



Q1 Q2 Q3 Q4

Interim Report

2nd Quarter 2006



Key data

In thousands of euro	Consolidated Six months ended June 2006	Consolidated ¹⁾ Six months ended June 2005	Change	Change in %
Consolidated income statement				
Revenues	22,471	8,280	14,191	171.4
EBITDA ²⁾	4,681	1,502	3,179	211.7
Net profit after tax	3,324	827	2,497	301.9
Financial position and liquidity				
Cash flow from operating activities	1,739	461	1,278	277.2
Working capital	10,260	4,063	6,197	152.5
Capital expenditure	4,368	1,315	3,053	232.2
Total assets	39,223	18,262	20,961	114.8
Operating figures				
Basic earnings per share ³⁾	euro 0.33	0.08	0.25	312.5
Cash flow per share ³⁾	euro 0.17	0.05	0.12	240.0
Equity ratio	% 33.80	42.30	(8.50)	(20.1)
Headcount	at month's end 1,769	776	993	128.0

- 1) The condensed consolidated interim financial information for the three months and six months ended 30 June 2005 comprises the activities of the Thai and German companies. This information is presented along with the interim financial information for the three months and six months ended 30 June 2006 for comparison only, as SMARTRAC N.V. was not incorporated until early 2006.
- 2) EBITDA is defined as operating profit for the period before depreciation, amortization, financing costs, 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.
- 3) Basic earnings per share and cash flow per share for the six months ended June 2005 are presented as Pro Forma earnings per share assuming the same amount of shares after the restructuring of SMARTRAC N.V.



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Continued Growth in First Six Months of 2006

We continued on our course of growth in the first six months of 2006. The sales of SMARTRAC N.V. (SMARTRAC) for the first six months of the current year came to euro 22.5 million as compared to euro 8.3 million for the same period last year (+171 %).

This development was due to both the Standard segment (inlays for mass transportation, access systems and logistics) as well as the High Security segment (ePayment and ePassport). In the Standard segment, sales rose 69 % on the same period for the prior year from euro 7.4 million to euro 12.6 million. In the High Security segment, sales revenues of euro 9.9 million rose by a factor of more than 12 on the same period for 2005 (euro 0.8 million).

The consolidated result of SMARTRAC rose hand in hand with this significant increase in sales. In the first half year of 2006 SMARTRAC generated a net profit of euro 3.3 million. Compared to the net profit of euro 0.8 million generated in the same period for the prior year, this represents an increase of more than 300 %. The result for the first six months is thus already above the pro forma result for the 12 months of 2005 of euro 3.0 million.

EBITDA (which is defined as operating profit for the period before depreciation, amortization, financing costs, share of profits of associates, non-recurring items (extraordinary items)) for SMARTRAC, which represents the key indicator of operations, rose to euro 4.7 million for the reporting period compared to euro 1.5 million for the same period in 2005, an increase of more than 210 %. The High

Security segment made a major contribution in this regard, of approx. euro 3.3 million (prior year: euro 0.2 million). The fact that profits from the Standard segment rose less relative to sales for the segment can be partly attributed to changes in the regional order structure for standardized products in the second quarter. Moreover, in comparison with the same period for the prior year, sales include a higher proportion of memory chips which bear less value-added for the company as these are purchased (chip sourcing).

Net cash provided by operating activities amounted to euro 1.7 million in the past six months (compared to euro 0.5 million for the same period in the prior year). Rising by euro 2.5 million, the result for SMARTRAC also compares favorably with the prior year, as also does the rise in short-term liabilities. This effect was partly counter-balanced by a rise of euro 2.0 million in inventories. Among other factors, the rise in inventories is reflected in the increasing use of chip sourcing in the first six months of 2006.

Due to the expansion of production capacity, net cash used in investing activities rose by euro 3.8 million to euro 5.3 million.

In order to finance our growth, we made use of additional short-term loans for the period prior to going public in July 2006 which contributed euro 6.4 million to cash flow from financing activities by the end of June 2006 (prior year: euro 0.8 million). This was partly offset by cash payments of euro 1.9 million (prior year: euro 0.00) which were made to prepare the IPO and interest payments of euro 0.2 million (prior year euro 0.1 million).

IPO Provides the Foundation for Growth Strategy

The initial public offering on the Prime Standard of the Frankfurt Stock Exchange occurred on July 20, 2006. In spite of an adverse market environment, 3.5 million new shares were placed on the market with institutional and private investors for a price of euro 17 per share. As a result of the IPO, SMARTRAC received net cash proceeds of approx. euro 53.5 million after deduction of the costs of the IPO. A portion of these funds was used in July to pay back existing loans of euro 12.8 million. This will significantly reduce the interest exposure of SMART-RAC. Furthermore, the foreign exchange exposure improved markedly upon the complete repayment of loans denominated in Thai Baht in July 2006.

The remaining funds will be used to finance further growth. The focus of the investment strategy will be placed on the continued expansion of our production capacity and the development of new technologies, products and manufacturing processes.

Owing to the proceeds from the IPO in July the share capital increased by euro 1,750,000 to euro 6,750,000. Additionally, the share premium increased by approx. euro 48.7 million after deducting IPO costs of euro 3.0 million already capitalized in the first six months of 2006. These costs could be directly offset against the share premium in the course of the IPO.

Investments in a New Manufacturing Facility to Expand Production Capacity

In order to secure continued growth, we invested euro 4.4 million (prior year euro 1.3 million) in property, plant and equipment in the first six months of the year. This includes the establishment of a fourth factory in Thailand which is expected to go into operation in the fourth quarter, as well as the build-up of our German production facility.

Research and Development

At present, we have concentrated our research and development activities in Thailand. Currently, 25 specialists are working together with our chip suppliers and customers on new technologies and products to ensure the optimum specifications for product performance and durability. SMARTRAC is planning to invest approx. 3 % of its sales revenues in research and development in the mid-term.

Outlook: Significant Growth of Sales and EBITDA for the Whole Year 2006

Production capacity will be expanded continuously to the end of the year. In comparison to prior year we are expecting a significant growth of both sales and EBITDA for the whole year 2006.

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.

For the six months ended 30 June

In thousands of euro	Note	Consolidated			
		Three months ended June 2006	Three months ended June 2005	Six months ended June 2006	Six months ended June 2005
Revenue	4	11,806	4,705	22,471	8,280
Cost of sales		7,965	3,183	15,296	5,614
Gross profit		3,841	1,522	7,175	2,666
Administrative expenses	5	(1,101)	(1,012)	(3,761)	(1,806)
Other operating income and expenses		282	23	295	28
Total operating expenses		(819)	(989)	(3,466)	(1,778)
Operating profit before financial result		3,022	533	3,709	888
Financial income		17	119	77	119
Financial expenses		(256)	(71)	(719)	(231)
Net financial income (expenses)	6	(239)	48	(642)	(112)
Share of profit of associates		74	7	83	7
Profit before tax		2,857	588	3,150	783
Income tax (expense) / benefit	7	(138)	11	174	44
Profit for the period		2,719	599	3,324	827
Basic earnings per share (euro)	8	0.27	2.40	0.33	3.31
Diluted earnings per share (euro)	8	0.20	2.40	0.25	3.31
Pro Forma earnings per share (euro)*	8	-	0.06	-	0.08
Pro Forma diluted earnings per share (euro)*	8	-	0.04	-	0.06

The accompanying notes are an integral part of the condensed consolidated interim financial information. It is imperative that users read note 1 to understand the basis of presentation of the condensed consolidated interim financial information.

* *Pro Forma earnings per share* are based on the number of shares of SMARTRAC N.V. outstanding upon incorporation of the Company (10,000,000 shares). *Pro Forma diluted earnings per share* are based upon the number of shares outstanding after the initial public offering (13,500,000 shares) which has occurred after the balance sheet date.

As at 30 June

In thousands of euro	Note	Consolidated 30 June 2006	Combined and consolidated 31 Dec. 2005
Assets			
Property, plant and equipment	9	15,188	11,734
Intangible assets		1,444	1,293
Investment in associates		132	48
Deferred tax assets	7	211	37
Other non-current assets		91	80
Total non-current assets		17,066	13,192
Inventories		7,276	3,824
Other current assets	9	2,050	1,197
Prepaid IPO costs	5,14	2,996	0
Trade receivables		7,830	6,990
Cash and cash equivalents		2,005	1,500
Total current assets		22,157	13,511
Total assets		39,223	26,703
Equity			
Share capital		5,000	5,000
Share premium		4,923	4,923
Translation reserve		11	0
Retained earnings		3,324	0
Total equity		13,258	9,923
Liabilities			
Secured installment loan	11	197	233
Total non-current liabilities		197	233
Bank overdraft		842	1,207
Current portion of secured installment loan	11	103	120
Interest-bearing loans and borrowings	11	14,931	8,448
Employee benefits		43	36
Trade and non-trade payables		6,808	4,936
Other current liabilities		3,041	1,800
Total current liabilities		25,768	16,547
Total liabilities		25,965	16,780
Total equity and liabilities		39,223	26,703

The accompanying notes are an integral part of the condensed consolidated interim financial information. It is imperative that users read note 1 to understand the basis of presentation of the condensed consolidated interim financial information.

For the six months ended 30 June

In thousands of euro	Six months ended June 2006	Six months ended June 2005
Cash flows from operating activities		
Net profit	3,324	827
<i>Reconciliation of net profit to net cash provided by (used in) operating activities:</i>		
Depreciation and amortization	972	708
Interest expenses	305	110
(Reversal of) write down of inventories	(17)	44
(Gains) or losses on disposal of assets	-	(20)
Share of profit of associates	(83)	-
Deferred tax benefit	(174)	(44)
<i>Decrease (increase) in operational assets:</i>		
Other non-current assets	(259)	(29)
Inventories	(3,443)	(1,444)
Other current assets	78	223
Trade receivables	(865)	(845)
Employee benefits	6	6
Trade and non-trade payables	693	666
Other current liabilities	1,202	259
Net cash provided by operating activities	1,739	461
Cash flows from investing activities		
Investment in associates	-	(40)
Proceeds from sale of equipment	-	71
Purchases of property, plant and equipment	(4,368)	(1,315)
Deposits paid for property, plant and equipment	(922)	(229)
Net cash used in investing activities	(5,290)	(1,513)
Cash flows from financing activities		
IPO costs attributable to IPO proceeds	(1,857)	-
Proceeds from interest-bearing loans and borrowings and secured installment loan	6,466	2,905
Repayments of interest-bearing loans and borrowings and secured installment loan	(63)	(2,080)
Interests paid	(242)	(63)
Net cash provided by financing activities	4,304	762
Net change in cash and cash equivalents and bank overdrafts	753	(290)
Cash and cash equivalents and bank overdrafts at 1 January	293	340
Effect of exchange rate fluctuations on cash and cash equivalents and bank overdrafts	117	(28)
Cash and cash equivalents and bank overdrafts at 30 June	1,163	22

The accompanying notes are an integral part of the condensed consolidated interim financial information. It is imperative that users read note 1 to understand the basis of presentation of the condensed consolidated interim financial information.

Condensed consolidated statement of changes in shareholders' equity

In thousands of euro	Issued and paid-up share capital	Share premium	Translation reserve	Retained earnings	Total
Balance as at 1 January 2005	620	0	0	6,277	6,897
Net profit for the quarter	0	0	0	227	227
Balance as at 31 March 2005	620	0	0	6,504	7,124
Balance as at 1 April 2005	620	0	0	6,504	7,124
Net profit for the quarter	0	0	0	599	599
Balance as at 30 June 2005	620	0	0	7,103	7,723
Net equity before contribution as at 31 December 2005*	620	0	8	9,295	9,923
Group restructuring*	(620)	0	(8)	(9,295)	(9,923)
Newly issued shares upon contribution in kind*	5,000	4,923	0	0	9,923
Pro Forma balance as at 1 January 2006*	5,000	4,923	0	0	9,923
Balance as at 01 January 2006	5,000	4,923	0	0	9,923
Translation reserve	0	0	23	0	23
Net profit for the quarter	0	0	0	605	605
Balance as at 31 March 2006	5,000	4,923	23	605	10,551
Balance as at 1 April 2006	5,000	4,923	23	605	10,551
Translation reserve	0	0	(12)	0	(12)
Net profit for the quarter	0	0	0	2,719	2,719
Balance as at 30 June 2006	5,000	4,923	11	3,324	13,258

The accompanying notes are an integral part of the condensed consolidated interim financial information. It is imperative that users read note 1 to understand the basis of presentation of the condensed consolidated interim financial information.

* *Combined and consolidated equity* as at 31 December 2005 is the pro forma equity of SMARTRAC N.V. at its incorporation date (23 January 2006), as if SMARTRAC N.V. already existed as at 31 December 2005 and the contribution in kind of all group companies had already occurred as at 31 December 2005. This pro forma method of presentation only relates to the classification of equity elements and does not affect the equity total.

1. Reporting entity

SMARTRAC N.V. (the Company) is a company domiciled in Amsterdam, the Netherlands. The Company was incorporated on 23 January 2006, for the purpose of becoming a holding company for the SMARTRAC Group (the Group), comprising 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	Manufacturing	100 %
SMARTRAC TECHNOLOGY Pte. Ltd.	Singapore	7 October 2005	Trading	100 %
Associate				
Xytec Solutions Sdn. Bhd.	Malaysia	13 December	Manufacturing	30 %

The legal and tax restructuring process to form the SMARTRAC Group started in November 2005 and was finalized in February 2006. As consideration for the shares in the subsidiaries and associate, the Company issued 5,000,000 shares with a par value of euro 1.00 each against the contribution in kind of the subsidiaries and associate by their shareholders with economic effect as at 31 December 2005.

At 31 December 2005, the value of the total net assets of the subsidiaries and associate amounts to euro 9,923,000. The difference between the total net assets of the Group as at 31 December 2005 and the par value of the 5,000,000 shares is presented as share premium (euro 4,923,000).

On 7 February 2006, the shareholders resolved to amend the Company's Articles of Association by splitting and converting each existing euro 1.00 share into two shares of euro 0.50 each. Following this amendment the authorized share capital of the Company is euro 25,000,000, comprising of 50,000,000 shares with a par value of euro 0.50 each.

The condensed consolidated interim financial information for the three months and six months

ended 30 June 2005 comprises the activities of the Thai and German companies. This information is presented along with the interim financial information for the three months and six months ended 30 June 2006 for comparison only, as SMARTRAC N.V. was not incorporated until 2006.

The combined and consolidated financial information as at 31 December 2005 comprises the activities of the Thai and German companies consolidated and combined with the activities of the Singaporean company into one reporting entity with the Malaysian associate accounted for under the equity method. This method of presentation reflects the economic substance of the combining companies as a single economic enterprise at 31 December 2005, although the legal parent-subsidiary relationships were not established until February 2006.

As of 30 June 2006, the Group employed 1,769 employees (1,456 as of 31 March 2006; 776 as of 30 June 2005 and; 712 as of 31 March 2005).

The Group's Combined and consolidated financial information 2003-2005 is 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 information has been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 *Interim Financial Reporting*. It does not include all of the information required for full annual financial information, and should be read in conjunction with the combined and consolidated

financial information of the Group as at and for the year ended 31 December 2005.

This condensed consolidated interim financial information was approved by the Management on 4 August 2006 and has been reviewed by KPMG ACCOUNTANTS N.V., Amstelveen, The Netherlands.

3. Significant accounting policies

The accounting policies applied by the Group in the condensed consolidated interim financial information are the same as those applied by the Group in its *Combined and consolidated financial information 2003-2005*.

The following accounting policies were previously not presented in the Group's *Combined and consolidated financial information 2003-2005* and are relevant as a result of transactions, other events and conditions that occurred from 1 January 2006.

Initial public offering costs

Qualifying costs attributable to equity transactions, such as the issuing and listing of new shares by way of initial public offer, are charged to equity, net of any tax effects, at the date of the equity transactions. Prior to each equity transaction occurring qualifying costs are recognised as *Prepaid IPO costs* under current assets in the balance sheet. Costs that are attributable to equity transactions but do not qualify as a charge to equity are charged to the income statement as incurred.

Supplier rebates

Rebates provided by suppliers are recognized when it is probable that the rebates will be received and the amount of the rebates can be estimated reliably. The benefit received is allocated to the cost of inventory, unless the items purchased have already been sold, in which case the benefit is recorded against cost of sales.

Share-based payments

A stock option plan allows Group employees to acquire shares of the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. The fair value of the options granted is measured by taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold of vesting.

4. Segment reporting

For the six months ended 30 June

In thousands of euro	Standard Components		High security Components		Other operations		Consolidated	
	Six months ended June 2006	Six months ended June 2005	Six months ended June 2006	Six months ended June 2005	Six months ended June 2006	Six months ended June 2005	Six months ended June 2006	Six months ended June 2005
Segment revenue								
External sales	12,561	7,440	9,850	784	60	56	22,471	8,280
Segment result								
Gross profit	2,599	2,434	4,538	298	38	(66)	7,175	2,666
Operating expenses	(1,633)	(1,562)	(1,696)	(111)	(137)	(105)	(3,466)	(1,778)
Operating profit (loss)	966	872	2,842	187	(99)	(171)	3,709	888
Net financial expenses							(642)	(112)
Share of profit of associates							83	7
Income tax benefit							174	44
Profit for the period							3,324	827
Supplemental information								
Operating profit (loss)	966	872	2,842	187	(99)	(171)	3,709	888
Depreciation and amortization	516	560	413	20	43	34	972	614
Segment EBITDA*	1,482	1,432	3,255	207	(56)	(137)	4,681	1,502

The Group comprises the following main business segments:

- **Standard Components.** The manufacture and sale of inlays with embedded chips modules that have low security features, such as basic encryption, for use in applications such as access control and logistics.
- **High security Components.** The manufacture and sale of inlays with embedded chips modules 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 standard or high security components.

* EBITDA is defined as operating profit for the period before depreciation, amortization, financing costs, 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 2006	Six months ended June 2005
Standard components		
Mass transportation / access control	12,315	6,842
Logistics	246	598
Subtotal	12,561	7,440
High security components		
ePayment	3,407	0
ePassport	6,443	784
Subtotal	9,850	784
Other operations	60	56
Total revenue	22,471	8,280

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	
	Six months ended June 2006	Six months ended June 2005
Revenues		
Europe	11,745	3,386
Asia	3,893	2,819
North America	4,555	963
Others	2,278	1,112
Total revenue	22,471	8,280

5. Administrative expenses

As of 30 June 2006, the Group has incurred costs of euro 2,996,000 for legal, accounting and other services relating to the Company's intended initial public offering ("IPO") and listing of its shares on the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse). The allocation of IPO costs between *IPO expenses* and *Prepaid IPO expenses* is based on the proportion of new and existing shares sold during the IPO. For the three months ended March 2006, the allocation of IPO costs between IPO expenses and Prepaid IPO expenses was based upon the intended proportion of new (3,000,000 shares) and existing (2,050,000) shares placed during the proposed IPO. The IPO subsequently took place during July 2006 but it was decided to issue 3,500,000 new shares and not place any existing shares. Consequently, IPO costs previously

expensed during the three months ended March 2006 and amounting to euro 828,000 were capitalized as Prepaid IPO expenses during the 3 months ended June 2006 period. Additionally, costs amounting to euro 187,000 which were expensed as of 31 March 2006 were agreed to be IPO related costs and consequently capitalized as Prepaid IPO expenses during the 3 months ended June 2006 period.

The amount of euro 2,996,000 is presented as *Prepaid IPO costs* in the condensed consolidated balance sheet as at 30 June 2006. These prepaid IPO costs will be charged against the share premium account in shareholders' equity upon the Company's IPO.

6. Net financial income (expenses)

In thousands of euro	Consolidated			
	Three months ended June 2006	Three months ended June 2005	Six months ended June 2006	Six months ended June 2005
Interest income	17	0	17	0
Foreign exchange gains	0	119	60	119
Financial income	17	119	77	119
Interest expense	(192)	(58)	(322)	(110)
Bank charges	(23)	(13)	(41)	(25)
Foreign exchange losses	(41)	0	(356)	(96)
Financial expenses	(256)	(71)	(719)	(231)
Net financial income (expenses)	(239)	48	(642)	(112)

7. Income tax

The Group has no current corporate tax expense for the three months ended June 2006 and for the six months ended June 2006 (nil for the three months ended June 2005 and for the six months ended June 2005). SMARTRAC TECHNOLOGY Ltd. continues to benefit from corporate income tax

exemptions from the special promotional privileges granted by the Thailand Government, relating to its production and sale of transponders in Thailand (for further information refer to the Group's *Combined and consolidated financial information 2003-2005*).

Recognised in the income statement

In thousands of euro	Consolidated			
	Three months ended June 2006	Three months ended June 2005	Six months ended June 2006	Six months ended June 2005
Current corporate tax expense	0	0	0	0
Deferred tax expense (-) / benefit	(138)	11	174	44
Income tax expense (-) / benefit	(138)	11	174	44

Reconciliation of effective tax charge

In thousands of euro	Consolidated			
	Three months ended June 2006	Three months ended June 2005	Six months ended June 2006	Six months ended June 2005
Profit before tax	2,857	588	3,150	783
Expected tax expense based on rate of 30 % (2005: 30 %)	857	177	945	235
Tax exempt income relating to promotional privileges	(688)	(196)	(1,085)	(293)
Tax exempt income relating to equity accounted investment	(22)	(2)	(25)	(2)
Tax rate differences	(4)	0	(3)	0
Non-deductible permanent differences	0	7	1	12
Add back (reduction in) temporary differences	(21)	3	(23)	4
Carry forward tax losses	(122)	11	190	44
Actual tax expense	0	0	0	0

Deferred tax assets

During the six months ended 30 June 2006, deferred tax assets increased by euro 160,000 resulting primarily from carry forward tax losses generated by the Company and two of its subsidiaries.

In thousands of euro	Consolidated	
	30 June 2006	30 June 2005
Balance as at 31 December	37	0
Tax losses carried forward for the quarter	174	55
Balance as at 30 June	211	55

8. Earnings per share and Pro Forma earnings per share**Profit attributable to ordinary shareholders**

The calculation of basic and diluted earnings per share at 30 June 2006 is based on the profit attributable to ordinary shareholders of SMARTRAC N.V. The calculation of basic and diluted earnings per share at 30 June 2005 is based on the profit attributable to ordinary shareholders of SMARTRAC TECHNOLOGY Ltd.

Basic and diluted earnings per share

In thousands of euro and shares, except earnings per share	Consolidated			
	Three months ended June 2006	Three months ended June 2005	Six months ended June 2006	Six months ended June 2005
Profit attributable to ordinary shareholders	2,719	599	3,324	827
Number of ordinary shares	10,000	250	10,000	250
Basic earnings per share	0.27	2.40	0.33	3.31
Number of new shares to be issued at intended IPO	3,500	0	3,500	0
Number of diluted ordinary shares	13,500	250	13,500	250
Diluted earnings per share	0.20	2.40	0.25	3.31

Pro Forma earnings per share

In thousands of euro and shares, except earnings per share	Consolidated	
	Three months ended June 2005	Six months ended June 2005
Profit attributable to ordinary shareholders	599	827
Pro Forma number of ordinary shares	10,000	10,000
Pro Forma basic earnings per share	0.06	0.08

Pro Forma average number of ordinary shares assumes both (i) the combination of the subsidiaries in the Group (which legally occurred on 23 January 2006), and (ii) the splitting and converting of shares (which was resolved by the shareholders on 7 February 2006), as described in note 1, took place on, or before, 1 January 2005.

Pro Forma diluted earnings per share

In thousands of euro and shares, except earnings per share	Consolidated	
	Three months ended June 2005	Six months ended June 2005
Pro Forma number of ordinary shares	10,000	10,000
Number of shares to be issued at intended IPO	3,500	3,500
Pro Forma number of diluted ordinary shares	13,500	13,500
Profit attributable to ordinary shareholders	599	827
Pro Forma diluted earnings per share	0.04	0.06

Pro Forma average number of diluted ordinary shares assumes (i) the combination of the subsidiaries in the Group (which legally occurred on 23 January 2006), (ii) the splitting and converting of shares (which was resolved by the shareholders on 7 February 2006), as described in note 1, and (iii) the subscription of new shares to be issued at IPO, took place on, or before, 1 January 2005.

9. Property, plant and equipment

Acquisitions

During the three months ended June 2006 the Group acquired assets totalling euro 2,040,000 and during the six months ended June 2006 the Group acquired assets totalling euro 4,345,000 (three months ended June 2005: euro 308,000; six months ended 30 June 2005: euro 1,221,000).

Capital commitments

During the six months ended 30 June 2006 the Group entered into contracts to purchase property, plant and equipment for euro 4,157,000 net of a down payment of euro 922,000 (six months ended June 2005: euro 301,000 net of down payment of euro 229,000); delivery is expected within the third and fourth quarter of 2006.

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.

No stock options were granted during the six months ended 30 June 2006.

11. Loans and borrowings

The following loans and borrowings (non-current and current) were issued and repaid during the six months ended 30 June 2006:

In thousands of euro	Currency	Interest rate	Face value	Carrying amount	Year of maturity
Balance as at 1 January 2006				8,801	
New issues					
Loans acquired	EUR	4.11-4.79 %	6,018	6,018	2006
Drawn down	EUR	3.01-3.37 %	448	448	2006
Effects of exchange rate changes				18	
Repayments					
Secured bank loan	THB	6.25 %		(63)	
Effects of exchange rate changes				9	
Balance as at 30 June 2006				15,231	

During the six months ended 30 June 2006, euro 448,000 was drawn down from an existing credit facility with ABN Amro, Singapore branch.

On 2 February 2006, the Group entered into a credit agreement for a revolving credit facility for an amount of euro 2,000,000 with Deutsche Bank AG which on 21 April 2006 was replaced by a credit facility for an amount of euro 7,000,000. On this new credit facility the company has drawn

on euro 6,000,000 on this new credit facility as at 30 June 2006. Interest is payable monthly based on a floating market rate plus a fixed margin.

The facility matures on 30 December 2006 and is secured by a personal guarantee from Mr. Richard Bird. Subsequent to balance sheet date the Group has repaid substantially loans amounting to euro 12,800,000 including the loan above mentioned. Please refer also to note 14.

12. Contingencies

In May 2005, allegations were raised against the Company and its CEO. On 19 June 2006 the public prosecutor recently gave official notice that preliminary proceedings against the CEO Mr. Rietzler had been dismissed for lack of reasonable

suspicion of an offense. Additionally, there have been no changes to the status of the other legal matters discussed in the Group's Combined and consolidated financial information 2003-2005.

13. Related parties

Transactions with key management personnel

Other than the loan and personal guarantees from a Supervisory Board Member, Mr. Richard Bird, there were no other transactions with any members of the Supervisory Board, Management Board and Senior Management.

Key management personnel, who are members of the Management Board and Senior Management, receive compensation in the form of annual compensation, short-term employee benefits, bonuses and share-based payments once granted (see note 10). Key management personnel received total compensation of euro 241,000 for the three months ended 30 June 2006 and a compensation of euro 427,000 for the six months ended 30 June 2006 (three months ended 31 June 2005: euro 39,000, six months ended June 2005: euro 70,000).

New employment contracts were entered into between the Company and members of the Management Board in February 2006. The terms of their employment contracts last for the duration of their appointment as members of the Management Board. The compensation is summarized as follows:

- Mr. Manfred Rietzler is entitled to receive total annual compensation of euro 144,000. In addition, housing and other expenses of Mr. Manfred Rietzler in Thailand are borne by the Group. Dr. Christian Fischer is entitled to receive a total annual base compensation of euro 240,000 and a variable compensation of 1.00 % of the EBITDA (see note 4 for definition) of the Group. In addition, Dr. Fischer has been granted a one-time IPO-bonus that will amount to 1.00 % of the gross proceeds to the Company in connection with the Group's intended IPO. Both members of the Management Board will be provided with a company car and with general corporate accident insurance.
- Other members of the Management Board, Mr. Ronald Brown and Mr. Anthony Edward Driessen, are entitled to receive total annual compensation of USD 200,000 and euro 25,000, respectively.

Mr. Richard Bird is the only current member of the Supervisory Board. At the completion of the Company's IPO, the Supervisory Board will expand to three members with the addition of Professor Dr. Bernd Dieter Fahrholz, as Chairman, and Mr. Wolfgang Huppenbauer. Mr. Richard Bird will hold the position of Vice Chairman.

The remuneration of each member of the Supervisory Board is fixed at euro 10,000 per annum and the remuneration of the chairman of the Supervisory Board is fixed at euro 50,000 per annum.

Related party transactions

The Group has the following transactions with related parties.

In thousands of euro	Transaction value		Transaction value	
	Three months ended June 2006	Three months ended June 2005	Six months ended June 2006	Six months ended June 2005
Sales				
Emsquares AG	-	6	1	8
Purchase				
Intec Holding GmbH	-	22	-	113
Xytec Solutions Sdn. Bhd.	692	2	975	2

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

In thousands of euro	Balance outstanding	
	30 June 2006	31 December 2005
Trade receivables		
Emsquares AG	-	162
Deposits paid		
Xytec Solutions Sdn. Bhd.	922	548
Emsquares AG	30	-
Trade payables		
Intec Holding GmbH	-	-
Emsquares AG	4	4
Safehaven Trading	-	13
Non-trade payables		
Intec Holding GmbH	-	12
Safehaven Investment Ltd.	-	200
Safehaven Trading	467	467
Xytec Solutions Sdn. Bhd.	692	453

The outstanding balances of the receivables with Emsquares AG (formerly SMARTRAC Technology AG) were fully provided for as at 31 December 2005.

14. Initial public offering

Subsequent to the balance sheet date, SMARTRAC N.V. placed 3,500,000 new shares from a capital increase as part of its initial public offering. In light of the situation in the capital markets in July 2006, the existing shareholders have agreed not to sell any shares.

Around 99 percent of the shares were allocated to international institutional investors. Around one percent of the shares were allocated to retail investors. Retail allocations were made in compliance with the 'Principles for the Allotment of Share Issues to Retail Investors' issued on 7 June 2000 by the Commission of Financial Market Experts at the German Federal Ministry of Finance.

Trading in SMARTRAC N.V. shares started on 20 July 2006 under the trading symbol 'SM7' and the ISIN 'NL0000186633' in the official market ('Prime Standard') of the Frankfurt Stock Exchange. Settlement and delivery of the shares took place on Friday, 21 July 2006. The issue price was euro 17 per share.

Gross proceeds amounted to euro 59,500,000 of which the company will receive net proceeds of approximately euro 53,500,000. The difference between the net proceeds and the gross proceeds amounting to approximately euro 6,000,000 are treated as IPO expenses of the period subsequent to balance sheet date which will be charged directly to equity. They mainly consist of success fees for the sole global coordinator and bookrunner amounting to euro 3,500,000 and legal / consultancy / success fees amounting to approximately euro 2,500,000.

SMARTRAC's proceeds from the IPO will primarily be used to fund further growth and to repay most of the interest-bearing loans and borrowings. Subsequent to the Balance Sheet date, the SMARTRAC Group has repaid loans totalling euro 12,800,000.

SMARTRAC Manufacturing plant, Thailand.





Financial Calendar

16 November 2006 Publication of Q3 Interim Report (July to September)
(Analysts' conference call)

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