

KEYWARE TECHNOLOGIES NV



ANNUAL REPORT

20
09

SHAREHOLDERS' MEETING

The Shareholders' Meeting of Keyware Technologies NV will be held on 28 May 2010 at 3 p.m. at the company address, Ikaroslaan 24, 1930, Zaventem, Belgium.

LANGUAGES OF PUBLICATION OF THE ANNUAL REPORT

This annual report is available in Dutch, French and English. Keyware has checked the translation and correspondence between the official Dutch version, the French version and the English version. In the event of contradictions between the Dutch, French and English versions, the Dutch version takes precedence.

In addition, an electronic version of this annual report is available on the website of Keyware Technologies NV (www.keyware.com).

SUBSIDIARIES | WWW.KEYWARE.COM

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COMMERCIAL SECTION ANNUAL REPORT

INTRODUCTION

LETTER TO OUR SHAREHOLDERS

Dear Shareholder,

In several different ways, 2009 was an exception year for Keyware. Keyware had a good 2009. Two important objectives were more than achieved: a substantial increase in turnover and a positive net cash flow result. An additional settlement agreement was the proverbial cherry on top.

With the increase in turnover of 24% and positive cash flow of EUR 524 k, we exceeded our growth expectations for 2009. We have always built our growth story on 3 pillars: expanding our selection of terminals, our sales market and our payment service. We achieved that growth in all of those areas.

With the launch of the PayFix, PayAway and PayMobile terminal range, Keyware is the most all-around supplier in the market today.

A cooperative arrangement with the Dutch authorisation partner PaySquare, a competitive disadvantage has been turned into a strength. From now on, Keyware will be offering the entire package in a single transaction contract (our competitors are still having to offer different acceptance contracts for payment cards).

The relationship with PaySquare is being intensified to introduce our complete terminal offering in the Dutch market, as well (via analogue telephone line, GPRS and Internet). The Dutch market is 50% larger than the Belgian one, which gives it a great potential.

In short, the long-term objectives with respect to value creation are supported perfectly by the current annual results. Those who choose Keyware today are getting personalised, high-quality and evolutionary total payment solutions. We're going to be changing how we do things even more to be able to achieve similar growth in the future.

Guido Van der Schueren

Chairman of the Board of Directors.

MILESTONES 2009

MAY

Keyware achieves turnover-increase of 36% in the first quarter.

MARCH

KBC Securities is the market-maker for Keyware Technologies. Private investors enjoy increased tradability.

JUNE

Keyware launches its new Ethernet payment terminal: up to 10x as fast as a standard payment terminal.

JULY

Keyware increases its capital through the issue of warrants. Keyware announces growth expectations of at least 20% for 2009.

AUGUST

Keyware and PaySquare conclude a unique cooperative agreement for the Belgian payments market. Electronic payments become simpler and less expensive.

AUGUST

Keyware achieves turnover-increase of 30% for the first half (vis-à-vis 2008).

OCTOBER

Keyware adjusts its growth expectations for 2009 from 20% to 25%. Keyware handles payment transfers during the Antwerp Book Fair.

NOVEMBER

Keyware books turnover-increase of 24% and shows positive cash flow for the fourth consecutive period.

DECEMBER

Keyware receives a record number of orders in the fourth quarter. Keyware recognised as independent agent for Visa and MasterCard.



INTRODUCTION OF THE COMPANY

KEYWARE IN THE WORLD OF ELECTRONIC PAYMENT TRANSFERS: AN INTRODUCTION

A lot goes on between the moment that a client puts the payment card in the terminal and the moment that the notification 'accepted' appears on the screen. A whole range of transactions takes place: verifying the PIN code, the status of the card (stolen, blocked, damaged, etc.), calling in to the payment platform and checking the balance. Using only the terminal, a merchant can therefore not do very much, in principle. He will have to have a subscription for each type of card in order to be able to actually collect an amount. The merchant decides what cards he wants to accept. It could be a debit card, where the amount is immediately written off the account (Bancontact/Mister Cash or, internationally, Maestro) or credit cards such as Visa and MasterCard. In the latter case, the balance will be settled at a future date.

Keyware is a growing company in a growing market for these types of activities. The market for electronic payments has only just left its infancy: in terms of both market penetration and usage possibilities, we are still at the beginning of what promises to be a long evolution. In the past 30 years, almost the only world-shocking news was the introduction of the Ethernet terminal, which made it possible for payments to be transferred over the Internet rather than a normal telephone line.

Over the past couple of years, however, the evolution of technical possibilities and user environments has accelerated: mobile payment terminals make it possible to accept payments at a client/patient location, NFC technology makes it possible to make small payments at the cashpoint without having to use a PIN code by making a simple click on a mobile telephone, paper meal vouchers have become an electronic means of payment, terminals with colour screens make it possible to give marketing message to the consumer, etc.

Electronic payment has also become more accepted by both consumers and merchants. Not only is it simple and more and more people now have one or more payment cards, but having a payment card also makes it possible for them to spend more when they need to. It is also a safer alternative for having large amounts of cash on hand or in the cash register.

Keyware has made a choice to invest in substantial expertise, a streamlined organisation with a well trained sales department and excellent service levels. The hardware required is always purchased from world-renowned suppliers. The total picture gives Keyware outstanding flexibility, low purchase and inventory costs, high-tech solutions and low operating costs. That results in a strong competitive position in the market.

COMPANY INFORMATION



- ▶ Helpdesk
- ▶ Support
- ▶ Interventions
- ▶ Installations
- ▶ Inventory management

- ▶ Software for:
 - electronic payments
 - loyalty
 - terminals
- ▶ Porting
- ▶ Transaction systems

- ▶ Payment transactions and authorisation services
- ▶ Transaction management for third parties
- ▶ Switching
- ▶ Private-card processing
- ▶ Loyalty processing & analysis services

- ▶ Rental & sale of terminals or card applications
- ▶ Transaction and authorisation contracts

- ▶ Payment applications and services
- ▶ Loyalty Card or terminal-related projects

ID KEYWARE TECHNOLOGIES NV

- ▶ Established in 1996
- ▶ Listed since June 2000: Euronext Brussels, KEYW
- ▶ Focus on "Value-added Payment Services":
 - Payment terminal rental
 - Installation, maintenance and repairs
 - Software for electronic payment and loyalty cards
 - Performance of payment transactions
 - Consulting on payment applications and technologies

KEYWARE AND THE CLIENT

1 ADDRESS FOR EVERY QUESTION

Keyware concentrates on the rental and sale of terminals and on offering authorisation contracts. Every merchant can therefore call on Keyware for the whole package. Keyware offers a unique range of payment solutions for the client.

In general, the Keyware “Value Added Payment Services”, or VAPS, comprise the following:

- ▶ Rental and sale of multifunctional payment terminals
- ▶ Development, licensing, adaptation, installation and maintenance of the software for electronic payments and loyalty applications
- ▶ Processing payment transactions and authorisations
- ▶ Maintenance of clients’ payment infrastructure
- ▶ Advising and participating in research and development programs related to payment applications

Keyware and the Dutch PaySquare, which specialises in the acceptance and issue of means of payment, have entered into a unique cooperative agreement for the Belgian payments market. That agreement provides for replacing all of the individual contracts with a single overarching transaction subscription. With that unique cooperative venture, Keyware and PaySquare want to offer even better service to Belgian merchants or self-employed professionals. Via the agreement, Keyware can use its own payment platform on its own payment terminals and offer payment authorisation for credit cards (Visa, MasterCard) and debit cards (V Pay and Maestro) on third-party terminals.

7 X CHOICE FOR KEYWARE



Quality

Keyware has concluded contracts with world players in the area of payment terminals. Because of their size and specialisation, these companies guarantee continuous investment in innovation and quality, and they uphold strict quality control standards. All appliances are extensively retested at Keyware before being installed at the customer's. With Keyware not being tied to one type of terminal or supplier, it always offers high-quality terminals to its clients.



Price

Keyware is the company that determines the prices on the Belgian market, thanks to its agreements with international payment-terminal manufacturers. The prices have decreased by more than half since Keyware introduced its terminals a few years ago. Today, Keyware still has the most affordable alternative on offer.

This price advantage does not only apply to payment terminals: Keyware also offers Visa, MasterCard or other credit-card authorisation contracts at excellent terms and conditions.



Service

At Keyware, it is standard procedure to offer its customers a helpdesk that is easily and quickly accessible. Our response time is one of the best in the sector: 92% of all problems are solved by telephone. An additional service agreement can be concluded for customers who want super-swift on-site intervention. For those who rent terminals, Keyware ensures that the appliances automatically comply with legal standards and adjustments. That is the big difference between renting and buying!



Flexibility

When a contract is signed, a note is immediately made of the most convenient time for the installation team to install the terminal at the customer site. If another payment terminal is to be replaced, our intervention team will complete all the required documents for the customer and Keyware ensures that if there is any compensation to be paid for termination (expressed in number of months' rent), it will be compensated by free rent from Keyware. That ensures that the customer never pays double.



Focused on the future

Keyware recommends renting rather than buying a terminal. That helps to avoid merchants having to pay automatically for changes imposed by legislation. Merchants who had bought terminal in the past had to pay a lot over the past few years to adjust to changes such as EMV. It also makes it very easy to switch from one type of terminal to another as the trader's working conditions change or technology evolves. As a dynamic player, Keyware regularly brings new services or products to market, which the customers can benefit from optimally. Examples include subscriptions for credit card transactions: they are economical and accurate.



Clear and explicit agreements

Keyware opts for clear and transparent agreements, and for long-term customer relationships.

That is why high-quality service is included in the standard price and a separate contract can be concluded for customers who want customised service. In this way, merchants avoid unexpected costs for interventions or repairs.



Strong position on the Belgian market

With more than 10,000 new customers, Keyware is one of the strongest growing companies on the Belgian market.

Every day there are new traders changing to Keyware because of the clear and sustainable benefits of our products and service provision!



VISION & MISSION



OUR VISION:

To reduce the cost of cash by promoting electronic payment transactions



THE KEYWARE TECHNOLOGIES MISSION:

To be a leading provider of Value-added Payment Services for banks, merchants, professionals and businesses

Keyware strives to be a leading company for transaction processing of electronic payments with added value for banks, retailers, professionals and businesses.

In Keyware's view, it is in a service market, rather than a product market. Providing an optimum payment service is what is important, not the payment terminal as such.

For the merchant, this payment service comprises a variety of components: renting the payment terminal to the retailer; the retailer's subscription to be able to accept debit cards, credit cards or Proton payments; maintenance and repairs; and any additional services that there may be for the merchant, such as a program to process loyalty cards, etc.

In general, the Keyware "Value Added Payment Services", or VAPS, comprise the following:

- ▶ Rental and sale of multifunctional payment terminals
- ▶ Development, licensing, adaptation, installation and maintenance of the software for electronic payments and loyalty applications
- ▶ Processing payment transactions and authorisations
- ▶ Maintenance of clients' payment infrastructure
- ▶ Advising and participating in research and development programs related to payment applications

PRODUCTS & SERVICES

PAYMENT TERMINALS

Keyware rents and sells multifunctional terminals. These terminals offer both payment functionalities and other application possibilities, such as reading loyalty cards.

Keyware divides its terminal range into the following three main categories: fixed, portable and mobile units.

- ▶ **PayFix**
Fixed terminals: there is a fixed connection via a communication cable from the terminal to the telephone network or an Internet modem. Fixed terminals are mostly found in shops.

- ▶ **PayAway**
Portable terminals: the terminal consists of a base station and a portable part. The base station has a fixed connection via a communication cable from the terminal to the telephone network or an Internet modem. The portable part may be separated from the base station by ± 150 meters to receive customers' payments. Such terminals are used particularly in catering businesses: customers can pay by debit card at the table.

- ▶ **PayMobile**
Mobile terminals: the terminal can be taken anywhere in Belgium to receive payment. These appliances make use of the mobile phone or GPRS communication technology instead of the telephone network or Internet. These appliances are ideal for mobile occupations such as door-to-door suppliers, taxi drivers, etc.



THE KEYWARE RANGE

PayFix



With this basic configuration, merchants can start using the system quickly and economically. A standard telephone line is all that is required.

Advantages for you

- ▶ You can accept all current payment cards, at economical prices: Bancontact/MisterCash, Domestic Maestro, Visa, MasterCard etc.
- ▶ Your ergonomic terminal, equipped with a ticket printer, is secure and reliable
- ▶ The paper rolls last longer, are standardised and economical
- ▶ You have an extra customer keypad, so that you don't always have to turn the terminal around and present it to the client
- ▶ You benefit from the much-praised Keyware charter: personalised and affordable service



This is the right choice if you have a fast Internet connection: substantial savings on communications costs and super-fast payment-transaction processing. If you have several terminals in your shop, several customers can make payments at the same time.

Advantages for you

- ▶ You can accept all current payment cards (Bancontact/MisterCash, Domestic Maestro, Visa, MasterCard etc.) at extremely low costs: you only pay the costs of your Internet connection, and do not have to pay a communication cost per transaction
- ▶ Payment transactions at the speed of light
- ▶ Your ergonomic terminal, equipped with a built-in ticket printer, is secure and reliable
- ▶ The paper rolls last longer, are standardised and economical
- ▶ You benefit from the much-praised Keyware charter: personalised and affordable service

THE KEYWARE RANGE

PayFix



If (a) you have a normal telephone line but want to move to an Internet connection in the future or (b) you have an Internet connection but want to have a customer keypad for your payment terminals, then this terminal may be the solution you are looking for.

Advantages for you

- ▶ You can accept all current payment cards: Bancontact/MisterCash, Domestic Maestro, Visa, MasterCard etc.
- ▶ Payment transactions at the speed of light
- ▶ Your ergonomic terminal, equipped with a built-in ticket printer and a customer keypad, is secure and reliable
- ▶ You benefit from the much-praised Keyware charter: personalised and affordable service



Do you only have an Internet connection, would you like to have a keypad with your payment terminal and would you like to be able to accept payment cards in the most economical way? This terminal is definitely for you!

Advantages for you

- ▶ You can accept a wide range of current payment cards: Domestic Maestro (to replace Bancontact/MisterCash), Visa, MasterCard etc., at extremely low costs: you only pay the costs of your Internet connection, and do not have to pay a communication cost per transaction
- ▶ Payment transactions are processed extremely quickly
- ▶ Your ergonomic terminal, equipped with a built-in ticket printer and a customer keypad, is secure and reliable
- ▶ You benefit from the much-praised Keyware charter: personalised and affordable service

THE KEYWARE RANGE

PayAway



If you want to allow your customers to pay at their tables, at different locations in your shop, or on a patio, this unit is more than ideal. A traditional telephone line is all you need to get started.

Advantages for you

- ▶ You can accept payments up to approx. 150 m from the base station (the part of the terminal that is connected to your telephone line by a cable)
- ▶ You can accept all current payment cards (Bancontact/MisterCash, Domestic Maestro, Visa, MasterCard etc.) economically:
- ▶ Your ergonomic terminal, equipped with a ticket printer, is secure and reliable
- ▶ The paper rolls last longer, are standardised and economical
- ▶ You benefit from the much-praised Keyware charter: personalised and affordable service



Would you like to allow customers to pay their bills at their table, at different locations in your shop, or on a patio? Would you prefer a fast Internet connection, or would you also like to be able to accept bank cards as well as credit cards without having to pay a subscription for Bancontact/MisterCash? You should certainly find out about this terminal.

Advantages for you

- ▶ You can accept payments up to approx. 100 m from the base station (the part of the terminal that is connected to your telephone line by a cable)
- ▶ You can accept a wide range of payment cards at attractive costs: Domestic Maestro (to replace Bancontact/MisterCash), Visa, MasterCard etc.
- ▶ Your ergonomic terminal, equipped with a ticket printer and a colour screen, is secure and reliable
- ▶ The paper rolls last longer, are standardised and economical
- ▶ You benefit from the much-praised Keyware charter: personalised and affordable service

THE KEYWARE RANGE

PayMobile



Wherever you go, do you want to make it possible for your customer to pay from there? This payment terminal is the travelling companion for mobile service providers: doctors, home-delivery suppliers, installers, people with stands on the market, courier services, taxi companies, etc. You will also enjoy the most economical rates for accepting payment cards.

Advantages for you

- ▶ You can accept a wide range of current payment cards: Domestic Maestro (to replace Bancontact/MisterCash), Visa, MasterCard etc., at extremely low costs: you will only pay a single communications cost per month, regardless of the number of transactions
- ▶ Payment transactions at the speed of light
- ▶ Your terminal is secure, robust and reliable. Its exclusive design and colour screen underscore the quality of your services.
- ▶ The paper rolls last longer, are standardised and economical
- ▶ The batteries are rechargeable and offer a high degree of autonomy
- ▶ The ticket counts as the proof of payment for the customer
- ▶ You benefit from the much-praised Keyware charter: personalised and affordable service



Are you looking for the smallest, mobile, all-in-one payment terminal? Wherever you go, you have your cashpoint with you!

Advantages for you

- ▶ You can accept all current payment cards (Bancontact/MisterCash, Domestic Maestro, Visa, MasterCard etc.) at extremely low costs: you will only pay a single communications cost per month, regardless of the number of transactions
- ▶ Small size, lightweight, clear display
- ▶ The batteries are rechargeable and offer a high degree of autonomy
- ▶ The ticket counts as the proof of payment for the customer
- ▶ You benefit from the much-praised Keyware charter: personalised and affordable service

PAYMENT SUBSCRIPTIONS

There is a large number of electronic transactions that take place between the moment that the consumer puts his debit card (MasterCard, Visa, BC/MC) in the payment terminal and enters his PIN code and the moment that a message appears on the screen of the terminal that the payment has been accepted. All of those transactions (checking PIN code, calling the payment network, checking the status of the card (stolen or blocked), verifying the available balance, etc.) combined constitute a single "payment transaction".

A merchant who buys or rents a payment terminal cannot yet, on his own, have payment transactions executed with the terminal. To be able to do so, he must take one or more subscriptions, depending on what types of debit cards he wants to accept: whether he wants to accept Visa and Maestro cards, or just Visa, or just normal debit cards, etc. A subscription is therefore required per type of payment transaction. Keyware offers payment subscriptions under the **PaySquare** name.

Payment transactions in the Belgian market can be divided into 3 categories:

1. Electronic wallet

An amount of money is loaded on the chip card of the payment card (at an ATM point, for example). This is then used to make typical small payments. The chip can be reloaded. PROTON is used for this in Belgium.

2. Debit card

What is particular to the use of a debit card is that, unlike what happens during a credit card transaction, the money is immediately deducted from the customer's bank account when a payment is made. The most familiar debit card system in Belgium is Bancontact/MisterCash (BC/MC). Most people therefore also call their debit card their Bancontact card. Internationally, the best-known debit card systems are Maestro and V-Pay. In the first half of 2010, Keyware is starting to offer Local Maestro subscriptions. Most Belgian debit cards have a Maestro function in addition to the BC/MC function. If the merchant chooses Local Maestro, nothing will change for the customer, but the merchant can benefit in certain cases from a less expensive payment formula than would be the case if he were to use BC/MC.

3. Credit Card

There are many types of names and types of credit cards. The most familiar in Belgium are Visa and MasterCard. Particular to these cards is the fact that when payment is made, the money is not transferred from the account immediately; that takes place later.

There are also private solutions that are customised to the client's situation. These are often schools, company restaurants or closed communities. Examples include student passes for paying all of the expenses at the school and in the school canteen can be paid.



LOYALTY CARDS

CLIENT LOYALTY,
RETENTION,
SEGMENTATION,
CUSTOMER LIFE-CYCLE MANAGEMENT.

Keyware Smart-Shopper is an easy-to-use, accessible and modular solution for secure transaction-reading and processing as part of loyalty programmes.

Thanks to Smart-Shopper, various categories of customers of individual merchants or retail chains can easily save points and redeem them for cheques, purchase vouchers, discount vouchers, goods or services, alone or in combination.

Smart-Shopper is also a reference for (international) loyalty programmes in which clients can save points from a group of different shops, financial institutions, petrol stations, travel agencies, etc.

Smart-Shopper's modularity means that it can expand to keep up with the number of participants, customers or redemption possibilities. Furthermore, Smart-Shopper can be used either with a cheap barcode or as magnetic cards or powerful chip cards. Interaction is also possible with systems that use mobile phones or the Internet.

In 2009, Keyware began working with Pay & Save, with Keyware's Smart-Shopper software making it possible for merchants to offer a simple and affordable loyalty programme to their clients. Pay & Save eliminates the need for the merchant to issue and administrate its own client card: the customers use their existing payment card(s). Concerns related to sending cards, replacing lost or stolen cards, etc., are a thing of the past.

The user-friendly screen design, with a variety of useful functions, eliminates the need for the merchant to carry out data analyses to profile and segment different clients. Customers benefit, as well: via a personalised website, he can check on his points total with the member merchants at any time, and redeem them or exchange them with acquaintances if he wants to.



TRANSACTION MANAGEMENT- NSP

FROM ELECTRONIC PAYMENTS TO BONUS POINTS

Keyware has more than 12 years' experience with transaction management in the area of electronic payments and loyalty cards.

Given the positive developments in legislation, its extensive technical capabilities and recent partnerships, Keyware wants to position itself in the near future as the total supplier of electronic payment services to to the end client: payment terminal, payment subscriptions for debit and credit cards, and infrastructure.

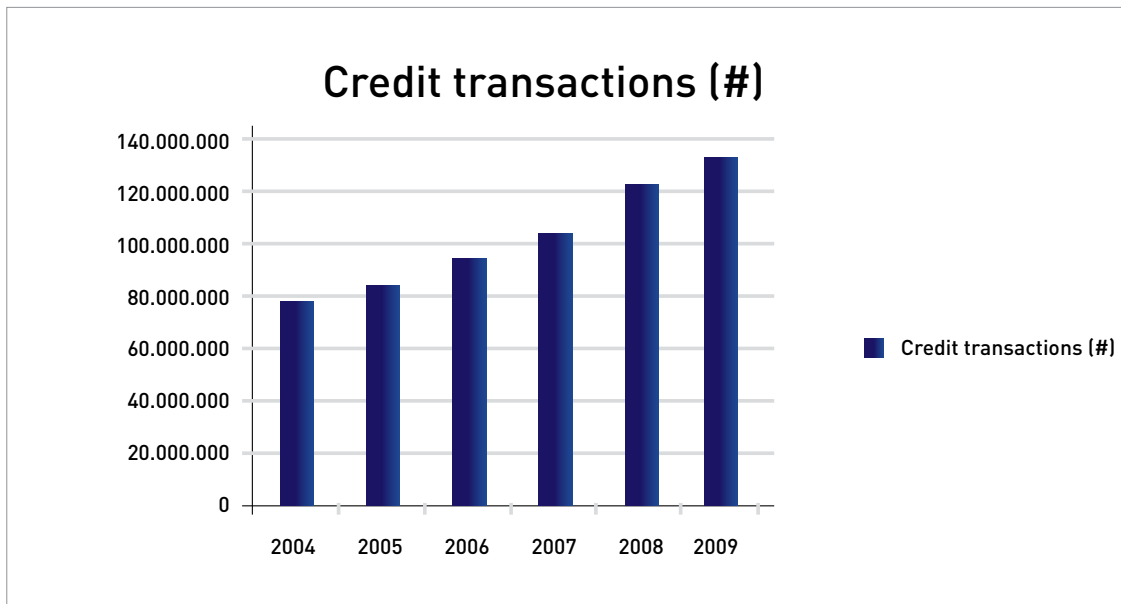
Keyware has the following at its disposal, among others:

- ▶ An extensive terminal network
- ▶ an authorisation centre
- ▶ a tele-collection centre
- ▶ A back office that takes care of everything related to processing the authorised transactions: consolidation, compensation, invoicing the merchants or cardholders, following up statistics, etc.
- ▶ A reporting centre
- ▶ a 24/7 operational helpdesk.

The electronic payment market is characterised by strong growth (source: Atos Worldline):

e-PAYMENT PURCHASE TRANSACTIONS	N° TRANSACTIONS						EVOLUTION 2004-2009	EVOLUTION 2008-2009
	2004	2005	2006	2007	2008	2009*		
DEBET	611.628.383	664.598.251	716.416.309	776.118.000	837.000.000	897.000.000	46,7%	7,1%
CREDIT	78.882.527	84.689.864	102.590.000	112.910.000	123.000.000	129.000.000	63,5%	5,2%
TOTAL	690.510.910	749.288.115	819.006.309	889.028.000	960.000.000	1.026.000.000	48,6%	6,9%

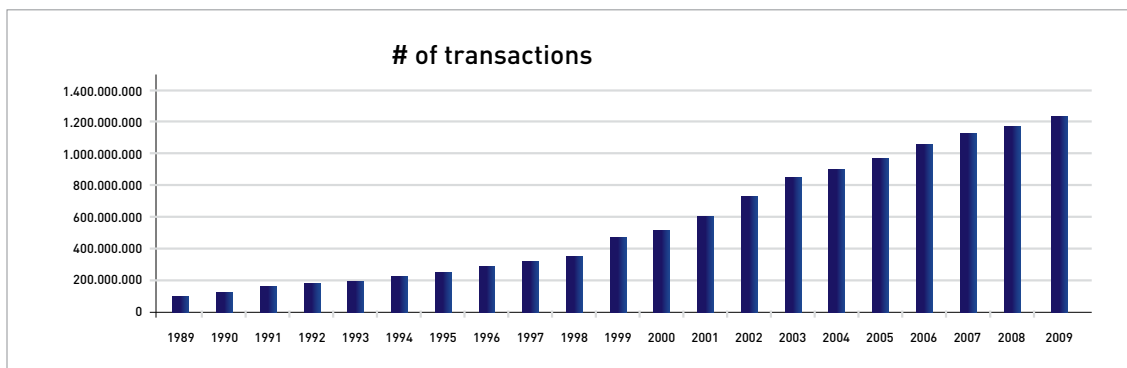
* preliminary figures



In 2007, Keyware began processing payment transactions directly for its existing clientele. Keyware therefore benefits from a number of dramatic changes in the payments market:

- ▶ SEPA (Single European Payment Area)
- ▶ Cross-border payment
Keyware can process the entire payment transaction with internationally renowned banks providing the final authorisation.
- ▶ The future replacement of existing national card systems such as BC/MC by international ones such as Maestro, V PAY, etc. As a result, in addition to processing credit card transactions, Keyware will also be able to play an important role in processing debit-card transactions.

The trend in the total number of payment transactions (payments, withdrawals) and the value of those transactions on the Belgian market for the period 1989-2009 can be represented as follows [source: Atos Worldline]:



The average amount for a credit-card payment is approximately EUR 100.

Plus de 10.000 clients satisfaits en Belgique!

Tous les jours des dizaines de commerçants optent pour Keyware pour le prix, pour le service correct et pour l'attention portée aux clients.

Vous aussi, vous avez droit à ces avantages.

Appelez notre n° gratuit 0800/ 40 900
Surfez à notre site www.keyware.be
Envoyez un mail à terminal@keyware.com



De nombreux commerçants se plaignent des tarifs élevés pour leur abonnement Visa, MasterCard ou Maestro. A raison.

En collaboration avec les acteurs concernés, Keyware vous propose à présent la solution suivante:

- Pas de frais d'abonnement
- Des tarifs de transactions plus bas
- Un aperçu en ligne de vos transactions 24/24
- Un terminal de paiement avantageux: par ligne téléphonique, internet ou GPRS

**Des solutions de paiement plus avantageuses:
terminaux et transactions**

 **Keyware**

Des frais de transactions plus bas pour votre abonnement VISA, MasterCard ou Maestro?

**Des solutions de paiement plus avantageuses:
terminaux et transactions**

Comment s'y prendre?

- Contactez Keyware par moyen du coupon-réponse joint, ou voyez nos coordonnées sur la page suivante
- Keyware vous appelle pour fixer un rendez-vous
- Keyware calcule la solution la mieux adaptée à votre commerce et vous remet le plan d'économies
- Vous contactez Keyware au cas où vous souhaiteriez activer la nouvelle proposition
- Endéans les 48 heures vous bénéficiez des nouveaux avantages

SPOTLIGHT

Keyware's programme convinces retailers, catering and other interested parties to choose the alternative that best suits their business.

At Keyware, electronic payment is not a question of choosing or compromising between service levels: optimal service for every client based on the client's needs is the message.

In cooperation with its partner, PaySquare, Keyware offers its clients direct authorisations. Anyone with a payment terminal is welcome at Keyware. Customers who let Keyware perform their authorisations can even keep their current terminal (Banksys, Verifone, Thales, etc.) and still benefit from the outstanding conditions.



Keyware

Nooit was elektronisch betalen sneller, eenvoudiger en goedkoper!

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Keyware also focuses seriously on starters: anyone who is starting up a new business or does not have payment terminals yet will get excellent starter conditions at Keyware. Keyware believes that electronic payments make your business safer and that you can generate substantial additional turnover because you offer your customers additional payment options.

On a regular basis, Keyware launches marketing campaigns such as mail-outs, outdoor campaigns or trade-fair events to support its commercial activities. Keyware also sponsors a variety of sporting and cultural events.



Keyware betaalterminals
Topcondities!

Meer betalingen, minder kosten!

terminal + transacties
vanaf € **25/maand** +btw

Keyware
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SYLVER

WWW.SYLVERSITE.BE



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FINANCIAL SECTION ANNUAL REPORT



INFORMATION FOR SHAREHOLDERS



SHAREHOLDER STRUCTURE

Capital in shares

As of 31 March 2010, the company has 15,088,879 shares outstanding, all of which are entitled to a dividend. This number can be increased to 17,475,279 if the warrants are exercised.

Share regrouping in 2007

The Extraordinary General Shareholders' Meeting on 26 September 2007 decided upon a combination of existing shares (reverse split) of the company, in which 50 shares give the right to 1 new share in the company. As well as this, authority was given to the Board of Directors to implement this reverse split. Following the decision by the Board of Directors on 6 November 2007, the reverse split was executed on 6 November 2007. This decision has also had an impact on outstanding warrants.

Warrants issued

The Shareholders' Meeting of 27 May 2005 approved inter alia, the issue of (i) 7,000,000 warrants (the "2005 Warrants") with the right to subscribe to the same number of shares of the Company in accordance with the warrant plan (the "Plan 2005") and (ii) 750,000 warrants (the "DAC Warrants"). The exercise price of these warrants is EUR 6.50 (0.13 x 50).

During April 2007, 300,000 "2005 Warrants" were exercised, resulting in 300,000 new shares issued. As per 31 March 2010, there are still 41,900 (2,095,000/50) "2005 Warrants" exercisable.

On 19 July 2006, an Extraordinary General Meeting decided to issue (i) convertible bonds up to a maximum amount of EUR 8,000,000, (ii) a maximum of 32,000,000 A warrants conveying a right to subscribe to an equal number of shares of the Company, and (iii) 32,000,000 B warrants, also conveying a right to subscribe to the same number of shares of the Company. The subscription period for issuing convertible bonds closed on 7 September 2006. The subscription to the convertible bonds and warrants was recorded by means of a notarial deed dated 14 September 2006, following which the bonds and shares were effectively issued. Based on this, 24,000,000 A warrants and 24,000,000 B warrants were issued. During July, August and September 2007, 2,000,000 "A Warrants", 6,250,000 "A Warrants", and 2,968,750 "A Warrants", respectively, were exercised. That led to an increase in capital of EUR 320 k, EUR 1,000 k, and EUR 475 k, respectively, and the issue of 2,000,000, 6,230,000 and 2,968,750 new shares, respectively. Given that the "A Warrants" have a maximum duration of only eighteen (18) months, the remaining, non-exercisable "A Warrants" expired on 31 March 2008. At the end of December 2008, there were still 480,000 open "B Warrants" with an exercise price of EUR 0.348. Via notarial deed of 20 May 2009, those 480,000 "B Warrants" were exercised, resulting in an increase in capital of EUR 167 k, and the issue of 480,000 new shares. All "B Warrants" had been exercised by 31 December 2009.

At the Extraordinary Shareholders' Meeting on 24 April 2007, the decision was taken to issue the "2007 Warrants Plan" and to create 7,000,000 warrants. Of the 7,000,000 warrants, 1,100,000 were reserved for staff members. These warrants were offered within a period of 3 months from the date of the Extraordinary Shareholders' Meeting, attributing and definitive exercise thereof (via notarial deed.) 5,900,000 warrants were allocated to specific people (directors, consultants and managers). The warrants issued give the right to subscribe to the same amount of shares. The conversion price of these warrants is EUR 8 (EUR 0.16 x 50) and was established based on the average of the closing price on Euronext Brussels during the thirty days before the day on which the exercise commenced. The validity period of these warrants is 5 years.

Of the 1,100,000 Warrants allocated to staff, 900,000 Warrants were not subscribed. At the end of December 2007, the 150,000 of which was subscribed were expired. In addition, 200,000 of the Warrants allocated to specific people expired on 31 December 2007. An additional 22,000 "2007 Warrants" (1,100,000/50) expired in 2008. As per 31 December 2009, 92,000 (4,600,000/50) "2007 Warrants" are still to be exercised at a share price of EUR 8.00 (being 0.16 x 50).

As a result of issuing the convertible bond in 2008, each subscriber to a Bond of EUR 50 k also received 25,000 Warrants. These Warrants may be exercised at any time during a period of four (4) years as of their issue date. The subscription price per share upon exercising the Warrants shall be the lesser amount of (i) EUR 1.25 or (ii) the issue price of other securities that the Company may have issued since the issue of the Warrants and that are exchangeable, exercisable or convertible into shares in the Company. At the end of December 2008, 1,925,000 warrants were exercisable. Via notarial deed of 20 May 2009, those 222,500 "B Warrants" were exercised, resulting in an increase in capital of EUR 278 k, and the issue of 222,500 new shares. At 31 December 2009, 1,702,500 warrants (linked to the convertible bond 2008) were still exercisable. The exercise price was EUR 1.25.

At the Extraordinary Shareholders' Meeting on 17 March 2010, the decision was taken to issue the "2010 Warrants Plan" and to create 550,000 warrants. Of the 550,000 warrants, 160,000 were reserved for staff members. These warrants will be offered within a period of 3 months from the date of the Extraordinary Shareholders' Meeting, attributing and definitive issuing thereof (via notarial deed.) 390,000 warrants were allocated to specific people (directors, consultants and managers).

The warrants issued give the right to subscribe to the same amount of shares. The exercise price of these warrants is EUR 1.56, and it was determined on the basis of the average closing price on Euronext Brussels during the thirty days prior to the day on which the issue began. The validity period of these warrants is 5 years. All warrants are still exercisable at the end of March 2010.

Shareholder structure

On the basis of the data known to the Company, the table below provides an overview of the shareholders of the Company who own more than 3% of the shares as per 31 March 2010.

Shareholders	Number of shares	Shares % (not diluted)
Parana Management BVBA	6.441.043	42,69 %
Federal Invest NV	1.434.418	9,51 %
Big Friend NV	855.000	5,67 %

KEYWARE ON EURONEXT

Euronext Brussels

In June 2000, the Company concluded an Initial public offering (IPO) with a listing of 23,098,831 shares on EASDAQ under the symbol "Keyw".

As a result of the closure of NASDAQ Europe (formerly Easdaq), the Keyware shares have been listed on the double fixing segment of the First Market of EURONEXT Brussels since 3 September 2003. Since 1 September 2005, the listing has migrated from "double fixing" to "continuous trading".

The Company only has ordinary shares listed on Euronext Brussels.

Capitalisation

On 31 March 2010, the number of shares issued was 15,088,879. On the basis of the listing on 31 March 2010 on EURONEXT (EUR 1.49), this corresponds to a market capitalisation of EUR 22,482k.

Chart

The chart below shows the evolution of the Keyware Technologies share on Euronext Brussels for the period 1 April 2009 through 31 March 2010.



High and low

The highest and lowest share prices during the 2007 to 2009 periods were (converted prices in line with the share regrouping of 1 to 50):

	highest	lowest
Financial year 2007	EUR 9.50	EUR 4.11
Financial year 2008	EUR 4.13	EUR 0.38
Financial year 2009	EUR 3.05	EUR 0.36

CORPORATE GOVERNANCE



CORPORATE GOVERNANCE

Board of Directors

As per 31 March 2010, the Board of Directors has 6 members, 2 of whom are independent directors. The members of the Board of Directors are:

Director	Position	Main function	End-date of mandate after GA of financial year ending on
Guido Van der Schueren	Non-executive	Chairman	31 December 2011
Pierre Delhaize	Non-executive	Director	31 December 2009
Guido Wallebroek	Non-executive	Director	31 December 2010
Luc Pintens	Independent	Director	31 December 2009
Bruno Kusters	Independent	Director	31 December 2011
Big Friend NV represented by Stéphane Vandervelde	Executive - CEO	Director	31 December 2009

Guido Van der Schueren, Chairman of the Board of Directors

Guido Van der Schueren, co-founder of Artwork Systems, was Managing Director of Artworks Systems Group NV until the end of 2007. Since the takeover of Artwork Systems by Esko, Mr Guido Van der Schueren was first CCO of Esko Artwork and subsequently Vice-Chairman of the Board. From 1982 to April 1992, he held various positions, including Sales and Marketing Director at DISC NV (later Barco Graphics NV), a company that develops and markets pre-press systems. From 1974 to 1982, Mr Van der Schueren was the "Compugraphic" Sales Manager at Bonte NV, a distributor of equipment for the graphic sector. Mr Van der Schueren holds diplomas in Graphic Arts, Education and Marketing. Mr Guido Van der Schueren is also a director with the companies EskoArtwork (Denmark), Powergraph NV (Sint-Martens-Latem), Parana Management BVBA (Sint-Martens-Latem), Think Media NV (Antwerp), Portolani NV (Antwerp), Nexus NV (Gent), Explo NV (Sint-Denijs-Westrem) and Pinnacle Investments NV.

Pierre Delhaize, Director

Mr Pierre Delhaize has extensive experience in international business, in particular in the retail and distribution sectors. Today, he plays an active role as a director in several companies such as Sogedel France and Sogedel Lux. He is also "Maître de Conférences" at the Ecole de Commerce Solvay.

Luc Pintens, Independent Director

Mr Luc Pintens has more than 30 years of experience in the IT and telecommunication industry. He has held the function of director in Europe, Africa and Asia, including marketing and sales director of Xerox Belgium, managing director of Siemens Atea, Senior Vice-President of Nortel Networks Europe and Chief Executive Officer of Cable and Wireless Europe and Econocom Group NV. Mr Luc Pintens obtained a degree in Mathematics, Physics and Computer Sciences at university and also has a MBA from the University of London.

Bruno Kusters, Independent Director

Mr Bruno Kusters has more than 14 years of experience in IT and business consulting with references such as KKR, Avaya/Tenovis, Philips, Telindus, Unilever, Mitsubishi and Artesia. He obtained a degree in Commercial Engineering at the Catholic University of Leuven (KUL) and a Bachelor's Degree in Quantitative Methods at KUL.

Guido Wallebroek, Director

Mr Guido Wallebroek gained substantial professional experience in the paper wholesale sector. In 1971, he founded NV Olympia Papier (Aartselaar) and NV Data Papier (Ghent). At the beginning of 2007, Mr Wallebroek sold his companies to Inapa, the European paper group from Portugal. Mr Guido Wallebroek is currently Managing Director of Federal Invest NV and of Drupafina NV and Director at Sucraf NV.

Big Friend NV, represented by Stéphane Vandervelde, Director

Big Friend NV is the management company of Stéphane Vandervelde. Stéphane Vandervelde has more than 20 years of experience in the software industry. Stéphane Vandervelde is currently the CEO of Keyware. Stéphane Vandervelde graduated as an Engineer in Electronics and completed an additional specialisation at the Catholic University of Leuven (KUL) in Micro-electronics and Chip Design. He is also a director at several other companies, such as Pinnacle Investments NV, Immo David NV, Pay&Save NV, Creabuild NV, NiXPS NV, Nexus Investments NV and Big Friend NV.

In accordance with the directive concerning independence and financial expertise of one of the independent directors, the proposal set out below will be submitted to the general shareholders' meeting on 28 May 2010:

The Board of Directors recommends the appointment of Sofia BVBA, represented by Mr Chris Buyse, as independent director of the Company. The director to be appointed meets the criteria for independent directors included in Sections 524, § 4 and 526ter of the Companies Code. The Board of Directors therefore believes that the director to be appointed has the required professional qualities for that function on the basis of his extensive professional experience.

Mr Chris Buyse, the permanent representative of Sofia BVBA, has more than 20 years experience in various financial and general management positions.

He graduated with the Licentiate Degree in Applied Economics (University of Antwerp) and in Management (Vlerick School). His experience has been gained inter alia at Unilever, Sita, before he helped to implement the turnaround of Keyware between 2001 and 2003.

Since mid-2006 Mr Chris Buyse has been a director and CFO with the listed bio-technology company ThromboGenics.

Mr Chris Buyse also holds several directorships in other promising bio-tech companies such as Cardio 3 Biosciences, Promethera, and Amakem.

In 2009, the Board of Directors met seven times. The Company is validly represented by 2 directors acting together. The Company does not have a managing director.

Except from the fee awarded to Big Friend NV and Parana Management BVBA (see below), no fees were paid to the directors during the financial year 2009.

Day-to-day management

In accordance with Article 23 of the Articles of Association, the Board of Directors has delegated the day-to-day management to a management organisation called the “management committee”.

The Board of Directors has appointed a management committee for the company. The powers of the management committee have been outlined by the Board of Directors. Mr Stéphane Vandervelde is the chairman of the management committee.

At the end of December 2009, the management committee consisted in the following members:

- ▶ CEO Stéphane Vandervelde
- ▶ CFO Johan Hellinckx
- ▶ COO Wim Verfaillie

During financial year 2009, a fixed fee of EUR 282k was invoiced by the management company Big Friend NV, represented by Stéphane Vandervelde, for commercial and general management services. In addition, a variable remuneration in the amount of EUR 60 k was paid out at the end of 2009 for services rendered in 2009. In addition, expense reimbursements in the amount of EUR 37 k were invoiced by Big Friend NV.

During financial year 2009, a fixed fee of EUR 135k was invoiced by the management company JH Consulting BVBA, represented by Johan Hellinckx, for financial and general management services. In addition, a variable remuneration in the amount of EUR 25 k was paid out at the end of 2009 for services rendered in 2009. In addition, expense reimbursements in the amount of EUR 8 k were invoiced by JH Consulting BVBA.

During financial year 2009, a fixed fee of EUR 137k was invoiced by the management company IQuess BVBA, represented by Wim Verfaille, for general and operational management services. In addition, a variable remuneration in the amount of EUR 33 k was paid out at the end of 2009 for services rendered in 2009. In addition, expense reimbursements in the amount of EUR 16 k were invoiced by IQuess BVBA.

During financial year 2009, EUR 60 k was invoiced by the management company of Parana Management BVBA, represented by Mr Guido Van der Schueren.

Statutory Auditor

BDO Bedrijfsrevisoren, with registered offices at Da Vincilaan 9, Box E.6, Elsinore Building, 1935 Zaventem, represented by Koen De Brabander, with offices at Guldenasporenpark 100 (block k), 9820 Merelbeke, is appointed Auditor of Keyware Technologies NV for a period of three years, which will end after the Shareholders' Meeting of 2011.

The total remuneration of the Auditor is EUR 48 k per year, EUR 30 k of which is for the statutory and consolidated annual accounts of the Company and EUR 18 k for the statutory annual accounts of the Belgian subsidiaries.

During financial year 2009, the Auditor and the companies with which it has a professional relationship performed additional assignments for the company and its subsidiaries in the amount of EUR 19 k. Those activities include work related to additional reporting with regard to the issue of warrants, advice regarding IFRS, and tax-related activities.

Audit Committee

The Audit Committee is made up of 4 non-executive members, namely:

- ▶ Guido Van der Schueren, Chairman
- ▶ Luc Pintens, Independent Director
- ▶ Guido Wallebroek, Director
- ▶ Big Friend NV, represented by Stéphane Vandervelde, Director

The Board of Directors recommends the appointment of Sofia BVBA, represented by Mr Chris Buyse, as independent director of the Company. The director to be appointed meets the criteria for independent directors included in Sections 524, § 4 and 526ter of the Companies Code. The Board of Directors therefore believes that the director to be appointed has the required professional qualities for that function on the basis of his extensive professional experience.

Mr Chris Buyse, the permanent representative of Sofia BVBA, has more than 20 years experience in various financial and general management positions.

He graduated with the Licentiate Degree in Applied Economics (University of Antwerp) and in Management (Vlerick School). His experience has been gained inter alia at Unilever, Sita, before he helped to implement the turnaround of Keyware between 2001 and 2003.

Since mid-2006 Mr Chris Buyse has been a director and CFO with the listed bio-technology company ThromboGenics.

Mr Chris Buyse also holds several directorships in other promising bio-tech companies such as Cardio 3 Biosciences, Promethera, and Amakem.

Sofia BVBA, represented by Mr Chris Buyse, will be part of the audit committee.

Remuneration Committee

The Remuneration Committee is made up as follows:

- ▶ Guido Van der Schueren, Chairman
- ▶ Luc Pintens, Independent Director
- ▶ Big Friend NV, represented by Stéphane Vandervelde, Director

INSIDER-TRADING DIRECTIVE

In accordance with the Royal Decree of 5 March 2006 concerning market abuse, the company has drawn up a guideline with regard to insider trading. As of June 2006, this guideline is applicable to the directors, people with a management responsibility and to other employees who have access to information not generally known to the public.

CONFLICTS OF INTEREST

Article 523 of the Companies Code provides for an extraordinary procedure if a director directly or indirectly has an interest of a proprietary nature that conflicts with a decision or a transaction that falls within the competence of the Board of Directors. During the course of the period 2009, this procedure was not invoked.

CONSOLIDATED INFORMATION



STATUTORY AUDITOR'S REPORT TO THE GENERAL MEETING OF SHAREHOLDERS OF KEYWARE TECHNOLOGIES NV ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

In accordance with the legal requirements, we report to you on the performance of the mandate of statutory auditor, which has been entrusted to us. This report contains our opinion on the true and fair view of the consolidated financial statements as well as the required additional statements.

Unqualified audit opinion on the consolidated financial statements, with an emphasis of matter paragraph

We have audited the consolidated financial statements for the year ended December 31, 2009, prepared in accordance with International Financial Reporting Standards as agreed by the European Union, which show a balance sheet total of EUR'000 17.777 and a consolidated loss, share of the group, of EUR'000 794.

Management is responsible for the preparation and the fair presentation of these consolidated financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate IFRS principles and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the legal requirements and the Auditing Standards applicable in Belgium, as issued by the Institute of Registered Auditors (Institut des Réviseurs d'Entreprises / Instituut van de Bedrijfsrevisoren). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement, as to whether due to fraud or error.

In accordance with the above-mentioned auditing standards, we considered the group's accounting system, as well as its internal control procedures. We have obtained from management and the company's officials, the explanations and information necessary for executing our audit procedures. We have examined, on a test basis, the evidence supporting the amounts included in the consolidated financial statements. We have assessed the appropriateness of the accounting policies and consolidation principles, the reasonableness of the significant accounting estimates made by the company, as well as the overall presentation of the consolidated financial statements. We believe that these procedures provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements for the year ended December 31, 2009 give a true and fair view of the group's financial position, the results of its operation and cash flow in accordance with International Financial Reporting Standards as agreed by the European Union.

The consolidated financial statements are prepared in going concern. This assumption is only justified to the extent that the group further can rely on the same financial support of the shareholders as in the past or will have access to other financial resources. Without prejudice to the above unqualified opinion, we draw your attention to the consolidated annual report in which the Board of Directors, justifies the application of the valuation rules in going concern. On this basis, no adjustments were made with respect to valuation or classification of balance sheet items that would be required in case the assumption of going concern would be no longer valid.

Additional statements

The preparation of the consolidated Directors' report and its content are the responsibility of management.

Our responsibility is to supplement our report with the following additional statements which do not modify our audit opinion on the consolidated financial statements:

- ▶ The consolidated Directors' report includes the information required by law and is consistent with the consolidated financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the consolidated group is facing, and of its financial situation, its foreseeable evolution or the significant influence of certain facts on its future development. We can nevertheless confirm that the matters disclosed do not present any obvious inconsistencies with the information that we became aware of during the performance of our mandate.

Zaventem, April 23, 2010

BDO Réviseurs d'Entreprises Soc. Civ. SCRL
Statutory Auditor
Represented by Koen De Brabander

DISCUSSION OF THE FINANCIAL SITUATION AND THE RESULTS FROM OPERATIONS BY MANAGEMENT

(1) Basis of the presentation

The following discussion and analysis is based on the consolidated annual accounts of Keyware Technologies NV and its subsidiaries ("the Group") after audit for the period that was closed on 31 December 2009.

All intra-group balances and transactions were eliminated in the consolidation.

(2) Historic overview and financial year 2009

(a) History

Keyware Technologies NV was founded in June 1996 as a public limited company under Belgian law. The Company originally developed security technologies based on biometric verification.

Four years later, in June 2000, the shares of the company were traded publicly for the first time on the EASDAQ, later renamed NASDAQ Europe. After a decision of the Extraordinary Shareholders' Meeting of NASDAQ Europe to cease its activities, it was decided to float shares of Keyware ("KEYW") on Euronext. The shares of Keyware Technologies NV were offered for the first time on Euronext on 3 September 2003.

There was great confidence in the breakthrough of biometric authentication technology when Keyware was established in 1996. This confidence was still intact when the Group was listed on the EASDAQ technologies exchange in June 2000.

Strengthened by this confidence, Keyware Technologies quickly took over a number of companies that were all active in biometrics to a greater or lesser degree or in the world of authentication.

The operational integration of these entities and the remodelling into a synergistically functioning whole was never achieved. The period of 18 months between the floatation on the stock market and the end of 2001 showed that the market for biometric security technologies was far from mature.

When at the end of 2001 it became apparent that the market acceptance of biometrics was slower than expected and the losses for this activity were increasing, it was decided to cut back and sell these activities. During the year 2002, the Group was thoroughly reorganised and the activities were concentrated around the smart card.

The Group offered products and services in which the use of the smart card played the central role. The areas of application were access control, time registration and alarm monitoring on the one hand and loyalty and payment software on cards on the other hand.

The year 2003 was a year of consolidation and further sharpening the focus on the Group's core activities. In March and April 2003, the last divestment was rounded off. The remaining assets related to the previous biometrics activities were taken over by Bitwise NV and the shares of Able NV were sold to the former shareholders.

In July 2003, Keyware's payment software was certified by the EPCI (E-payment Certificate Institute) (Bancontact/MisterCash (BC/MC) and credit software such as VISA, MasterCard, American Express, Aurora and Diners Club).

The sale of this payment software with accompanying payment terminal was started in the 4th quarter of 2003.

Since February 2004, Keyware has focused completely on payment-terminal rentals market. After a gentle run-up, this activity really got going in the last quarter of 2004 with about 1,000 new clients.

In 2005, the Group successfully further focussed on the market of the payment terminals, and at the end of December 2005, the milestone of 5,000 clients was passed.

In 2005, Keyware focused on two product groups:

- ▶ identification and applications for physical security (access control, time registration, alarm management and CCTV);
- ▶ identification and applications on terminals (e-payment, loyalty applications and ID cards).

Keyware also offered transaction services for both product groups: authorising, processing and analysing the transactions generated by these applications. The contracts with existing customers were extended in 2004. Keyware authorises transactions for Diners Club, Cetelem (Aurora and PASS cards), American Express and Citibank.

Digital Access Control (DAC) was acquired in March 2005, which gives Keyware access to the technology of electronic keys and electromagnetic locks via the eKeys product.

On 7 June 2006, Keyware Technologies NV announced that the Security & Time Management division would be sold to the Risco Group effective 1 June 2006.

On 6 June 2006, the Risco Group assumed ownership of the Security & Time Management division by purchasing 100% of the shares of the legal entities that constitute this division, which are Keyware SA, Keyware France SA and Keyware Technologies Suisse SA.

Keyware passed the milestone of 10,000 payment terminals at the end of April 2006. It was clear that the Belgian market for payment terminals was still growing, but Keyware was growing even faster.

Until the end of 2006, Keyware worked with a number of independent sales organisations on commission basis. Given the further professionalisation of the market segments and the increased sales volumes, these sales channels were expanded in 2007 with own sales teams. As well as an increase in the quality/quantity of contracts in certain market segments, it has appeared that the operational cost price has been reduced by the new structure.

On 26 April 2007, Keyware indicated that a takeover agreement had been reached with the shareholders of B.R.V. Transactions NV. B.R.V. Transactions NV has a licence with RBS (Royal Bank of Scotland) for the direct offering of credit card authorisations for Visa and MasterCard on the Belgian market.

Through the collaboration with RBS, Keyware can now also offer end-to-end solutions to traders: from payment terminals to processing credit card authorisations for Visa and MasterCard and V Pay and Maestro debit card authorisations.

In 2008, the emphasis in the payment-terminals division was on the further expansion of the installed base for contracts related to the rental of payment terminals. The focus was on the retention policy applied by Keyware, through which almost all clients opted for a 48- or 60-month extension at the end of their contract.

As regards the authorisation division, the focus in 2008 was laying on offering authorisation services for non-EMV transactions. However, the assumed actualisation of offering authorisation services for EMV transactions was not realised.

(b) Financial year 2009

A. TERMINALS

The intended expansion of the existing range of fixed and portable units to GPRS and IP units was achieved during 2009. Beginning in March 2009, the first contracts were concluded with respect to the rental of IP terminals and from September 2009, the first contracts for the rental of GPRS terminals were concluded.

In addition, the emphasis in 2009 was also on the further expansion and retention of the installed base for contracts related to payment-terminal rentals. The focus was on the retention policy applied by Keyware, through which almost all clients opted for a 48- or 60-month extension at the end of their contract.

B. TRANSACTIONS

On 13 August 2009, Keyware announced that it had concluded a unique cooperative venture for the Belgian electronic payments market with the Dutch company PaySquare.

With that cooperative venture, Keyware and PaySquare want to offer a unique service to Belgian retailers or self-employed professionals. Via the agreement with PaySquare, Keyware can use its own payment platform on its own and third-party terminals and offer payment authorisation for credit cards (Visa, MasterCard) and debit cards (V Pay and Maestro) on third-party terminals.

That gives a great deal of practical benefits for the retailer or the self-employed professional. He no longer has to take out various separate contracts – for the payment terminal, for the ability to accept credit cards and debit cards – but instead everything can be bundled in one single transaction contract without having to pay monthly subscription charges for it. A good deal more convenient and extremely good value.

All clients were given on-line access to the overview of the payment transactions carried out by them (both debit and credit) and a simplified administrative tracking because they only had to work with a single contracting party (Keyware). Keyware furthermore strives to achieve connection within 24 hours of receipt of the request.

The Belgian market for payment transactions (purchase only, no money withdrawals) continues to grow. The number of debit-card transactions by Belgians in Belgium has grown year after year. In 2008, the growth represented 7.3%, for a total value of EUR 40 billion. Credit-card payments by Belgians in Belgium rose to approximately EUR 4.8 billion in 2008. For 2009 and the years to follow, additional growth is expected of both the market for payment terminals and the market for electronic payment transactions (for Keyware, those are payments made using payment cards). The further expansion of Keyware's range will also make it possible for the company to grow faster than the natural market growth.

The business model that applies to the payment transactions results in recurring income-stream for Keyware that should grow on a monthly basis. The contribution to turnover will only assume proportions that will have a positive influence on net earnings and cash flow from 2010 onward.

The cooperative agreement with PaySquare is a milestone in the history of Keyware. From August 2009, Keyware will be able to offer its clients a total solution, consisting of a payment terminal and a subscription for payment transactions.

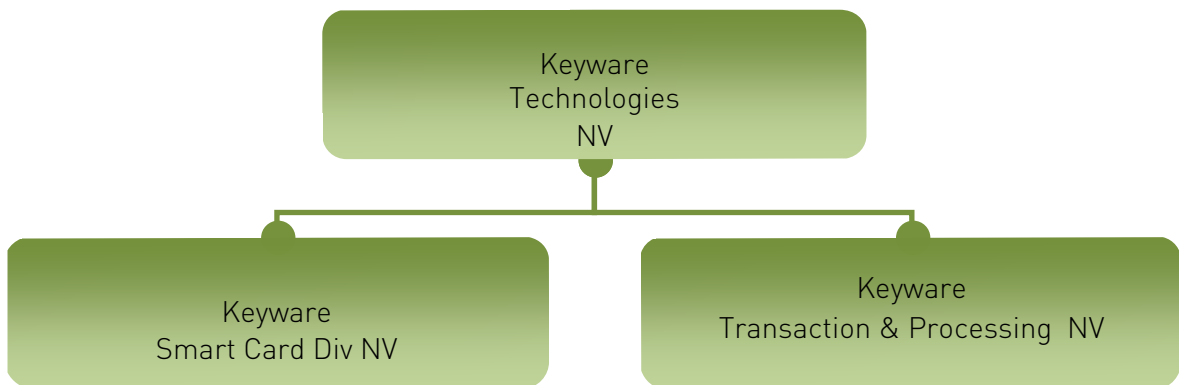
C. LOYALTY

As a major supplier of software for card applications, Keyware develops and sells applications in the area of loyalty programmes and identity programmes. Examples include the Gezinsbond, the Fun Card, etc.

Keyware's multifunctional payment terminals combine various applications in combination with payment opportunities such as debit (Maestro, BC/MC), credit (Visa, MasterCard, Amex, JCB, Diners, etc.) or Proton. Specific sales teams promote these profitable product combinations.

(c) Organisation chart

The organisation chart below provides an overview of the current group structure.



All branches are fully owned subsidiaries of Keyware Technologies NV.

(d) Financing of the Group

In 2008, the Group filled up the existing financing need as follows:

- ▶ From the beginning of February to the beginning of September 2008, advances in the amount of EUR 1,750 k were provided by a shareholder, namely Parana Management BVBA. These advances have allowed the Group to pay off a number of overdue debts and have also made it possible to finance a number of investments. These advances were repaid on 18 September 2008 with cash income derived from the issue of the convertible bonds.

- ▶ Between June and December 2008, the Group concluded 7 financing agreements - rent-agreement financing - with Parfip Benelux NV for a total amount of EUR 2,029 k. These can be summarised as follows:

date	amount	duration	interest	repayment/month
28/05/2008	EUR 151 k	50 months	11,48%	EUR 3 k
30/06/2008	EUR 260 k	53 months	11,91%	EUR 6 k
01/08/2008	EUR 281 k	60 months	11,91%	EUR 6 k
01/09/2008	EUR 298 k	57 months	13,00%	EUR 7 k
06/10/2008	EUR 372 k	60 months	13,48%	EUR 8 k
30/10/2008	EUR 384 k	60 months	13,48%	EUR 9 k
01/12/2008	EUR 283 k	60 months	13,48%	EUR 6 k

- ▶ An Extraordinary Shareholders' meeting held on 18 August 2008 approved the issuing of a convertible bonds for an amount between EUR 4 and 6 million. The subscription to the convertible bonds in the amount of EUR 3,850k and 1,925,000 warrants was recorded by means of a notarial deed on 18 September 2008.
All outstanding convertible bonds were converted into shares by notarial deed on 29 September 2008. The conversion price per share of the bonds was EUR 0.348 (60% of EUR 0.58). A total amount of EUR 3,858k (EUR 3,850k + interest) was converted into capital.

In 2009, the Group filled up the existing financing need as follows:

- ▶ The Group received an advance payment in the amount of EUR 600 k from Parana Management BVBA on 21 January 2009.
- ▶ In January 2009, the Group concluded a financing agreement – financing for lease agreement – with Parfip Benelux for a total amount of EUR 249 k.
- ▶ Starting in March 2009, the Group again invoked the financing agreement with Parfip Benelux NV, which gives the Group the possibility of ceding the contracts with respect to rental of payment terminals to Parfip Benelux NV.

- ▶ In the course of the second quarter of 2009, several warrant-holders affirmed their confidence in the Group and exercised their outstanding warrants:
 - based on the exercise of 480,000 “B Warrants”, the capital was increased by EUR 167 k by notarial deed executed on 20 May 2009 and 480,000 new shares were issued;
 - based on the exercise of 222,500 “W Warrants”, the capital was increased by EUR 278 k by notarial deed executed on 16 June 2009 and 222,500 new shares were issued.

(3) Operating results

The financial data below was derived from the consolidated annual accounts (in accordance with IFRS) of Keyware Technologies ending on 31 December 2009 and 2008.

Consolidated profit and loss account for the period ending on	Financial year at	
	31.12.2009 kEUR [audited]	31.12.2008 kEUR [audited]
Continuing operations		
Turnover	5.683	4.588
Other profits and losses	225	151
Raw materials and consumables used ⁽¹⁾	(1.082)	(837)
Salaries and employee benefits	(1.530)	(1.500)
Depreciation	(243)	(296)
Net impairment of current assets	(720)	(229)
Net revenues from the sale of branches	-	22
Other operating expenses ⁽¹⁾	(2.872)	(2.497)
Operating profit/(loss)	(539)	(598)
Profit/(loss) before tax	(622)	(671)
Profit/(loss) for the period from continuing operations	(794)	(879)

(1) The presentation of the figures at 31.12.2008 changed compared to previous year.

(a) Turnover and gross margin

The turnover, which relates to the operating revenues without the “other operating income”, can be illustrated as follows:

Gross margin	Financial year at		Change
	31.12.2009	31.12.2008	
	kEUR	kEUR	
Turnover	5.683	4.588	23,87%
Raw materials and consumables used ⁽¹⁾	(1.082)	(837)	29,27%
Gross margin	4.601	3.751	22,66%
Percentage gross margin	80,96%	81,76%	

(1) For purposes of comparison, the figures at 31.12.2008 were changed in comparison with last year

The increase of turnover amounts to 23.87%. The increase in turnover was seen in the payment-terminals division and was due to the increase in the range of payment terminals. During financial year 2009, the Group signed its first contracts for the rental of IP terminals and, starting in September 2009, the first contracts were signed for the lease of GPRS terminals. In the Authorisations Division, on the other hand, following the termination of a contract on 31.03.2008, turnover declined by EUR 80 k.

The gross margin amounted to 80.96%. The decline in the margin in comparison with last year is explained in part by:

- ▶ the gross margin achieved on IP and GPRS terminals was lower than for PSTN or ISDN terminals;
- ▶ the decline in turnover in the authorisations division. That concerned turnover with a high gross margin;
- ▶ the fact that a higher cost reduction regarding the purchase of goods for resale was received compared with 2009;

(b) Operating expenses

The operating expenses can be summarised as follows:

Operating expenses for the period ending on	Financial year at	
	31.12.2009	31.12.2008
	kEUR	kEUR
Raw materials and consumables used (1)	(1.082)	(837)
Salaries and employee benefits	(1.530)	(1.500)
Depreciations	(243)	(296)
Net impairment of current assets	(720)	(229)
Net revenues from the sale of branches	-	22
Other operating expenses (1)	(2.872)	(2.497)
Operating expenses	(6.447)	(5.337)

⁽¹⁾ For purposes of comparison, the figures at 31.12.2008 were changed in comparison with last year

Further explanation:

- ▶ personnel costs rose by 2.00%;
- ▶ the net impairments of current assets rose from EUR 229 k to EUR 720 k. On the one hand, that was the result of an increase in the write-offs or amortisation recorded on financial lease receivables. Those write-offs or amortizations are the result of bankruptcies, discontinued operations by the customer or termination of the contract by the customer. On the other hand, the amount at 31.12.2008 represented a withdrawal of EUR 209 k with respect to a provision for pending disputes that has not been used.
- ▶ The other operating expenses rose by 15.02% as a result of the increase in car expenses, sales & marketing expenses, fees and interim costs.

(c) Net loss

The net loss for the financial year amounted to (EUR 794) k, compared with (EUR 879) k at 31 December 2008. The improvement of the result is partly due to an increase in the gross margin (EUR 850 k), which was partially compensated, however, by an increase in the other charges (EUR 375 k) and an increase in the impairment of current assets (EUR 491 k).

(d) Net cash flow

The net cash flow amounted to EUR 542 k, compared with (EUR 60) k at 31 December 2008. The positive cash flow for financial year 2009 is partly due to the fact that the results include several non-cash expenses, such as the impairment of the current assets.

(4) Personnel and branches

The Group had 44 employees (personnel and consultants) on 31 December 2009.

KEYWARE TECHNOLOGIES NV AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (ALL AMOUNTS IN KEUR)

Consolidated statement of financial position at		31.12.2009	31.12.2008
		kEUR	kEUR
		[audited]	[audited]
ASSETS			
Goodwill	(7)	5.248	5.248
Other intangible fixed assets	(8)	510	771
Property, plant and equipment	(9)	70	126
Deferred tax assets	(10)	1.450	1.622
Finance lease receivables	(11)	7.791	4.724
Other assets	(12)	111	193
Non-current assets		15.180	12.684
Inventories	(13)	492	292
Trade and other receivables	(14)	352	417
Finance lease receivables	(15)	1.407	1.748
Prepays	(16)	312	419
Cash and cash equivalents		34	293
Current assets		2.597	3.169
Total assets		17.777	15.853
EQUITY AND LIABILITIES			
	(17)		
Issued capital		18.063	17.618
Shared premiums		4.522	4.522
Reserves		119	119
Retained earnings		(14.492)	(13.698)
Equity attributable to owners of the parent		8.212	8.561
Borrowings	(18)	721	150
Obligations under finance leases	(19)	1.483	1.840
Trade payables	(20)	2.956	1.119
Non-current liabilities		5.160	3.109
Trade and other payables	(21)	3.487	3.272
Borrowings	(22)	60	79
Obligations under finance leases	(23)	567	522
Other liabilities	(24)	291	310
Current liabilities		4.405	4.183
Total liabilities		9.565	7.292
Total equity and liabilities		17.777	15.853

KEYWARE TECHNOLOGIES NV AND SUBSIDIARIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT (ALL AMOUNTS IN KEUR)

Consolidated profit and loss account for the period ending on		31.12.2009	31.12.2008
		kEUR	kEUR
		[audited]	[audited]
CONTINUING OPERATIONS			
Turnover		5.683	4.588
Other profits and losses	(27)	225	151
Raw materials and consumables used (1)		(1.082)	(837)
Salaries and employee benefits	(28)	(1.530)	(1.500)
Depreciations	(29)	(243)	(296)
Net impairment of current assets	(30)	(720)	(229)
Net revenues from the sale of branches		-	22
Other operating expenses (1)	(31)	(2.872)	(2.497)
Operating profit/(loss)		(539)	(598)
Financial income	(32)	580	448
Financial costs	(32)	(663)	(521)
Profit/(loss) before tax		(622)	(671)
Taxes on results	(33)	(172)	(208)
Profit/(loss) for the period from continuing operations		(794)	(879)
Profit/(loss) for the period from discontinued operations		-	-
Profit/(loss) for the period		(794)	(879)
Weighted average ordinary shares in issue		14.802.968	6.142.011
Weighted average or ordinary shares for diluted earnings per share		16.639.368	7.246.390
Profit/(loss) per share from continuing and discontinued operations			
Profit/(loss) per share	(38)	(0,0536)	(0,1431)
Profit/(loss) per diluted share	(38)	(0,0536)	(0,1431)

(1) The presentation of the figures at 31.12.2008 changed compared to previous year.

Consolidated profit and loss account for the period ending on	31.12.2009	31.12.2008
	kEUR	kEUR
	(audited)	(audited)
Profit/(loss) for the period	(794)	(879)
Other comprehensive income		
Conversion differences	-	-
Revaluation of real value of "financial fixed assets available for sale"	-	-
Cash-flow hedges	-	-
Taxes on other unrealised results	-	-
Other unrealised results (net of taxes)	-	-
Total comprehensive income for the period	(794)	(879)
Profit/(loss) for the period allocatable to:		
Owners of the parent company	(794)	(879)
Non-controlling interests	-	-
Total comprehensive income allocatable to:		
Owners of the parent company	-	-
Non-controlling interests	-	-
Weighted average ordinary shares in issue	14.500.971	3.323.164
Weighted average or ordinary shares for diluted earnings per share	16.337.371	3.937.064
Profit/(loss) per share from continuing and discontinued operations		
Profit/(loss) per share	(0,0536)	(0,1431)
Profit/(loss) per diluted share	(0,0536)	(0,1431)

KEYWARE TECHNOLOGIES NV AND SUBSIDIARIES
 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 (ALL AMOUNTS IN KEUR)

Consolidated statement of changes in equity for the period ended on	Number of shares	Capital	Share premium	Other reserves	Retained earnings	Attributable to the owners of the parent company	Non-controlling interests	Total
		KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Balance as per 01.01.2008	3.323.164	13.831	4.522	7	(12.819)	5.541	-	5.541
Results for the period	-	-	-	-	(879)	(879)	-	(879)
Costs in min of capital	-	(71)	-	-	-	(71)	-	(71)
Valuation of warrants	-	-	-	112	-	112	-	112
Total of the realised and unrealised results of the period	-	(71)	-	112	(879)	(838)	-	(838)
Capital increase	11.063.215	3.858	-	-	-	3.858	-	3.858
Balance as per 31.12.2008	14.386.379	17.618	4.522	119	(13.698)	8.561	-	8.561

KEYWARE TECHNOLOGIES NV AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(ALL AMOUNTS IN KEUR)

Consolidated statement of changes in equity for the period ended on	Number of shares	Capital	Share premium	Other reserves	Retained earnings	Attributable to the owners of the parent company	Non-controlling interests	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Balance as per 01.01.2009	14.386.379	17.618	4.522	119	(13.698)	8.561		8.561
Results for the period	-	-	-	-	(794)	(794)	-	(794)
Total of the realised and unrealised results of the period	-	-	-	-	(794)	(794)	-	(794)
Issue of warrants	702.500	445	-	-	-	445	-	445
Balance as per 31.12.2009	15.088.879	18.063	4.522	119	(14.492)	8.212	-	8.212

KEYWARE TECHNOLOGIES NV AND SUBSIDIARIES
 CONSOLIDATED STATEMENT OF CASH-FLOW
 (ALL AMOUNTS IN KEUR)

Consolidated statement of cash-flow for the period ending on	financial year	
	31.12.2009 k EUR (audited)	31.12.2008 kEUR (audited)
<u>Cash flow from operating activities</u>		
Results for the period	(794)	(879)
Depreciation	243	296
Changes in provisions	-	(10)
Write-off of stocks	-	22
Impairment of finance lease receivables	585	326
Impairment	135	100
(Profit)/loss from sales of fixed assets	-	(21)
(Profit)/loss from sale of investments	-	(22)
Warrants incorporated as expense	30	7
Depreciation of capitalized commissions	171	106
Deferred tax assets and liabilities	172	201
Operating cash-flow before changes in the components of working capital	542	126
Decrease/(increase) of inventories	(200)	127
Decrease/(increase) finance lease receivables	(3.320)	(650)
Decrease/(increase) trade and other receivables	82	(76)
Decrease/(increase) of prepaids	(155)	(50)
Increase/(decrease) in trade and other payables	2.051	(3.873)
Increase/(decrease) in other liabilities and accruals	(19)	(67)
Changes in the components of working capital	(1.561)	(4.589)
Net cash-flow from operating activities	(1.019)	(4.463)
<u>Cash flow from investment activities</u>		
Additions in intangible and tangible fixed assets	(40)	(157)
Divestments in intangible and tangible fixed assets	115	161
Sale of participations, net without cash	-	22
(Increase)/decrease of guarantees extended	-	42
Cash-flow from investing activities	75	68
<u>Cash-flow from financing activities</u>		
Capital increase	445	3.787
(Repayment)/proceeds of loans	552	(564)
(Repayment)/ proceeds of finance lease	(312)	1.452
Cash-flow from financing activities	685	4.675
Net (decrease)/increase in liquid assets	(259)	280
Cash and cash equivalents beginning of the period	293	13
Cash and cash equivalents end of the period	34	293

KEYWARE TECHNOLOGIES NV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Identification

Keyware Technologies NV was founded in June 1996 as a public limited company under Belgian law. The Company is established at Ikaroslaan 24, 1930 Zaventem, Belgium. Its company registration number is 0458.430.512.

The consolidated annual accounts were adopted by the Board of Directors on 3 March 2010.

(2) Statement of Conformity

Mr Stéphane Vandervelde (CEO) and Mr Johan Hellinckx (CFO) declare that the annual report, was compiled in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, and gives a true and fair view of the equity, financial situation and result of the issuer and its consolidated subsidiaries. The annual report gives a true and fair view of the development and the results of the company and of the position of the issuer and its consolidated subsidiaries, as well as a description of the primary risks and uncertainties with which the company is confronted.

The auditor's opinion is also referred to within this framework.

(3) The enterprises to be consolidated

The consolidated annual accounts for the period ending on 31 December 2009 include Keyware Technologies NV and its subsidiaries.

The reporting entity structure was determined as follows:

Branch	Consolidated up to	Method
Keyware Smart Card Division NV	31.12.2009	Integral
Keyware Transaction & Processing NV	31.12.2009	Integral

(4) Going concern/continuity

The consolidated financial statements have been prepared on the basis of going concern, which presumes that assets are realised and debts are fulfilled in doing normal business. As at 31 December 2009, the Group incurred accumulated losses for a total amount of EUR 14,492 k, which were mainly financed by capital.

For the further growth and the realisation of the 2010-2014 strategic plan, the Group will need additional financing primarily for further financing and expansion of activities related to payment terminals and also for carrying out the necessary investment for the authorization of payment transactions.

As stated under (2) Historic Overview and Financial Year 2009, the Group could call on various sources of financing in 2009: an advance from a shareholder, the ceding of contracts to Parfip and the exercise of warrants by warrant-holders.

In 2010, the Group will be able to make another call on the Parfip credit line in the form of ceding contracts. At the end of March 2010, more than EUR 1.2 million in contracts were ceded to Parfip Benelux NV.

The Board of Directors is also considering the issue of a convertible bond loan for an amount of between EUR 4 billion and EUR 5 billion, with provisional assumption of the following conditions:

- ▶ Conversion price: 80% of the lowest closing price over a 6-day period prior to the signing of the conversion notification
- ▶ Conversion conditions: exercisable daily over 4 years and compulsory conversion if the share price reaches EUR 3 for a period of 20 consecutive trading days
- ▶ Interest: 7%
- ▶ Warrants would be coupled with the convertible loan in accordance with the scheme shown below

• subscription of EUR 250 k - EUR 350 k	50% warrants
• subscription between EUR 400 k - EUR 500 k	60% warrants
• subscription between EUR 550 k - EUR 650 k	70% warrants
• subscription between EUR 700 k - EUR 800 k	80% warrants
• subscription between EUR 850 k - EUR 950 k	90% warrants
• subscription → EUR 950 k	100% warrants
- ▶ Warrants exercise price: EUR 1.25
- ▶ Warrants expiry date: 48 months

And finally, at the end of March 2010, the Group was in negotiations with various financial institutions with respect to the possible refinancing of the Group.

On the basis of the above, the Board of Directors is convinced that the Group is able to continue its activities on a going concern basis over a reasonable length of time, and it confirms the application of the valuation rules for a going concern.

The consolidated financial statements do not therefore contain any adjustments to the collectability and classification of the amounts booked as assets or the amounts and classification of the liabilities, which would be required if the Company were no longer able to continue its activities as a going concern. The continuation of the Group as a “going concern” depends on its ability to generate sufficient cash flow to fulfil its obligations on time or to maintain adequate financing and finally on achieving successful operations.

(5) Most important principles for the financial reporting

(a) Basic principle

The consolidated interim financial statements were compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EC, which contain the standards and interpretations published by the International Accounting Standard Board (IASB), applicable as of 31 December 2009.

The preparation of the financial statements in accordance with IFRS standards requires of the management that it makes estimates that can have an impact on the amounts that are reported in the consolidated annual accounts and the accompanying notes. The final results may differ from these estimates.

(b) Consolidation principle

The consolidated financial statements of Keyware Technologies NV comprise Keyware Technologies as well as the subsidiaries that it controls. Control exists if the Group has an interest of more than half the voting rights connected with the shares of a company, or it if, directly or indirectly, has the power to determine the financial and operational policy of a company to benefit from its activities. The annual accounts of subsidiaries are included in the consolidated annual accounts from the date on which the control commences until the date on which the control ceases to exist.

The acquisition of subsidiaries is processed in the books as takeovers. The cost price of a takeover is the amount paid in cash or cash equivalents or the real value, on the exchange date, of any other remuneration that is provided by the party taking over in exchange for control over the assets and liabilities of the other company, increased by any expenses that are directly attributable to the takeover.

Intragroup balance sheets and transactions and any profits not realised ensuing from transactions within the Group are eliminated when compiling the consolidated annual accounts.

(c) Reporting currency

The reporting currency of Keyware Technologies NV is the EURO.

(d) Foreign currency

Transactions in foreign currency

Transactions in foreign currency are converted to the euro on the basis of a conversion rate determined every month. Exchange rate differences that occur when processing monetary items or when reporting monetary items are included in the profit and loss statement of the period in which they occur.

Annual accounts of subsidiaries

Assets and liabilities of subsidiaries, expressed in a currency other than the euro, are converted using the exchange rate that applies at the end of the reporting period. Income and expenses are converted using the average exchange rate during that period. Components of shareholders' equity are converted using historic exchange rates. Profits or losses from these conversions are included in the balance sheet item conversion differences, processed as a separate component of the shareholders' equity.

(e) Goodwill

The difference between the purchase price on an acquiring an interest in a company and the real value of the underlying net assets acquired on the date of the transaction is booked as goodwill and is recognised as an asset in the balance sheet. Identifiable assets and liabilities recognised on acquisition are valued at the value that is fair at that time.

Goodwill is booked as an asset and initially valued at cost price. After its recognition, goodwill is valued at cost price minus the accumulated impairment expenses.

Goodwill is tested for impairment on a yearly basis or more often if there are indications to do so.

(f) Immaterial fixed assets

Purchased intangible fixed assets

Intangible fixed assets are initially valued at the purchase value and are recognised if it is likely that future economic benefits, which can be attributed to the asset, will flow to the company and the cost of the asset can be reliably measured. After initial valuation at the purchase value, they are reduced by the accumulated depreciations and any accumulated extraordinary depreciations losses. Intangible fixed assets are written off linearly over the estimated life.

Internally generated intangible fixed assets - research and development

Expenses for research are included as an expense in the profit and loss statement at the time that they are incurred.

Internally generated intangible assets that result from the development of the Group are only recognised if all of the following conditions are met:

- ▶ an identifiable asset is created;
- ▶ it is likely that the expected future economic benefits that can be attributed to the asset will flow to the entity;
- ▶ the cost price of the development expenses can be reliably determined.

Internally generated intangible assets are amortised on a linear basis over their expected economic life. If no internally generated intangible assets can be recognised, development expenses are charged to the profit and loss statement in the period during which they are incurred.

(g) Tangible fixed assets

The tangible fixed assets are valued at the acquisition price minus the accumulated depreciations and impairment losses.

The amortisation is calculated using the linear method in accordance with the estimated life of the assets, which can be represented as follows:

▶ buildings	20 years
▶ machines and installations	3-5 years
▶ cars	4 years
▶ computers and accessories	3 years
▶ furniture	5-10 years
▶ other tangible fixed assets	9 years

(h) Stocks

Inventories are valued at the lowest value of either the cost price or the net realizable value. The cost price is the individual price of each item.

Inventories that cannot be sold are integrally written off.

(i) Trade receivables and long-term trade receivables

Trade receivables are recognised and included at nominal value. An amortisation is included if the collectability of the entire amount is no longer likely.

The long-term part of the receivables with regard to the financial leases of the payment terminals is included under trade receivables - in accordance with IAS 17 - Leases (see leases).

(j) Cash and cash equivalents

Cash resources and cash equivalents are included in the balance sheet at nominal value. They comprise cash resources and bank balances as well as bank deposits and investments that can immediately be converted into cash and that furthermore are not subject to significant risks of fluctuations in value.

(k) Leases

Financial leases: Keyware as lessor

Assets that are kept under financial lease are included in the balance sheet and presented as receivables for the amount equal to the net investment in the lease.

The lease price of a contract is divided into net rent and maintenance. The actual value of the net rent for the full term of the contract, namely 48 months, is then calculated. This entire amount of the actual value is recorded as turnover in the month in which the contract starts. The revenue related to maintenance is incorporated in turnover spread over the duration of the contract. Financial income equal to the difference between the total value of the contract and the actualised value is recorded each month.

(l) Provisions

A provision is booked if:

- ▶ the Group has an existing obligation;
- ▶ it is likely that an outflow of resources is required to settle the obligation; and
- ▶ the amount of the obligation can be estimated reliably.

(m) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet of the Group if the Group becomes a party to the contractual provisions of the financial instrument in question. If the contractual rights or the cash flows of the financial asset run out or if the asset is transferred and the transfer qualifies for no longer being included, to the degree that the risks and rewards of the proprietor are kept or transferred, the financial assets are no longer recognized in the balance sheet. Financial obligations are derecognized if they are nullified, that is to say if the obligation determined in the contract is fulfilled or dissolved or cancelled.

(n) Convertible bonds

Convertible bonds are presented as a financial obligation, as there is a contractual obligation of one of the parties involved in the financial instrument (submitter) to deliver another financial asset to the other party.

(o) Trade payables

Trade liabilities are included at nominal value.

(p) Recognition of income

Incomes are included to the degree that it is likely that the economic benefits will flow to the Group and if the amount of the income can be determined in a reliable way.

The income is valued at the actual value of the right or receivable received and represents the amounts to be received for goods and services delivered during the execution of normal company activities, including discounts and sales taxes.

Incomes with regard to the sale of hardware (infrastructure revenues) are recognised in the profit and loss statement if real risks and advantages of title have been transferred to the buyer.

Licences are agreements in which the company awards the client the right to use the company's products, without obtaining their title, usually with limitations on the number of employees or users for which the software and the licence period is awarded.

Licence fees are recognised as an income if no actual production, changes or customisation of software is required and if all of the four following conditions have been fulfilled:

- ▶ a non-cancellable agreement is signed by the company and the client;
- ▶ delivery has occurred;
- ▶ the licence fee is fixed and can be determined;
- ▶ receipt of the fee is practically certain.

If actual production, changes or customisation of software is required, incomes can only be recognised on the basis of the contract accounting method for fixed-price contracts.

Incomes related to maintenance contracts and other contracts for which a specific service is delivered during a contractually agreed upon period are recognised on a linear basis for the duration of the contract.

Incomes relating to contracts with regard to leasing payment terminals are processed in accordance with IAS 17 - Leases (see leases).

(q) Depreciation of assets

On every balance sheet date, the Group checks the book value of the tangible and intangible fixed assets to determine whether there is an indication that these assets have depreciated. If there is such an indication, the recoverable amount of the asset is estimated to determine the depreciation to be recognized (if necessary). If it is not possible to estimate the recoverable amount of an individual asset, the Group will determine the recoverable amount of the cash flow generating unit to which the asset belongs.

The recoverable amount is the higher of the net selling price or the value in use. To determine the value in use, the future cash flows expected will be discounted at the discount rate that reflects the current market valuations or time value of money and the specific risks of the asset. If the recoverable amount of an asset (or the cash flow generating unit) is estimated lower than its carrying amount, the carrying amount of the asset (cash flow generating unit) is reduced to its recoverable amount. An impairment charge is recognised immediately in the profit and loss statement unless the asset in question is valued at an amount that is re-valued. In this case, the impairment shall be first deducted from the valuation surplus. If an impairment is reversed, the carrying amount of the asset (cash flow generating unit) is increased to the revised estimate of its recoverable amount, but only in a way that the increased carrying amount does not exceed the carrying amount before impairment of the asset (cash flow generating unit) of previous years. A reversal of an amortisation is immediately recognised in the profit and loss statement, unless the relevant asset is valued at a re-valued amount, in which case the reversal of the amortisation is handled as a revaluation increase.

(r) Equity compensation benefits

In 2005 and 2007, the Group issued warrant schemes in which warrants are awarded to directors, consultants and employees, giving the right to acquire new shares of Keyware Technologies. The calculation of the valuation of the warrants occurred in accordance with IFRS 2 - Share based payments.

If warrants are exercised, new shares are issued and the shareholders' equity will increase by the amount that is received.

(s) Taxes

Income tax comprises the amount of the current and deferred taxes.

Current taxes

Current taxes are taxes that are expected to be paid on the taxable result of the period, making use of the interest rates and tax legislation for which the legislation process (material) is closed off on the balance sheet date, as well as any correction to taxes to be paid over previous periods.

Deferred taxes

Deferred taxes are calculated using the balance sheet liability method, in which temporary differences are considered between the book value of assets and liabilities in the financial reporting and the tax value. Deferred tax liabilities are booked for all taxable, temporary differences, except if they are the result of impairment of goodwill. Deferred tax liabilities are not recognised for taxable, temporary differences that relate to investments in subsidiaries and interests in joint ventures, if the time on which the temporary difference can be settled can be determined by the parent company and it is likely that the temporary difference will not be settled in the near future.

A deferred tax asset must be included for all offsettable, temporary differences, tax losses and tax revenues insofar as it is likely that a taxable profit will be available against which the offsettable, temporary difference, tax losses and tax income can be offset. Offsettable, temporary differences that result from investments in subsidiaries and interests in joint ventures are only included if the temporary difference will be settled in the near future (five years) and if there is fiscal proof available that it can be used for the temporary difference. The book value of the deferred tax assets is revised on every balance sheet date and reduced insofar as it is no longer likely that there is sufficient taxable profit available to use for the entire or a part of the deferred tax asset.

Deferred tax assets and liabilities are valued at the tax rates that are expected to apply to the period in which the claim is achieved or the obligation is settled, on the basis of the tax rates and tax legislation for which the legislation process has been (substantially) rounded off on the balance sheet date.

(t) Segment information

Until May 2006, the Group made an internal distinction between two major operational activities or business units, namely "Security & Time Management" and "Card & Terminal Applications". These business units are the basis on which Keyware reports its primary segment information. In addition, there are also "Corporate expenses", which concern non-attributed overhead expenses.

From 1 January 2007, the Group will distinguish between results relating to activities to do with payment terminals and results relating to activities to do with credit-card authorisations. Corporate expenses that cannot be attributed will be presented separately.

(u) Net profit/loss per share

The basic profit per share is calculated by dividing the net profit or the net loss for the period that is to be distributed to the ordinary shareholders, by the weighted average number of ordinary shares issued during the period.

The diluted profit or loss per share is calculated by dividing the net profit or net loss for the period to be distributed to the ordinary shareholders by the amount of the weighted average of ordinary and potential shares issued.

Potential ordinary shares are deemed to have been converted to ordinary shares at the beginning of the report period or on the date of the issue of the potential ordinary shares, if this is later.

(v) Events after the balance date

Events after the balance sheet date that have an impact on the result of the period or that provide more information about the company's position on the balance sheet date are shown in the annual accounts. Events after the balance sheet date that do not have an impact on the result are included in the notes, on the condition that they are important.

(w) Derivative financial instruments

Since the activities of the Group are not subject to any significant exchange rate or interest risks, the Group does not use any derivative financial instruments.

(x) New standards, interpretations and amendments

Standards and Interpretations applicable in the current period

The Group applied the following new Standards and/or Interpretations in the current year:

- ▶ **IFRS 8 Operating Segments** (effective for financial years that begin on or after 1 January 2009). This standard introduces the so-called "management approach" to segment reporting. Since this new approach gives the same results as that used in the past for determining segments, the application of this standard has no consequence for the financial position of the enterprise.
- ▶ IAS 1 (revised 2007) Presentation of Financial Statements (effective for financial years beginning on or after 1 January 2009). This revised standard introduces a number of changes in terminology (including amended titles for the condensed financial statements) and results in a number of changes in presentation and notes. However, the revised Standard has had no effect on the Group's reported results or financial position.
- ▶ **Various improvements to IFRS standards issued in May 2008.** These Improvements comprise 35 amendments to 20 different standards, which in general entail a simplification of the accounting approach prescribed in which the earlier application has been changed and had little or no effect on the Group's valuation rules.

Application of the following new Standards, Amendments and Interpretations became mandatory for the first time commencing 1 January 2009, but are not relevant for Keyware at present:

- ▶ **IFRS 2** (Amendment), Share-based payment – Vesting Conditions and Cancellations.
- ▶ **IAS 32** (Amendment), Financial instruments: Presentation, and **IAS 1** (Amendment), Presentation of financial statements – Scriptable financial instruments and obligations arising on liquidation.
- ▶ **IFRS 1** (Amendment), Initial application of IFRS and **IAS 27** Consolidated and separate financial statements.
- ▶ **IFRS 7** (Amendment), Financial Instruments: Disclosures.
- ▶ **IAS 23** (Amendment), Borrowing Costs.
- ▶ **2008** Improvements to IFRS standards.
- ▶ **IFRIC 13**, Customer Loyalty Programs
- ▶ **IFRIC 15**, Agreements for the construction of real estate.
- ▶ **IFRIC 16**, Hedges of a net investment in a foreign operation.

Standards and interpretations that have been issued but are not yet compulsory in 2009, have not been applied by Keyware ahead of time.

The Board of Directors is of the opinion that the Standards and Interpretations are not relevant or that their application in future periods will not have a significant effect on the Group's annual accounts during the period of the first application. This therefore had no impact leading to any change to the valuation principles used.

(6) Business Acquisitions/Divestments

(a) Acquisitions

The Group did not make any acquisitions during financial years 2008 and 2009.

(b) Disinvestments

The Group did not make any divestments related to activities during financial years 2008 and 2009.

(7) Consolidation differences

This item can be broken down as follows:

Amounts in k EUR	31.12.2009 kEUR	31.12.2008 kEUR
Keyware Smart Card	5.248	5.248
Total	5.248	5.248

In accordance with IFRS 3 - Business combinations, goodwill is no longer amortised, but is tested for impairment for the specific cash generating unit to which the goodwill belongs. The realisation value of each cash generating unit was determined on the basis of its operating value. To calculate this, the cash flow prognoses from the strategic plan for the period 2010-2014 that was approved by the Board of Directors were used.

In accordance with IFRS 3 - Business combinations, goodwill that occurs in the consolidation must be tested for impairment every year. On that basis, it was possible to decide that it was not necessary to recognise any impairment as per 31 December 2009.

It was also not necessary to recognise any impairment as per 31 December 2008.

(8) Other intangible fixed assets

This item relates in part to software and in part to licences and distribution rights, for which the cost price of the intangible assets can be reliably valued.

Amounts in kEUR	Software	patents and licences	Total
Gross book value on 01.01.2009	606	1.047	1.653
Additions	29	-	29
Disposals	(115)	-	(115)
Conversion differences	-	-	-
Gross book value on 31.12.2009	520	1.047	1.567
Accumulated depreciation and amortization on 01.01.2009	117	765	882
Depreciation cost of the financial year	103	87	190
Addition of amortization	-	-	-
Withdrawal due to disposals	(15)	-	(15)
Conversion differences	-	-	-
Accumulated depreciation and amortization on 31.12.2009	205	852	1.057
Net book value on 01.01.2009	489	282	771
Net book value on 31.12.2009	315	195	510

The investments of 2009 with respect to software relates investing in a new transaction platform to offer authorisation services for EMV transactions.

The divestments relate to crediting previously invoiced software development where, however, it never became possible to use the software (was not operational).

The movements for the 2008 financial year can be presented as follows:

The investments of 2008 regarding software concerns investing in a new transaction platform to offer authorisation services for EMV transactions.

Amounts in kEUR	Software	patents and licences	Total
Gross book value on 01.01.2008	509	1.051	1.560
Additions	97	-	97
Disposals	-	(4)	(4)
Conversion differences	-	-	-
Gross book value on 31.12.2008	606	1.047	1.653
Accumulated depreciation and amortization on 01.01.2008	15	681	696
Depreciation cost of the financial year	102	88	190
Addition of amortization	-	-	-
Withdrawal due to disposals	-	(4)	(4)
Conversion differences	-	-	-
Accumulated depreciation and amortization on 31.12.2008	117	765	882
Net book value on 01.01.2008	494	370	864
Net book value on 31.12.2008	489	282	771

(9) Tangible fixed assets

The movements with regard to this item for financial year 2009 can be summarised as follows:

Amounts in kEUR	Properties and buildings	Installations and machine	Furniture and vehicles	Leasing	Other	Total
Gross book value on 01.01.2009	-	65	464	124	8	661
Additions	-	-	11	-	-	11
Disposals	-	-	-	(22)	-	(22)
Conversion differences	-	-	-	-	-	-
Gross book value on 31.12.2009	-	65	475	102	8	650
Accumulated depreciation and amortization on 01.01.2009	-	65	415	53	2	535
Depreciation cost of the financial year	-	-	29	23	1	53
Addition of amortization	-	-	-	-	-	-
Withdrawal due to disposals	-	-	-	(8)	-	(8)
Conversion differences	-	-	-	-	-	-
Accumulated depreciation and amortization on 31.12.2009	-	65	444	68	3	580
Net book value on 01.01.2009	-	-	49	71	6	126
Net book value on 31.12.2009	-	-	31	34	5	70

Other tangible fixed assets primarily involve fixtures and furnishings of rented premises.

The movements with regard to this item for financial year 2008 can be summarised as follows:

Amounts in kEUR	Properties and buildings	Installations and machine	Furniture and vehicles	Leasing	Other	Total
Gross book value on 01.01.2008	189	65	464	90	46	854
Additions	-	-	2	58	-	60
Disposals	(189)	-	(2)	(24)	(38)	(253)
Conversion differences	-	-	-	-	-	-
Gross book value on 31.12.2008	-	65	464	124	8	661
Accumulated depreciation and amortization on 01.01.2008	65	65	335	38	39	542
Depreciation cost of the financial year	-	-	80	25	1	106
Addition of amortization	-	-	-	-	-	-
Withdrawal due to disposals	(65)	-	-	(10)	(38)	(113)
Conversion differences	-	-	-	-	-	-
Accumulated depreciation and amortization on 31.12.2008	-	65	415	53	2	535
Net book value on 01.01.2008	124	-	129	52	7	312
Net book value on 31.12.2008	-	-	49	71	6	126

The owned building was sold in September 2008. The sale resulted in achieving added value of EUR 21 k.

(10) Deferred tax assets

The deferred tax assets are entirely related to the continuing activities and can be broken down as follows:

Amounts in kEUR	31.12.2009 kEUR	31.12.2008 kEUR
Deferred tax assets	2.197	1.823
Capitalisation of deferred taxes	-	374
Impairment of deferred tax assets	-	-
Deferred tax liabilities (within the same company)	(747)	(575)
Total	1.450	1.622

Based on the 2008-2012 strategic plan, the Board of Directors has re-assessed, as per 31 December 2008, deferred taxes assets related to deductible fiscal losses. On this basis, additional deferred tax assets were recognized for the amount of EUR 374 k.

Based on the 2010-2014 strategic plan, the Board of Directors has re-assessed, as per 31 December 2009, deferred taxes assets related to deductible fiscal losses. On that basis, it was decided not to recognise any additional deferred tax assets.

In addition, the Group still has deferred tax assets that relate entirely to tax loss carry forwards, which are not recognized and therefore were not reflected in the figures as at 31 December 2009 or 31 December 2008. At the end of December 2009, this concerned a gross amount of EUR 72 million of losses carried forward, which corresponds with deferred tax assets in the amount of EUR 24.5 million.

The deferred tax assets related to Keyware Smart Card Div. NV, due to the IFRS amendments, were deducted from the active deferred tax assets and relate only to take-ups of temporary differences.

The applicable tax rate is 33.99%.

The movement in the profit and loss statement can be summarised as follows:

Amounts in kEUR	31.12.2009 kEUR	31.12.2008 kEUR
Capitalisation of deferred taxes with respect to tax losses	-	374
Deferred tax liabilities with respect to IFRS adjustments	(172)	(575)
Consumption of deferred tax liability with respect to IFRS adjustments	-	-
Impairment of deferred tax assets	-	-
Total	(172)	(201)

(11) Finance lease receivables

This item can be broken down as follows:

Amounts in kEUR	31.12.2009 kEUR	31.12.2008 kEUR
Outstanding capital contracts	4.835	3.605
Outstanding capital financing Parfip	2.956	1.119
Total	7.791	4.724

The long-term trade receivables include the long-term portion of the receivable with regard to financial leases in accordance with IAS 17 - Lease contracts for payment terminals. As per 31 December 2009, this receivable corresponds to EUR 4,835 k; per 31 December 2008, this receivable corresponded to EUR 3,605 k. These are net amounts, i.e., after write-off of the outstanding capital with respect to the receivables from financial leases. Those write-offs or amortizations are the result of bankruptcies, discontinued operations by the customer or termination of the contract by the customer. (cf (30) net impairment of current assets).

Finally, the long-term trade receivables that relate to the financing agreement with Parfip Benelux NV are also included in this item.

The Group has entered into a financing agreement with Parfip Benelux NV, whereby the Group has the possibility of ceding the contracts with regard to the rent of payment terminals to Parfip Benelux NV. Within the framework of this agreement, the contracts for the rental of the payment terminals can be sold to Parfip Benelux NV at an actualised value on the assumption of a 10% interest rate. In other words, Keyware receives at the start of the contract the integral discounted amount of the rent instalments and Parfip Benelux NV for the entire duration of the contract (with regard to leasing the payment terminal) will collect the rent. At the end of the contract, the material will once again become the property of Keyware on payment of a small residual value.

In accordance with this contract, the ultimate debtor risk is borne by the Group, however. In concrete terms, this means that if a debtor becomes insolvent, Parfip Benelux NV reserves the right to re-invoice this contract to the Group. In that case, the Group will, on the one hand, have to repay the outstanding capital with regard to the discounted amount received in advance from Parfip Benelux NV, but, on the other hand, the Group itself will be able to invoice the remaining duration of the contract to the end customer. As a result, the Group has a potential debt on the one hand and a potential receivable on the other.

At the end of December 2009, the Group had a deferred receivable corresponding to the total sum of the outstanding principal of the contracts sold in 2005, 2006, 2007, 2008 and 2009. This involves a total sum of EUR 4,132 k, EUR 2,956 k of which is long term and EUR 1,176 k is short term.

(12) Other assets

This section has an integral relationship to guarantees paid in cash.

(13) Inventories

This item can be broken down as follows:

Amounts in kEUR	31.12.2009 kEUR	31.12.2008 kEUR
Gross value stock of terminals	771	571
Write-off	(279)	(279)
Total	492	292

The goods for resale concern products purchased from third parties. During financial year 2008, a write-off of EUR 21 k was recognised. In 2009, no additional write-offs were recognised, bringing the total write-offs at the end of December 2009 to EUR 258 k.

Write-offs and withdrawal of write-offs are included in the profit and loss statement in the item "Provisions and amortisation".

(14) Trade and other receivables

This item can be broken down as follows:

Amounts in kEUR	31.12.2009 kEUR	31.12.2008 kEUR
Trade receivables	201	292
Credit notes to be received	100	-
Bad debts	958	958
Write-offs	(963)	(963)
Other receivables	56	130
Total	352	417

The section on trade receivables relates to trade receivables that are not related to finance lease receivables. This concerns, in part, invoicing for third-party costs, invoicing related to loyalty and authorisations. The most important outstanding client, in the amount of EUR 102 k, also has an outstanding supplier's debt in the amount of EUR 105 k.

The credit-notes to be received relate to crediting previously invoiced software development where, however, it never became possible to use the software (was not operational).

The write-offs related integrally to trade receivables from the past that are not related to finance lease receivables. In financial year 2009, additional write-offs on trade receivables were recognised.

The other receivables relate to refundable VAT and advances paid to personnel.

(15) Finance lease receivables

This item can be broken down as follows:

Amounts in kEUR	31.12.2009 kEUR	31.12.2008 kEUR
Outstanding capital contracts	331	592
Provision for terminating outstanding contracts	(100)	(93)
Outstanding capital financing Parfip	1.176	1.249
Total	1.407	1.748

The section 'outstanding capital contracts' relates to the balance of all changes related to finance lease receivables. This item includes both positive and negative adjustments. This item includes the short term part of the receivables relating to the financial lease agreements confirming to IAS 17 - Lease contracts for payment terminals.

These are net amounts, i.e., after write-off of the outstanding capital with respect to the receivables from financial leases. Those write-offs or amortizations are the result of bankruptcies, discontinued operations by the customer or termination of the contract by the customer. (cf (30) net impairment of current assets).

As stated in (11) Finance lease receivables in the long term, the debtor risk, connected to the financing agreement with Parfip Benelux NV, is at the expense of the Group. As a consequence, as of 31 December 2008, a provision of EUR 47 k was recorded and the existing provision of EUR 104 k was withdrawn. As of 31 December 2009, a provision of EUR 53 k was recorded and the existing provision was withdrawn for an amount of EUR 46 k. At the end of December 2009, the total outstanding provision was EUR 100 k. This provision is in accordance with the valuation rules set down by the Group.

(16) Accruals and deferred income

This item can be broken down as follows:

Amounts in kEUR	31.12.2009 kEUR	31.12.2008 kEUR
Prepaid rent	28	5
Prepaid marketing expenses	42	31
Prepaid insurance	3	4
Prepaid commissions	55	226
Prepaid communication expenses	28	-
Warrant interest liabilities to be carried forward	82	112
Other	1	3
Accrued income	73	38
Total	312	419

The prepaid commissions are commissions paid - in the past - to an independent third party who takes care of concluding the rental agreements. This party received a commission for each legally correct contract concluded, of which, in accordance with the valuation rules of the Group, 75% is immediately included in the result and 25% is taken in the result in accordance with the duration of the rental agreements. The amount relates to that 25%.

The warrant interest liabilities to be brought forward relate to the valuation of the 1,925,000 warrants issued pursuant to the issue of the convertible bond loan. EUR 119k has been entered under own equity, which concerns the valuation of the warrants linked to the convertible bond loan. The counter-item of this amount is recorded in result during the exercise period of these warrants.

Furthermore this concerns the prepaid rent and expenses to be carried forward for, among other things, maintenance contracts, marketing and insurance.

(17) Capital structure

As per 31 December 2007, the - legal - share capital of the Group was EUR 19,782k, represented by 3,323,164 normal shares without nominal value.

An Extraordinary Shareholders' meeting held on 18 August 2008 approved the issuing of a convertible bond loan for an amount of between EUR 4 million and EUR 6 million. The subscription period for the convertible bond ran from 19 August 2008 to 2 September 2008, and was extended to 12 September 2008. The subscription to the convertible bonds for an amount of EUR 3,850 k and 1,925,000 warrants was established by notarial deed on 18 September 2008. The following parties subscribed to the convertible bond issue:

- ▶ Parana Management BVBA, Bogaertstraat 32, 9830 Sint-Martens-Latem EUR 2,300 k
- ▶ Think Media NV, Oude Leeuwenrui 8, 2000 Antwerp EUR 500 k
- ▶ Federal Invest NV, Mussenburglei 116, 2650 Edegem EUR 550 k
- ▶ Big Friend NV, Kustlaan 15, 8300 Knokke (1) EUR 500 k

(1) Big Friend NV sold through 4 bonds to, respectively, Johan Hellinckx (EUR 100k), IQuess BVBA (EUR 50k) and Checkpoint X BVBA (EUR 50k).

All outstanding convertible bonds were converted into shares by notarial deed on 29 September 2008. The conversion price per share for the Bonds amounted to EUR 0.348 (60% of EUR 0.58), which was the lesser of (i) EUR 1 or (ii) 60% of the lowest closing price on Euronext Brussels for the previous six (6) trading days prior to the signing date for the confirmation of the conversion of the Bonds or (iii) the issue price of other securities issued by the company after the issue date of the bonds and that are exchangeable, exercisable or convertible into shares in the company.

A total amount of EUR 3,858k (EUR 3,850k + interest) was converted into capital. Consequently, 11,063,215 new Keyware Technologies shares were issued.

As a result of subscribing to the convertible bond, each subscriber to a Bond of EUR 50,000 also received 25,000 warrants. These Warrants may be exercised at any time during a period of four (4) years as of their issue date. The subscription price per share upon exercising the Warrants shall be the lesser amount of (i) EUR 1.25 or (ii) the issue price of other securities that the Company may have issued since the issue of the Warrants and that are exchangeable, exercisable or convertible into shares in the Company.

As per 31 December 2008, the - legal - share capital of the Group was EUR 23,641 k, represented by 14,386,379 normal shares without nominal value.

During the second quarter of 2009, a number of warrant holders confirmed their confidence in the Group and exercised their outstanding warrants:

- ▶ based on the exercise of 480,000 "B Warrants", the capital was increased by EUR 167 k by notarial deed executed on 22 May 2009 and 480,000 new shares were issued;
- ▶ based on the exercise of 222,500 "W Warrants", the capital was increased by EUR 278 k by notarial deed executed on 16 June 2009 and 222,500 new shares were issued.

As per 31 December 2009, the - legal - share capital of the Group was EUR 24,085 k, represented by 15,088,879 normal shares without nominal value.

The general meeting of 17 March 2010 resolved to renew the authority of the Board of Directors regarding the authorised capital with a maximum amount equal to the issued capital of the Company for a period of five years, in accordance with Section 603 ff. of the Companies Code. The authority of the Board of Directors also applies for capital increases through contributions in kind and cash, conversion of reserves, issue premiums, with or without the issue of shares, and comprises the authority to issue convertible bonds, warrants that may or may not be related to another asset, and bonds with warrants.

The general meeting also resolved to renew the power of the Board of Directors, for a period of three years from the date of this shareholders meeting, to increase the capital of the Company in one or more stages, from the date of notification of the Commission for the Bank, Finance and Insurance bodies of a public takeover bid on the shares of the Company, through contribution in cash with discontinuance or limitation of the priority rights of the existing shareholders or through the contribution in kind in accordance with the relevant legal provisions.

The Board of Directors is authorised, within the framework of the authorised capital and in the interest of the Company and in compliance with the relevant legal provisions, to limit or to raise the priority rights that are attributed by law to the shareholders. The Board of Directors is authorised to limit or to discontinue the priority rights to the advantage of one or more specific people, even if these people are not employees of the Company or its subsidiaries. The above-mentioned authorisations can also be used for the transactions within the meaning of Section 605 of the Companies Code, especially (i) the issue of convertible bonds or warrants entailing the limitation or discontinuation of the priority rights of the shareholders, (ii) the issue of convertible bonds entailing the limitation or discontinuation of the priority rights of the shareholders in favour of one or more specific people, other than members of personnel of the Company or its subsidiaries, and (iii) capital increases that take place through conversion of the reserves.

The general meeting then resolved to agree to the changes of the transition provisions of the Articles of Association.

Furthermore, the general meeting of 17 March 2010 resolved:

- ▶ (i) to authorise the Board of Directors to acquire a maximum of twenty (20) per cent of the registered shares of the Company at a minimum price equal to the closing price of the share on Euronext Brussels on the trading day immediately prior to the acquisition less twenty (20) per cent and at a maximum price equal to the closing price of the share on Euronext Brussels on the trading day immediately prior to the acquisition increased by twenty (20) per cent, all of the above in compliance with Sections 620 through 625 of the Companies Code. The authorisation for acquisition is valid for a period of five (5) years, calculated from the date of the publication of the above-mentioned resolution in the annexes of the Belgian Gazette, and can be renewed.

Resolution that this authorisation also applies for the acquisition of shares of the Company by one of its directly controlled subsidiaries in accordance with Section 627 of the Companies Code. Resolution to authorise the Board of Directors to dispose of its own shares, with the Board of Directors, to the degree permitted by law, is not bound by the aforementioned limitations in time and duration and where this authorisation also applies to the disposition of shares of the Company by one of its directly controlled subsidiaries within the meaning of Section 627 of the Companies Code; and

- ▶ (ii) to authorise the Board of Directors for a period of three (3) years from the date of notification of this change to the Articles of Association to acquire, take as security or dispose of a maximum of twenty (20) per cent of the registered shares, if such acquisition, taking as security or disposition is necessary to prevent a serious and pending disadvantage to the Company.

The Board of Directors has the authority to alter the Company Articles of Association in accordance with the capital increase, determined within the framework of its authority.

Each share is entitled to one vote. Under Belgian legislation, the capital structure of the Company is included in the Articles of Association of the Company with the number of shares issued and permitted and can be amended by the shareholders insofar as specific majority of the votes is achieved.

(18) Borrowings

This item can be broken down as follows:

Amounts in kEUR	31.12.2009 kEUR	31.12.2008 kEUR
ING financing	90	150
Parana Management BVBA financing	631	-
Total	721	150

Within the framework of the sale of shares in B.R.V. Transactions NV, ING provided an investment loan amounting to EUR 300k to Keyware Transaction & Processing NV. This loan is repayable based on 20 trimester payments of EUR 15k. The applicable interest base is EURIBOR 3 month increased by 2%. This loan is secured by:

- ▶ a solidary guarantee by Keyware Technologies NV of EUR 300 k in principal;
- ▶ the pledge of all B.R.V. Transactions NV shares.

The future repayment obligations at 31 December 2009 with respect to long-term and short-term loans - excluding the loans of Parana Management BVBA - are as follows:

Amounts in kEUR	31.12.2009 kEUR
2010	60
2011	60
2012 later	30
Total	150

The loan of Parana Management BVBA is entered into for an indeterminate period. The applicable interest rate is 8%.

(19) Obligations under finance leases - long-term

This item can be broken down as follows:

Amounts in kEUR	31.12.2009 kEUR	31.12.2008 kEUR
Sale & Lease-back Parfip	1.465	1.789
Financial lease cars	18	51
Total	1.483	1.840

Between June and December 2008, the Group concluded 7 financing agreements - financing of rental agreements - with Parfip Benelux NV for a total amount of EUR 2,029 k. These can be summarised as follows:

date	amount	duration	interest	repayment/month
28/05/2008	EUR 151 k	50 months	11,48%	EUR 3 k
30/06/2008	EUR 260 k	53 months	11,91%	EUR 6 k
01/08/2008	EUR 281 k	60 months	11,91%	EUR 6 k
01/09/2008	EUR 298 k	57 months	13,00%	EUR 7 k
06/10/2008	EUR 372 k	60 months	13,48%	EUR 8 k
30/10/2008	EUR 384 k	60 months	13,48%	EUR 9 k
01/12/2008	EUR 283 k	60 months	13,48%	EUR 6 k

In January 2009, the Group concluded a financing agreement – financing of rental agreement – with Parfip Benelux for a total sum of EUR 249 k. The monthly repayment amounts to 6 kEUR and the applicable interest rate is 14.17%.

On 31 December 2009, the total outstanding debt amounts to EUR 2,013 k, EUR 1,465 k of which is recorded as long term and EUR 548 k as short term.

As per 31 December 2008, the total outstanding debt amounts to EUR 2,288k, EUR 499k of which has been processed as a short-term debt and EUR 1,789k as a long-term debt.

In addition, the Group has concluded various finance lease agreements, for, inter alia, cars. The total outstanding debt at 31 December 2009 amounts to 37 kEUR of which 18 kEUR is recorded as long term and 19 kEUR as short term.

The future repayment obligations as per 31 December 2009 with regard to long-term and short-term leasing liabilities are as follows:

Amounts in kEUR	31.12.2009 kEUR
2010	567
2011	594
2012	529
2013 later	360
Total	2.050

(20) Trade payables - long-term obligations

This item can be broken down as follows:

Amounts in kEUR	31.12.2009 kEUR	31.12.2008 kEUR
Financing Parfip Benelux	2.956	1.119
Total	2.956	1.119

The Group has entered into a financing agreement with Parfip Benelux NV, whereby the Group has the possibility of ceding the contracts with regard to the rent of payment terminals to Parfip Benelux NV. Within the framework of this agreement, the contracts for the rental of the payment terminals can be sold to Parfip Benelux NV at an actualised value on the assumption of a 10% interest rate. In other words, Keyware receives at the start of the contract the integral discounted amount of the rent instalments and Parfip Benelux NV for the entire duration of the contract (with regard to leasing the payment terminal) will collect the rent. At the end of the contract, the material will once again become the property of Keyware on payment of a small residual value.

In accordance with this contract, the ultimate debtor risk is however borne by the Group. In concrete terms, this means that if a debtor becomes insolvent, Parfip Benelux NV reserves the right to re-invoice this contract to the Group. In that case, Keyware will on the one hand have to repay the outstanding capital with regard to the discounted amount received in advance to Parfip Benelux NV, but on the other hand, Keyware will still be able to invoice the remaining duration of the contract to the customer. As a result, the Group has a potential debt on the one hand and a potential receivable on the other.

At the end of December 2009, the Group had a deferred receivable corresponding to the total sum of the outstanding principal of the contracts sold in 2005, 2006, 2007, 2008 and 2009. This involves a total sum of EUR 4,132 k, EUR 2,956 k of which is long term and EUR 1,176 k is short term.

(21) Trade and other payables – short-term obligations

This item can be broken down as follows:

Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR
Trade payables	1.615	1.390
Deferred liability Parfip	1.176	1.249
Invoices to be received	365	199
Outstanding VAT	-	194
Withholding tax	63	38
Social security contributions	106	63
Salaries to be paid	26	14
Provision for holiday pay	136	125
Total	3.487	3.272

The total amount of trade payables includes an amount of EUR 1,145 k in overdue trading liabilities. This may be suppliers with repayment plans, suppliers with whom a dispute is pending, a supplier who is currently unable to claim his debts, internal consultants or suppliers who are also clients.

The outstanding suppliers' liabilities can be broken down as follows:

Amounts in kEUR	31.12.2009		31.12.2008	
	Number	kEUR	Number	kEUR
Current suppliers	-	715	-	565
Pending disputes	7	166	8	158
Repayment plans	2	61	2	235
Unclaimed amounts	1	110	1	110
Internal consultants	6	443	8	221
Supplier and client at the same time	3	120	3	101
Total		1.615		1.390

At the end of December 2009, there were 2 repayment schemes with a total outstanding debt of EUR 61 k.

At the end of December 2009, the Group had 7 pending disputes with suppliers for a total amount of EUR 166 k.

The unclaimed amounts concerns one supplier for an amount of EUR 110 k. This amount relates to a performance that is yet to be carried out by the supplier.

The internal consultants relates to 6 suppliers, being independent suppliers of performances for the Group, such as the CEO, CFO, COO, financial controller, marketing director, and a business developer.

As stated under (11) Finance lease receivables, as at 31 December 2009, the Group had a potential receivable and debt corresponding to the total amount of the outstanding principal of the contracts sold to Parfip NV in 2005, 2006, 2007, 2008 and 2009. This involves a total sum of EUR 4,132 k, EUR 2,956 k of which is long term and EUR 1,176 k is short term.

At 31 December 2009, the group had refundable VAT in the amount of EUR 42 k. Per 31 December 2008, the outstanding VAT debt amounted to EUR 194k, of which EUR 146 k was overdue.

As per 31 December 2009, the outstanding liability with the NSSO amounted to EUR 106 k and the Group no longer has any debts in arrears with the NSSO. As per 31 December 2008, the outstanding liability with the NSSO amounted to EUR 63k and the Group no longer had any debts in arrears with the NSSO.

As per 31 December 2009, the group had an outstanding liability for withholding taxes in the amount of EUR 63 k, none of which was overdue. As per 31 December 2008, the group had an outstanding liability for withholding taxes in the amount of EUR 38 k, none of which was overdue.

(22) Borrowings - short-term obligations

This item can be broken down as follows:

Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR
ING Financing	60	60
Parana Management BVBA	-	19
Total	60	79

Please see (18) Loans - long-term obligations for explanation.

(23) Obligations under finance leases - short-term

This item can be broken down as follows:

Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR
Sale & Lease-back Parfip	548	499
Financial leasing vehicles	19	23
Total	567	522

For the notes, please refer to (19) Obligations under finance leases - long-term.

(24) Other payables

This item can be broken down as follows:

Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR
Balance payable acquisition BRV	62	62
Debts in dispute	172	194
Accruals	25	30
Deferred income	30	22
Other	2	2
Total	291	310

The debts in dispute at 31 December 2008 and 31 December 2009 relate to 2 debts that the Company is disputing.

The accruals relate to rental and interest charges.

The deferred income relates to deferred maintenance income.

(25) Business segment information

The Group distinguished between results relating to the activities resulting from payment terminals and results relating to the activities from credit card authorisations.

The division of the results for financial year 2009 is as follows:

Amounts in kEUR	31.12.2009 kEUR	31.12.2009 kEUR	31.12.2009 kEUR	31.12.2009 kEUR
Segment information	Terminals (audited)	Authorisations (audited)	Corporate (audited)	(audited)
Continuing operations				
Turnover	5.546	137	-	5.683
Other profits and losses	160	7	58	225
Raw materials and additives (1)	(1.004)	(78)	-	(1.082)
Personnel remuneration	(1.299)	(70)	(161)	(1.530)
Depreciations	-	(95)	(148)	(243)
Net impairment of current assets	(585)	-	(135)	(720)
Net-revenues from sale of branches	-	-	-	-
Net changes to provisions	-	-	-	-
Other operating expenses	(2.349)	(172)	(351)	(2.872)
Operating profit/(loss)	469	(271)	(737)	(539)
Financial income	551	11	18	580
Financial costs	(543)	(11)	(109)	(663)
Results before taxes	477	(271)	(828)	(622)
Taxes on results	(172)	-	-	(172)
Profit/(loss) for the period from continued business activities	305	(271)	(828)	(794)
Profit/(loss) for the period from terminated business activities	-	-	-	-
Profit/(loss) for the period	305	(271)	(828)	(794)

The division of the balance for financial year 2009 is as follows:

Amounts in kEUR	31.12.2009 kEUR	31.12.2009 kEUR	31.12.2009 kEUR	31.12.2009 kEUR
Segment information	Terminals (audited)	Authorisations (audited)	Corporate (audited)	(audited)
<u>Assets</u>				
Goodwill	5.248	-	-	5.248
Other intangible fixed assets	-	203	307	510
Property, plant and equipment	2	-	68	70
Deferred tax assets	1.450	-	-	1.450
Finance lease receivables	7.791	-	-	7.791
Other assets	5	5	101	111
Non-current assets	14.496	208	476	15.180
Inventories	492	-	-	492
Trade and other receivables	139	184	29	352
Finance lease receivables	1.407	-	-	1.407
Prepays	153	28	131	312
Cash and cash equivalents	22	3	9	34
Current assets	2.213	215	169	2.597
Total assets	16.709	423	645	17.777
<u>Equity and liabilities</u>				
Issued capital	-	-	18.063	18.063
Share premiums	-	-	4.522	4.522
Reserves	-	-	119	119
Retained earnings	(22.443)	(2.764)	10.715	(14.492)
Equity	(22.443)	(2.764)	33.419	8.212
Borrowings	-	90	631	721
Obligations under finance leases	1.465	-	18	1.483
Trading payables	2.956	-	-	2.956
Non-current liabilities	4.421	90	649	5.160
Trade and other payables	2.189	180	1.118	3.487
Borrowings	-	60	-	60
Obligations under finance leases	548	-	19	567
Other liabilities	33	62	196	291
Current liabilities	2.770	302	1.333	4.405
Total equity and liabilities	(15.252)	(2.372)	35.401	17.777

The division of the results for financial year 2008 is as follows:

Amounts in kEUR	31.12.2008 kEUR	31.12.2008 kEUR	31.12.2008 kEUR	31.12.2008 kEUR
Segment information	Terminals (audited)	Authorisations (audited)	Corporate (audited)	(audited)
Continuing operations				
Turnover	4.371	217	-	4.588
Other profits and losses	77	50	24	151
Raw materials and additives (1)	(769)	(68)	-	(837)
Personnel remuneration	(1.240)	(132)	(128)	(1.500)
Depreciation	-	(147)	(149)	(296)
Net impairment on current assets	(338)	250	(141)	(229)
Net-revenues from sale of branches	-	-	22	22
Net changes to provisions	-	-	-	-
Other operating expenses	(1.937)	(221)	(339)	(2.497)
Operating profit/(loss)	164	(51)	(711)	(598)
Financial income	417	3	28	448
Financial costs	(369)	(24)	(128)	(521)
Results before taxes	212	(72)	(811)	(671)
Taxes on results	(201)	(7)	-	(208)
Profit/(loss) for the period from continued business activities	11	(79)	(811)	(879)
Profit/(loss) for the period from terminated business activities	-	-	-	-
Profit/(loss) for the period	11	(79)	(811)	(879)

(1) For purposes of comparison, the figures at 31.12.2008 were changed in terms of classification in comparison with last year

The division of the balance for financial year 2008 is as follows:

Amounts in kEUR Segment information	31.12.2008 kEUR Terminals (audited)	31.12.2008 kEUR Authorisations (audited)	31.12.2008 kEUR Corporate (audited)	31.12.2008 kEUR (audited)
Assets				
Goodwill	5.248	-		5.248
Other intangible fixed assets	-	362	409	771
Property, plant and equipment	2	7	117	126
Deferred tax assets	1.622	-		1.622
Finance lease receivables	4.724	-		4.724
Other assets	4	6	183	193
Non-current assets	11.600	375	709	12.684
Inventories	292	-	-	292
Trade and other receivables	257	83	77	417
Finance lease receivables	1.748	-	-	1.748
Prepays	258	38	123	419
Cash and cash equivalents	259	23	11	293
Current assets	2.814	144	211	3.169
Total assets	14.414	519	920	15.853
Equity and liabilities				
Issued capital	-	-	17.618	17.618
Share premiums	-	-	4.522	4.522
Reserves	-	-	119	119
Retained earnings	(22.748)	(2.493)	11.543	(13.698)
Equity	(22.748)	(2.493)	33.802	8.561
Borrowings	-	150	-	150
Obligations under finance leases	1.790	-	50	1.840
Trading payables	1.119	-	-	1.119
Non-current liabilities	2.909	150	50	3.109
Trade and other payables	2.194	202	876	3.272
Borrowings	-	60	19	79
Obligations under finance leases	499	-	23	522
Other liabilities	25	65	220	310
Current liabilities	2.718	327	1.138	4.183
Total equity and liabilities	(17.121)	(2.016)	34.990	15.853

(26) Geographic segment information

In 2009 and 2008, the Group realised 100% of its turnover in Belgium.

(27) Other operating income

This item can be broken down as follows:

Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR
Recovering of meal vouchers	12	11
Withholding company cars	48	31
Recovery of insurance - damage	13	5
Double payment clients	33	2
Settlement suppliers (remission)	91	69
Other	28	33
Total	225	151

(28) Personnel costs and personnel remuneration

The personnel expenses can be broken down as follows:

Number	31.12.2009	31.12.2008
	kEUR	kEUR
Employees - not management	39	34
Management	-	-
Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR
Salaries	1.157	1.118
Social security contributions	283	307
Group insurance	13	9
Various benefits	56	49
Other	21	17
Total	1.530	1.500

(29) Depreciation

This item can be broken down as follows:

Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR
Depreciation intangible fixed assets	190	189
Depreciation tangible fixed assets	53	107
Total	243	296

(30) Net impairment of current assets

This item can be broken down as follows:

Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR
Write-off of inventories	-	22
Write-off on finance lease receivables	585	316
Write-off on other receivables	135	100
Withdrawal provision	-	(209)
Total	720	229

Please see (11) Finance lease receivables and (15) Finance lease receivables for more details on the amortisation of liabilities from financial leasing.

(31) Over operating expenses

This item can be broken down as follows:

Amounts in kEUR	31.12.2009 kEUR	31.12.2008 kEUR
Accommodation	143	158
Automobile costs	299	233
Materiel costs	45	27
Communications costs	96	90
Honoraria	1.252	1.210
Stock market listing	62	31
Presentation and representation	78	34
Sales & marketing	519	347
Interim	101	47
Administration	125	84
Non-deductible VAT	75	75
Other	77	161
Total	2.872	2.497

⁽¹⁾ For purposes of comparison, the figures at 31.12.2008 were changed in terms of classification in comparison with last year

(32) Financial income and expenses

The financial income can be represented as follows:

Amounts in kEUR	31.12.2009 kEUR	31.12.2008 kEUR
Financing income from payment terminal contracts	552	435
Other	28	13
Total	580	448

The financial expenses can be represented as follows:

Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR
Interest on shareholders' advances	46	60
Interest on convertible bond	-	8
Interest on financial debts	7	54
Interest Parfip	524	337
Interest on leasing	16	11
Interest late payments	29	40
Other	41	11
Total	663	521

(33) Income taxes

Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR
Results before taxes	(621)	(671)
Taxes at normal rate	(211)	(228)
Non-capitalised deferred tax assets in respect of fiscal losses	211	300
Amortization of deferred tax assets	-	-
Tax corrections previous financial years	-	7
Permanent differences and other	172	129
Total	172	208

(34) Equity compensation benefits

(a) Overview

An overview can be given for the past two years:

Amounts in kEUR	31.12.2009		31.12.2008	
	Warrants	Exercise price	Warrants	Exercise price
Outstanding at start of the period	2.538.900	1,41	891.525	12,00
Granted	-	-	1.925.000	1,25
Exercised	702.500	0,634	-	-
Expired	-	-	277.625	8,00
Outstanding and exercisable at the end of the period	1.836.400	1,71	2.538.900	1,41

The outstanding and exercisable warrants as per 31 December 2009 can be shown as follows:

Amounts in kEUR	31.12.2009		31.12.2008	
	Warrants	Exercise price	Warrants	Exercise price
2005 Warrants	41.900	6,50	41.900	6,50
B Warrants - convertible bond 2006	-	-	480.000	0,348
2007 Warrants	92.000	8,00	92.000	8,00
2008 Warrants - convertible bond	1.702.500	1,25	1.925.000	1,25
Outstanding and exercisable at the end of the period	1.836.400	1,71	2.538.900	1,41

(b) 2005 Warrants

The Extraordinary Shareholders' Meeting of 27 May 2005 resolved to issue 7,000,000 "2005 warrants" and issue 750,000 "DAC warrants". The issued warrants entitle the holder to subscribe to the same number of shares. The exercise price of these warrants is EUR 0.13, and it was determined on the basis of the average closing price on Euronext Brussels during the thirty days prior to the day on which the issue began. The validity period of these warrants is 5 years.

The warrants were valued in accordance with the Black-Scholes method, based on an exercise price of EUR 6.5 (being EUR 0.13 * 50), an underlying share price on the award date of EUR 0.40, a volatility of 35%, an estimated exercise period of 5 years, no anticipated dividend, and a risk-free interest rate of 6.25%. With this as basis, a value that was lower than EUR 100 was achieved.

As per 31 December 2009, 41,900 (2,095,000/50) "2005 Warrants" are still to be exercised at a share price of EUR 6.50 (being 0.13 x 50).

As per 31 December 2008, 41,900 (2,095,000/50) "2005 Warrants" are still to be exercised at a share price of EUR 6.50 (being 0.16 x 50).

(c) A and B Warrants

On 19 July 2006, an Extraordinary General Meeting decided to issue (i) convertible bonds up to a maximum amount of EUR 8,000,000, (ii) a maximum of 32,000,000 A warrants conveying a right to subscribe to an equal number of shares of the Company, and (iii) 32,000,000 B warrants, also conveying a right to subscribe to the same number of shares of the Company.

The subscription to the convertible bonds and warrants was recorded by means of a notarial deed dated 14 September 2006, following which the bonds and shares were effectively issued.

Based on this, 24,000,000 A warrants and 24,000,000 B warrants were issued.

At any time during the exercise period, the warrant holders can request the Board of Directors to issue shares, at the exercise price, as a result of exercising the warrants.

Each exercise of warrants must involve at least 600,000 warrants.

Each warrant shall entitle the holder to subscribe to one share of the Company bearing no par value, with the rights as described in the articles of association.

The warrants can be exercised at any time during a period of (i) in the case of the A warrants, from the time of issue to the earlier of (a) redemption on the date of maturity or (b) the date of advanced redemption of the bonds (with the exception of advanced redemption due to a shortcoming of the Company), or (ii) in the case of the B warrants, three years from their date of issue. The warrants that are not issued before the end of the exercise period shall automatically become void.

The subscription price per share upon exercising the Warrants shall be the lesser amount of (i) EUR 0.25 or (ii) the issue price of other securities that the Company may have issued since the issue of the Warrants and that are exchangeable, exercisable or convertible into shares in the Company.

In practical terms, this means that as a result of the issue of the convertible bond loan in 2008, the exercise prices of the "A and B Warrants" are identical to the conversion price of the share issued in 2008, which is EUR 0.348.

The warrants were valued in accordance with the Black-Scholes method, based on an exercise price of EUR 0.348, an underlying share price on the award date of EUR 0.40, a volatility of 35%, an estimated exercise period of 4 years, no anticipated dividend, and a risk-free interest rate of 6.25%. With this as basis, a value that was lower than EUR 81k was achieved.

On 18 July 2007, 2,000,000 "A Warrants" were exercised. On 22 August 2007, a further 6,250,000 "A Warrants" were exercised and on 17 September 2007 a further 2,968,750 "A Warrants" were finally exercised.

Given that the "A Warrants" have a maximum duration of only eighteen (18) months, as per 31 March 2008 the remaining, non-exercisable "A Warrants" expired. As per 31 December 2008, there are only 480,000 (24,000,000/50) "B Warrants" still open.

In the course of the second quarter of 2009, several warrant-holders affirmed their confidence in the Group and exercised 480,000 "B Warrants". Via notarial deed of 22 May 2009, the capital was increased by EUR 167 k and 480,000 new shares were issued.

As of 31 December 2009, there were no longer any "B Warrants" open.

(d) 2007 Warrants

At the Extraordinary Shareholders' Meeting on 24 April 2007, the decision was taken to issue the "2007 Warrants Plan" and to create 7,000,000 warrants. Of the 7,000,000 warrants, 1,100,000 were reserved for employees. These warrants were offered within a period of 3 months from the date of the Extraordinary Shareholders' Meeting, attributing and definitive exercise thereof (via notarial deed.) 5,900,000 warrants were allocated to specific people (directors, consultants and managers).

The warrants issued give the right to subscribe to a same amount of shares. The conversion price of these warrants is EUR 8 (EUR 0.16 x 50) and was established based on the average of the closing price on Euronext Brussels during the thirty days before the day on which the exercise commenced. The validity period of these warrants is 5 years.

The warrants were valued according to the Black-Scholes method, which assumed a share price of EUR 8.00 (being EUR 0.16*50) a price of the underlying share of EUR 0.40, a volatility of 35%, an estimated exercise period of 5 years, no expected dividend and a risk-free interest base of 6.25%. With this as basis, a value that was lower than EUR 100 was achieved.

Of the 1,100,000 Warrants allocated to staff, 900,000 Warrants were not subscribed. At the end of 2007, the 150,000 subscribed warrants expired.

In addition, as per 31 December 2007, 200,000 of the 2007 Warrants allocated to specific people expired.

As per 31 December 2007, 114,000 (5,700,000/50) "2007 Warrants" are still to be exercised at a share price of EUR 8.00 (being 0.16 x 50).

During the course of 2008, another 22,000 "2007 Warrants" attributed to specific people were expired.

As per 31 December 2008, 92,000 (5,700,000/50) "2007 Warrants" are still to be exercised at a share price of EUR 8.00 (being 0.16 x 50).

As per 31 December 2009, 92,000 (5,700,000/50) "2007 Warrants" are still to be exercised at a share price of EUR 8.00 (being 0.16 x 50).

(e) 2008 Warrants

An Extraordinary Shareholders' meeting held on 18 August 2008 approved the issue of a convertible bond loan for an amount of between EUR 4 million and EUR 6 million. The subscription to the convertible bonds in the amount of EUR 3,850k and 1,925,000 warrants was recorded by means of a notarial deed on 18 September 2008.

As a result of subscribing to the convertible bond, each subscriber to a Bond of EUR 50,000 also received 25,000 warrants. These Warrants may be exercised at any time during a period of four (4) years as of their issue date. The subscription price per share upon exercising the Warrants shall be the lesser amount of (i) EUR 1.25 or (ii) the issue price of other securities that the Company may have issued since the issue of the Warrants and that are exchangeable, exercisable or convertible into shares in the Company.

Each warrant shall entitle the holder to subscribe to one share of the Company bearing no par value, with the rights as described in the articles of association.

The warrants were valued in accordance with the Black-Scholes method, based on an exercise price of EUR 1.25, an underlying share price on the award date of EUR 0.40, a volatility of 35%, an estimated exercise period of 4 years, no anticipated dividend, and a risk-free interest rate of 6.25%. On that basis, a value that was lower than EUR 38 k was achieved.

As per 31 December 2008, 1,925,000 "2008 Warrants" are still to be exercised at a share price of EUR 1.25.

In the course of the second quarter of 2009, several warrant-holders affirmed their confidence in the Group and exercised 222,500 "2008 B Warrants". Via notarial deed of 16 June 2009, the capital was increased by EUR 278 k and 222,500 new shares were issued.

As per 31 December 2009, 1,702,500 "2008 Warrants" are still to be exercised at a share price of EUR 1.25.

(35) Lease agreements

The subsidiary Keyware Smart Card Div. NV is active in the rental of payment terminals. In this connection, lease contracts are entered into with clients for a term of 60 months.

The lease price of a contract is divided into net rent and maintenance. The actual value of the net rent for the full term of the contract, namely 48 months, is then calculated. This entire amount of the actual value is recorded as turnover in the month in which the contract starts. The revenue related to maintenance is incorporated in turnover spread over the duration of the contract. Financial income equal to the difference between the total value of the contract and the actualised value is recorded each month. The assets corresponding to the financial lease are included in the balance sheet and presented as a receivable for an amount equal to the net investment in the lease

Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR (1)
Gross investments	8,096	6,300
- not longer than one year	2,755	1,904
- longer than one year and not longer than 5 years	5,341	4,396
- longer than 5 years	-	-
Net investments	6,703	4,982
- not longer than one year	1,868	1,377
- longer than one year and not longer than 5 years	4,835	3,605
- longer than 5 years	-	-
Unearned financing income	1,393	1,318
Residual values	-	-
Deprec. [-] for non-collectable receivables	100	93
Lease payments processed as revenues in 2008	-	2,987
Lease payments processed as revenues in 2009	4,030	-

(1) The figures as at 31.12.2008 were adjusted in comparison with last year.

(36) Depreciation of assets

In accordance with IFRS 3 - Business combinations must test the goodwill that occurs in the consolidation for impairment every year. It may be necessary to do this more frequently if there are indications that the goodwill might be impaired in accordance with IAS 36 - Impairment of assets. This standard furthermore requires that beginning with the acquisition date, goodwill is attributed to the cash generating units that are assumed to benefit from the synergies of the business combinations. The flow generating units to which the goodwill is attributed were tested for impairment on the balance sheet date by comparing the carrying value of the unit with the recoverable value.

The Group uses cash-flow estimates for the individual cash-generating units as stated in (25) Business segment information. The primary parameters included in the calculation are the discount factor, the anticipated future operational cash flows, and the anticipated growth. The discount rate applied to the expected cash flows is the weighted average cost of capital (WACC), which is 11.63% as per 31 December 2009.

On the basis of the impairment tests carried out at the end of December 2009, the Board of Directors was of the opinion that no impairment needed to be recorded.

On the basis of the impairment tests carried at the end of December 2008, the Board of Directors was of the opinion that no impairment needed to be recorded.

(37) Contingent assets

In March 2010, the Board of Directors approved the mutual agreement that was concluded with respect to a legal dispute with a business partner. In the agreement, both parties drop their demands with respect to the other party, and the suppliers pay the Group an amount of EUR 1 million in the form of discounts on future orders.

A new distribution agreement was signed between the two parties for a period of 3 years; the new agreement may be simply extended to 5 years. During that period, the Group will receive a discount of 50% on all software and 25% on all hardware with the supplier, until a total amount of discounts of EUR 1 million has been reached. That amount is not indexed and is interest-free. The agreement further stipulates that if the supplier terminates the contract prematurely, the remaining balance will be paid under certain conditions in cash to Keyware.

Under the agreement, both companies cancel all mutual legal actions against the other.

In accordance with IFRS rules, this amicable settlement was not recognised in the figures as per 31.12.2009, but was considered as a contingent asset.

(38) Profit per share

The basic profit/(loss) per share is calculated by dividing the net result attributable to the Group by the weighted average number of ordinary shares during the year.

The profit/(loss) per diluted share is calculated by dividing the net result attributable to the Group by the weighted average number of ordinary shares during the year, with both figures corrected for any effect of dilution of potential ordinary shares.

Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR
Weighted average outstanding shares	14,802,968	6,142,011
Weighted average outstanding diluted shares	16,639,368	7,246,390
Profit/loss per share	(0.0536)	(0.1431)
Profit/loss per diluted share	(0.0536)	(0.1431)

(39) Related-Party transactions

(a) Management and consultancy agreements with directors

The Group has entered into a management agreement with Big Friend NV, the management company of Stéphane Vandervelde. In accordance with the agreement with Big Friend NV, a total compensation (ex VAT) was granted in the amount of EUR 282 k and EUR 282 K for 2009 and 2008. Variable compensation in the amount of EUR 60 k and EUR 60 k was granted in 2009 and 2008.

The agreements include conditions regarding the form of services, non-competition, confidentiality, and transfer of intellectual property rights to the Group. The agreements were entered into for an unlimited term and can be terminated by either party. In case of termination by the Group, a period of notice of 18 months must be observed for Big Friend NV. In case of termination by Big Friend NV, a period of notice of 6 months must be observed. No additional remuneration is payable to Big Friend NV, other than reimbursement of proven expenses in the context of execution of the management services. These expenses amounted to EUR 37 k and EUR 16 k in 2009 and in 2008.

During financial year 2009, EUR 60 k was invoiced for expenses incurred by the management company of Parana Management BVBA, represented by Mr Guido Van der Schueren.

During the period 2008, EUR 19k was invoiced for expenses incurred by the management company of Parana Management BVBA, represented by Mr Guido Van der Schueren.

Except from the fee awarded to Big Friend NV and Parana Management BVBA (see below), no fees were paid to the directors during financial years 2008 and 2009.

(b) Investors

Issuance of Convertible Bonds

An Extraordinary Shareholders' meeting held on 18 August 2008 approved the issue of a convertible bond for an amount of between EUR 4 million and EUR 6 million.

The subscription to the convertible bonds in the amount of EUR 3,850k and 1,925,000 warrants was recorded by means of a notarial deed on 18 September 2008. The following directors have (directly or indirectly via their management companies) subscribed to the convertible bond loan:

- | | |
|---|-------------|
| ▶ Parana Management BVBA, Bogaertstraat 32, 9830 Sint-Martens-Latem | EUR 2,300 k |
| ▶ Federal Invest NV, Mussenburglei 116, 2650 Edegem | EUR 550 k |
| ▶ Big Friend NV, Kustlaan 15, 8300 Knokke (1) | EUR 500 k |

(1) Big Friend NV sold through 4 bonds to, respectively, Johan Hellinckx (EUR 100 k), IQuess BVBA (EUR 50 k) and Checkpoint X BVBA (EUR 50 k).

All outstanding convertible bonds were converted into shares by notarial deed on 29 September 2008. The conversion price per share of the bonds was EUR 0.348 (60% of EUR 0.58).

As a result of subscribing to the convertible bond, each subscriber to a Bond of EUR 50,000 also received 25,000 warrants. The following Warrants were allocated to the directors:

▶ Parana Management BVBA	1,150,000 warrants
▶ Federal Invest NV	275,000 warrants
▶ Big Friend NV	250,000 warrants

Shareholder Advances

The Group received an advance payment in the amount of EUR 600 k from Parana Management BVBA on 21 January 2009. An interest payment at the rate of 8% was paid on these advances.

From the beginning of February to the beginning of September 2008, advances in the amount of EUR 1,750k were provided by a shareholder, namely Parana Management BVBA. These advances have allowed the Group to settle a number of overdue debts and have also made it possible to finance a number of investments. These advances were repaid on 18 September 2008 with cash income derived from the issue of the convertible bonds. An interest payment at the rate of 8% was paid on these advances.

(c) Long-term and short-term liabilities to affiliated parties

Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR
Parana Management BVBA	631	19
Total	631	19

(40) Commitments and contingent liabilities

Provisions for liabilities arising from claims, assessments, legal proceedings, fines and penalties, and other sources are booked if it is likely that the liability exists and the amount of the liability can be estimated reliably. The Group is involved in certain legal proceedings and claims in the context of normal company operations.

Management has assessed all these legal proceedings and has created provisions in the cases for which it felt that the liability existed and the amount of the liability could be estimated reliably. On the basis of that estimate, a provision of EUR 401 k was made on 31 December 2007. Inasmuch as the total amount relates to the trading liabilities, this was recognised as a trading liability. These procedures were finalised as per 31 December 2008 and an amount of EUR 209 k could be released.

Management furthermore judges that settlement of all other cases will not have a material impact on the financial position or operating results of the Group.

(41) Operational lease agreements

Future liabilities with regard to operational leases can be represented as follows:

Amounts in kEUR	1 year	2-5 years	→ 5 years
Rental of office space	64	318	64
Operational renting vehicles	54	104	

Building rental

Effective 8 September 2006, the Group concluded a rental contract for premises located in the Ikaros Business Park in Zaventem at Ikaroslaan 24. The total basic rent is EUR 84.8 k. This rent is indexed annually. The rental contract provides for a rent-free period of 12 months divided as follows:

- ▶ 6 months for the period from 14 September 2006 to 13 March 2007;
- ▶ 6 months for the period from 14 September 2010 to 13 March 2011.

This rental contract has been concluded for a period of 9 consecutive years, which started on 14 September 2007 and terminates ipso jure on 13 September 2015. Every party can, however, terminate this rental contract at the end of the 6th year, on the condition that a prior term of notice of 6 months is respected.

Car leasing

The Group had 12 contracts at the end of December 2009 relating to contracts for operational leasing of vehicles. The duration of these contracts is 48 months. In addition to leasing the vehicles, all of these contracts include maintenance and repairs, insurance, and assistance.

(42) Cessation of business activities

The Group did not cease any business activities during financial years 2008 and 2009.

(43) Pledge on the trading fund

There is a pledge on the trading fund of Keyware Technologies NV in favour of Dexia and the Flanders Region in the amount of EUR 992 k. As a result of the full repayment of Dexia, these premises no longer have an object and an application will be made to cancel this entry.

(44) Foreign-exchange rates and Hedging

The Group did not engage in any hedging activities during financial years 2008 and 2009.

(45) Application of the use of financial instruments

In light of the economic environment in which the company is operating, no financial instruments were used by the company during the period.

(46) Important events after the balance date

Apart from those mentioned below, there are no significant events after the balance sheet date that have an impact on the financial statements presented. With respect to the information below, events which took place after the balance sheet date has been taken into consideration until 31 March 2010.

- ▶ At the Extraordinary General Meeting of NV Keyware Technologies on 17.03.2010, it was resolved to:
 - allocate and subscribe to three hundred ninety thousand (390,000) 2010 Warrants by Parana Management BVBA, Big Friend NV, Pardel SA, Federal Invest NV, Luc Pintens, JH Consulting BVBA, Iquess BVBA, Checkpoint X BVBA, Arn Clemhout and MV Services BVBA ("the Certain Persons"), in the proportions as set out in the special report of the Board of Directors;
 - to offer - by the Board of Directors of the Company - to personnel of the Company and its subsidiaries, within a period of three months of the date of the Extraordinary General Meeting, the remainder of the 2010 Warrants and allocation and definitive issue thereof (by notarial deed) to the personnel who have accepted said offer.

- ▶ In 2010, the Group will be able to make another call on the Parfip credit line in the form of ceding contracts. At the end of March 2010, more than EUR 1.2 million in contracts were ceded to Parfip Benelux NV.

- ▶ In March 2010, the Board of Directors approved the mutual agreement that was concluded with respect to a legal dispute with a major business partner. In the agreement, both parties drop their demands with respect to the other party, and the suppliers pays Keyware an amount of EUR 1 million in the form of discounts on future orders.

A new distribution agreement was signed between the two parties for a period of 3 years; the new agreement may be simply extended to 5 years. During that period, Keyware will receive a discount of 50% on all software and 25% on all hardware with the supplier, until a total amount of discounts of EUR 1 million has been reached. That amount is not indexed and is interest-free. The agreement further stipulates that if the supplier terminates the contract prematurely, the remaining balance will be paid under certain conditions in cash to Keyware. Under the agreement, both companies cancel all mutual legal actions against the other. In accordance with IFRS rules, this amicable settlement was not recognised in the figures as per 31.13.2009, but was considered as a contingent asset.

(47) Pending disputes

Royal Bank of Scotland

In June 2009, Royal Bank of Scotland (Worldpay) announced that it would cease its acquisition activities at the end of 2009. As a result, the Group had to search for an alternate solution for its existing clients and find an alternate solution for pending EMV projects with RBS.

In July 2009, the Group notified the Royal Bank of Scotland that it was in default and demanded compensation for damages for unilateral termination of the cooperative agreement. On the basis of that notification, the two parties commenced negotiations in order to develop an amicable settlement. As of the end of March 2010, those negotiations have not yet been completed.

Kinopolis Group NV

Kinopolis Group NV initiated, by summons issued on 19 September 2001, a court case before the Commercial Court in Brussels against Keyware Smart Card Div. NV, for alleged illegitimate termination by the latter of an agreement for the development of advanced ticketing software used in different Kinopolis cinema complexes in Belgium and abroad with damages sought of EUR 551 k. In the context of this procedure, Keyware Smart Card Div. NV filed a counterclaim with a request for fixed damages in the amount of EUR 500 k from Kinopolis Group NV. In a judgement by the Commercial Court of Brussels dated 4 April 2003, the principal claim and the counterclaim were both rejected as unfounded.

By order dated 2 April 2010, the Court rightfully said that the agreement of 13.4.2001 was legally dissolved in Kinopolis' favour the demand for payment from Keyware in the amount of EUR 551 k was denied as unfounded.

The incidental appeal by Keyware was also denied.

In 2002, Keyware Smart Card Div. NV initiated an "descriptive attachment with respect to counterfeiting" action against Kinopolis Group NV, which resulted in an expert opinion.

Keyware Smart Card Div. NV, by summons dated 18 June 2002, initiated a court case for the Court of First Instance in Brussels against Kinopolis Group NV in order to claim compensation for damages in the amount of EUR 930 k + interest from 1 January 2002 due to infringement of copyright (with reference to the expert opinion). This procedure is pending before the court.

CBFA (Banking, Finance and Insurance Commission of Belgium) Sanction Commission

Pursuant to the occurrences in October and November 2003, in which Keyware Technologies was declared bankrupt by the Commercial Court in Brussels and the Court of Appeal subsequently ruled that the conditions for a bankruptcy were not present, and therefore the bankruptcy was revoked; an examination was instituted by the auditor of the CBFA. At the end of 2008, the Sanction Commission of the CBFA decided not to pronounce any administrative sanction regarding Keyware Technologies NV and Mr Stéphane Vandervelde.

Having regard to:

- ▶ Sections 23, § 1, 4°, 34, 1°, and 70 to 72 of the Act of 2 August 2002, regarding the supervision of the Financial sector and the Financial services;
- ▶ Articles 2, 6, §1° and 8, §§ 2 and 4, of the Royal Decree of 31 March 2003 concerning the Issuers of financial instruments admitted to trading on a regulated market;
- ▶ The decisions of the management of the CBFA of 13 and 20 October 2003, in conformance with Section 70, § 1 of the Act, to instruct the Secretary-General, acting in his capacity as auditor, to examine, for good or bad, with the objective of checking the following during the period before its bankruptcy declaration in first instance on 2 October 2003:
 - 1° whether the company of Keyware Technologies NV did or did not contravene Article 6, § 1, 1° of the Royal Decree of 31 March 2003;
 - 2° whether or not Keyware contravened Article 34, 1° of the law by furnishing false information to the CBFA at the time;
 - 3° whether or not Keyware and/or Stéphane Vandervelde contravened Article 25, § 1, 4° of the law by distributing misleading information;
 - 4° whether or not Keyware contravened Articles 2 and 8, §§ 2 and 4 of the Royal Decree of 31 March 2003 pursuant to its semester communiqué of 11 August 2003.

After having taken cognizance of the auditor's report, which, in appendix to his letter of 7 March 2008, in accordance with Article 71, §2, first sub-paragraph of the law, was submitted to the sanction commission;

After having taken cognizance of the letter of 1 September and 8 October 2008 with the defence of Mt Vandervelde and Keyware Technologies NV and after Mr Vandervelde and Keyware Technologies NV, supported by their counsellors, at their request of 1 October 2008 having heard in accordance with Section 71, § 2, sub-paragraph 2 of the Act; the Sanction Commission of the CBFA decided not to impose any administrative sanction with respect to Keyware Technologies NV and Mr Stéphane Vandervelde.

General

In addition to the above, there are currently a number of claims and legal proceedings pending against the Company and its subsidiaries, which in the opinion of the Company are of secondary importance and fall within the scope of normal company operations. According to the Board of Directors, it is unlikely that these individual claims or legal proceedings could have a material negative impact on the financial situation of the Company and its subsidiaries.

Suppliers

At the end of December 2009, the Group had 7 pending disputes with suppliers for a total amount of EUR 166 k.

Other payables

The other liabilities as per 31 December 2009 comprise 2 liabilities in the amount of EUR 172 k that are disputed by the Company.

(48) Risk Factors

In conformance with Section 96, 1° of the Companies Code as amended by the Act of 13 January 2006, the Company hereby provides information about the most important risks and uncertainties that could have a negative impact on the development, financial results or market position of the Group.

Products and markets

The Group operates in an environment that evolves extremely quickly with regard to technology. These evolutions relate to the changing needs of customers, the need for frequent development of new products, many of which have short lives, and changing industrial standards. The Group expects turnover growth to be largely depending on the degree to which it is able to respond to these new challenges. Not being able to react to this changed context in time can have negative consequences for the results of the company and its financial situation.

Customer dependence

The Company has more than 10,000 active customers. The most important customer now represents less than 1% of the turnover.

Supplier dependence

In 2009, the Group was able to reduce its risk with respect to supplier dependence. In addition to the existing collaboration with Hypercom NV, 2 new agreements were concluded with 2 new suppliers of payment terminals which substantially reduces the risk of discontinuity with respect to the delivery of terminals.

Concentration of credit risk

The concentration of credit risks is limited due to the large number of users, which are spread over Belgium and to a certain extent over the Netherlands.

The Group does not have any activities in countries with a highly inflationary economy.

Legal proceedings

The company is involved in a number of legal proceedings that can be regarded as contingent liabilities in terms of the IFRS. Please see (47) On-going disputes for more information.

Financial position

It is clear that the Group will have to attract additional financial resources in 2010. In that respect, we refer to (4) Going concern or continuity and (46) Important events after the balance date.

Going concern/continuity

See (4) "Going concern"/ continuity.

Environment

The Group does not have any special remarks with regard to environmental matters.

Personnel

The Group had 44 employees (personnel and consultants) on 31 December 2009.



STATUTORY INFORMATION



CONDENSED STATUTORY ANNUAL ACCOUNTS OF KEYWARE TECHNOLOGIES NV

This chapter contains a condensed version of the statutory stand alone financial statements, as well as the annual report of Keyware Technologies NV. In respect to these financial statements, the auditor has issued an unqualified opinion with an explanatory paragraph on the going concern similar to that included in his opinion on the consolidated financial statements.

The entire version of the financial statements and the annual report will be filed with the National Bank and will also be available on the Company's website (www.keyware.com).

A. CONDENSED BALANCE SHEET AFTER DISTRIBUTION OF PROFITS ON 31 DECEMBER

Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR
Assets		
Non-current assets	7.986	6.194
Intangible fixed assets	307	409
Tangible fixed assets	68	117
Financial fixed assets	7.611	5.668
Current assets	1.795	3.703
Trade receivables over more than one year	1.708	3.505
Other receivables	-	100
Trade receivables	2	2
Other receivables	26	74
Cash and cash equivalents	10	11
Deferred expenses and accrued income	49	11
Total assets	9.781	9.897
Equity and liabilities		
Equity	5.940	8.019
Issued capital	24.086	23.641
Share premiums	1.693	1.693
Result carried forward	(17.315)	(16.372)
Result of the financial year	(2.524)	(943)
Total liabilities over more than one year	649	51
Leasing debts over more than one year	18	51
Other debts over more than one year	631	-
Liabilities over less than one year	3.192	1.827
Debts over less than one year that expire during the year	19	22
Financial debts over less than one year	-	19
Trade payables	1.092	856
Social and tax liabilities	27	20
Other liabilities	2.031	883
Deferred income and accrued expenses	23	27
Total equity and liabilities	9.781	9.897

B. PROFIT AND LOSS STATEMENT OF THE FINANCIAL YEAR

Amounts in kEUR	31.12.2009	31.12.2008
	kEUR	kEUR
Operating income	1.787	1.675
Turnover	1.443	1.277
Other operating income	344	398
Operating expenses	(2.624)	(2.414)
Goods for resale, raw and auxiliary materials	-	-
Services and other goods	(1.975)	(1.867)
Salaries, social security contributions and pensions	(161)	(128)
Amortisation and depreciation on formation expenses and on intangible and tangible fixed assets	(147)	(149)
Amortisation on inventories, work in progress and trade receivables	-	-
Provisions for risks and expenses	-	-
Other operating expenses	(341)	(270)
Operating profit/(loss)	(837)	(739)
Financial income	1	18
Income from financial fixed assets	1	18
Other financial income	-	-
Financial expenses	(23)	(221)
Costs of debt	(118)	(114)
Amortisation of current assets other than inventories, work in progress and trade receivables	100	(100)
Other financial expenses	(5)	(7)
Profit/(loss) from ordinary operations before taxes	(859)	(942)
Extraordinary income	-	-
Other extraordinary income	-	-
Extraordinary expenses	(1.665)	(1)
Amortization and depreciation on financial fixed assets	(1.665)	-
Loss on disposal fixed assets	-	(1)
Other extraordinary expenses	-	-
Profit/(loss) for the period before taxes	(2.524)	(943)
Tax on the result for the financial year	-	-
Profit/(loss) for the period	(2.524)	(943)

C. DISTRIBUTION OF THE RESULT

Amounts in kEUR	31.12.2009	31.12.2008
Profit/(loss) balance to be incorporated	(19.839)	(17.315)
Profit/(loss) for the financial year to be incorporated	(2.524)	(943)
Profit/(loss) for the previous financial year to be carried forward	(17.315)	(16.372)
Withdrawal from shareholders' equity	-	-
Addition to shareholders' equity	-	-
Profit/(loss) to be carried forward	(19.839)	(17.315)
Profit available for distribution	-	-

ANNUAL REPORT OF THE COMPANY

In accordance with Section 96 of the Companies Code, we have the honour of reporting to you on the activities of the company in the period from 1 January 2009 to 31 December 2009.

I. COMMENTS ON THE ANNUAL ACCOUNT

The Company operates as a holding company as well as a financing vehicle for the subsidiaries, for which it also provides management services and administrative assistance. All of the expenses connected with being listed on Euronext Brussels are part of the profit and loss statement of the Company.

Annual figures and important events

The book year closed with a loss after taxes of EUR 2,524; the shareholders' equity therefore amounts to EUR 5,940 k after incorporation of the result.

Notes regarding the main balance sheet items

Tangible fixed assets

The net book value comprises cars owned and leases for cars that are fully leased to subsidiaries. Other tangible fixed assets primarily relate to furnishings and fixtures of the rented premises.

Financial fixed assets - affiliates

The financial assets comprise shareholdings with a net value of EUR 7,510 k.

Long-term trade receivables

The receivables due in over one year comprise receivables from Group companies due to invoicing for operating expenses.

Other receivables due within one year

The other liabilities relate largely to recoverable VAT in the amount of EUR 26 k.

Equity

The net equity was negatively influenced by the loss of the financial year in the amount of (EUR 2,524 k).

Liabilities due after more than one year

This item includes financing in the amount of EUR 18 k, which is entirely related to lease obligations. This item also includes the advances received from certain shareholders/investors in the amount of EUR 631 k.

Debts due within a period of over a year which expire within the year

This item concerns the short term lease debts to the value of EUR 19k.

Trade payables

The trade payables amount to EUR 1,091 k and include overdue debts in the amount of EUR 766 k. Some of these overdue debts had not been claimed as per 31 December 2009, and there are repayment schemes for the balance.

Social and fiscal liabilities

As per 31 December 2009, there are five employees of Keyware Technologies. The outstanding liabilities involve the liabilities for social security (EUR 5k), withholding taxes (EUR 3k), and a provision for holiday pay (EUR 19k).

Other payables

The outstanding amount as per 31 December 2009 relates to 2 debts that are disputed by the Company. This item also includes the advances in the current account received from the subsidiaries (EUR 1,859 k).

Notes regarding the main items of the profit and loss statement**Turnover**

The turnover of the company consists of management fees and expenses billed to the subsidiaries.

Services and other goods

The expense structure primarily consists of fees (EUR 1,106 k), sales and marketing expenses (EUR 75 k), accommodation expenses (EUR 134 k), and expenses associated with the stock exchange listing (EUR 60 k).

This item also includes car expenses totalling EUR 297 k, which are mainly billed to the subsidiaries.

Salaries, social security contributions and pensions

As stated above, five people work for the company as per 31 December 2009.

Proposed incorporation of the result

The following proposal for incorporation of the loss for the 2009 period will be presented to the Shareholders' Meeting:

Loss of the period to be incorporated	(2.524.187)
Loss of the previous period carried forward	(17.314.647)
Loss balance to be distributed	(19.838.834)
Withdrawal from the capital	0
Addition to the unavailable reserve	0
Compensation of the capital	0
Result to be carried forward to the next period	(19.838.834)

II. JUSTIFICATION OF THE APPLICATION OF VALUATION RULES UNDER THE ASSUMPTION OF A GOING CONCERN

The company has incurred a loss during two successive periods, so in accordance with Section 96 of the Companies Code, a justification must be given for application of the valuation rules under the going concern assumption. Per 31 December 2009, the loss to be carried forward is EUR 19,839 k. On the basis of what is stated below, the Board of Directors concludes that application of the valuation rules under the assumption of a going concerned can be maintained.

III. GOING CONCERN STATUS OF THE COMPANY AND FINANCING

The financial statements have been prepared on the basis of a going concern, which assumes that that the assets are realised and the liabilities are paid as in normal company operations. As per 31 December 2009, the Group has incurred accumulated losses totalling EUR 19,839 k, which have primarily been financed by capital.

For the further growth and the realisation of the 2010-2014 strategic plan, the Group will need additional financing primarily for further financing and expansion of activities related to payment terminals and also for carrying out the necessary investment for the authorization of payment transactions.

Via its Keyware Smart Card NV subsidiary, the Group was able in 2009 to call on its credit line with Parfip Benelux NV which makes it possible for the company to cede the contracts related to the rental of payment terminals to Parfip Benelux NV.

In 2010, the Group will be able to make another call on the Parfip credit line in the form of ceding contracts. At the end of March 2010, more than EUR 1.2 million in contracts were ceded to Parfip Benelux NV.

The Board of Directors is also considering the issue of a convertible bond for an amount of between EUR 4 billion and EUR 5 billion, with provisional assumption of the following conditions:

- ▶ Conversion price: 80% of the lowest closing price over a 6-day period prior to the signing of the conversion notice
- ▶ Conversion conditions: exercisable daily over 4 years and compulsory conversion if the share price reaches EUR 3 for a period of 20 consecutive trading days
- ▶ Interest: 7%
- ▶ Warrants would be attached to the convertible bond in accordance with the scheme shown below
 - subscription of EUR 250 k - EUR 350 k 50% warrants
 - subscription between EUR 400 k - EUR 500 k 60% warrants
 - subscription between EUR 550 k - EUR 650 k 70% warrants
 - subscription between EUR 700 k - EUR 800 k 80% warrants
 - subscription between EUR 850 k - EUR 950 k 90% warrants
 - subscription → EUR 950 k 100% warrants
- ▶ Warrants exercise price: EUR 1.25
- ▶ Warrants expiry date: 48 months

And finally, at the end of March 2010, the Group was in negotiations with various financial institutions with respect to a possible financing of the Group. On the basis of the above, the Board of Directors is convinced that the Group is able to continue its activities on a going concern basis over a reasonable length of time, and it confirms the application of the valuation rules for a going concern.

The financial statements do not therefore contain any adjustments to the collectability and classification of the amounts booked as assets or the amounts and classification of the liabilities, which would be required if the Company were no longer able to continue its activities as a going concern. The continuation of the Group as a “going concern” depends on its ability to generate sufficient cash flow to fulfil its obligations on time or to maintain adequate financing and finally on achieving successful operations.

On the basis of these measures, the Board of Directors proposes to the General Shareholders' Meeting to maintain the going concern status of the Company.

IV. INFORMATION REGARDING SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR

Apart from what is stated above with regard to going concern status, there are no significant events that impact the presentation of these annual accounts that occurred after the balance sheet date that need be reported by the Company.

V. INFORMATION REGARDING ACTIVITIES IN THE AREA OF RESEARCH AND DEVELOPMENT

Not applicable

VI. CAPITAL INCREASE AND CAPITAL DECREASE

During the second quarter of 2009, a number of warrant holders confirmed their confidence in the Group and exercised their outstanding warrants:

- ▶ following the exercise of 480,000 "B Warrants", the capital was increased by EUR 167 k by notarial deed on 20 May 2009 and 480,000 new shares were issued;
- ▶ following the exercise of 222,500 "W Warrants", the capital was increased by EUR 278 k by notarial deed on 16 June 2009 and 222,500 new shares were issued.

As per 31 December 2009, the - statutory - share capital of the Group was EUR 24,085 k, represented by 15,088,879 normal shares without nominal value.

VII. INFORMATION REGARDING BRANCH OFFICES

Not applicable

VIII. OWN SHARES

At present the Company does not own any of its own shares.

IX. DECISIONS TAKEN WITH REGARD TO APPLICATION OF LEGAL PROCEDURES TO PREVENT CONFLICTS OF INTEREST

Article 523 of the Companies Code provides for an extraordinary procedure if a director directly or indirectly has an interest of a proprietary nature that conflicts with a decision or a transaction that falls within the competence of the Board of Directors. During the course of the period 2009, this procedure was not invoked.

X. RISK FACTORS

In conformance with Section 96, 1° of the Companies Code as amended by the Act of 13 January 2006, the Company hereby provides information about the most important risks and uncertainties that could have a negative impact on the development, financial results or market position of the Company. As the Company does not have any activities, but is a holding company, the risk factors of the subsidiaries also affect the Company. The risk factors below therefore relate to the entire Keyware Group.

Products and markets

The Group operates in an environment that evolves extremely quickly with regard to technology. These evolutions relate to the changing needs of customers, the need for frequent development of new products, many of which have a short life, and changing industrial standards. The Group expects turnover growth to be largely depending on the degree to which it is able to respond to these new challenges. Not being able to react to this changed context in time can have negative consequences for the results of the company and its financial situation.

Customer dependence

The Group has more than 10,000 active customers. The most important customer now represents less than 1% of the turnover.

Supplier dependence

In 2009, the Group was able to reduce its risk with respect to supplier dependence. In addition to the existing collaboration with Hypercom NV, 2 new agreements were concluded with 2 new suppliers of payment terminals which substantially reduces the risk of discontinuity with respect to the delivery of terminals.

Concentration of credit risk

The concentration of credit risks is limited due to the large number of users, which are spread over Belgium and to a certain extent over the Netherlands.

The Group does not have any activities in countries with a highly inflationary economy.

Legal proceedings

The Company is involved in a number of legal proceedings that can be regarded as deferred liabilities. For more information, see the Consolidate Annual Report, (47) "Pending disputes", which can be found on the Company's website (www.keyware.com).

Financial position

It is clear that the Group will have to attract additional financial resources in 2010. In this context, we refer to the statement in the consolidated annual report (4) Going concern or continuity and (46) Important events after the balance date, which can be found on the website of the Company (www.keyware.com).

Going concern/continuity

In regard to this item, we refer to point III. The continuity of the company and also to what is stated in the consolidated annual report (4) Going concern or continuity, which can be found on the website of the Company (www.keyware.com).

Environment

The Group does not have any special remarks with regard to environmental matters.

Personnel

The Company had 5 employees on 31 December 2009.

XI. DIRECTORS

As per 31 March 2010, the Board of Directors has 6 members, 2 of whom are independent directors. The members of the Board of Directors are:

Director	Position	Main function	End-date of mandate after GA of financial year ending on
Guido Van der Schueren	Non-executive	Chairman	31 December 2011
Pierre Delhaize	Non-executive	Director	31 December 2009
Guido Wallebroek	Non-executive	Director	31 December 2010
Luc Pintens	Independent	Director	31 December 2009
Bruno Kusters	Independent	Director	31 December 2011
Big Friend NV represented by Stéphane Vandervelde	Executive - CEO	Director	31 December 2009

In accordance with the directive concerning independence and financial expertise of one of the independent directors, the proposal set out below will be submitted to the general shareholders' meeting on 28 May 2010.

XII. JUSTIFICATION OF THE INDEPENDENCE AND EXPERTISE IN THE AREAS OF BOOKKEEPING AND AUDIT OF ONE INDEPENDENT MEMBER OF THE AUDIT COMMITTEE

The Board of Directors recommends the appointment of Sofia BVBA, represented by Mr Chris Buyse, as independent director of the Company. The director to be appointed meets the criteria for independent directors included in Sections 524, § 4 and 526ter of the Companies Code. The Board of Directors therefore believes that the director to be appointed has the required professional qualities for that function on the basis of his extensive professional experience.

Mr Chris Buyse, the permanent representative of Sofia BVBA, has more than 20 years experience in various financial and general management positions.

He graduated with the Licentiate Degree in Applied Economics (University of Antwerp) and in Management (Vlerick School). His experience has been gained inter alia at Unilever, Sita, before he helped to implement the turnaround of Keyware between 2001 and 2003.

Since mid-2006 Mr Chris Buyse has been a director and CFO with the listed bio-technology company ThromboGenics.

Mr Chris Buyse also holds several directorships in other promising bio-tech companies such as Cardio 3 Biosciences, Promethera, and Amakem.

Sofia BVBA, represented by Mr Chris Buyse, will be part of the audit committee.

XIII. REQUESTS TO THE SHAREHOLDERS' MEETING

The Board of Directors requests that the General Shareholders' Meeting:

- ▶ to approve the annual accounts over financial year 2009 in toto;
- ▶ to discharge the directors with respect to the exercise of their mandates during the past financial year;
- ▶ to discharge the Auditor for with respect to the exercise of its mandate during the past financial year.

Prepared at Zaventem on 27 April 2010

The Board of Directors,

