



Q1 Q2 Q3 Q4

Interim Report

3rd Quarter 2006



Key data

In thousands of euro	Consolidated Nine months ended September 2006	Consolidated ¹⁾ Nine months ended September 2005	Change	Change in %	
Consolidated income statement					
Revenues	35,907	15,449	20,458	132.4	
EBITDA ²⁾	8,088	3,322	4,766	143.5	
Net profit after tax	6,083	1,970	4,113	208.8	
Financial position and liquidity					
Cash flow from operating activities	4,170	743	3,427	461.2	
Working capital	9,501	5,192	4,309	83.0	
Capital expenditure	7,374	2,167	5,207	240.3	
Total assets	79,094	22,328	56,766	254.2	
Operating figures					
Basic earnings per share ³⁾	euro	0.56	0.20	0.36	180.0
Cash flow per share ³⁾	euro	0.38	0.07	0.31	442.9
Equity ratio	%	84.2	39.7	44.5	112.1
Headcount	at month's end	1,909	984	925	94.0

1) The condensed consolidated interim financial information for the three months and nine months ended 30 September 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 nine months ended 30 September 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 profit 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 nine months ended 30 September 2005 are presented as Pro Forma earnings per share assuming 10,000,000 shares after the restructuring of SMARTRAC N.V.



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Ongoing Growth in Sales and Profit

High Security Business Growth Driver

We continued along our growth path in the 3rd quarter of 2006 and further strengthened our earnings.

Total sales increased in the 3rd quarter 2006 to euro 13.4 million up from euro 7.2 million in 2005. For the nine months ended September 2006 this corresponds to sales of euro 35.9 million, an increase of 133 percent over the previous year (euro 15.4 million). Main growth driver in the third quarter of 2006 was the High Security business comprising the ePassports and ePayment sub-segments. In early October, we produced and shipped the 10th million ePassport inlay. In order to satisfy the increasing demand, particularly in the ePassport business, we have been doubling our efforts to extend our production capacities.

In the High Security segment, sales revenues of euro 18.7 million for the nine months ended September 2006 rose by a factor of more than 7 on the same period for 2005 (euro 2.5 million). In the Standard segment, sales rose 33 % on the same period for the prior year (pro forma) from euro 12.8 million to euro 17.1 million.

The increase in consolidated result of SMARTRAC exceeded the significant increase in sales. In the first nine months of 2006 SMARTRAC generated a net profit of euro 6.1 million. Compared to the net profit of euro 2.0 million generated in the same period for the prior year, this represents an increase of more than 200 %.

Our 3rd quarter EBITDA nearly doubled from euro 1.8 million in 2005 to euro 3.4 million. For the nine months ended September 2006 the EBITDA is euro 8.1 million, an increase of 144 percent over the previous year (euro 3.3 million).

The High Security segment made the major contribution to this growth, of approx. euro 6.8 million (prior year: euro 0.4 million).

The Standard segment with an EBITDA amounting to euro 1.8 million (prior year: euro 2.9 million) contributed less than in the same period for the prior year. The decrease was partly caused by a seasonal sales decrease and 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 4.2 million in the past nine months (compared to euro 0.7 million for the same period in the prior year), mainly due to the group earnings of euro 6.1 million (prior year: euro 2.0 million).

Rising by euro 4.1 million, the result for SMARTRAC also compares favorably with the prior year period. This effect was counter-balanced by a rise in working capital, notably by the rise of trade receivables (euro 2.5 million) which reflects the strongly increasing sales compared to last year.

Due to the further expansion of production capacity, net cash used in investing activities accumulated to euro 8.3 million as per September 2006 compared to euro 2.5 million as per the same period of 2005.

Net cash provided by financing activities increased markedly by euro 38.8 million after the successful Initial Public Offering in July when 3.5 million new shares were placed on the market with institutional and private investors for a price of euro 17 per share. The proceeds from the issue net of related cost were reduced to pay back substantially all loans amounting to euro 14.7 million. Furthermore the proceeds provide a sustainable basis for the further expansion of our production capacities and product range.

Total assets increased from euro 26.7 million as of 31 December 2005 to euro 79.1 million. Non-current assets mainly increased due to the ongoing investments in property, plant and equipment by euro 5.9 million. In the nine months of 2006 we invested euro 7.4 million (prior year euro 2.2 million), mostly for the establishment of our fourth factory in Thailand which will be fully operational with beginning of 2007. Deferred tax assets increased due to tax advantages from costs related to the IPO. The rise in inventories and trade receivables reflects the need for higher capacity reserve and increased sales in comparison to December 2005. Cash and cash equivalents rose significantly by euro 35.6 million. This can be traced back to the net proceeds of the IPO.

Owing to the proceeds from the IPO in July 2006 the share capital increased by euro 1,750,000 to euro 6,750,000. Additionally, the share premium increased by euro 48.8 million net of IPO costs and including related tax benefits. IPO costs and related tax advantages were directly offset against the share premium in the course of the IPO.

Secured installment loan and interest bearing-loans and borrowings were reduced by euro 8.2 million compared to previous year thanks to the IPO proceeds.

Significant Investments in New Production Capacities

In order to secure continued growth, we invested euro 7.4 million (compared to euro 2.2 million for the same period in the prior year) in property, plant and equipment in the first nine months of the year. This includes the establishment of a fourth factory (building and technical equipment) in Thailand which is expected to go into full operation in January 2007.

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.

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. In the third quarter of 2006, our Pay Pass inlays obtained a MasterCard CQM-Certification. SMARTRAC's facility, process and products have successfully completed MasterCard's Card Quality Management scheme (CQM) audit – a corresponding CQM-Label has been granted to SMARTRAC's PayPass inlays.

Outlook: Positive Development to Continue in the Last Quarter of 2006

We are expecting the positive development in sales and profits to continue for the last quarter of 2006. For full-year 2006, we anticipate sales of at least euro 50 million with an EBITDA substantially above euro 10 million. Production capacity has been increased during the first nine months of 2006. We will continue to expand our production base.

For the three months and the nine months ended 30 September

In thousands of euro	Note	Consolidated			
		Three months ended September 2006	Three months ended September 2005	Nine months ended September 2006	Nine months ended September 2005
Revenues	5	13,436	7,169	35,907	15,449
Cost of sales		(8,548)	(4,624)	(23,844)	(10,238)
Gross profit		4,888	2,545	12,063	5,211
Administrative expenses		(2,048)	(1,072)	(5,809)	(2,878)
Other operating income and expenses		(23)	22	272	50
Total operating expenses		(2,071)	(1,050)	(5,537)	(2,828)
Operating profit before financial result		2,817	1,495	6,526	2,383
Financial income		208	1	285	1
Financial expenses		(316)	(348)	(1,035)	(460)
Net financial income (expenses)	6	(108)	(347)	(750)	(459)
Share of profit of associates		47	4	130	11
Profit before tax		2,756	1,152	5,906	1,935
Income tax (expense) / benefit	7	3	(9)	177	35
Profit for the period		2,759	1,143	6,083	1,970
Basic earnings per share (euro)	8	0.22	4.57	0.56	7.88
Pro Forma earnings per share (euro)*	8	-	0.11	-	0.20

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).

As at 30 September

In thousands of euro	Note	Consolidated 30 Sept. 2006	Combined and consolidated 31 Dec. 2005
Assets			
Property, plant and equipment	9	17,593	11,734
Intangible assets		1,414	1,293
Investment in associates		179	48
Deferred tax assets	7	2,004	37
Other non-current assets		119	80
Total non-current assets		21,309	13,192
Inventories		7,718	3,824
Other current assets	9	1,731	1,197
Trade receivables		11,251	6,990
Cash and cash equivalents		37,085	1,500
Total current assets		57,785	13,511
Total assets		79,094	26,703
Equity			
Share capital	14	6,750	5,000
Share premium	10,14	53,722	4,923
Translation reserve		12	0
Retained earnings		6,083	0
Total equity		66,567	9,923
Liabilities			
Secured installment loan	11	174	233
Total non-current liabilities		174	233
Bank overdraft		721	1,207
Current portion of secured installment loan	11	104	120
Interest-bearing loans and borrowings	11	329	8,448
Employee benefits		46	36
Trade and non-trade payables		7,623	4,936
Other current liabilities		3,530	1,800
Total current liabilities		12,353	16,547
Total liabilities		12,527	16,780
Total equity and liabilities		79,094	26,703

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For the nine months ended 30 September

In thousands of euro	Nine months ended September 2006	Nine months ended September 2005
Cash flows from operating activities		
Net profit	6,083	1,970
<i>Reconciliation of net profit to net cash provided by (used in) operating activities:</i>		
Depreciation and amortization	1,562	939
Interest expenses	379	176
Expenses for share based payments	26	0
(Reversal of) write down of inventories	(17)	67
(Gains) or losses on disposal of assets	(2)	(20)
Share of profit of associates	(130)	(11)
Deferred tax benefit	(179)	(35)
<i>Decrease (increase) in operational assets:</i>		
Other non-current assets	(237)	(47)
Inventories	(3,885)	(3,468)
Other current assets	347	42
Trade receivables	(4,253)	(1,782)
Employee benefits	10	9
Trade and non-trade payables	2,603	2,329
Other current liabilities	1,863	574
Net cash provided by operating activities	4,170	743
Cash flows from investing activities		
Investment in associates	-	(33)
Proceeds from sale of equipment	18	71
Purchases of property, plant and equipment	(7,374)	(2,167)
Deposits paid for property, plant and equipment	(899)	(370)
Net cash used in investing activities	(8,255)	(2,499)
Cash flows from financing activities		
Proceeds from issue of new share equity	1,750	0
Proceeds from increase in share premium due to issue of new shares net of related costs	46,985	0
Proceeds from interest-bearing loans and borrowings and secured installment loan	6,516	3,792
Repayments of interest-bearing loans and borrowings and secured installment loan	(14,738)	(2,487)
Interests paid	(514)	(72)
Net cash provided by financing activities	39,999	1,233
Net change in cash and cash equivalents and bank overdrafts	35,914	(523)
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	157	144
Cash and cash equivalents and bank overdrafts at 30 September	36,364	(39)

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
Balance as at 1 July 2005	620	0	0	7,103	7,723
Net profit for the quarter	0	0	0	1,143	1,143
Balance as at 30 September 2005	620	0	0	8,246	8,866
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
Foreign exchange translation	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
Foreign exchange translation	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
Balance as at 1 July 2006	5,000	4,923	11	3,324	13,258
Foreign exchange translation	0	0	1	0	1
Par value of new shares – credited to share capital	1,750	0	0	0	1,750
Excess of gross proceeds over par value credited to share premium	0	57,750	0	0	57,750
IPO costs charged to share premium	0	(10,765)	0	0	(10,765)
Deferred tax effect of IPO costs credited to share premium	0	1,788	0	0	1,788
Share based payment (note 10)	0	26	0	0	26
Net profit for the quarter	0	0	0	2,759	2,759
Balance as at 30 September 2006	6,750	53,722	12	6,083	66,567

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 2003	Manufacturing	100 %
SMARTRAC TECHNOLOGY Pte. Ltd.	Singapore	7 October 2005	Trading	100 %
Associate				
Xytec Solutions Sdn. Bhd.	Malaysia	13 December 2004	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 nine months

ended 30 September 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 nine months ended 30 September 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 at 30 September 2006, the Group employed 1,909 employees (1,769 as of 30 June 2006; 984 as of 30 September 2005 and 776 as of 30 June 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 consoli-

dated 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 1 November 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. 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 combined and consolidated financial information 2003-2005.

5. Segment reporting

For the nine months ended 30 September

In thousands of euro	Standard Components		High security Components		Other operations		Consolidated	
	Nine months ended Sept. 2006	Nine months ended Sept. 2005	Nine months ended Sept. 2006	Nine months ended Sept. 2005	Nine months ended Sept. 2006	Nine months ended Sept. 2005	Nine months ended Sept. 2006	Nine months ended Sept. 2005
Segment revenue								
External sales	17,113	12,825	18,734	2,512	60	112	35,907	15,449
Segment result								
Gross profit	3,319	4,494	8,718	754	26	(37)	12,063	5,211
Operating expenses	(2,288)	(2,316)	(2,636)	(474)	(613)	(38)	(5,537)	(2,828)
Operating profit (loss)	1,031	2,178	6,082	280	(587)	(75)	6,526	2,383
Net financial expenses							(750)	(459)
Share of profit of associate							130	11
Income tax benefit							177	35
Profit for the period							6,083	1,970
Supplemental information								
Operating profit (loss)	1,031	2,178	6,082	280	(587)	(75)	6,526	2,383
Depreciation and amortization	756	751	743	137	63	51	1,562	939
Segment EBITDA*	1,787	2,929	6,825	417	(524)	(24)	8,088	3,322

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 or 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	
	Nine months ended September 2006	Nine months ended September 2005
Standard components		
Mass transportation / access control	16,737	11,735
Logistics	376	1,090
Subtotal	17,113	12,825
High security components		
ePayment	4,469	863
ePassport	14,265	1,649
Subtotal	18,734	2,512
Other operations	60	112
Total revenue	35,907	15,449

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	
	Nine months ended September 2006	Nine months ended September 2005
Revenues		
Europe	22,662	8,099
Asia	4,795	4,040
North America	5,816	1,808
Others	2,634	1,502
Total revenue	35,907	15,449

6. Net financial income (expenses)

In thousands of euro	Consolidated			
	Three months ended September 2006	Three months ended September 2005	Nine months ended September 2006	Nine months ended September 2005
Interest income	208	0	225	0
Foreign exchange gains	0	1	60	1
Financial income	208	1	285	1
Interest expense	(57)	(66)	(379)	(176)
Bank charges	(21)	(15)	(62)	(40)
Foreign exchange losses	(238)	(267)	(594)	(244)
Financial expenses	(316)	(348)	(1,035)	(460)
Net financial income (expenses)	(108)	(347)	(750)	(459)

7. Income tax

The Group has no current corporate tax expense for the three months ended September 2006 and for the nine months ended September 2006 (nil for the three months ended September 2005 and for the nine months ended September 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 September 2006	Three months ended September 2005	Nine months ended September 2006	Nine months ended September 2005
Current corporate tax expense	0	0	0	0
Deferred tax expense (-) / benefit	3	(9)	177	35
Income tax expense (-) / benefit	3	(9)	177	35

Reconciliation of effective tax charge

In thousands of euro	Consolidated			
	Three months ended September 2006	Three months ended September 2005	Nine months ended September 2006	Nine months ended September 2005
Profit before tax	2,756	1,152	5,906	1,935
Expected tax expense based on rate of 30 % (2005: 30 %)	827	337	1,772	572
Tax exempt income relating to promotional privileges	(871)	(351)	(1,956)	(644)
Tax exempt income relating to equity accounted investment	(14)	(1)	(39)	(3)
Tax rate differences	33	0	30	0
Non-deductible permanent differences	0	6	1	18
Add back (reduction in) temporary differences	36	18	13	22
Carry forward tax losses	(11)	(9)	179	35
Actual tax expense	0	0	0	0

Deferred tax assets

During the nine months ended 30 September 2006, deferred tax assets increased by euro 1,967,000 resulting primarily from tax losses generated by the Company regarding IPO costs. The deferred tax asset as a result of IPO costs amounts to euro 1,788,000 and was directly credited to the share premium. The effective tax charge of SMARTRAC N.V. is supposed to increase due to increasing taxable financial results of SMARTRAC N.V. in future periods. The deferred tax asset is capitalized to the extent the underlying tax loss carryforward can be utilized in the foreseeable future.

In thousands of euro	Consolidated	
	30 Sept. 2006	30 Sept. 2005
Balance as at 31 December	37	0
Tax losses carried forward current period	1,967	35
Balance as at 30 September	2,004	35

8. Earnings per share and Pro Forma earnings per share

Profit attributable to ordinary shareholders

The calculation of basic earnings per share at 30 September 2006 is based on the profit attributable to ordinary shareholders of SMARTRAC N.V. The calculation of basic earnings per share at 30 September 2005 is based on the profit attributable to ordinary shareholders of SMARTRAC TECHNOLOGY Ltd. The increase in shares due to the issue of new shares resulting from the IPO was included on an average weight basis.

Basic earnings per share

In thousands of euro and shares, except earnings per share	Consolidated			
	Three months ended September 2006	Three months ended September 2005	Nine months ended September 2006	Nine months ended September 2005
Profit attributable to ordinary shareholders	2,759	1,143	6,083	1,970
Weighted average number of ordinary shares	12,722	250	10,907	250
Basic earnings per share	0.22	4.57	0.56	7.88

Pro Forma earnings per share

In thousands of euro and shares, except earnings per share	Consolidated	
	Three months ended September 2005	Nine months ended September 2005
Profit attributable to ordinary shareholders	1,143	1,970
Pro Forma number of ordinary shares	10,000	10,000
Pro Forma basic earnings per share	0.11	0.20

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.

9. Property, plant and equipment

Acquisitions

During the three months ended September 2006 the Group acquired assets totalling euro 3,029,000 and during the nine months ended September 2006 the Group acquired assets (mainly consisting of land and building in conjunction with the construction of new factory and property, plant and equipment to increase the production capacity at SMARTRAC TECHNOLOGY Ltd.) totalling euro 7,374,000 (three months ended September 2005: euro 488,000; nine months ended 30 September 2005: euro 1,709,000).

Capital commitments

During the nine months ended 30 September 2006 the Group entered into contracts to purchase property, plant and equipment for euro 2,621,000 net of a down payment and in-progress billings of euro 1,273,000 (nine months ended September 2005: euro 706,000 net of down payment of euro 542,000); delivery is expected within the 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 Board, 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 is 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.

On 17 August 2006, 68,250 Stock Options were granted (First 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-transferrability, exercise restrictions and behavioural considerations. Fair value of share options and the assumptions are:

- Expected term of the options: three years
- Vesting period: two years
- Exercise price: euro 17.00 which is the price according to the Option Scheme for the first grant (offer price: determined by way of the book building).
- Current price of underlying shares at the grant date: euro 16.80
- Expected volatility: 55 % 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 to 17 August 2006)
- Expected annual employee turnover rate: 5 %
- Risk-free interest rate: 3.6 %
- Expected Dividend Payouts until expected date of exercise: none

The fair value of the stock options, based on the first tranche and the staggered vesting period, equals euro 6.66 per stock option. Total expenses for the First tranche recorded in the period of the three and nine months ended September 2006 amount to euro 25,647 (three months ended September 2005: euro 0; nine months ended 30 September 2005: euro 0) They are reported under administrative expenses and as an increase in shareholders' equity (share premium) at the same time.

11. Loans and borrowings

The following loans and borrowings (non-current and current) were issued and repaid during the nine months ended 30 September 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 installment loan	THB	6.25 %		(85)	
Secured bank loan from ABN Amro	EUR	2.50-2.80 %		(1,577)	
Loan from Mr. Richard Bird	EUR	2.80 %		(792)	
Loan from Deutsche Bank Germany	EUR	4.11-4.79 %		(6,000)	
Loans from Deutsche Bank Thailand	THB	4.20-6.00 %		(6,284)	
Effects of exchange rate changes				60	
Balance as at 30 September 2006				607	

During the three months ended September 2006 interest bearing borrowings amounting to euro 14,738,000 were paid back. Please refer also to note 14.

12. Contingencies

There have been no changes to the status of the other legal matters discussed in the Group's *Condensed consolidated interim financial information as per 30 June 2006*.

13. Related parties

Transactions with key management personnel

The loan from a Supervisory Board Member, Mr. Richard Bird, was repaid during the three months period ended 30 September 2006 as were all loans which were guaranteed by Mr. 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 887,000 for the three months ended 30 September 2006 and a compensation of euro 1,314,000 for the nine months ended 30 September 2006 (three months ended 30 September 2005: euro 39,000, nine months ended September 2005: euro 109,000).

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 amount to 1.00% of the gross proceeds to the Company in connection with the Group's IPO in July 2006. This amount was paid in July 2006. Both members of the Management Board are 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.

At the completion of the Company's IPO in July 2006 the Supervisory Board has expanded from one member (Mr. Richard Bird) to three members with the addition of Professor Dr. Bernd Dieter Fahrholz, as Chairman, and Mr. Wolfgang Huppenbauer. Mr. Richard Bird holds 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 September 2006	Three months ended September 2005	Nine months ended September 2006	Nine months ended September 2005
Sales				
Emsquares AG	0	0	1	8
Purchase				
Intec Holding GmbH	0	64	0	177
Xytec Solutions Sdn. Bhd.	1,257	181	2,232	183

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

In thousands of euro	Balance outstanding	
	30 September 2006	31 December 2005
Trade receivables		
Emsquares AG	0	162
Deposits paid		
Xytec Solutions Sdn. Bhd.	915	548
Emsquares AG	30	0
Trade payables		
Emsquares AG	4	4
Safehaven Trading	0	13
Non-trade payables		
Intec Holding GmbH	0	12
Safehaven Investment Ltd.	0	200
Safehaven Trading	417	467
Xytec Solutions Sdn. Bhd.	503	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

In July 2006, 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 September 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 which have been accounted for in the third quarter, together with IPO costs and their related tax effect as follows:

In thousands of euro	
Gross proceeds	59,500
Par value of new shares - credited to share capital	(1,750)
Excess of gross proceeds over par value credited to share	57,750
Less - IPO costs charged to share premium	(10,765)
- Tax effect of IPO costs credited to share premium	1,788
Net movement in share premium arising from IPO	48,773

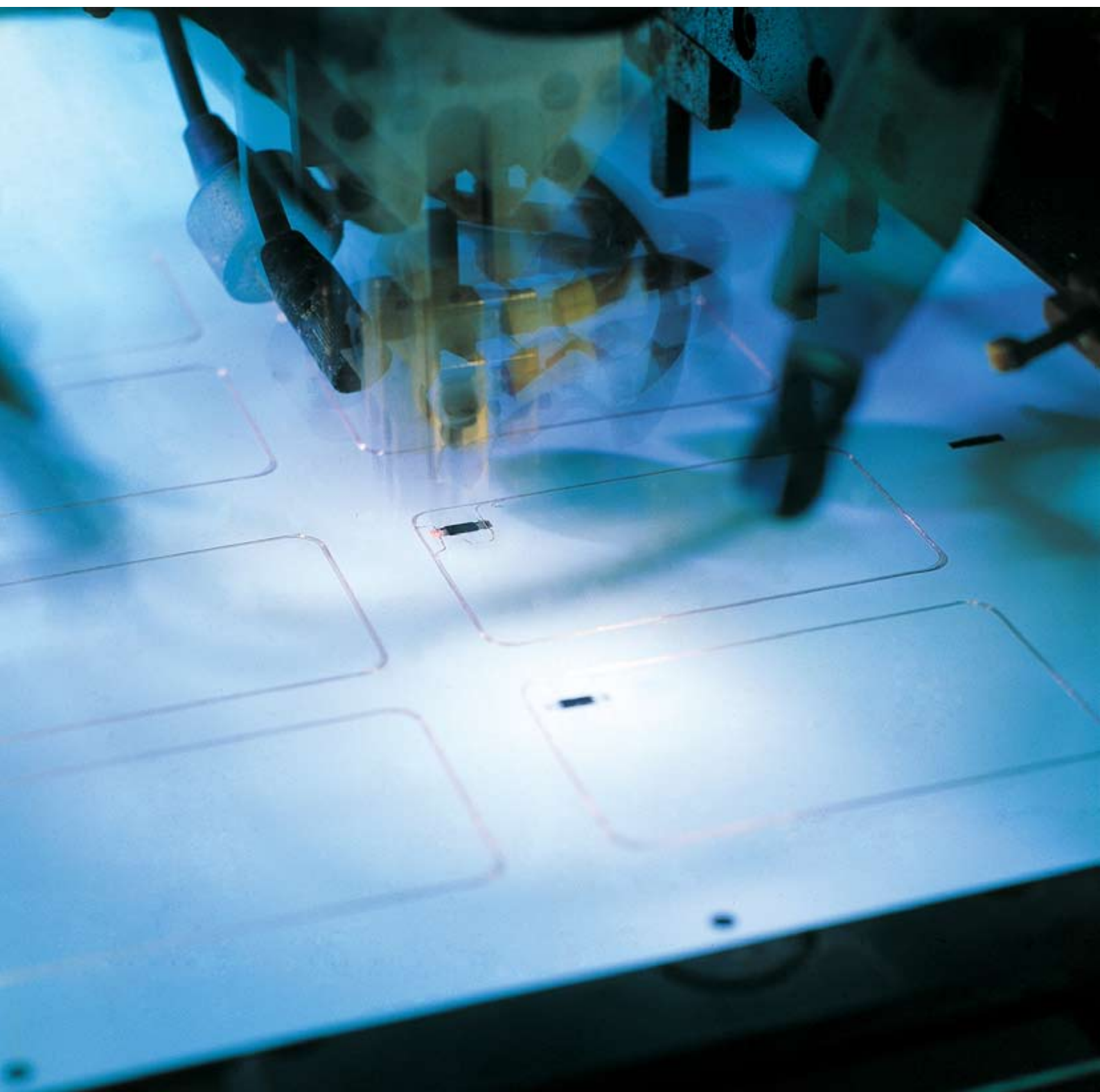
The company ultimately received net proceeds of approximately euro 53,500,000. The difference between the net proceeds and the gross proceeds amounting to approximately euro 6,000,000 were treated as IPO costs and were charged directly to equity. They mainly consist of success fees for the sole global coordinator and bookrunner amounting to euro 3,500,000 and legal / consultancy / success fees amounting to approximately euro 2,500,000. Additionally the company has incurred IPO costs amounting to euro 4,765,000 which main-

ly consist of legal, consultancy and financial fees. These costs were also charged directly to equity.

IPO costs have been charged net of tax effects to the share premium. Please also refer to note 7.

The net proceeds have been utilized to fund further growth and to repay most of the interest-bearing loans and borrowings. The SMARTRAC Group has repaid loans totalling euro 14,738,000 during the three months period ending 30 September 2006.

Wire embedding process





Financial Calendar

27-29 November 2006 German Equity Forum Fall 2006
Congress Center Messe Frankfurt

March 2007 Publication of annual report

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