

# Keyware



**KEYWARE TECHNOLOGIES NV**  
**ANNUAL REPORT 2007**

## SHAREHOLDERS' MEETING

The Shareholders' Meeting of Keyware Technologies NV will be held on Friday 23 May 2008 at 15.00 at the company address, Ikaroslaan 24, 1930, Zaventem, Belgium.

## AVAILABILITY 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 case 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](http://www.keyware.com)).

## A PRIORI CONTROL

On 4 November 2003, the CBFA announced that the Management Committee, in accordance with Article 16, par. 3 of the Royal Decree of 31 March 2003, had decided that in future Keyware Technologies NV would have to announce the information meant in the Royal Decree of 31 March 2003 before it is published in order to let the CBFA carry out an "a priori control".

At its meeting of 21 February 2006, the Management Committee of the Commissie voor het Bank-, Financier- en Assurantiewezen (CBFA) decided to abolish the "a priori control" for Keyware Technologies NV.

## SUBSIDIARIES

### **Keyware Technologies NV**

Ikaros Business Park, Ikaroslaan 24, B-1930 Zaventem, Belgium  
tel: +32 (0)2 346.25.23 fax: +32 (0)2 347.16.88 - [info@keyware.com](mailto:info@keyware.com) - [www.keyware.com](http://www.keyware.com)  
Company number 0458430512

### **Keyware Transaction & Processing NV**

Ikaros Business Park, Ikaroslaan 24, B-1930 Zaventem, Belgium  
tel: +32 (0)2 346.25.23 fax: +32 (0)2 347.16.88 - [info@keyware.com](mailto:info@keyware.com) - [www.keyware.com](http://www.keyware.com)  
Company number 0452.468.574

### **Keyware Smart Card Division NV**

Ikaros Business Park, Ikaroslaan 24, B-1930 Zaventem, Belgium  
tel: +32 (0)2 346.25.23 fax: +32 (0)2 347.16.88 - [info@keyware.com](mailto:info@keyware.com) - [www.keyware.com](http://www.keyware.com)  
Company number 0449.832.253

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## COMMERCIAL SECTION OF THE ANNUAL REPORT

## Introduction



## Letter to our shareholders

Dear Shareholder,

2007 was a year in which Keyware primarily focuses on strengthening its positioning:

- The expansion of a direct sales channel
- The finalization of a partnership with The Royal Bank of Scotland and offering payment transaction subscriptions to traders
- The offer of a 7/7-service
- The development of solutions for a wider terminal offering

At the same time the streamlining and the reconciliation of the company processes was realized by the means of the Business Process Performance Plan..

The remarkable efforts meet a long term vision. From 2008, Keyware shall be able to sample the fruits of this labour and continue its unique position: that of a leading company in the rental of payment terminals, payment transactions and related software.

### **Expanding the direct sales channel**

During the first months of 2007, the collaboration with external sales channels was reduced and finally suspended. In parallel, a direct sales team was set up. In the second half of 2007, there was active work done on the improvement of the geographical and sector representation.

In addition, the marketing department was expanded with an internal call-centre to support the sales team.

With the set up of the Direct Sales Team, Keyware wants to improve the quality of its service provision and ultimately achieve higher turnover and improved results.

### **Direct provision of payment transaction subscriptions**

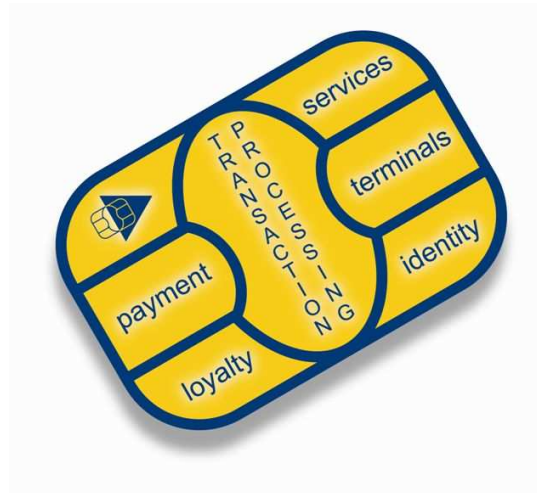
In April 2007, Keyware announced the takeover agreement of B.R.V. Transactions NV, a company who has a licence with RBS (Royal Bank of Scotland) for direct offering of credit card authorisations for Visa and MasterCard in the Belgian market.

Prior to this, Keyware processed payment transactions only for professional groups such as Aurora and the PASS card for Cetelem, the Diners Club card, etc.

Via the collocation with RBS, Keyware will be able to offer an end-to-end offering to traders: from payment terminals, to processing credit card authorisation for Visa, V Pay, Maestro and MasterCard. Keyware's versatility will ultimately fully meet its role in actively opening up the market for debit transactions, which is currently monopolised by Bancontact/Mister Cash in the Belgian market.

Keyware provides authorisation services for Visa and MasterCard to all holders of payment terminals in the Belgian market. Additionally, if the client has a terminal from Banksys, Cardfon, Thales or BTG, they can, without changing their handset, use Keyware's economical authorisations.

So as elsewhere in Belgium, the authorisation market is a substantial growth market. Compared to 2006, the number of transactions via credit cards in 2007 has risen by more than 10% to almost 113 million. The number of debit card transactions grew by more than 8% to around 776 million.



### **7/7-service**

As well as the implementation of sophisticated pricing politics, Keyware strives to offer her client top-end service. In place of a limited number of pre-determined formulas, Keyware offers its clients the opportunity for flexible service with us.

Focused investment in systems and people during the first semester of 2007 made it possible that Keyware can resolve 92% of all terminal related problems by phone, with an average waiting time of less than 20 seconds.

During the third quarter of 2007, Keyware improved the values of the service offering with 7/7-support.

### **Expansion of terminal provision**

During 2007, various developments and tests were carried out in the IP and GPRS area. Keyware expects, by the third quarter of 2008, to have processed the outstanding orders and to be positioned within each of its target markets.

## **Business Process Performance Plan**

During the first trimester of 2007, the Board of Directors took the decision to charge an interdepartmental team in collaboration with external specialists, to optimise operational company processes, such as sales, purchasing, helpdesk, invoicing, debtor follow-up and field intervention.

Besides the streamlining and the reconciliation of the company processes, a companywide IT platform was implemented. By the end of 2007, the primarily company processes were grafted on to this, from marketing and sales to installation and support.

The management expects this to result in further improvements in quality of products and services, improved production and productivity and further rationalised overheads.

## **Marketing**

Since September 2007 a number of focused campaigns have been launched at marketing level, which demonstrated not only Keyware's price advantage but its excellent 7/7 service offering for all types of payment terminals.

A direct comparison between the various options for electronic payment shows Keyware to be far and away the best most versatile alternative within the target market.

Keyware wants to become the market leader by using a clear focus on vertical segments such as trade, distribution and catering.

## **Pressure on financial results**

All of the changes implemented, which in the mid-term will ensure a substantial, positive effect at every company level, have nevertheless ensured that the results for 2007 have remained below expectation.

In particular, the transferral from an indirect sales model to a Direct Sales Team has taken longer than expected. And the tight company financing has meant that the valuable investment in sales, marketing, development and system could not be completely implemented.

Despite these results, the management believes it has taken the proper steps to turn Keyware into a success story.

## **What will 2008 bring?**

The strategic plan for 2008-2012 focuses, for 2008, firstly on a substantial growth in the market for payment terminals and also on the offering of credit card authorisation services.

With regards to the rental of payment terminals, the existing product offer will be expanded with GPRS and IP units. It is expected that these units will deliver a turnover contribution towards the end of the third quarter of 2008.

Through recent investment in a new transaction platform and a suitable product and service offer in credit card sensitive market segments, Keyware expects to rise the number of credit card transactions processed significantly. An important turnover contribution is expected by the end of the third quarter of 2008.

The realisation of the strategic plan for 2008-2012 will depend on the acquisition of the necessary financing. The Board analyses the possibility of issuing of a convertible bond for an amount of between 4 to 5 Mio EUR. Despite the crisis on the financial market, the Board of Directors has faith that the issue of this convertible bond can be finalised successfully.

Sincerely,

Stéphane Vandervelde,  
President & CEO



## Milestones 2007

### JANUARY

Suspension of the indirect sales channel and start up of a Direct Sales Team

### APRIL

Takeover of B.R.V. Transactions NV

Keyware becomes partner of Royal Bank of Scotland for VISA and MasterCard credit card authorisations

Publication of the "2007 Warrants plan" and adaption of exercise price warrants related to the convertible bond

Core Points of 2007-2009 Master Plan

### JUNE

Keyware exceeds 60 million euro cap in Visa and MasterCard payment authorisations via Royal Bank of Scotland

### AUGUST

Sell shares in Digital Access Control NV

### SEPTEMBER

Reference shareholders of Keyware exercise 'A Warrants' to 33% above the share price

Keyware becomes the most important payment partner at Antwerp Book Fair

### NOVEMBER

Keyware announces reverse split of 50/1

**Company Information**

### Customer Operations

- Helpdesk
- Support
- Interventions
- Installations
- Stock management

### Development

- Software for :
  - o electronic payments
  - o loyalty
  - o electronic identity
  - o terminals
- Porting
- Transaction -systems

### Transaction Processing

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

### Commercial Services

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

### Consulting Services

- Payment applications and services
- Loyalty
- e-Identity
- card or terminal related projects

- **Keyware was founded in 1996**
- **Listed since June 2000 on Euronext Brussels (KEYW)**
- **Focus on value-added payment processing services:**
  - o **Rental of multifunctional payment terminals**
  - o **Software and solutions for electronic payments, loyalty cards, and e-ID applications**
  - o **Transaction management for electronic payment and card applications**



## Opportunities

Keyware is primarily active in the electronic payments market, both as supplier of payment terminals as processor of payment transactions. The following aspects are characteristic of this market:

- **A strong GROWTH MARKET**

Firstly there is an increase in the volume of electronic payments and the use of electronic bank and credit cards because consumers are spending more money and saving less. The number of credit transactions is also increasing as a result.

e-PAYMENT PURCHASE TRANSACTIONS	N° transactions				evolution 2004-2007	evolution 2006-2007
	2004	2005	2006	2007		
DEBET	611.628.383	664.598.251	716.416.309	776.118.000	26,9%	8,3%
CREDIT	78.882.527	84.689.864	102.590.000	112.910.000	43,1%	10,1%
<b>TOTAL</b>	<b>690.510.910</b>	<b>749.288.115</b>	<b>819.006.309</b>	<b>889.028.000</b>	<b>28,7%</b>	<b>8,5%</b>

Secondly cash transactions are being replaced by card transactions. On the one hand due to the broad range of electronic means of payment on offer, on the other hand for security reasons, government regulations or ease of payment.

Thirdly there are sectors where in the past payment terminals were not used which have now become asking party due to on the one hand the affordability of such solutions, on the other hand evolutions in technology (portable systems, contactless solutions, integrated systems) and finally opportunities for links with other applications such as loyalty cards, etc.

- **Changing LEGISLATION, PROCEDURES and DIRECTIVES**

### EMV

EMV (Europay, MasterCard, Visa) is a new standard, with as its main visible characteristic vis-à-vis the consumer the use of the chip and PIN code on their credit card instead of the magnetic stripe and a signature. For companies such as Keyware, however, it means a lot more: increasing demand for new terminals because less recent terminals or terminals that cannot be adjusted are being removed from the market, exiting terminal software is being adapted, etc. On the one hand investments and development, on the other hand clear selling opportunities!

### SEPA

SEPA (Single European Payments Area) comes down to the formation of a uniform euro payment area with pan-European payment products (credit transfers, direct debits and the framework for smart cards) and agreements about payment infrastructure and procedures. SEPA must ensure that there is fair competition between all the providers of payment services, consumer protection and higher efficiency (in time, cost, etc.).

For the Belgian market SEPA amongst other things means the disappearance on short term of the local Bancontact/Mister Cash payment system and the promotion of alternative schedules such as Maestro or V Pay. Since 2007 Keyware has been a competitive alternative in the processing of payment transactions and authorisations on the Belgian market, and this is in collaboration with its partner RBS (Royal Bank of Scotland).

Act locally in a globalizing financial  
services market



## Our Mission

**To be a leading provider of  
Value Added Payment Processing Services  
for banks, merchants, professionals and businesses**

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

These “Value-Added Payment Processing Services” or VAP<sup>2</sup>S comprise the following:

- Rental and sale of multifunctional payment terminals.
- Development, licensing, adjustment, installation and maintenance of software for electronic payments, loyalty applications and e-ID applications such as electronic identity cards, health passes, etc.
- Processing payment transactions and authorisations.
- Maintenance of clients’ payment infrastructure.





## Multifunctional payment terminals

Keyware rents and sells multifunctional payment terminals. These terminals offer both payment functionalities and other possible applications.

With regard to payment applications, we distinguish between functions for debit (BC/MC, Maestro, etc.), credit (Visa, MasterCard, JCB, Aurora, Diners Club, etc.) and electronic wallets (Proton).

Additional programmes that can be installed on the terminals include applications for processing information from loyalty cards (Gezinsbond, Pluskaart, etc.), SIS cards, electronic identity cards or applications made specifically for the client.

Keyware offers a wide range of fixed and portable terminals, adapted to both hardware as well as software for the specific market segment (hospitality, logistics, ambulatory services.)

As far as payment terminals are concerned, Keyware only opts for renowned suppliers and high-quality technologies that have been thoroughly tested in various situations. Accompanying software is developed by Keyware or adapted to the local market.

In addition, Keyware also develops software applications for third parties, who then offer these programs to the market on their terminals. This ranges from payment applications to loyalty programmes or identity software. Keyware's Professional Services department has experience in developing a wide range of terminals and is amongst the top both at Belgian and at European level.

Keyware offers clients the opportunity to conclude customised service contracts for the entire range of terminals. Clients are given professional advice via the central helpdesk and the Field Services teams operate throughout Keyware's entire geographic area of activities. Apart from sound know-how and skills for solving any problems on site, they can also provide replacement terminals or solutions.



## Other payment technologies

In addition to the familiar payment terminals, new payment technologies and methods are regularly launched, with or without bank card: contactless payment, via the Internet, payment via a fingerprint reader, various ways of paying via mobile telephone (NFC, via SMS services, etc.)

Keyware participates in several workshops, such as industrial, university as well as clients to test these new technologies or market models.

In line with Keyware's philosophy they will not be launched on to the market until they are completely safe, efficient and reliable and there is sufficient market potential for them.










**PARTICIPATING RESEARCH TEAMS**

- INTEGRI
- ACCOR
- KEYWARE
- CLEAR2PAY
- COSIC  
*Katholieke Universiteit Leuven*
- ICRI  
*Katholieke Universiteit Leuven*
- CUO  
*Katholieke Universiteit Leuven*
- UGENT  
*WICA*
- VUB  
*SMIT*

**SCOPE**

Project to analyse the possibilities of NFC technology to replace paper meal vouchers. Impact and different aspects will be investigated:

- business model
- usability
- security
- handset applications
- legal aspects
- terminal and host applications

**BENEFITS**

Issuing meal vouchers using NFC technology will simplify and influence consumer behavior.

- user-friendly: convenient mobile payment "tap-and-go"
- flexible: usable wherever NFC terminal is available
- mobility: handsets are portable and always at hand
- speed: contactless payment is many times faster
- consultable balance via Over-The-Air connection between handset and host
- transferrable: vouchers can be exchanged from one user to another
- centrally stored: vouchers can not be lost
- automated clearing and settlement for merchants

**Components of NFC meal voucher payment**

**Cardholder**



NFC Handset 1  
↕  
NFC Handset 2

**Merchant**



Contactless Reader ↔ Electronic Cash Register



NFC Terminal



NFC PDA



NFC Handset 3

**Host**



Download Server  
Issuer Host  
HSM

**CARD HOLDERS**

**NFC handset 1:** used for payment  
**NFC handset 2:** optionally used for exchange of vouchers

**HOST**

**Issuer:** responsible for issuing of NFC vouchers  
**HSM:** hardware security module  
**Download server:** from where the NFC application is pushed

**MERCHANTS**

Components for acceptance of payments with NFC vouchers: e-cash registers, NFC terminals, NFC PDA's or NFC handsets



## Electronic Payment

Keyware offers both public and private payment functionalities. Amongst the public systems we mainly distinguish:

- debit
  - Bancontact/Mister Cash
  - Maestro
- credit
  - Visa
  - American Express
  - JCB
  - Aurora
  - Diners Club
- e-wallet
  - Proton

Private payment solutions are customised for the client. These are often schools, company restaurants or closed communities. Examples of this are student passes with which all the expenses with the school and school restaurant can be paid.

Keyware above all offers an **AFFORDABLE PAYMENT SOLUTION**:

- up to 40% cheaper;
- all-in price, no unexpected costs;
- high-quality service adapted to the client's needs;
- excellent conditions for new Keyware clients.

With over 12,000 satisfied customers, Keyware has a prominent position on the Belgian market. This enthusiastic clientele includes restaurant owners, retailers, chains of stores and service groups spread over the various provinces.



Since Keyware also wants to contribute to a safer and more efficient society, a lot of attention is paid to informing sectors where the payment terminal has not yet taken root: the social sector, certain medical professions, transport etc. In the past, electronic payment was not always economically viable for these groups or there was no suitable technology available. Thanks to Keyware a sound and affordable payment solution lies within reach.



## Loyalty Cards

### Rewarding customer loyalty efficiently

Customer loyalty, retention policy, segmenting, customer life cycle management, etc.

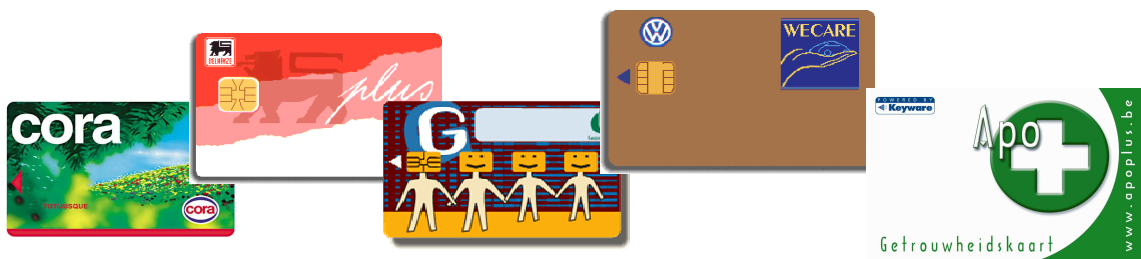
Smart-Shopper is an easily accessible and modular solution for the protected reading and processing of transactions that are part of loyalty programmes.

Thanks to Smart-Shopper, various categories of customers of individual retailers or chains or stores can easily save points and exchange them for cheques, purchase vouchers, discount vouchers, goods, services or combinations of them.

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.

Thanks to its modularity, Smart-Shopper can grow along with the number of participants, customers or exchange 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 make use of mobile phones or the Internet.

In 2005 over 4,000,000 Keyware loyalty cards were in circulation amongst customers such as *De Gezinsbond*, *Ligue des Familles*, *Cora*, *Apo+*, *Delhaize Points Plus*, *Shell*, etc. In 2006 Keyware extended the contracts with *De Gezinsbond* and a contract with *FunCard* was signed.



The FunCard programme, with partners such as *Pizza Hut* and *McDonald's* makes use of a chip card with Keyware's loyalty software. The personalised electronic cards are issued and initialised on Keyware terminals in amongst other things libraries, flower shops, restaurants, clothing stores, cinema complexes, and video shops. The affiliated businesses also have Keyware terminals, with which points are placed on the card for each purchase depending on the various loyalty schemes.



## e-ID

Smart-Identity is Keyware's innovative solution for electronic personal identity.

Smart-Identity is a modular programme suitable for both simple, basic applications with graphic identification and advanced identification solutions with amongst other things electronic keys and biometric technology.

Since each application has different demands with regard to the level of security, peripherals, exchangeability of data, accessibility, etc., Smart-Identity is part of complex projects and the software components are delivered on a project basis.



On the basis of advanced smart card technology and data management software, Smart-Identity can be seamlessly integrated into both public and private environments: personnel IDs, driving licences, school passes, hospital passes, etc.

One of the best known examples is the Belgian SIS card (social identity card). The affiliated citizen receives a personalised chip card with their specific information with regard to healthcare, whilst the providers of these services (doctors, hospitals, dispensing chemists, health insurance) have an individual smart card so that each group has specific access rights with regard to the participant's information.





## Transaction Processing

### Transaction management: from electronic payments to bonus points

Keyware has over 10 years' experience with transaction management in the area of electronic payments, loyalty cards, personal identification and electronic tickets.

On average, Keyware processes more than 1 million transactions per day. For loyalty or ticketing applications, we are commissioned by the client to analyse the information processed for use in CRM applications and direct marketing campaigns.

Keyware has:

- an extensive network of terminals in Belgium and Luxembourg;
- an authorisation centre;
- a tele-collection centre;
- a back office that takes care of completely processing authorised transactions: consolidation, compensation, invoicing the retailers or cardholders, following up statistics, etc.;
- a reporting centre;
- a helpdesk that is operational 24/7.

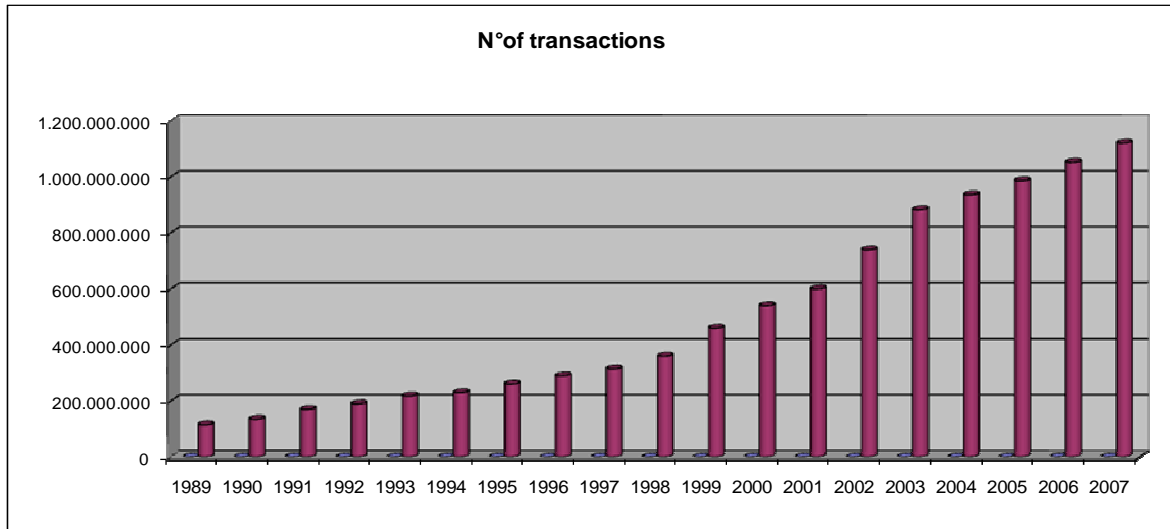
Keyware authorises amongst other things loyalty transactions for *Gezinsbond* and payment transactions for the AURORA card (Cetelem), Diners Club, American Express, VISA and MasterCard credit cards. Here, too, Keyware positions itself as *the* alternative for Banksys. The market for electronic payments is characterised by strong growth (source: Banksys):

e-PAYMENT PURCHASE TRANSACTIONS	N° transactions				evolution 2004-2007	evolution 2006-2007
	2004	2005	2006	2007		
DEBET	611.628.383	664.598.251	716.416.309	776.118.000	26,9%	8,3%
CREDIT	78.882.527	84.689.864	102.590.000	112.910.000	43,1%	10,1%
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In 2007, Keyware began directly processing payment transactions for its existing clientele. Meaning that Keyware enjoys a number of dramatic changes in the payments market:

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

The evolution in the total number of payment transactions (payments, withdrawals) and the value of those transactions on the Belgian market for the period 1989-2007 can be represented as follows (source: based on figures from Atos Worldline) :



The average value per transaction is around 50 €.



## Marketing

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: optimum service for every client is the message.

In 2007, in collaboration with her partner RBS, Keyware began offering direct authorisations. Anyone with a payment terminal is welcome at Keyware. And customers who let Keyware perform their authorisations can even keep their current terminal (Banksys, Verifone, Thales, etc.) and still profit from the excellent conditions.

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 payment makes your business safer and that you can generate substantial additional turnover because you offer your customers additional means of payment.

Keyware launches marketing campaigns on a regular basis, such as mail outs, outdoor campaigns or expos in order to support its commercial activities. In addition to this, Keyware has its own call centre.

**Keyware**

**Betaalterminals:**

- **tot 30 % goedkoper**
- **meer service**
- **4 maand gratis bij reactie voor 30/09/2007\***

\* Bij het afsluiten van een huurovereenkomst met Keyware voor een betaalterminal.

Schakel nu over: ☎ 0800/40 900 [www.keyware.be](http://www.keyware.be)



**Betaalterminals :  
tot 30% goedkoper  
7/7 service**



**Bespaar tot 30%  
bij omschakeling naar een  
Keyware-betaalterminal**

Keyware biedt vaste of draagbare terminals met een aantrekkelijk design voor de verschillende betaalkaarten op de Belgische markt. Keyware zorgt ervoor dat u kosteloos kunt omschakelen van een andere leverancier naar een voordeliger abonnement.

**Service op maat**

Handel drijven is een veelzijdig beroep, waarbij u vaak 7 dagen op 7 met uw zaak bezig bent. Uw klant staat centraal. Bij Keyware staat u centraal. Daarom biedt Keyware u een service op maat, tot 7/7.

**Reageer nu en ontvang uw  
betaalterminal 4 maand  
GRATIS!\***

De terminal(s) worden door gekwalificeerd personeel geïnstalleerd en geactiveerd in uw zaak. U bent er zeker van dat ze voldoen aan de nieuwe Europese normen. Naast een besparing tot 30% op de maandelijkse huur bespaart u ook op de kosten voor aanpassing aan deze normen. Sommige klanten besparen **meer dan 1000 euro** over de looptijd van hun contract.

**Keyware**  
Contacteer ons nu  
en schakel snel over:  
0800/40 000

[www.keyware.be](http://www.keyware.be)

\*Totaal geldig tot 31/12/2007

## FINANCIAL SECTION OF THE ANNUAL REPORT

**Information for shareholders**

## SHAREHOLDER STRUCTURE

### Capital in shares

As of 31 March 2008, the company has issued 3,323,164 shares, all of which are entitled to a dividend. This number can be increased to 3,959,064 if the warrants are exercised.

### Share regrouping

The EGM on 26 September 2007 decided upon a combination of existing shares (reverse split) of the company, in which 50 shares gives the right to 1 new share in the company. Moreover, authority was given to the Board of Directors to implement a share regrouping. Following the decision of the Board of Directors on 6 November 2007, on 3 December 2007 this share combination was implemented. This decision also has an impact on outstanding warrants.

### Warrants issued

The Shareholders' Meeting of 27 May 2005 amongst other things approved 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, in which 300,000 new shares were issued.

As per 31 March 2008 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 term 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 warrants were effectively issued.

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

During July, August and September, 2,000,000 "A Warrants", 6,250,000 "A Warrants" and 2,968,750 "A Warrants" were exercised respectively. This raised capital by EUR 320 K, EUR 1.000 K and eur 475 K respectively and 2,000,000, 6,250,000 and 2,968,750 new shares were issued.

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

At the EGM on 24 April 2007 the decision was taken to issue the "2007 Warrants Plan" by creating 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 EGM, attribution and definite issue of these (via notarial deed). 5,900,000 warrants were attributed to certain people (directors, consultants and managers).

The warrants issued give the right to subscribe at the same amount of shares. The share price of these warrants was 8 EUR (0,16 EUR x 50) and was set based on the average of the closing price of Euronext Brussels during the thirty days prior to the day on which the issuing commenced.

The validity period of these warrants is 5 years.

Of the 1,100,000 Warrants attributed to staff, 900,000 Warrants were not subscribed. At the end of December 2007, the 150,000 on which was subscribed were expired.

In addition, as per 31 December 2007, 200,000 Warrants of the Warrants ascribed to certain people were expired.

As per 31 March 2008, 114,000 (5,700,000/50) "2007 Warrants" were still to be exercised at a share price of 8,00 EUR (being 0,16x50).

### Automatically convertible bond

The Shareholders' Meeting of 27 May 2005 approved the issue of two automatically convertible bonds (ACBs) for a total amount of EUR 700 K. The first automatically convertible bond in the amount of EUR 400 K was automatically converted into shares on the date of the Ordinary Shareholders' Meeting of the company in the year 2006 at an average price of 0.18 EUR. Following this, 2,222,222 new shares were issued.

The second automatically convertible bond in the amount of EUR 300 K was automatically converted into shares on the date of the Ordinary Shareholders' Meeting of the company in the year 2007 at a conversion price of 0.16 EUR per share. Following this, 1,875,000 new shares were issued.

### 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 2008.

Shareholders	Number of Shares	Shares % (not diluted)
Pardel NV	916,001	27.56 %
Jagernaut NV	112,122	3.37 %
Parana Management BVBA	170,187	5.12 %

## 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, since 3 September 2003, on the First Market of EURONEXT Brussels, segment double fixing. 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 December 2007 the number of shares issued was 3,323,164. On the basis of the listing on 31 March 2008 on EURONEXT (1.80 EUR), this corresponds to a market capitalisation of EUR 5,982 K.

### Chart

The chart below shows the evolution of the Keyware Technologies share on Euronext Brussels for a period of 2 years.



### High and low

The highest and lowest share prices during the 2005 to 2007 periods were converted prices in line with the share regrouping of 1 to 50):

	Highest	Lowest
Financial year 2005	14.00 €	6.00 €
Financial year 2006	14.00 €	6.50 €
Financial year 2007	9.50 €	4.11 €

**Corporate Governance**

## CORPORATE GOVERNANCE

### Board of Directors

As of 31 March 2008, the Board of Directors has six members, of whom two are independent directors. The members of the Board of Directors are:

Director	Position	Main function	End date mandate: after AGM of financial year ending on
Guido Van der Schueren	Non-executive	Chairman	31 December 2008
Pierre Delhaize	Non-executive	Director	31 December 2009
Johan Dejager	Non-executive	Director	31 December 2008
Luc Pintens	Independent	Director	31 December 2009
Bruno Kusters	Independent	Director	31 December 2008
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 is CCO of Esko Artwork. 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 Van der Schueren is also a director of Falcom (Zaventem), Powergraph (Sint-Martens-Latem), and Enfoc Software (Ghent).

#### *Pierre Delhaize, Director*

Pierre Delhaize has extensive experience in international business, in particular in the of retail and distribution sectors. He is presently the owner of the Exell retail group, and he plays an active role as a director in a number of companies such as Delcom (Drogenbos), Sogedel France, Sogedel Lux, Maxima Exell (Braine-l'Alleud), and Vandergeeten International Hong Kong. He is also “Maître de Conférences” at the Ecole de Commerce Solvay.

#### *Johan Dejager, Director*

Johan Dejager is a member of the Board of Directors of Carpinvest NV, a holding company with interests in the carpet industry, and Sparnex NV, a company that is active in the telecommunication sector. Johan Dejager obtained a diploma as Commercial Engineer at the Catholic University of Leuven (KUL) and a MBA at INSEAD, France. Johan Dejager represents Jagernaut NV. Mr Johan Dejager is also a director of the companies Augustijn (Deinze) and Sparnex (Antwerp).

*Luc Pintens, Independent Director*

Luc Pintens has over 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 and chief executive officer of Cable and Wireless Europe and Senior Vice President of Nortel Networks Europe. Luc Pintens read Mathematics, Physics, Computer Sciences at university and also has a MBA from the University of London.

*Bruno Kusters, Independent Director*

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

*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. Stéphane Vandervelde is also a shareholder and/or director in a number of companies such as Pinnacle Investments NV, Euremis NV (dismissal after sale to Proximus), DevStage NV (dismissal after sale to Proxy Media), Producell NV, Immo David NV, Intek NV, Melicapital NV and CreaBuild NV.

The Board of Directors met six times in 2007. The company is legally represented by two directors acting jointly. The company does not have a managing director.





Except from the fee awarded to Big Friend NV and 3C Consulting BVBA (see below), no fees were paid to the directors during the 2007 period.

## Day-to-day management

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

The Board of Directors have appointed members of the management committee and defined the authorities and responsibilities of the management committee. Stéphane Vandervelde is the chairman of the management committee.

At the end of December 2007, the management committee consisted in the following members:

	CEO	(Stéphane Vandervelde)
	CFO	(Johan Hellinckx)
	COO	Wim Verfaillie
	Marketing director	Gio Verborg

During the period 2007, a fixed fee of EUR 225 K was invoiced by the management Company Big Friend NV, represented by Stéphane Vandervelde, for commercial and general management services. In addition, during the course of 2007 a variable fee of EUR 62 K was awarded for work carried out in 2007. Finally, EUR 5 K in expenses were invoiced by Big Friend NV.

During the period 2007, a fixed fee of EUR 119 K was invoiced by the management company JH Consulting BVBA, represented by Johan Hellinckx, for financial and general management services. In addition, during the course of 2007 a variable fee of EUR 20 K was awarded for work carried out in 2007. Finally, EUR 2 K in expenses were invoiced by JH Consulting BVBA.

During the 2007 financial year, a fixed fee of EUR 230 K was invoiced by, Mercurey Consulting. Mr Wim Verfaillie, COO of the Group, was put at disposal by this company. In addition to the provision of services of general and operational management, this person also dealt with streamlining the company processes and implementation of an ERP package. In the course of 2007, there were no variable remunerations made. Finally, EUR 10 K was invoiced for expenses incurred by Mercurey Consulting.

During the 2007 financial year, a fixed fee of EUR 84 K by the management company, Checkpoint X BVBA, represented by Mr Gio Verborg, for services concerning marketing. No variable remunerations were made and no expenses were invoiced by Checkpoint X BVBA.

During the 2007 financial year, a fixed fee of EUR 24 K was invoiced by the management company, 3C Consulting BVBA, represented by Mr Bruno Kusters, for the supply of assistance in the streamlining of company processes and the implementation of an ERP package.

## 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 Guldensporenpark 14 (block b), 9820 Merelbeke, is appointed Auditor of Keyware Technologies NV for a period of three years which will end after the Shareholders' Meeting of 2008.

The total remuneration of the Auditor amounts to EUR 49 K per year, of which EUR 32 K for the statutory and consolidated annual accounts of the Company and EUR 17 K for the statutory annual accounts of the Belgian subsidiaries.

During the course of the period 2007, the Auditor and the companies with which it cooperates professionally performed additional assignments for the company and its subsidiaries in the amount of EUR 20 K. This performance includes work with regard to additional reporting with regard to the issue of warrants, advice regarding IFRS, and fiscal work.





## Audit Committee

The Audit Committee is made up of 3 non-executive members, namely:

-  Guido Van der Schueren, Chairman
-  Luc Pintens, Independent Director
-  Advisam NV, represented by Guy Warlop, Independent Director (until 19 November 2007)

## 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
-  Advisam NV, represented by Guy Warlop, Independent Director (until 19 November 2007)

## **INSIDER TRADING DIRECTIVE**

Within the framework of 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 on the directors, the people with a management responsibility and to other employees who have access to insider trading.

## **CONFLICT OF INTERESTS**

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 2007, this procedure has not been applied.

**Keyware Technologies NV**

**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 2007**

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 balance sheet, with explanatory paragraph  
Qualified opinion about the consolidated income statement of the previous accounting year**

We have audited the consolidated financial statements for the year ended December 31, 2007, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which show a balance sheet total of 15,895 kEUR and a loss for the year, portion of the group, 7,671 kEUR.

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 accounting 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. 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.

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 principles 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.

We note that per 31 December 2005, we issued a qualified opinion for the non impairment of a distribution right with a book value amounting to 1.065 kEUR. This impairment has been fully charged to the income statement in 2006, which conform to our opinion should have been recorded in the previous accounting year.

In our opinion, the consolidated balance sheet for the year ended December 31, 2007, give a true and fair view of the financial position of Keyware Technologies NV and its subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union. Except for the negative impact on the income statement 2006 due to the impairment of a distribution right as described above, the results of its operations and cash flow, give a true and fair view of the financial position of Keyware Technologies NV and its subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union.

Without jeopardising the above statement, we draw your attention to the fact that during 2007 and the previous periods the group suffered significant losses. The shareholders have in the past always taken the measures required to provide the necessary financial resources to guarantee the going-concern of the group. The annual report of the Board of Directors shows that in the near future the group could continue to obtain the required eventual additional financial support of its current financial partners, in order to realize the approved business plan and to guarantee the going-concern of the group.

#### **Additional statements**

The preparation of the consolidated Director's 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 Director's 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.

Merelbeke, April 23, 2008

BDO Atrio Bedrijfsrevisoren Burg. CVBA  
Statutory auditor  
represented by Koen De Brabander

## MANAGEMENT DISCUSSION OF THE FINANCIAL SITUATION AND THE RESULTS OF THE OPERATIONS

### (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 2007.

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

### (2) Historic overview and period 2007

#### (a) History

Keyware Technologies NV was founded in June 1996 as a public limited company in accordance with Belgian law. Originally it developed security technologies that are 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 floated for the first time on Euronext on 3 September 2003.

The confidence in the breakthrough of biometric authentication technologies was great when Keyware was founded in 1996. This confidence was not affected when the Group was floated on the technology stock exchange EASDAQ 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.

Despite the fact that this market is growing further, all the information sources indicate that during the next 3 to 5 years no large-scale implementation of biometric technology should be expected.

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 4<sup>th</sup> quarter of 2003.

Since February 2004, Keyware has completely thrown itself into the market of the rent of payment terminals. 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 was 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.

Analysis of the figures for the Security & Time Management division confirmed the reasoning of the Board of Directors with regard to selling these activities. The results of this division during the period of 1 January 2006 to 31 May 2006 was characterised by:

- ✚ a further decrease in turnover relative to the same period in 2005;
- ✚ amortization of goodwill and write-off in the amount of EUR 4,428 K;
- ✚ an accompanying operating loss of EUR 1,017 K.

As a consequence, the negative impact of the Security & Time Management division on the financial results was EUR 5,445 K, of which EUR 4,428 K non-cash.

Besides terminating the recurrent losses, the Board of Directors confirmed the following positive elements as consequence of the sale of the Security & Time Management division to the Risco Group:

- ✚ take-over of liabilities amounting to approximately EUR 2,000 K;
- ✚ provisional sale price of EUR 361 K. The originally received sale price amounted to EUR 861 K. However, this involved a preliminary calculation of the sale price. According to the share purchase agreement, the sale prices should be determined on 30 September 2006 based on the current assets less the short-term liabilities on 31 May 2006. As a consequence of further discussions between the parties regarding several items included in the calculation of the final sale price, this price has still not yet been fixed;
- ✚ a possible earn-out arrangement by which the seller is entitled to a supplementary payment for a period of 24 months based on the turnover of the sold units.

Keyware passed the milestone of 10,000 payment terminals at the end of April 2006. It is clear that the Belgian market for payment terminals is still growing, but Keyware is growing even faster. At the European level as well, it can be seen that the 'cash market' is losing ground to the market for electronic payments. Keyware expects to profit from this in two ways: firstly, there is a growing

demand for payment terminals, and secondly there is also a growing demand for other forms of electronic payment, such as payment via the internet, mobile telephones, and in the near future even via interactive digital television platforms. Not only does Keyware intend to play a leading role in each of these areas, but the company is also ready to become a reference partner in these markets.

## (b) The 2007 financial year

### **A. Terminals**

As a pure player, Keyware is concentrated on the rental of multifunctional payment terminals and the offering of authorisations for electronic payments with traders. The authorisation service for companies including Visa, MasterCard, V Pay and/ or Maestro payment cards can be implemented for payments via fixed or portable payment terminals, GPRS, PSTN, ISDN or ethernet units or also commercial websites: e shops, websites and auction sites (security).

Up 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, the operational cost price will be reduced by the new structure.

During the third and fourth quarter, further investment was made in both the geographical and sector expansion of the team. The results of this will be visible in the first semester of 2008. A further point of interest relates to the retention policy implemented by Keyware, by which almost all clients opt for a contract extension of 48 or 60 months at the end of their contract, of which the first positive results will be visible during the second quarter of 2008.

Just as in 2006, in 2007 Keyware was the most important supplier of payment applications at the Antwerp Book Fair, organised by Antwerp Expo. For the 2007 edition, more than 40 exhibitors hired at least one or more units.

The assumed expansion of the existing range of fixed and portable units to GPRS and IP units was not realised in 2007. Based on the first indication, the assumption was that these units would contribute turnover as from the second semester of 2007. Recent events have lead that this turnover contribution can be expected at the earliest at the end of the second semester of 2008.

### **B. Transactions**

On 26 April 2007, Keyware indicated that a take-over 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 debit card authorisations V Pay and Maestro.

The Belgian market for payment authorisation services is dominated by Bank Card Company and Europabank. Through its partnership with Royal Bank of Scotland Keyware positioned itself as a versatile alternative: a balanced offering of payment terminals, authorisation services and extra applications such as loyalty cards, SIS or e-ID. Keyware's versatility will optimise its position in the opening up of the market for debit transactions, which are currently monopolised by Bancontact/Mister Cash.

Through this acquisition, Keyware can offer authorisation services for Visa and MasterCard to all holders of payment terminals on the Belgian market. Even if the client has a terminal from Banksys, Cardfon, Thales or BTG, without changing unit, he can make use of Keyware's economical authorisations.

The payment authorisation market is a strong growth market. Last year Banksys topped the 1 billion transaction cap, which meant a total amount of more than 60 billion euro. This result means an increase of 6.7% compared with 2006. The number of debit payments rose by 8% to more than 716 million transactions. The number of credit card transactions increased by 12%. With a sharp market position, Keyware wants to seize a part of this market.

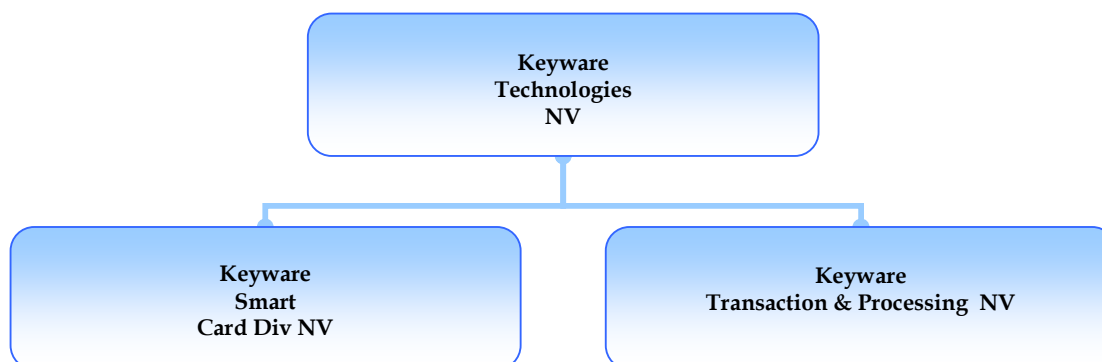
### **C. Loyalty**

As an important supplier of software for card applications, Keyware develops and sells applications in the area of loyalty programmes and identity programmes. Example of this are the Gezinsbondkaart, pharmacist applications with the Belgian social security card - SIS, APO+ card for dispensing pharmacists, et.

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 profit giving product combinations.

#### **(c) Organization**

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**

To further decrease the debt position of the Group, a number of shareholders advanced loans to the Group during the periods 2002 to 2005.

- ✚ In July 2002 in the amount of USD 1,650 K and EUR 250 K
- ✚ In July 2003 in the amount of EUR 850 K
- ✚ In October 2003 in the amount of EUR 1,600 K
- ✚ During 2004 in the amount of EUR 3,020 K
- ✚ During 2005 in the amount of EUR 2,200 K

Despite the fact that the Group considerably improved its debt position during 2002 and the first half of 2003 and that the results, both financially and in the area of research and development (obtaining certification of payment software) evolved positively, the Commercial Court of Brussels, on request of the Belgian Federal Department of Social Security, declared Keyware Technologies NV and its fully owned subsidiary Keyware Smart Card Division NV bankrupt on 2 October 2003.

On 4 November 2003, the Court of Appeal in Brussels held that the conditions for a bankruptcy were not present for either of the companies, and the Court therefore revoked both bankruptcies. The Group wrongly suffered from a loss of confidence during this difficult period.

The legal difficulties in the last quarter of 2003 had an enormous impact on the activities and more in particular on the turnover of 2004. During the first quarter of 2004 suppliers, clients, prospects and partners were visited to give them an explanation of the aforementioned events. This communication has as result that these parties confirmed their confidence in the Group. This is apparent firstly from the fact that for example a number of suppliers was prepared to convert their trade receivables into capital so that they received shares in the Group in payment of their invoices. In addition, the restored confidence is also apparent from the requests for offers and orders received after the summer, which translated into excellent turnover figures for the last quarter of 2004. Finally, the shareholders – investors – confirmed their confidence in the Group by making the necessary financial resources available.

In addition to the existing shareholders, in 2005-2006 the Group was able to conclude a number of financing agreements with an independent financial third party.

- ✚ During the course of 2005 the Group entered into a financing agreement – financing of rental agreement – with Parfip Benelux NV. Within the framework of this financing agreement, a total of EUR 1,599,774 was received spread over seven subcontracts in total (from March 2005 to end July 2005). The duration of these subcontracts ranges from 42 to 47 months, and the applicable interest rate is 10%.
  
- ✚ The Group entered into a financing agreement with the same financial party, in which 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 rent of 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 will collect the rent for the entire duration of the contract (with regard to the rent of the payment terminals). At the end of the contract the material will once again become the property of Keyware on payment of a small residual value.
  
- ✚ During the second half of 2005, Pardel NV made the following current account advances available to the Group:
  - EUR 200 K in September 2005
  - EUR 1,000 K in October 2005
  - EUR 1,000 K in December 2005
  -Arrears in social security contributions, arrears in withholding taxes, and overdue trade payables were paid with these funds.

- ✚ During the course of February 2006, the Group obtained an operating credit from KBC Bank in the amount of EUR 100 K. In first instance this credit ran to 31 December 2006. The applicable interest rate is the EONIA plus a margin of 3%.

Effective 4 September 2006, this amount was increased to EUR 145 K, still subject to the same conditions.

Effective 1 December 2006, KBC Bank granted a supplementary provisional cash credit to the Group in the amount of EUR 302 K. This credit originally ran until 28 February 2007, but this date has since been extended to 30 June 2008. The conditions described above (interest rate and guarantees) are also applicable to this credit.

- ✚ Finally, the Group issued a convertible bond in 2006. 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 total amount of the subscription for these convertible bonds was EUR 6 million. At the end of December 2006, this entire amount had been converted into share capital.

In 2007 the Group filled up the existing financing need as follows (number of shares for reverse split):

- ✚ On 1 October 2007 the Group agreed a financing contract – financing for rental contracts – with Parfip Benelux NV. This concerns a “sale-and-lease back” financing regarding the payment terminals. It concerns financing to the effect of EUR 397 K with a duration of 48 months and a monthly repayment of EUR 10 K. The applicable interest base is 11.47%.
- ✚ Following the exercise of 300,000 “2005 Warrants” the capital was increased by notarial deed on 4 April 2007 to the effect of EUR 39 K and 300,000 new shares were issued.
- ✚ Following the exercise of 200,000,000 “A Warrants” the capital was increased by notarial deed on 18 July 2007 to the effect of EUR 320 K and 2,000,000 new shares were issued.
- ✚ Following the exercise of 6,250,000 “A Warrants” the capital was increased by notarial deed on 22 August 2007 to the effect of EUR 1,000 K and 6,250,000 new shares were issued.
- ✚ Following the exercise of 2,968,750 “A Warrants” the capital was increased by notarial deed on 17 September 2007 to the effect of EUR 475 K and 2,968,750 new shares were issued.
- ✚ During the months of February and March 2008, EUR 500 K was made available through advances made by a shareholder, being Parana Management BVBA. These advances have allowed the Group to settle a number of outstanding debts. These advances will be repaid with the cash income derived from the assumed issue of the convertible bond or another capital increase.

### (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 2007 and 2006.

Consolidated profit and loss statement		
Figures in '000 EUR	31.12.07	31.12.06
Operating revenues	4,017	7,216
Operating expenses before extraordinary provisions and expenses	(6,351)	(10,478)
Operating result before extraord, expenses & revenues	(2,334)	(3,262)
Extraordinary Provisions/expenses	(401)	(532)
Impairment	(4,785)	(4,067)
Profit from sale of subsidiaries	221	-
Operating result after extraord, expenses & revenues	(7,299)	(7,861)
Result before taxation	(7,442)	(8,102)
Result after taxation	(7,671)	(8,012)
Net operating cash flow	(779)	(980)

The consolidated annual accounts for the continuing activities can be represented as follows:

Consolidated profit and loss statement Figures in '000		
EUR	31.12.07	31.12.06
Operating revenues	4,017	5,445
Operating expenses before extraord, provisions & expenses	(6,351)	(7,829)
<b>Operating result before extraord, expenses &amp; revenues</b>	<b>(2,334)</b>	<b>(2,384)</b>
Extraod. provisions/ expenses	(401)	(532)
Impairment	(4,785)	(1,065)
Profit from sale of subsidiaries	221	-
Operating result after extraord. expenses & revenues	(7,299)	(3,981)
<b>Result before taxation</b>	<b>(7,442)</b>	<b>(4,087)</b>
<b>Result after taxation</b>	<b>(7,671)</b>	<b>(3,993)</b>
Net operating cash flow	(779)	(126)

#### (a) Turnover and gross margin

The turnover from the continuing activities of the Group can be represented as follows:

Gross margin on continuing activities	31.12.2007	31.12.2006	Change
Turnover	3,832	5,227	-26,69%
Goods for resale	(1,014)	(2,833)	-64,21%
<b>Gross margin</b>	<b>2,818</b>	<b>2,394</b>	<b>17,71%</b>
Percentage gross margin	73,54%	45,80%	

The gross margin amounted to 73.54%. The increase in the margin with respect to the previous year can be explained as follows:

- ✚ a one-time cost price reduction in the goods for resale was recorded in the third quarter of 2007;

- ✚ the gross margin during the first quarter of 2006 negatively influenced by one-time sale of terminals at a lower margin;
- ✚ the cost price was no longer charged with commissions paid to the indirect sales team;
- ✚ in the third quarter of 2006 a one-time cost relating to a licence was recorded;
- ✚ in the third and fourth quarter of 2007 contracts were agreed with clients who rent a payment terminal for a new period of 48 months, either because the former contract had expired, or because the client had requested an extension of their contract. In the majority of cases, these contracts mean that no new terminal needs to be installed, meaning that there is no cost price for this;
- ✚ the number of contracts agreed for the authorisation services of payment cards increased during the third quarter of 2007.

The turnover from the discontinued activities of the Group can be represented as follows:

Discontinued activities Security & Time Management Division	31.12.2007	31.12.2006 (5 months)
Turnover	-	1,677
Goods for resale and raw materials	-	(533)
<b>Gross margin</b>	-	<b>1,144</b>
Percentage gross margin	-	68,22%

#### (b) Operating expenses

The operating expenses (purchases of goods for resale and operating expenses of an exceptional nature excluded) can be summarised as follows

Operating expenses before extraordinary provisions	31.12.2007	31.12.2006
Goods for resale	(1,014)	(3,366)
Services and other goods	(3,253)	(3,657)
Personnel expenses	(1,063)	(2,083)
Depreciation	(409)	(261)
Provisions and impairment	(461)	154
Other operating expenses	(151)	(1,265)
<b>Operating expenses before extraordinary provisions &amp; expenses</b>	<b>(6,351)</b>	<b>(10,478)</b>

The consolidated operating expense of the continuing activities can be shown as follows.

Operating expenses before extraordinary provisions and expenses. Continued activities	31.12.2007	31.12.2006
Goods for resale	(1,014)	(2,833)
Services and other goods	(3,253)	(2,715)
Personnel expenses	(1,063)	(1,192)
Depreciation	(409)	(215)
Provisions and impairment	(461)	368
Other operating expenses	(151)	(1,242)
<b>Operating expenses before extraordinary provisions</b>	<b>(6,351)</b>	<b>(7,829)</b>

Further explanation:

- ✚ the services and other goods for the 2007 financial year increased by 19.82%, which can be explained by the increased expenses for marketing and publicity;
- ✚ despite the move from an indirect sales team to a direct sales team, through which the cost is no longer processed under goods for resale, but under personnel expenses, the personnel expenses dropped by 10.82% in comparison with the same period for 2006. This is explained by:
  - the move from an indirect to a direct sales team being noticeable less expensive;
  - the increase in productivity of staff members, through which natural redundancies are not replaced;
  - personnel expenses relating to 2006 were still running for 5 months under employees on the pay-roll of the holding, which were later transferred following the sale of the "security & time management" division.
- ✚ For 2006, the provisions and other operating expenses must be examined together. The positive result from the provision is the consequence of the withdrawal of the provision relating to the dispute with Infolink. The provision was recorded at the end of 2005 and the case was concluded in March 2006. In 2006, the provision was recovered to the effect of EUR 850 K and the amount of the final summons, being EUR 850 K, was processed under other operating expenses.

#### (c) Operating expenses of an exceptional nature

These are expenses of a nonrecurring and/or exceptional nature that are not directly linked to the operational activities of the Group

Extrao. expenses and revenues Figures in kEUR	31.12.2007	31.12.2006
Extrao. expenses and expenses	(401)	(532)
Impairment	(4,785)	(4,067)
Profit from sale of subsidiaries	221	-
<b>Extrao. expenses and revenues</b>	<b>(4,965)</b>	<b>(4,599)</b>

The impairment for an amount of EUR 4,785 K corresponds for an amount of EUR 3,950 K to an impairment on goodwill. The balance concerns an amortization of trade receivables in the short and long term (EUR 835 K).

The impairment of goodwill relates to an amount of EUR 2,357 K for the 'cash generating unit' payment terminals and to an amount of EUR 1,593 K for the 'cash generating unit' credit card authorisations.

The amortization regarding trade receivables relates to contracts concluded in 2004, 2005 and 2006 due to bankruptcy, shut-down of activities and sale of activities

The extraordinary expenses of EUR 401 K relates to provision for ongoing disputes.

The profit from the sale of subsidiaries relates to the sale of 100% of shares in Digital Access Control NV. The sale price was EUR 250 K and payment is spread over a period of 3 years (see (6) Business Acquisitions/Disinvestments). In accordance with IAS 39 - Financial Instruments, this receivable is discounted. The actualised value is EUR 222 K, of which EUR 172 K is presented on the long term and EUR 50 K on the short term. The discounted rate is 10.84%.

As per 31 December 2006, the impairment of EUR 3,002 K relates to the disinvestment in the "Security & Time Management" division. The balance, being EUR 1,065 K concerns the impairment relating to the distribution contract for the distribution of electromagnetic locks and accompanying electronic keys "eKeys".

The expenses/ provisions of an extraordinary character, as per 31 December 2006, relate firstly to VAT to be repaid following a VAT audit. The VAT to be repaid has almost an integral effect on the parent company, Keyware Technologies NV. During this audit it became apparent that during the 2003 and 2004 financial years, in accordance with article 45§1 of the VAT Code and in accordance with article 1§2 of the Royal Decree no. 3 of 10 December 1969, the company incorrectly deducted VAT for goods and services which were intended for purposes that fell outside the working sphere of VAT.

An additional provision of EUR 162 K was also made within the framework of a possible additional repayment to Risco, regarding the sale of the security division.

#### (d) Net operating results

The operating loss for the period 2007 amounted to EUR 2,334 K, compared with EUR 3,262K for the period 2006.

#### (e) Net loss

The net loss for the period 2007 amounts to EUR 7,671 K, compared with EUR 8,012 K for the period 2006.

#### (4) Personnel and branches

On 31 December 2007, the Group had 48 employees (personnel and consultants). The head office is located in Zaventem, Belgium. The Group has another branch in Louvain-la-Neuve (Belgium), which was closed on 31 December 2007.

**KEYWARE TECHNOLOGIES NV AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**(ALL AMOUNTS IN EUR K)**

Balance sheet Figures in EUR K		31.12.2007	31.12.2006
<b>Assets</b>			
Consolidation differences	(7)	5,248	9,198
Intangible fixed assets	(8)	864	259
Tangible fixed assets	(9)	312	223
Financial fixed assets		63	96
Deferred tax assets	(10)	1,823	2,129
Long-term trade receivables	(11)	5,069	6,788
Long-term other receivables	(12)	172	-
<b>Fixed assets</b>			<b>13,551</b>
Inventories	(13)	441	481
Trade receivables	(14)	1,393	270
Other receivables	(15)	127	99
Investments and cash		13	11
Accruals	(16)	370	627
<b>Current assets</b>			<b>2,344</b>
<b>Total assets</b>		<b>15,895</b>	<b>15,895</b>
<b>Liabilities and Shareholder 's Equity</b>			
Share capital	(17)	13,831	33,957
Share premium		4,522	4,522
Reserve warrants		7	162
Results carried forward		(5,148)	(19,424)
Result of the financial year		(7,671)	(8,012)
<b>Shareholder's Equity</b>			<b>11,205</b>
Deferred tax liability		-	83
Provisions	(18)	10	25
<b>Deferred taxes and provisions</b>			<b>108</b>
Financial debts due after year	(20)	231	105
Leasing debts due after year	(21)	388	498
Trade debts due after year	(22)	3,075	2,780
<b>Total liabilities due after one year</b>			<b>3,383</b>
Automatically convertible loan	(19)	-	300
Financial debts due within one year	(23)	562	451
Leasing debts due within one year	(24)	522	457
Advance to shareholders	(25)	19	202
Trade payables	(26)	4,488	3,314
Social and fiscal liabilities	(27)	701	569
Other payables	(28)	264	162
Accruals	(29)	94	30
<b>Liabilities due within one year</b>		<b>6,650</b>	<b>5,485</b>
<b>Total liabilities and shareholder's equity</b>		<b>15,895</b>	<b>20,181</b>

**KEYWARE TECHNOLOGIES NV AND SUBSIDIARIES**  
**CONSOLIDATED PROFIT AND LOSS STATEMENT**  
**(ALL AMOUNTS IN EUR K)**

Consolidated profit and loss account activities Figures in EUR K		31.12.2007	31.12.2006
Turnover	(30)	3,832	6,906
Other operating revenues	(32)	15	310
<i>Operating revenues</i>		4,017	7,216
Goods for resale		(1,014)	(3,366)
Services and other goods	(33)	(3,253)	(3,657)
Personnel costs	(34)	(1,063)	(2,083)
Depreciation	(35)	(409)	(261)
Provisions and amortization	(36)	(461)	154
Other operating costs		(151)	(1,265)
<i>Operating expenses before extraordinary provisions &amp; expenses</i>		(6,351)	(10,478)
<b>Operating results before extraordinary expenses &amp; revenues</b>		<b>(2,334)</b>	<b>(3,262)</b>
Extraordinary provisions/ expenses	(37)	(401)	(532)
Impairment	(37)	(4,785)	(4,067)
Profit from sale of subsidiaries	(37)	221	-
<b>Operating result after extraordinary expenses &amp; revenues</b>		<b>(7,299)</b>	<b>(7,861)</b>
Financial expenses	(38)	(670)	(668)
Financial revenues	(38)	527	427
<b>Results before taxation</b>		<b>(7,442)</b>	<b>(8,102)</b>
Deferred taxes	(39)	(224)	103
Tax over result	(39)	(5)	(13)
<b>Results after taxation</b>		<b>(7,671)</b>	<b>(8,012)</b>
<b>Net operating cash flow</b>		<b>(779)</b>	<b>(980)</b>
Profit/(loss) per share		(2.3972)	(3.5266)
Profit/(loss) per diluted share		(2.3972)	(3.5266)
Weighted average outstanding share (1)		3,199,920	2,271,883
Weighted average diluted share (1)		4,043,312	2,652,992

(1) Relating to 2006 inline with the 'reverse split' of 03-12-2007

(2) Figures reviewed as following press statement d. 20 March 2008

**KEYWARE TECHNOLOGIES NV AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
**(ALL AMOUNTS IN EUR K)**

Figures in EUR K	Number of shares	Capital	Share premium	Result carried forward	Other reserves	Conversion difference	Total
Shareholder's equity as per 01.01.2006	96,617,226	27,522	4,522	(19,589)	102	19	12,576
Exercise of warrants	2,537,500	330	-	-	-	-	330
Exercise of ACB	2,222,222	400	-	-	-	-	400
Conversion of convertible bond	51,387,520	6,012	-	-	-	-	6,012
Cost in min of capital	-	(307)	-	-	-	-	(307)
Valuation of warrants	-	-	-	63	162	-	225
Net loss	-	-	-	(8,012)	-	-	(8,012)
Transfer reserve	-	-	-	102	(102)	-	-
Conversion difference	-	-	-	-	-	(19)	(19)
<b>Shareholder's equity as per 31.12.2006</b>	<b>152,764,468</b>	<b>33,957</b>	<b>4,522</b>	<b>(27,436)</b>	<b>162</b>	<b>-</b>	<b>11,205</b>

Figures in EUR K	Number of shares	Capital	Share premium	Result carried forward	Other reserves	Total
Shareholder's equity as per 01.01.2007	152,764,468	33,957	4,522	(27,436)	162	11,205
Exercise of warrants	11,518,750	1,834	-	-	-	1,834
Exercise of ACB	1,875,000	300	-	-	-	300
Incorporation of loss in capital	-	(22,260)	-	22,260	-	-
Valuation of warrants	-	-	-	-	(127)	(127)
Net loss	-	-	-	(7,671)	-	(7,671)
Transfer reserve	-	-	-	28	(28)	-
<b>Shareholder's equity as per 31.12.2007</b>	<b>166,158,218</b>	<b>13,831</b>	<b>4,522</b>	<b>(12,819)</b>	<b>7</b>	<b>5,541</b>
<b>Shares after reverse split (1)</b>	<b>3,323,164</b>					

(1) Number of shares following reverse split of. 3 December 2007

**KEYWARE TECHNOLOGIES NV AND SUBSIDIARIES**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**(ALL AMOUNTS IN EUR K)**

Cash flow statement Figures in EUR K	31.12.2007	31.12.2006
<u>Cash flow from operating activities</u>		
Result of the period	(7,671)	(8,012)
Depreciation	410	261
Amortization	(15)	(862)
Amortization on inventories	57	383
Amortization on trade receivables	1,254	324
Impairment	3,950	1,065
(Profit)/loss from the sale of subsidiaries	(227)	3,002
Warrants included as expense/(revenue)	(127)	225
Deferred tax assets and liabilities	223	(103)
Operating cash flow before changes in working capital	(2,146)	(3,717)
Decrease/ (increase) in inventory	(17)	595
Decrease/ (increase) in long and short term trade receivables	(659)	(2,954)
Decrease/ (increase) in other receivables and accruals	(58)	(201)
Increase/ (decrease) in long and short trade payables	1,470	2,401
Increase/ (decrease) in fiscal and social liabilities	132	199
Increase/ (decrease) in other liabilities and accruals	166	355
Changes in working capital	1,150	395
<b>Cash flow from operating activities</b>	<b>(996)</b>	<b>(3,322)</b>
<u>Cash flow from investing activities</u>		
Acquisition in tangible and intangible fixed assets	(589)	(87)
Disposals of in tangible and intangible fixed assets	7	39
Acquisition of subsidiaries, net without cash	(522)	-
Sale of subsidiaries, net without cash	227	281
Increase/ (decrease) in guarantees provided	33	(10)
<b>Cash flow from investing activities</b>	<b>(844)</b>	<b>243</b>
<u>Cash flow from financing activities</u>		
Capital	1,834	6,035
(Repayment)/ receipts of long term and short term financial debts	236	(455)
(Repayment)/ receipts of long term and short term leasing	(45)	(458)
(Repayment)/ receipts of advances to shareholders	(183)	(2,268)
<b>Cash flow from financing activities</b>	<b>1,842</b>	<b>2,854</b>
Effect of exchange rate	-	3
<b>Net (decrease)/ increase in cash</b>	<b>2</b>	<b>(222)</b>
<b>Cash at the beginning of the period</b>	<b>11</b>	<b>233</b>
<b>Cash at the end of the period</b>	<b>13</b>	<b>11</b>

**KEYWARE TECHNOLOGIES NV**  
**NOTES ON THE CONSOLIDATED ANNUAL ACCOUNTS**

**(1) Identification**

Keyware Technologies NV was founded in June 1996 as a public limited company under Belgian law. The Company is established at Boulevard Paepsem 18 G, 1070 Anderlecht, Belgium. Its company number is 0458.430.512.

The consolidated annual accounts were adopted by the Board of Directors on 7 March 2008.

**(2) Conformity statement**

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 accepted within the European Union, and gives a reliable view of the equity, financial situation and result of the issuer and the companies stated within the consolidation. The annual report gives a reliable view of the development and the results of the company and of the position of the issuer and the companies stated within the consolidation, as well as a description of the primary risks and insecurities with which the company is confronted.

Within this framework is also referred to the auditor's statement.

**(3) Reporting entity structure**

The consolidated annual accounts for the period ending on 31 December 2007 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	31.12.2007	Integral
Keyware Transaction & Processing NV	31.12.2007	Integral
B.R.V. Transactions NV	31.12.2007	Integral
Digital Access Control NV	22.08.2007	Integral

On 22 August 2007 the Group indicated that 100% of the shares of Digital Access Control NV had been sold to Lime Capital Ltd. With effect from 22 August. The results from Digital Access Control NV were included in the consolidation for the period from 1 January to 22 August 2007. The company was consolidated based on the balance sheet of 22 Augustus 2007.

On 26 April 2007 Keyware indicated that a takeover agreement had been reached with the shareholders of B.R.V. Transactions NV and with effect from 1 April 2007. 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.

As a result of a notary deed of 18 December 2007, Keyware Transaction & Processing NV has integrally incorporated its subsidiary, B.R.V. Transactions, via a silent fusion and with effect from 1 November 2007. The results of B.R.V. Transactions NV for the months of November and December are included within the results of Keyware Transaction & Processing NV.

#### (4) Going concern

The attached consolidated annual accounts were compiled on the assumption of a going concern, which assumes that the assets are realised and the debts are paid as in normal company operations. As per 31 December 2007, the Group has incurred accumulated losses totalling EUR 12,819 K, which were primarily financed by capital.

Despite the historic losses and the inability of the Group to achieve positive results and positive operationing cash flows, in 2004 quite a few parties confirmed their confidence in the Group. This was apparent amongst other things from the willingness of suppliers to convert their debts into capital, the additional loans permitted by shareholders and investors, the willingness of suppliers to, despite the sometimes precarious cash position, grant the Group extra payment instalments, etc. In addition, many shareholders, investors and suppliers converted their debts (or a part of them) into capital on the occasion of the Extraordinary Shareholders' Meeting of 27 May 2005.

The confidence of these parties has contributed to the growth of the Group in 2005. Not only did the Group achieve turnover growth of more than 40% in 2005, during the second half of 2005 a positive net result was even achieved.

The favourable evolution in 2005 contributed to the fact that the Group successfully issued a convertible bond loan in 2006 for a total amount of EUR 6 million. A portion of this cash was used to repay several advances from shareholders. It was also used to further expand activities related to payment terminals.

Despite the growth and the favourable evolution of the cash flow, the Group had to receive additional financing in 2007.

For the further growth and realisation of the 2008-2012 strategic plan the Group will need additional financing; firstly for the further financing and expansion of the activities regarding payment terminals, and also for the implementation of the required investment for the authorisation of payment transactions.

In the press release of 20 March 2008, the Group indicated that the Board of Directors was considering the option of exercising a convertible bond for an amount between 4 and 5 Million EUR. Despite the crisis on the financial markets, the Board of Directors is confident that the exercise of this convertible bond can be successfully concluded. It is also clear at the moment that the conditions (being interest rate, attribution of warrants and the subordinate conversation price) against which this exercise shall take place will be sufficiently attractive to candidate investors.

During February and March 2008, EUR 500 K in advances was given by one shareholder, being Parana Management BVBA. These advances have allowed the Group to repay a number of overdue debts. The advances will be repaid with the cash income made from the issue of the convertible bond or other capital increase.

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 period of time and it confirms the application of the valuation rules in going-concern.

So the consolidated annual accounts do not contain any adjustment for the collectability and classification of the assets booked or the amount and classification of the debts that would be required if the Company could no longer 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) Principal valuation rules

### (a) Basic principle

The consolidated interim financial statements were compiled in accordance with the International Financial Reporting Standards (IFRS), that contain the standards and interpretations published by the International Accounting Standard Board (IASB), applicable as of 31 December 2007.

The preparation of the annual accounts 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 can vary from these estimates.

### (b) Consolidation principle

The consolidated annual accounts of Keyware Technologies NV contains not only Keyware Technologies but also 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 are 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 surplus purchase value 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 consolidation differences and 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 the first booking, goodwill is valued at cost price minus the accumulated extraordinary depreciations.

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

### (f) Intangible 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, that 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 asset is created that can be identified;
- ✚ 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 amortized 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 any extraordinary depreciation losses.

The amortization 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) Inventory

Inventories are valued at the lowest value of either the cost price or the market 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 amortization 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 rent price of a contract is divided into net rent and maintenance. Then the actual value of the net rent for the entire duration of the contract, namely 48 months, is calculated. This actual value is registered integrally as turnover in the month in which the contract commences. The turnover with regard to the maintenance is included as turnover spread over the duration of the contract. Every month, a financial income is registered which represents the difference between the total value of the contract and the actualised value.

#### (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 in a reliable way.

#### (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 included in the balance sheet. Financial obligations are no longer included in the balance sheet 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 liabilities**

Trade liabilities are included at nominal value.

#### **(p) Revenue recognition**

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 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:

- ✚ an unbreakable contracts 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) Impairment 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 incurred a reduction in value. If there is such an indication, the recoverable amount of the asset is estimated to determine the scope of the amortization (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 assets belong.

The recoverable amount is the highest of either the net selling price or the value in use. To determine the utilisation value, the future cash flows expected will be discounted by their current value at the discount rate that reflect 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 amortization is immediately recognised in the profit and loss statement, unless the asset in question is valued at a revalued amount, in which case the amortization will be handled as a depreciation of a revaluation. If a amortization 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 without amortization for the asset (cash-flow generating unit) of previous years. A reversal of an amortization is immediately recognised in the profit and loss statement, unless the relevant asset is valued at a revalued amount, in which case the reversal of the amortization is handled as a revaluation increase.

#### **(r) Equity compensation benefits**

In 2005 the Group issued a warrant scheme 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 whose 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 fiscal book value, deferred tax obligations are booked for all taxable, temporary differences, except if they are the result of depreciation of goodwill. Deferred tax obligations 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 receivable must be included for all offsetable, temporary differences, fiscal losses and fiscal revenues in so far as it is likely that a fiscal profit will be available against which the offsetable, temporary difference, fiscal losses and fiscal income can be offset. Offsetable, temporary differences that ensue 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 receivable is revised on every balance sheet date and reduced in as far 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 receivable.

Deferred tax receivables and obligations are valued at the tax rates that are expected to apply to the period in which the claim is achieved or the obligation is completed, on the basis of the tax rates and tax legislation whose legislation process (material) has been 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 which cannot be attributed will be separately presented.

#### **(u) Net profit/loss per share**

The ordinary 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 sheet 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 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.

## (6) Business Acquisitions/Divestments

### (a) Acquisitions

At the end of March 2005, the Group reached a memorandum of understanding for taking over 100% of the shares of Digital Access Control NV (DAC). As a result of the takeover, Keyware was able to expand its integrated range of access control, time registration, alarm management and closed circuit security with a high-performance technology: the electromechanical lock and the accompanying electronic key “eKeys”.

The ESM of 27 May 2005 resolved to issue an automatically convertible bond loan and to issue “DAC warrants”. This rounded off acquisition of 100% of the shares of Digital Access Control NV (DAC).

The remuneration for the acquisition of Digital Access Control NV consists of the following elements:

- ✚ new shares issued for a corresponding value of EUR 400 K;
- ✚ automatically convertible bonds (ACBs) issued to the shareholder of Digital Access Control NV in the amount of EUR 700 K;
- ✚ issue of 750,000 warrants (DAC Warrants), each entitling the holder to one share of Keyware Technologies.

The ACBs were distributed as follows:

- ✚ The first ACB in the amount of EUR 400 K was automatically converted into shares in the Company on the date of an Extraordinary Shareholders’ Meeting of the Company that was held immediately after the Ordinary Shareholders’ Meeting of the Company in the year 2006. The conversion price was EUR 0.18.
- ✚ A second ACB in the amount of EUR 300 K that was automatically converted into shares in the Company on the date of an Extraordinary Shareholders’ Meeting of the Company that was held immediately after the Ordinary Shareholders’ Meeting of the Company in the 2007. The conversion price was EUR 0.16.

This ACB incurred no interest.

Digital Access Control NV (DAC) was founded on 14 September 2004 (under the name Luverco NV) and had its offices at Zandvoortstraat 27, 2800 Mechelen. Keyware Technologies bought the shares of Digital Access Control NV from Melitra Ltd, which is based in Hong Kong, China.

On the date of the acquisition, no employees were taken over from Digital Access Control NV. The only assets of the company were a license agreement, a distribution agreement, and an inventory of goods for resale. The pro forma balance sheet total at the end of November 2004 was EUR 146 K.

The value of DAC NV was determined on the basis of three years result after taxes discounted at a rate of 10%. An impairment of EUR 1,065 K was booked at the end of December 2006 with respect to this intangible fixed asset.

On 4 April 2007, Keyware Transaction & Processing NV 100% acquired the shares of the company, B.R.V. Transactions NV.

This company's activities are affiliated to payment transactions (via acquirer Royal Bank of Scotland abv. RBS). Specifically, the company sells Master Cards & Visa 'acquiring capability' for RBS on the Belgian market. At the end of December 2006, the company had closed contracts with apx. 1,500 clients.

The sale price was EUR 618 K, being EUR 520 K + net assets per 31 March 2007. An amount of EUR 556 K paid at the moment of takeover. The balance, being EUR 62 K will be paid at the moment of receipt of the outstanding receivables.

No staff was involved in the takeover. The most important assets concern hardware (servers) and a license agreement. At the end of December 2006, the balance total was EUR 634 K. The net equity amounted EUR 145 K and closed the 2006 financial year with a profit of EUR 83 K.

This acquisition was funded firstly by an investment loan to the effect of van EUR 300 K and also via an advance in current account from a shareholder to the effect of EUR 256 K.

Within the framework of the shares of B.R.V. Transactions NV, ING extended an investment loan of EUR 300 K to Keyware Transaction & Processing NV. This credit is payable based on 20 trimester payments of EUR 15 K. The applicable interest base is the EURIBOR 3 month increased by 2%. This credit is guaranteed by:

- ✚ a solidary guarantee by Keyware Technologies NV of EUR 300 K in hoofdsom;
- ✚ the submission of all shares in the name of B.R.V. Transactions NV.

The company B.R.V. Transactions NV was created on 9 February 2005 and had offices at Groendreefstraat 43, 1082 Sint-Agatha-Berchem.

#### (b) Divestments

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.

The impact of this transaction on the consolidated figures of the Group can be presented as shown below (in EUR K):

in kEUR	31.12.06
Sale price (provisional)	361
Impairment	(3.261)
Deconsolidation effect (deconsolidated subsidiaries)	(102)
<b>Total</b>	<b>(3.002)</b>

Divestment of the entire Security & Time Management division led to a write-off of EUR 3,002 K. This consisted in part of a (provisional) sale price of EUR 361 K and in part of amortization of goodwill and deconsolidation effect of EUR 3,363 K.

The provisional sale proceeds are EUR 361 K. The originally received sale proceeds amounted to EUR 861 K. However, this involved a preliminary calculation of the sale price. According to the contract of sale, the proceeds of the sale were to be determined on 30 September 2006 based on the current assets less the short-term liabilities on 31 May 2006. As a consequence of further discussions between the parties regarding several items included in the calculation of the final sale price, this price has still not yet been fixed.

The results of the companies Keyware SA, Keyware France SA and Keyware Technologies Suisse SA, which are involved in this transaction, have been included in the consolidation for the period

of 1 January to 31 May 2006, inclusive. The three companies were consolidated on the basis of their balance sheet figures on 31 May 2006.

The consolidated results from the discontinued activities can be represented as follows (in EUR K):

Discontinued Activities Security & Time Management division	31.12.06 (5 months)	31.12.05 (12 months)
Operating revenues	1,771	4,628
Operating expenses before extraord. provisions & expenses	(2,649)	(5,512)
Operating result before extraord. provisions & revenues	(878)	(884)
Operating result after extraord. provisions & revenues	(3,880)	(884)
Result before taxation	(4,015)	(1,008)
<b>Result after taxation</b>	<b>(4,019)</b>	<b>(1,008)</b>

On 22 August 2007 the Group indicated that 100% of the shares of Digital Access Control NV had been sold to Lime Capital Ltd. The results from Digital Access Control NV were included in the consolidation for the period from 1 January to 22 August 2007. The company was consolidated based on the balance sheet of 22 Augustus 2007.

This disinvestment has a value of EUR 255 k. This is firstly from the sale price of EUR 250 K and also from the positive consolidation effect to the effect of EUR 5 K.

The sale price will be paid by the purchaser in three parts, in accordance with the following breakdown:

- ✚ the sale price of EUR 50 K to be paid on the first anniversary of the contract date (22 August 2008) by the purchaser;
- ✚ the second part of the sale price being EUR 100 K to be paid before the second anniversary of the contract date by the purchaser;
- ✚ the third and final part of the sale price being EUR 100 K to be paid by the third anniversary of the contract date by the purchaser.

In accordance with IAS 39 – Financial Instruments this receivable is discounted. The actualised value amounts to EUR 222 K, of which EUR 172 K is presented as long term and EUR 50 K as short term. The discounted base amounts to 10.84%.

The consolidated resulted of the discontinued activities can be represented as follows (in eur K):

Discontinued activities Digital Access Control NV	22.08.07 (8 month)	31.12.06 (12 month)
Operating revenues	5	-
Operating expenses before extraord. provisions & expenses	(2)	(82)
Operating result before extraord. provisions & revenues	(3)	(82)
Operating result after extraord. provisions & revenues	(3)	(1,147)
Result before taxation	(3)	(1,147)
<b>Result after taxation</b>	<b>(3)</b>	<b>(1,147)</b>

(7) Consolidation differences

This item can be broken down as follows:

In EUR K	31.12.2007	31.12.2006
Keyware Smart Card	5,248	7,605
Keyware Transaction & Processing	-	1,593
<b>Total</b>	<b>5,248</b>	<b>9,198</b>

In accordance with IFRS 3 - Business combinations, goodwill is no longer amortized but is tested for capital depreciation for the specific cash-flow generating unit to which the goodwill belongs. The realisation value of each cash-flow generating unit was determined on the basis of its operating value. To calculate this, the cash-flow prognoses were used from the financial budgets for the next 3 years that have been approved by the Board of Directors. These budgets were extrapolated over 5 years at a decreasing growth rate, ignoring any residual value.

At the end of December 2007, testing showed that an extraordinary devaluation of EUR 1,593 K registered in relations to the goodwill related to Keyware Transaction & Processing and that extraordinary devaluation of EUR 2,357 K must be registered in relation to the goodwill related to Keyware Smart Card.

As per end of December 2006, testing of the impairment showed that no loss needed to be taken.

(8) 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.

In EUR K	Software	Patents and licences	Total
<b>Gross book value on 01.01.06</b>	-	<b>2,120</b>	<b>2,120</b>
Additions	15	4	19
Disposals	-	-	-
Deconsolidation	-	(440)	(440)
Conversion differences	-	(3)	(3)
<b>Gross book value on 31.12.06</b>	<b>15</b>	<b>1,681</b>	<b>1,696</b>
<b>Accumulated dep. and impairment (-) on 01.01.06</b>	-	<b>580</b>	<b>580</b>
Amortization expenses of the period	1	188	189
Addition amortization	-	1,065	1,065
Withdrawal due to disposals	-	-	-
Deconsolidation	-	(394)	(394)
Conversion differences	-	(3)	(3)
<b>Accumulated dep. and impairment (-) on 31.12.06</b>	<b>1</b>	<b>1,436</b>	<b>1,437</b>
<b>Net book value on 01.01.06</b>	-	<b>1,540</b>	<b>1,540</b>
<b>Net book value on 31.12.06</b>	<b>14</b>	<b>245</b>	<b>259</b>

Following acquisition of Digital Access Control NV, this amount was increased in 2005 by EUR 1,065 K, consisting of a EUR 1,005 K allocation from positive consolidation differences and EUR 60 K in statutory booked distribution rights. At the end of December 2006, a value reduction of EUR 1,065 K was recorded in relation to intangible fixed assets.

in eur K	Software	Copyrights and licences	Total
<b>Gross book value on 01.01.07</b>	<b>15</b>	<b>1,681</b>	<b>1,696</b>
Additions	494	435	929
Disposals	-	(1,065)	(1,065)
Deconsolidation	-	-	-
Conversion differences	-	-	-
<b>Gross book value on 31.12.07</b>	<b>509</b>	<b>1,051</b>	<b>1,560</b>
<b>Accumulated dep. and impairment (-) on 01.01.07</b>	<b>1</b>	<b>1,436</b>	<b>1,437</b>
Amortization expenses of the period	14	310	324
Addition amortization	-	-	-
Withdrawal due to disposals	-	(1,065)	(1,065)
Deconsolidation	-	-	-
Conversion differences	-	-	-
<b>Accumulated dep. and impairment (-) on 31.12.07</b>	<b>15</b>	<b>681</b>	<b>696</b>
<b>Net book value on 01.01.07</b>	<b>14</b>	<b>245</b>	<b>259</b>
<b>Net book value on 31.12.07</b>	<b>494</b>	<b>370</b>	<b>864</b>

Following the sale of 100% of the shares in Digital Access Control NV, the copyrights and licences decreased in 2005 by EUR 1,065 K as well as the accumulated deductions and extraordinary depreciations.

In the course of 2007, investments relating to the implementation of the ERP package were activated and processed under the sector of software for a total amount of EUR 494 K. This investment was deducted as of 1 January 2008, being the date on which the package was brought into use.

#### (9) Tangible fixed assets

The movements with regard to this item can be summarised as follows:

In EUR K	Ground and buildings	Equipment and machinery	Furniture And vehicles	Leasing	Other	Total
<b>Gross book value 01.01.2006</b>	239	130	769	330	93	1,561
Additions	-	3	59	-	6	68
Disposals	-	-	(10)	(235)	(25)	(270)
Deconsolidation	(50)	(68)	(540)	(44)	(32)	(734)
Conversion differences	-	-	(2)	-	-	(2)
<b>Gross book value 31.12.2006</b>	<b>189</b>	<b>65</b>	<b>276</b>	<b>51</b>	<b>42</b>	<b>623</b>

In EUR K	Ground and buildings	Equipment and machinery	Furniture And vehicles	Leasing	Other	Total
<b>Accumulated depreciation and impairment</b>						
01.01.2006	52	94	694	258	72	1,170
Additions	7	5	20	18	22	72
Disposals	-	-	-	(205)	(31)	(236)
Deconsolidation	-	(35)	(500)	(44)	(25)	(604)
Conversion differences	-	-	(2)	-	-	(2)
<b>Accumulated depreciation and impairment</b>						
31.12.2006	59	64	212	27	38	400
<b>Net book value 01.01.2006</b>	187	36	75	72	21	391
<b>Net book value 31.12.2006</b>	130	1	64	24	4	223

In EUR K	Ground and buildings	Equipment and machinery	Furniture And vehicles	Leasing	Other	Total
<b>Gross book value 01.01.2007</b>	189	65	276	51	42	623
Additions	-	-	42	49	4	95
Disposals	-	-	150	-	-	150
Deconsolidation	-	-	(4)	(10)	-	(14)
Conversion differences	-	-	-	-	-	-
<b>Gross book value 31.12.2007</b>	189	65	464	90	46	854
<b>Accumulated depreciation and impairment</b>						
01.01.2007	59	64	212	27	38	400
Additions	6	1	61	17	1	86
Disposals	-	-	62	-	-	62
Deconsolidation	-	-	-	(6)	-	(6)
Conversion differences	-	-	-	-	-	-
<b>Accumulated depreciation and impairment</b>						
31.12.2007	65	65	335	38	39	542
<b>Net book value 01.01.2007</b>	130	1	64	24	4	223
<b>Net book value 31.12.2007</b>	124	-	129	52	7	312

Ground and buildings relates to a building owned in Belgium. Other tangible fixed assets primarily involve fixtures and furnishings of rented premises.

## (10) Deferred taxes

The deferred tax assets are entirely related to the continuing activities and can be broken down as follows (in EUR K):

in EUR K	31.12.2007	31.12.2006
Deferred tax assets	2,538	2,538
Depreciation of deferred taxes	(490)	-
Deferred tax liabilities (within the same Company)	(225)	(409)
<b>Total</b>	<b>1,823</b>	<b>2,129</b>

As Keyware Smart Card NV has an operating profit as per 31 December 2005 and the budgets for the next five years also assume a profit situation, the Board of Directors has resolved to reassess the deferred tax assets expressed in the past with regard to offsetable fiscal losses.

The total deferred tax asset was estimated at EUR 3.4 million. In order to incorporate the necessary caution, the Board of Directors decided to retain only 75% of this amount, namely EUR 2.5 million, as deferred tax assets. As EUR 1.4 million was already incorporated in the figures in the past, the additional amount ultimately recorded as deferred tax assets at the end of 30 June 2005 was EUR 1.1 million.

Based on the 2008-2012 strategic plan, the Board of Directors transferred, as per 31 December 2007, to a reassessment of the previously exercised deferred taxes relating to deductible fiscal losses. This reassessment led to a depreciation of the existing deferred taxes to the effect of EUR 490 K.

The deferred tax liabilities with regard to Keyware Smart Card Div. NV based on the IFRS adjustments will be deducted from the deferred tax assets. They all concern recognition of temporary differences.

In addition, the Group still has deferred tax assets that integrally relate to cumulative fiscal losses that were not recognised in the figures as per 31 December 2007 or 31 December 2006. It This involves a gross amount of EUR 65 million in cumulative losses, which corresponds to a deferred tax asset in the amount of EUR 22.1 million.

The deferred tax liabilities integrally relate to the Keyware Transaction & Processing NV and concern recognition of temporary differences.

The applicable tax rate is 33.99%.

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

in EUR K	31.12.2007	31.12.2006
Capitalisation of deferred taxes with respect to fiscal losses	-	-
Deferred tax liabilities with respect to IFRS adjustments	183	103
Withdrawal of deferred tax assets – fiscal losses	83	-
Depreciation of deferred tax assets	(490)	-
<b>Total</b>	<b>(224)</b>	<b>103</b>

#### (11) Long-term trade receivables

This item can be broken down as follows:

in EUR K	31.12.2007	31.12.2006
Outstanding capital contracts (It) 2004-2007	1,994	4,008
Outstanding capital financing Parfip	3,075	2,780
<b>Total</b>	<b>5,069</b>	<b>6,788</b>

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 2007, this receivable corresponds to EUR 1,994 K, per 31 December 2006 this receivable corresponds to EUR 4,008 K. The long-term component of this amount is reduced in relation to the depreciation in trade receivables (see (14) Trade receivables).

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 leasing payment terminals to Parfip Benelux NV. Within the framework of this agreement, the contracts for the rent of 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 at the start of the contract receives the integral discounted amount of the rent instalments and Parfip Benelux NV for the entire duration of the contract (with regard to rental of the payment terminals) 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 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 itself will still be able to invoice the remaining duration of the contract to the customer. As a result Keyware on the one hand has a deferred liability and on the other hand a deferred receivable.

At the end of December 2007 the Group has a deferred receivable corresponding to the total amount of outstanding capital for the contracts sold in 2005, 2006 and 2007. This is a total amount of EUR 4,044 K, of which EUR 3,075 K relates to the long term and EUR 969 K to the short term.

#### (12) Long term other receivables

This has an integral effect on receivables with regard to the sale of 100% of the shares in Digital Access Control NV.

This disinvestment has a value of EUR 255 K. This is made up firstly of the sale price of EUR 250 K and also from a positive deconsolidation of EUR 5 K.

The sale price will be paid by the purchaser in three parts, in accordance with the following breakdown:

- ✚ the sale price of EUR 50 K to be paid on the first anniversary of the contract date by the purchaser;
- ✚ the second part of the sale price being EUR 100 K to be paid before the second anniversary of the contract date by the purchaser;
- ✚ the third and final part of the sale price being EUR 100 K to be paid by the third anniversary of the contract date by the purchaser.

In accordance with IAS 39 – Financial Instruments this receivable is discounted. The actualised value amounts to EUR 222 K, of which EUR 172 K is supposed as long term and EUR 50 K as short term. The discounted base amounts to 10.84%.

### (13) Inventories

This can be broken down as follows:

in EUR K	31.12.2007	31.12.2006
Gross value of stock terminals	699	682
Depreciation	(258)	(201)
<b>Total</b>	<b>441</b>	<b>481</b>

The goods for resale concern products purchased from third parties. During the book year 2006, amortizations on inventory were recorded in the amount of EUR 201 K. During the 2007 financial year, an additional depreciation to the value of EUR 57 K was recorded, through which the total depreciation at the end of December 2007, was EUR 258 K.

Amortization and withdrawal of amortization are included in the profit and loss statement in the item “Provisions and amortization”.

### (14) Trade receivables

The IFRS trade receivables item relates to the balance of all amendments regarding trade receivables related to IFRS. This item includes both positive and negative amendments. This item includes the short term part of the receivables relating to the financial lease agreements confirming to IAS 17 – Lease-agreements of payment terminals. At 31 December 2007, these receivables accorded an amount of EUR 969 K.

The amortization integrally relate to trade receivables from the past. During the period 2007 amortization were booked in the amount of EUR 1,254 K with regard to receivables from 2006 or earlier and during the period 2006 amortization were booked in the amount of EUR 324 K with regard to receivables from 2005 or earlier. No amortization was booked on trade receivables with regard to turnover booked in 2007.

One part of this depreciation is reduced by the trade receivables in the long term.

As stated in (11) Trade receivables in the long term, the debtor risk is connected to the financing agreement with Parfip Benelux NV at the expense of the Group. Following this, a provision was set down of EUR 67 K, finally the insolvency risks of the clients are the responsibility of the business unit ‘Card & Terminal applications.’ This provision is in accordance with the valuation rules set down by the Group.

As indicated in (11) Long-term trade receivables, the debtor risk in connection with the financing agreement with Parfip Benelux NV lies with Keyware. As a result of this, a provision was created of EUR 67 K in order to provide for the insolvency risks of the clients of to the “Card & Terminal Applications” business unit. This provision complies with the valuation rules established by the Group.

#### (15) Other receivables

This item can be broken down as follows:

in EUR K	31.12.2007	31.12.2006
Cash to be claimed - short term sale of DAC	50	-
VAT to be claimed	71	87
Various current accounts	6	5
Other	-	7
<b>Total</b>	<b>127</b>	<b>99</b>

#### (16) Accruals

This item can be broken down as follows:

in EUR K	31.12.2007	31.12.2006
Prepaid rent	5	28
Prepaid marketing expenses	-	91
Prepaid insurance	2	13
Prepaid commissions	333	464
Prepaid maintenance contracts	-	23
Prepaid remunerations	-	4
Other	5	3
Accrued income	25	1
<b>Total</b>		

The prepaid commissions are commissions paid to an independent third party who takes care of concluding the rental agreements. This party receives 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.

This also concerns the prepaid rent and expenses to be carried forward for amongst other things maintenance contracts, marketing and insurance.

#### (17) Capital Structure

At the end of December 2005 the capital of the Company was EUR 27.522 K and was represented by 96,617.226 shares.

During the course of the 2006 financial year, 2,537,500 '2005 Warrants' were exercised. As a result of this, the capital was increased to the effect of EUR 330 K and 2,537,500 new shares were issued. Following the exercise of the latent convertible bond via notarial deed of 25 May 2006, the capital was increased by EUR 400 K and 2,222,222 new shares were issued.

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 total amount of the subscription for these convertible bonds was EUR 6 million. The first group of bonds, totalling EUR 5,100 K (excluding interest), was converted into share capital of the Company by notarial deed on 19 September 2006. Based on this conversion, 43,637,515 shares of the Company were issued. A second conversion occurred on 26 September 2006, with an amount of EUR 500 K (excluding interest) being converted into share capital, which led to the issue of 4,284,744 shares. A third and final conversion occurred on 15 November 2006 in the amount of EUR 400 K (excluding interest), which led to the issue of 3,465,261 shares of the Company.

As per 31 December 2006 the capital of the Group amounted to EUR 39,908 K, represented by 152,764,468 shares.

Following the exercise of 300,000 '2005 Warrants' the capital was increased by notarial deed on 4 April 2007 by EUR 39 K and 300,000 new shares were issued.

Following the exercise of 200,000 'A Warrants' the capital was increased by notarial deed on 18 July 2007 by EUR 320 K and 2,000,000 new shares were issued.

Following the exercise of 6,250,000 'A Warrants' the capital was increased by notarial deed on 22 August 2007 by EUR 1,000 K and 6,250,000 new shares were issued.

Following the exercise of 298,750 'A Warrants' the capital was increased by notarial deed on 17 September 2007 by EUR 475 K and 2,968,750 new shares were issued.

Following the exercise of the automatically convertible bond, the capital was increased by notarial deed on 25 May 2007 by EUR 300 K and 1,875,000 new shares were issued.

The EGM of van 26 September 2007 agreed to decrease capital through setting off former losses to the effect of EUR 22,260 K.

In addition, the EGM of 26 September 2007 resolved for 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 exercise the share regrouping. Following the decision of the Board of Directors on 6 November 2007, on 3 December 2007 a transfer was made to this share combination. Through this the number of existing shares of 166,158,218 reduced to 3,323,164 shares.

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

The EGM of 27 May 2005 resolved a renewal of the authority of the Board of Directors regarding the authorized capital with a maximum amount equal to the corporate capital of the Company for a period of five years. The authority of the Board of Directors also applies to the capital increase through the introduction in kind and cash, through conversion of reserves, or of exercised premiums and includes the authority to exercise convertible bonds, warrants and obligations with subscription rights.

The decision was also taken to renew the power of the Board of Directors, for a period of three years, 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 the introduction in cash with discontinuance or limitation of the priority rights of the existing shareholders or through the introduction in kind in accordance with the legal provisions in case.

The Board of Directors is authorized, within the framework of the allowable capital and in the interest of the Company and with the observance of the legal provisions in case, 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 particular people, even if these people are not employees of the Company or her subsidiaries. Previous authorisations can also be applied for the tasks stated in article 605 of the Company Code.

The Board of Directors has the authority to alter the Company articles of association in accordance with the capital increase, determined with 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 in as far as specific majority of the votes is achieved.

#### (18) Provisions

This item can be broken down as follows:

in EUR K	31.12.2007	31.12.2006
On 01.01	25	1,015
Additions	-	-
Withdrawals	(15)	(990)
<b>On 31.12</b>	<b>10</b>	<b>25</b>

#### **Infolink/Declercq**

Infolink NV, represented by Mr Francis Declercq, resigned as Director and Executive Director of the Company as of 30 November 2001. As a result of this resignation the management agreement with Infolink NV was terminated by the Company on 6 December 2001. Parties have a dispute related to, inter alia, the proposal by the Board of Directors to not discharge Infolink NV for exercising its the mandate during the period 2001; this in anticipation of the investigation into the possible breach of contract by Infolink NV and the amount of severance pay owed to Infolink NV by the Company as a result of the termination of the management agreement.

On 11 March 2002 Infolink NV had protective attachment made on certain bank accounts of the Company in the amount of EUR 1,301 K. This amount relates to the severance pay demanded increased by interest and damages.

The arbitration decision of 16 March 2004 largely confirmed the claim of Infolink NV. The Company contested this arbitration decision before the Court of First Instance with the request to delete this arbitration decision. On 27 May 2005 the Court of First Instance in Brussels confirmed the arbitration decision of 16 March 2004. A summons to bring action to set aside the judgment of the Court of First Instance was lodged on 18 August 2005. The action to set aside the judgment was instituted on 12 September 2005.

The Board of Directors of Keyware Technologies NV has decided to lodge a complaint to bring an action as a plaintiff claiming damages in a criminal case due to forgery, abuse of confidence, abuse of the authorised capital and any other abuse that the investigation will determine against Infolink NV and Francis Declercq.

In 2005, within the framework of this complaint to bring an action as a plaintiff claiming damages in a criminal case due to forgery, abuse of confidence, abuse of the authorised capital and any other abuse that the investigation will determine, the examining magistrate considered a number of criminal offences, and the court sitting in chambers referred Infolink and Francis Declercq to the criminal court.

In light of the evolution in this dispute, the Board of Directors ordered the management to come to an amicable settlement with Infolink NV and Francis Declercq.

Within the framework of coming to an amicable settlement for the dispute with Infolink NV and Francis Declercq, on 16 March 2006 an out-of-court settlement was signed by both parties. This out-of-court settlement consists of the Company transferring 3,400,000 shares of Keyware Technologies NV, corresponding to a value of EUR 850 K (valuation of Keyware Technologies share at EUR 0.25), to Dexia NV, as Dexia NV has taken over the claim from Infolink. Since the Company does not have any of its own shares, this obligation was taken over by Pardel NV, which has deposited the 3,400,000 shares of Keyware Technologies NV on the securities account of Dexia NV.

Per 31 December 2005, a provision of EUR 850 K was accrued. In 2006 this provision has been taken back and a debt regarding Pardel SA has been expressed.

#### **Other**

The outstanding amount per 31 December 2007 namely EUR 10 K, concerns disputes with one supplier.

#### **(19) Automatically convertible loan**

Within the framework of the acquisition of Digital Access Control NV, the Company, at the end of April 2005, entered into a subscription agreement with Melitra Ltd, a company with its registered office in Hong Kong and previously the sole shareholder of Digital Access Control NV, whereby the Company issued two automatically convertible bonds for the total amount of EUR 700 K.

The ESM of 27 May 2005 unanimously voted to carry out this issue. The first ACB in the amount of EUR 400 K is automatically converted into shares in the Company on the date of the Ordinary Shareholders' Meeting of the company in the year 2006. The second ACB in the amount of EUR 300 K was automatically converted into shares in the Company on the date of the Ordinary Shareholders' Meeting of the company in the year 2007.

(20) Financial debts due after one year

This item can be broken down as follows:

in thousands of Euros	31.12.2007	31.12.2006
Financing ING	210	-
Credit facility Dexia	21	42
Dexia	-	63
<b>Total</b>	<b>231</b>	<b>105</b>

Keyware Transaction & Processing NV (formerly DMP), a fully owned subsidiary of the Group, has taken out an investment credit in the amount of EUR 176 K with Dexia Bank. This credit is guaranteed by a registration of mortgage on the land and accompanying building for an amount of EUR 109 K. The outstanding debt as per 31 December 2007 is EUR 61 K of which EUR 19 K is included in the financial liabilities due within one year.

The credit facility with Dexia concern investment credits with a total credit facility of EUR 2,975 K. Interest is owed per quarter and is set on the basis of the BIBOR plus 1.5% per quarter. The interest is due monthly at 1% of the non-requested part of the credit facility. The credit facility has certain requirements with regard to solvency ratios and cash flow ratios. As per 31 December 2001 the Group did not fulfil the requirement for cash flow so that negotiations started with Artesia with regard to a rearrangement of the debt. Following this all the outstanding debts concerning Artesia were presented as short-term debts.

The investment credit is guaranteed by a pledge on the Group's trading fund EUR 992 K to be increased by interest and commissions.

This credit is guaranteed for 75% of the capital and the interest to be paid by the government of Flanders.

During the course of 2005 the negotiations were rounded off with Dexia about redemption of the outstanding credits, namely EUR 231 K as per 30 June 2005. Within this framework a repayment scheme was obtained of 36 months, whereby during the first year EUR 57 K is repaid and then EUR 87 K per year. As of 31 December 2007 an amount of EUR 77 K is still outstanding and presented as short term debt.

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

- ✚ a solidary guarantee by Keyware Technologies NV of EUR 300 K in capital;
- ✚ submitting all shares in the name of B.R.V. Transactions NV.

The future redemption obligations as per 31 December 2007 with regard to long-term and short-term financial liabilities are as follows:

in EUR K	Per 31 December 2007
2008	411
2009	70
2010	60
2011 and later	90
<b>Total</b>	<b>631</b>

**(21) Leasing debts due after one year**

This item can be broken down as follows:

in EUR K	31.12.2007	31.12.2006
Sale & lease back Parfip	355	485
Fininacial leasing cars	33	12
Financial leasing office equipment	-	1
<b>Total</b>	<b>388</b>	<b>498</b>

On 24 March 2005 the Group entered into a financing agreement – financing of rental agreements – with Parfip Benelux NV. In concrete terms, this is a ‘form of sale and lease-back financing for the payment terminals. This financing agreement consists of the following subcontracts:

- ✚ financing 1 in the amount of EUR 230 K with a duration of 42 months and a monthly instalment of EUR 6 K. The applicable interest rate is 10%;
- ✚ financing 2 in the amount of EUR 230 K with a duration of 42 months and a monthly instalment of EUR 6 K. The applicable interest rate is 10%;
- ✚ financing 3 in the amount of EUR 231 K with a duration of 42 months and a monthly instalment of EUR 6 K. The applicable interest rate is 10%;
- ✚ financing 4 in the amount of EUR 230 K with a duration of 42 months and a monthly instalment of EUR 6 K. The applicable interest rate is 10%.

All of these subcontracts commenced on 1 April 2005.

On 25 April 2005 the Group entered into two additional subcontracts with the same party:

- ✚ financing 5 in the amount of EUR 216 K with a duration of 47 months and a monthly instalment of EUR 5 K. The applicable interest rate is 10%;
- ✚ financing 6 in the amount of EUR 222 K with a duration of 47 months and a monthly instalment of EUR 6 K. The applicable interest rate is 10%.

Both of these subcontracts commenced on 1 May 2005.

Finally, on 1 July 2005 the Group entered into the last subcontract with the same party in the amount of EUR 241 K with a duration of 47 months and a monthly instalment of EUR 6 K. The applicable interest rate is 10%.

The total ‘sale & lease back’ operation carried out in 2005 amounts to EUR 1,600 K.

On 1 October 2007 the Group entered into a financing agreement – financing of rental agreements – with Parfip Benelux NV. It concerns financing for an amount of EUR 397 K with duration of 48 months and a monthly repayment of EUR 10 K. The applicable interest base is 11.47%.

As per 31 December 2007 the total outstanding debt amounts to EUR 856 K of which EUR 355 K has been processed as a long term debt and EUR 501 K as a short term debt.

In addition, the Group has entered into various financial leases for amongst other things cars and office equipment. The total outstanding debt per 31 December 2007 amounts to EUR 54 K of which EUR 33 K has been processed as a long term debt and EUR 21 K as a short term debt.

The future redemption obligations as per 31 December 2007 with regard to long-term leasing liabilities are as follows:

in EUR K	Per 31 December 2007
2008	522
2009	171
2010	119
2011 and later	98
<b>Total</b>	<b>910</b>

## (22) Trade payables due after one year

This item can be broken down as follows:

in EUR K	31.12.2007	31.12.2006
Financing Parfip Benelux	3,075	2,780
<b>Total</b>	<b>3,075</b>	<b>2,780</b>

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 rent 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 at the start of the contract receives 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 final debtor risk is however at the charge of 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, Keyware has a deferred liability on the one hand and a deferred receivable on the other hand.

At the end of December 2007, the Group had a deferred receivable corresponding to the total amount of outstanding capital for the contracts sold in 2005, 2006 and 2007. This is a total amount of EUR 4,044 K, of which EUR 3,075 K relates to the long term and EUR 969 K to the short term.

### (23) Financial debts due within one year

This item can be broken down as follows:

in EUR K	31.12.2007	31.12.2006
Credit facility Dexia	21	20
ING	60	-
KBC	404	301
Dexia	77	91
Investment credit Alaric	-	39
<b>Total</b>	<b>562</b>	<b>451</b>

Effective 3 March 2006, KBC Bank granted an operating credit to the Group in the amount of EUR 100 K. The borrowers consist of Keyware Technologies NV, Keyware Smart Card Div NV, and Keyware Transaction & Processing NV. The credit was granted for an undefined term. The applicable interest rate is the EONIA plus a margin of 3%.

The Group pledged the following guarantees in connection with this credit:

- ✚ a second-rank mortgage with a principal of EUR 100 K on the apartment located at Victor Hugostraat, 94, 1030 Schaarbeek, and belonging to Keyware Transaction & Processing NV;
- ✚ a pledge on the part of Keyware Transaction & Processing NV of the contract dated 11 July 2003 with Cetelem Services Geie, Anspachlaan 1, 1000 Brussels.

On 4 September 2006, this amount was increased to EUR 145 K, still subject to the same conditions. Effective 1 December 2006, KBC Bank granted a supplementary provisional cash credit to the Group in the amount of EUR 302 K. This credit originally ran until 28 February 2007, has been extended until the end of October 2007 and once again been extended until 30 June 30 2008. The conditions described above (interest rate and guarantees) are also applicable to this credit.

For the notes regarding the other financial debts please refer to the financial debts due after one year.

### (24) Leasing liabilities due within one year

This item can be broken down as follows:

in EUR K	31.12.2007	31.12.2006
Sale & Lease back Parfip	501	444
Fin. leasing cars	20	11
Fin. Leasing office equipment	1	2
<b>Total</b>	<b>522</b>	<b>457</b>

For the notes please refer to (20) Leasing debts due after one year.

## (25) Shareholder advances

This item can be broken down as follows:

in EUR K	31.12.2007	31.12.2006
Pardel NV	-	173
Parana Management BVBA	19	19
Jagernaut NV	-	10
<b>Total</b>	<b>19</b>	<b>202</b>

Pardel NV, represented by Pierre Delhaize, provided current account advances in the amount of EUR 2,200 during the course of 2005. These advances bear interest at an annual rate of 3.75%. The majority of the advances provided in 2005 were paid back from the cash received from the issue of the convertible bond loan in 2006. The amount still outstanding as of 31 December 2006 consists of a balance and interest.

## (26) Trade payables

This item can be broken down as follows:

in EUR K	31.12.2007	31.12.2006
Trade payables	4,488	3,314
<b>Total</b>	<b>4,488</b>	<b>3,314</b>

Within the item trade payables, the subdivision presented below gives a clearer view of the outstanding liabilities.

in EUR K	Number of suppliers	
	31.12.2007	
Pending disputes	12	281
Repayment plans	15	928
Unclaimed amounts	1	110
Internal consultants	8	1,161
Supplier and client at the same time	5	274
Invoices to be received	-	282
Deferred liability Parfip	-	969
Current suppliers	-	483
<b>Total</b>	<b>-</b>	<b>4,488</b>

The trade payables contain for an amount of EUR 2,178 K overdue suppliers. These may be suppliers with repayment plans, suppliers with whom a dispute is pending, a supplier who currently cannot claim his debt, internal consultants or suppliers who are also clients.

At the end of December 2007 there were 15 repayment schemes with a total outstanding debt of EUR 928 K. As per 31 March 2008, EUR 120 K of this has already been repaid.

At the end of December 2007 there were 12 pending disputes with suppliers for a total outstanding debt of EUR 281 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 are 8 suppliers being independent suppliers of performances for the Group, such as i.e. - the CEO, CFO, COO, marketing director and software developers.

As stated under (8) Trade liabilities of over one year, the Group had, as per 31 December 2007, a latent liability and debt in accordance with the total amount relating to outstanding capital for contracts sold to Parfip NV in 2005, 2006 and 2007. This concerns a total amount of EUR 4,044 K, of which EUR 3,075 K related to long term and EUR 969 K to short term.

#### (27) Social and fiscal liabilities

This item can be broken down as follows:

in EUR K	31.12.2007	31.12.2006
Withholding tax	139	52
Social security	194	84
Salaries	25	43
VAT	194	252
Corporate income tax	50	46
Provision holiday pay	99	92
<b>Total</b>	<b>701</b>	<b>569</b>

At the end of December 2007 the relationship between outstanding and non-outstanding liabilities is as follows:

in EUR K	Non - overdue	Overdue	Total
Outstanding VAT	77	117	194
Withholding tax	33	106	139
Social security	90	104	194
Corporate income tax	43	7	50
Salaries	25	-	25
<b>Total</b>	<b>268</b>	<b>334</b>	<b>602</b>

As of 31 December 2006, the Group had no overdue VAT liabilities.

As of 31 December 2007 the outstanding VAT liability amount to EUR 194 K of which EUR 117 K is overdue.

Based on a tax audit carried out during 2006, the Group must repay VAT in the amount of EUR 423 K (including interest and fines). The VAT to be repaid relates almost entirely to the parent company, Keyware Technologies NV. During the audit, it was found that in accordance with Article 45 Section 1 of the VAT Code and Article 1 Section 2 of Royal Decree No. 3 dated 10 December 1969, during the 2003 and 2004 financial years the Company improperly deducted VAT with respect to goods and services destined for purposes falling outside the scope of the VAT.

In connection with repayment of this VAT, the Group has agreed on a repayment plan with the VAT administration. The outstanding amount at the end of December 2006 was EUR 246 K. At the end of December 2007, EUR 53 K of this was outstanding, which is overdue given that the repayment plan ran to the end of June 2007.

At the end of December 2006, the outstanding balance with respect to the RSZ was EUR 84 K, of which EUR 40 K was overdue. On 31 December 2007 the outstanding balance was EUR 194 K, of which EUR 104 K was overdue. After 31 December 2007, EUR 26 K of the outstanding liabilities was paid.

On 8 May 2007, Keyware Smart Card Div NV received a summons from the RSZ relating to its outstanding liability for the 4<sup>th</sup> quarter of 2006. This case was pleaded before the court on 22 June 2007 and a repayment plan with a period of 5 months was given by the court. At the end of February 2008, this amount was repaid.

On 8 June 2007, Keyware Transaction & Processing NV received a summons from the RSZ relating to its outstanding liability for the 4<sup>th</sup> quarter of 2006. This case was pleaded before the court on 7 September 2007 and a repayment plan with a period of 6 months was given by the court. At the end of February 2008, one payment was still due to be paid.

On 6 July 2007, Keyware Smart Card Div NV received a summons from the RSZ relating to its outstanding liability for the 1<sup>st</sup> quarter of 2007. This case was pleaded before the court on 28 September 2007 and a repayment plan with a period of 3 months was given by the court. At the end of January 2008, this amount was repaid.

On 31 August 2007, Keyware Transaction & Processing NV received a summons from the RSZ relating to its outstanding liability for the 1<sup>st</sup> quarter of 2007. This case was pleaded before the court on 5 October 2007 and a repayment plan with a period of 3 months was given by the court. At the end of February 2008, two payments were still due to be paid.

On 30 January 2007, Keyware Smart Card Div NV received a summons from the RSZ relating to its outstanding liability for the 3<sup>rd</sup> quarter of 2007. This case was pleaded before the court on 15 February 2008 and a repayment plan with a period of 6 months was given by the court. The first repayment was to be made at the beginning of April 2008.

As per 31 December 2006, the group had an outstanding liability for withholding taxes in the amount of EUR 52 K, of which nothing was overdue. At the end of December 2007, the outstanding balance with regard to withholding taxes was only EUR 139 K, of which 106 was overdue. After 31 December 2007 EUR 45 K of the outstanding overdue liabilities were repaid.

## (28) Other payables

This item is entirely related to settlement of the sale price with regard to the sale of the Security division to Risco Ltd. According to share purchase agreement, the sale price would be determined on 30 September 2006 based on the current assets less the short-term liabilities as 31 May 2006. As a consequence of disagreement between the parties regarding several items included in the calculation of the final sale price, this price has still not yet been fixed. However, in the meantime the purchaser has exercised its right to request the entire amount (EUR 500 K) of the deposited guarantee, so this amount has been deducted from the provisional proceeds of the sale. The amount with regard to possible repayment is currently estimated at EUR 162 K, Amount that as of 31 December 2007 is presented under the 'Other payables'

(29) **Accruals**

This item relates to rental and interest expenses to be accrued.

(30) **Business segment information**

Until June 1, 2006 the Group's activities could be divided into two segments or business units: the first business unit being the Security & Time Management and the second business unit being the Card & Terminal Applications. Since the sale of the Security & Time Management division, only Card & Terminal Applications remains.

From 1 January 2007, the Group distinguished between results relating to the activities resulting from payment terminals and results relating to the activities from credit card authorisations.

Consolidated profit and loss account per 31.12.2007 Amounts in EUR K	Terminals	Authorisations	Corporate	31.12.2007
Turnover (1)	3,025	807	-	3,832
Other operating income	61	8	116	185
Operating revenues	3,086	815	116	4,017
Goods for resale	(1,014)	-	-	(1,014)
Services and other goods	(2,099)	(638)	(516)	(3,253)
Personnel expenses	(797)	(170)	(96)	(1,063)
Depreciation	(3)	(362)	(44)	(409)
Provisions & amortization	(461)	-	-	(461)
Other operating expenses	(65)	(10)	(76)	(151)
<b>Operating expenses before extraordinary provisions &amp; expenses</b>	<b>(4,439)</b>	<b>(1,180)</b>	<b>(732)</b>	<b>(6,351)</b>
<b>Operating result before extraordinary expenses &amp; revenue</b>	<b>(1,353)</b>	<b>(365)</b>	<b>(616)</b>	<b>(2,334)</b>
Extraordinary provisions/expenses	-	(250)	(151)	(401)
Impairment	(3,192)	(1,593)	-	(4,785)
Profit from sale of subsidiaries	-	-	221	221
<b>Operating result after extraordinary expenses &amp; revenue</b>	<b>(4,545)</b>	<b>(2,208)</b>	<b>(546)</b>	<b>(7,299)</b>
Financial expenses	(591)	(38)	(41)	(670)
Financial income	524	2	1	527
<b>Result before taxation</b>	<b>(4,612)</b>	<b>(2,244)</b>	<b>(586)</b>	<b>(7,442)</b>
Deferred taxes	(306)	82	-	(224)
Tax over result	-	(5)	-	(5)
<b>Result after taxation</b>	<b>(4,918)</b>	<b>(2,167)</b>	<b>(586)</b>	<b>(7,671)</b>

(1) Revenue relating to authorisation includes EUR 676 K turnover, which in 2008 shall largely not be realised, given that the most important contacts were terminated as per 31 December 2007.

(2) In total 1,5 Mio EUR of expenses were invoiced - via management fees - by the parent company to its subsidiaries.

Segment data per 31.12.2007				
Figures in EUR K	Terminals	Authorisations	Corporate	31.12.2007
Fixed assets	12,147	560	844	13,551
<i>Consolidation differences</i>	5,248	-	-	5,248
<i>Intangible, tangible and financial assets</i>	7	560	672	1,239
<i>Deferred tax assets</i>	1,823	-	-	1,823
<i>Long-term trade and other receivables</i>	5,069	-	172	5,241
Current assets	2,030	161	153	2,344
<b>Segment assets</b>	<b>14,177</b>	<b>721</b>	<b>997</b>	<b>15,895</b>

Segment data per 31.12.2007				
Figures in EUR K	Terminals	Authorisations	Corporate	31.12.2007
Shareholders' equity	(22,754)	(2,419)	30,714	5,541
Deferred taxes and provisions	10	-	-	10
Liabilities due after one year	3,430	231	33	3,694
<i>Of which leasing debts</i>	355	-	33	388
<i>Of which trade payables</i>	3,075	-	-	3,075
Liabilities due within one year	3,557	722	2,371	6,650
<i>Of which trade payables</i>	2,247	415	1,826	4,488
<i>Of which social and fiscal debts</i>	405	159	137	701
<b>Segment liabilities</b>	<b>(15,757)</b>	<b>(1,466)</b>	<b>33,118</b>	<b>15,895</b>

The split for the 2006 financial year was as follows:

Consolidated profit and loss account per 31.12.2006				
Amounts in EUR K	Card & Terminal Applications	Security & Time Management	Corporate	31.12.2006
Turnover	5,227	1,677	2	6,906
Other operating income	73	94	143	310
<b>Operating revenues</b>	<b>5,300</b>	<b>1,771</b>	<b>145</b>	<b>7,216</b>
Goods for resale and raw materials	(2,833)	(533)	-	(3,366)
Services and other goods	(929)	(666)	(2,062)	(3,657)
Personnel expenses	(948)	(891)	(244)	(2,083)
Depreciation	(167)	(46)	(48)	(261)
Provisions and amortization	(400)	(214)	768	154
Other operating expenses	(239)	(23)	(1,003)	(1,265)
Corporate management fee	(1,032)	(276)	1,308	-
<b>Operating expenses before extraordinary provisions &amp; expenses</b>	<b>(6,548)</b>	<b>(2,649)</b>	<b>(1,281)</b>	<b>(10,478)</b>
<b>Operating result before extraordinary expenses &amp; revenues</b>	<b>(1,248)</b>	<b>(878)</b>	<b>(1,136)</b>	<b>(3,262)</b>
Extraordinary provisions	(6)	-	(526)	(532)
Impairment	-	(3,002)	(1,065)	(4,067)
<b>Operating result after extraordinary expenses &amp; revenues</b>	<b>(1,254)</b>	<b>(3,880)</b>	<b>(2,727)</b>	<b>(7,861)</b>
Financial expenses and income	19	(135)	(125)	(241)
<b>Result before taxation</b>	<b>(1,235)</b>	<b>(4,015)</b>	<b>(2,852)</b>	<b>(8,102)</b>
Taxes over result	94	(4)	-	90
<b>Result after taxation</b>	<b>(1,141)</b>	<b>(4,019)</b>	<b>(2,852)</b>	<b>(8,012)</b>

The corporate management fee relates to invoicing for services and expenses that are centralised in the parent company but benefit the branches. In the presentation for 2007, the management fee is processed directly within the relevant item.

Segment data per 31.12.2006 Amounts in EUR K	Card & Terminal Applications	Security & Time Management	Corporate	31.12.2006 (1)
Fixed assets	18,561	-	132	18,693
<i>Consolidation differences</i>	9,198	-		9,198
<i>Intangible, tangible and financial assets</i>	446	-	132	578
<i>Deferred tax assets</i>	2,129	-	-	2,129
<i>Long-term trade receivables</i>	6,788	-	-	6,788
Current assets	1,187	-	301	1,488
<b>Segment assets</b>	<b>19,748</b>	<b>-</b>	<b>433</b>	<b>20,181</b>

(1) Figures amended following the 2006 Annual Report

Segment data per 31.12.2006 Amounts in EUR K	Card & Terminal Applications	Security & Time Management	Corporate	31.12.2006 (1)
Shareholders' equity	(17,596)	-	28,801	11,205
Deferred taxes and provisions	108	-	-	108
Liabilities due after one year	3,306	-	77	3,383
<i>of which leasing debts</i>	485	-	13	498
<i>of which trade payables</i>	2,780	-	-	2,780
Liabilities due within one year	2,962	-	2,523	5,485
<i>of which trade payables</i>	1,942	-	1,372	3,314
<i>Of which advances to shareholders</i>	-	-	202	202
<b>Segment liabilities</b>	<b>(11,220)</b>	<b>-</b>	<b>31,401</b>	<b>20,181</b>

(1) Figures amended following the 2006 annual report

### (31) Geographic segment information

The geographic allocation of the turnover can be represented as follows:

in EUR K	31.12.2007	31.12.2006
Belgium	3,832	5,703
France	-	732
Switzerland	-	437
Luxembourg	-	26
Netherlands	-	3
Other	-	5
<b>Total</b>	<b>3,832</b>	<b>6,906</b>

The Group realized approximately 100% of its turnover in Belgium, compared with only 82.58% in 2006. The turnover realised outside Belgium is integrally related to the sale of the Security & Time Management division in 2006.

The geographic allocation of the turnover from continuing activities can be presented as follows:

in EUR K	31.12.2007	31.12.2006
Belgium	3,832	5,229
Outside Belgium	-	-
<b>Total</b>	<b>3,832</b>	<b>5,229</b>

### (32) Other operating income

As per 31 December 2006, the other operating income amounted to EUR 125 K of invoicing expenses made for discontinued activities.

At the end of December 2007 the other operating income amounted to EUR 82 K for invoicing. This relates mainly to invoicing for rental expense for the property at Anderlecht, Paepsemiaan 18g. The rental contract ended on 1 October 2007. For the period of September 2006 to 1 October 2007 this property was sub-let to Risco Ltd.

### (33) Services and other goods

This item can be broken down as follows:

in EUR K	31.12.2007	Contin. activ. 31.12.2006	Discon. act. 31.12.2006	Total 31.12.2006
Accommodation	269	218	63	281
Car expenses	230	197	53	250
Material expenses	123	122	18	140
Communication	219	140	26	166
Fees	1,444	1,785	322	2,107
Stock market listing	51	77	-	77
Representation	61	73	62	135
Sales and marketing	659	283	32	315
Administration	163	62	48	110
Other	34	34	42	76
Billing discontinued activities	-	(276)	276	-
<b>Total</b>	<b>3,253</b>	<b>2,715</b>	<b>942</b>	<b>3,657</b>

The fees contain, in addition to the remuneration of the management (CEO, CFO en COO) also fees paid to lawyers, auditors and other consultants. The dip in comparison to 2006 (continuing activities) can be explained by the fact that in 2006 a one-time fee was paid out within the framework of the issue of the convertible bond (in 2006).

### (34) Personnel expenses and personnel remunerations

The personnel expenses can be broken down as follows:

in EUR K		31.12.2007	cont. activ. 31.12.2006	
Employees (management not included)		39		20
Management		-		-

in EUR K		31.12.2007	Cont. activ. 31.12.2006	Disc. act. 31.12.2006	Total 31.12.2006
Salaries		853	813	629	1,442
Social security contributions		233	216	217	433
Group insurance		22	24	11	35
Misc. benefits (meal vouchers, etc)		75	56	25	81
Warrants		(132)	67	-	67
Other		12	16	9	25
<b>Total</b>		<b>1,063</b>	<b>1,192</b>	<b>891</b>	<b>2,083</b>

On 1 January 2004, a group insurance scheme was introduced for the benefit of the employees of the Group. This contract is exclusively financed by contributions from the Group.

The purpose of this insurance is to provide the following in addition to the legal requirements with regard to pensions:

- ✚ to establish a capital or annuity when the insured party reaches the normal pension age;
- ✚ to establish a capital or annuity for the designated beneficiaries of this scheme in the event that the insured party dies before the normal pension age.

The group insurance is intended for the employees of the Group who are employed full time or part time with an employment contract for an indefinite term and who are effectively employed at the time when the insurance is taken out.

### (35) Depreciation

This item can be broken down as follows:

in EUR K		31.12.2007	Cont. activ. 31.12.2006	Discon. act. 31.12.2006	Total 31.12.2006
Depreciation of intangible fixed assets		324	159	30	189
Depreciation of tangible fixed assets		85	56	16	72
<b>Total</b>		<b>409</b>	<b>215</b>	<b>46</b>	<b>261</b>

(36) Provisions and amortization

This item can be broken down as follows:

in EUR K	31.12.2007	Cont. activ. 31.12.2006	Discon act. 31.12.2006	Total 31.12.2006
Provisions	(15)	(954)	93	(861)
Amortization of inventories	57	282	101	383
Amortization of trade receivables	419	304	20	324
<b>Total</b>	<b>461</b>	<b>(368)</b>	<b>214</b>	<b>(154)</b>

(37) Expenses of an extraordinary nature

This item can be broken down as follows:

in EUR K	31.12.2007	Cont. activ. 31.12.2006	Discon act. 31.12.2006	Total 31.12.2006
Extrao. expenses and expenses	401	532	-	532
Impairment	4,785	4,067	-	4,067
Profit from sale of subsidiaries	(221)	-	-	-
<b>Total</b>	<b>4,965</b>	<b>4,599</b>	<b>-</b>	<b>4,599</b>

The impairment for an amount of EUR 4,785 K corresponds for an amount of EUR 3,950 K to an impairment on goodwill. The balance concerns an amortization of trade receivables in the short and long term (EUR 835 K).

The impairment of goodwill relates to an amount of EUR 2,357 K for the 'cash generating unit' payment terminals and to an amount of EUR 1,593 K for the 'cash generating unit' credit card authorisations.

With regard to the impairment of goodwill, we refer to that stated under (42) Impairment of assets.

The amortization regarding trade receivables relates to contracts concluded in 2004, 2005 and 2006 due to bankruptcy, shut-down of activities and sale of activities

As per 31 December 2006, the impairment of EUR 3,002 K relates to the disinvestment in the "Security & Time Management" division. The balance, being EUR 1,065 K concerns the impairment relating to the distribution contract for the distribution of electromagnetic locks and accompanying electronic keys "eKeys".

The profit from the sale of subsidiaries relates to the sale of 100% of shares in Digital Access Control NV. The sale price was EUR 250 K and payment is spread over a period of 3 years (see (6) Business Acquisitions/Disinvestments). In accordance with IAS 39 - Financial Instruments, this receivable is discounted. The actualised value is EUR 222 K, of which EUR 172 K is presented on the long term and EUR 50 K on the short term. The discounted rate is 10.84%.

(38) **Financial income and expenses**

The financial income can be represented as follows:

in EUR K	31.12.2007	Cont. activ. 31.12.2006	Discon act. 31.12.2006	Total 31.12.2006
Financial income from payment terminal contracts	520	413	-	413
Other	7	9	5	14
<b>Total</b>	<b>527</b>	<b>422</b>	<b>5</b>	<b>427</b>

The financial expenses can be represented as follows:

In EUR K	31.12.2007	Cont. activ. 31.12.2006	Discon act. 31.12.2006	Total 31.12.2006
Interest shareholder advances	3	63	-	63
Interest financial debts	43	21	12	33
Interest Parfip	561	376	-	376
Interest VAT	-	53	-	53
Interest factoring	-	-	25	25
Interest convertible bond	-	12	-	12
Interest leasing	11	10	1	11
Interest late payments	43	36	12	48
Other	9	37	10	47
<b>Total</b>	<b>670</b>	<b>608</b>	<b>60</b>	<b>668</b>

(39) **Income taxes**

in EUR K	31.12.2007	31.12.2006
<i>Result before taxation</i>	(7,442)	(8,102)
Tax at normal rate	(2,530)	(2,754)
Non-deductible impairment	2,525	2,741
Amortization of deferred tax assets	(490)	-
Fiscal losses not earlier included	-	-
Withdrawal fiscal losses	-	-
Occurrence and settlement of temporary differences	266	103
<b>Total</b>	<b>(229)</b>	<b>90</b>

(40) Remuneration in the form of shareholder capital instruments

(a) Overview

An overview can be given for the past two years

Summary	31.12.2007		31.12.2006	
	Warrants	Exercise price	Warrants	Exercise price
Outstanding at begin of period	50,395,000	0,24	5,082,500	0,13
Granted	7,000,000	0,16	48,000,000	0,25
Exercised	300,000	0,13	2,537,500	0,13
Exercised 2	11,218,750	0,16	-	-
Expired	1,300,000	0,25	150,000	0,13
<b>Outstanding and exercisable at end of period</b>	<b>44,576,250</b>	<b>0,16</b>	<b>50,395,000</b>	<b>0,24</b>
After reverse split	<b>891,525</b>			

As stated in (17) 'Capital structure' the ESM of 27 September 2007 opted for a combination of existing shares (reverse split) of the company, in which 50 shares give the right to 1 new share in the company. Additionally, authorisation was given to the Board of Directors to exercise the reverse split. As a consequence of this decision of the Board of Directors on 6 November 2007, the reverse split has been executed on 3 December 2007.

This also influenced the outstanding and exercisable warrants

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

The outstanding and exercisable warrants as per 31 March 2008 can be shown as follows:

Summary	31.03.2008	
	Warrants	Exercise price
2005 Warrants	2,095,000	0,13
A Warrants – convertible bond	-	-
B Warrants – convertible bond	24,000,000	0,16
2007 Warrants	5,700,000	0,16
<b>Outstanding and exercisable at end of period</b>	<b>31,795,000</b>	<b>0,16</b>

After share regrouping	31.03.2008	
	Warrants	Exercise price
2005 Warrants	41,900	6,50
A Warrants – convertible bond	-	-
B Warrants – convertible bond	480,000	8,00
2007 Warrants	114,000	8,00
<b>Outstanding and exercisable at end of period</b>	<b>635,900</b>	<b>7,90</b>

### **(b) 2005 Warrants**

The ESM 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. These warrants are valid for 5 years.

The warrants were valued in accordance with the Black-Scholes method, based on an exercise price of 6.5 EUR (being 0.13 EURO\* 50), an underlying share price on the award date of EUR 4, a volatility of 16%, an estimated exercise period of 5 years, no anticipated dividend, and a risk-free interest rate of 2.5%. Based on this, a value of EUR 2 K was obtained.

As per 31 December 2006, 2,395,000 “2005 Warrants” could still be exercised. Another 300,000 “2005 Warrants” were exercised during April 2007, so as per the end of December 2007 and per 31 March 2008 there were still 41,900 (2,095,000) “2005 Warrants” that could be exercised at a rate of 6.5 EUR (being 0.13 EURO\* 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 term 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.

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 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 on exercise of the warrants is equal to the lower amount of (i) 0.25 euro and (ii) the issue price of other securities that the Company may have issued after issuing the warrants and that can be exchanged for, exercised or converted into shares of the Company.

This means that as a result of the exercise of the “2007 Warrants” the exercise price of the “A and B Warrants” is identical to the exercise price of the “2007 Warrants”, being 8 EUR (being 0.16 EUR \*50).

Calculation of the value of these warrants in accordance with IFRS 2 – Share-based payment have not been not applied, since according to IFRS 2 this does not involve a share-based payment transaction.

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.

As per 31 December 2007, there were still 255,625 (12,781,250/50) "A Warrants" and 480,000 (24,000,000/50) "B Warrants" open.

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" were expired. As per 31 March 2008, there are only 480,000 (24,000,000/50) "B Warrants" still open.

#### (d) 2007 Warrants

At the EGM 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 EGM, attributing and definitive exercise thereof (via notary deed.) 5,900,000 warrants were attributed 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 8 EUR (0.16 EUR 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 8,00 EUR (being 0.16 EUR\*50) a price of the underlying share of 4 EUR, a volatility of 16%, an estimated exercise period of 5 years, no expected dividend and a risk-free interest base of 2,5%. Based on this, a value of EUR 5 K was recovered.

Of the 1,100,000 Warrants attributed to staff, 900,000 Warrants were not subscribed. At the end of December 2007, the 150,000 on which was subscribed were expired.

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

As per 31 December 2007 and 31 March 2008, there are still 114,000 (5,700,000/50) "2007 Warrants" exercisable at a share price of 8.00 EUR (being 0.16x50).

#### (41) Leases

The subsidiary Keyware Smart Card Div. NV is active in leasing payment terminals. In this connection, lease contracts are entered into with clients for a term of 48 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

Financial leases - in EUR K	31.12.2007	31.12.2006 (1)
Gross investment	6,587	7,717
- no longer than one year	1,085	453
- between one and five years	5,502	7,264
- longer than five years	-	-
Net investment	5,779	6,809
- no longer than one year	710	21
- between one and five years	5,069	6,788
- longer than 5 years	-	-
Unearned financing income	808	908
Residual values	-	-
Dep. for non-collectable receivables	274	176
Lease payments processed as income in 2006	-	3,233
Lease payments processed as income in 2007	2,338	-

(1) Presentation figures for 2006 were changed compared with the 2006 Annual Report.

#### (42) Impairment of assets

In accordance with IFRS 3 – Business combinations, goodwill that occurs in the consolidation must be tested for impairment every year. It may be necessary to do this more frequently if there are indications that the goodwill has not be valued correctly in accordance with IAS 36 – Impairment of assets. This standard furthermore requires that beginning with the acquisition date, goodwill is attributed to the cash-flow generating units that are assumed to benefit from the synergies of the business combinations. The cash-flow generating units to which the goodwill is attributed were tested for impairment on the balance sheet date by comparing the book value of the unit with the recoverable value.

The Group uses cash-flow estimates for the individual cash-flow generating units as stated in (30) 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 10.84%.

On the basis of the impairment tests performed at the end of December 2006, the Board of Directors was of the opinion that no impairment need to be recorded. Based on the impairment test carried out on 31 December 2007, the Board of Directors decided to record an impairment to the value of EUR 3,950 K, being firstly an amount of EUR 2,357 K relating to the ‘cash generating unit’ payment terminals, and also an amount of EUR 1,593 K relating to the ‘cash generating unit’ credit card authorisations.

#### (43) Profit per share

The 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.

in EUR K	31.12.2007	31.12.2006 (1)
Profit/(loss) per share	(2.3972)	(3.5266)
Profit/(loss) per diluted share	(2.3972)	(3.5266)
Weighted average outstanding shares	3,199,920	2,271,883
Weighted average outstanding shares, diluted	4,043,312	2,652,992

(1) Regarding 2006: taken into consideration the 'reverse split' of 03-12-2007

(2) Figures altered compared with press release

#### (44) Transactions with affiliated parties

##### *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, total remuneration (ex VAT) of EUR 225 K and EUR 221 K was awarded in 2007 and 2006. Variable remuneration of EUR 62 K was awarded in 2007 and again in 2006.

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 6 K and EUR 21 in 2007 and in 2006.

During the 2007 financial year, a fixed fee of EUR 24 K was invoiced by the management company, 3C Consulting BVBA, represented by Mr Bruno Kusters, for the supply of assistance in the streamlining of company processes and the implementation of an ERP package.

Apart from the remuneration awarded to Big Friend NV and 3C Consulting, no fees were paid to the directors during the 2007 period. However, the following warrants were granted to the directors or former directors by due to the decision of the ESM of 24 April 2007:

	Number before reverse split	Number after reverse split
Guido Van der Schueren	800,000 warrants	16,000 warrants
Pierre Delhaize	800,000 warrants	16,000 warrants
Johan Dejager	800,000 warrants	16,000 warrants
Stéphane Vandervelde	800,000 warrants	16,000 warrants
Advisam NV	300,000 warrants	6,000 warrants
Luc Pintens	300,000 warrants	6,000 warrants
Bruno Kusters	500,000 warrants	10,000 warrants

### Investors

No financial resources were placed at the disposal of the Group in 2006 and 2007:

### Long-term and short-term liabilities to affiliated parties

Shareholder advances (in EUR K)	31.12.2007	31.12.2006
Pardel NV	-	173
Parana Management BVBA	19	19
Jagernaut NV	-	10
<b>Total</b>	<b>19</b>	<b>202</b>

### (45) Commitments and conditional liabilities

Provisions for conditional 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 this assessment, a provision of EUR 401 K was established effective 31 December 2007. Given that the integral amount relates to the trade payables, this is processed accordingly as trade payables.

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.

### (46) Operational leases

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

Operational leases (in EUR K)	1 year	2-5 year	> 5 year
Office space rental	85	297	234
Operational car leasing	16	11	-
Office equipment	8	16	-

#### Building rental

Effective 1 October 2004, the Group concluded a rental agreement for premises located in the Paepsem Business Park in Anderlecht at Paepsemiaan 18G. This contract was cancelled on 13 July 2006. The term of notice for cancellation ran until 30 September 2007. The premises were sublet to the divested division (Risco Belgium NV) for the duration of this period.

Effective 8 September 2006, the Group concluded a rental agreement 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.

The rental contract has been concluded for a period of nine successive years, commencing on 14 September 2007 and legally expiring on 13 September 2015. However, either party can terminate the rental contract at the end of the sixth year, subject to compliance with a prior term of notice of 6 months.

In addition, the Group has concluded a rental contract for premises located at Rue Laid Burniat 4 in Louvain-la-Neuve. The total basic rent is EUR 12 K. This rent is indexed annually. The rental contract has been concluded for a period of nine successive years, commencing on 1 January 2005 and legally expiring on 31 September 2013. However, either party can terminate the rental contract at the end of each three-year period, subject to compliance with a prior term of notice of 6 months. This contract was terminated on 31 December 2007.

#### **Car leasing**

The Group had four contracts at the end of December 2007 relating to contracts for operational leasing. The terms of these contracts are 48 months. Besides leasing of the cars, all of these contracts include maintenance and repairs, insurance, and assistance.

#### **Office equipment**

During the course of 2006 and 2007 the Group entered into 3 contracts for operational leasing of two switchboards and various office equipment. The duration of these contracts is 60 months.

#### **(47) Termination of company activities**

During the 2006 financial year, the Group sold its “Security & Time Management” division. Further information concerning this can be found under (6) Business Acquisitions/ Disinvestments

During the 2007 financial year, the Group sold the Digital Access Control NV subsidiary. Further information concerning this can be found under (6) Business Acquisitions/ Disinvestments.

#### **(48) 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.

There is a mortgage on the building that is owned by Keyware Transaction & Processing NV in favour of the credit provider Dexia in the amount of EUR 109 K, and a pledge on the trading fund of Keyware Transaction & Processing NV in the amount of EUR 74 K.

In connection with the finalization of an operating credit agreement in the amount of EUR 100 K between Keyware Technologies NV, Keyware Smart Card Div NV, Keyware Transaction & Processing NV and KBC, a second-rank mortgage with a principal of EUR 100 K on the apartment located at Victor Hugostraat, 1030 Schaarbeek, and belonging to Keyware Transaction & Processing NV, was provided as a guarantee.

#### **(49) Exchange rate and hedging**

The Group did not engage in any hedging activities during the book years 2007 and 2006.

## (50) 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.

## (51) Important events after the balance sheet date

Events after the balance sheet date mentioned below take into consideration information up until 31 March, 2008.

- ✚ In the press release dated 20 March 2007, the Group indicated that the Board of Directors is considering the issuing of a convertible bond for an amount of between 4 and 5 Mio EUR. Despite the crisis on the financial markets, the board of Directors is confident that the issuing of this convertible bond can be concluded successfully. It is also clear at the moment, that the conditions (being interest rate, attribution of warrants and the suggested conversation price) against which this issuing shall take place is sufficiently attractive to candidate investors.
- ✚ The overdue trade payables as per 31 December 2007 amounted EUR to 2,178 K, for which a reimbursement plan has been agreed with 15 suppliers (EUR 928 K). Up to 31 March 2008 EUR 120 K had already been repaid. Further, there are 12 suppliers with pending cases (EUR 281 K).
- ✚ As of 30 January 2008, Keyware Smart Card Div NV had received a summons relating to its outstanding debt, for the third quarter of 2007, in respect of its social security contributions. This case was brought before the court on 15 February 2008 and a payment plan of a period of 6 months was given by the court. The first payment has been made at the beginning of April 2008.
- ✚ During the month of February and March 2008, advances of EUR 500 K were made by one shareholder, being Parana Management BVBA. These advances have allowed the Group to repay a number of overdue outstanding debts. These advances will be paid back with the cash income resulting from the proposed issue of the convertible bond or other capital increase.

## (52) Pending disputes

### Kinopolis Group NV

Kinopolis Group NV brought a lawsuit against Keyware Smart Card Div. NV before the Commercial Court of Brussels by means of a writ dated 19 September 2001. The lawsuit is based on an alleged wrongful termination by the latter party of an agreement for development of advanced ticketing software for use in various cinema complexes of Kinopolis in Belgium and other countries, with a claim for damages in the amount of EUR 551 K. In the context of this procedure, Keyware Smart Card Div. NV lodged 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.

Keyware Smart Card Div. NV pursued a 'descriptive seizure in respect of imitation' procedure against Kinopolis Group NV in 2002, which resulted in an expert report.

By means of a writ dated 18 June 2002, Keyware Smart Card Div. NV brought a lawsuit against Kinopolis Group NV before the Court of First Instance in Brussels with the objective of obtaining compensation from the latter party in the amount of EUR 930 K plus interest since 1 January 2002 on account of violation of intellectual property rights (with reference to the expert report). This procedure is pending before the court.

### Citibank

Citibank sued Keyware in summary proceedings on 12 December 2007. In its judgment by default of 20 December 2007, the Court ruled that, prima facie, Keyware could be held liable for non-performance of the parties' agreement and sentenced it to either continue the exploitation site in Louvain-la-Neuve or to establish a new site, subject to a penalty of EUR 10,000 per delaying day, up until 31 March 2008. Appeal was lodged against this default judgment of 30 December 2007 and introduced on 29 January 2008, to be heard in court in the course of 2008. Citibank also commenced a court proceeding on the merits based upon the same claims, which is currently pending before court. Meanwhile, Citibank served the default judgment upon Keyware, claiming EUR 100,664.64 for penalties forfeited. This claim for payment was appealed by Keyware before the competent Court for attachments, to be introduced on 1 February 2008.

At the end of March 2008, the parties agreed to settle this dispute out of court. The various pending court proceedings will be discontinued (removed from the docket) and the parties agree to terminate the case without any consideration being payable by either party. As per 31 March 2008, the settlement agreement remains yet to be signed."

### Carta +

On 20 April 2005, Keyware Smart Card Div. NV (a fully owned subsidiary) received a summons in bankruptcy with regard to an outstanding supplier liability in the amount of EUR 167 K.

At the end of June 2005, this case was argued for the first time in the Commercial Court. In a hearing on 20 September 2005, the case was referred to the docket by the Commercial Court. This liability was repaid in full at the end of December 2006, and the case was removed from the docket.

### 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 2007, the Group had 12 pending disputes with regard to supplier liabilities for a total amount of EUR 281 K.

## (53) Risk factors

In conformance with Article 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 that turnover growth will largely depend 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

Due to the close cooperation with Thales and as a result of the certification, Keyware to a large degree depends on this supplier for the continuity of production of the payment terminals (the most important supplier represents 6.32% of the outstanding supplier balance).

### Concentration of credit risks

The concentration of credit risks is limited due to the large number of users, which are spread over Belgium and to a certain extent 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 in terms of the IFRS. For more information, see (18) 'Provisions' and (52) 'Pending disputes'.

### Financial position

It is clear that the Group will have to acquire additional financial resources in 2008. In this regard, we refer to what is mentioned under (4) 'Going concern', and (51) 'Important events after the balance-sheet date'.

### Going concern/ continuity

See (4) 'Going concern' / continuity.

### Environment

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

### Personnel

The Group had 48 employees (personnel and consultants) on 31 December 2007.

**Statutory Information**

**STATUTORY AUDITOR'S REPORT TO THE GENERAL MEETING OF SHAREHOLDERS OF  
KEYWARE TECHNOLOGIES NV ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2007**

In accordance with the legal and statutory 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 financial statements as well as the required additional statements and information.

**Unqualified audit opinion on the balance and income statement for the financial year, with an emphasis of matter paragraph**

**Qualified audit opinion on the income statement for the previous financial year**

We have audited the financial statements for the year ended 31 December 2007, prepared in accordance with the financial reporting framework applicable in Belgium, which show a balance sheet total of 8.220 kEUR and a loss for the year of 16.371 EUR.

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

Our responsibility is to express an opinion on these 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 Reviseurs d'Entreprises / Instituut der Bedrijfsrevisoren*). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the 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 company'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 financial statements. We have assessed the appropriateness of accounting policies and the reasonableness of the significant accounting estimates made by the company as well as the overall financial statement presentation. We believe that these procedures provide a reasonable basis for our opinion.

In our report on the financial statements for the year ended 31 December 2005 we expressed a qualified opinion for the non impairment of intangible fixed assets (distribution right) amounting to 1.100 kEUR. This impairment has been fully charged to the income statement in 2006, which conform to our opinion should have been recorded in the previous financial year.

In our opinion, the financial statements for the year ended 31 December 2007, give a true and fair view of the company's assets and liabilities, its financial position and the results of its operations in accordance with the financial reporting framework applicable in Belgium, except for the comparing figures of the income statement for which a qualified opinion has been issued as stated in previous paragraph.

Without jeopardizing the above statement, we draw your attention to the fact that during 2007 and the previous periods the group suffered significant losses. The shareholders have in the past always taken the measures required to provide the necessary financial resources to guarantee the going-concern of the group. The annual report of the Board of Directors shows that in the near future the group could continue to obtain the required possible additional financial support of its current financial partners, in order to realize the approved business plan and to guarantee the going-concern of the group.

#### **Additional statements and information**

The preparation of the Directors' report and its content, as well as the Company's compliance with the Company Code and its bylaws are the responsibility of management.

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

- The Directors' report includes the information required by law and is consistent with the financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the company is facing, and on 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.
- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- There are no transactions undertaken or decisions taken in violation of the company's statutes or the Company Code that we have to report to you. The appropriation of results proposed to the general meeting complies with the legal and statutory provisions.
- The net assets have decreased below the half of the share capital. We would like to emphasize that, as a consequence, the Board of Directors should discuss the possible dissolution of the company with the General Meeting of Shareholders within the legal terms as mentioned in article 633 of the Company Code and should justify its proposal in a special report.

Merelbeke, 23 April 2008

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

## STATUTORY ANNUAL ACCOUNTS OF KEYWARE TECHNOLOGIES NV

### A. Balance sheet after distribution of profits on 31 December

in EUR K	31.12.2007	31.12.2006
<b>Fixed assets</b>	<b>5,932</b>	<b>21,257</b>
Formation expenses		
Intangible fixed assets	494	14
Tangible fixed assets	119	60
Land and buildings		
Installations, machinery and equipment	60	32
Furniture and vehicles	52	24
Leasing and similar rights	7	4
Assets under construction and advance payments		
Financial fixed assets	5,319	21,183
Affiliated companies	5,260	21,124
Investment in affiliates	5,260	21,124
Receivables	-	-
Companies with which there is a equity relationship		
Investment in affiliates	-	-
Receivables	-	-
Other financial fixed assets	59	59
Shares	-	-
Receivables and securities in cash	59	59
<b>Current assets</b>	<b>2,288</b>	<b>1,499</b>
Other Receivables due after one year	200	-
Inventories and work in progress	-	-
Inventories	-	-
Receivables due within one year	2,077	1,358
Trade receivables	1,865	890
Other receivables	212	468
Investments		
Own shares	-	-
Other investments	-	-
Cash and cash equivalents	3	1
Accruals	8	140
<b>Total assets</b>	<b>8,220</b>	<b>22,756</b>

in EUR K	31.12.2007	31.12.2006
<b>Shareholders' equity</b>	<b>5,104</b>	<b>19,341</b>
Capital	19,782	39,908
Share capital	19,782	39,908
Share premium	1,693	1,693
Reserves	-	-
Legal reserves	-	-
Unavailable reserves	-	-
Tax-free reserves	-	-
Available reserves	-	-
Profit carried forward (loss carried forward)	(16,371)	(22,260)
<b>Liabilities</b>	<b>3,116</b>	<b>3,415</b>
Liabilities due after one year	33	77
Financial liabilities	<b>33</b>	<b>77</b>
Subordinated loans	-	-
Non-subordinated bond loans	-	-
Leasing liabilities and similar debts	33	13
Credit institutions	-	64
Other loans	-	-
Trade payables	-	-
Suppliers	-	-
Liabilities due within one year	3,045	3,312
Liabilities due after one year that mature within the year	21	404
Financial liabilities	96	297
Credit institutions	77	95
Other debts	19	202
Trade liabilities	1,826	1,372
Suppliers	1,836	1,372
Social, salary and fiscal debts	136	281
Taxes	116	264
Salary and social liabilities	20	17
Other payables	965	958
Accruals	37	26
<b>Total liabilities</b>	<b>8,220</b>	<b>22,756</b>

**B. Profit and loss statement on 31 December**

in EUR K	31.12.2007	31.12.2006
Operating income	1,889	1,443
Turnover	1,539	1,234
Other operating income	350	209
Operating expenses	(2,596)	(2,768)
Goods for resale, raw and auxiliary materials	-	-
Services and other goods	(2,278)	(2,022)
Salaries, social security contributions and pensions	(98)	(176)
Amortization and depreciation on formation expenses and on intangible and tangible fixed assets	(45)	(49)
Amortization on inventories, work in progress and trade receivables	-	-
Provisions for risks and expenses (additions +, expenses and amortization -)	-	850
Other operating expenses	(175)	(1,371)
Operating result	<b>(707)</b>	<b>(1,325)</b>
Financial income	267	77
Income from financial fixed assets	267	70
Income from current assets	-	4
Other financial income	-	3
Financial expenses	(68)	(184)
Costs of liabilities	(44)	(117)
Amortization of current assets other than inventories, work in progress and trade receivables	-	1
Other financial expenses	(24)	(68)
Result from ordinary operations before taxes	<b>(508)</b>	<b>(1,432)</b>
Extraordinary income	1	10
Amortization of depreciation on financial fixed assets	-	-
Surplus value on the realisation of fixed assets	1	10
Other extraordinary income	-	-
Extraordinary expenses	15,864	6,392
Amortization and depreciation on formation expenses and intangible and tangible fixed assets	-	-
Amortization of financial fixed assets	(15,864)	(6,388)
Loss of value on the realisation of fixed assets	-	(4)
Other extraordinary expenses	-	-
Result for the period before taxes	<b>(16,371)</b>	<b>(7,814)</b>
Tax on the result		
Result of the period	<b>(16,371)</b>	<b>(7,814)</b>
Result of the period to be distributed	<b>(16,371)</b>	<b>(7,814)</b>

**C, Incorporation of the result**

in EUR K	31.12.2007	31.12.2006
<b>Loss balance to be incorporated</b>	<b>(38,631)</b>	<b>(22,260)</b>
Loss of the period to be incorporated	(16,371)	(7,814)
Loss from the previous period carried forward	(22,260)	(14,446)
<b>Withdrawal from shareholders' equity</b>	-	-
From the capital and the share premium	22,260	--
<b>Addition to shareholders' equity</b>	-	-
<b>Loss to be carried forward</b>	<b>(16,371)</b>	<b>(22,260)</b>
<b>Profit to be paid out</b>		

## ANNUAL REPORT OF THE COMPANY

In accordance with Article 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 2007 to 31 December 2007.

### I. Notes regarding the annual accounts

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 16,371 K, so the shareholders' equity amounts to EUR 5,104 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*

The financial assets comprise shareholdings with a net value of EUR 5,260 K.

##### *Other receivable due in over one year*

This item relates integrally to the receivable related to the sale of 100% of the shares of Digital Access Control NV.

The sale price will be paid by the purchaser in three parts, in accordance with the following breakdown:

- ✚ the sale price of EUR 50 K to be paid on the first anniversary of the contract date (22 August 2008) by the purchaser;
- ✚ the second part of the sale price being EUR 100 K to be paid before the second anniversary of the contract date by the purchaser;
- ✚ the third and final part of the sale price being EUR 100 K to be paid by the third anniversary of the contract date by the purchaser.

Accordingly, an amount of EUR 200 K is presented as a long term receivable.

##### *Trade receivables due within one year*

The receivables due within one year primarily comprise receivables from Group companies due to invoicing for operating expenses.

##### *Other receivables due within one year*

The other receivables involve current accounts with Group companies and a receivable of EUR 5 K following the sale of Able NV (balance). An amount of EUR 50 K related to the short term part of the receivables with regard to the sale of Digital Access Control NV.

#### *Net equity*

The net equity of the company has dropped and was affected by the loss during the financial year to the value of EUR (16,371) K.

#### *Liabilities due after more than one year*

This item includes financing in the amount of EUR 33 K. This item includes lease liabilities in the amount of EUR 33 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 21 K).

#### *Financial liabilities*

The financial liabilities consist primarily of advances received from certain shareholders/ investors (EUR 19 K) and a credit with Dexia (EUR 76 K)

#### *Trade payables*

The trade payables amount to EUR 1,826 K and include overdue debts in the amount of EUR 1282 K. Some of these overdue debts have not been claimed as per 31 December 2007, and there are repayment schemes for the balance.

#### *Social and fiscal liabilities*

As per 31 December 2007, there are three employees working for Keyware Technologies. The outstanding liabilities involve the liabilities for social security (EUR 9 K), withholding taxes (EUR 8 K), and a provision for holiday pay (EUR 11 K). The withholding tax is overdue for an amount of EUR 7 K.

The outstanding VAT amounts to EUR 108 K. Based on a tax audit (which took place in 2006), the Company must repay an amount of EUR 417 K in VAT (including interest and fines). During the audit, it was found that in according to Article 45 Section 1 of the VAT Code and Article 1 Section 2 of Royal Decree No. 3 dated 10 December 1969, during the 2003 and 2004 financial years the Company improperly deducted VAT with respect to goods and services destined for purposes falling outside the scope of the VAT.

In connection with repayment of this VAT, the Group has agreed on a repayment plan with the VAT administration. The outstanding amount at the end of December 2006 was EUR 264 K. As of the end of December, EUR 54 K is outstanding, amount that is overdue.

#### 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 1,005 K), sales and marketing expenses (EUR 488 K), accommodation expenses (EUR 241 K), and expenses associated with the stock exchange listing (EUR 51 K).

This item also includes car expenses totalling EUR 203 K, which are billed to the subsidiaries.

#### *Salaries, social security contributions and pensions*

As stated above, three people work for the company as per 31 December 2007.

#### *Extraordinary expenses and income*

The extraordinary expenses consist of the write-off of the interest in Keyware Smart Card Div NV for an amount of EUR 13.767 K and a write-off of the interest in Keyware Transaction & Processing NV for an amount of EUR 2.097 K.

*Proposed incorporation of the result*

The following proposal for incorporation of the loss for the 2007 period will be presented to the Shareholders' Meeting:

Loss of the period to be incorporated	(16,371,584)
Loss of the previous period carried forward	(22,259,651)
Loss balance to be distributed	(38,631,235)
Withdrawal from the capital	22,259,651
Addition to the unavailable reserve	0
Compensation of the capital	0
Result to be carried forward to the next period	(16,371,584)

## **II. Justification of the application of valuation rules under the going-concern assumption**

The company has incurred a loss during two successive periods, so in accordance with Article 96 of the Companies Code a justification must be given for application of the valuation rules under the going-concern assumption. Per 31 December 2007, the result to be carried forward is EUR 16,371 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 annual accounts have been prepared under the assumption of a going concern, which assumes that the assets are realised and the liabilities are paid as in normal company operations. As per 31 December 2007, the Group has incurred accumulated losses totalling EUR 16,371 K, which have primarily been financed by capital.

Despite the historic losses and the inability of the Group to achieve positive results and positive operating cash flows, in 2004 quite a few parties confirmed their confidence in the Group. Amongst other things, this was shown by the willingness of suppliers to convert their debts into capital, additional loans advanced by shareholders and investors, the willingness of suppliers to grant the Group extended payment terms despite the sometimes precarious cash position, etc. In addition, many shareholders, investors and suppliers converted their debts (or part of them) into capital on the occasion of the Extraordinary Shareholders' Meeting of 27 May 2005.

The confidence of these parties contributed to the growth of the Group in 2005. Not only did the Group achieve turnover growth of more than 40% in 2005, but it actually managed to achieve a positive result during the second half of 2005.

The favourable evolution in 2005 contributed to the fact that the Group successfully issued a convertible bond loan in 2006 for a total amount of EUR 6 million. A portion of this cash was used to repay several advances from shareholders. It was also used to further expand activities related to payment terminals.

Despite the growth and the favourable evolution of the cash flow, the Group still needed to receive additional financing in 2007. This was partly found through a number of warrant holders who exercised their A Warrants. Thus an amount of EUR 1,834 K was added to the capital.

For the further growth and the realisation of the 2008-2012 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.

In the press release dated 20 March 2008, the Group announced that the Board of Directors was considering a convertible bond for an amount of between 4 and 5 Mil EUR. Despite the crisis in the financial markets, the Board of Directors is confident that the exercise of this convertible bond can be successfully concluded. It is also clear at the moment that the conditions (being interest rate, the non-attribution of warrants and the supposed conversion price) against which this exercise shall take place are sufficiently attractive to candidate investors.

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 annual accounts thus do not contain any adjustments for 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 could no longer continue its activities as a going concern. The survival of the Group as a going concern depends on its ability to generate sufficient cash flow to fulfil its obligations on time, maintaining adequate financing, and 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 period**

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 April 2007 a further 300,000 "2005 Warrants" were exercised, through which 300,000 new shares were issued.

During July, August and September, 2,000,000 "A Warrants", 6,250,000 "A Warrants" and 2,968,750 "A Warrants" were exercised respectively. This increased capital by EUR 320 K, EUR 1,000 K and EUR 475 K respectively and 2,000,000, 6,250,000 and 2,968,750 new shares were issued.

Following the exercise of the subordinated convertible bond, the capital was increased, via the notary act of 25 May 2007, to the effect of EUR 300 K and 1,875,000 new shares were issued.

The EGM of 26 September 2007 resolved to reduce the capital by economizing on prior losses to the effect of EUR 22,260 K.

In addition, the EGM of 26 September 2007 resolved for 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.

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

## **VII. Information regarding subsidiaries**

None

## **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 interests**

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 2007, this procedure was not applied.

## **X. Risk factors**

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

### *Supplier dependence*

Due to the close cooperation with Thales and as a result of the certification, Keyware is to a large degree dependent on this supplier for the continuity of production of the payment terminals (the most important supplier represents 6.32% of the outstanding supplier balance).

### *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 (18) 'Provisions' and (52) 'Pending disputes' in the Consolidated Annual Report, which can be found on the Company's website ([www.keyware.com/investor info](http://www.keyware.com/investor%20info)).

#### *Financial position*

It is clear that the Group will have to acquire additional financial resources in 2008. In this regard, we refer to what is mentioned under item (4), 'Going concern or continuity' (51), 'Important events after the balance-sheet date'.

#### *Going concern*

We refer to that stated in the consolidated annual report (4) 'Going concern'.

#### *Environment*

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

#### *Personnel*

The Company had 3 employees (personnel and consultants) on 31 December 2007.

### **XI. Directors**

As per 31 March 2008, the Board of Directors has 6 members, two of whom are independent directors. The members of the Board of Directors are:

Director	Position	Main function	End date mandate: after SM for the period ending on
Guido Van der Schueren	Non-executive	Chairman	31 December 2008
Pierre Delhaize	Non-executive	Director	31 December 2009
Johan Dejager	Non-executive	Director	31 December 2008
Luc Pintens	Independent	Director	31 December 2009
Bruno Kusters	Independent	Director	31 December 2008
Big Friend NV represented by Stéphane Vandervelde	Executive - CEO	Director	31 December 2009

Advisam NV, represented by Mr Guy Warlop resigned as member of the Board of Director, as of 19 November 2007.

### **XII. Activities of the Auditor and companies with which the Auditor maintains a cooperation relationship**

Within the framework of Article 134.2 of the Companies Code, we state that the Auditor and the companies with which the Auditor has a cooperative relationship on professional grounds carried out additional assignments during the course of the period 2007 in the amount of EUR 13 K.

This performance included activities with regard to additional reporting with regard to contribution in kind, issuing of warrants, and fiscal work.

### **XIII. Requests to the Shareholders' Meeting**

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

- adopt the annual accounts over the period 2007 in full;
- discharge the directors for exercising their mandate during the past period;
- discharge the Auditor for exercising its mandate during the past period.

Drawn up in Zaventem on 17 April 2008

The Board of Directors,