Interim Report

Q3.2011

In thousands of EUR		Consolidated 9 months ended September 2011	Consolidated 9 months ended September 2010	Change	Change in %
Consolidated income statement					
Revenues		138,799	130,928	7,871	6.0
EBITDA [1]		14,557	15,656	(1,099)	(7.0)
Profit for the period		1,429	5,926	(4,497)	(75.9)
Financial position and liquidity					
Net cash provided by (used in) operating activities		2,394	2,798	(404)	(14.4)
Working capital		53,731	40,810	12,921	31.7
Capital expenditure [2]		12,597	12,092	505	4.2
Total assets		247,281	222,865	24,416	11.0
Operating figures					
Basic earnings per share	EUR	0.09	0.40	(0.31)	(77.5)
Operating cash flow per share	EUR	0.15	0.19	(0.04)	(21.1)
Equity ratio	%	65.5	59.5	6.0	10.1
Headcount	at month's end	3,275	3,435	(160)	(4.7)

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,

The moderate demand in the worldwide RFID industry which we experienced during the first months of the year continued over the course of the second and third quarters of 2011. In the light of this slower than anticipated market development, our company returned to a steadier pace of operations, and we were able to focus our attention on strategic projects.

In addition to targeted investments carried out in the first six months of the year, we have also continued working on the setup and optimization of structures and processes within the Group. A restructuring program was initiated at our core production facilities in Thailand at the beginning of the third quarter, which achieved initial encouraging successes in August and September 2011. The expansion of volume production in our tickets and labels business in Malaysia developed very well and resulted in pleasing output numbers and promising customer acceptance.

Several new products were launched in the first nine months of the year, and new product developments were initiated as well forming a basis for future success. We have also added a significant number of new patents to our patent portfolio. The newly issued patents expand and complement our comprehensive intellectual property (IP) surrounding the existing patents for technology, equipment, and the production of RFID components and related processes. Concomitant with our strong intellectual property, we have been enforcing our patents against infringements in various regions and legal areas and will keep protecting our core technologies and key patents.

In our long experience with executing intellectual property rights, SMARTRAC has experienced time-consuming and cost-intensive proceedings, which not always led to the intended outcome in the various jurisdictions.

SMARTRAC will focus itself by taking a case-by-case approach in monitoring and executing, but also in filing its intellectual property rights by considering a clear cost-benefit-analysis.

From an overall perspective, SMARTRAC maintained its positive business development in the third quarter of 2011 and achieved improvements on the second quarter of the year. In total, the company generated revenues of EUR 44.9 million in the three-month period from July to September 2011.

Looking at the period January to September 2011, SMARTRAC increased sales by 6 percent and generated revenue of EUR 138.8 million for the first nine months 2011, compared to revenues of EUR 130.9 million a year ago. Growth mainly resulted from the successful ramp-up of volume production for new e-ID projects, the favorable development of the tickets and labels business, as well as from constant growth in the Business Unit Industry & Logistics.

The declining trend for contactless payment cards in the United States and the weaker demand for public transport cards which manifested in the second quarter, however, also continued in the period from July to September 2011. Although the resulting underutilization of the company's card inlay production capacity had burdened the Group's profitability in the first six months of the year, the initiated measures have already started to translate into success in the third quarter of 2011. As a result, EBITDA in the third quarter was improved on the second quarter of 2011, as was the EBITDA margin for the period from July to September 2011.

For the nine-month period ended September 30, 2011, EBITDA decreased from EUR 15.7 million in 2010 to EUR 14.6 million in 2011. The EBITDA margin for the first nine months of 2011 accounted for 11 percent, compared with 12 percent a year ago. EBITDA for the first nine months of 2011 excluded extraordinary costs for the restructuring program conducted in Thailand in July and August 2011.

Profit for the nine-month period decreased by 76 percent, from EUR 5.9 million in 2010 to EUR 1.4 million in 2011. This is mainly attributable to a negative development in the financial result for the first nine months of 2011, which was primarily caused by conversion effects due to the unfavorable development in 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.

The strategic steps which had been initiated to maintain and enforce SMARTRAC's leading market position as supplier of high security RFID transponders for electronic identity documents showed further results. The new SMART-AC card inlay which ideally supports customers and governments in the transition from purely paper-based documents to smart and secure contactless smartcards by combining mechanical robustness with the benefits of polycarbonate-based contactless smartcards has been well received on the market. New project wins for the production of high security card inlays for e-national ID cards and electronic permanent resident cards (e-PR) resulted in strong demand in the first nine months of 2011. Business related to the supply of high security RFID projects for e-passports also progressed favorably. Revenues in the Business Unit eID increased by 24 percent from EUR 42.9 million in the first nine months of 2010 to EUR 53.2 million in the same period of 2011.

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.

Despite the positive start into 2011, the Business Unit Cards had to cope with a weakening market, which became increasingly noticeable over the course of the year. Demand for e-payment card inlays in the United States slowed down in particular. Business with non-EMV card inlays dropped significantly, whereas migration to the EMV standard continues to make progress. E-payment business outside of the U.S. developed as expected. Demand for card inlays for public transport systems also slowed down due to project delays. Business with dual interface card inlays and card inlays for access control applications developed moderately in the first nine months of 2011. It was not, however, able to compensate for the decline in the e-payment and public transport business.

As a result of this dampening, the underutilization of the company's card inlay production capacities had a negative effect on the company's profitability in the first nine months of 2011 overall. Revenue in the Business Unit Cards decreased by 14 percent from EUR 55.3 million in the first nine months of 2010 to EUR 47.4 million in the same period of 2011.

In total, Security Segment revenue increased by 2 percent compared with revenue in the same period of 2010. From January to September 2011, the Security Segment accounted for 72 percent of total Group revenue, compared with 75 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.

In the third quarter of 2011, the automotive business showed the usual seasonality over the summer period, which resulted in the expected subsequent decline in sales. Business with non-automotive products developed favorably from January to September 2011 and supported revenue growth of 8 percent in the Business Unit Industry & Logistics, from EUR 26.2 million in the first nine months of 2010 to EUR 28.4 million in the same period of 2011.

The business unit is continuously broadening its product portfolio with both ready-made and customized transponders for a multitude of RFID applications in the automotive and the non-automotive areas. In order to address the specific requirements of efficient laundry management, SMARTRAC has enlarged its product range for laundry management to include the new SMART-S-Tag16 LF. The new, robust transponder operates at a frequency of 125 kHz and perfectly complements the existing product offering. Manufactured using a special injection molding process, the transponder offers high mechanical resistance and withstands water immersion (IP67), heat of up to 200 degrees Centigrade, pressure, and chemicals. Due to its small size and bright color, the tag can be easily and invisibly sewn into linen sheets or working garments. The new laundry tag has been well received on the market and will contribute to the further growth of the business unit.

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.

From January to September 2011, the business unit was able to capitalize on the positive development in the library and retail apparel market. Production capacity at the site in Malaysia was increased step-by-step in order to benefit from the ongoing rise in demand.

The Business Unit Tickets & Labels reported a 56 percent improvement in revenue compared to the same period of 2010. Revenue in the Business Unit Ticket & Labels accounted for EUR 8.9 million in the first nine months of 2011, compared with EUR 5.7 million in 2010. Based on the promising progress made with regard to production volumes, process technologies, and order intake, SMARTRAC will continue to invest in the expansion of the tickets and labels business in order to capitalize on the growth potential of these application fields.

In total, Industry Segment revenue increased by 17 percent over segment revenue in the same period of 2010. From January to September 2011, the Industry Segment accounted for 27 percent of total Group revenue, compared with 24 percent a year ago.

The SMARTRAC Share

In the first nine months of 2011, the SMARTRAC share price ranged from EUR 18.78 (January 6, 2011) to EUR 11.07 (September 14, 2011). The SMARTRAC share price started at EUR 18.47 at the beginning of the year and closed the nine-month period at EUR 11.25. This represents a decrease of 39.1 percent in the period under review. The German DAX dropped 21.3 percent during the same period and the German TecDAX 23 percent.

The first nine months of 2011 saw decreased trading volumes in SMARTRAC shares compared with 2010, due to the 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 September 2011 was around 1,400 shares, compared with roughly 89,000 shares a year ago. The high average trading volume in the first nine months of 2010 was a result of the announcement of the public tender offer made by One Equity Partners in the third quarter of 2010.

The SMARTRAC Management Board is of the opinion that the current share price is also driven by the low free float and the low trading volumes and therefore does not properly reflect the potential of the company.

On September 30, 2011, SMARTRAC N.V. held no treasury stock (September 30, 2010: 192,050 shares). Details on the development of treasury stock are provided in the Notes on page 22 of the report.

There were no changes in SMARTRAC's shareholder structure between January and September 2011. As of September 30, 2011, Manfred Rietzler, Vice Chairman of the SMARTRAC Supervisory Board, held an interest of 9.61 percent in the company. OEP Technologie B.V. holds a total of approximately 87 percent of SMARTRAC shares. The free float as defined by the Deutsche Börse amounts to 3.4 percent.

Six analysts track the financial figures and operational development of SMARTRAC. As of September 30, 2011, the six analysts valued the target price of the SMARTRAC share at EUR 17.58 on average, with the highest target being EUR 22.00 and the lowest target EUR 13.00. The analysts' valuation models and recommendations were in part 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'.

Financial Performance

Group revenue of EUR 138.8 million in the first nine months of 2011 represented growth of 6 percent over the revenue of EUR 130.9 million generated in the first nine months of 2010. Group EBITDA of EUR 14.6 million for January to September 2011 decreased slightly as compared with EBITDA of EUR 15.7 million for the same period in 2010. Despite initial successes achieved by the restructuring program, the under-utilization of the company's card inlay production capacities mentioned earlier still had adverse effects on SMARTRAC's profitability during the nine-month period ended September 30, 2011. Group EBITDA for the first nine months is calculated excluding extraordinary costs for the restructuring program in Thailand implemented in July and August 2011.

SMARTRAC reported a negative net financial result of EUR 3.7 million in the nine-month period of 2011 (previous year: EUR 2.1 million). The negative net effect in 2011 was mainly attributable to ongoing conversion effects due to the unfavorable development of the underlying currencies. Profit for the reporting period subsequently decreased by 76 percent from EUR 5.9 million in 2010 to EUR 1.4 million in 2011.

Segment Development

In the Security Segment (business units Cards and eID), revenue for the first nine months of 2011 amounted to EUR 100.4 million, representing growth of 2 percent over the previous year's EUR 98.2 million. Segment EBITDA in the nine-month period from January to September 2011 declined by 7 percent, from EUR 13.4 million in 2010 to EUR 12.5 million in 2011, due to ongoing high levels of microchip sourcing and the above-mentioned under-utilization of the company's card inlay production capacities.

In the Industry Segment (business units Industry & Logistics and Tickets & Labels) SMARTRAC achieved revenue of EUR 37.4 million in the first nine months of 2011. This represents an increase of 17 percent as compared to revenue of EUR 31.9 million in the previous year. The Industry Segment reported EBITDA of EUR 2.4 million in the first nine months of 2011 (previous year: EUR 2.1 million), representing an increase of 15 percent.

Balance Sheet

As of September 30, 2011, total assets amounted to EUR 247.3 million, compared to EUR 248.5 million as of December 31, 2010. Inventories increased by 14 percent from EUR 33.2 million at year-end 2010 to EUR 37.7 million as of September 30, 2011 in order to maintain flexibility in serving customer requirements at short notice. Trade and nontrade receivables fell by 8 percent from EUR 39.5 million as of December 31, 2010 to EUR 36.4 million as of September 30, 2011. Cash and cash equivalents decreased by 46 percent from EUR 49.6 million as of December 31, 2010 to EUR 26.9 million as of September 30, 2011, mainly attributable to cash flow used in investing activities.

On June 1, 2011, the company announced that SMARTRAC Investment B.V., a wholly owned subsidiary of SMARTRAC N.V., had 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.
In the course of the third quarter of 2011, however, SMARTRAC Investment B.V. sold shares in RFID Technologie B.V. totaling EUR 3 million to OEP Technologie Holding B.V. in order to gain flexibility.

On October 28, 2011, after the end of the reporting period, SMARTRAC Investment B.V. sold its remaining shares in RFID Technologie B.V. in the amount of EUR 17 million to OEP Technologie Holding B.V. after consideration of different strategic options with regard to its minority stake.

From January to September 2011, working capital rose by 23 percent to EUR 53.7 million, compared with EUR 43.7 million as of December 31, 2010. This increase is mainly attributable to the decline in trade and non-trade payables from EUR 24.7 million as of December 31, 2010 to EUR 15.6 million as of September 30, 2011.

SMARTRAC's Group equity amounted to EUR 161.9 million in the period under review, as compared with EUR 161.6 million as of December 31, 2010.

Cash Flow Statement

Cash provided by operating activities amounted to EUR 4.6 million for the first nine months of 2011 (previous year: EUR 5.4 million). This development mainly results from the lower net profit as compared with the same period of 2010 and the increase in working capital in the first nine months of 2011. Taking into account interest paid and received as well as payments for income taxes, net cash provided by operating activities in the first nine months of 2011 amounted to EUR 2.4 million, compared to EUR 2.8 million in 2010.

Net cash used in investing activities amounted to EUR 32.2 million as of September 30, 2011 (previous year: EUR 13.5 million). The higher use in comparison to the same period in 2010 is mainly a result of the investment made by SMARTRAC Investment B.V. in RFID Technologie B.V. in the course of the second quarter of 2011. In addition, EUR 1.3 million was invested in jointly controlled entities.

Net cash generated by financing activities amounted to EUR 6.9 million (previous year: EUR 0.2 million). The financing activities from January to September 2011 are related to proceeds from interest-bearing loans and borrowings and secured loans.

Business Outlook

As a result of the weaker market demand experienced over the course of the year, we focused our attention in the first nine months of 2011 on strategic projects. All strategic projects, including the restructuring program in Thailand, have achieved first encouraging successes. Due to the current flooding in Thailand, we will, however, not be able to benefit from these improvements nor will we be able to continue with the measures we have already initiated to improve processes and structures in the short term.

Thailand is currently facing the worst flooding seen decades. Although several regions have been flooded for months, the Hi-Tech Industrial Estate, where our production facilities are located, and our production facilities themselves remained dry until October 13, 2011, when the dikes surrounding the Hi-Tech Industrial Estate were no longer able to withstand the water. Several smaller cracks as well as one major breach occurred, and water streamed into the industrial park and finally also flooded the ground floors of our production facilities. The production environment upstairs and the items which had been moved to the upper floors as part of the contingency plans were and still are not affected by the high-water. At present, the full extent of damage cannot be foreseen, and we will only be able to assess the full extent of the damage once the ground floors are waterless. SMARTRAC maintains insurance coverage for damages to buildings, machinery, inventory, and business interruption in Thailand.

As the high-water situation impacts not only the SMARTRAC production facilities, but also numerous employees who live in the flooded regions, the SMARTRAC Management Board has decided to implement several measures, such as wage continuation and the establishment of a relief fund, to support fellow employees affected by the flooding.

Currently, the water level in the industrial park and in our production facilities is falling slowly. From today's perspective, we expect to be able to restart production in the Hi-Tech Industrial Estate in the course of January 2012. Based on current planning, we assume that from a Group perspective full production capacity of our global manufacturing network will be re-established in the course of January 2012.

Although the current situation at our core production facilities is severe, we will spare no effort to support our customers in this challenging situation with any means possible. We have, therefore, decided to rent an interim facility east of Bangkok. We intend to furnish the facility with the equipment and machinery which was removed to the upper floors in our production facilities in the Hi-Tech Industrial Estate. We expect that we will be able to have the interim facility up and running early December and that we will be able to supply first products from Thailand as early as December 2011.

For the Management Board

Dr. Christian Fischer
Amsterdam, November 2011

Condensed Consolidated Interim Financial Information for the Nine Months ended September 30, 2011

Condensed consolidated interim statement of comprehensive income

For the nine months ended September 30, 2011 (2010)

In thousands of EUR	Note	Consolidated three months ended September 2011	Consolidated three months ended September 2010	Consolidated nine months ended September 2011	Consolidated nine months ended September 2010
Revenue	5	44,885	50,162	138,799	130,928
Cost of sales	6	(33,336)	(38,036)	(102,322)	(97,340)
Gross profit	5	**11,549**	**12,126**	**36,477**	**33,588**
Administrative expenses	6	(9,722)	(9,079)	(30,819)	(25,728)
Other operating income (expenses)		(443)	67	(704)	132
Total operating expenses		**(10,165)**	**(9,012)**	**(31,523)**	**(25,596)**
Operating profit before financial income (expenses)		**1,384**	**3,114**	**4,954**	**7,992**
Financial income		1,729	853	4,372	9,644
Financial expenses		(2,549)	(3,862)	(8,062)	(11,736)
Net financial expenses (income)	7	**(820)**	**(3,009)**	**(3,690)**	**(2,092)**
Share of loss of jointly controlled entities		(7)	–	(28)	–
Profit before tax		**557**	**105**	**1,236**	**5,900**
Income tax benefit (expenses)	8	25	52	193	26
Profit for the period attributable to the owners of the parent		**582**	**157**	**1,429**	**5,926**
Attributable to the owners of the parent		582	157	1,429	5,926
Foreign exchange translation		460	(918)	(1,282)	1,712
Other comprehensive income (loss), net of tax		**460**	**(918)**	**(1,282)**	**1,712**
Total comprehensive income for the period attributable to the owners of the parent		**1,042**	**(761)**	**147**	**7,638**
Attributable to the owners of the parent		1,042	(761)	147	7,638
Basic earnings per share (EUR)	9	0.04	0.01	0.09	0.40
Diluted earnings per share (EUR)	9	0.04	0.01	0.09	0.40

The accompanying notes (on page 14 to 27) are an integral part of the condensed consolidated interim financial information.

Condensed consolidated interim balance sheet
As at September 30, 2011 (and December 31, 2010)

In thousands of EUR	Note	Consolidated September 30, 2011	Consolidated December 31, 2010
Assets			
Intangible assets	11	61,605	63,206
Property, plant and equipment	10	57,930	54,852
Investment in jointly controlled entities	1	1,174	1
Other investments	1, 17	17,047	–
Deferred tax assets		2,786	2,720
Other non-current assets		2,047	1,644
Total non-current assets		**142,589**	**122,423**
Inventories		37,667	33,204
Trade and non-trade receivables		36,360	39,501
Current income tax		740	751
Other current assets		3,056	2,965
Cash and cash equivalents		26,869	49,613
Total current assets		**104,692**	**126,034**
Total assets		**247,281**	**248,457**
Equity			
Share capital		8,167	8,167
Share premium		96,926	96,743
Translation reserve		769	2,051
Retained earnings		56,049	54,620
Total equity attributable to equity holders of the company		**161,911**	**161,581**
Liabilities			
Secured loans	14	105	50,246
Employee benefits		630	543
Deferred tax liabilities		2,399	2,761
Total non-current liabilities		**3,134**	**53,550**
Bank overdraft		463	212
Current portion of secured loans	14	57,681	415
Trade and non-trade payables		15,552	24,684
Current income tax		722	798
Provisions		–	105
Other current liabilities		7,818	7,112
Total current liabilities		**82,236**	**33,326**
Total liabilities		**85,370**	**86,876**
Total equity and liabilities		**247,281**	**248,457**

The accompanying notes (on page 14 to 27) are an integral part of the condensed consolidated interim financial information.

Condensed consolidated interim statement of cash flows

For the nine months ended September 30, 2011 (2010)

In thousands of EUR	Note	Consolidated nine months ended September 2011	Consolidated nine months ended September 2010
Cash flows from operating activities			
Profit for the period		1,429	5,926
Reconciliation of net profit to net cash provided by (used in) operating activities:			
Income tax benefit (expenses)	8	(193)	(26)
Depreciation and amortization	5	9,177	7,515
(Reversal of) impairment on fixed assets	5	(18)	19
Equity-settled share-based payment transactions	12, 13	183	344
Interest income	7	(192)	(96)
Interest expense	7	2,608	2,594
Other non-cash items		496	(325)
Provision for losses on accounts receivables		282	24
Provision for losses on inventory		816	125
Share of loss (gain) of jointly controlled entities		28	–
Changes in operational assets and liabilities			
Other non-current assets		-	(30)
Inventories		(5,792)	(8,818)
Trade and non-trade receivables		2,732	(4,630)
Other current assets		(110)	(3,859)
Employee benefits		87	84
Trade and non-trade payables		(8,691)	6,877
Deferred tax liabilities		–	(118)
Other current liabilities and provisions		1,739	(246)
Cash provided by (used in) operating activities		**4,581**	**5,360**
Interest paid		(2,254)	(2,209)
Interest received		178	88
Income taxes paid		(111)	(441)
Net cash provided by (used in) operating activities		**2,394**	**2,798**
Cash flows from investing activities			
Purchases of property, plant and equipment		(10,347)	(9,667)
Purchases of intangible assets		(1,769)	(2,425)
Proceeds from sales of equipment		23	211
Deposits paid for property, plant and equipment		(481)	–
Net cash inflow (outflow) on business combinations		(1,313)	(1,306)
Loans made to other parties		–	(294)
Investments in jointly controlled entities		(1,253)	–
Other investments		(17,047)	–
Net cash used in investing activities		**(32,187)**	**(13,481)**
Cash flows from financing activities			
Proceeds from interest-bearing loans and borrowings and secured loans		6,943	6
Repayments of interest-bearing loans and borrowings and secured loans		(23)	(294)
Proceeds from exercise of share options	12	–	42
Net cash provided by (used in) financing activities		**6,920**	**(246)**
Net change in cash and cash equivalents and bank overdrafts		(22,873)	(10,929)
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		(122)	225
Cash and cash equivalents and bank overdrafts at September 30		**26,406**	**28,110**

The accompanying notes (on page 14 to 27) are an integral part of the condensed consolidated interim financial information.

Condensed consolidated interim statement of changes in shareholders' equity

For the nine months ended September 30, 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		–	–	–	5,926	–	5,926
Other comprehensive income (loss)		–	–	1,712	–	–	1,712
Total comprehensive income of the period		**–**	**–**	**1,712**	**5,926**	**–**	**7,638**
Share-based payment – options	13	–	191	–	–	–	191
Share options exercised	12	–	(33)	–	–	75	42
Share-based payment – shares	12	–	(326)	–	–	479	153
Balance as at September 30, 2010		**7,425**	**74,879**	**1,657**	**54,473**	**(5,790)**	**132,644**
Balance as at January 1, 2011		**8,167**	**96,743**	**2,051**	**54,620**	**–**	**161,581**
Profit for the period		–	–	–	1,429	–	1,429
Other comprehensive income (loss)		–	–	(1,282)	–	–	(1,282)
Total comprehensive income of the period		**–**	**–**	**(1,282)**	**1,429**	**–**	**147**
Share-based payment – options	13	–	183	–	–	–	183
Balance as at September 30, 2011		**8,167**	**96,926**	**769**	**56,049**	**–**	**161,911**

The accompanying notes (on page 14 to 27) are an integral part of the condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information for the Nine Months ended September 30, 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 %
International Animal ID LLC	USA	July 29, 2011	Sales Service	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. On August 31, 2011, SMARTRAC Investment B.V. reduced its investment by EUR 3 million. Please refer to note 17 `Subsequent events`.

Establishment of International Animal ID LLC
On July 29, 2011, SMARTRAC established International Animal ID LLC, Chanhassen, USA, a 100 percent subsidiary of SMARTRAC Investment B.V. It provides sales services for the animal identification market.

Employees
As at September 30, 2011, the Group employed 3,275 employees (3,435 as of June 30, 2011; 3,435 as of September 30, 2010; 3,325 as of June 30, 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 November 7, 2011. The condensed consolidated interim financial statements for the period ended September 30, 2011, were not subject to a limited interim review.

3. Significant accounting policies and methods of computation

The accounting policies and methods of computation applied by the Group in the condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements of the Group as at and for the year ended December 31, 2010.

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

4. Estimates

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

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

5. Segment reporting

Consolidated segment information by business segments for the nine months ended September 2011 (2010)

	Security		Industry		All other		Eliminations		Consolidated	
In thousands of EUR	Nine months ended Sep. 2011	Nine months ended Sep. 2010	Nine months ended Sep. 2011	Nine months ended Sep. 2010	Nine months ended Sep. 2011	Nine months ended Sep. 2010	Nine months ended Sep. 2011	Nine months ended Sep. 2010	Nine months ended Sep. 2011	Nine months ended Sep. 2010
Segment revenue										
Revenue from external customers	100,436	98,202	37,075	31,895	1,288	831	–	–	138,799	130,928
Revenue from transactions with other segments	–	3	284	2	4,436	2,223	(4,720)	(2,228)	–	–
Total revenue	**100,436**	**98,205**	**37,359**	**31,897**	**5,724**	**3,054**	**(4,720)**	**(2,228)**	**138,799**	**130,928**
Segment result										
Gross profit	26,473	25,767	9,089	7,168	1,512	1,046	(597)	(393)	36,477	33,588
Operating income (expenses)	(19,476)	(16,383)	(10,393)	(8,228)	(1,699)	(975)	45	(10)	(31,523)	(25,596)
Operating profit (loss)	6,997	9,384	(1,304)	(1,060)	(187)	71	(552)	(403)	4,954	7,992
Net financial expenses (income)									(3,690)	(2,092)
Share of loss of jointly controlled entities									(28)	–
Profit before tax benefit (expense)									**1,236**	**5,900**
Income tax benefit (expense)									193	26
Profit for the period									**1,429**	**5,926**
Supplemental information										
Operating profit (loss)	6,997	9,384	(1,304)	(1,060)	(187)	71	(552)	(403)	4,954	7,992
Depreciation, amortization and impairment	5,122	3,989	3,599	3,116	568	508	(130)	(79)	9,159	7,534
Exceptional items**	340	–	74	-	30	130	–	–	444	130
Segment EBITDA*	**12,459**	**13,373**	**2,369**	**2,056**	**411**	**709**	**(682)**	**(482)**	**14,557**	**15,656**

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.

** Restructuring costs for the year 2011. Please refer to note 6. In the year 2010 legal and financial consultancy with regard to the ongoing voluntary takeover offer for SMARTRAC.

Revenues by subsegment were as follows:

In thousands of EUR	Consolidated nine months ended September 2011	Consolidated nine months ended September 2010
Segment Security		
eID	53,212	42,941
Cards	47,390	55,264
Intrasegment eliminations	(166)	–
Subtotal	**100,436**	**98,205**
Segment Industry		
Tickets & Labels	8,916	5,703
Industry & Logistics	28,443	26,243
Intrasegment eliminations	–	(49)
Subtotal	**37,359**	**31,897**
Segment All Other	**5,724**	**3,054**
Intersegment eliminations	(4,720)	(2,228)
Total	**138,799**	**130,928**

Geographical segments

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

In thousands of EUR	Consolidated nine months ended September 2011	Consolidated nine months ended September 2010
Revenues		
Asia	24,948	24,639
Europe	79,655	66,368
Latin America	9,569	8,313
North America	24,002	31,148
Others	625	460
Total revenues	**138,799**	**130,928**

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

In thousands of EUR	Consolidated nine months ended September 2011	Consolidated nine months ended September 2010
Revenues		
Total revenue for reportable segments	137,795	130,102
Other revenue	5,724	3,054
Elimination of inter-segment revenue	(4,720)	(2,228)
Consolidated revenue	**138,799**	**130,928**
Profit or loss		
Total EBITDA for reportable segments	14,828	15,429
Other EBITDA	411	709
All EBITDA (before inter-segment elimination)	**15,239**	**16,138**
Elimination of inter-segment profits	(682)	(482)
Unallocated amounts:		
Financial result	(3,690)	(2,092)
Depreciation, amortization and impairment	(9,159)	(7,534)
Share of profit of jointly controlled entities	(28)	–
Exceptional items	(444)	(130)
Consolidated profit before income tax	**1,236**	**5,900**

6. Exceptional items

Within the nine months ended September 30, 2011, operating profit included exceptional items for restructuring of our Thailand site that occurred in July and August. The total restructuring costs for this program amount to EUR 444,000. This amount contains EUR 179,000 cost of sales and EUR 265,000 administrative expenses.

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 September 2011	Consolidated three months ended September 2010	Consolidated nine months ended September 2011	Consolidated nine months ended September 2010
Change in fair value	18	828	802	1,042
Interest income	47	25	192	96
Foreign exchange gains	1,664	–	3,378	8,506
Financial income	**1,729**	**853**	**4,372**	**9,644**
Change in fair value	(548)	(202)	(809)	(1,329)
Interest expenses	(893)	(865)	(2,608)	(2,594)
Bank charges	(86)	(126)	(325)	(445)
Foreign exchange losses	(1,022)	(2,669)	(4,320)	(7,368)
Financial expenses	**(2,549)**	**(3,862)**	**(8,062)**	**(11,736)**
Net financial expenses (income)	**(820)**	**(3,009)**	**(3,690)**	**(2,092)**

8. Corporate income tax

Recognized in the income statement

In thousands of EUR	Consolidated three months ended September 2011	Consolidated three months ended September 2010	Consolidated nine months ended September 2011	Consolidated nine months ended September 2010
Current corporate tax expenses (benefit)	(107)	(349)	(235)	(457)
Deferred tax benefit	132	401	428	483
Income tax benefit (expense)	**25**	**52**	**193**	**26**

Reconciliation of effective income tax charge

In thousands of EUR	Consolidated three months ended September 2011	Consolidated three months ended September 2010	Consolidated nine months ended September 2011	Consolidated nine months ended September 2010
Profit before tax	**557**	**105**	**1,236**	**5,900**
Expected tax expense based on rate of 25.5 % (2010: 25.5 %)	(142)	(27)	(315)	(1,505)
Change in tax rate	–	(136)	–	(68)
Tax rate differences in foreign jurisdictions	(88)	(768)	(284)	(422)
Non-deductable expenses	(191)	(14)	(221)	(14)
Tax-exempt income relating to promotional privileges	933	250	2,348	2,512
Non-recognition of tax benefits on losses incurred	(572)	251	(1,564)	(927)
Use of tax loss carry forward previously unrecognized	145	458	494	458
Permanent differences	(61)	–	(276)	–
Current taxes for prior years	–	82	–	16
Others	1	(44)	11	(24)
Effective income tax benefit (expense)	**25**	**52**	**193**	**26**

9. Earnings per share

Profit attributable to ordinary shareholders

The calculation of basic and diluted earnings per share for the three months and nine months ended September 30, 2011, is based on the profit attributable to ordinary shareholders and amounts to EUR 0.6 million for three months ended September and EUR 1.4 million for nine months ended September (three months ended September 30, 2010: EUR 0.2 million and nine months ended September 30, 2010: EUR 5.9 million).

Basic earnings per share

In thousands of EUR and shares, except earnings per share	Consolidated three months ended September 2011	Consolidated three months ended September 2010	Consolidated nine months ended September 2011	Consolidated nine months ended September 2010
Profit attributable to ordinary shareholders	582	157	1,429	5,926
Weighted average number of outstanding ordinary shares	16,335	14,656	16,335	14,652
Earnings per share (EUR)	**0.04**	**0.01**	**0.09**	**0.40**

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

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

In thousands of shares	Consolidated three months ended September 2011	Consolidated nine months ended September 2011
Weighted average number of outstanding ordinary shares	16,335	16,335
Effect of potential dilutive shares:		
Share options	7	13
Weighted average number of ordinary and dilutive shares	**16,342**	**16,348**

Diluted earnings per share

In thousands of EUR and shares, except earnings per share	Consolidated three months ended September 2011	Consolidated nine months ended September 2011
Profit attributable to ordinary shareholders	582	1,429
Weighted average number of ordinary and dilutive shares	16,342	16,348
Diluted earnings per share (EUR)	**0.04**	**0.09**

10. Property, plant and equipment

Acquisitions

During the nine months ended September 30, 2011, the Group acquired tangible assets (accrual method) totalling EUR 10.3 million (nine months ended September 30, 2010: EUR 10.5 million).

11. Intangible assets

Development costs

Intangible assets include capitalized development costs (carrying amount) amounting to EUR 4.8 million as at September 30, 2011 (as at September 30, 2010: EUR 5.9 million).

12. Treasury stock

In the first nine 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. Additionally, in August 2010 SMARTRAC granted 983 shares to a selected employee decreasing the treasury stock in total by EUR 479,000. Furthermore 2,500 vested options of the Stock Option Scheme 2006 were exercised and decreased the treasury stock by EUR 75,000.

The table below shows the development of treasury stock:

Month	Number of shares	Average share price in EUR
Total as at January 1, 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
Total as at September 30, 2011	**192,050**	**30.14**
October 2010 (sale Treasury Stock)	(192,050)	30.14
Total as at January 1, 2011	–	–
Movement current year	–	–
Total as at September 30, 2011	–	–

13. Share-based payment

Stock option schemes

Total expenses for the SMARTRAC stock option schemes are recorded during the nine months ended September 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 September 2011	Consolidated three months ended September 2010	Consolidated nine months ended September 2011	Consolidated nine months ended September 2010
Tranche 4	–	(7)	–	35
Tranche 5	–	19	–	55
Tranche 6	–	5	–	12
Tranche 7	29	29	86	43
Tranche 8	34	34	95	46
Tranche 9	1	–	2	–
Total expenses	**64**	**80**	**183**	**191**

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	14.90	63 %	0 %	1.26 %	May 14, 2017
Tranche 8	14.13	May 26, 2010	14.00	63 %	5 %	1.26 %	May 26, 2017
Tranche 9	14.84	Aug 4, 2010	14.95	63 %	5 %	0.93 %	Aug 4, 2017

The fair value of the stock options is based on the single tranche and the staggered vesting period, which is shown in the table below.

Tranche	Fair value in EUR
Tranche 2	6.86
Tranche 3	9.11
Tranche 7	6.25
Tranche 8	5.90
Tranche 9	6.31

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

During the first nine months of 2011, no vested stock options were exercised (2010: 2,500 options).

Stock plan

Due to the termination of the Stock Plan in 2010 no further stock grants were performed in 2011. During the first nine months of 2010 the treasury stock decreased by 15,901 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 September 30, 2011, a total amount of EUR 7.5 million of the existing syndicated EUR 65 million term and multicurrency revolving facilities agreement was unused (September 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

Identity of the related parties

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

The Group shows the following transactions with related parties:

In thousands of EUR	Transaction nine months ended September 2011	Transaction nine months ended September 2010
Sales		
Bibliotheca AG	4,538	3,307
Omnia Technologies Private Ltd.*	170	–
Interest income		
RFID Technologie B.V.*	18	–
Other operating income		
Bibliotheca AG	17	–
Purchases		
Omnia Technologies Private Ltd.	104	–
Cost recharge		
Citywish Investments Ltd.	–	267

* please refer to note 1

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

In thousands of EUR	Consolidated September 30, 2011	Consolidated December 31, 2010
Trade and non-trade receivables		
Bibliotheca AG	2,503	1,513
Omnia Technologies Private Ltd.	75	–
Total	**2,578**	**1,513**
Trade payables		
Omnia Technologies Private Ltd.	15	–
Total	**15**	**–**
Other non-current assets		
Citywish Investments Ltd.	294	303
Total	**294**	**303**
Other current assets		
Bibliotheca AG	6	–
Total	**6**	**–**
Capital increase		
Omnia Technologies Private Ltd.	309	–
RFID Technologie B.V.	17,000	–

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

As a result of the heavy rains in Thailand, the dikes surrounding the Hi-Tech Industrial Estate were not able to bear up against the water. On October 13, 2011, several smaller cracks as well as one major breach occurred. As a consequence water flew into our production buildings. Based on the preventive measures which we had taken and the contingency plans in place, production environment, equipment, and materials which we had moved upstairs were not affected by the high-water. Currently, it cannot be foreseen, if the equipment in the ground floor of our production facilities will be damaged completely. We will only be able to assess the full extent of damage as soon as the ground floors are waterless as duration of the flooding of our facilities also has an impact on the overall degree of damage. SMARTRAC maintains insurance coverage for damages on buildings, machinery, inventory, and business interruption in Thailand.

In the short term, SMARTRAC will make use of its global production network to serve customers.

Additionally, in October SMARTRAC´s 100 percent subsidiary SMARTRAC Investment B.V. sold its remaining shares in RFID Technologie B.V. to OEP Technologie Holding B.V.

Further information:
www.smartrac-group.com

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