	3,244	3,617	(467)	(215)	(385)	(311)	(33)	(356)	2,359	2,735
Net financial expenses (income)									(1,904)	18
Profit before tax (expense) benefit									**455**	**2,753**
Income tax (expense) benefit									113	(155)
Group profit for the period									**568**	**2,598**
Supplemental information										
Operating profit (loss)	3,244	3,617	(467)	(215)	(385)	(311)	(33)	(356)	2,359	2,735
Depreciation, amortization and impairment	1,615	1,210	1,102	947	184	153	(44)	(21)	2,857	2,289
Segment EBITDA*	**4,859**	**4,827**	**635**	**732**	**(201)**	**(158)**	**(77)**	**(377)**	**5,216**	**5,024**

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, public transport, e-Payment, access control 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 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, ticketing and airline luggage.

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

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

Revenues by subsegment were as follows:

In thousands of EUR	Consolidated three months ended March 2011	Consolidated three months ended March 2010
Segment Security		
eID	19,102	12,002
Cards	18,168	14,773
Intrasegment eliminations	–	–
Subtotal	**37,270**	**26,775**
Segment Industry		
Tickets & Labels	2,119	2,161
Industry & Logistics	9,434	7,697
Intrasegment eliminations	–	(45)
Subtotal	**11,553**	**9,813**
Segment All Other	**875**	**1,343**
Intersegment eliminations	(736)	(1,150)
Total	**48,962**	**36,781**

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 three months ended March 2011	Consolidated three months ended March 2010
Revenues		
Asia	8,491	5,713
Europe	28,635	18,586
Latin America	3,325	3,129
North America	8,332	9,325
Others	179	28
Total revenues	**48,962**	**36,781**

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

In thousands of EUR	Consolidated three months ended March 2011	Consolidated three months ended March 2010
Revenues		
Total revenue for reportable segments	48,823	36,588
Other revenue	875	1,343
Elimination of intersegment revenue	(736)	(1,150)
Consolidated revenue	**48,962**	**36,781**
Profit or loss		
Total EBITDA for reportable segments	5,494	5,559
Other EBITDA	(201)	(158)
All EBITDA (before inter-segmant elimination)	**5,293**	**5,401**
Elimination of intersegment profits	(77)	(377)
Unallocated amounts:		
Financial result	(1,904)	18
Depreciation, amortization and impairment	(2,857)	(2,289)
Consolidated profit before income tax	**455**	**2,753**

6. Net financial income (expenses)

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

In thousands of EUR	Consolidated three months ended March 2011	Consolidated three months ended March 2010
Change in fair value	419	282
Interest income	67	40
Foreign exchange gains	683	2,736
Financial income	**1,169**	**3,058**
Change in fair value	(34)	(387)
Interest expenses	(852)	(868)
Bank charges	(116)	(163)
Foreign exchange losses	(2,071)	(1,622)
Financial expenses	**(3,073)**	**(3,040)**
Net financial expenses (income)	**(1,904)**	**18**

7. Corporate income tax

Recognized in income statement

In thousands of EUR	Consolidated three months ended March 2011	Consolidated three months ended March 2010
Current corporate tax expense	(55)	(183)
Deferred tax benefit	168	28
Income tax benefit (expense)	**113**	**(155)**

Reconciliation of effective income tax charge

In thousands of EUR	Consolidated three months ended March 2011	Consolidated three months ended March 2010
Profit before tax	**455**	**2,753**
Expected tax expense based on rate of 25.5 % (2010: 25.5 %)	(116)	(702)
Change in tax rate	–	68
Tax rate differences in foreign jurisdictions	(158)	161
Tax-exempt income relating to promotional privileges	751	754
Non-recognition of tax benefits on losses incurred	(457)	(390)
Non-deductable expenses	(17)	–
Use of tax loss carry forward previously unrecognized	108	–
Current tax for prior years	–	(66)
Others	2	20
Effective income tax benefit (expense)	**113**	**(155)**

8. Earnings per share

Profit attributable to ordinary shareholders

The calculation of basic and diluted earnings per share for the period ended March 31, 2011, is based on the profit attributable to ordinary shareholders and amounts to EUR 0.6 million (three months ended March 31, 2010: EUR 2.6 million).

Basic earnings per share

In thousands of EUR and shares, except earnings per share	Consolidated three months ended March 2011	Consolidated three months ended March 2010
Profit attributable to ordinary shareholders	568	2,598
Weighted average number of outstanding ordinary shares	16,335	14,645
Earnings per share (EUR)	**0.03**	**0.18**

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 March 2011	Consolidated three months ended March 2010
Weighted average number of outstanding ordinary shares	16,335	14,645
Effect of potential dilutive shares:		
Share options	22	42
Weighted average number of ordinary and dilutive shares	**16,357**	**14,687**

Diluted earnings per share

In thousands of EUR and shares, except earnings per share	Consolidated three months ended March 2011	Consolidated three months ended March 2010
Profit attributable to ordinary shareholders	568	2,598
Weighted average number of ordinary and dilutive shares	16,357	14,687
Diluted earnings per share (EUR)	**0.03**	**0.18**

9. Property, plant and equipment

Acquisitions

During the three months ended March 31, 2011, the Group acquired tangible assets (accrual method) totalling EUR 2.0 million (three months March 31, 2010: EUR 2.6 million).

10. Intangible assets

Development costs

Intangible assets include capitalized development costs (carrying amount) amounting to EUR 6.3 million as at March 31, 2011 (as at March 31, 2010 EUR 5.2 million).

11. Treasury stock

In the first three months of 2010, 5,000 shares were converted from the bonus of a member of the Management Board and 9,918 bonus shares were granted to a member of the Management Board and selected employees.

The table below shows the development of treasury stock:

Month	Number of shares	Average share price in EUR
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
Total as at March 31, 2010	**195,533**	**30.14**
August 2010 (bonus shares rendered)	(983)	30.14
September 2010 (exercise of share options)	(2,500)	30.14
October 2010 (sale Treasury Stock)	(192,050)	30.14
Total as at January 1, 2011	–	–
Movement current year	–	–
Total as at March 31, 2011	–	–

12. Share-based payment

Stock option schemes

Total expenses for the SMARTRAC stock option schemes are recorded during the three months ended March 31, 2011. They are reported under administrative expenses and as an increase in shareholder's equity (share premium) at the same time.

For the description of the SMARTRAC stock option schemes and the determination of the exercise prices of tranches one to nine please refer to the annual report 2010.

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

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

In thousands of EUR	Consolidated three months ended March 2011	Consolidated three months ended March 2010
Tranche 4	–	21
Tranche 5	–	20
Tranche 6	–	6
Tranche 7	28	–
Tranche 8	32	–
Tranche 9	1	–
Total expenses	**61**	**47**

The exercise price, the grant dates and the underlying assumptions for each outstanding 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 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 7	15.24	May 14, 2010	14.90	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 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 2	6.86
Tranche 3	9.11
Tranche 7	6.25
Tranche 8	5.90
Tranche 9	6.31

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

During the first quarter of 2011, no vested stock options were exercised (2010: none).

Stock plan

Due to the termination of the Stock Plan in 2010 no further stock grants were performed in 2011.
During the first three months of 2010, the treasury stock decreased by 14,918 shares in conjunction with bonus shares granted and the conversion of bonus into shares to the Management Board and selected employees of SMARTRAC.

13. Secured loans

As at March 31, 2011, a total amount of EUR 14.4 million of the existing syndicated EUR 65 million term and multicurrency revolving facilities agreement is unused (March 31, 2010: 14.4 million). This credit agreement was signed on July 14, 2009, with standard market terms and conditions including a leverage and an equity covenant. 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

Identity of the related parties

With respect to the relationship with related parties please refer to the annual report 2010.

The Group shows the following transactions with related parties:

In thousands of EUR	Transaction three months ended March 2011	Transaction three months ended March 2010
Sales		
Bibliotheca AG	1,308	–
Omnia Technologies Private Ltd.*	22	–
Purchases		**–**
Omnia Technologies Private Ltd.*	25	–

* please refer to note 1 'investment OMNIA'

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

In thousands of EUR	Consolidated March 31, 2011	Consolidated December 31, 2010
Trade and non-trade receivables		
Bibliotheca AG	1,912	1,513
Omnia Technologies Private Ltd.	89	–
Total	**2,001**	**1,513**
Trade payables		
Omnia Technologies Private Ltd.	4	–
Total	**4**	**–**
Other current assets		
Citywish Investments Ltd.	284	303
Total	**284**	**303**
Capital increase		
Omnia Technologies Private Ltd.	309	–

Transactions with key management

With respect to the remuneration of key management please refer to the annual report 2010.

Transactions with Supervisory Board

With respect to the remuneration of the Supervisory Board please refer to the annual report 2010.

16. Subsequent events

Manfred Rietzler, member of the Management Board of SMARTRAC, intends to resign from his position effective May 31, 2011.

Manfred Rietzler's decision to resign from his current responsibilities is based on his intention to serve the Company as a member of the SMARTRAC Supervisory Board and focus on strategic developments, in particular as Chairman of the new Technology Council, subject to approval by the SMARTRAC Annual General Meeting of Shareholders to be held on May 31, 2011.

Furthermore, the Supervisory Board has taken the decision to propose the appointment of Wolfgang Schneider as new Member of the Management Board to the SMARTRAC Annual General Meeting of Shareholders to be held on May 31, 2011.

Financial calendar

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

July 29, 2011
Publication of Q2 Interim Report
(April to June 2011)
[Analysts' Conference Call]

November 8, 2011
Publication of Q3 Interim Report
(July to September 2011)
[Analysts' Conference Call]

Further information:
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