Interim Report

Q2.2011

In thousands of EUR		Consolidated 6 months ended June 2011	Consolidated 6 months ended June 2010	Change	Change in %
Consolidated income statement					
Revenues		93,914	80,766	13,148	16.3
EBITDA [1]		9,526	9,786	(260)	(2.7)
Profit for the period		847	5,769	(4,922)	(85.3)
Financial position and liquidity					
Net cash provided by (used in) operating activities		3,824	(1,725)	5,549	–
Working capital		47,283	41,976	5,307	12.6
Capital expenditure [2]		8,842	8,206	636	7.8
Total assets		254,982	220,566	34,416	15.6
Operating figures					
Basic earnings per share	EUR	0.05	0.39	(0.34)	(87.2)
Operating cash flow per share	EUR	0.23	(0.12)	0.35	–
Equity ratio	%	63.1	60.4	2.7	4.5
Headcount	at month's end	3,435	3,325	110	3.3

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 exceptional year of 2010, which was characterized by the striving to satisfy strong customer demand and to continuously speed up delivery times, we returned to a steadier pace in the first six months of 2011. This gave us the necessary balance to accomplish strategic projects which will serve as a basis for the future success of the company. Strategic investments further strengthened the company's global footprint. In addition, new product developments were initiated to further broaden and complement the product and technology range.

With regard to trends in the RFID industry, near field communication (NFC) was the dominating concept in the first half of 2011. As a technology leader, SMARTRAC has been looking into the potential of NFC for a while already. With more and more mobile phone operators including NFC functionality in next-generation smartphones, awareness on the customer side has entered a new phase and the tipping point for a critical mass of applications seems to have been reached. SMARTRAC has been ready to supply a whole collection of NFC products including inlays for labels, tickets, and cards, and complete tags for a while. With substantial demand for NFC-enabled transponders expected for 2012, SMARTRAC is strengthening its focus on supporting customers in tapping the potential of NFC technology.

In terms of market growth, demand as anticipated returned to a more moderate level in the first six months of 2011 compared with the strong market growth throughout 2010. Overall demand developed favorably at the beginning of the year and stabilized at an average level in the course of the second quarter.

The satisfactory overall market development was however accompanied by weakening demand in the Cards business. First signs of this weakening became even clearer in the second quarter of 2011. Especially demand for e-banking products in the United States slowed down significantly. This development is a result of the delay in the further deployment of non-EMV banking cards due to certain regulatory issues. E-Payment business outside of the U.S. developed on the planned level.

Demand for card inlays for public transport systems also declined to a certain extend because of project delays. After building up additional production capacities in light of last year's market growth and the overall market expectation for 2011, this market development led to a significant under-utilization of our production capacities especially in Q2-2011 resulting in a negative effect on the Group's profitability.

Total sales for the six-month period ended June 30 increased by 16 percent from EUR 80.8 million in 2010 to EUR 93.9 million in 2011. Growth mainly resulted from a positive development of the business units eID, Industry & Logistics, and Tickets & Labels.

EBITDA from January to June decreased slightly from EUR 9.8 million in 2010 to EUR 9.5 million in 2011. The EBITDA margin for the first half-year of 2011 accounted for 10 percent compared with 12 percent a year ago. This decrease is mainly attributable to the above mentioned under-utilization of our card inlay production capacities and the ongoing change in the product mix.

Profit for the first six months decreased by 85.3 percent from EUR 5.8 million in 2010 to EUR 0.8 million in 2011. This is mainly attributable to a negative development of the financial results in the first half-year of 2011 which resulted for the most part from conversion effects based on the 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 RFID 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.

Parallel to the enlargement of the business unit's management team in the first quarter of 2011, the business unit took further strategic steps to maintain and enforce SMARTRAC's leading market position as supplier of high security RFID transponders for electronic identity documents. Governments worldwide are upgrading more and more documents to the state-of-the-art standard which is a plastic-based smartcard in ID-1 format with an integrated chip. Smartcard-based identity documents offer higher robustness and resistance to environmental conditions compared with their pure paper-based predecessors. In addition, they comprise various security "layers", namely physical, logical, and digital functionalities to safeguard documents from tampering, forgery, and counterfeiting.

To better support customers and governments in this transition and to overcome the fact that continuous mechanical stress can cause micro-cracks around the chip module in the card body of polycarbonate-based cards, SMARTRAC has invented a PC card inlay which is equipped with an "anti-crack feature" called SMART-AC. The product has been well received on the market as it combines mechanical robustness with the benefits of polycarbonate-based contactless smartcards.

Overall, the business unit experienced stronger demand in the first six months of 2011 compared with the same period of the previous year, mainly for high security card inlays for applications such as e-national ID cards and electronic permanent resident cards (e-PR). Business related to the supply of high security RFID projects for e-passports progressed steadily. In the Business Unit eID, sales increased by 37 percent from EUR 26.4 million in the first half-year 2010 to EUR 36.2 million in the same period of 2011.

The number of projects for which SMARTRAC supplies high-security RFID products for electronic identity documents issued by governments and state authorities is increasing steadily as is the number of applications in those countries.

The **Business Unit Cards** includes 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.

The Business Unit Cards had a positive start to the year, with sales growth of 23 percent from January to March 2011 compared with the same period in 2010. The first signs of a weakening in market development became even clearer in the second quarter of 2011. Especially demand for e-payment card inlays slowed down. Business with non-EMV card inlays dropped significantly whereas migration to the EMV standard continues to make progress. However, the increasing demand for EMV card inlays could not compensate for the decline in the non-EMV business. Demand for card inlays for public transport systems also slowed down because of project delays.

Due to this slown-down, the company's card inlay production capacities, which had been increased in the second half-year of 2010 to accommodate the strong order entry, were significantly under-utilized. This development had a negative effect on the company's profitability in the first six months of 2011 in total.

Business with dual interface card inlays and card inlays for access control applications developed moderately in the first six months of 2011. As a result, sales in the Business Unit Cards decreased by 5 percent from EUR 33.7 million in the first half-year of 2010 to EUR 31.9 million in the same period of 2011.

In total, Security Segment sales increased by 13 percent compared with revenues in the same period of 2010. From January to June 2011, the Security Segment accounted for 72 percent of total Group sales compared with 74 percent a year ago.

Industry Segment

The Industry segment consists of the business units Industry & Logistics and Tickets & Labels.

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

The automotive business developed exceptionally well in the period between January and June 2011. In addition to business with the established car immobilizer products and RFID transponders for the automotive industry, new product developments were initiated to foster further growth. Revenues in the non-automotive business also developed favorably in the first half-year of 2011. Additional project wins and volume orders, especially in the area of healthcare, waste management, and industrial applications, supported the sales growth of the business unit in the first six months of 2011.

Sales in the Business Unit Industry & Logistics increased by 19 percent compared with last year's figure. In the period January to June, revenues accounted for EUR 20.3 million compared with EUR 17.0 million in the first six months of 2010.

To accelerate further growth, the business unit is continuously broadening its product portfolio with both ready-made and customized transponders for a multitude of RFID applications. In addition, collaboration with Omnia Technologies, the Indian RFID tag manufacturing company of which SMARTRAC acquired 50 percent in the first quarter of 2011, was enforced to exploit the growth potential of the Indian RFID market. However, market growth for the full year 2011 will be less strong overall than the growth rates in 2010.

The **Business Unit Tickets & Labels** manufactures and supplies RFID inlays for ticket and label converters including fields of application such as media management for libraries, ticketing for public transportation, apparel tracking, airline luggage, pharmaceuticals, vehicle identification, and toll applications. The solutions provided by the business unit are based on a technology platform that integrates the inlay assembly concept, proprietary interconnection methods, and the in-house manufacturing of antennas, straps, and inlays.

With continued rising market demand, the business unit is also focusing on the increase of production capacity at the site in Malaysia. In addition, the business unit successfully strengthened its leading market position as a supplier to the library market. In June 2011, production and supply of library and media management labels surpassed the production milestone of 200 million units. The retail and apparel market also developed favorably in the first six months of 2011.

The Business Unit Tickets & Labels reported sales of EUR 5.4 million in the first six months of 2011 compared with EUR 3.2 million in the first half of 2010. The increase of 69 percent compared with the same period in 2010 resulted from stable demand with existing business as well as new project wins.

The business unit also launched new products in the first six months of 2011. A tire label and a high security label for application fields such as asset tracking and toll collection further broadens the business unit's product portfolio and represent another step toward accelerating growth.

In total, Industry Segment sales increased by 28 percent compared with revenues in the same period in 2010. From January to June 2011, the Industry Segment accounted for 27 percent of total Group sales compared with 25 percent a year ago.

The SMARTRAC Share

In the first six months of 2011, the SMARTRAC share price ranged from EUR 18.78 (January 6, 2011) to EUR 14.44 (March 22, 2011). The SMARTRAC share price started at EUR 18.47 at the beginning of the year and closed the six-month period at EUR 15.00. This represents a decrease of 18.8 percent in the period under review compared with a 5.5 percent increase of the German DAX and a 3.0 percent increase of the German TecDAX.

The first half-year of 2011 saw decreased trading volumes in SMARTRAC shares compared with 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 June 2011 was around 1,400 shares compared with roughly 45,000 shares a year ago.

On June 30, 2011, SMARTRAC N.V. held no treasury stock (June 30, 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 June 2011, SMARTRAC's shareholder structure showed no changes. As of June 30, 2011, Manfred Rietzler, Vice-Chairman of the SMARTRAC Supervisory Board, 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.

Six brokers analyze the financial figures and operational development of SMARTRAC. Deutsche Bank terminated research coverage effective May 10, 2011. The six analysts valued the target price of the SMARTRAC share on June 30, 2011, at EUR 18.08 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 for 2010 and the outlook 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 Annual General Meeting of Shareholders was held in Amsterdam on May 31, 2011. The shareholders present or represented at the meeting held 15,948,155 shares and represented 97.63 percent of the issued share capital of 16,334,997 ordinary shares. All items on the agenda were approved by at least 99.99 percent of the votes cast with the majority of the items approved by 100 percent of the votes cast. The votes and documents related to the Annual General Meeting of Shareholders can be found in the Investor Relations section on the SMARTRAC website.

Financial Performance

SMARTRAC Reports 16 Percent Year-on-Year Sales Growth between January and June 2011

The Group's sales of EUR 93.9 million in the first half-year of 2011 represent an increase of 16 percent compared with sales of EUR 80.8 million in the first six months of 2010. Group EBITDA of EUR 9.5 million from January to June 2011 declined slightly compared with EBITDA of EUR 9.8 million for the same period in 2010. SMARTRAC's profitability from January to June 2011 was affected by the significant under-utilization of the company's card inlay production capacities resulting from a weaker demand for card inlays for e-payment and public transport systems.

SMARTRAC reported a negative net financial result of EUR 2.9 million compared with a positive net financial result of EUR 0.9 million a year ago. The negative net effect for the first half-year 2011 mainly resulted from ongoing conversion effects based on the unfavorable development of the underlying currencies. Profit for the reporting period subsequently decreased by 85 percent from EUR 5.8 million in 2010 to EUR 0.9 million in 2011.

Segment Development

In the **Security Segment** (business units Cards and eID), sales in the first six months of 2011 reached EUR 67.9 million, representing an increase of 13 percent compared with sales of EUR 60.1 million in the same period of the previous year. Segment EBITDA in the six-month period January to June 2011 decreased by 10 percent from EUR 9.1 million in 2010 to EUR 8.2 million in 2011 due to ongoing high levels of microchip sourcing and the already mentioned under-utilization of the company's card inlay production capacities.

In the **Industry Segment** (business units Industry & Logistics and Tickets & Labels) SMARTRAC achieved sales of EUR 25.7 million in the first half-year of 2011. This represents an increase of 28 percent compared with sales of EUR 20.1 million in the first six months of 2010. The Industry Segment reported EBITDA of EUR 1.7 million in the period between January and June 2011 compared with EBITDA of EUR 1.4 million in the first six months of 2010, representing an increase of 27 percent.

Balance Sheet

As of June 30, 2011, total assets amounted to EUR 255.0 million compared with EUR 248.5 million as of December 31, 2010. The increase in total assets mainly resulted from the further increase in inventories. On June 1, 2011, the company announced that SMARTRAC Investment B.V., a 100 percent subsidiary of SMARTRAC N.V., acquired an interest of less than 20 percent in RFID Technologie B.V. at a cost of EUR 20 million as an opportunity to develop new products and applications.

Inventories increased by 24 percent from EUR 33.2 million at year-end 2010 to EUR 41.3 million as of June 30, 2011, in order to maintain flexibility in serving customer requirements at short notice. Trade and non-trade receivables decreased by 9 percent from EUR 39.5 million as of December 31, 2010 to EUR 35.9 million as of June 30, 2011. Cash and cash equivalents decreased by 46 percent from EUR 49.6 million to EUR 26.7 million, mainly attributable to cash flow used in investing activities.

From January to June 2011, working capital increased by 8 percent to EUR 47.3 million compared with EUR 43.8 million as of December 31, 2010. This increase is mainly attributable to the already mentioned increase in inventories.

SMARTRAC's Group equity amounted to EUR 160.8 million compared with EUR 161.6 million as of December 31, 2010. This development is mainly a result of ongoing conversion effects based on the unfavorable development of the underlying currencies. The equity ratio decreased by 2 percentage points as of June 30, 2011.

Cash Flow Statement

Cash provided by operating activities amounted to EUR 5.2 million for the first six months of 2011, compared with cash used of EUR 0.1 million for the same period in the previous year. Taking into account interest payments and receipts as well as payments and net payments for income taxes, net cash provided by operating activities amounted to EUR 3.8 million in the first six months of 2011 compared with net cash used in operating activities of EUR 1.7 million in 2010.

Net cash used in investing activities amounted to EUR 33 million as of June 30, 2011, compared with net cash used of EUR 8.9 million for the same period in 2010. This development in the first half-year 2011 was mainly a result of the investment of EUR 20.0 million in RFID Technologie B.V. In addition, EUR 1.3 million was invested in jointly controlled entities.

Net cash generated by financing activities amounted to EUR 6.9 million in the first half-year 2011 compared with net cash used of EUR 0.2 million in the first six months of 2010. The financing activities in the first six months of 2011 are related to proceeds from interest-bearing loans and borrowings and secured loans.

Business Outlook

SMARTRAC started solidly into the year 2011. In the course of the first half-year, the company however experienced a slow-down in demand in the e-payment and public transportation market segments. The Management Board expects an ongoing weak market demand in the cards business in the course of 2011 but is confident that order entry from these market segments will return to stable growth rates in 2012. Despite the fact that market growth in 2011 in general is much slower than the growth rates experienced in 2010, SMARTRAC will generate higher revenues than in 2010.

Based on the company's unique position in the RFID market, the broad and diversified product portfolio, the strategic acquisition of 50 percent of Omnia Technologies, the launch of a complete collection of near field communication (NFC) enabled transponders as well as the inherent potential for growth in the RFID industry in general, SMARTRAC is well positioned for future success.

For the Management Board

Dr. Christian Fischer
Amsterdam, July 2011

Condensed Consolidated Interim Financial Information for the Six Months ended June 30, 2011

Condensed consolidated interim statement of comprehensive income

For the six months ended June 30, 2011 (2010)

In thousands of EUR	Note	Consolidated three months ended June 2011	Consolidated three months ended June 2010	Consolidated six months ended June 2011	Consolidated six months ended June 2010
Revenue	6	44,952	43,985	93,914	80,766
Cost of sales		(32,602)	(33,056)	(68,986)	(59,304)
Gross profit	6	**12,350**	**10,929**	**24,928**	**21,462**
Administrative expenses		(10,787)	(8,845)	(21,097)	(16,649)
Other operating income (expenses)		(352)	59	(261)	65
Total operating expenses		**(11,139)**	**(8,786)**	**(21,358)**	**(16,584)**
Operating profit before financial income (expenses)		**1,211**	**2,143**	**3,570**	**4,878**
Financial income		1,474	5,733	2,643	8,791
Financial expenses		(2,440)	(4,834)	(5,513)	(7,874)
Net financial expenses (income)	7	**(966)**	**899**	**(2,870)**	**917**
Share of loss of jointly controlled entities		(21)	–	(21)	–
Profit before tax		**224**	**3,042**	**679**	**5,795**
Income tax benefit (expenses)	8	55	129	168	(26)
Profit for the period attributable to the owners of the parent		**279**	**3,171**	**847**	**5,769**
Attributable to the owners of the parent		279	3,171	847	5,769
Foreign exchange translation		(667)	1,391	(1,742)	2,630
Other comprehensive income (loss), net of tax		**(667)**	**1,391**	**(1,742)**	**2,630**
Total comprehensive income for the period attributable to the owners of the parent		**(388)**	**4,562**	**(895)**	**8,399**
Attributable to the owners of the parent		(388)	4,562	(895)	8,399
Basic earnings per share (EUR)	9	0.02	0.22	0.05	0.39
Diluted earnings per share (EUR)	9	0.02	0.22	0.05	0.39

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

Condensed consolidated interim balance sheet

As at June 30, 2011 (and December 31, 2010)

In thousands of EUR	Note	Consolidated June 30, 2011	Consolidated December 31, 2010
Assets			
Intangible assets	11	62,399	63,206
Property, plant and equipment	10	56,779	54,852
Investment in jointly controlled entities	1	1,214	1
Other investments	1	20,000	–
Deferred tax assets		2,777	2,720
Other non-current assets		2,444	1,644
Total non-current assets		**145,613**	**122,423**
Inventories		41,314	33,204
Trade and non-trade receivables		35,897	39,501
Current income tax		701	751
Other current assets		4,710	2,965
Cash and cash equivalents		26,747	49,613
Total current assets		**109,369**	**126,034**
Total assets		**254,982**	**248,457**
Equity			
Share capital		8,167	8,167
Share premium		96,862	96,743
Translation reserve		309	2,051
Retained earnings		55,467	54,620
Total equity attributable to equity holders of the company		**160,805**	**161,581**
Liabilities			
Secured loans	14	57,307	50,246
Employee benefits		601	543
Deferred tax liabilities		2,523	2,761
Total non-current liabilities		**60,431**	**53,550**
Bank overdraft		36	212
Current portion of secured loans	14	371	415
Trade and non-trade payables		24,667	24,684
Current income tax		609	798
Provisions		102	105
Other current liabilities		7,961	7,112
Total current liabilities		**33,746**	**33,326**
Total liabilities		**94,177**	**86,876**
Total equity and liabilities		**254,982**	**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 six months ended June 30, 2011 (2010)

In thousands of EUR	Note	Consolidated six months ended June 2011	Consolidated six months ended June 2010
Cash flows from operating activities			
Profit for the period		847	5,769
Reconciliation of net profit to net cash provided by (used in) operating activities:			
Income tax expenses (benefit)	8	(168)	26
Depreciation and amortization	6	5,974	4,890
(Reversal of) impairment on fixed assets	6	(18)	18
Equity-settled share-based payment transactions	12, 13	119	249
Interest income	7	(145)	(71)
Interest expense	7	1,715	1,729
Other non-cash items		1,263	(963)
Provision for losses on accounts receivables		108	35
Provision for losses on inventory		393	90
Share of loss (gain) of jointly controlled entities		21	–
Changes in operational assets and liabilities			
Other non-current assets		(294)	(253)
Inventories		(9,307)	(7,593)
Trade and non-trade receivables		2,202	(6,715)
Other current assets		144	(942)
Employee benefits		58	56
Trade and non-trade payables		727	3,994
Other non current liabilities		–	87
Deferred tax liabilities		–	(118)
Other current liabilities and provisions		1,597	(359)
Cash provided by (used in) operating activities		**5,236**	**(71)**
Interest paid		(1,460)	(1,461)
Interest received		120	64
Income taxes paid		(72)	(257)
Net cash provided by (used in) operating activities		**3,824**	**(1,725)**
Cash flows from investing activities			
Purchases of property, plant and equipment		(7,434)	(6,428)
Purchases of intangible assets		(1,408)	(1,517)
Proceeds from sales of equipment		15	132
Other investments		(20,000)	–
Investments in jointly controlled entities		(1,253)	–
Deposits paid for property, plant and equipment		–	(261)
Net cash inflow (outflow) on business combinations		(875)	(868)
Loans made to other parties		(2,000)	–
Net cash used in investing activities		**(32,955)**	**(8,942)**
Cash flows from financing activities			
Proceeds from interest-bearing loans and borrowings and secured loans		6,943	15
Repayments of interest-bearing loans and borrowings and secured loans		(53)	(264)
Net cash provided by (used in) financing activities		**6,890**	**(249)**
Net change in cash and cash equivalents and bank overdrafts		(22,241)	(10,916)
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		(449)	672
Cash and cash equivalents and bank overdrafts at June 30		**26,711**	**28,570**

The accompanying notes (on page 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 six months ended June 30, 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**
Profit for the period		–	–	–	5,769	–	5,769
Other comprehensive income (loss)		–	–	2,630	–	–	2,630
Total comprehensive income of the period		**–**	**–**	**2,630**	**5,769**	**–**	**8,399**
Share-based payment – options	13	–	112	–	–	–	112
Share-based payment – shares	12	–	(312)	–	–	449	137
Balance as at June 30, 2010		**7,425**	**74,847**	**2,575**	**54,316**	**(5,895)**	**133,268**
Balance as at January 1, 2011		**8,167**	**96,743**	**2,051**	**54,620**	**–**	**161,581**
Profit for the period		–	–	–	847	–	847
Other comprehensive income (loss)		–	–	(1,742)	–	–	(1,742)
Total comprehensive income of the period		**–**	**–**	**(1,742)**	**847**	**–**	**(895)**
Share-based payment – options	13	–	119	–	–	–	119
Balance as at June 30, 2011		**8,167**	**96,862**	**309**	**55,467**	**–**	**160,805**

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 Six Months ended June 30, 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 %
SMARTRAC Investment B.V.	The Netherlands	May 25, 2011	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 jointly controlled entities

On March 1, 2011, SMARTRAC bought an interest of 50 percent shares of Omnia Technologies Private Ltd. 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.

Establishment of SMARTRAC Investment B.V.
On May 25, 2011, SMARTRAC established SMARTRAC Investment B.V., a 100 percent subsidiary of SMARTRAC N.V., which will serve as an entity for minority investments. Thereby, SMARTRAC participates in growth opportunities in the RFID industry alongside its core business by gaining access to emerging growth segments of the RFID industry, future contactless technologies, RFID-related competencies, business concepts and ideas.

Acquisition of non-controlling interest
On June 1, 2011, SMARTRAC Investment B.V. acquired an interest of 19.99 percent in RFID Technologie B.V., Amsterdam, The Netherlands, as an opportunity to develop new products and applications. The financial asset of EUR 20 million is designated at fair value through profit or loss.

Employees
As at June 30, 2011, the Group employed 3,435 employees (3,555 as of March 31, 2011; 3,325 as of June 30, 2010; 3,056 as of March 31, 2010).

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 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, 2010.

This condensed consolidated interim financial information was authorized for issuance by the Management Board of the Company on July 28, 2011. The condensed consolidated interim financial statements for the period ended June 30, 2011 were not subject to a limited interim review.

3. Declaration of the Board of Management

We confirm, to the best of our knowledge that the condensed consolidated interim financial statements and the interim report of the Management Board have been prepared in accordance with the generally accepted principles for interim financial reporting under IFRS and accurately present the Group´s net assets, financial position and results of operations. The interim Group management report presents a true and fair view of the actual operations of the Group, including the results of operations and the position of the Group, and describes the material opportunities and risks of the Group´s future development in the remainder of the fiscal year.

Amsterdam, July 28, 2011

Dr. Christian Fischer Wolfgang Schneider Robert Harmzen

4. Significant accounting policies and methods of computation

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

5. Estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's consolidated financial statements as at and for the year ended December 31, 2010.

6. Segment reporting

Consolidated segment information by business segments for the six months ended June 2011 (2010)

	Security		Industry		All other		Eliminations		Consolidated	
In thousands of EUR	Six months ended June 2011	Six months ended June 2010	Six months ended June 2011	Six months ended June 2010	Six months ended June 2011	Six months ended June 2010	Six months ended June 2011	Six months ended June 2010	Six months ended June 2011	Six months ended June 2010
Segment revenue										
Revenue from external customers	67,937	60,106	25,437	20,111	540	549	–	–	93,914	80,766
Revenue from transactions with other segments	–	2	230	2	2,279	1,509	(2,509)	(1,513)	–	–
Total revenue	**67,937**	**60,108**	**25,667**	**20,113**	**2,819**	**2,058**	**(2,509)**	**(1,513)**	**93,914**	**80,766**
Segment result										
Gross profit	18,211	16,491	6,136	4,673	858	641	(277)	(343)	24,928	21,462
Operating income (expenses)	(13,348)	(10,006)	(6,750)	(5,344)	(1,294)	(1,221)	34	(13)	(21,358)	(16,584)
Operating profit (loss)	4,863	6,485	(614)	(671)	(436)	(580)	(243)	(356)	3,570	4,878
Net financial expenses (income)									(2,870)	917
Share of loss of jointly controlled entities									(21)	–
Profit before tax benefit (expense)									**679**	**5,795**
Income tax benefit (expense)									168	(26)
Profit for the period									**847**	**5,769**
Supplemental information										
Operating profit (loss)	4,863	6,485	(614)	(671)	(436)	(580)	(243)	(356)	3,570	4,878
Depreciation, amortization and impairment	3,337	2,601	2,334	2,022	366	332	(81)	(47)	5,956	4,908
Segment EBITDA*	**8,200**	**9,086**	**1,720**	**1,351**	**(70)**	**(248)**	**(324)**	**(403)**	**9,526**	**9,786**

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 six months ended June 2011	Consolidated six months ended June 2010
Segment Security		
eID	36,170	26,379
Cards	31,933	33,729
Intrasegment eliminations	(166)	–
Subtotal	**67,937**	**60,108**
Segment Industry		
Tickets & Labels	5,403	3,194
Industry & Logistics	20,264	16,968
Intrasegment eliminations	–	(49)
Subtotal	**25,667**	**20,113**
Segment All Other	**2,819**	**2,058**
Intersegment eliminations	(2,509)	(1,513)
Total	**93,914**	**80,766**

Geographical segments

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

In thousands of EUR	Consolidated six months ended June 2011	Consolidated six months ended June 2010
Revenues		
Asia	17,026	12,798
Europe	55,074	37,591
Latin America	6,289	6,892
North America	15,181	23,214
Others	344	271
Total revenues	**93,914**	**80,766**

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

In thousands of EUR	Consolidated six months ended June 2011	Consolidated six months ended June 2010
Revenues		
Total revenue for reportable segments	93,604	80,221
Other revenue	2,819	2,058
Elimination of inter-segment revenue	(2,509)	(1,513)
Consolidated revenue	**93,914**	**80,766**
Profit or loss		
Total EBITDA for reportable segments	9,920	10,437
Other EBITDA	(70)	(248)
All EBITDA (before inter-segment elimination)	**9,850**	**10,189**
Elimination of inter-segment profits	324	(403)
Unallocated amounts:		
Financial result	(2,870)	917
Depreciation, amortization and impairment	(5,956)	(4,908)
Share of profit of jointly controlled entities	(21)	–
Consolidated profit before income tax	**679**	**5,795**

7. Net financial expenses (income)

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

In thousands of EUR	Consolidated three months ended June 2011	Consolidated three months ended June 2010	Consolidated six months ended June 2011	Consolidated six months ended June 2010
Change in fair value	365	–	784	214
Interest income	78	31	145	71
Foreign exchange gains	1,031	5,770	1,714	8,506
Financial income	**1,474**	**5,801**	**2,643**	**8,791**
Change in fair value	(227)	(808)	(261)	(1,127)
Interest expenses	(863)	(861)	(1,715)	(1,729)
Bank charges	(123)	(156)	(239)	(319)
Foreign exchange losses	(1,227)	(3,077)	(3,298)	(4,699)
Financial expenses	**(2,440)**	**(4,902)**	**(5,513)**	**(7,874)**
Net financial expenses (income)	**(966)**	**899**	**(2,870)**	**917**

8. Corporate income tax

Recognized in income statement

In thousands of EUR	Consolidated three months ended June 2011	Consolidated three months ended June 2010	Consolidated six months ended June 2011	Consolidated six months ended June 2010
Current corporate tax benefit (expense)	(72)	75	(127)	(108)
Deferred tax benefit	127	54	295	82
Income tax benefit (expense)	**55**	**129**	**168**	**(26)**

Reconciliation of effective income tax charge

In thousands of EUR	Consolidated three months ended June 2011	Consolidated three months ended June 2010	Consolidated six months ended June 2011	Consolidated six months ended June 2010
Profit before tax	**224**	**3,042**	**679**	**5,795**
Expected tax expense based on rate of 25.5 % (2010: 25.5 %)	(57)	(776)	(173)	(1,478)
Change in tax rate	–	–	–	68
Tax rate differences in foreign jurisdictions	(38)	185	(196)	346
Tax-exempt income relating to promotional privileges	664	1,508	1,415	2,262
Non-deductable expenses	(13)	–	(30)	–
Non-recognition of tax benefits on losses incurred	(535)	(788)	(992)	(1,178)
Use of tax loss carry forward previously unrecognized	241	–	349	–
Permanent differences	(215)	–	(215)	–
Current taxes for prior years	–	–	–	(66)
Others	8	–	10	20
Effective income tax benefit (expense)	**55**	**129**	**168**	**(26)**

9. Earnings per share

Profit attributable to ordinary shareholders

The calculation of basic and diluted earnings per share for the three months and six months ended June 30, 2011, is based on the profit attributable to ordinary shareholders and amounts to EUR 0.3 million for three months ended June and EUR 0.8 million for six months ended June (three months ended June 30, 2010: EUR 3.2 million and six months ended June 30, 2010: EUR 5.8 million).

Basic earnings per share

In thousands of EUR and shares, except earnings per share	Consolidated three months ended June 2011	Consolidated three months ended June 2010	Consolidated six months ended June 2011	Consolidated six months ended June 2010
Profit attributable to ordinary shareholders	279	3,171	847	5,769
Weighted average number of outstanding ordinary shares	16,335	14,654	16,335	14,649
Earnings per share (EUR)	**0.02**	**0.22**	**0.05**	**0.39**

Weighted average number of ordinary shares for the purpose of diluted earnings per share

The weighted average number of ordinary shares for the purpose of diluted earnings per share includes the dilutive potential shares of SMARTRAC´s stock option schemes:

In thousands of shares	Consolidated three months ended June 2011	Consolidated six months ended June 2011
Weighted average number of outstanding ordinary shares	16,335	16,335
Effect of potential dilutive shares:		
Share options	5	15
Weighted average number of ordinary and dilutive shares	**16,340**	**16,350**

Diluted earnings per share

In thousands of EUR and shares, except earnings per share	Consolidated three months ended June 2011	Consolidated six months ended June 2011
Profit attributable to ordinary shareholders	279	847
Weighted average number of ordinary and dilutive shares	16,340	16,350
Diluted earnings per share (EUR)	**0.02**	**0.05**

10. Property, plant and equipment

Acquisitions

During the six months ended June 30, 2011, the Group acquired tangible assets (accrual method) totalling EUR 7.4 million (six months ended June 30, 2010: EUR 6.4 million).

11. Intangible assets

Development costs

Intangible assets include capitalized development costs (carrying amount) amounting to EUR 5.2 million as at June 30, 2011 (as at June 30, 2010: EUR 5.7 million).

12. Treasury stock

In the first six 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 June 30, 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 June 30, 2011	–	–

13. Share-based payment

Stock option schemes

Total expenses for the SMARTRAC stock option schemes are recorded during the six months ended June 30, 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:

In thousands of EUR	Consolidated three months ended June 2011	Consolidated three months ended June 2010	Consolidated six months ended June 2011	Consolidated six months ended June 2010
Tranche 4	–	21	–	42
Tranche 5	–	17	–	37
Tranche 6	–	2	–	8
Tranche 7	29	14	57	14
Tranche 8	28	11	61	11
Tranche 9	1	–	1	–
Total expenses	**58**	**65**	**119**	**112**

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 2	22.40	Mar 29, 2007	22.11	40 %	5 %	3.97 %	Mar 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	14.19	63 %	0 %	1.26 %	May 14, 2017
Tranche 8	14.13	May 26, 2010	14.00	63 %	5 %	1.26 %	May 26, 2017
Tranche 9	14.84	Aug 4, 2010	14.95	63 %	5 %	0.93 %	Aug 4, 2017

The 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 six months 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 six 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.

14. Secured loans

As at June 30, 2011, a total amount of EUR 7.5 million of the existing syndicated EUR 65 million term and multi-currency revolving facilities agreement was unused (June 30, 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.

15. Contingencies

The company is involved in various lawsuits, claims and proceedings incidental to the normal conduct of its business, including suits in respect of infringement and cancellation of patents and regarding other intellectual property rights. The company has accrued for these loss contingencies when loss is deemed probable and can be estimated. The company regularly evaluates claims and legal proceedings together with their related probable losses to determine whether they should be adjusted based upon the current information available to the company. Legal costs associated with claims are provided for.

16. Related parties

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 six months ended June 2011	Transaction six months ended June 2010
Sales		
Bibliotheca AG	3,218	–
Omnia Technologies Private Ltd.*	170	–
Interest income		**–**
RFID Technologie B.V.*	7	–
Purchases		**–**
Omnia Technologies Private Ltd.	170	–

* please refer to note 1

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

In thousands of EUR	Consolidated June 30, 2011	Consolidated December 31, 2010
Trade and non-trade receivables		
Bibliotheca AG	1,746	1,513
Omnia Technologies Private Ltd.	139	–
Total	**1,885**	**1,513**
Trade payables		
Omnia Technologies Private Ltd.	6	–
Total	**6**	**–**
Other non-current assets		
Citywish Investments Ltd.	278	303
Total	**278**	**303**
Other current assets		
RFID Technologie B.V.	2,007	–
Total	**2,007**	**–**
Capital increase		
Omnia Technologies Private Ltd.	309	–
RFID Technologie B.V.	20,000	–

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.

17. Subsequent events

There are no subsequent events to be reported.

Financial calendar

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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