



Q1 Q2 Q3 Q4

Interim Report

1st Quarter 2007



2 Key data

In thousands of euro	Consolidated Three months ended March 2007	Consolidated Three months ended March 2006	Change	Change in %	
Consolidated income statement					
Revenues	19,452	10,665	8,787	82.4	
EBITDA ¹⁾	4,804	1,972	2,832	143.6	
Net profit after tax	4,543	605	3,938	650.9	
Financial position and liquidity					
Cash flow from operating activities	2,913	1,559	1,354	86.9	
Working capital	13,408	11,983	1,425	11.9	
Capital expenditure	2,400	2,305	95	4.1	
Total assets	90,125	80,732	9,393	11.6	
Operating figures					
Basic earnings per share	euro	0.34	0.06	0.28	466.7
Cash flow per share	euro	0.22	0.16	0.06	37.5
Equity ratio (-)	%	82.2	86.0	(3.80)	(4.4)
Headcount	at month's end	2,197	1,456	741	50.9

1) EBITDA is defined as operating profit for the period before depreciation, amortization, 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.



- 4 Report of the Management Board
- 6 Condensed consolidated interim financial statements
- 10 Notes to the condensed consolidated interim financial statements

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 remains on growth path

High Security segment growth driver, further prospects in the Standard segment

With an increase in all major financial ratios SMARTRAC remains on the growth path in the period from January to March 2007 (Q1 2007). The Q1 2007 result marks the fourth consecutive quarter with a significant growth in sales and earnings since SMARTRAC started to publish quarterly reports back in 2006.

Total sales increased in Q1 2007 to euro 19.5 million up from euro 10.7 million in Q1 2006, corresponding to an increase of 82 percent. Main growth driver in Q1 2007 remained the High Security segment. This development had already been indicated in previous reporting periods.

In the High Security segment, sales of euro 13.2 million for Q1 2007 rose by more than 200 percent compared to euro 4.3 million in Q1 2006. The Standard segment sales increased slightly to euro 6.4 million compared to euro 6.3 million in Q1 2006.

In the first three months of 2007 SMARTRAC generated a net profit of euro 4.5 million. Compared to the net profit of euro 0.6 million generated in the same period for the prior year, this represents an increase of 650 percent. The net profit of Q1 2006 included expenses with respect to the Initial Public Offering 2006 amounting to euro 0.8 million.

SMARTRAC's EBITDA (including EBITDA from other operations) increased by 144 percent to euro 4.8 million in Q1 2007 from euro 2.0 million in Q1 2006. With euro 4.2 million (Q1 2006: euro 1.2 million), the High Security segment made the major contribution to the increase from January to March 2007, accounting for 88 percent of the overall Q1 2007 EBITDA. On a constant level compared to an EBITDA of euro 1.1 million in Q1 2006, the Standard segment reached an EBITDA of euro 1.1 million in Q1 2007.

Net cash provided by operating activities amounted to euro 2.9 million in the past three months (compared to euro 1.6 million for the same period in the prior year), mainly due to the group earnings of euro 4.5 million (prior year: euro 0.6 million). Rising by euro 3.9 million, the result for SMARTRAC also compares favorably with the prior year period.

The rise in working capital which was mainly caused by the increase in trade receivables (euro 2.3 million) and inventories (euro 1.4 million) partly counter-balanced this effect. Trade payables did not rise to the same extent.

Due to the further expansion of production capacity, net cash used in investing activities accumulated to euro 3.1 million per March 2007 compared to euro 2.3 million for the same period of 2006.

Net cash provided by financing activities decreased by euro 0.5 million.

The high cash outflow from investing activities overcompensated the effects from operating and financing activities and led to a decrease of cash and cash equivalents of euro 0.9 million in Q1 2007.

Total assets increased from euro 80.7 million as of 31 December 2006 to euro 90.1 million as of 31 March 2007. Non-current assets increased by euro 4.5 million. In the first three months of 2007 SMARTRAC invested euro 2.4 million in property, plant and equipment (Q1 2006: euro 2.3 million), mostly for the establishment of the fourth factory in Thailand.

Intangible assets increased by euro 2.6 million, notably driven by the capitalization of goodwill related to the first time inclusion of multitape GmbH, contributing euro 1.4 million to this position.

The increase in trade receivables amounting to euro 3.0 million in Q1 2007 is mainly caused by an increase in sales compared to the fourth quarter 2006 in which sales amounted to euro 16.6 million. The increase of inventories by euro 1.8 million reflects the increase in production capacity which has already been ramped up to more than 11 million high frequency inlays a month.

Bank overdraft increased due to a cutoff date effect. The increase in trade and non-trade payables by euro 2.9 million is partly due to an increase in trade creditors, which did not finance the increase in trade receivables and inventories to the full extent.

Strategic achievements and milestones

In January 2007, SMARTRAC acquired a 25,2 percent stake in multitape GmbH, broadening its technology base through access to multitape's etching technology as a strategic supplement to SMARTRAC's core competence in wire-embedding technology. For further details regarding the first time inclusion of multitape GmbH, please see note 1 of the condensed consolidated interim financial statements in this report.

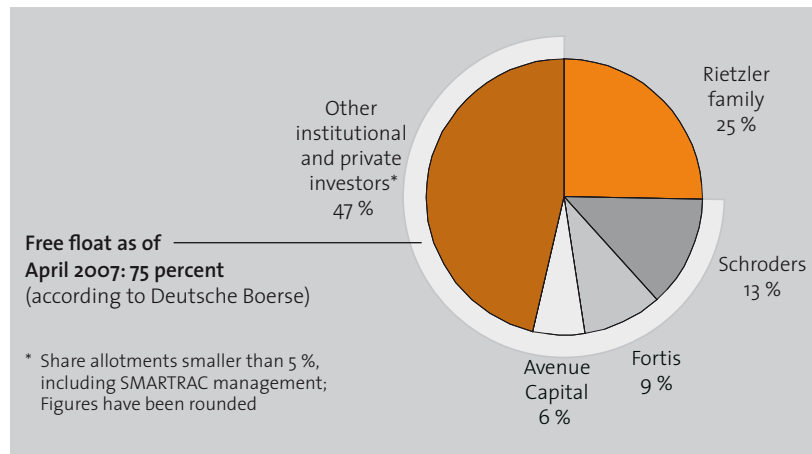
On February 2nd, 2007, SMARTRAC officially opened the fourth factory in Thailand, further extending its production capacities and strengthening the globally leading position as a supplier of RFID inlays.

After a groundbreaking agreement with the Swedish group Assa Abloy AB concerning patent use and ownership in the production of radio frequency identification devices using wire-embedding technology was reached already in December 2006, the company continued to protect its intellectual property rights. In February 2007, SMARTRAC reached an agreement with Silone MagCard, Inc. California, regarding the use of patent rights in wire-embedding technology. Pursuant to this agreement, Silone acknowledges the respective patent rights of SMARTRAC and agrees that it will cease U.S. production and sales of its RFID components that are made according to the processes disclosed and claimed in SMARTRAC's patents.

In March 2007, SMARTRAC replaced approximately 40 percent of the company's share capital mainly with institutional investors, increasing the free float of SMARTRAC's shares significantly to close to 75 percent. Subsequent to the placement of shares, the family of Manfred Rietzler, CEO of SMARTRAC, holds more than 25 percent interest in the company. Schroders with appr. 13 percent, Fortis with appr. 9 percent and Avenue Capital with appr. 6 percent of all shares are major institutional shareholders of SMARTRAC. In the course of this placement, Richard Bird, co-founder of SMARTRAC, completely sold his interest in the company. He also retired from his position as Vice Chairman of the SMARTRAC Supervisory Board in the beginning of April and has now fully withdrawn from his involvement in the company. On June 22, 2007, the SMARTRAC Annual General Shareholder Meeting will decide upon the successor to Richard Bird on the Supervisory Board.

In April 2007, the SMARTRAC Management Board decided to buy back shares in the company up to a maximum value of

euro 5 million. The Management Board intends to utilise the shares from the currently running buyback in the context of acquisitions as well as for the company's own employee share programs.



Research and Development

Research and development activities are concentrated in SMARTRAC's production locations in Thailand. Focused on new products, the further optimisation of existing as well as the implementation of new production technologies and the proactive assessment of market opportunities, research and development is a key success factor in the fast growing worldwide RFID market. SMARTRAC is planning to invest approx. 3 percent of its sales in research and development in the mid-term. The company will continue to increase the efforts with a focused dedication also of management resources. Currently, more than 25 acknowledged specialists are working together with chip suppliers and customers on new technologies and products to ensure the optimum specifications for product performance and durability.

Outlook: Positive development to continue

On the basis of the excellent figures in Q1 2007, the company reaffirms the overall target for the full year 2007 to increase sales and earnings significantly above 50 percent compared to financial year 2006. The High Security segment is expected to remain strong. With growth potential especially in some new applications and markets of the Standard segment, we see further prospects in this key market segment as well in addition to our already existing Standard business portfolio. Currently, the company assesses several strategic options and technologies of how to utilize this potential.

Condensed consolidated interim financial statements for the quarter ended 31 March 2007

Condensed consolidated interim income statement For the three months ended 31 March

In thousands of euro	Note	Consolidated three months ended March 2007	Consolidated three months ended March 2006
Revenues	5	19,452	10,665
Cost of sales		(11,343)	(7,331)
Gross profit		8,109	3,334
Administrative expenses		(3,698)	(2,660)
Other operating income and expenses		(393)	13
Total operating expenses		(4,091)	(2,647)
Operating profit before financial income / (expenses)		4,018	687
Financial income		658	60
Financial expenses		(33)	(463)
Net financial income / (expenses)	6	625	(403)
Share of profit of associates		–	9
Profit before tax		4,643	293
Income tax (expense) / benefit	7	(100)	312
Profit for the period		4,543	605
Basic earnings per share (euro)	8	0.34	0.06
Diluted earnings per share (euro)	8	0.34	0.06

Condensed consolidated balance sheet

As at 31 March

In thousands of euro	Note	Consolidated 31 March 2007	Consolidated 31 December 2006
Assets			
Property, plant and equipment	9	21,250	19,286
Intangible assets	1	4,208	1,596
Investments in subsidiaries		37	–
Investments in associates		158	158
Deferred tax assets	7	1,911	1,993
Other non-current assets		90	87
Total non-current assets		27,654	23,120
Inventories		9,028	7,190
Trade receivables		16,141	13,106
Other current assets		1,480	1,430
Cash and cash equivalents		35,822	35,886
Total current assets		62,471	57,612
Total assets		90,125	80,732
Equity			
Share capital		6,750	6,750
Share premium	10	53,657	53,548
Translation reserve		24	24
Retained earnings		13,662	9,119
Total equity		74,093	69,441
Liabilities			
Secured loans		508	148
Deferred tax liabilities		324	–
Total non-current liabilities		832	148
Bank overdraft		1,710	842
Current portion of secured loans		102	244
Interest-bearing loans and borrowings		147	314
Employee benefits		54	50
Trade and non-trade payables	1	11,229	8,377
Other current liabilities	11	1,958	1,316
Total current liabilities		15,200	11,143
Total liabilities		16,032	11,291
Total equity and liabilities		90,125	80,732

Condensed consolidated statement of cash flows

For the three months ended 31 March

In thousands of euro	Note	Consolidated three months ended March 2007	Consolidated three months ended March 2006
Cash flows from operating activities			
Net profit	5	4,543	605
Reconciliation of net profit to net cash provided by (used in) operating activities:			
Depreciation and amortization		786	457
Interest expenses		14	130
Expenses for share based payments	10	54	–
(Reversal of) write down of inventories		20	(53)
IPO expense		–	828
Share of profit of associates		–	(9)
Tax expense / (benefit)	7	100	(312)
Decrease (increase) in operational assets:			
Other non-current assets		(6)	(213)
Inventories		(1,447)	(2,773)
Other current assets		140	(182)
Trade receivables		(2,277)	(589)
Employee benefits		1	3
Trade and non-trade payables		466	2,816
Other current liabilities		519	851
Net cash provided by operating activities		2,913	1,559
Cash flows from investing activities			
Cash payment on purchase of subsidiaries		(170)	–
Purchases of intangible assets		(484)	–
Purchases of property, plant and equipment	9	(2,400)	(2,305)
Net cash used in investing activities		(3,054)	(2,305)
Cash flows from financing activities			
IPO costs attributable to IPO proceeds		–	(794)
Proceeds from interest-bearing loans and borrowings and secured installment loan		(549)	2,310
Repayments of interest-bearing loans and borrowings and secured installment loan		0	(27)
Interests paid		(14)	(130)
Net cash provided by financing activities		(563)	1,359
Net change in cash and cash equivalents and bank overdrafts			
		(704)	613
Cash and cash equivalents and bank overdrafts at 1 January			
		35,044	293
Effect of exchange rate fluctuations on cash and cash equivalents and bank overdrafts			
		(162)	237
Effect of first time inclusion of subsidiary on cash			
	1	(66)	–
Cash and cash equivalents and bank overdrafts at 31 March		34,112	1,143

Condensed consolidated statement of changes in shareholders' equity
For the three months ended 31 March

In thousands of euro	Issued and paid-up share capital	Share premium	Translation reserve	Retained earnings	Total
Balance as at 1 January 2006	5,000	4,923	–	–	9,923
Foreign exchange translation (directly into equity)	–	–	23	–	23
Net profit for the quarter	–	–	–	605	605
Balance as at 31 March 2006	5,000	4,923	23	605	10,551
Balance as at 1 January 2007	6,750	53,548	24	9,119	69,441
IPO costs reversed to share premium (directly into equity)	–	54	–	–	54
Share based payment (note 10)	–	55	–	–	55
Net profit for the quarter	–	–	–	4,543	4,543
Balance as at 31 March 2007	6,750	53,657	24	13,662	74,093

Notes to the condensed consolidated interim financial statements for the quarter ended 31 March 2007

1. Reporting entity

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

Company	Country of incorporation	Date of incorporation	Business type	Ownership and voting interest
Subsidiaries				
SMARTRAC TECHNOLOGY Ltd.	Thailand	1 January 2000	Manufacturing	100 %
SMARTRAC TECHNOLOGY GmbH	Germany	17 November 2003	Manufacturing	100 %
SMARTRAC TECHNOLOGY Pte. Ltd.	Singapore	7 October 2005	Trading	100 %
multitape GmbH	Germany		Manufacturing	25.2 %
Associate				
Xytec Solutions Sdn. Bhd.	Malaysia	13 December 2004	Manufacturing	30 %

Additionally, SMARTRAC N.V. has founded two companies, namely SMARTRAC IP B.V., Amsterdam, and SMARTRAC Technology Brazil B.V., Amsterdam, which have been founded in the course of the first quarter 2007 for the purpose of structuring the IP of the Group (SMARTRAC IP B.V.) and for the purpose of market entry in Brazil. These

two companies had no material business activities and have been treated at cost under the position 'Investment in subsidiaries'.

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
multitape GmbH	Salzkotten, Germany	1 January 2007	25.2 %

A 25.2 % stake in multitape GmbH, Salzkotten, Germany, was acquired by SMARTRAC N.V. with economic effect on 1 January 2007. multitape GmbH is active in both the High Security and Standard segment. multitape GmbH has an expertise in etching technology which is a supplement to the Group's core competence, the wire-embedding technology.

multitape GmbH has been treated as a subsidiary due to the following reasons: SMARTRAC N.V. has the contractual right to exercise an option to acquire the remaining 74.8 % in multitape GmbH for a fixed exercise price. It is contractually agreed that no dividends shall be paid to the existing shareholders of multitape GmbH until the date of the exercise of the option. The Management Board assumes that this option will be exercised in the near future. These contractual rights already give the SMARTRAC Group full access to the economic benefits of multitape GmbH. Consequently, the acquisition of

100 % of the shares of multitape GmbH was assumed and goodwill resulting from the purchase price allocation is fully presented. A goodwill resulted from the first time inclusion of multitape GmbH which amounts to euro 1,402,000. The exercise price of the option was credited to the position 'trade and non-trade payables'. The condensed consolidated interim financial statements include the results of multitape GmbH for the three month period from the acquisition date.

As of 31 March 2007, the Group employed 2,197 employees (1,756 as of 31 December 2006; 1,456 as of 31 March 2006; 1,104 as of 31 December 2005).

The Group's consolidated financial statements as at and for the year 2006 are available upon request from the Company's registered office at Parnassusweg 103, 1077 DE 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 Interim Financial Reporting. 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 2006.

The condensed consolidated interim financial statements were approved by the Management Board on 7 May 2007.

3. 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 2006.

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 31 December 2006.

5. Segment reporting

Consolidated segment information by business segments for the three months ended March 2007

In thousands of euro	Standard components		High Security components		Other operations		Consolidation		Consolidated	
	Three months ended March 2007	Three months ended March 2006	Three months ended March 2007	Three months ended March 2006	Three months ended March 2007	Three months ended March 2006	Three months ended March 2007	Three months ended March 2006	Three months ended March 2007	Three months ended March 2006
Segment revenue										
Revenues	6,427	6,303	13,225	4,303	–	59	(200)	–	19,452	10,665
Segment result										
Gross profit	1,841	1,641	6,338	1,680	–	13	(70)	–	8,109	3,334
Operating (expenses) / income	(1,028)	(803)	(2,640)	(687)	(493)	(329)	70	–	(4,091)	(1,819)
IPO expenses	–	–	–	–	–	(828)	–	–	–	(828)
Operating profit (loss)	813	838	3,698	993	(493)	(1,144)	–	–	4,018	687
Net financing costs									625	(403)
Share of profit of associates									–	9
Income tax (expense) / benefit									(100)	312
Profit for the period									4,543	605
Supplemental information										
Operating profit (loss)	813	838	3,698	993	(493)	(1,144)	–	–	4,018	687
Depreciation and amortization	304	244	482	162	–	51	–	–	786	457
Non-recurring items (IPO expenses)	–	–	–	–	–	828	–	–	–	828
Segment EBITDA*	1,117	1,082	4,180	1,155	(493)	(265)	–	–	4,804	1,972

The Group comprises the following main business segments:

- **Standard components:** 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 components:** 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 that cannot be attributed to the Standard or High Security segments.

* EBITDA is defined as operating profit for the period before depreciation, amortization, 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 three months ended March 2007	Consolidated three months ended March 2006
Standard components		
Mass transportation / access control	5,939	6,178
Logistics	488	125
Subtotal	6,427	6,303
High security components		
ePayment	3,040	1,961
ePassport	10,185	2,342
Subtotal	13,225	4,303
Other operations	–	59
Total before consolidation	19,652	10,665
Segment consolidation	(200)	–
Total	19,452	10,665

Geographical segments

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

In thousands of euro	Consolidated three months ended March 2007	Consolidated three months ended March 2006
Revenues		
Europe	13,874	3,888
Asia	1,501	2,757
North America	2,237	3,080
Others	1,840	940
Total revenues	19,452	10,665

6. Net financial income (expenses)

In thousands of euro	Consolidated three months ended March 2007	Consolidated three months ended March 2006
Interest income	208	–
Foreign exchange gains	450	60
Financial income	658	60
Interest expense	(14)	(130)
Bank charges	(19)	(18)
Foreign exchange losses	–	(315)
Financial expenses	(33)	(463)
Net financial income (expenses)	(625)	(403)

7. 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 refer to the Group's Annual Report 2006).

In thousands of euro	Consolidated three months ended March 2007	Consolidated three months ended March 2006
Current corporate tax (expense)	(18)	–
Deferred tax (expense) / benefit	(82)	312
Income tax (expense) / benefit	(100)	312

Reconciliation of effective tax charge

For the year beginning 1 January 2007 the corporate tax rate in the Netherlands has changed from 30 % (2006) to 25,5 %. Therefore the expected group tax expense which

is based on the corporate tax rate of SMARTRAC N.V. being the holding company has changed as well.

In thousands of euro	Consolidated three months ended March 2007	Consolidated three months ended March 2006
Profit before tax	4,643	293
Expected tax expense based on rate of 25,5 % (2006: 30 %)	1,184	88
Tax exempt income relating to promotional privileges	(1,372)	(397)
Tax rate differences	216	1
Impairment of carry forward tax losses	55	–
Carry forward tax losses	–	312
Others	17	(4)
Actual tax expense	100	–

Deferred tax assets

In thousands of euro	Consolidated 31 March 2007	Consolidated 31 March 2006
Balance as at 31 December	1,993	37
Tax losses carried forward for the quarter	–	312
Tax loss carried forward used in the quarter	(82)	–
Balance as at 31 March	1,911	349

8. Earnings per share

Profit attributable to ordinary shareholders

The calculation of basic and diluted earnings per share at 31 March 2007 is based on the profit attributable to ordinary shareholders of SMARTRAC N.V. The calculation of basic and diluted earnings per share at three months ended 31 March 2007 is based on the profit attributable to ordinary shareholders which amounts to euro 4,543,000 (three months ended 2006: euro 605,000).

Weighted average number of ordinary shares

Throughout the period at three months ended 31 March 2007, the amount of ordinary shares was 13,500,000.

Basic earnings per share

In thousands of euro, except shares and earnings per share	Consolidated three months ended March 2007	Consolidated three months ended March 2006
Profit attributable to ordinary shareholders	4,543	605
Numbers of ordinary shares	13,500	10,000
Earnings per share (euro)	0.34	0.06

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 first quarter 2007 include the dilutive potential shares of the SMARTRAC Stock Option Scheme:

In thousands of shares	Three months ended March 2007
Weighted average of ordinary shares outstanding	13,500
Effect of potential dilutive shares:	
Share options	17
Weighted average number of ordinary shares at 31 March	13,517

Diluted earnings per share

In thousands of euro, except shares and earnings per share	Consolidated three months ended March 2007
Profit attributable to ordinary shareholders	4,543
Weighted average number of ordinary shares at 31 March 2007	13,517
Diluted earnings per share (euro)	0.34

9. Property, plant and equipment**Acquisitions**

During the three months ended March 2007 the Group acquired assets totalling euro 2,400,000 (three months ended March 2006: euro 2,305,000).

10. Stock option plan

On 8 February 2006, the Company's Management Board established a stock option plan (the Stock Option Plan) for members of Management and Supervisory Boards, Senior Management and selected employees of the Group.

Stock options (the Stock Options) under the Stock Option Plan have rights to purchase shares in the Company. 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 thereafter will be 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 number of Stock Options granted under the Stock Option Plan may not exceed 5 % of the Company's issued share capital immediately following the IPO. In addition, the number of Stock Options that can be granted to the Management Board and the Supervisory Board is limited to 1.0 % and 0.5 % respectively of the Company's issued share capital immediately following the IPO. The remaining Stock Options can be granted to the employees of the Company or its affiliates.

- Total expenses for the first tranche recorded during the three months ended March 2007 amount to euro 51,000 (three months ended March 2006: euro 0). They are reported under administrative expenses and as an increase in shareholder's equity (share premium) at the same time.

- On 29 March 2007, 175,000 stock options were granted (second tranche). Fair value is measured using the black scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Fair value of share options and the assumptions are:
 - Expected term of options: three years
 - Vesting period: two years
 - The exercise price for options granted (second tranche) shall be equal to the weighted average price of the share (based on the XETRA index closing valuations) during a period of ten business days before the grant of the options exercise price. The exercise price was determined at euro 22.40.
 - Current price of underlying shares at the grant date: euro 22.11
 - Expected volatility: 40 % based on the historical volatility for similar companies over a period corresponding to the expected term of the options and the volatility of the share price of SMARTRAC in the period since it has been publicly traded (20 July 2006 to 29 March 2007)
 - Expected annual employee turnover rate: 5 %
 - Risk free interest rate: 3.97 %
 - Expected dividend payouts until expected date of exercise: none

The fair value of the stock options, based on the second tranche and the staggered vesting period, equals euro 6.86 per stock option. Total expenses for the second tranche recorded in the three months ended March 2007 amount to euro 3,000 (three months ended March 2006: euro 0). They are reported under administrative expenses and as an increase in shareholders' equity (share premium) at the same time.

11. Other current liabilities

The Group has changed its estimate regarding the amount of a rebate liability. The group accrues for rebates on the basis of a quotation scheme which is volume

based. Due to a higher than expected volume an amount of euro 400,000 was credited to other current liabilities.

12. Contingencies

No major legal matters have occurred during the first quarter 2007.

13. Related parties

Transactions with key management

Additionally to the remuneration as described in the Annual Report 2006 under section 'Corporate Governance Report, an amount of euro 120,000 was accrued for Mr. Ron Brown, Chief Operating Officer of SMARTRAC, and other Senior Management for achievements during the three months ended March 2007. This additional remuneration is subject to approval of the Supervisory Board. Additionally, Mr. Brown received 2,500 options in conjunction with the second tranche of the SMARTRAC Stock Option Scheme (note 11).

Transactions with Supervisory Board

In conjunction with the second tranche granted of the SMARTRAC Stock Option Scheme (note 11), 20,000 options were granted to Prof. Dr. Bernd Fahrholz, chairman of the

SMARTRAC Supervisory Board. Mr. Wolfgang Huppenbauer were granted 5,000 options.

In March 2007, Richard Bird completely sold his interest in SMARTRAC in the course of a structured public replacement of SMARTRAC shares.

On 3 April 2007, SMARTRAC N.V. announced that Mr. Richard Bird (66) has retired from his position as Vice Chairman of the SMARTRAC Supervisory Board with immediate effect. With his early retirement from the Supervisory Board, he has now fully withdrawn from his involvement in SMARTRAC.

Related party transactions

The Group has the following transactions with related parties:

Transaction value in thousands of euro	Consolidated three months ended March 2007	Consolidated three months ended March 2006
Sales		
Emsquares AG	–	1
Purchases		
Xytec Solutions Sdn. Bhd.	1,999	283

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

In thousands of euro	Consolidated 31 March 2007	Consolidated 31 December 2006
Trade receivables		
Xytec Solutions Sdn. Bhd.	378	380
Emsquares AG	15	15
SMARTRAC Technology AG	–	146
	393	541
Deposits paid		
Xytec Solutions Sdn. Bhd.	519	703
Emsquares AG	30	30
	549	733
Trade payables		
Emsquares AG	4	4
	4	4
Non-trade payables		
Safehaven Trading	–	317
Xytec Solutions Sdn. Bhd.	943	681
Mr. Richard Bird	–	71
	943	1,069

The outstanding balances of the receivables with Emsquares AG (formerly SMARTRAC Technology AG) were fully provided for as at 31 December 2006 and 31 March 2007.

14. Subsequent events

On 2 April 2007 the Management Board of SMARTRAC N.V. decided to buy back shares in the company up to a maximum value of euro 5 million. The buyback program is conducted via the stock exchange and should be completed by July 31, 2007, at the latest. This decision referred to the general meeting of shareholders of 8 February 2006, where the Management Board had been authorized for a period up to eighteen months after that date to repurchase and acquire up to 10 % of the Company's issued share capital. The Management Board intends to

utilise the shares from the current buyback in the context of acquisitions as well as for the company's own employee share programs and options.

Since the beginning of the share buyback program on 3 April 2007, 120,441 shares have been bought at an average price of euro 23.77 (until 7 May 2007). The total amount paid for the shares amounted to euro 2,850,000 as of 7 May 2007.



Financial Calendar

May 15	UBS Pan-European Smallcaps week, London
June 11-12	Sal Op Pan European Mid Cap Conference, New York
June 20	Deutsche Bank German Corporate Conference, Frankfurt
June 22	SMARTRAC Annual General Meeting, Amsterdam
August 2	Publication of Q2 Interim Report (April to June) [Analysts' Conference Call]
November 8	Publication of Q3 Interim Report (July to September) [Analysts' Conference Call]
November 12-14	German Equity Forum, Frankfurt

For further information please refer to the investor relation section on www.smartrac-group.com

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