

Quarterly report Q3 -2018

8 November 2018

KEY NUMBERS

Main result indicators for the first nine months of 2018

Revenues

- the Group has generated revenues of 14,126 kEUR compared to 13,773 kEUR for the same period in 2017, which represents an increase in revenues of 353 kEUR or 2.6% compared to the first nine months of 2017;
- the revenues for the first nine months of 2018 consist of 5,525 kEUR respectively from revenues related to terminals (compared to 6,607 kEUR on 30 September 2017) and 6,651 kEUR from revenues related to authorizations (compared to 6,266 kEUR on 30 September 2017). On the other hand, the contribution to the revenues of the software segment amounts to 1,950 kEUR (compared to 690 kEUR on 30 September 2017);
- when it comes to the terminal activity, the decrease of 1,082 kEUR or 16.4% is explained by a significantly lower number of new contracts signed in the first nine months of 2018 (especially in the first and third quarter) compared to 2017 with again a product mix consisting of more cheap terminals;
- on the other hand, the authorizations segment confirms the growth by an increase of 385 kEUR or 6.1% due to better commissions;
- the software segment has generated revenues of 1,950 kEUR, i.e. an increase of 1,260 kEUR or 182.6% compared to the same period in 2017. This increase is mainly due to the fact that Magellan is only since 1 July 2017 fully consolidated so that it is only included for one quarter whilst the 2018 figures include three quarters

Profitability indicators

- the operating profitability (EBITDA) for the first nine months amounts to 2,467 kEUR compared to 2,852 kEUR for the first nine months of 2017, which represents a decrease of 385 kEUR or 13.5%. This decrease can be attributed to the lower gross margin in the payment terminals segment, the integration of Magellan (more general expenses and personnel costs as well as EasyOrder's start-up phase);
- the profit before taxes amounts to 606 kEUR compared to 2,079 kEUR for the first nine months of 2017, i.e. a decrease of 1,473 kEUR or 70.9% due to both a lower operating result (EBIT) (1,316 kEUR lower) and a lower financial result (157 kEUR lower);
- the net profit amounts to 91 kEUR compared to a net profit of 1,388 kEUR for the first nine months of 2017, which implies a decrease of 1,297 kEUR or 93.4% compared to this. The decrease is due to the factors mentioned above

Key figures For the period ended on 30 September	First nine months	
	30.09.2018	30.09.2017
	kEUR (unaudited)	kEUR (unaudited)
Revenues	14,126	13,773
Profit/(loss) before taxes	606	2,079
Profit/(loss)	91	1,388
EBITDA	2,467	2,852
Gross margin (profit before taxes / revenues) (%)	4.3	15.1
Profit margin (net profit / revenues) (%)	0.6	10.1
EBITDA margin (EBITDA / revenues) (%)	17.5	20.7

Main result indicators for the third quarter of 2018

Revenues

- during the third quarter of 2018, the Group generated revenues of 4,384 kEUR compared to 4,763 kEUR for the same period in 2017, which represents a decrease in revenues by 379 kEUR or 8.0% compared to the third quarter of 2017;
- revenues of the third quarter of 2018 comprise of 1,486 kEUR respectively from revenues related to terminals (compared to 2,019 kEUR in 2017), 2,270 kEUR from revenues related to authorizations (compared to 2,136 kEUR in 2017) and 628 kEUR from activities related to software (compared to 608 kEUR in 2017);
- with respect to the terminal activity, it should be noted that the decrease of 533 kEUR (or 26.4%) is the highest of the current year. Part of the decrease is due to delays in the preparatory administrative process, which in some case caused the installations to take longer and could therefore not be recognized in the third quarter. This decrease of 26.4% causes this segment to decrease by 16.4% over 9 months;
- on the other hand, an increase of 134 kEUR or 6.3% compared to the third quarter of 2017 was recorded in the segment of authorizations. This is in line with the general increase of 6.1% over 9 months;
- the software segment records an increase of 20 kEUR or 3.3% in the third quarter of 2018

Profitability indicators

- the operational profitability (EBITDA) for the third quarter amounts to 514 kEUR compared to 788 kEUR for the third quarter of 2017, which is a decrease of 274 kEUR or 34.8%. This decrease results mainly from the lower gross margin of the payment terminals segment mainly in the third quarter, the higher general costs and the personnel costs of Magellan as well as EasyOrder's start-up phase;
- the result before taxes is a loss of 54 kEUR compared to a profit before taxes of 496 kEUR in the third quarter of 2017, or a decrease of 550 kEUR or 110.9% mainly due to a lower operating result (462 kEUR lower) and financial result (88 kEUR lower);
- the net result comes to a loss of 234 kEUR compared to a net profit of 328 kEUR for the third quarter of 2017, which implies a decrease of 562 kEUR or 171.3% compared to this. The decrease is due to the factors mentioned above

Key figures For the period ended on 30 September	3 rd quarter	
	30.09.2018	30.09.2017
	kEUR	kEUR
	(unaudited)	(unaudited)
Revenues	4,384	4,763
Profit/(loss) before taxes	(54)	496
Profit/(loss)	(234)	328
EBITDA	514	788
<i>Gross profit margin (profit before taxes / revenues) (%)</i>	<i>(1.2)</i>	<i>10.4</i>
<i>Profit margin (net profit / revenues) (%)</i>	<i>(5.3)</i>	<i>6.9</i>
<i>EBITDA margin (EBITDA / revenues) (%)</i>	<i>11.7</i>	<i>16.5</i>

REGULATED INFORMATION

Modified perimeter

Compared with the figures for the first nine months of 2017, the current figures for 2018 are influenced by the following change in the consolidation perimeter regarding Magellan.

The initial stake of 40% in this company under French law **Magellan SAS** acquired on 30 September 2016 was followed by the acquisition of the remaining 60% on 30 June 2017, changing the aforementioned company to a full-fledged subsidiary on that date.

This participation was recorded upon in the comparative year 2017 on the basis of the equity method until 30 June 2017. The contribution to the result of the first semester of 2017 amounted to a loss of 22 kEUR. From 1 July 2017, the results of Magellan are fully included in the consolidation. This translates into the contribution to revenues, EBITDA and net result of the third quarter of 2017 of respectively 593 kEUR, 241 kEUR and 71 kEUR. This makes abstraction of the result triggered by transition from the 40% participation to the 100% ownership, being a loss of 84 kEUR which was recorded amongst financial charges on 30 June 2017.

In concrete terms, this means that the comparative figures for 2017 only include 100% of Magellan's third quarter activities in the consolidation, whilst in the 2018 figures Magellan contributes for three full quarters.

MANAGEMENT REPORT ON THE FIRST NINE MONTHS AND THE THIRD QUARTER OF 2018

Management summary report and analysis of the results

The financial information in this management summary report should be read in conjunction with the condensed interim financial report en the consolidated accounts on 31 December 2017. This condensed interim report has not been audited, nor has it been subject to a limited review by the statutory auditor.

The key figures for the **first nine months of 2018** can be summarized as follows:

- The revenues and gross profit for the first nine months are as follows:

Gross profit	1st nine months		Difference
	30.09.2018	30.09.2017	
	kEUR	kEUR	
Revenues	14,126	13,773	353
Raw materials and consumables	(6,083)	(6,119)	36
Gross profit	8,043	7,654	389
Gross profit margin	56.9%	55.6%	

- the **consolidated revenues** for the first semester of 2018 amount to 14,126 kEUR compared to 13.773 kEUR for the same period in 2017, or an increase of 353 kEUR or 2.6%. The increase in revenues is mainly triggered by the software and authorization segment whilst the payment terminals segment recorded a decrease. With respect to the software segment the figures of 2018 include the three quarters of the Magellan activity compared to only one quarter in the comparative figures of 2017;
- the **other gains and losses** record an increase of 182 kEUR (+70.8%) which is mainly to be attributed to tax incentives on R&D;
- the **gross profit** in absolute amounts increases by 389 kEUR from 7,654 kEUR to 8,043 kEUR. The relative gross profit margin increased by 1.3 pp from to 55.6% to 56.9% due to the increasing importance of the software segment;
- the **personnel charges** amount to 1,608 kEUR and record an increase of 385 kEUR (+31.5%) which can be attributed to the integration of Magellan;
- the **depreciations and amortizations** amount to 1,067 kEUR compared to 504 kEUR in 2017, which is an increase of 563 kEUR (+111.7%). The increase is mainly resulting of the amortizations of intangibles, as well statutory as on those expressed at the occasion of the purchase price allocation;
- the **net impairment on current assets** amount to 1,331 kEUR compared to 1,043 kEUR over the same period in 2017, which comes to an increase of 288 kEUR (+27.6%). It relates in particular to allowances on finance lease receivables (bankruptcies, termination of activities or terminations of the contract) as well as allowances on inventories. The increase is due to a significantly higher number of bankruptcies and terminations in 2018;
- the **other operating charges** amount to 4,393 kEUR compared to 3,742 kEUR over the same period in 2017, or an increase of 651 kEUR (+17.34%). The increase is explained by the integration of Magellan;
- the **profit before taxes** amounts to 606 kEUR compared to 2,079 kEUR over the same period in 2017, which is a decrease of 1,473 kEUR (-70.9%). The decrease results from both a lower operating result (1,316 kEUR lower) and a lower financial result (157 kEUR lower);
- the **net profit** for the first nine months amounts to 91 kEUR compared to a net profit of 1,388 kEUR for the same period in 2017, or a decrease of 1,297 kEUR (-93.4%). This decrease results from the aforementioned factors

REGULATED INFORMATION

The key figures for the **third quarter of 2018** can be summarized as follows:

- The revenues and gross profit for the third quarter can be presented as follows:

Gross profit	3 rd quarter		Difference
	30.09.2018	30.09.2017	
	kEUR	kEUR	
Revenues	4,384	4,763	(379)
Raw materials and consumables	(2,093)	(2,235)	142
Gross profit	2,291	2,528	(237)
Gross profit margin	52.3%	53.1%	

- the **consolidated revenues** for the third quarter amount to 4,384 kEUR compared to 4,763 kEUR for the same period in 2017, or an decrease of 379 kEUR (-14.1%). The decrease in revenues is mainly due to the payment terminals segment as the authorizations and software segment record an increase;
- the **other gains and losses** record an increase of 44 kEUR (+41.5%) due to higher revenues related to R&D;
- the **gross profit** for the third quarter records a decrease of 237 kEUR or 9.4% in absolute terms whilst the relative gross profit margin only decreases by 0.8 pp from 53.1% to 52.3%;
- the **personnel charges** amount to 514 kEUR which is 122 kEUR higher compared to the same period in 2017, mainly due to higher employment at EasyOrder and Magellan;
- the **depreciations and amortizations** amount to 373 kEUR, the increase of 90 kEUR (+31.8%) being triggered by higher depreciations and amortizations on both intangible and tangible fixed assets due to capex;
- the **net impairment on current assets** amount to 297 kEUR compared to 298 kEUR over the same period in 2017. In terms of breakdown lower allowances on inventories are in balance with higher allowances on receivables;
- the **other operating charges** amount to 1,468 kEUR compared to 1,377 kEUR over the same period in 2017, whereby the increase of 91 kEUR (+6.6%) can be mainly attributed to higher sales and marketing costs;
- the **result before taxes** comes to a loss of 54 kEUR compared to a profit before taxes of 496 kEUR over the same period in 2017. The decrease of 550 kEUR (-110.9%) mainly results from a lower operating result (462 kEUR lower) and to a smaller extent a lower financial result (34 kEUR lower);
- the **net result** of the third quarter is a loss of 234 kEUR compared to a net profit of 328 kEUR over the same period in 2017, which is a decrease of 562 kEUR (-171.3%). This decrease mainly results from the abovementioned factors

REGULATED INFORMATION

Management executive report and analysis of the financial position

Main points of attention on the financial position on 30 September 2018

- the net equity amounts to 27,057 kEUR and represents 67.9% of liabilities. The percentage increase is mainly the result of the decrease of the balance sheet total, which decreased more significantly than the decrease in net equity itself;
- as changes of the net equity we can report the result of the period (91 kEUR), the purchase of own shares (223 kEUR and a write-off of -178 kEUR) as well as the capital increase due to the exercise of warrants (415 kEUR) and the distribution of an interim dividend (659 kEUR);
- the financial debts amount to 7,236 kEUR which is a decrease by 2,059 kEUR compared to 31 December 2017. The net decrease is the result of the reimbursements of the existing loans while no significant new loans were raised;
- the cash and cash equivalents amount to 4,211 kEUR on 30 September 2018 and increased by 886 kEUR compared to 31 December 2017

Key figures For the period ended on	30.09.2018	31.12.2017	30.09.2017
	kEUR	kEUR	kEUR
	(unaudited)	(audited)	(unaudited)
Net equity	27,057	27,433	27,978
Long-term and short-term financial debt and loans	7,236	9,295	9,862
Cash and cash equivalents	4,211	3,325	3,357
<i>Net equity / total liabilities (%)</i>	67.9	63.9	64.0
<i>Long term and short-term financial debt and loans / net equity (%)</i>	26.7	33.9	35.2

Important events of the first nine months of 2018

EASYORDER

During the first nine months of 2018, the new release with additional functionalities came out. Investments are being made in a digital marketing platform for customer acquisition. In addition to the far-reaching automation of communication with the prospects, this platform has the advantage that it is easier to operate outside the country's borders. There were collated marketing campaigns on various target groups of EasyOrder.

SHARE BUY-BACK

The 2017 share buyback programme has been terminated. On 30 September 2018, the Company holds 573,245 treasury shares, representing 2.54% of the number of shares. In total, 625,576 shares were acquired under this programme for 912 kEUR. There were 2 disposals for a total of 64,287 shares. For more information, reference is made to the press release of 5 June 2018.

The Board of Directors of 30 August 2018 has approved a new share buy-back programme for a maximum amount of 1,000 kEUR. The programme covers the period from 1 October 2018 to 30 September 2019. The programme has not yet started.

EXERCISE WARRANTS

During the first nine months of 2018, 730,000 warrants were exercised under the Warrant Plan 2014. The notarial deed was received on 27 June 2018. As a result of the exercise of the warrants, capital and issuance premiums have been increased by 270 kEUR and 145 kEUR respectively. The number of remaining warrants is 1,000,000. The exercise price is 0.569 EUR.

REGULATED INFORMATION

INTERIM DIVIDEND

In September 2018 an interim dividend of EUR 0.03 (three cents) per share was attributed, which corresponds to a gross amount of 659 kEUR.

Important subsequent events

CRIMINAL COURT CASE

On 6 November 2018 the first hearing day of the criminal proceedings was held. The second day is scheduled for 27 November 2018. A verdict can be expected by January 2019.

RESIGNATION DIRECTOR

Moirai Management BVBA, Director of Keyware Technologies, has notified its resignation. Keyware Technologies thanks Mister Johan Bohets for his involvement throughout the execution of his mandate.

No other subsequent events after 30 September 2018 need to be reported.

Outlook

Since 2017 the Group engages more into fintech by the acquisitions of Magellan and EasyOrder, as a result of which the activities of the Group have been expanded with a software segment.

Many resources are utilized for the development and continuous improvement of software and its sales.

It is expected that these activities represent a new phase of increasing recurring results and of internationalization of the Keyware Group. Both companies are part of a rapidly growing market and offer solutions that are still situated in the beginning of their product life cycle. It is also expected that the recurring revenues from software as from payment transactions should reach cruising speed by 2020.

Relating to the traditional segments, the policy is aimed at maintaining the current client base and the growth of the installed payment terminal base and authorization contracts. This can be obtained by further diversification and by focusing on sectors that are considered more stable or less cyclically sensitive. The current year 2018 had to cope more than in other years with the consequences of bankruptcies and terminations at SME and horeca. The further increase of authorization revenues confirms that cash payments are on their way back.

Finally synergies can result between the new software segment and the traditional segment of payment terminals and authorizations. This can be in both ways. As a result of Keyware Group's presence on the Belgian, French and German market and as a result of the investment in a digital marketing platform, growth can also be realized across the borders.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Condensed consolidated income statement

Consolidated income statement for the period ending on 30 September	First nine months		3 rd quarter	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	kEUR (unaudited)	kEUR (unaudited)	kEUR (unaudited)	kEUR (unaudited)
Continuing operations				
Revenues	14,126	13,773	4,384	4,763
Other gains and losses	439	257	150	106
Raw materials and consumables	(6,083)	(6,119)	(2,093)	(2,235)
Salaries and employee benefits	(1,608)	(1,223)	(514)	(425)
Depreciations and amortizations	(1,067)	(504)	(373)	(283)
Net impairment of current assets	(6) (1,331)	(1,043)	(297)	(298)
Other operating charges	(7) (4,393)	(3,742)	(1,468)	(1,377)
Operating profit / loss	83	1,399	(211)	251
Financial income	661	893	202	292
Financial expenses	(138)	(213)	(45)	(47)
Profit / loss before taxes	606	2,079	(54)	496
Taxes on the result	(515)	(669)	(180)	(168)
Result from associated enterprises	-	(22)	-	-
Profit / loss for the period from continued operations	91	1,388	(234)	328
Profit / loss for the period	91	1,388	(234)	328
Weighted average number of issued ordinary shares	21,507,041	21,468,151	21,507,041	21,468,151
Weighted average number of shares for the diluted result per share	23,047,049	23,518,447	23,047,049	23,518,447
Profit / loss per share from continued operations				
Profit per share	0.0042	0.0647	(0.0109)	0.0153
Profit per diluted share	0.0039	0.0590	(0.0102)	0.0139

Condensed consolidated statement of comprehensive income

Overview of comprehensive income for the period ending on 30 September	First nine months		3 rd quarter	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	kEUR	kEUR	kEUR	kEUR
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Profit / loss for the period	91	1,388	(234)	328
Other comprehensive income				
Translation differences	-	-	-	-
Revaluation at fair value of 'financial fixed assets available for sale'	-	-	-	-
Cash flow hedges	-	-	-	-
Taxes on other comprehensive income	-	-	-	-
Other comprehensive income (net of taxes)	91	1,388	(234)	328
Total realised and comprehensive income attributable to:				
The holders of equity instruments of the parent company	91	1,388	(234)	328
Non-controlling interests	-	-	-	-
Total realised and comprehensive income attributable to:				
The holders of equity instruments of the parent company	-	-	-	-
Non-controlling interests	-	-	-	-
Weighted average number of issued ordinary shares	21,507,041	21,468,151	21,507,041	21,468,151
Weighted average number of shares for the diluted result per share	23,047,049	23,518,447	23,047,049	23,518,447
Profit / loss per share from the continuing and discontinued operations				
Profit per share	0.0042	0.0647	(0.0109)	0.0153
Profit per diluted share	0.0039	0.0590	(0.0102)	0.0139

Condensed consolidated balance sheet

Consolidated statement of financial position	Notes	30.09.2018	31.12.2017	30.09.2017
		kEUR	kEUR	kEUR
		(unaudited)	(audited)	(unaudited)
Assets				
Consolidation goodwill	(8)	7,993	7,993	7,866
Other intangible fixed assets	(9)	6,381	6,679	6,820
Property, plant and equipment	(10)	863	992	821
Deferred tax assets		253	860	1,310
Receivables from finance leases	(11)	9,219	10,556	13,272
Other participations		-	-	400
Other assets		155	150	137
Non-current assets		24,864	27,230	30,626
Inventories		804	1,276	1,264
Receivables from finance leases	(12)	7,515	8,183	6,750
Trade and other receivables	(13)	2,287	2,812	1,695
Deferred charges		172	72	57
Cash and cash equivalents	CF	4,211	3,325	3,357
Current assets		14,989	15,668	13,123
Total assets		39,853	42,898	43,749
Equity and liabilities				
Issued capital	(14)	7,682	7,412	7,412
Share premiums		3,208	3,063	3,064
Other reserves		797	797	797
Treasury shares		(654)	(609)	(279)
Result carried forward		16,204	16,770	16,984
Equity attributable to owners of the parent company		27,057	27,433	27,978
Provisions	(15)	246	230	200
Deferred taxes	(16)	1,901	2,023	2,094
Borrowings	(17)	2,947	6,426	7,170
Lease obligations	(18)	-	39	72
Non-current liabilities		2,947	6,465	7,242
Trade, fiscal and social debts	(20)	2,583	3,129	2,456
Borrowings	(19)	4,289	2,869	2,692
Lease obligations	(18)	65	217	305
Other debts		113	31	80
Incurred costs and deferred revenue	(21)	652	501	702
Current liabilities		7,702	6,747	6,235
Total liabilities		10,649	13,212	13,477
Total equity and liabilities		39,853	42,898	43,749

REGULATED INFORMATION

Condensed consolidated cash flow statement

Consolidated cash flow statement for the period ending on 30 September	First 9 months	
	30.09.2018	30.09.2017
	kEUR (unaudited)	kEUR (unaudited) (*)
Cash flow from operating activities		
Profit for the period	91	1,388
Adjustments:		
- Deferred taxes	485	639
- Financial income	(661)	(893)
- Financial charges	138	213
- Depreciations and amortizations	1,067	504
- Net impairments on debtors and inventories	1,347	1,043
Operating cash flow before changes in the working capital components	2,467	2,894
Decrease / (increase) of inventories	423	(180)
Decrease / (increase) of financial lease receivables (non-current and current)	723	(502)
Decrease / (increase) of trade and other receivables	525	(719)
Decrease / (increase) of prepaids	(100)	(21)
Increase / (decrease) of trade and other debts	(464)	(383)
Increase / (decrease) of incurred costs and deferred revenue	151	234
<i>Changes in working capital components</i>	1,258	(1,571)
Increase / (decrease) in provisions	-	200
Increase / (decrease) in deferred tax liabilities	-	2,164
Non cash adjustments (provisions, deferred tax liabilities and other)	-	(2,000)
Paid rent	(138)	(129)
Received rent	661	893
Cash flow from operating activities	4,248	2,451
Cash flow from investing activities		
Acquisition of subsidiaries (net of cash)	-	(3,619)
Acquisition of intangibles and property, plant and equipment	(776)	(357)
Disposal of tangible fixed assets	136	85
(Increase) / decrease of guarantees	(5)	-
Dividend from associates	-	400
Profit / (loss) from associates	-	22
Cash flow from investing activities	(645)	(3,469)
Cash flow from financing activities		
Capital increase by the exercise of warrants	415	414
(Repayment) of borrowings (LT and ST)	(2,099)	(1,238)
Proceeds from borrowings (LT and ST)	40	4,525
(Repayment) of lease obligations (LT and ST)	(191)	(111)
Dividends paid	(659)	-
Purchase of treasury shares	(223)	(279)
Disposal of treasury shares	-	19
Cash flow from financing activities	(2,717)	3,330
Net (decrease) / increase in cash and cash equivalents	886	2,312
Cash and cash equivalents at the beginning of the period	3,325	1,045
Cash and cash equivalents at the end of the period	4,211	3,357

(*) as per the year-end presentation included in the Annual Report of 2017

REGULATED INFORMATION

Condensed consolidated statement of changes in shareholders' equity

Consolidated statement of changes in equity for the period	Issued capital	Share premium	Other reserves	Share buy back	Result carried forward	Attributable to owners of the parent company	Non-controlling interests	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Balance as at 01.01.2018	7,412	3,063	797	(609)	16,770	27,433	-	27,433
Profit for the period	-	-	-	-	91	91	-	91
Write-off treasury shares	-	-	-	178	(178)	-	-	-
Total realised and comprehensive income for the period	-	-	-	178	(87)	91	-	91
Purchase of treasury shares	-	-	-	(223)	-	(223)	-	(223)
Exercise of warrants	270	145	-	-	-	415	-	415
Paid dividends	-	-	-	-	(659)	(659)	-	(659)
Balance as at 30.09.2018	7,682	3,208	797	(654)	16,024	27,057	-	27,057

Consolidated statement of changes in equity for the period	Issued capital	Share premium	Other reserves	Share buy back	Result carried forward	Attributable to owners of the parent company	Non-controlling interests	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Balance as at 01.01.2017	7,194	2,868	797	(19)	15,596	26,436	-	26,436
Profit for the period	-	-	-	-	1,388	1,388	-	1,388
Total realised and comprehensive income for the period	-	-	-	-	1,388	1,388	-	1,388
Purchase of treasury shares	-	-	-	(279)	-	(279)	-	(279)
Disposal of treasury shares	-	-	-	19	-	19	-	19
Exercise of warrants	218	196	-	-	-	414	-	414
Balance as at 30.09.2017	7,412	3,064	797	(279)	16,984	27,978	-	27,978

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT**(1) Identification**

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

This condensed interim financial report for the first nine months ended 30 September 2018 comprises the consolidated balance sheet and results of the Company and its subsidiaries.

This condensed consolidated interim financial report was approved for publication by the Board of Directors of 8 November 2018.

This condensed consolidated interim report *has not been audited*.

(2) Statement of Conformity

Mr Stéphane Vandervelde (CEO) and Mr Alain Hubert (CFO) hereby declare that, to the best of their knowledge, the summary financial reports for the nine-month period ending on 30 September 2018, have been prepared in accordance with IAS 34 “Interim financial reporting”, as approved within the European Union, and that these present a true and fair view of the assets, liabilities, financial position and profit or loss of the company and its subsidiaries, which have been included fully in the consolidation, and that the interim management report provides a true and fair view of the important events that have occurred in the first nine months of the financial year, including important transactions with associated parties and their impact on the consolidated financial statements, together with a description of the most important risks and uncertainties for the remaining three months of the financial year.

(3) Principal valuation principles**(a) Basic principle**

The condensed consolidated interim financial report has been prepared in accordance with the International Financial Reporting Standards (IFRS), as approved for use by the European Union, and in particular the International Accounting Standard (IAS) 34 (Interim financial reporting).

This report does not contain all the information that is required to be reported in the complete consolidated financial statements and must be read in conjunction with the consolidated financial statements for the financial year ending on 31 December 2017.

The preparation of this condensed financial report requires the management to make estimates and assumptions, which have an effect on the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities on the date of this condensed consolidated interim financial report and the reported amounts of revenues and charges during the reporting period. If it should appear in the future that these estimates and assumptions, which are considered reasonable by the management at this time and under the given circumstances, differ from the actual results, the original estimates and assumptions will be adjusted. The effects of these changes will be reflected in the period in which they are considered to be necessary.

(b) Reporting currency

The reporting currency of Keyware Technologies NV is the EURO. All amounts are rounded off to the nearest thousand, unless stated otherwise.

(c) Changes in the accounting valuation principles and disclosure of information**Paragraaf mankeert*****New and revised Standards and Interpretations applied by the Group***

During the present financial year, the Group applied all new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, that are relevant for its activities and that became applicable for the accounting period starting on 1 January 2018.

The following new and revised Standards and Interpretations issued by the IASB and the IFRIC, as far applicable for the Group, take effect as from 1 January 2018:

- ▶ Adjustments to IFRS 2 – Share based payments – classification and valuation
- ▶ IFRS 9 – Financial instruments
- ▶ IFRS 15 – Revenues from contracts with customers : has been adopted earlier in 2017 together with IFRS 16 – Leases (taking effect as from 1 January 2019 onwards)
- ▶ Annual Improvement process – 2014-2016

The adoption of these modifications has not lead to any significant changes in the principles of the financial reporting of the Group.

(4) Seasonal activities

Notwithstanding the fact that the summer months are associated with a reduced activity in the segment of payment terminals, impacting the third quarter, the figures do not show any significant seasonal patterns.

With respect to the software segment it should be mentioned that the peak of the activity and revenues traditionally lies in the second semester (and mainly the fourth quarter).

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(5) Segment information

The Group's reporting is based on operational divisions or segments per nature of activities. In this respect the following breakdown in 4 segments is made:

- ▶ The payment terminals segment comprises rent, sale and installations of payment terminals as well as activities with respect of helpdesk, maintenance and interventions;
- ▶ The authorizations segment relates to revenues with respect of payment transactions and authorization services, transaction management for third parties, loyalty processing and the rendering of analyses, etc;
- ▶ The corporate segment. A series of group supporting activities, such as finance and administration, costs relating to stock quote, etc are reported as unallocated items in this segment;
- ▶ The software segment which comprises the activities of Magellan SAS and EasyOrder BVBA

The first segment comprises the activities of Keyware Smart Card Division NV and Keyware Transactions & Processing GmbH. With respect to the German subsidiary this only relates to a portion of its activities and the company also will generate revenues from authorizations.

The second segment comprises the Belgian companies Keyware Transaction & Processing NV and PayItEasy BVBA, as well as the other activities of Keyware Transactions & Processing GmbH.

The segment information for the first 9 months as at **30.09.2018** can be presented as follows:

In kEUR	30.09.2018	30.09.2018	30.09.2018	30.09.2018	30.09.2018
	Terminals	Authorizations	Corporate	Software	Total
Segment information	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Continuing operations					
Revenues	5,525	6,651	-	1,950	14,126
Other gains and losses	247	28	38	126	439
Raw materials and consumables	(915)	(5,122)	-	(46)	(6,083)
Salaries and employee benefits	(790)	(145)	(68)	(605)	(1,608)
Depreciations and amortizations	(38)	-	(181)	(848)	(1,067)
Net impairment of current assets	(1,315)	-	-	(16)	(1,331)
Other operating charges	(2,228)	(595)	(660)	(910)	(4,393)
Operating profit / loss	486	817	(871)	(349)	83
Financial income	655	-	-	6	661
Financial expenses	(40)	(1)	(94)	(3)	(138)
Profit / loss before taxes	1,101	816	(965)	(346)	606
Taxes on the result	(616)	(21)	-	122	(515)
Result from associated enterprises	-	-	-	-	-
Profit / loss for the period from continued operations	485	795	(965)	(224)	91
Profit / loss for the period	485	795	(965)	(224)	91

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The segment information for the first 9 comparative months as at **30.09.2017** is as follows:

In kEUR	30.09.2017	30.09.2017	30.09.2017	30.09.2017	30.09.2017
	Terminals	Authorizations	Corporate	Software	Total
Segment information	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Continuing operations					
Revenues	6,607	6,266	210	690	13,773
Other gains and losses	153	4	22	78	257
Raw materials and consumables	(1,303)	(4,816)	-	-	(6,119)
Salaries and employee benefits	(947)	(98)	(81)	(97)	(1,223)
Depreciations and amortizations	(39)	-	(183)	(282)	(504)
Net impairment of current assets	(1,008)	(35)	-	-	(1,043)
Other operating charges	(2,477)	(595)	(320)	(350)	(3,742)
Operating profit / loss	986	726	(352)	39	1,399
Financial income	893	-	-	-	893
Financial expenses	(52)	(1)	(159)	(1)	(213)
Profit / loss before taxes	1,827	725	(511)	38	2,079
Taxes on the result	(710)	-	-	41	(669)
Result from associated enterprises	-	-	-	(22)	(22)
Profit / loss for the period from continued operations	1,117	725	(511)	57	1,388
Profit / loss for the period	1,117	725	(511)	57	1,388

The segment information for the **third quarter of 2018** can be presented as follows:

in kEUR	30.09.2018	30.09.2018	30.09.2018	30.09.2018	30.09.2018
	Terminals	Authorizations	Corporate	Software	Total
Segment information	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Continuing operations					
Revenues	1,486	2,270	-	628	4,384
Other gains and losses	84	16	22	28	150
Raw materials and consumables	(343)	(1,750)	-	-	(2,093)
Salaries and employee benefits	(230)	(58)	(20)	(206)	(514)
Depreciations and amortizations	(13)	-	(59)	(301)	(373)
Net impairment of current assets	(281)	-	-	(16)	(297)
Other operating charges	(694)	(192)	(275)	(307)	(1,468)
Operating profit / loss	9	286	(332)	(174)	(211)
Financial income	204	-	-	(2)	202
Financial expenses	(11)	-	(32)	(1)	(45)
Profit / loss before taxes	202	285	(364)	(177)	(54)
Taxes on the result	(220)	-	-	61	(180)
Result from associated enterprises	-	-	-	-	-
Profit / loss for the period from continued operations	(18)	264	(364)	(116)	(234)
Profit / loss for the period	(18)	264	(364)	(116)	(234)

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The segment information for the third quarter of **2017** can be presented as follows:

in kEUR Segment information	30.09.2017	30.09.2017	30.09.2017	30.09.2017	30.09.2017
	Terminals	Authorizations	Corporate	Software	Total
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Continuing operations					
Revenues	2,019	2,136	-	608	4,763
Other gains and losses	26	2	-	78	106
Raw materials and consumables	(596)	(1,639)	-	-	(2,235)
Salaries and employee benefits	(281)	(29)	(26)	(89)	(425)
Depreciations and amortizations	(14)	-	(58)	(211)	(283)
Net impairment of current assets	(298)	-	-	-	(298)
Other operating charges	(768)	(184)	(82)	(343)	(1,377)
Operating profit / loss	88	286	(166)	43	251
Financial income	292	-	-	-	292
Financial expenses	(13)	-	(34)	-	(47)
Profit / loss before taxes	367	286	(200)	43	496
Taxes on the result	(185)	-	-	17	(168)
Result from associated enterprises	-	-	-	-	-
Profit / loss for the period from continued operations	182	286	(200)	60	328
Profit / loss for the period	182	286	(200)	60	328

(6) Net impairment of current assets

Net impairments of current assets for the **first nine months** of 2018 are follows:

Net impairment of current assets	First nine months	
	30.09.2018	30.09.2017
	kEUR	kEUR
Impairment of finance lease receivables	1,282	912
Write-offs of inventories	49	131
Total	1,331	1,043

This mainly concerns impairments recorded on finance lease receivables. These impairments or write-offs are the result of bankruptcies, discontinued operations or the termination of contracts by customers.

The figures for the **third quarter** are respectively as follows:

Net impairment of current assets	3 rd quarter	
	30.09.2018	30.09.2017
	kEUR	kEUR
Impairment of finance lease receivables	416	288
Write-offs of inventories	(119)	10
Total	297	298

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(7) Other operating charges

Other operating charges for the **first nine months** can be specified as follows:

Other operating charges	First nine months	
	30.09.2018	30.09.2017
	kEUR	kEUR
Accommodation costs	177	88
Car related costs	283	280
Materials costs	87	57
Communication costs	159	131
Fees	2,290	2,263
Subcontractors	327	78
Corporate	56	54
Representation	140	118
Sales & marketing	529	345
Temporary personnel	30	87
Administration	221	199
Non-deductible VAT	94	42
Total	4,393	3,742

The increase in other operating charges is mainly due by higher expenses relating to sales and marketing, and also Magellan's integration. The caption subcontractors exclusively relates to Magellan.

Other operating charges for the **third quarter** can be presented as follows:

Other operating charges	3 rd quarter	
	30.09.2018	30.09.2017
	kEUR	kEUR
Accommodation costs	60	43
Car related costs	83	88
Materials costs	20	32
Communication costs	47	29
Fees	732	839
Subcontractors	116	78
Corporate	23	8
Representation	49	38
Sales & marketing	219	98
Temporary personnel	13	18
Administration	78	103
Non-deductible VAT	28	3
Total	1,468	1,377

The increase in other operating charges in the third quarter is mainly due to more expenses relating to sales and marketing.

(8) Consolidation goodwill

This caption can be presented as follows:

Consolidation goodwill	30.09.2018	31.12.2017	30.09.2017
	kEUR	kEUR	kEUR
Keyware Smart Card Division	5,248	5,248	5,248
EasyOrder	231	231	232
Magellan	2,514	2,514	2,386
Total	7,993	7,993	7,866

Goodwill is tested for impairment on the level of the cash generating units, which is the lowest level on which goodwill is monitored for management purposes. The impairment test is carried out on each balance sheet date.

Within the Keyware Group, the following cash flow generating units are defined, being:

- ▶ the cash flow generating unit with regard to payment terminals (the activities of Keyware Smart Card Division NV);
- ▶ the cash flow generating unit with regard to authorizations (the activities of Keyware Transaction & Processing NV and PayItEasy BVBA);
- ▶ the cash flow generating unit with regard to software (the activities of the companies EasyOrder BVBA and Magellan SAS)

The first goodwill amount exclusively relates to the cash flow generating unit with respect to payment terminals, Keyware Smart Card Division. When performing impairment tests, the realizable value is based on the value in use which is calculated by discounting the future cash flows from the continuous use of the cash flow generating unit. The future cash flows are based on a cash flow forecast as approved by management and Board of Directors of the Company, taking into account a time frame of 5 years. Based on these most recently performed impairment tests on 31 December 2017, it was concluded that no impairment loss needed to be recorded.

As a result of the acquisitions in 2017 the cash flow generating unit of software arose, comprising Magellan and EasyOrder. We refer to the appropriate chapter in the Annual Report of 2017 for further guidance to the determination of these amounts. Given the recent character of these acquisitions no impairment has been tested at the end of 2017. The first impairment test will be performed at the end of 2018 as such tests are not performed on an intermediate basis.

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(9) Other intangible fixed assets

This caption can be detailed as follows:

Other intangible fixed assets	30.09.2018	31.12.2017	30.09.2017
	kEUR	kEUR	kEUR
Client base	1,183	1,325	1,373
Intellectual property (IP)	5,198	5,354	5,447
Total	6,381	6,679	6,820

Client base relates mainly to Magellan. The net book value amounts 1,120 kEUR and is amortized over 10 years on a straight line basis. To a lesser extent client bases relates to the asset deal with GlobalPay NV, for which the purchase price has been partially allocated to client base. The net book value amounts to 63 kEUR.

IP mainly relates to the allocated value to Magellan's IP and R&D capitalizations. The net book value amounts to 4,743 kEUR. IP and R&D are amortized on a straight line basis over 20 and 3 years respectively.

To a lesser extent IP relates to the payment app EasyOrder, acquired as per 1 January 2017. The attributed value amounts to 700 kEUR. This amount is amortized on a straight line basis over 5 years so that the net book value amounts to 455 kEUR.

These items are subject to annual impairment testing.

(10) Property, plant and equipment

This caption can be detailed as follows:

Property, plant and equipment	30.09.2018	31.12.2017	30.09.2017
	kEUR	kEUR	kEUR
Furniture, IT and vehicles	778	664	400
Right-of-use assets	54	237	310
Leased assets	31	91	111
Total	863	992	821

The anticipated application of IFRS 16 triggered already in 2017 the recognition of 'right-of-use assets' for the remaining part of the lease term of the leased premises. An early adoption had been decided with effect at 1 January 2017 without any adjustment to the comparative periods. The net book value of these leased assets amounts to 54 kEUR at 30 September 2018.

On the other hand a net book value of 268 kEUR has been recorded as at 30 June 2017 relating to Magellan. This relates to tangible fixed assets and leased assets ('right-of-use assets') for respective amounts of 53 kEUR and 215 kEUR. Those assets are fully depreciated as at 30 September 2018.

During the first nine months of 2018 the vehicles fleet has been renewed which triggered on the one hand investments and on disposals of elder vehicles (especially leased cars). We refer to the cash flow statement.

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(11) Receivables from finance leases

This caption can be summarized as follows:

Receivables from finance leases	30.09.2018	31.12.2017	30.09.2017
	kEUR	kEUR	kEUR
Outstanding capital contracts	9,550	10,887	13,672
Provision for cancellation contracts	(331)	(331)	(400)
Total	9,219	10,556	13,272

This caption records the long term portion of the finance lease receivables relating to payment terminals, accounted for on the basis of IAS 17 - Leases. The decrease of this caption reflects both the decrease in the number of newly signed contracts and the higher number of terminations and bankruptcies.

(12) Receivables from finance leases

The short term finance lease receivables can be detailed as follows:

Receivables from finance leases	30.09.2018	31.12.2017	30.09.2017
	kEUR	kEUR	kEUR
Outstanding capital contracts	8,586	9,254	7,852
Provision for cancellation contracts	(1,071)	(1,071)	(1,102)
Total	7,515	8,183	6,750

The decrease of this caption is triggered by both higher collections and less new contracts relating to payment terminals. In case of a decrease in the number of new contracts there are less long term and short term receivables relating to finance leases. As both long term and short term finance lease receivables decrease, is a reflection of the lower number of ongoing rental agreements compared to 31 December 2017.

(13) Trade and other receivables

The caption can be detailed as follows:

Trade and other receivables	30.09.2018	31.12.2017	30.09.2017
	kEUR	kEUR	kEUR
Trade receivables	659	1,179	374
Invoices to be issued	881	568	530
Creditnotes to be issued	(72)	(72)	(107)
Doubtful debtors	956	956	956
Allowances	(785)	(785)	(785)
Other receivables	648	966	727
Total	2,287	2,812	1,695

The decrease at 30 September 2018 is mainly due to collections of receivables and the R&D tax credits.

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(14) Capital structure

As at 30 September 2018 the statutory issued capital of the Company amounts to 8,359 kEUR, represented by 22,543,793 ordinary shares without nominal value.

During the first nine months of 2018 a capital increase occurred on 27 June 2018. On aggregate 730,000 warrants have been exercised, as a result of which capital and share premiums have been increased by 270 kEUR and 145 kEUR respectively (see Statement of Consolidated changes of net equity).

The remaining number of warrants amounts to 1,000,000 and exclusively relates to the Warrant Scheme 2014. The strike price of these warrants is set at 0.569 EUR. The exercise term of these warrants expires by the end of September 2019.

(15) Provisions

Provisions amount to 246 kEUR at 30 September 2018. They relate to the deferred tranche payment of 100 kEUR with respect to the investment in EasyOrder. The provision relates to the remaining balance which will have to be paid in 2018 and if not in 2019 on the basis of certain KPI's to be attained. On the other hand, this caption also includes pension provisions of 146 kEUR.

(16) Deferred taxes

Deferred tax liabilities relate to deferred tax commitments with respect to assets that have been identified during the purchase price allocation.

In essence they relate to the identified intangible fixed assets ('IP'). This caption originated as a result of the acquisition of EasyOrder. The net book value on 30 September 2018 amounts to 135 kEUR.

On the other hand they also relate to identified intangible fixed assets at the occasion of the purchase price allocation of Magellan. As at 30 September 2018 they represent deferred tax liabilities amounting to 1,766 kEUR.

(17) Long term borrowings

The breakdown of long term borrowings can be presented as follows:

Long term borrowings	30.09.2018	31.12.2017	30.09.2017
	kEUR	kEUR	kEUR
Borrowings Belfius Bank	2,947	6,343	6,940
Borrowings ING Bank	-	-	63
Borrowings State Bank of India	-	83	167
Totaal	2,947	6,426	7,170

On the occasion of the acquisition of 60% of the shares of Magellan, a loan of 4,500 kEUR has been contracted from Belfius Bank as a result of which the outstanding amount strongly increased mid-2017. Since then reimbursements are made. The decrease of the balance

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compared to the end of 2017 is to a great extent due to the bullet loan of 2,000 kEUR, which will have to be reimbursed at once by 30 June 2019.

(18) Lease liabilities

On 30 September 2018 the short term lease liabilities amount to 65 kEUR and relate to the right of use assets of the premises and vehicles for respectively 54 kEUR and 11 kEUR.

(19) Short term borrowings

The short term borrowings can be specified as follows:

Short term borrowings	30.09.2018	31.12.2017	30.09.2017
	kEUR	kEUR	kEUR
Borrowings Belfius Bank	4,059	2,301	2,079
Borrowings ING Bank	63	250	229
Borrowings State Bank of India	167	167	167
Borrowings Bred Banque	-	151	217
Total	4,289	2,869	2,692

The main changes are:

- ▶ the increase of the liability to Belfius Bank given the bullet loan of 2,000 kEUR needs to be reimbursed by 30 June 2019, hence its short term presentation;
- ▶ The fully reimbursed debt to Bred Banque (as a result of which Magellan is debt free)

(20) Trade, fiscal and social debts

This caption can be broken down as follows:

Trade, fiscal and social debts	30.09.2018	31.12.2017	30.09.2017
	kEUR	kEUR	kEUR
Trade debts	1,894	2,522	1,661
Fiscal and social debts	689	607	795
Total	2,583	3,129	2,456

Trade debts

The trade debts can be specified as follows:

Trade debts	30.09.2018	31.12.2017	30.09.2017
	kEUR	kEUR	kEUR
Regular suppliers	413	963	472
Pending litigations	310	310	351
Consultants	84	69	85
Invoices to be received	1,212	1,305	888
Credit notes to be received	(125)	(125)	(115)
Total	1,894	2,522	1,661

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Pending disputes with suppliers remained unchanged at 310 kEUR. No further developments occurred with regard to this item during the first nine months of 2018. Internal consultants relate to suppliers that invoice the Group for the services they render (comprising CEO, CFO, COO, CCO)

Fiscal and social debts

Fiscal and social debts can be specified as follows:

Fiscal and social debts	30.09.2018	31.12.2017	30.09.2017
	kEUR	kEUR	kEUR
Corporate income taxes	32	10	260
Withholding taxes	85	-	-
VAT	89	138	118
Pay-roll taxes and social security	171	154	123
Remunerations	28	70	45
Provision holiday pay and year-end bonus	284	235	249
Total	689	607	795

The increase is mainly accounted for by the dividend distribution, for which a portion of 85 kEUR remains to be paid as withholding taxes. On the other hand, provisions reflect a higher balance in the course of the year whereas remunerations are higher at year-end due to the year-end bonuses.

(21) Incurred costs and deferred revenue

The caption can be specified as follows:

Incurred costs and deferred revenue	30.09.2018	31.12.2017	30.09.2017
	kEUR	kEUR	kEUR
Incurred costs	39	28	40
Deferred revenue	613	473	662
Total	652	501	702

The deferred revenue presents a cyclical pattern. It is year-high and the beginning of the year due to the upfront invoices licence revenues (maintenance), which are recognized ratably (on a prorata basis). The caption also comprises deferred revenue relating to payment terminals.

(22) Transactions with related parties

No particular observations need to be reported with regard to transactions with related parties during the first nine months of 2018.

(23) Pending disputes

The Company is involved in a number of legal proceedings that can be regarded as contingent liabilities. For more information we refer to the Consolidated Annual Report of 2017 (chapter Pending disputes) which can be found on the Company's website (www.keyware.com).

During the first nine months of 2018 no new developments have occurred than those described in the Annual Report of 2017.

With respect to the subsequent events the first day of the hearings relating to the Penal Court case took place on 6 November 2018. The second day is scheduled for 27 November 2018. The verdict is expected by January 2019.

(24) Most important risks and uncertainties for the remaining three months of the financial year

We refer to the Annual Report of 2017 in which the most important risks and uncertainties that were identified as at the end of financial year 2017 are described. On the date of the third quarter figures of 2018 no significant changes or trends are to be reported.

In previous financial years there was a significant need for additional funding, on the one hand, for the further financing and expansion of activities related to payment terminals and, on the other hand, for carrying out the necessary capex for the payment authorizations. The need for additional funding has decreased significantly also by the lower number of new contracts signed. On the other hand the changed product mix in favour of cheaper products has decreased the annual capex budget.

For the rest, there are no other important risks or uncertainties to report.

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List of abbreviations

CF	Cash flow statement
EBIT	Earnings Before Interest and Taxes It is seen as the operating result, i.e. operating profit or loss
EBITDA	Earnings Before Interest, Taxes, Depreciations and Amortizations It is defined as the operating result (EBIT) + depreciations and amortizations + allowances on inventories + allowances on receivables + impairments Realized loss on debtors are part of EBIT and therefore not of EBITDA
EBITDA margin	EBITDA / revenues (%)
Gross profit	Revenues less raw materials and consumables
Gross margin	Profit before taxes / revenues (%)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IP	Intellectual Property
kEUR	Thousands of euros
KPIs	Key Performance Indicators
LT	Long term
ST	Short term
pp	Percentage points
Profit margin	Net profit / revenues (%)
R&D	Research & Development
VAT	Value Added Taxes