



Q1 Q2 Q3 Q4

Interim Report

2nd Quarter 2007



In thousands of euro	Consolidated six months ended June 2007	Consolidated six months ended June 2006	Change	Change in %	
Consolidated income statement					
Revenues	40,662	22,471	18,191	81.0	
EBITDA ¹⁾	10,436	4,681	5,755	122.9	
Net profit after tax	9,217	3,324	5,893	177.3	
Financial position and liquidity					
Cash flow from operating activities	7,663	1,739	5,924	340.7	
Working capital	13,993	10,260	3,733	36.4	
Capital expenditure	3,373	4,368	(995)	(22.8)	
Total assets	91,096	39,223	51,873	132.3	
Operating figures					
Basic earnings per share	euro	0.69	0.33	0.36	109.1
Cash flow per share	euro	0.57	0.17	0.40	235.3
Equity ratio (-)	%	81.3	33.8	47.50	140.5
Headcount	at month's end	2,330	1,769	561	31.7

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.



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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 continues to deliver increase in sales and earnings

With significant growth in sales and earnings, the financial figures from the first half year of 2007 compare favorably with the same period in 2006. Q2 2007 is the fifth quarterly report in a row reporting increases in sales and earnings.

Total SMARTRAC sales from January to June 2007 increased to euro 40.662 million up from euro 22.471 million in the first six months 2006, representing an increase in sales of 81 percent. This development has to a large extent been driven by an increase in sales from the High Security segment, signs of which were already evident in previous reporting periods.

In the first half year of 2007, the High Security segment reached sales of euro 28.175 million which is equivalent to a gain of 186 percent compared to sales of euro 9.850 million in the first six months of 2006. At euro 12.703 million in the first half of 2007, sales in the Standard segment are slightly higher than sales of euro 12.561 million between January and June 2006.

EBITDA (including EBITDA from other operations) in the first half of 2007 increased to euro 10.436 million, rising by 123 percent from euro 4.681 million in the first half of 2006. At euro 9.235 million (first half of 2006: euro 3.255 million), the High Security segment made easily the largest contribution to this result for January to June 2007.

Compared to EBITDA of euro 1.482 million from January to June 2006, the Standard segment reached an EBITDA of euro 2.162 million in the first six months of 2007, thus showing significantly improved profitability. This segment comprises RFID inlays for public transport, access control and logistics.

SMARTRAC generated a net profit of euro 9.217 million in the first six months of 2007. Compared to the net profit of euro 3.324 million generated in the same period for

the prior year, this represents an increase of 177 percent. Rising by euro 5.893 million, the net result compares favorably with the prior year period.

Net cash provided by operating activities amounted to euro 7.663 million in the past six months (compared to euro 1.739 million for the same period in the prior year), mainly due to the net profit of euro 9.217 million (prior year: euro 3.324 million).

In the first half of 2007, working capital increased to euro 13.993 million with a significantly lower build-up in the second quarter of 2007 (plus euro 0.585 million) compared to the increase in the first three months of the year (plus euro 1.425 million).

Net cash used in investing activities accumulated to euro 4.219 million per June 2007 compared to euro 5.290 million for the same period of 2006.

Net cash used in financing activities decreased by euro 5.583 million, mainly caused by the cash outflow for the SMARTRAC share buy back program (euro 5.020 million) which is described below in detail.

The cash provided by operating activities more than compensated for the cash used in investing activities. Taking the share buyback into account, cash and cash equivalents decreased by euro 2.139 million.

Total assets as of June 2007 increased to euro 91.096 million from euro 80.732 million as of December 2006.

Property, plant and equipment increased by euro 2.246 million. Intangible assets increased by euro 2.594 million, notably driven by the capitalization of goodwill related to the first time inclusion of multitape GmbH.

The increase in trade receivables by euro 4.589 million in the first half of 2007 corresponds with the development of sales compared to the last quarter of 2006. The increase of euro 3.194 million in inventories reflects the

increase in production capacity which has already been ramped up to approximately 16 million units a month, whereof 14 million are high frequency inlays.

the assessment that multitape and SMARTRAC complement each other favorably. From the management's perspective, the expertise in etching technology is the perfect match to SMARTRAC's core competency in wire-embedding technology. With the takeover of multitape,



Bank overdrafts decreased by euro 0.708 million. Trade and non-trade payables increased by euro 4.799 million, easily offsetting the increase in trade receivables during the first half of 2007.

Strategic achievements and milestones

In March 2007, the Management Board of SMARTRAC decided to take over the remaining 74.8 percent of the shares in multitape GmbH, based in Salzkotten, Germany. SMARTRAC had already acquired 25.2 percent of multitape in January 2007. To effect the deal, SMARTRAC availed of an option agreed on earlier with multitape to acquire the remaining shares in the company. The intensive cooperation since January 2007 has confirmed

SMARTRAC can therefore combine under one roof the decisive core technologies used in the manufacture of RFID components.

The share buyback of SMARTRAC N.V., which started on April 3, 2007, was concluded on May 31, 2007. In the course of the buyback, an overall number of 199,500 shares were repurchased at an average price of euro 25.049 per share making a total value of euro 5.020 million. This means that SMARTRAC currently keeps under its own stock close to 1.48 percent of a total of 13,500,000 issued shares of the company. The SMARTRAC Management Board intends to utilise the shares from the buyback for acquisitions and for the company's own employee share programs.

*SMARTRAC share:
value created*

On June 29, 2007, the closing price of the SMARTRAC share was euro 26.35. On July 20, 2007, one year after the IPO back in July 20, 2006, the SMARTRAC share passed the mark of euro 30 for the first time, closing at 29,40. The closing price of the share on August 1, 2007, was euro 29,00.

The SMARTRAC Annual General Meeting of Shareholders, which was held in Amsterdam on June 22, 2007, agreed upon the appointment of Jan C. Lobbezoo to the SMARTRAC Supervisory Board. Mr. Lobbezoo follows



In the course of an ongoing review of structures and processes, the SMARTRAC Management Board decided in May 2007 upon an adjustment of management responsibilities in order to focus management resources. Following this decision, the position of Manfred Rietzler from July 1, 2007, is the Chief Technical Officer (CTO) of SMARTRAC. Mr. Rietzler held the position of the CEO until that date. Dr. Christian Fischer took over the responsibility as Chief Executive Officer (CEO) from Manfred Rietzler effective July 1, 2007. The positions of the Management Board members Ron Brown and Anthony Driessen remained unaffected.

Richard Bird who had retired from his position on the SMARTRAC Supervisory Board in March 2007.

In July 2007, SMARTRAC started local production of RFID inlays in Brazil. Under "SMARTRAC Tecnologia Indústria e Comercio da Amazônia Ltda.", a SMARTRAC subsidiary headquartered in Manaus in Brazil's Amazonas province, the company initially produces RFID inlays for applications in public transport and access control. With this local production facility, SMARTRAC is superbly positioned to open up the potential of one of the world's most important RFID growth markets in order to contribute to SMARTRAC's further profitable growth.

Research and Development

The main research and development activities are still based at SMARTRAC's production locations in Thailand. With the acquisition of multitape GmbH, research and

Outlook: Positive development to continue on solid foundation

On the basis of business development from January to June 2007, SMARTRAC's management is confident of

Members of the SMARTRAC Supervisory Board and Management Board at the Annual General Meeting of Shareholders in Amsterdam on June 22, 2007

From left to right:

*Jan C. Lobbezoo, Member of the Supervisory Board
Wolfgang Huppenbauer, Member of the Supervisory Board
Manfred Rietzler, CTO of SMARTRAC
Prof. Dr. Bernd Fahrholz, Chairman of the Supervisory Board
Ron Brown, COO of SMARTRAC
Wolfgang Schneider, Chief Sales Officer
Dr. Christian Fischer, CEO of SMARTRAC
Anthony Driessen, Member of the Management Board*

development has been further strengthened by integrating multitape's activities in Salzkotten, Germany, into the SMARTRAC research and technology network.

Taking the importance of this key success factor in the fast growing worldwide RFID market into consideration, research and development has been further reinforced by the creation of the position of the Chief Technical Officer (CTO), as mentioned above. Since July 1, 2007, this management position is held by the former SMARTRAC CEO, Manfred Rietzler. Mr. Rietzler will focus even more on research and the development of new products, continued optimisation of existing production technologies and the implementation of new ones, and the proactive assessment of market opportunities and developments.

reaching overall sales for the full year 2007 of more than euro 85 million and to exceed euro 20 million in EBITDA.

This continuing growth of SMARTRAC's earnings and sales will be built upon the solid foundation which has been laid by the efficient and focused implementation of strategic decisions in the past. We will continue to pursue this strategic approach in future and constantly align the company's resources to its targets.

The acquisition of multitape GmbH and the start of production of RFID components in Brazil at our own local production facility have been major strategic achievements in 2007 to date. The second half of 2007 will be characterized by the further utilisation of the strong technology base of SMARTRAC which will lead to a further expansion of the product portfolio. SMARTRAC will also concentrate on the expansion of its global production network with a focus on the implementation of a local U.S. production facility.

Condensed consolidated interim financial statements for the six months ended 30 June 2007

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

In thousands of euro	Note	Consolidated three months ended June 2007	Consolidated three months ended June 2006	Consolidated six months ended June 2007	Consolidated six months ended June 2006
Revenues	6	21,210	11,806	40,662	22,471
Cost of sales		(12,095)	(7,965)	(23,438)	(15,296)
Gross profit		9,115	3,841	17,224	7,175
Administrative expenses		(4,033)	(1,101)	(7,731)	(3,761)
Other operating income and expenses		(242)	282	(635)	295
Total operating expenses		(4,275)	(819)	(8,366)	(3,466)
Operating profit before financial income / (expenses)		4,840	3,022	8,858	3,709
Financial income		42	17	336	77
Financial expenses		(452)	(256)	(121)	(719)
Net financial income / (expenses)	8	(410)	(239)	215	(642)
Share of profit of associates		250	74	250	83
Profit before tax		4,680	2,857	9,323	3,150
Income tax (expense) / benefit	9	(6)	(138)	(106)	174
Profit for the period		4,674	2,719	9,217	3,324
Basic earnings per share (euro)	10	0.35	0.27	0.69	0.33
Diluted earnings per share (euro)	10	0.35	0.20	0.69	0.25

Condensed consolidated balance sheet

As at 30 June

In thousands of euro	Note	Consolidated 30 June 2007	Consolidated 31 December 2006
Assets			
Property, plant and equipment	12	21,532	19,286
Intangible assets		4,190	1,596
Investments in subsidiaries		124	–
Investments in associates		408	158
Deferred tax assets	9	1,906	1,993
Other non-current assets		94	87
Total non-current assets		28,254	23,120
Inventories		10,384	7,190
Trade receivables		17,695	13,106
Other current assets		1,765	1,430
Cash and cash equivalents		32,998	35,886
Total current assets		62,842	57,612
Total assets		91,096	80,732
Equity			
Share capital		6,750	6,750
Share premium	13	53,984	53,548
Translation reserve		31	24
Retained earnings		18,336	9,119
Treasury stock	11	(5,020)	–
Total equity		74,081	69,441
Liabilities			
Secured loans		481	148
Deferred tax liabilities		321	–
Total non-current liabilities		802	148
Bank overdraft		134	842
Current portion of secured loans		100	244
Interest-bearing loans and borrowings		128	314
Employee benefits		57	50
Trade and non-trade payables		13,176	8,377
Other current liabilities		2,618	1,316
Total current liabilities		16,213	11,143
Total liabilities		17,015	11,291
Total equity and liabilities		91,096	80,732

Condensed consolidated statement of cash flows

For the six months ended 30 June

In thousands of euro	Note	Consolidated six months ended June 2007	Consolidated six months ended June 2006
Cash flows from operating activities			
Net profit	6	9,217	3,324
Reconciliation of net profit to net cash provided by (used in) operating activities:			
Depreciation and amortization	6	1,578	972
Interest expenses	8	36	305
Expenses for share based payments	13	242	–
(Reversal of) write down of inventories		230	(17)
Impairments on trade and other receivables		86	–
Share of profit of associates		(250)	(83)
Tax expense / (benefit)	9	106	(174)
Decrease (increase) in operational assets:			
Other non-current assets		15	(259)
Inventories		(3,010)	(3,443)
Other current assets		(157)	78
Trade receivables		(4,240)	(865)
Employee benefits		4	6
Trade and non-trade payables		2,413	693
Other current liabilities		1,393	1,202
Net cash provided by operating activities		7,663	1,739
Cash flows from investing activities			
Cash payment on purchase of subsidiaries		(257)	–
Purchases of intangible assets		(589)	–
Purchases of property, plant and equipment	12	(3,373)	(4,368)
Deposits paid for property, plant and equipment		–	(922)
Net cash used in investing activities		(4,219)	(5,290)
Cash flows from financing activities			
Share buyback	11	(5,020)	–
IPO costs attributable to IPO proceeds		–	(1,857)
Proceeds from interest-bearing loans and borrowings and secured installment loan		–	6,466
Repayments of interest-bearing loans and borrowings and secured installment loan		(527)	(63)
Interests paid		(36)	(242)
Net cash used in/provided by financing activities		(5,583)	4,304
Net change in cash and cash equivalents and bank overdrafts		(2,139)	753
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		25	117
Effect of first time inclusion of subsidiary on cash		(66)	–
Cash and cash equivalents and bank overdrafts at 30 June		32,864	1,163

Condensed consolidated statement of changes in shareholders' equity

For the six months ended 30 June

In thousands of euro	Issued and paid-up share capital	Share premium	Translation reserve	Retained earnings	Treasury stock	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 April 2006	5,000	4,923	23	605	–	10,551
Translation reserve	–	–	(12)	–	–	(12)
Net profit for the quarter	–	–	–	2,719	–	2,719
Balance as at 30 June 2006	5,000	4,923	11	3,324	–	13,258
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 13)	–	55	–	–	–	55
Translation reserve	–	–	–	–	–	–
Net profit for the quarter	–	–	–	4,543	–	4,543
Balance as at 31 March 2007	6,750	53,657	24	13,662	–	74,093
Balance as at 1 April 2007	6,750	53,657	24	13,662	–	74,093
Share buyback – treasury stock (note 11)	–	–	–	–	(5,020)	(5,020)
IPO costs reversed to share premium (directly into equity)	–	140	–	–	–	140
Share based payment (note 13)	–	187	–	–	–	187
Translation reserve	–	–	7	–	–	7
Net profit for the quarter	–	–	–	4,674	–	4,674
Balance as at 30 June 2007	6,750	53,984	31	18,336	(5,020)	74,081

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 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/ inclusion	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	1 January 2007	Manufacturing	100 %
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 half year 2007 for the purpose of structuring the IP of the Group (SMARTRAC IP B.V.) and for the purpose of market entry in Brazil (SMARTRAC Technology Brazil B.V., please also refer to sec-

tion 16 'Subsequent events'). These two companies had no material business activities in the first half year 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	100 %

A 100 % share of 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 Secure and Standard segment. multitape GmbH has an expertise in etching technology which is a supplement to the Group's core competence in the wire-embedding technology.

A 25,2 % stake in multitape GmbH, Salzkotten, Germany, was acquired by SMARTRAC N.V. in early 2007 with economic effect on 1 January 2007. multitape GmbH has been treated as a subsidiary with economic effect on 1 January 2007 due to the following reasons: SMARTRAC N.V. had the contractual right to exercise an option to acquire the remaining 74.8 % of shares of multitape GmbH for a fixed exercise price. It was 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 assumed in the first quarter 2007 that this option would 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 in the first quarter 2007 and goodwill resulting from the purchase price allocation is fully presented. During the second quarter 2007, the Management Board exercised the option to acquire the remaining 74.8 % of the shares in multitape GmbH. A goodwill resulted from the first time inclusion of multitape GmbH which amounts to euro 1,411,000. The interim condensed consolidated financial statements include the results of multitape GmbH for the six month period from the acquisition date.

As at 30 June 2007, the Group employed 2,330 employees (2,197 as of 31 March 2007; 1,769 as of 30 June 2006; 1,456 as of 31 March 2006).

The Group's consolidated financial statements as at and for the year 2006 are available upon request from the Company's registered office at Strawinskylaan 851, 1077 XX 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 for the period ended 30 June 2007 were not subject to a limited interim review.

This condensed consolidated interim financial information was approved by the Management Board on 1 August 2007.

3. Declaration of the Management Board

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, 1 August 2007

Dr. Christian Fischer	Manfred Rietzler
Ronald Brown	Anthony E. Driessen

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 2006.

5. Estimates

The preparation of interim financial statements requires management to make judgements, 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 judgements 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.

6. Segment reporting

Consolidated segment information by business segments for the six months ended June 2007

In thousands of euro	Standard segment		High Security segment		Other operations		Consolidation		Consolidated	
	Six months ended June 2007	Six months ended June 2006	Six months ended June 2007	Six months ended June 2006	Six months ended June 2007	Six months ended June 2006	Six months ended June 2007	Six months ended June 2006	Six months ended June 2007	Six months ended June 2006
Segment revenue										
Revenues	12,703	12,561	28,175	9,850	–	60	(216)	–	40,662	22,471
Segment result										
Gross profit	3,608	2,599	13,702	4,538	–	38	(86)	–	17,224	7,175
Operating (expenses) / income	(2,065)	(1,633)	(5,418)	(1,696)	(969)	(137)	86	–	(8,366)	(3,466)
Operating profit (loss)	1,543	966	8,284	2,842	(969)	(99)	–	–	8,858	3,709
Financial result									215	(642)
Share of profit of associates									250	83
Income tax (expense) / benefit									(106)	174
Profit for the period									9,217	3,324
Supplemental information										
Operating profit (loss)	1,543	966	8,284	2,842	(969)	(99)	–	–	8,858	3,709
Depreciation and amortization	619	516	951	413	8	43	–	–	1,578	972
Segment EBITDA*	2,162	1,482	9,235	3,255	(961)	(56)	–	–	10,436	4,681

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, 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 2007	Consolidated six months ended June 2006
Standard components		
Mass transportation / access control	11,368	12,315
Logistics	1,335	246
Subtotal	12,703	12,561
High security components		
ePayment	5,025	3,407
ePassport	23,150	6,443
Subtotal	28,175	9,850
Other operations	–	60
Total before consolidation	40,878	22,471
Segment consolidation	(216)	–
Total	40,662	22,471

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 2007	Consolidated six months ended June 2006
Revenues		
Europe	30,452	11,745
Asia	2,655	3,893
North America	4,922	4,555
Others	2,633	2,278
Total revenues	40,662	22,471

7. Other operating income and expenses

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. The applicable volume which had been estimated as at 31 December 2006 had to be revised due to higher than expected sales volumes in the first quarter 2007. Therefore, an amount of euro 400,000 had been accrued for in the first quarter 2007. Substantially the total estimated rebate amount was granted to a customer in the second quarter 2007.

8. Net financial income (expenses)

In thousands of euro	Consolidated three months ended June 2007	Consolidated three months ended June 2006	Consolidated six months ended June 2007	Consolidated six months ended June 2006
Interest income	42	17	250	17
Foreign exchange gains	–	–	86	60
Financial income	42	17	336	77
Interest expense	(22)	(192)	(36)	(322)
Bank charges	(25)	(23)	(43)	(41)
Foreign exchange losses	(405)	(41)	(42)	(356)
Financial expenses	(452)	(256)	(121)	(719)
Net financial income (expenses)	(410)	(239)	215	(642)

9. Income tax

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

land, 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 June 2007	Consolidated three months ended June 2006	Consolidated six months ended June 2007	Consolidated six months ended June 2006
Current corporate tax (expense)	(1)	–	(19)	–
Deferred tax (expense) / benefit	(5)	(138)	(87)	174
Income tax (expense) / benefit	(6)	(138)	(106)	174

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 June 2007	Consolidated three months ended June 2006	Consolidated six months ended June 2007	Consolidated six months ended June 2006
Profit before tax	4,680	2,857	9,323	3,150
Expected tax expense based on rate of 25,5 % (2006: 30 %)	(1,193)	(857)	(2,377)	(945)
Tax exempt income relating to promotional privileges	1,457	688	2,829	1,085
Tax exempt related to share of profit in associates	75	22	75	25
Tax rate differences	(253)	4	(469)	3
Impairment of carry forward tax losses	(41)	–	(96)	–
(Add back) reduction in temporary differences	(135)	21	(135)	23
Others	84	(16)	67	(17)
Actual tax (expense) / income	(6)	(138)	(106)	174

Deferred tax assets

In thousands of euro	Consolidated 30 June 2007	Consolidated 30 June 2006
Balance as at 31 December	1,993	37
Tax losses carried forward for the quarter	0	174
Tax losses carried forward used in the quarter	(87)	–
Balance as at 30 June	1,906	211

10. 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 2007 (2006) is based on the profit attributable to ordinary shareholders of SMARTRAC N.V. The calculation of basic and diluted earnings per share for the period of the three months (six months) ended 30 June 2007 is based on the profit attributable to ordinary shareholders and amounts to euro 4,674,000 (euro 9,217,000).

Weighted average number of ordinary shares

Throughout the period at three months (six months) ended 30 June 2007, the amount of ordinary shares was 13,367,036 (13,433,518). It has changed mainly due to the share buy back programme explained under the section 11 'Treasury stock'.

Basic earnings per share

In thousands of euro, except shares and earnings per share	Consolidated three months ended June 2007	Consolidated three months ended June 2006	Consolidated six months ended June 2007	Consolidated six months ended June 2006
Profit attributable to ordinary shareholders	4,674	2,719	9,217	3,324
Numbers of ordinary shares	13,367	10,000	13,434	10,000
Earnings per share (euro)	0.35	0.27	0.69	0.33

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

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

In thousands of shares	Consolidated three months ended June 2007	Consolidated six months ended June 2007
Weighted average of ordinary shares outstanding	13,367	13,434
Effect of potential dilutive shares:		
Share options	45	31
Weighted average number of ordinary shares at 30 June	13,412	13,465

Diluted earnings per share

In thousands of euro, except shares and earnings per share	Consolidated three months ended June 2007	Consolidated six months ended June 2007
Profit attributable to ordinary shareholders	4,674	9,217
Weighted average number of ordinary shares	13,412	13,465
Diluted earnings per share (euro)	0.35	0.69

11. Treasury stock

A total of euro 5,020,000 has been spent by the company since April 2007 on buying its own shares to be held as treasury shares. All 199,500 shares have been acquired during the second quarter of 2007. All purchases were through the publicly announced buyback program. The buyback program which started on 3 April 2007 was conducted via the stock exchange. On 31 May 2007 the share buyback was concluded. SMARTRAC had authorised

a bank to conduct the share buyback. The SMARTRAC 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.

The table below sets out the monthly purchases under the share buyback program:

Month	Number of shares	Average share price in euro
April 2007	99,641	23.35
May 2007	99,859	26.74
Total	199,500	25.05

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

During the three months ended June 2007 the Group acquired assets totalling euro 973,000 and during the six months ended June 2007 the Group acquired assets totalling euro 3,373,000 (three months ended June 2006: euro 2,040,000; six months ended 30 June 2006: euro 4,345,000).

13. Stock option plan

Total expenses for the first tranche of the SMARTRAC stock option scheme recorded during the six months ended June 2007 amount to euro 102,000 (three months ended June 2007: euro 51,000; six months ended June 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 six months ended June 2007 amount to euro 140,000 (three months ended June: euro 136,000; six months ended June 2006: euro 0). They are reported under administrative expenses and as an increase in shareholders' equity (share premium) at the same time.

14. Contingencies

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

15. Related parties

Transactions with key management

Regarding the regular remuneration of members of the Management Board reference is made to the Annual Report 2006 – section ‘Corporate governance report’. Additional remuneration described in the notes of the interim financial statements of the first quarter 2007 has been approved by the Supervisory Board and has been granted in the course of the second quarter 2007.

Transactions with Supervisory Board

In conjunction with the second tranche granted of the SMARTRAC stock option scheme, options were granted to members of the Supervisory Board. Reference is made to the notes of the interim financial statements of the first quarter 2007, section ‘Transactions with Supervisory Board’.

On 3 April 2007, SMARTRAC N.V. announced that Richard Bird, the founder of the company, has retired from his position as Vice Chairman of the SMARTRAC Supervisory Board for personal reasons with immediate effect. With his early retirement from the Supervisory Board, he has now fully withdrawn from his involvement in SMARTRAC and has no other active business interests.

In March 2007 this year, Richard Bird already completely sold his interest in the company in the course of the placement of SMARTRAC shares.

Related party transactions

The Group has the following transactions with related parties.

Transaction value in thousands of euro	Consolidated three months ended June 2007	Consolidated three months ended June 2006	Consolidated six months ended June 2007	Consolidated six months ended June 2006
Sales				
Emsquares AG	–	–	–	1
Purchases				
Xytec Solutions Sdn. Bhd.	–	692	1,999	975

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

In thousands of euro	Consolidated 30 June 2007	Consolidated 31 December 2006
Trade receivables		
Xytec Solutions Sdn. Bhd.	378	380
Emsquares AG	15	15
SMARTRAC Technology AG	–	146
Total	393	541
Deposits paid		
Xytec Solutions Sdn. Bhd.	837	703
Emsquares AG	30	30
Total	867	733
Trade payables		
Emsquares AG	4	4
Total	4	4
Non-trade payables		
Safehaven Trading	–	317
Xytec Solutions Sdn. Bhd.	24	681
Mr. Richard Bird	–	71
Total	24	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 30 June 2007.

16. Subsequent events

The following company was acquired after the accounting period:

Company	Located in	Date of first time inclusion	Percentage of acquisition
SMARTRAC Tecnologia Industria E Comercio Da Amazonia Ltda.	Manaus, Brazil	15 Juli 2007	99,99 %

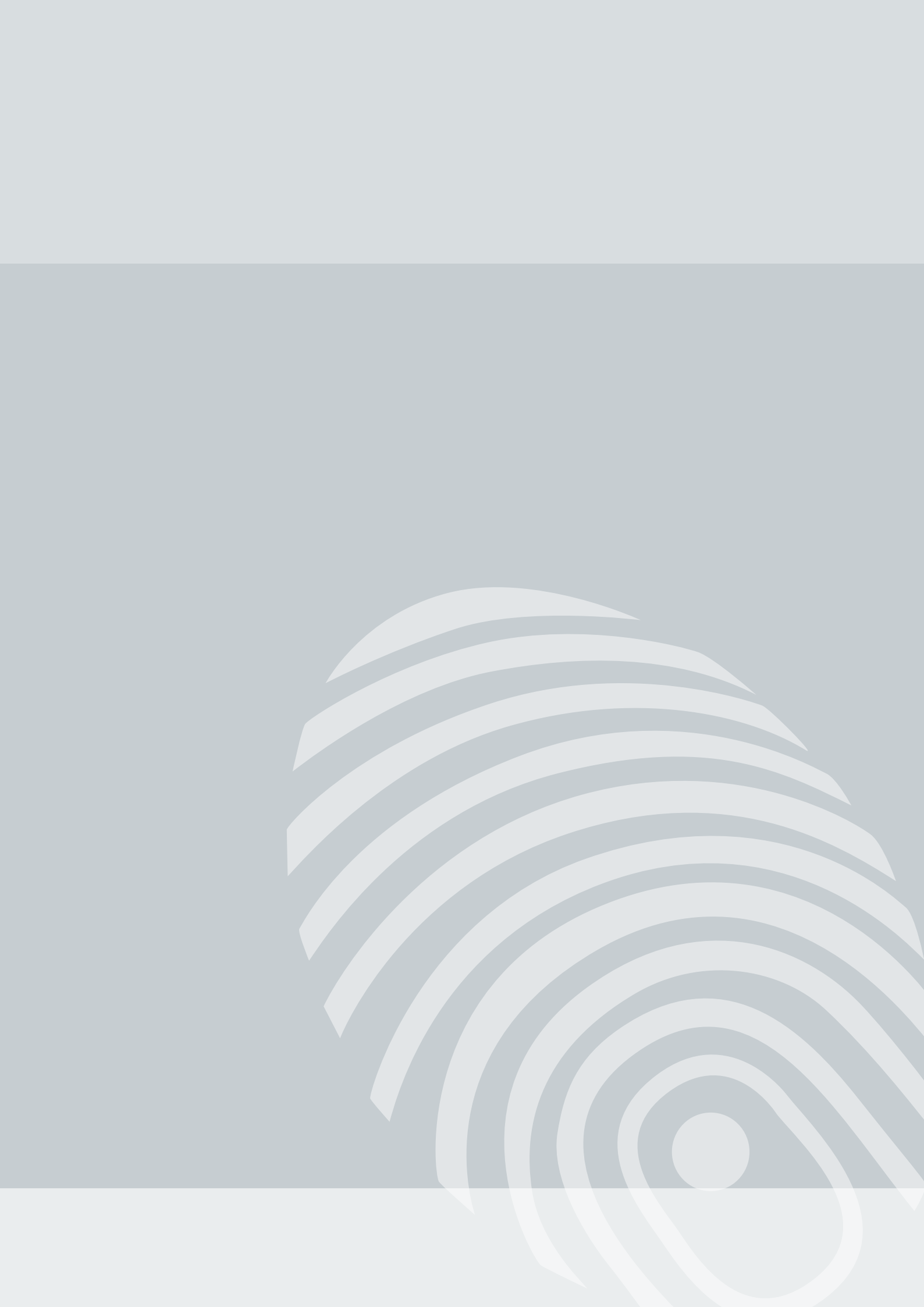
After the acquisition of SMARTRAC Tecnologia Industria E Comercio Da Amazonia Ltda. the RFID inlay business of SonSun Industrial E Comercial Technologica Da Amazonia Ltda., Manaus, Brazil was acquired.

In sum, the business combination between SMARTRAC and the RFID inlay business of SonSun Industrial E Comercial Technologica Da Amazonia Ltda., Manaus, Brazil is the final result of the following transactions:

By contract dated 4 June 2007, effective 15 July 2007, SMARTRAC Technology Brazil B.V., Amsterdam, The Netherlands (98,99 %) and SMARTRAC N.V., Amsterdam, The Netherlands (1 %) jointly acquired 99,99 % of the shares in SMARTRAC Tecnologia Industria E Comercio Da Amazonia Ltda., Manaus, Brazil. Thereafter SMARTRAC Tecnologia Industria E Comercio Da Amazonia Ltda., Manaus, Brazil acquired by contract dated 4 June 2007, effective 15 July 2007 all the tangible assets allocable to the RFID inlay business of SonSun Industrial E Comercial Technologica Da Amazonia Ltda., Manaus, Brazil, within the framework of an asset deal.

Due to the takeover of the RFID inlay business of SonSun and the planned and ongoing capacity ramp up via Xytec Machinery, SMARTRAC Brazil will become one of the leading manufacturers and distributors of RFID components in Brazil and Latin America. The most important distribution channels in the Brazilian economy concentrate on the two main metropolises, Sao Paulo and Rio de Janeiro. The largest Brazilian customers are active in public transport. Production is located in Manaus, Brazil.

SMARTRAC Brazil and the RFID inlay business will be consolidated from 15 July 2007 on – the acquisition date at which SMARTRAC obtained control over the business. A goodwill will result from the first time inclusion of SMARTRAC Tecnologia Industria E Comercio Da Amazonia Ltda. which amounts to approximately euro 3,000,000.





Financial Calendar

November 8, 2007	Publication of Q3 Interim Report (July to September 2007) [Analysts' Conference Call]
November 12-14, 2007	German Equity Forum, Frankfurt
February 26, 2008	Publication of preliminary results 2007
March 14, 2008	Publication of Annual report 2007
May 6, 2008	Publication of Q1 Interim Report (January to March 2008) [Analysts' Conference Call]
July 30, 2008	Publication of Q2 Interim Report (April to June 2008) [Analysts' Conference Call]
November 6, 2008	Publication of Q3 Interim Report (July to September 2008) [Analysts' Conference Call]

For further information please refer to www.smartrac-group.com.

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