Interim Report

Q1.2010

In thousands of EUR		Consolidated 3 months ended March 2010	Consolidated 3 months ended March 2009	Change	Change in %
Consolidated income statement					
Revenues		36,781	29,369	7,412	25.2
EBITDA [1]		5,024	3,526	1,498	42.5
Profit for the period		2,598	1,584	1,014	64.0
Financial position and liquidity					
Net cash used in operating activities		(742)	(293)	(449)	(153.2)
Working capital		36,539	27,612	8,927	32.3
Capital expenditure [2]		3,272	2,561	711	27.8
Total assets		212,233	175,485	36,784	20.9
Operating figures					
Basic earnings per share	EUR	0.18	0.12	0.06	50.0
Operating cash flow per share	EUR	(0.05)	(0.02)	(0.03)	(150.0)
Equity ratio	%	60.7	57.1	3.6	6.3
Headcount	at month's end	3,056	2,604	452	17.4

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.

Dear Shareholders,
Dear Friends of Our Company,

SMARTRAC delivered on growth and made a successful start into the business year 2010. Supported by the stabilization of the global economy, SMARTRAC experienced increasing demand in all business areas. In the course of the first three months of 2010, SMARTRAC observed a significantly improved order activity by its customers which resulted in enhancing visibility and a decreasing volatility in the utilization of SMARTRAC's global production network. SMARTRAC's high-security commitment, its leading position in high-security transponder manufacturing and dedicated RFID business model enabled the company to enter into a framework agreement with De La Rue Identity Systems for the provision of eCovers, a component part of biometric passports. In addition, SMARTRAC was able to achieve break-even EBITDA in the U.S. production facility, another important milestone in the business year 2010.

As a result, the first quarter 2010 marked another record quarter for SMARTRAC on the company's growth path. Total sales for the three-month period ended March 31 increased by 25 percent from EUR 29.4 million in 2009 to EUR 36.8 million in 2010. All four business units delivered a strong performance and contributed to the sales growth. EBITDA from January to March increased by 43 percent from EUR 3.5 million in 2009 to EUR 5.0 million in 2010, representing an EBITDA margin of 14 percent compared to 12 percent a year ago. This increase is mainly attributable to a more balanced sales allocation within the quarter and the already anticipated progress in the result of the production facility in the United States. Nevertheless, the results related to SMARTRAC's operations in Malaysia and one-off costs of the technology transfer within the Business Unit Tickets & Labels from Germany to Malaysia in the first quarter still burdened the company's profitability.

Profit for the period increased by 64 percent from EUR 1.6 million in 2009 to EUR 2.6 million in 2010.

SMARTRAC operational development

Business units

Security segment

The **Business Unit eID** covers high-security products for personal electronic identification in governmental use such as e-Passports, national e-ID cards, electronic driver's licenses and electronic visas.

In the first three months of 2010, SMARTRAC realized a continuous increase in order intake and shipment levels related to the e-Passport project in the United States. Compared to the first quarter 2009, which marked the low of the project, the volumes more than quadrupled in the first three months 2010 to supply the underlying demand in e-Passports. The positive development resulted in an improved utilization and financial performance of SMARTRAC's dedicated high-security production site in the United States. SMARTRAC recorded the expected EBITDA break-even in its U.S. facility. Increasing capacity and therewith shipment levels in the coming quarters should further improve the profitability.

SMARTRAC expanded its position as the leading supplier of RFID transponders for e-Passports. As of today, the company has been chosen to deliver high-security inlays for e-Passport projects in some 35 countries worldwide.

On March 8, 2010 SMARTRAC was pleased to announce that the company had entered into a framework agreement with De La Rue Identity Systems for the provision of eCovers. SMARTRAC's high-security eCovers for electronic passports are manufactured with the company's proprietary, patent-protected wire-embedding technology that has proven to be best suited for high-profile applications. SMARTRAC values the selection by De La Rue as proof of its technology leadership, the high-quality standards of its products and the reliability of the company's global high-security manufacturing network. The framework agreement provides additional growth potential for the current financial year and the coming years.

The **Business Unit Cards** produces card inlays and transponders for public transport, access, e-Payment and active card applications.

The business unit showed a strong performance in various aspects. In the course of the first quarter the order intake significantly increased and visibility as well as lead times were significantly enhanced. Consequently, the capacities of the business unit were fully loaded in the second half of the first quarter and due to the visibility into the second quarter indicate maintaining that level. SMARTRAC's production facility in Manaus, Brazil clearly exceeded expectations and was able to contribute to the results of SMARTRAC's biggest business unit more than EUR 1 million sales in a single month (March 2010) for the first time.

The Business Unit Cards recorded in the first quarter strong performance in the area of e-Payment. The demand for its high-quality products in pure contactless applications as well as dual-interface applications nearly doubled compared to the first quarter one year ago. The supply to public transport systems and access control applications supported the growth.

Industry segment

The **Business Unit Industry & Logistics** supplies RFID tags for fields such as automotive, animal identification, logistics, industrial, laundry and medical.

In the period January to March 2010, the demand from automotive customers showed a continued favorable development. Compared to the period a year ago when the crisis of the automotive industry peaked, the automotive business reported a 65 percent increase and even a continued recovery compared to the last quarter of 2009. All major markets of SMARTRAC's automotive business, such as Europe, Asia and the Americas, participated in the recovery.

The growth in the non-automotive business of the Business Unit Industry & Logistics accelerated even more dynamically. Volume orders in the area of animal identification and industry applications such as laundry and waste bin tags contributed to the favorable performance. In addition, development agreements and projects turned into business and new products, i.e. the development and introduction of the SmartMiniGlassTag with a diameter of 2.12 millimeters, a length of 8.8 millimeters and a weight of only 70 milligrams.

The **Business Unit Tickets & Labels** covers RFID inlays for ticket and label converters and includes applications such as media management (library), ticketing, apparel, airline luggage, pharmaceuticals and windshield labels for 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. In the course of the first quarter, the transfer of technology and processes from its production facility in Germany to the high-volume production facility in Malaysia was substantially concluded.

Given the strong and increasing demand from the leading ticket converters for projects in the area of public transport systems, customers in the media management application and new business opportunities, the challenge of the business unit was to accelerate operational excellence and to increase capacities to meet volume and quality expectations.

Product mix

The product mix in the first quarter of 2010 showed that the Business Unit Industry & Logistics is well on the growth track to become the third strong pillar in SMARTRAC's business portfolio, and accordingly the importance of the Industry Segment further increased from 22 percent of total group sales in the first quarter 2009 to 27 percent in the same period 2010. Mainly attributed to the recovery in the automotive business and the strong growth in non-automotive applications, such as animal identification and industry applications, the Industry segment recorded 53 percent growth. Sales in the Business Unit Industry & Logistics increased by 58 percent compared to last year's figure. The Tickets & Labels business unit reported growth of 27 percent.

In the Business Unit eID, the increased shipment volumes to the U.S. e-Passport project and the gain of market share by existing and new e-Passport and eID projects resulted in a 23 percent increase in sales. The Business Unit Cards reported 9 percent growth in the first three months of the year driven by a strong demand in e-Payment applications as well as public transportation and access control projects. In total, the sales of the Security segment recorded a favorable 18 percent growth compared to the sales figure a year ago. In the period under review, the Security Segment accounted for 73 percent of total group sales compared to 78 percent a year ago.

The SMARTRAC share

In the first quarter of 2010, the SMARTRAC share price ranged between EUR 14.91 and EUR 17.70. In the three months from January to March 2010, the SMARTRAC share was slightly better than the German indices DAX and TecDAX. The share price at record date of EUR 16.10 represented an increase of 7 percent in the first three months of 2010, compared to the increase in the German DAX of 3 percent and an unchanged development of the TecDAX during the period under review. The SMARTRAC share price started at EUR 15.00 at the beginning of the year and reached its period high on January 26, 2010 at EUR 17.70 followed by a phase of consolidation to the period low of EUR 14.91 on February 23, 2010. After the publication of the full year figures 2009 the share price recovered to close at EUR 16.10 on March 31, 2010.

The first quarter of 2010 saw increased trading volumes in SMARTRAC shares compared to 2009. The average number of shares traded per day on the XETRA trading platform in the period between January and March 2010 was some 36,000 shares compared to some 20,000 shares a year ago.

On March 31, 2010, SMARTRAC N.V. held 195,533 treasury stock, representing 1.32 percent of the share capital (December 31, 2009: 210,451 shares) at an average share price of EUR 30.14. Details on the utilization of the treasury stock are provided in the notes on page 22 of the report.

In terms of SMARTRAC's shareholder structure, Manfred Rietzler, the founder and CTO of SMARTRAC, holds an interest of 13.67 percent in the company after placing 4.38 percent on March 30, 2010. As of March 31, 2010, taking SMARTRAC's treasury stock (1.32 percent) into account, the free float according to Deutsche Börse amounts to 85.01 percent. Subsequent to the record date, BNP Paribas Investment Partners SA (formerly: Fortis Investment Management SA) informed that the interest of BNP Paribas Investment Partners SA in SMARTRAC N.V. increased from 9.62 percent to 11.29 percent and again exceeded the threshold of 10 percent within the freefloat. Schroder plc, London (5.13 percent) holds an unchanged interest in SMARTRAC that is above the reporting thresholds.

In the first quarter of 2010, analyst's valuation models were adjusted after the reporting of the full year figures 2009 and the guidance for the financial year 2010. Close Brothers Seydler initiated coverage on SMARTRAC in March 2010 with a "buy" recommendation and a target price of EUR 20. Subsequent to the reporting period Macquarie Capital initiated coverage in April after Sal. Oppenheim terminated coverage in the first quarter. The analysts of Macquarie started their coverage with a price target of EUR 18 and a "outperform" rating. Currently seven brokers regularly comment on the financial figures and operational developments of SMARTRAC providing a more comprehensive spectrum of opinion in the capital markets. All analysts recommend SMARTRAC as a "buy" or "outperform" with price targets between EUR 18 and EUR 22, with an average of EUR 20.

After the publication of the full-year figures on March 15, 2010, the Management entered into an intensive dialog with investors to elaborate on the developments of 2009 and to provide details to the guidance for the current financial year and the potentials of SMARTRAC in the future. Roadshows in London, Zurich, Vienna, Frankfurt, Paris and the U.S. aroused the interest of investors. SMARTRAC will continue its active presence in the global financial centers to talk to investors and potential investors at various roadshows and by participating in investment conferences.

Financial performance

SMARTRAC reports 25 percent top-line growth from January to March 2010

Sales of EUR 36.8 million in the three-month period ending March 31, 2010 represent an increase of 25 percent compared to sales of EUR 29.4 million in the same period of 2009. All business units contributed to sales growth. EBITDA of EUR 5.0 million from January to March 2010 was an increase of 43 percent compared to EBITDA of EUR 3.5 million for the same period in 2009. A more balanced utilization of SMARTRAC's global production network and an improved utilization and financial performance of the U.S. production facility were the main drivers for this positive development. Nevertheless, the operations in Malaysia still burdened the company's profitability.

Mainly attributable to a positive net effect resulting from exchange rate movements, SMARTRAC reported a balanced net financial result compared to a net financial income of EUR 0.2 million a year ago. In the first three months of 2010, the financial result was mainly driven by interest expenses related to the syndicated credit facility and foreign exchange losses which were compensated by foreign exchange gains, predominantly attributable to the U.S. dollar. In the respective period of 2009, the financial result was predominantly affected by foreign exchange gains and interest expenses of a bridge financing facility.

In the three-month period ending March 31, SMARTRAC generated total comprehensive income of EUR 3.8 million, which represents an increase of 148 percent compared to EUR 1.5 million for the same period in 2009. Besides the increase in net profit, the relative strength of foreign currencies in comparison to the euro led to a significant increase of the foreign currency translation reserve in the first three months of 2010.

Segment development

In the Security segment (Business Units Cards and eID), sales in the first three months of 2010 reached EUR 26.8 million, representing a growth of 18 percent compared to sales of EUR 22.8 million in the same period of the previous year. Segment EBITDA in the three-month period increased by 11 percent from EUR 4.4 million a year ago to EUR 4.8 million in 2010.

In the first three months of 2010, the Business Unit Cards continued to grow by 9 percent, accounting for sales of EUR 14.8 million compared to sales of EUR 13.6 million for the same period in 2009. The result can be allocated to a strong performance in e-Payment applications and a reliable development in the area of mass transportation and access control. The Business Unit eID generated sales of EUR 12.0 million in the period under review, an increase of 23 percent compared to EUR 9.7 million a year ago.

Sales of EUR 9.8 million in the Industry segment (Business Units Industry & Logistics and Tickets & Labels) for the first three months of 2010 are 53 percent higher compared to sales of EUR 6.4 million in the previous year. The increase is mainly attributable to a significant recovery in the automotive business compared to last year's low and the accelerated growth in the non-automotive business of the Business Unit Industry & Logistics. With EBITDA of EUR 0.7 million in the first three months of 2010, the Industry segment provided an increased positive contribution to the group EBITDA compared to an EBITDA of EUR 0.05 million recorded in the same period in 2009. The strong performance of the Business Unit Industry & Logistics supported the EBITDA margin of the Industry segment, but ramp-up costs for the production facility in Malaysia and one-off costs of the technology transfer within the Business Unit Tickets & Labels from Germany to Malaysia still negatively affected the profitability.
The Industry & Logistics business unit reported sales of EUR 7.7 million for the period January to March 2010 compared to EUR 4.9 million a year ago. The increase of 58 percent was mainly determined by the recovery in the automotive business and strongly supported by organic growth in the non-automotive applications such as the animal identification and other industry applications.
The Tickets & Labels business unit increased sales by 27 percent from EUR 1.7 million to EUR 2.2 million mainly related to media management and public transport.

Balance sheet

As of March 31, 2010, total assets amounted to EUR 212.2 million compared to EUR 208.3 million as of December 31, 2009.

Inventories increased by 16 percent from EUR 21.3 million at year end 2009 to EUR 24.6 million at the end of March 2010. Increased inventories are mainly related to microchip purchase in order to maintain full flexibility in serving customer requirements. Trade receivables increased by 2 percent from EUR 33.8 million to EUR 34.5 . On the balance sheet date, other current assets increased from EUR 2.2 million as of December 31, 2009 to EUR 4.0 million, due to increased prepayments and prepaid expenses. Cash and cash equivalents decreased by 10 percent from EUR 38.8 million to EUR 34.8 million, mainly attributable to cash flow used in operating and investing activities.
In comparison to December 31, 2009, working capital increased by EUR 5.5 million to EUR 36.5 million as of March 31, 2010.

As of March 31, 2010 SMARTRAC's group equity amounts to EUR 128.7 million. This represents a 3 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 increased from 60 percent as of December 31, 2009 to 61 percent as of March 31, 2010.

Cash flow statement

Cash used in operating activities amounted to EUR 0.3 million for the first three months of 2010, compared to cash provided of EUR 1.1 million for the same period in the previous year. The increased net profit in the first quarter 2010 was set off by an increase in working capital. 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 2010 amounted to EUR 0.7 million compared to net cash used in operating activities of EUR 0.3 million in 2009.

Net cash used in investing activities amounted to EUR 3.4 million as of March 31, 2010, compared to net cash used of EUR 2.6 million for the same period of 2009. This development in 2010 was mainly due to cash outflow of EUR 2.6 million related to investments in property, plant and equipment.

Net cash used in financing activities amounted to EUR 0.2 million compared to net cash used of EUR 3.0 million in the first three months of 2009. In both periods, the financing activities were related to repayments of interest-bearing loans and borrowings.

Business outlook

Effective June 1, 2010 Dato' Tan Soo Hee joins SMARTRAC as Chief Operating Officer (COO) and Member of the Group Executive Team. In his role, he will take over responsibility for the operations of the production facilities worldwide. Dato' Tan Soo Hee joins SMARTRAC from Infineon Technologies Kulim Sdn. Bhd. where he held the position of Managing Director. The 51-year-old production expert has 26 years of professional experience in the semiconductor industry and has profound knowledge running complex and multi-site operations. The Management Team is convinced that Dato' Tan Soo Hee will accelerate operational excellence and manage capacity expansion within SMARTRAC's global production network and therefore contribute to SMARTRAC's profitable growth in the future.

SMARTRAC's unique position in the RFID market and the broad and diversified product portfolio provides further growth opportunities. Order intake and visibility remain strong at the beginning of the second quarter to indicate favorable capacity utilization in the coming months.

Given the encouraging start in the first quarter, the currently improving visibility into the second quarter and the inherent growth perspectives for the RFID industry in general, the Management is optimistic for the further development of the financial year 2010. We are looking forward to turning opportunities into business, growth and profitability.

For the Management Board

Dr. Christian Fischer
Amsterdam, May 2010

Condensed consolidated interim financial information for the three months ended March 31, 2010

Condensed consolidated interim statement of comprehensive income

For the three months ended March 31, 2010 (2009)

In thousands of EUR	Note	Consolidated three months ended March 2010	Consolidated three months ended March 2009
Revenue	5	36,781	29,369
Cost of sales		(26,248)	(20,359)
Gross profit	5	**10,533**	**9,010**
Administrative expenses		(7,804)	(7,442)
Other operating income (expenses)		6	(5)
Total operating expenses		**(7,798)**	**(7,447)**
Operating profit before financial income (expenses)		**2,735**	**1,563**
Financial income		3,058	1,394
Financial expenses		(3,040)	(1,220)
Net financial income (expenses)	6	**18**	**174**
Profit before tax		**2,753**	**1,737**
Income tax (expenses)	7	(155)	(153)
Profit for the period attributable to the owners of the parent		**2,598**	**1,584**
Foreign exchange translation		1,239	(38)
Other comprehensive income (loss), net of tax		**1,239**	**(38)**
Total comprehensive income for the period attributable to the owners of the parent		**3,837**	**1,546**
Basic earnings per share (EUR)	8	0.18	0.12
Diluted earnings per share (EUR)	8	0.18	0.12

The accompanying notes (on pages 14 to 25) are an integral part of the condensed consolidated interim financial information.

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

In thousands of EUR	Note	Consolidated March 31, 2010	Consolidated December 31, 2009
Assets			
Intangible assets	10	61,792	61,302
Property, plant and equipment	9	47,462	45,502
Other investments		426	426
Deferred tax assets		2,270	2,422
Other non-current assets		1,000	885
Total non-current assets		**112,950**	**110,537**
Inventories		24,593	21,268
Trade receivables		34,482	33,756
Current income tax		845	1,150
Other current assets		3,983	2,224
Short-term investments		591	591
Cash and cash equivalents		34,789	38,819
Total current assets		**99,283**	**97,808**
Total assets		**212,233**	**208,345**
Equity			
Share capital		7,425	7,425
Share premium		74,889	75,047
Translation reserve		1,184	(55)
Retained earnings		51,145	48,547
Treasury stock	11	(5,894)	(6,344)
Total equity attributable to equity holders of the company		**128,749**	**124,620**
Liabilities			
Secured loans	13	50,459	50,532
Employee benefits		423	396
Deferred tax liabilities		3,163	3,343
Other non-current liabilities		1,644	1,598
Total non-current liabilities		**55,689**	**55,869**
Bank overdraft		30	5
Current portion of secured loans	13	401	490
Trade and non-trade payables		20,292	20,188
Current income tax		771	682
Provisions		166	432
Other current liabilities		6,135	6,059
Total current liabilities		**27,795**	**27,856**
Total liabilities		**83,484**	**83,725**
Total equity and liabilities		**212,233**	**208,345**

The accompanying notes (on pages 14 to 25) 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, 2010 (2009)

In thousands of EUR	Note	Consolidated three months ended March 2010	Consolidated three months ended March 2009
Cash flows from operating activities			
Net profit		2,598	1,584
Reconciliation of net profit to net cash provided by (used in) operating activities:			
Income tax expenses	7	155	153
Depreciation and amortization	5	2,271	1,963
Impairment on fixed assets	5	18	–
Equity-settled share-based payment transactions		292	485
Interest income	6	(40)	(159)
Interest expense	6	868	826
Other non-cash items		16	(337)
Changes in operational assets and liabilities			
Other non-current assets		(115)	(3)
Inventories		(3,345)	(1,231)
Trade receivables		(574)	(2,862)
Other current assets		(1,683)	1,392
Employee benefits		27	18
Trade and non-trade payables		(364)	508
Other current liabilities and provisions		(425)	(1,198)
Cash used in (provided by) operating activities		**(301)**	**1,139**
Interest paid		(723)	(1,358)
Interest received		22	48
Income taxes received (paid)		260	(122)
Net cash used in operating activities		**(742)**	**(293)**
Cash flows from investing activities			
Purchases of property, plant and equipment		(2,550)	(1,623)
Purchases of intangible assets		(722)	(927)
Deposits paid for property, plant and equipment		–	(11)
Cash payments on purchase of consolidated subsidiaries, net of cash purchased		(132)	–
Net cash used in investing activities		**(3,404)**	**(2,561)**
Cash flows from financing activities			
Repayments of interest-bearing loans and borrowings and secured loans		(243)	(3,048)
Net cash used in financing activities		**(243)**	**(3,048)**
Net change in cash and cash equivalents and bank overdrafts		(4,389)	(5,902)
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		334	258
Cash and cash equivalents and bank overdrafts at March 31		**34,759**	**16,535**

The accompanying notes (on pages 14 to 25) 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, 2010 (2009)

In thousands of EUR	Note	Issued and paid-up share capital	Share premium	Translation reserve	Retained earnings	Treasury stock	Equity attributable to SMARTRAC's shareholders
Balance as at January 1, 2009		**6,750**	**56,911**	**98**	**43,486**	**(9,092)**	**98,153**
Net profit for the period		–	–	–	1,584	–	1,584
Other comprehensive income (loss), net of tax		–	–	(38)	–	–	(38)
Total comprehensive income of the period		**–**	**–**	**(38)**	**1,584**	**–**	**1,546**
Share-based payment – options	12	–	318	–	–	–	318
Share-based payment – shares	11	–	(544)	–	–	753	209
Share-based acquisition	11	–	(1,995)	–	–	1,995	–
Balance as at March 31, 2009		**6,750**	**54,690**	**60**	**45,070**	**(6,344)**	**100,226**
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**

The accompanying notes (on pages 14 to 25) 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, 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%
multitape GmbH	Germany	January 26, 2007	Manufacturing	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)	Hong Kong	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, Pfronten, was not consolidated as at March 31, 2010 (2009).

Employees

As at March 31, 2010, the Group employed 3,056 employees (2,734 as of December 31, 2009; 2,604 as of March 31, 2009; 2,786 as of December 31, 2008).

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 May 7, 2010. The condensed consolidated interim financial statements for the period ended March 31, 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.

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 three months ended March 2010 (2009)

	Security		Industry		All other		Eliminations		Consolidated	
In thousands of EUR	**Three months ended March 2010**	**Three months ended March 2009**	**Three months ended March 2010**	**Three months ended March 2009**	**Three months ended March 2010**	**Three months ended March 2009**	**Three months ended March 2010**	**Three months ended March 2009**	**Three months ended March 2010**	**Three months ended March 2009**
Segment revenue										
Revenue from external customers	26,773	22,764	9,811	6,404	197	201	–	–	36,781	29,369
Revenue from transactions with other segments	2	–	2	–	1,146	812	(1,150)	(812)	–	–
Total revenue	**26,775**	**22,764**	**9,813**	**6,404**	**1,343**	**1,013**	**(1,150)**	**(812)**	**36,781**	**29,369**
Segment result										
Gross profit	8,159	7,547	2,269	1,246	447	197	(342)	20	10,533	9,010
Operating income (expenses)	(4,542)	(4,257)	(2,484)	(2,020)	(758)	(1,150)	(14)	(20)	(7,798)	(7,447)
Operating profit (loss)	3,617	3,290	(215)	(774)	(311)	(953)	(356)	–	2,735	1,563
Financial result									18	174
Profit before tax (expense) benefit									**2,753**	**1,737**
Income tax (expense) benefit									(155)	(153)
Group profit for the period									**2,598**	**1,584**
Supplemental information										
Operating profit (loss)	3,617	3,290	(215)	(774)	(311)	(953)	(356)	–	2,735	1,563
Depreciation, amortization and impairment	1,210	1,068	947	823	153	72	(21)	–	2,289	1,963
Segment EBITDA*	**4,827**	**4,358**	**732**	**49**	**(158)**	**(881)**	**(377)**	**–**	**5,024**	**3,526**

The Group comprises the following main business segments:

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

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

Revenues by subsegment were as follows:

In thousands of EUR	Consolidated three months ended March 2010	Consolidated three months ended March 2009
Segment Security		
eID	12,002	9,733
Cards	14,773	13,555
Intrasegment eliminations	–	(524)
Subtotal	**26,775**	**22,764**
Segment Industry		
Tickets & Labels	2,161	1,697
Industry & Logistics	7,697	4,861
Intrasegment eliminations	(45)	(154)
Subtotal	**9,813**	**6,404**
Segment All Other	**1,343**	**1,013**
Intersegment eliminations	(1,150)	(812)
Total	**36,781**	**29,369**

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 2010	Consolidated three months ended March 2009
Revenues		
Asia	5,713	4,807
Europe	18,586	15,823
Latin America	3,129	1,506
North America	9,325	6,933
Others	28	300
Total revenues	**36,781**	**29,369**

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

In thousands of EUR	Consolidated three months ended March 2010	Consolidated three months ended March 2009
Revenues		
Total revenue for reportable segments	36,588	29,168
Other revenue	1,343	1,013
Elimination of intersegment revenue	(1,150)	(812)
Consolidated revenue	**36,781**	**29,369**
Profit or loss		
Total EBITDA for reportable segments	5,559	4,407
Other EBITDA	(158)	(881)
Elimination of intersegment profits	(377)	–
All EBITDA	**5,024**	**3,526**
Unallocated amounts:		
Financial result	18	174
Depreciation, amortization and impairment	(2,289)	(1,963)
Consolidated profit before income tax	**2,753**	**1,737**

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 2010	Consolidated three months ended March 2009
Change in fair value	282	57
Interest income	40	159
Foreign exchange gains	2,736	1,178
Financial income	**3,058**	**1,394**
Change in fair value	(387)	(161)
Interest expenses	(868)	(826)
Bank charges	(163)	(95)
Foreign exchange losses	(1,622)	(138)
Financial expenses	**(3,040)**	**(1,220)**
Net financial income (expenses)	**18**	**174**

7. Corporate income tax

Recognized in income statement

In thousands of EUR	Consolidated three months ended March 2010	Consolidated three months ended March 2009
Current corporate tax expense	(183)	(160)
Deferred tax benefit	28	7
Income tax expense	**(155)**	**(153)**

Reconciliation of effective income tax charge

In thousands of EUR	Consolidated three months ended March 2010	Consolidated three months ended March 2009
Profit before tax	**2,753**	**1,737**
Expected tax expense based on rate of 25.5 %	(702)	(443)
Tax-exempt income relating to promotional privileges	754	814
Change in tax rate	68	–
Tax rate differences in foreign jurisdictions	161	48
Non-recognition of tax benefits on losses incurred	(390)	(610)
Current tax for prior years	(66)	–
Others	20	38
Effective income tax expense	**(155)**	**(153)**

8. Earnings per share

Profit attributable to ordinary shareholders

The calculation of basic and diluted earnings per share for the period of the three months ended March 31, 2010 is based on the profit attributable to ordinary shareholders and amounts to EUR 2.6 million (three months ended March 31, 2009: EUR 1.6 million).

Basic earnings per share

In thousands of EUR and shares, except earnings per share	Consolidated three months ended March 2010	Consolidated three months ended March 2009
Profit attributable to ordinary shareholders	2,598	1,584
Weighted average number of outstanding ordinary shares	14,645	13,229
Earnings per share (EUR)	**0.18**	**0.12**

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 2010	Consolidated three months ended March 2009
Weighted average number of outstanding ordinary shares	14,645	13,229
Effect of potential dilutive shares:		
Share options	42	5
Weighted average number of ordinary and dilutive shares	**14,687**	**13,234**

Diluted earnings per share

In thousands of EUR and shares, except earnings per share	Consolidated three months ended March 2010	Consolidated three months ended March 2009
Profit attributable to ordinary shareholders	2,598	1,584
Weighted average number of ordinary and dilutive shares	14,687	13,234
Diluted earnings per share (EUR)	**0.18**	**0.12**

9. Property, plant and equipment

Acquisitions

During the three months ended March 31, 2010 the Group acquired tangible assets totaling EUR 2.6 million (three months ended March 31, 2009: EUR 1.6 million).

10. Intangible assets

Development costs

Intangible assets include capitalized development costs (carrying amount) amounting to EUR 5.2 million as at March 31, 2010 (three months ended March 31, 2009: EUR 3.2 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. Also in March 2010, SMARTRAC granted 9,918 bonus shares (2009: 19,941 bonus shares) to a member of the Management Board and selected employees decreasing the treasury stock in total by EUR 450,000 (2009: EUR 753,000).

The table below shows the development of treasury stock:

Month	Number of shares	Average share price in EUR
Total as at January 1, 2008	**190,644**	
February 2008 (share buyback)	86,189	35.19
March 2008 (share buyback)	101,132	33.91
March 2008 (share-based acquisition)	(49,470)	29.05
April 2008 (conversion of bonus in shares according to stock plan)	(5,936)	29.90
April 2008 (share buyback)	32,849	32.49
August 2008 (bonus shares rendered)	(24,176)	30.13
September 2008 (restricted stock bonus)	(29,656)	30.13
Total as at January 1, 2009	**301,576**	**30.14**
March 2009 (bonus shares rendered)	(19,941)	30.14
March 2009 (conversion of bonus in shares according to stock plan)	(5,000)	30.14
March 2009 (share-based acquisition of Xytec)	(66,184)	30.14
Total as at January 1, 2010	**210,451**	**30.14**
March 2010 (bonus shares rendered)	(9,918)	30.14
March 2010 (conversion of bonus in shares according to stock plan)	(5,000)	30.14
Movement current year	**(14,918)**	**30.14**
Total as at March 31, 2010	**195,533**	**30.14**

12. Share-based payment

Stock option scheme

Total expenses for the SMARTRAC stock option scheme are recorded during the three months ended March 31, 2010 and during the three months ended March 31, 2009. They are reported under administrative expenses and as an increase in shareholder's equity (share premium) at the same time. The Black-Scholes model was used for the valuation.

Since the fourth tranche of the SMARTRAC stock option scheme a market condition based on the total shareholder return (TSR) of SMARTRAC in relation to a peer group is included. The market condition is considered in the fair value of the granted options using a performance discount, based on the equal probability method.

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

In thousands of EUR	Consolidated three months ended March 2010	Consolidated three months ended March 2009
Tranche 1	–	–
Tranche 2	–	131
Tranche 3	–	166
Tranche 4	21	14
Tranche 5	20	7
Tranche 6	6	–
Total expenses	**47**	**318**

The exercise price of stock options granted within six weeks of the company's IPO (first tranche) is the IPO offer price. The exercise price of stock options granted of the second and third tranche was based on the weighted average price of the company's shares during the ten business days immediately preceding the grant of the stock options. The exercise price of the fourth, fifth and sixth tranche was based on the weighted average price of the company's shares during the five business days immediately preceding the grant of the stock options.

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

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

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

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

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

Stock plan

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

13. Secured loans

As at March 31, 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

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

There are no subsequent events to be reported.

Financial calendar

May 12, 2010
SMARTRAC Annual General Meeting
of Shareholders, Amsterdam

July 29, 2010
Publication of Q2 Interim Report
(April to June 2010)
[Analysts' Conference Call]

November 3, 2010
Publication of Q3 Interim Report
(July to September 2010)
[Analysts' Conference Call]

Further information:
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