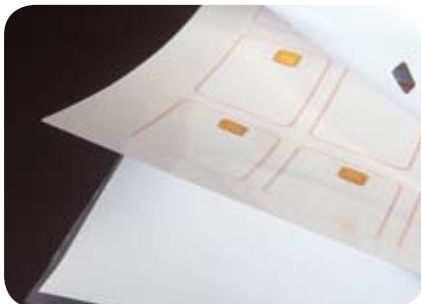


Q1 | Q2 | Q3 | Q4

## Interim Report

2nd Quarter 2008



## 2 Key data

In thousands of euro	Consolidated six months ended June 2008	Consolidated six months ended June 2007	Change	Change in %	
<b>Consolidated income statement</b>					
Revenues	49,605	40,662	8,943	22.0	
EBITDA <sup>1)</sup>	11,468	10,436	1,032	9.9	
Net profit after tax	8,171	9,217	(1,046)	(11.3)	
<b>Financial position and liquidity</b>					
Cash flow from operating activities	8,758	7,663	1,095	14.3	
Working capital	21,584	13,993	7,591	54.2	
Capital expenditure <sup>2)</sup>	7,488	3,962	3,526	89.0	
Total assets	114,681	91,096	23,585	25.9	
<b>Operating figures</b>					
Basic earnings per share	euro	0.62	0.69	(0.07)	(10.1)
Cash flow per share	euro	0.66	0.57	0.09	15.9
Equity ratio (-)	%	77.6	81.3	(3.65)	(4.5)
Headcount	at month's end	2,739	2,330	409	17.6

1) EBITDA is defined as operating profit for the period before depreciation, amortization, IPO costs, 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. In 2007 SMARTRAC did not include expenditures for intangible assets according to the method stated above. Therefore the comparative figure for 2007 was changed.



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**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.

## Report of the Management Board

### **SMARTRAC shows growth in sales and EBITDA from January to June 2008**

With an increase in sales and EBITDA from January to June 2008 compared to the first six months of 2007, SMARTRAC remains on a path of profitable growth.

From a strategic perspective, the first half year of 2008 was characterized by stable business development in our existing product lines as well as by the ongoing preparation for the market entry of new product lines with an etched antenna initially for applications in mass transit as well as RFID components for bio and logistics.

Sales of euro 49.6 million within the first six months of 2008 represent an increase of some 22 percent compared to sales of euro 40.7 million in the first half of 2007. EBITDA (including EBITDA from other operations) of euro 11.5 million from January to June 2008 is up 9.9 percent compared to EBITDA of euro 10.4 million in 2007.

From January to June 2008, SMARTRAC generated a net profit of euro 8.2 million which represents a decrease of 11.3 percent compared to a net profit of euro 9.2 million in the same period in 2007. The decrease was caused to a large extent by translation effects due to changes in the exchange rate between the euro and the U.S. Dollar as well as the Thai Baht.

Sales in the first six months of 2008 in the High Security segment reached euro 30.1 million, representing an increase of some 7 percent compared to sales of euro 28.2 million from the same period of the previous year. EBITDA in the first half year 2008 went up some 11 percent to euro 10.3 million compared to euro 9.2 million from January to June 2007. This means that RFID inlays for ePassports and ePayment applications continued to account for an essential part of the overall EBITDA of the company.

RFID inlays for ePassport applications subsumed under the company's High Security segment remained the single biggest product line of SMARTRAC in the reporting period. Despite a one time effect of lower than expected shipments of RFID inlays for ePassports in the second quarter of 2008, the ePassport business is developing overall, as expected by SMARTRAC. The company has been chosen to supply the RFID inlay for major ePassport projects in countries around the world since the beginning of this year and could therefore further increase its total worldwide market share in this key segment of the RFID industry.

ePayment applications, the second product line under SMARTRAC's High Security segment, are gaining momentum with excellent future prospects. In this product line, too, SMARTRAC has extended its market leadership. From January to June 2008 ePayment accounts for sales of euro 7.1 million, representing an increase of 40.4 percent compared to sales of euro 5 million for the same period in 2007.

Sales in the Standard segment for the first six months of 2008 of euro 19.7 million are 55 percent higher compared to sales of euro 12.7 million from the comparable period in 2007. With EBITDA of euro 2.4 million in the first half year of 2008, the Standard segment returned a slight increase on the EBITDA of euro 2.2 million recorded in the same period in 2007.

This development was mainly driven by cost factors which will also be decisive for general business development throughout the full year 2008. EBITDA growth in the first half year of 2008 was not proportional to sales growth mainly due to the ramp-up costs for the new product lines, eTickets with etched antennas, and RFID components for animal identification and logistics.

On April 8, 2008, the share buyback scheme of SMARTRAC N.V. came to a conclusion. The buyback program started on February 4, 2008, and was conducted via the stock exchange. SMARTRAC had authorized a bank to conduct the share buyback.

Our two additional antenna technologies, etching and coil-winding, are being used for an increasing number of inlays.



In the course of the share buyback, an overall number of 220,170 shares were bought back at an average price of approximately euro 34.06 per share making for a total value of euro 7.5 million. The SMARTRAC Management Board intends to utilize the shares from the buyback for acquisitions and to service the company's employee share and stock option program.

In June 2008, production and shipments of RFID components from SMARTRAC's production location in Thailand exceeded 20 million units in one single month for the first time. The majority of inlays are manufactured with SMARTRAC's advanced and proprietary wire-embedding technology.

Within its worldwide production network, SMARTRAC maintains production locations in Brazil, the USA and Germany. The second largest production facility is located in the Manaus province in Brazil. Here the company focuses mostly on the production of RFID inlays for the local market, accounting for a production capacity of some two million units a month.

#### *Active card*

SMARTRAC is committed to providing a production concept that guarantees economic manufacturing with minimal ecological impact. In this regard, the company's four factories in Ayutthaya, Thailand, have been recently certified under the internationally renowned environmental standard ISO 14001.

### Financial and operational development

Net cash provided by operating activities amounted to euro 8.8 million for the first six months in 2008

Beside net cash outflows on tangible and intangible assets, cash flows from investing activities increased because of a favorable net cash inflow due to the first time inclusion of Xytec Solutions Sdn. Bhd, Malaysia (Xytec).



**Etched antennas** (compared to euro 7.7 million for the same period in the previous year).

The increase of operating cash flow is mainly due to the fact that the working capital related cash outflow of euro 2.6 million in the first six months of 2008 was euro 1.0 million less than the working capital related cash outflow in the first six months of 2007.

Net cash provided by investing activities amounted to euro 4.3 million as of June 30, 2008, compared to net cash used of euro 4.2 million for the same period of 2007. This development is due to the cash inflow from the sale of short-term investments, amounting to euro 10.5 million, this effect being partially reduced by higher investments in fixed assets and intangible assets.

Net cash used in financing activities amounted to euro 10.7 million (first half year 2007: euro 5.6 million) and can be explained by the cash outflow for the second SMARTRAC share buyback program (euro 7.5 million; first half year 2007: euro 5.0 million for the first share buyback program) and the net repayment of external loans and borrowings amounting to euro 3.2 million (first half year 2007: euro 0.6 million).

Total assets as of June 2008 decreased to euro 114.7 million from euro 116.5 million as of December 2007.

Property, plant and equipment increased by euro 5.3 million. Intangible assets increased by euro 2.4 million, primarily driven by the capitalization of goodwill (euro 1.3 million) related to the first time inclusion of Xytec, and the capitalization of development costs (euro 0.6 million).



Due to a change in the asset management portfolio and the need to finance the second share buyback program, as well as a decision to reduce outstanding financial debt, the company sold a substantial portion of its short-term investments in the first half year of 2008.

External borrowings to finance investments and working capital decreased by euro 3.1 million in the first six months of 2008.

In comparison to December 2007, working capital remained relatively constant at euro 21.6 million (December 2007: euro 21.2 million).

*Glass tags*

### **Business outlook**

On the basis of a stronger second half of the year, SMARTRAC is confident of reaching total sales of some euro 124 million, EBITDA is expected to increase to some euro 27 million for the full year 2008.

SMARTRAC already anticipates the first projects in the eID business which will further strengthen the High Security segment. The market for credit cards with a contactless payment function is expected to gain further momentum. This development will directly translate into further growth for SMARTRAC since the company has a dominant market share in this segment as a supplier of RFID inlays.

Additional prospects for the High Security segment will come from the market segment for active cards. Inlays for active cards are a new product line in SMARTRAC's High Security segment. The new card inlays rely on SMARTRAC's advanced, proprietary wire-embedding technology that has proven to be best suited for high-profile applications. Moreover, SMARTRAC has developed a specific lamination technology that is able to securely embed all electronic components in the inlay. With a modular design system, SMARTRAC is able to fulfill different kinds of customer requirements and application fields.

SMARTRAC recently received the first volume order for its highly secure inlays for active cards. These products differ from conventional RFID-card inlays in terms of their components and functionality. Including a battery, switch, display and microchip, these cards are, for example, able to generate one-time-passwords (OTP) that increase the security of ePayment processes significantly.

SMARTRAC is currently building up an additional factory in Kulim, Malaysia, for the production of aluminium-based etched antennas for eTickets. These tickets are mainly used in cost-sensitive areas such as libraries or for daily tickets in mass transportation. The company is also in the course of bringing new products in animal ID and logistics to market. The new product lines are expected to contribute to the further growth of the company from the second half of 2008 onwards. They will be assigned to the Standard segment, thus contributing to stronger overall sales from the Standard segment over time.

Compared to the company's High Security segment, the Standard segment sales are characterized by a higher portion of chip sourcing on which SMARTRAC does not realize the same margins as on its core competency of building inlays. The higher portion of Standard segment sales will therefore have a certain impact on the overall profitability margin for the full year 2008.

In July 2008, SMARTRAC signed a contract on the formation of RFTAG Holding based in Hong Kong, China. According to this contract, SMARTRAC will acquire 30 percent of the shares in RFTAG Holding and have an option to take over the remaining shares. Both companies will work together in order to produce RFID inlays for the local Chinese market under the local RFTAG subsidiary based in Shenzhen, China. The contract is subject to standard closing conditions.

Under this contract, the local Chinese production subsidiary will receive a non-exclusive license for the application of SMARTRAC's proprietary wire-embedding technology in the manufacturing of RFID inlays for China. This means that RFTAG will be the only Chinese manufacturer authorized to use this patented production technology. The joint venture will open up the important Chinese market for SMARTRAC. The presence in the market will also enable SMARTRAC to take further action to protect its intellectual property in China as well.

Based on its unique positioning in the RFID value chain, the largest production capacities worldwide, a global network in R&D, production and sales, a broad technology base, and a strategy of profitable growth flanked by a growing RFID market, SMARTRAC is well positioned to deliver further innovative RFID solutions. These solutions will continue to gain importance in various fields of application. Part of this growth will happen in product segments which are mainly driven by regulatory requirements that make certain RFID applications mandatory, a development which will be relatively independent of overall economic cycles. SMARTRAC will profit from these RFID growth trends and will actively contribute to shaping future developments in the RFID industry.

## Condensed consolidated interim financial statements for the six months ended 30 June 2008

### Condensed consolidated interim income statement For the six months ended 30 June

In thousands of euro	Note	Consolidated three months ended June 2008	Consolidated three months ended June 2007	Consolidated six months ended June 2008	Consolidated six months ended June 2007
Revenues	6	22,478	21,210	49,605	40,662
Cost of sales		(13,434)	(12,095)	(29,163)	(23,438)
<b>Gross profit</b>	6	<b>9,044</b>	<b>9,115</b>	<b>20,442</b>	<b>17,224</b>
Administrative expenses		(5,458)	(4,033)	(11,152)	(7,731)
Other operating income (expenses)		29	(242)	82	(635)
<b>Total operating expenses</b>		<b>(5,429)</b>	<b>(4,275)</b>	<b>(11,070)</b>	<b>(8,366)</b>
<b>Operating profit before financial income (expenses)</b>		<b>3,615</b>	<b>4,840</b>	<b>9,372</b>	<b>8,858</b>
Financial income		642	42	728	336
Financial expenses		(427)	(452)	(1,661)	(121)
<b>Net financial income (expenses)</b>	7	<b>215</b>	<b>(410)</b>	<b>(933)</b>	<b>215</b>
Share of profit of associates		0	250	0	250
<b>Profit before tax</b>		<b>3,830</b>	<b>4,680</b>	<b>8,439</b>	<b>9,323</b>
Income tax (expense) benefit	8	(145)	(6)	(268)	(106)
<b>Profit for the period</b>		<b>3,685</b>	<b>4,674</b>	<b>8,171</b>	<b>9,217</b>
Basic earnings per share (euro)	9	0.28	0.35	0.62	0.69
Diluted earnings per share (euro)	9	0.28	0.35	0.62	0.69

## Condensed consolidated interim balance sheet

### As at 30 June

In thousands of euro	Note	Consolidated 30 June 2008	Consolidated 31 December 2007
<b>Assets</b>			
Property, plant and equipment	10	32,176	26,879
Intangible assets	11	11,223	8,885
Investments in subsidiaries	1	415	–
Investments in associates		–	240
Deferred tax assets		2,231	2,068
Other non-current assets		20	32
<b>Total non-current assets</b>		<b>46,065</b>	<b>38,104</b>
Inventories		14,382	13,072
Trade receivables		24,202	25,415
Other current assets		1,913	3,250
Short-term investments		11,466	22,060
Cash and cash equivalents		16,653	14,589
<b>Total current assets</b>		<b>68,616</b>	<b>78,386</b>
<b>Total assets</b>		<b>114,681</b>	<b>116,490</b>
<b>Equity</b>			
Share capital		6,750	6,750
Share premium		55,173	54,463
Translation reserve		(195)	(86)
Retained earnings		38,030	29,859
Treasury stock	12	(10,713)	(4,798)
<b>Total equity</b>		<b>89,045</b>	<b>86,188</b>
<b>Liabilities</b>			
Secured loans		1,361	2,112
Deferred tax liabilities		515	321
<b>Total non-current liabilities</b>		<b>1,876</b>	<b>2,433</b>
Bank overdraft		243	271
Current portion of secured loans		456	194
Interest-bearing loans and borrowings		4,148	6,878
Employee benefits		138	103
Trade and non-trade payables		15,478	15,289
Other current liabilities		3,297	5,134
<b>Total current liabilities</b>		<b>23,760</b>	<b>27,869</b>
<b>Total liabilities</b>		<b>25,636</b>	<b>30,302</b>
<b>Total equity and liabilities</b>		<b>114,681</b>	<b>116,490</b>

## Condensed consolidated interim statement of cash flows

### For the six months ended 30 June

In thousands of euro	Note	Consolidated six months ended June 2008	Consolidated six months ended June 2007
<b>Cash flows from operating activities</b>			
Net profit	6	8,171	9,217
Reconciliation of net profit to net cash provided by (used in) operating activities:			
Depreciation and amortization	6	2,096	1,578
Other non-cash items		403	142
Expenses for share based payments	13	674	242
(Reversal of) write down of inventories		(9)	230
Impairments on trade and other receivables		–	86
Share of loss (profit) of associates		–	(250)
Decrease (increase) in operational assets:			
Other non-current assets		14	15
Inventories		(982)	(3,010)
Other current assets		(104)	(157)
Trade receivables		693	(4,240)
Employee benefits		35	4
Trade and non-trade payables		(424)	2,413
Other current liabilities		(1,809)	1,393
<b>Net cash provided by operating activities</b>		<b>8,758</b>	<b>7,663</b>
<b>Cash flows from investing activities</b>			
Investment in non-consolidated subsidiaries		(415)	–
Purchase of intangible assets	11	(1,069)	(589)
Purchases of property, plant and equipment	10	(6,170)	(3,373)
Deposits paid for property, plant and equipment		(249)	–
Proceeds from the sale of equipment		499	–
Net cash inflow (outflow) on purchase of consolidated subsidiaries		1,217	(257)
Cash inflow on sale of short-term investments		10,533	–
<b>Net cash provided by (used in) investing activities</b>		<b>4,346</b>	<b>(4,219)</b>
<b>Cash flows from financing activities</b>			
Proceeds from interest-bearing loans and borrowings and secured installment loan		1,207	–
Repayments of interest-bearing loans and borrowings and secured installment loan		(4,409)	(527)
Interests paid		–	(36)
Share buyback	12	(7,529)	(5,020)
<b>Net cash used in financing activities</b>		<b>(10,731)</b>	<b>(5,583)</b>
Net change in cash and cash equivalents and bank overdrafts		2,373	(2,139)
Cash and cash equivalents and bank overdrafts at 1 January		14,318	35,044
Effect of exchange rate fluctuations on cash and cash equivalents and bank overdrafts		(281)	25
Effect of first time inclusion of subsidiaries on cash		–	(66)
<b>Cash and cash equivalents and bank overdrafts at 30 June</b>		<b>16,410</b>	<b>32,864</b>

**Condensed consolidated interim statement of changes in shareholders' equity**  
**For the six months ended 30 June**

In thousands of euro	Note	Issued and paid-up share capital	Share premium	Translation reserve	Retained earnings	Treasury stock	Total
Balance as at 1 January 2007		6,750	53,548	24	9,119	–	69,441
Net profit for the period		–	–	–	4,543	–	4,543
<b>Total income of the period</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>4,543</b>	<b>–</b>	<b>4,543</b>
IPO costs reversed to share premium (directly into equity)		–	54	–	–	–	54
Share based payment – options	13	–	55	–	–	–	55
<b>Balance as at 31 March 2007</b>		<b>6,750</b>	<b>53,657</b>	<b>24</b>	<b>13,662</b>	<b>–</b>	<b>74,093</b>
Balance as at 1 April 2007		6,750	53,657	24	13,662	–	74,093
Foreign exchange translation		–	–	7	–	–	7
Net profit for the period		–	–	–	4,674	–	4,674
<b>Total income of the period</b>		<b>–</b>	<b>–</b>	<b>7</b>	<b>4,674</b>	<b>–</b>	<b>4,681</b>
IPO costs reversed to share premium (directly into equity)		–	140	–	–	–	140
Share buyback – treasury stock	12	–	–	–	–	(5,020)	(5,020)
Share based payment – options	13	–	187	–	–	–	187
<b>Balance as at 30 June 2007</b>		<b>6,750</b>	<b>53,984</b>	<b>31</b>	<b>18,336</b>	<b>(5,020)</b>	<b>74,081</b>
Balance as at 1 January 2008		6,750	54,463	(86)	29,859	(4,798)	86,188
Foreign exchange translation		–	–	(180)	–	–	(180)
Net profit for the period		–	–	–	4,486	–	4,486
<b>Total income of the period</b>		<b>–</b>	<b>–</b>	<b>(180)</b>	<b>4,486</b>	<b>–</b>	<b>4,306</b>
Share buyback – treasury stock	12	–	–	–	–	(6,462)	(6,462)
Settlement of asset deal	12	–	24	–	–	1,437	1,461
Share based payment – options	13	–	337	–	–	–	337
<b>Balance as at 31 March 2008</b>		<b>6,750</b>	<b>54,824</b>	<b>(266)</b>	<b>34,345</b>	<b>(9,823)</b>	<b>85,830</b>
Balance as at 1 April 2008		6,750	54,824	(266)	34,345	(9,823)	85,830
Foreign exchange translation		–	–	71	–	–	71
Net profit for the period		–	–	–	3,685	–	3,685
<b>Total income of the period</b>		<b>–</b>	<b>–</b>	<b>71</b>	<b>3,685</b>	<b>–</b>	<b>3,756</b>
Share buyback – treasury stock	12	–	–	–	–	(1,067)	(1,067)
Share based payment – options	13	–	337	–	–	–	337
Share based payment – shares	13	–	12	–	–	177	189
<b>Balance as at 30 June 2008</b>		<b>6,750</b>	<b>55,173</b>	<b>(195)</b>	<b>38,030</b>	<b>(10,713)</b>	<b>89,045</b>

## Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2008

### 1. Reporting entity

SMARTRAC N.V. as the holding company for the SMARTRAC Group (the Group) comprises the following consolidated entities:

Company	Country of incorporation	Date of incorporation/ inclusion	Business type	Ownership and voting interest
<b>Direct Holdings</b>				
SMARTRAC TECHNOLOGY Ltd.	Thailand	1 January 2000	Manufacturing	100 %
SMARTRAC TECHNOLOGY GmbH	Germany	17 November 2003	Manufacturing/ Service Centre	100 %
SMARTRAC TECHNOLOGY Pte. Ltd.	Singapore	7 October 2005	Sales Service	100 %
multitape GmbH	Germany	26 January 2007	Manufacturing	100 %
SMARTRAC TECHNOLOGY Brazil B.V.	The Netherlands	27 February 2007	Holding	100 %
SMARTRAC TECHNOLOGY US Inc.	USA	31 August 2007	Manufacturing	100 %
SMARTRAC IP B.V.	The Netherlands	18 January 2007	IP Management	100 %
multitape Holding B.V.	The Netherlands	3 September 2007	Holding	100 %
Xytec Solutions Sdn. Bhd.	Malaysia	21 January 2008	Manufacturing	100 %
<b>Indirect Holdings</b>				
SMARTRAC TECNOLOGIA INDÚSTRIA E COMERCIO DA AMAZÔNIA Ltda.	Brazil	15 July 2007	Manufacturing	100 %
SMARTRAC Trading Pte. Ltd.	Singapore	22 March 2007	Trading	100 %
Multitape Technology (M) Sdn. Bhd.	Malaysia	3 October 2007	Manufacturing	100 %

The following company was acquired during the accounting period in the scope of consolidation for the first time:

Company	Located in	Date of first time inclusion	Percentage of acquisition
Xytec Solutions Sdn. Bhd.	Pulau Pinang, Malaysia	21 January 2008	100 %

On 21 January, 2008 SMARTRAC acquired the remaining seventy per cent of the issued share capital of Xytec Solutions Sdn. Bhd., Pulau Pinang, Malaysia (subject to conditions precedent). The acquisition costs contain the purchase price according to the Share Purchase Agreement of 66,184 shares in SMARTRAC plus the incidental acquisition costs of euro 53,000. The fair value of the SMARTRAC shares was determined at euro 28.35 per share. It was assumed that the published price at the date of exchange of a quoted equity instrument provides the best evidence of the instrument's fair value.

Xytec provides SMARTRAC with specialized machinery for the production of RFID inlays which are patent protected for SMARTRAC. On this basis, SMARTRAC has continuously built up production capacities for RFID inlays which are produced using patent-protected wire embedding technology. SMARTRAC plans to increase the portfolio of Xytec and to apply its expertise also to new areas.

The table below presents as a summary a breakdown of the values of Xytec's net assets acquired during the reporting period (70 %):

In thousands of euro	Consolidated six months ended June 2008
<b>Purchase consideration</b>	
Cash paid	–
<b>Total cash paid for acquisition</b>	<b>–</b>
Purchase price liabilities (to be mainly granted in SMARTRAC shares)	1,930
<b>Total purchase consideration</b>	<b>1,930</b>
Fair value of net assets acquired	634
<b>Goodwill</b>	<b>1,296</b>

Detailed overview about the net assets acquired in the course of the financial year 2008

In thousands of euro	Carrying value prior to acquisition	Adjustment	Carrying value upon acquisition
Plant and equipment	983	–	983
Goodwill	–	1,296	1,296
Other intangible assets	–	163	163
Inventories	229	–	229
Receivables	702	–	702
Other current assets	101	22	123
Cash and cash equivalents	969	–	969
Bank overdrafts	(8)	–	(8)
Payables	(1,881)	–	(1,881)
Other current liabilities	(598)	–	(598)
Deferred income tax liability	–	(48)	(48)
<b>Net assets acquired</b>	<b>497</b>	<b>1,433</b>	<b>1,930</b>
Total purchase consideration settled in cash	–	–	–
Cash and cash equivalents / bank overdrafts acquired	961	–	961
<b>Cash inflow on acquisition</b>	<b>961</b>	<b>–</b>	<b>961</b>

On 19 May 2008 SMARTRAC acquired 100% of the equity interests of the insolvent AmaTech Automation GmbH, located in Pfronten (Germany). SMARTRAC cannot gain control in the stage of insolvency and therefore AmaTech Automation GmbH has not been consolidated. The purchase price amounted to euro 415,000.

As at 30 June 2008, the Group employed 2,739 employees (2,666 as of 31 March 2008; 2,330 as of 30 June 2007; 2,197 as of 31 March 2007).

The Group's consolidated financial statements as at and for the year 2007 are available upon request from the Company's registered office at Strawinskylaan 851, 1077 Amsterdam, The Netherlands.

## 2. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34. 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 31 December 2007.

This condensed consolidated interim financial information was approved by the Management on 28 July 2008.

The condensed consolidated interim financial statements for the period ended 30 June 2008 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, 28 July 2008

Dr. Christian Fischer

Manfred Rietzler

Stephen Juge

## 4. Significant accounting policies

The accounting policies 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 31 December 2007.

## 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 31 December 2007.

## 6. Segment reporting

### Consolidated segment information by business segments for the six months ended June 2008

In thousands of euro	Standard segment		High Security segment		Other operations		Eliminations		Consolidated	
	Six months ended June 2008	Six months ended June 2007	Six months ended June 2008	Six months ended June 2007	Six months ended June 2008	Six months ended June 2007	Six months ended June 2008	Six months ended June 2007	Six months ended June 2008	Six months ended June 2007
<b>Segment revenue</b>										
Revenues	19,747	12,703	30,060	28,175	33	–	(235)	(216)	49,605	40,662
<b>Segment result</b>										
Gross profit	5,371	3,608	15,038	13,702	33	–	–	(86)	20,442	17,224
Operating income (expenses)	(3,776)	(2,065)	(6,106)	(5,418)	(1,188)	(969)	–	86	(11,070)	(8,366)
Operating profit (loss)	1,595	1,543	8,932	8,284	(1,155)	(969)	–	–	9,372	8,858
Net financial income (expenses)									(933)	215
Share of profit of associates									–	250
Income tax (expense) benefit									(268)	(106)
<b>Profit for the period</b>									<b>8,171</b>	<b>9,217</b>
<b>Supplemental information</b>										
Operating profit (loss)	1595	1,543	8,932	8,284	(1,155)	(969)	–	–	9,372	8,858
Depreciation and amortization	764	619	1,321	951	11	8	–	–	2,096	1,578
<b>Segment EBITDA*</b>	<b>2,359</b>	<b>2,162</b>	<b>10,253</b>	<b>9,235</b>	<b>(1,144)</b>	<b>(961)</b>	<b>–</b>	<b>–</b>	<b>11,468</b>	<b>10,436</b>

The Group comprises the following main business segments:

- Standard segment: the manufacture and sale of RFID inlays with embedded chips that have basic security features, such as password authentication and basic encryption, for use in applications such as access control, mass transportation and logistics.
- High Security segment: the manufacture and sale of RFID inlays with embedded memory chips with high security features such as sophisticated data encryption, controlled data access and mutual authentication, for use in applications such as ePayment and ePassport.
- Other operations: the disposal of assets and other income / expense that cannot be attributed to standard or high security components.

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

Revenues by subsegment were as follows:

In thousands of euro	Consolidated six months ended June 2008	Consolidated six months ended June 2007
<b>Standard components</b>		
Mass transportation / access control	17,440	11,368
Logistics	2,307	1,335
<b>Subtotal</b>	<b>19,747</b>	<b>12,703</b>
<b>High security components</b>		
ePayment	7,054	5,025
ePassport	23,006	23,150
<b>Subtotal</b>	<b>30,060</b>	<b>28,175</b>
<b>Other operations</b>	<b>33</b>	<b>–</b>
<b>Total before consolidation</b>	<b>49,840</b>	<b>40,878</b>
Segment consolidation	(235)	(216)
<b>Total</b>	<b>49,605</b>	<b>40,662</b>

#### Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets. The Group's principal geographical areas are Europe, Asia, North America and Latin America.

In thousands of euro	Consolidated six months ended June 2008	Consolidated six months ended June 2007
<b>Revenues</b>		
Europe	30,690	30,452
Asia	5,201	2,655
North America	9,593	4,922
Latin America	3,752	1,671
Others	369	962
<b>Total revenues</b>	<b>49,605</b>	<b>40,662</b>

## 7. Net financial income (expenses)

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

In thousands of euro	Consolidated three months ended June 2008	Consolidated three months ended June 2007	Consolidated six months ended June 2008	Consolidated six months ended June 2007
Change in fair value	38	–	48	–
Interest income	168	42	201	250
Foreign exchange gains	436	–	479	86
<b>Financial income</b>	<b>642</b>	<b>42</b>	<b>728</b>	<b>336</b>
Change in fair value	(112)	–	(166)	–
Interest expense	(127)	(22)	(251)	(36)
Bank charges	(66)	(25)	(146)	(43)
Foreign exchange losses	(122)	(405)	(1,098)	(42)
<b>Financial expenses</b>	<b>(427)</b>	<b>(452)</b>	<b>(1,661)</b>	<b>(121)</b>
<b>Net financial income (expenses)</b>	<b>215</b>	<b>(410)</b>	<b>(933)</b>	<b>215</b>

## 8. Income tax

SMARTRAC TECHNOLOGY Ltd. continues to benefit from corporate income tax exemptions from the special promotional privileges granted by the Government of

Thailand, relating to its production and sale of transponders in Thailand (for further information consider the Group's annual report).

### Recognized in the income statement

In thousands of euro	Consolidated three months ended June 2008	Consolidated three months ended June 2007	Consolidated six months ended June 2008	Consolidated six months ended June 2007
Current corporate tax expense	(60)	(1)	(238)	(19)
Deferred tax (expense) benefit	(85)	(5)	(30)	(87)
<b>Income tax (expense) benefit</b>	<b>(145)</b>	<b>(6)</b>	<b>(268)</b>	<b>(106)</b>

### Reconciliation of effective tax charge

In thousands of euro	Consolidated three months ended June 2008	Consolidated three months ended June 2007	Consolidated six months ended June 2008	Consolidated six months ended June 2007
<b>Profit before tax</b>	<b>3,830</b>	<b>4,680</b>	<b>8,439</b>	<b>9,323</b>
Expected tax expense based on rate of 25,5 %	(976)	(1,193)	(2,152)	(2,377)
Tax exempt income relating to promotional privileges	1,243	1,457	2,678	2,829
Tax exempt related to share of profit in associates	–	75	–	75
Tax rate differences	(1)	(253)	35	(469)
Non-recognition of tax benefits on losses incurred	(267)	–	(484)	–
Impairment of carry forward tax losses	–	(41)	–	(96)
Withholding tax reversal	110	–	–	–
(Add back) reduction in temporary differences	–	(135)	–	(135)
Non-deductible permanent differences	(10)	–	(10)	–
Others	(244)	84	(335)	67
<b>Current tax (expense) income</b>	<b>(145)</b>	<b>(6)</b>	<b>(268)</b>	<b>(106)</b>

## 9. Earnings per share

### Profit attributable to ordinary shareholders

The calculation of basic and diluted earnings per share for the period of the three months and six months ended 30 June 2008 (2007) is based on the profit attributable to ordinary shareholders and amounts to euro 3,685 (six months ended June 2008 euro 8,171).

### Weighted average number of ordinary shares

Throughout the period of the three months (six months) ended 30 June 2008, the amount of ordinary shares was 13,144,592 (13,189,634). It has changed mainly due to the share buyback program explained under note 12 'Treasury Stock'.

### Basic earnings per share

In thousands of euro, except shares and earnings per share	Consolidated three months ended June 2008	Consolidated three months ended June 2007	Consolidated six months ended June 2008	Consolidated six months ended June 2007
Weighted average number of outstanding ordinary shares	3,685	4,674	8,171	9,217
Numbers of ordinary shares	13,145	13,367	13,190	13,434
<b>Earnings per share (euro)</b>	<b>0.28</b>	<b>0.35</b>	<b>0.62</b>	<b>0.69</b>

### 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 in the second quarter 2008 includes the dilutive potential shares of SMARTRAC stock option scheme:

In thousands of shares	Consolidated three months ended June 2008	Consolidated six months ended June 2008
Weighted average number of outstanding ordinary shares	13,145	13,190
Effect of potential dilutive shares:		
Share options	47	72
<b>Weighted average number of ordinary shares</b>	<b>13,192</b>	<b>13,262</b>

### Diluted earnings per share

In thousands of euro, except shares and earnings per share	Consolidated three months ended June 2008	Consolidated six months ended June 2008
Profit attributable to ordinary shareholders	3,685	8,171
Weighted average number of ordinary and dilutive shares	13,192	13,262
<b>Diluted earnings per share (euro)</b>	<b>0.28</b>	<b>0.62</b>

## 10. Property, plant and equipment

### Acquisitions

During the three months ended June 2008 the Group acquired assets totalling euro 995,000 and during the six months ended June 2008 the Group acquired assets totalling euro 6,170,000 (three months ended June 2007: euro 973,000; six months ended 30 June 2007: euro 3,373,000).

## 11. Intangible assets

### Development costs

Intangible assets include capitalized development costs amounting to euro 630,000 as at 30 June 2008 (as at 30 June 2007: euro 0).

## 12. Treasury stock

32,849 shares were acquired in April of the year 2008. All purchases were through the publicly announced buyback program. The buyback program which started on 4 February 2008 was conducted via the stock exchange. On 8 April 2008 the share buyback was completed. In conjunction to the share buyback program 220,170 shares were acquired in 2008. SMARTRAC authorized a bank to conduct the share buyback. The SMARTRAC Management Board intends to utilize the shares from the current buyback in the context of acquisitions as well as for the company's own employee share programs.

In conjunction with the stock plan 5,936 shares were issued to a member of the Management Board as on 1 April 2008.

The table below sets out the monthly purchases under the share buyback program and the development of treasury stock:

Month	Number of shares	Average share price in euro
April 2007 (acquisition)	99,641	23.35
May 2007 (acquisition)	99,859	26.74
December 2007 (bonus shares rendered)	(8,856)	25.16
<b>Total as at 31 December 2007</b>	<b>190,644</b>	<b>25.16</b>
February 2008 (acquisition)	86,189	35.19
March 2008 (acquisition)	101,132	33.91
March 2008 (asset deal settlement)	(49,470)	29.05
April 2008 (conversion of bonus in shares according to stock plan)	(5,936)	29.90
April 2008 (acquisition)	32,849	32.49
<b>Subtotal current year</b>	<b>164,764</b>	
<b>30 June 2008</b>	<b>355,408</b>	<b>30.14</b>

### 13. Share based payment

#### Stock option plan

Total expenses for the first to the third tranche of the SMARTRAC stock option scheme are recorded during the three months and six months ended June 2008 in comparison to the three and six months ended June 2007. They are reported under administrative expenses and as an increase in shareholder's equity (share premium) at

the same time. The Black Scholes model was used for the evaluation.

The total expenses for the Stock Option Scheme are as follows:

In thousands of euro	Consolidated three months ended June 2008	Consolidated three months ended June 2007	Consolidated six months ended June 2008	Consolidated six months ended June 2007
Tranche 1	45	51	90	102
Tranche 2	131	136	262	140
Tranche 3	161	–	322	–
<b>Total expenses</b>	<b>337</b>	<b>187</b>	<b>674</b>	<b>242</b>

The exercise price of stock options granted within six weeks of the Company's IPO will be the IPO offer price. The exercise price of stock options granted was based on the weighted average price of the Company's shares during the ten business days immediately preceding the grant of the stock options.

The exercise price, the grant date and the underlying assumptions for the single tranche are as follows:

Consolidated 2008	Exercise price	Grant date	Current price of underlying shares	Expected volatility	Exp. annual employee turnover rate	Risk-free interest rate	Option life expiration
Tranche 1	17.00	17 August 2006	16.80	55 %	5 %	3.60 %	17 August 2012
Tranche 2	22.40	29 March 2007	22.11	40 %	5 %	3.97 %	29 March 2013
Tranche 3	39.20	23 Nov. 2007	34.50	40 %	0 %	3.67 %	23 Nov. 2013

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.

In euro	Fair value
Tranche 1	6.66
Tranche 2	6.86
Tranche 3	8.50

The expected life used in the model for the tranche has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

There are no dividend payouts expected until date of exercise.

#### Stock plan

In conjunction with the conversion of variable remuneration components for a member of the Management Board into shares and based on the SMARTRAC stock plan, treasury stock decreased by 5,936 shares.

#### 14. Contingencies

No major legal matters have occurred during the reporting period.

## 15. Related parties

### Transactions with key management

With respect to the remuneration of key management please refer to the annual report 2007 under section 'Corporate governance'.

### Transactions with Supervisory Board

With respect to the remuneration of the Supervisory Board please refer to the annual report 2007 under section 'Corporate governance'.

### Related party transactions

The Group has the following transactions with related parties:

Transaction value in thousands of euro	Consolidated three months ended June 2008	Consolidated three months ended June 2007	Consolidated six months ended June 2008	Consolidated six months ended June 2007
<b>Purchases</b>				
Xytec Solutions Sdn. Bhd.	-	-	-	1,999
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,999</b>

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

In thousands of euro	Consolidated 30 June 2008	Consolidated 31 December 2007
<b>Trade receivables</b>		
Xytec Solutions Sdn. Bhd.	–	357
Emsquares AG	–	16
<b>Total</b>	<b>–</b>	<b>373</b>
<b>Deposits paid</b>		
Xytec Solutions Sdn. Bhd.	–	2,112
Emsquares AG	–	30
<b>Total</b>	<b>–</b>	<b>2,142</b>
<b>Trade payables</b>		
Xytec Solutions Sdn. Bhd.	–	23
<b>Total</b>	<b>–</b>	<b>23</b>
<b>Non-trade payables</b>		
Safehaven Trading	4	4
Xytec Solutions Sdn. Bhd.	–	908
<b>Total</b>	<b>4</b>	<b>912</b>

The outstanding balances of the receivables with Emsquares AG (formerly SMARTRAC Technology AG) were fully provided for as at 31 December 2007.

**16. Subsequent events**

In July 2008, SMARTRAC has signed a contract with respect to the formation of RFTAG Holding based in Hong Kong, China. According to this contract, SMARTRAC will acquire 30 percent of the shares in RFTAG Holding and have an option to take over the remaining shares.

### Financial Calendar

November 6, 2008      Publication of Q3 Interim Report (July to September 2008)  
[Analysts' Conference Call]

Further information: [www.smartrac-group.com](http://www.smartrac-group.com)



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