

Keycorp Limited  
ABN 61 002 519 986

Financial report  
for the year ended 30 June 2010

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# Keycorp Limited Directors Report for the year ended 30 June 2010

The Directors present their report together with the Consolidated financial report of Keycorp Limited ('the Company') comprising the Company and its subsidiaries for the financial year ended 30 June 2010 and the auditor's report thereon.

## DIRECTORS

The directors of the Company in office at any time during or since the end of the financial year are:

### *Name and qualifications*

### *Experience, special responsibilities and other directorships and independence status*

#### **NON-EXECUTIVE CHAIRMAN**

Robert Bishop  
BEcon, MAICD

Robert Bishop joined as a director in January 2006 and was appointed Chairman on 1 June 2007. He has an extensive background in the financial services sector and is considered an authority on cards, payments, retail banking and distribution having held senior executive positions at National Australia Bank, Westpac and Citibank. He has served on numerous boards and advisory groups including MasterCard International, NCR Corporation, Equifax, Mondex International, Bankcard Australia and a number of Australian public and private companies.

During the last three financial years, Robert has been a director of the following listed companies, apart from Keycorp: IWL Limited (ASX: IWL) from August 2001 until December 2007, and is a current non-executive director of Investorfirst Limited, a listed stockbroker. Robert is a member of the Remuneration and Nominations Committee and was appointed as a member of the Audit and Risk Committee on 29 July 2009. The Board considers Robert to be an independent director.

#### **EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER**

Joe Bonin  
B Eng (Mech)  
Grad Dip Bus  
MBA  
Grad Cert E-Bus  
GAICD

Joe Bonin was appointed Chief Executive Officer on 1 April 2009 and joined the Board as a director on 1 July 2009. He joined Keycorp in June 2000 where he successfully expanded the customer service business into a multi-vendor Australia wide services organisation. In 2006 Joe was appointed Senior Vice President Services, Keycorp Canada Inc. where he assumed responsibility for Canada's largest service organisation to the payments and point of sale industry and in June 2008, returned to Australia where he was appointed Head of Operations with responsibility for all sales and services delivery, a role he held until his appointment as Chief Executive Officer. Prior to joining Keycorp, Joe held senior executive roles with organisations such as GE Capital, Toyota Australia and Ford Motor company.

**Keycorp Limited**  
**Directors Report (continued)**  
**for the year ended 30 June 2010**

**NON-EXECUTIVE DIRECTOR**

Michael Ibrahim

BEcon

Chairman of the Audit and Risk  
Committee

Michael Ibrahim joined as a director in January 2006. He is a proven strategic international business leader with specific competencies in software and technology development, international foreign exchange, treasury and executive management. He has held senior executive positions at KPMG Consulting, Citibank and Goodman Fielder Limited. Michael is a qualified accountant, having commenced his career as a financial accountant with Chemical Bank. Most recently he has been engaged in a series of Managing Director level consulting relationships with a range of leading technology companies.

Michael has held no other listed company directorships during the past three financial years. Michael is Chairman of the Audit and Risk Committee and was appointed to the Remuneration and Nomination Committee on 29 July 2009. The Board considers Michael to be an independent director.

**NON-EXECUTIVE DIRECTOR**

Philip Jones

BBs, CPA

Member of the Audit and Risk  
Committee

Philip Jones was appointed a director in August 2005. Since joining Telstra in 1994, Philip has held senior operational and commercial roles. Prior to joining Telstra, Philip worked for Exxon Corporation in various commercial, operational and IT roles in Australia and overseas.

Philip has held no other listed company directorships during the past three financial years. Philip was appointed to the Remuneration and Nomination Committee on 29 July 2009.

Philip was a director of Keycorp from August 2005 until his resignation on 22 October 2009. Philip was a member of both the Audit and Risk and Remuneration and Nomination Committees up to the date of his resignation.

**NON-EXECUTIVE DIRECTOR**

Gary Hooper

B Bus (Accounting)

Gary Hooper was appointed a director on 22 October 2009.

Gary has over 25 years experience across the Manufacturing, Service and Telecommunication's sectors. His most recent role was the Director of Unified Communications, for Telstra's Enterprise & Government Division, responsible for the national performance of this specialist portfolio, leveraging partner and cross company capability to drive growth in next generation voice solutions. Throughout his career, Gary has acquired extensive experience across a number of senior management positions, spanning a variety of Operational, Commercial, Channel, Finance and Sales roles.

Gary was a director of Keycorp from 22 October 2009 until his resignation on 6 August 2010. Gary was a member of both the Audit & Risk and Remuneration & Nomination Committees up to the date of his resignation.

## **Keycorp Limited**

### **Directors Report (continued)**

### **for the year ended 30 June 2010**

#### **NON-EXECUTIVE DIRECTOR**

David Kirton  
B Comm, CPA

David Kirton was appointed as a director on 7 August 2010.

David is the Group Financial Controller of Telstra Enterprise & Government, and brings to the Keycorp board 18 years experience in the Accounting and Finance disciplines across the Steel, Retail and Telecommunications industries. David holds a Bachelor Degree in Commerce from the University of Wollongong. He is a Certified Practising Accountant, through the Australian Society of Accountants. David became a member of the Audit & Risk Committee on 26 August 2010.

#### **COMPANY SECRETARY**

Melissa Letford  
BA (Psych), LLB

Melissa Letford joined Keycorp as Company Secretary and General Counsel in February 2008. Previously she held the position of Special Counsel in a boutique national law firm, having worked previously in other Top Tier and Mid-Tier legal practices. She is admitted as a solicitor in NSW and is a mediator approved by the Queensland Law Society.

#### **PRINCIPAL ACTIVITIES**

The principal activities of the Group during the year were:

- service solutions (including installation, maintenance, help desk support, logistics and asset management services) for EFTPOS, other point-of sale terminals and retail technologies, and
- payment technology solutions including research, development and sales of devices and applications and systems to allow secure electronic payments and transactions at the point-of-sale.

#### **REVIEW AND RESULTS OF OPERATIONS**

##### **OVERVIEW**

Keycorp Limited and its controlled entities (the Group) generated a net profit after tax of \$5.6m for year ended 30 June 2010. This result is an increase of \$5.4m on the prior year after the \$9.1m gain on sale of the Group's Smartcard business is excluded from the prior period comparative figure. The result for the period is driven solely by trading activity rather than corporate transactions.

The profit from continuing operations for the year of \$5.6m was a significant improvement from the profit from continuing operations of \$0.2m in the prior year. The main driver of this result was the successful completion of the transformation of the business. This process included the sale of non-core businesses and the restructuring of the Group to implement a payments services oriented business model.

Revenues during the year decreased by 10% reflective of the stated business strategy to shift towards a higher margin services based business model. This continuing shift away from lower margin product revenue streams to higher margin services revenue resulted in an increase in margins from 38.5% in the prior year to 41.9% in the current year.

The reduction in revenue occurred in product sales which decreased by 26% as well as a result of less EMV upgrade activity in the current period compared to the prior year. The reduction in EMV upgrade activity was planned for as the EMV industry standard for chip and pin technology reaches maturation. In

## **Keycorp Limited**

### **Directors Report (continued)**

### **for the year ended 30 June 2010**

#### **REVIEW AND RESULTS OF OPERATIONS (CONTINUED)**

contrast, services revenues increased year on year by 2.5% despite the impact on reduced activity levels associated with EMV upgrades.

The successful completion of the Group's restructuring programme in the prior year allowed the Group to benefit from the full year impact of its reduced overhead base, commensurate with a services based business model. Savings of almost \$6m were achieved year on year across sales and marketing, administrative and research and development expenses.

Other expenses incurred were of a similar amount to the prior year with the largest element in the current year comprising \$2m of costs associated with the expiry and settlement of the six year Westpac contract.

Cash generated from operations of \$16m was a significant improvement of \$13.5m on the \$2.5 cashflow in the prior year. This impressive result is reflective of the Group's profitability and the success of a number of initiatives to improve working capital. Year on year the Group's net cash position increased by over \$19m from a net cash position of \$6.1m at 30 June 2009 to \$25.3m at 30 June 2010. Greatly assisting the net cash position, was the effect of the expiry of the Westpac contract in late May 2010 which resulted in the repayment of Mezzanine notes of \$7.6m and the release of a performance bond of \$3m.

Throughout the year, considerable effort and progress was made in the business growth strategy to expand services centred on organic growth and extension of business lines via complementary acquisitions. Specific opportunities were identified and analysed, however, the ability to aggressively pursue acquisitions throughout the year was constrained by the fact that adequate capital specifically in the form of cash only became available just prior to year end when the Westpac contract ceased. This constraint will not be evident in the coming period and as such Keycorp is in a position to aggressively pursue its growth strategy.

#### **Dividends**

The company's stated dividend policy is to pay out between 50-70% of profit, after working capital is retained, each half year, returning a prudent amount to shareholders, subject to major investment or acquisition requirements.

On 27 August 2010, the Directors declared a fully franked final dividend of 2 cents per ordinary share (\$1.6m). The record date for the final dividend will be 8 September 2010 with payment being made on 24 September 2010. This dividend brings total dividends declared for the current financial year to 3.5 cents per ordinary share (\$2.8m) and total dividends declared over the last sixteen months to 11 cents per ordinary share (\$8.9m).

#### **Financial Year 2010 (FY11) Outlook**

The three years from FY08 to FY10 were dominated by the Group's efforts to transform the business from a loss making enterprise to a sustainable services business model. The expiry of the Westpac contact at the end of FY10 marks the completion of the final legacy of this transformation period.

FY11 Guidance for Earnings before Interest and tax (EBIT) is between \$4.3m and \$5m. This guidance range reflects that Keycorp is currently tendering for several larger services opportunities, the results of which will not be known until late in the first half of FY11.

# **Keycorp Limited**

## **Directors Report (continued)**

### **for the year ended 30 June 2010**

#### **REVIEW AND RESULTS OF OPERATIONS (CONTINUED)**

The reduction in EBIT relative to FY10 is a result of the shift towards a more sustainable services model, the expiry of the Westpac contract and the reduction of EMV related product upgrades from the elevated levels that occurred in FY10. Evaluating Keycorp's business transformation over its full duration and its current position, however, demonstrates the success of the strategy. In FY07 Keycorp had total revenues of \$96m (inclusive of discontinued activities), incurred a loss of \$11.5m and had a net debt position of \$12.1m. Keycorp enters FY11 in a strong operational and financial position with no bank debt, a very positive net cash position and a sustainable business that generates positive cashflow from operations. From this solid foundation Keycorp will execute its strategy to grow its services and payments businesses in future years.

#### **CAPITAL STRUCTURE**

Cash and cash equivalents at 30 June 2010 were \$27.9m (2009 \$10.0m). Net assets of the Group finished the 30 June 2010 year at \$33.4m which was \$3.2m higher than the previous year end.

In March 2010 the Company paid a 1.5 cent interim dividend. The total cash payment was \$1.2M.

The Company did not issue any ordinary shares during the year. No options were granted or exercised during the year.

#### **TREASURY POLICY**

The Group's treasury function is responsible for managing the finance facilities of the group and the minimisation of risks associated with adverse movements in foreign currencies and interest rates. The function operates within policies set by the Board, through the Audit and Risk Committee, which outline the differing situations in which hedging products are to be utilised.

Hedging of interest rates occurs, where appropriate, through the use of interest rate swap contracts. The Group's exposure to adverse foreign currency movements is minimised through the close management of its natural hedge position. In effect, sales to foreign customers and purchases from foreign suppliers (predominantly in US dollars) can offset one another such that foreign currency receipts are used to settle foreign currency payments. Foreign currency sales for the year ended June 2010 were lower than 2009 due to the divestment of the Smartcards business on 1 September 2008. Foreign currency bank accounts are available to transact the foreign currency receipts and payments such that the bulk of foreign currency sales are naturally hedged in their originating currency. In the case of significant contractual commitments where the anticipated purchase or sale has a clearly defined delivery timetable, or in the case where timing mismatches are expected to be permanent, a specific foreign currency hedge contract may be acquired to offset the known currency risk.

At balance date there were no interest rate swaps or forward contracts.

#### **SIGNIFICANT EVENTS SINCE THE END OF THE FINANCIAL YEAR**

Other than the declaration of a final dividend on 27 August 2010 the Directors have not become aware of any significant matter or circumstance that has arisen since 30 June 2010, that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report. Details of the final dividend are provided on page 8.

# Keycorp Limited

## Directors Report (continued)

### for the year ended 30 June 2010

#### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Details of likely developments in the operations of the Group in future financial years are referred to in the Review of Operations section beginning on page 5. This report omits information about likely developments and expected future results that in the opinion of the directors is likely to unreasonably prejudice the group.

#### ENVIRONMENTAL REGULATION AND PERFORMANCE

The choice of materials for the entity's products is constrained by the operational and security requirements with which the products are required to comply. However, subject to those constraints, the Company endeavours to use recyclable packaging and components and, in the rare instance where corrosive chemicals are used, to ensure that the handling of those chemicals and their disposal is done in an environmentally responsible way and in compliance with relevant legislation.

#### DIVIDENDS AND OTHER DISTRIBUTIONS

##### Declared after year end:

On 27 August 2010, the Directors declared a final fully franked dividend of 2 cents per ordinary share (\$1.6m), bringing dividends per share for fiscal 2010 to 3.5 cents per share. The record date for the final dividend will be 8 September 2010 with payment being made on 24 September 2010. The financial effect of the final dividend has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in subsequent financial reports.

##### Dividends declared and paid in fiscal 2010 :

The dividends declared and paid amounted to 3 cents per share (2009: 6 cents)

Dividend	Date resolved	Date paid	Dividend per share	Total Dividend
Final dividend for the year ended 30 June 2009	31 August 2009	9 October 2009	1.5 cent franked to 100%	\$1.2 million
Interim dividend for the year ended 30 June 2010	23 February 2010	19 March 2010	1.5 cent franked to 100%	\$1.2 million

Keycorp's dividend policy is that the company will pay out between 50%-70% of profit, after working capital is retained, each half year.

At present, it is expected that, for fiscal 2011, Keycorp will be able to resolve to pay fully franked dividends. However, given that the ability to frank dividends depends on factors including: Keycorp's future earnings; Government legislation and Keycorp's tax position; the Directors can give no assurance as to the level of franking of future dividends.

**Keycorp Limited**  
**Directors Report (continued)**  
**for the year ended 30 June 2010**

**UNISSUED SHARES UNDER OPTIONS**

At the date of this report unissued ordinary shares in the Company under option are:

Grant Date	Options on issue (i)	Exercise price	Exercisable after	Expiry date
15 January 2006	33 333	\$1.4810	15.01.08	15.01.11
15 January 2006	33 333	\$1.4810	15.01.09	15.01.11
15 January 2006	33 334	\$1.4810	15.01.10	15.01.11
26 October 2006	40 000	\$0.8025	26.10.08	26.10.11
26 October 2006	40 000	\$0.8025	26.10.09	26.10.11
26 October 2006	40 000	\$0.8025	26.10.10	26.10.11
1 April 2009	333 333	\$0.2323	01.04.11	01.04.14
1 April 2009	333 333	\$0.2323	01.04.12	01.04.14
1 April 2009	333 334	\$0.2323	01.04.13	01.04.14
	1 220 000			

<sup>(i)</sup>Options on issue are those options that are capable of being exercised after the stated "exercisable after" date and exclude options which have been exercised by the option holder or which have lapsed.

No share options in Keycorp Limited were granted during the year or since the end of the year and no ordinary shares were issued during or since the end of the year as a result of the exercise of options.

**INDEMNIFICATION OF DIRECTORS AND OFFICERS**

Under its constitution, the Company indemnifies all past and present officers of the Company and its wholly-owned subsidiaries against:

- any liability for costs and expenses incurred by that person in defending any proceedings in connection with an application in relation to any proceedings in which the court grants relief to that person under the Corporations Act 2001; and
- any liability incurred by the person as an officer of the Company or a wholly-owned subsidiary to another person (other than the Company or a related body corporate), unless the liability arises out of conduct involving a lack of good faith.

The Company has offered each director of the Company holding office since 1 July 1996 a Deed of Access and Indemnity permitting them access, in the event of an action against them, to board papers and reports, indemnifying them in substantially the same terms as provided in the Company's constitution (described above) and giving an undertaking by the Company to maintain Directors and Officers Liability and Company Reimbursement insurance covers. Directors and officers are to be held covered while in office and for a period of seven years after ceasing to hold that office with the Company.

During the financial year, the Company paid an insurance premium in respect of a contract insuring the directors, company secretary and executive officers of the Company against a liability incurred as a director, company secretary or executive officer of the Company to the extent permitted by the Corporations Act 2001. The terms of the contract of insurance prohibit disclosure of the amount of premium paid or the nature of liabilities covered.

# Keycorp Limited

## Directors Report (continued)

### for the year ended 30 June 2010

#### DIRECTORS' INTERESTS

As at the date of this report, the interests of the directors in the Company's ordinary shares or options over ordinary shares were:

<i>Name</i>	<i>Ordinary shares</i>	<i>Options</i>
Joe Bonin	66,300	1,220,000
Michael Ibrahim	129,716	-
Robert Bishop	181,814	-

Other than the above, no shares were acquired by directors during the year and up to the date of this report.

#### DIRECTORS' MEETINGS

The number of meetings attended by each director is set out in the table below:

		Regular board meetings		Additional board meetings		Audit & Risk Committee meetings		Remuneration & Nomination Committee meetings	
		A	B	A	B	A	B	A	B
No. of meetings held during the year		11		4		4		3	
<b>Directors</b>	<b>Notes</b>								
Robert Bishop	D	11	10	4	4	4	4	3	3
Joe Bonin	G	11	11	4	4	-	4	-	3
Gary Hooper	F	8	8	3	3	3	3	1	1
Michael Ibrahim	C	11	11	4	4	4	4	3	3
Philip Jones*	E	3	3	1	1	1	1	2	2

#### Notes:

- A Denotes the number of meetings held during the period the director was a member of the board and/or committee.
- B Denotes the number of meetings attended during the year the director was a member of the board and/or committee.
- C Michael Ibrahim is a member of the Audit & Risk Committee and was appointed to the Remuneration & Nomination Committee on 29 July 2009.
- D Robert Bishop is a member of the Remuneration & Nomination Committee and became a member of the Audit & Risk Committee on 29 July 2009. Prior to this date Robert Bishop attended meetings of the Audit and Risk Committee by invitation.
- E Philip Jones was a member of the Audit & Risk Committee and was appointed to the Remuneration & Nomination Committee, on 29 July 2009. Resigned 22 October 2009.
- F Gary Hooper was appointed to the board on 22 October 2009, and was a member of the Audit & Risk and Remuneration & Nomination Committees. Resigned 6 August 2010.
- G Joe Bonin attends the Audit & Risk and Remuneration & Nomination Committee meetings by invitation.
- \* Not a Director at 30 June 2010.

#### NON-AUDIT SERVICES

During the year KPMG, Keycorp's auditor, has performed certain other non audit services \$4,078 (2009: \$55,656). The Board is satisfied that the provision of those non-audit services during the year by the auditor did not compromise the auditor's independence requirements of the Corporations Act 2001. Details of the Audit fees and non audit services are included in note 30 of the accounts.

# Keycorp Limited

## Directors Report (*continued*)

### for the year ended 30 June 2010

#### CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

The Board of Directors of Keycorp Limited is responsible for the corporate governance of the Group.

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Keycorp support the principles of good corporate governance.

In this section various references are made to the Company's website as a source of information on the Company's corporate governance practices. The home page for Keycorp's website is [www.keycorp.net](http://www.keycorp.net) and, for corporate governance matters, you should follow the links to "Investors" and then "Corporate Governance". If you do not have Web access but wish to read this material, please telephone 1300 855 080 (or +61 3 9415 4000) if phoning from outside Australia and you will be able to obtain a copy of the relevant material.

#### ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS

In August 2007 the ASX Corporate Governance Council issued its revised Corporate Governance Principles and Recommendations requiring the company to report against the revised recommendations for the 2009 financial year, and the Company notes it has continued to do so with respect to the 2010 financial year. The Council's best practice recommendations represent guidelines for companies but they need not be compulsorily adopted if a company considers a recommendation is inappropriate to its particular circumstances. In the event a company decides not to adopt a best practice recommendation it must disclose that it has made that decision and explain why it has done so.

The Company has adopted the best practice recommendations in the reporting period except to the extent stated in this corporate governance section.

#### THE BOARD

The Board of directors is accountable to shareholders for the proper management of Keycorp's business and affairs. It operates in accordance with a charter, a copy of which is published on the Company's website.

The entity has established the functions reserved to the Board and Senior Executives, which are disclosed on the Company's website. The function of the Board includes approval of budgets, the monitoring of Senior Executives performance and the approval of expenditures in excess of \$750,000.

#### STRUCTURE OF THE BOARD

The Board may comprise from three to ten directors and currently consists of four directors whose respective terms of office as a director, and whose qualifications, experience and membership of board committees are set out on pages 3 to 5.

The composition of the Board is typically determined in accordance with the following principles:

- a majority of the Board will be comprised of independent directors;
- the Chairman will be an independent director; and
- a person cannot hold the positions of both Chairman and Chief Executive Officer.

## **Keycorp Limited Directors Report (continued) for the year ended 30 June 2010**

### STRUCTURE OF THE BOARD (CONTINUED)

The Board is currently comprised of two independent directors, one of which is the Chairman, and two directors who do not meet the independence tests, in contravention of the first principle. The independent Chairman retains the casting vote. The reasons for non-compliance with the principle are explained below. During and subsequent to the year end the positions of Chairman and Chief Executive Officer were held by different persons.

The Company's constitution requires one-third of its directors (excluding the managing director) to retire from office at the Company's annual general meeting each year. Retiring directors are eligible for re-election. When a vacancy is filled by the Board during the year, the new director must stand for election at the next AGM.

### INDEPENDENCE OF DIRECTORS

The Company's adopted definition of an independent director is a non-executive director who:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member or an employee materially associated with the service provided;
- is not a material supplier or customer of the Company or other group member or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company or another group member other than as a director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

The following materiality thresholds currently apply to that definition of independence:

- a substantial shareholder is a person with a substantial holding as defined in the Corporations Act 2001 (five per cent or more of the total number of votes attached to voting shares);
- a material professional adviser or consultant is one whose fees to Keycorp in a financial year exceed \$1,000,000;
- a material supplier is one the value of whose sales to Keycorp in a financial year exceeds five per cent of the value of Keycorp's purchases;
- a material customer is one the value of whose purchases from Keycorp in a financial year exceeds five per cent of Keycorp's gross revenue; and
- a material contractual relationship, other than any of those described above, is one in respect of which the consideration payable under the contract exceeds \$1,000,000.

## **Keycorp Limited**

### **Directors Report (continued)**

### **for the year ended 30 June 2010**

#### INDEPENDENCE OF DIRECTORS (CONTINUED)

The Board has assessed the independence of the current Non-Executive Directors and considers Robert Bishop (the Chairman), and Michael Ibrahim to be independent. Joe Bonin, Philip Jones (a Director up to 22 October 2009), Gary Hooper (a Director from 22 October 2009 to 6 August 2010) and David Kirton (appointed a Director on 7 August 2010) are not considered independent.

The Board currently comprises four directors of whom two are independent, as noted above. The Board is aware that the requirement of the Board's charter that a majority of the Board be comprised of independent directors (which requirement is consistent with the Principles of Good Corporate Governance and Best Practice Recommendations issued by the ASX Corporate Governance Council) is not currently being met. The Board notes in this context that pursuant to the Company's Constitution, in the case of an equality of votes, the Chairman will have a second or casting vote. As a result, the independent directors have majority voting rights on the current Board. The Board believes the current structure of the Board is appropriate for the Group and reflective of Keycorp's size. The Board will review the requirement to appoint an additional independent director at regular intervals.

#### DECLARATION BY CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

In the course of approving the financial statements for the year, the Board considered a written statement by the Company's Chief Executive Officer and Chief Financial Officer to the effect that:

- the financial records of the company have been properly maintained in accordance with section 286 of the Corporations Act 2001;
- the financial statements and notes give a true and fair view, in all material respects, of the Company's financial position at the end of the year and its performance for the year and comply in all material respects with relevant accounting standards;
- that the statement as to the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control and that the system operated effectively in all material respects in relation to financial risks; and
- the Chief Executive Officer and the Chief Financial Officer has provided assurance, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating effectively. The operational and other risk management compliance and controls have also been assessed and found to be operating effectively.

#### INDEPENDENT ADVICE

Directors are free to take independent professional advice on matters pertaining to their roles and responsibilities as directors. The Company will pay the reasonable legal costs incurred by a director in doing so, provided that before the advice is obtained the director discusses the requirement for the advice with the Chairman.

#### COMMITTEES OF THE BOARD

The Board also operates through committees that hold responsibility for particular areas. The committees which operated during the year are the Audit and Risk Committee and the Remuneration and Nomination Committee. Each of those committees operates in accordance with a charter, a copy of which is published on the Company's website. The number of times the committees have met during the year, and the names of the members of the committees and their respective attendances at the meetings, are set out in the directors' report on page 10.

## **Keycorp Limited**

### **Directors Report (*continued*)**

### **for the year ended 30 June 2010**

#### AUDIT AND RISK COMMITTEE

Under its charter, the Committee is required to meet at least four times each year and to be comprised of:

- at least three members;
- only Non-Executive Directors all of whom are to be financially literate and at least one of whom must have financial expertise as a qualified accountant or other financial professional with experience of financial and accounting matters. In this regard, the qualifications of the current committee members are set out on pages 3 to 5;
- a majority of independent directors; and
- an independent chairperson, who is not the chairperson of the Board.

The Committee satisfied the independence requirements during the year and comprised Michael Ibrahim (Chair), Philip Jones (up to his resignation on 22 October 2009), Robert Bishop (from 29 July 2009) and

Gary Hooper (from 22 October 2009 until 6 August 2010). The committee provides assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Company's financial reporting, internal control structure, risk management systems and the external audit function. In doing so, it is the responsibility of the committee to maintain free and open communication between the committee, the Company's external auditors and management of the Company.

In discharging the oversight role, the committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

A copy of the Audit and Risk Committee Charter is available on the company's website.

The committee is also responsible for making recommendations to the Board on the appointment, reappointment or replacement (subject, if applicable, to shareholder approval) and remuneration of the Company's external auditors. It also monitors the effectiveness and independence of the auditors. The committee's charter sets out some guiding principles governing the Company's relationship with its external auditors, the principal purpose of which is to promote the independence of the auditors.

The Board is satisfied the Auditors are independent. Further details on Auditor independence are included on page 10, Non-Audit Services.

The procedures for the section, appointment and rotation of external audit engagement partners is detailed in the Audit and Risk Committee Charter available on the company's website.

#### REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee advises the Board on remuneration policies and practices generally and makes recommendations on remuneration packages and other terms of employment for executive and Non-Executive Directors and senior executives. That role is also referred to in the Remuneration Report which starts on page 17.

The committee also oversees and advises the Board on company share schemes, company superannuation arrangements and replacement and succession planning for key executives.

In its role as a nomination committee the committee assesses the desirable competencies of Board members and makes recommendations to the Board on succession plans for maintaining the appropriate balance of competencies and the appointment and removal of directors. A copy of the Charter is available on the company's website.

## **Keycorp Limited**

### **Directors Report (continued)**

### **for the year ended 30 June 2010**

#### BUSINESS STANDARDS

The Company recognises that acting with uncompromising integrity and professionalism will protect and enhance its reputation, an invaluable asset of the Company. Accordingly, the Directors have approved a set of Corporate Business Standards, a summary of which is available on the Company's website, and reviews those standards annually. The Company has a Code of Conduct available on its website detailing the practices necessary to maintain confidence in the company's integrity, to record the process for unethical behaviour investigation, to recognise legal obligations and the expectations of stakeholders. Staff are required to read and sign the detailed Code of Conduct on employment.

The Corporate Business Standards include sections on Keycorp's policy on:

- trading by directors and staff in the Company's shares; and
- the Company's compliance with its obligation, as a listed public company, to immediately notify the Australian Stock Exchange of any information concerning the Company of which it is or becomes aware and which a reasonable person would expect to have a material effect on the price or value of the Company's shares.

Summaries of both those policies including senior management accountability are available on the Company's website.

#### COMMUNICATION WITH SHAREHOLDERS

The Board aims to ensure that shareholders are informed of all significant developments affecting the Company's state of affairs, and to encourage shareholder participation. Information is communicated to shareholders by the following means:

- the interim (half yearly) report, the annual report and directors' commentaries on those reports;
- the Company's website which has a dedicated investor relations section called "Investors" (at [www.keycorp.net/InvestorsOverview/Overview](http://www.keycorp.net/InvestorsOverview/Overview));
- disclosures made to the Australian Stock Exchange;
- notices and explanatory memoranda of general meetings; and
- the Annual General Meeting (AGM).

It is the Company's policy to request the external auditor to attend annual general meetings and to be available to answer shareholders' questions about the conduct of the audit and the preparation and content of the auditor's report. The communications policy is disclosed on the company's website.

#### RISK MANAGEMENT

The Board is responsible for approving and reviewing the Company's material business risks management strategy and policy. The management of the established material business risks and implementation policy and of mitigation measures is the responsibility of management.

The Board considers material business risks as part of its annual strategy review and budget planning review. The Board has delegated to its Audit and Risk Committee the role of overseeing risk management as more particularly described below.

Keycorp's management conducts reviews of significant business risks relating to current operations and new business initiatives and, through that process, identifies and then implements board-approved policies, control procedures and mitigation strategies.

**Keycorp Limited**  
**Directors Report (continued)**  
**for the year ended 30 June 2010**

**RISK MANAGEMENT**

The results of management's reviews are required to be reported semi-annually to the Audit and Risk Committee and the committee provides a report, and where appropriate makes recommendations, to the Board on the Company's risk profile. During the year management, including the Chief Executive Officer and Chief Financial Officer reported to the Board as to the effectiveness of the Company's management of its material business risks.

The committee oversees management's processes for and results in identifying, assessing and monitoring risks associated with the Company's operations and the implementation and maintenance of board-approved policies, control procedures and mitigation strategies that address significant risks.

In doing so, the committee considers and assesses the appropriateness and effectiveness of management information and systems of internal control, and also reviews reports to management from the Company's external auditor and action taken or proposed as a consequence of such reports.

The Company publishes a description of its risk management policy on its website.

**PERFORMANCE EVALUATION**

The Board and the Board committees are subject to an annual internal performance evaluation. The process involves completion of a detailed questionnaire, a board discussion of issues requiring attention and the formulation of appropriate action plans, along with a discussion as to how the recommendations from the prior assessment had been met. The performance process for the 2010 year was still in progress at the time of this report.

The Company's key executives and other employees are subject to a performance management process pursuant to which their performance is reviewed against identified and documented goals. Senior management monitoring and assessment, with the exception of the Chief Executive Officer, is delegated to the Chief Financial Officer. A clear performance management process is in place and all staff including the senior management are part of this process. The Chief Executive Officer's performance is reviewed annually by the Remuneration and Nomination Committee.

Senior executives were evaluated as part of the annual performance review in September 2009 and will be evaluated again in September 2010.

# Keycorp Limited

## Directors Report (*continued*)

### for the year ended 30 June 2010

#### REMUNERATION REPORT - AUDITED

##### REMUNERATION POLICIES AND PRACTICES

The Remuneration and Nomination Committee (Committee) is responsible for designing and implementing (upon Board approval) the Group's remuneration policies and practices. The Committee endorses Principle 8 of the Australian Stock Exchange (ASX) Corporate Governance *Principles and Recommendations Group*; "Remunerate fairly and responsibly".

Details of the specific remuneration policies and the remuneration mixes paid by the Group are set out in this Remuneration Report which should be read in conjunction with note 24 of the Financial Report.

##### REMUNERATION AND NOMINATION COMMITTEE

The role of the Committee is to:

- advise the Board on remuneration policies and practices generally;
- make recommendations to the Board on the remuneration and other terms of employment for executive and Non-Executive Directors, the Chief Executive Officer and senior executives; and
- assess, monitor and advise the Board on the desirable competencies of board members and on whether the balance of skills, experience and expertise of the Board is sufficient to enable it to discharge its mandate effectively.

The Committee has a charter, which is published in the Corporate Governance section of the Company's website ([www.keycorp.net](http://www.keycorp.net)).

The experience and qualifications of members of the Committee are detailed on pages 3 to 5. Membership of and attendance at 2009/10 Committee Meetings are detailed on page 10.

Key management personnel, including directors of the Company have authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the directors of the Company and executives of the Group including four of the five most highly remunerated S300A executives. The Company Secretary is not considered Key Management Personnel but is included as one of the five most highly remunerated executives. Accordingly the Company Secretary has not been included in Key Management Personnel disclosures in the Financial Report.

##### NON-EXECUTIVE DIRECTORS

###### Policy

The policy for remuneration of Non-executive Directors is set by the Board, on recommendation from the Committee and is based on comparable market data.

###### Non-Executive Director fees

Board members' fees are determined within an aggregate Directors' fee pool limit, which is periodically approved by shareholders. The current limit of \$500,000 was last approved by shareholders at the November 2002 AGM. During the year ended 30 June 2010 \$246,289, (2009: \$323,010) of the fee pool was used.

For 2009/10 the fees, excluding non-monetary benefits, payable to the Board remained unchanged from the prior year. In summary, the following fees were paid to directors:

- the Chairman received \$130,000; and
- Non-Executive Directors each received \$80,000 with the exception of Non-Executive Directors appointed by Telstra. Telstra appointed nominee Directors are not paid Directors' fees.

# Keycorp Limited Directors Report (*continued*) for the year ended 30 June 2010

## REMUNERATION REPORT (CONTINUED)

### Equity Participation

No Non-Executive Director has received options as part of their remuneration nor have they participated in any equity plans during the year. Non-Executive Directors do not receive any performance-related remuneration.

### Retirement Benefits

The Board resolved to discontinue the practice of awarding retirement benefits in 2003 and accrued benefits as of that date were paid to qualifying directors in prior years.

### Superannuation

With the exception of Telstra appointed non-Executive Directors, Philip Jones, Gary Hooper and David Kirton, the Group pays all Non-executive Directors the statutory superannuation guarantee contribution.

### Service Contracts

No Non-executive Director has a service contract with the Group and therefore there are no termination notice periods nor termination payments.

## EXECUTIVES

### Policy

Executive remuneration policies are set by the Committee and are reviewed on a regular basis to ensure they remain competitive. The Group periodically engages external remuneration consultants to advise on appropriate executive remuneration packages. Selected survey data is also used for benchmarking purposes.

Executive remuneration is determined having regard to the following guiding principles:

- there should be a balance between fixed and variable salary components that is appropriate having regard to both internal and external factors;
- all performance objectives should be appropriately linked to measurable personal and group performance; and
- total compensation – the sum of fixed and variable remuneration components – for each executive should be fair, reasonable and competitive.

The remuneration for the Chief Executive Officer and all senior executive roles is reviewed in September each year following a detailed assessment of achievements in the previous financial year. Any remuneration adjustment of senior executives is subject to the review and approval of the Chief Executive Officer and is reported to the Remuneration & Nomination Committee and adjustments to the Chief Executive Officer's remuneration is subject to Remuneration & Nomination Committee approval.

There are two components of executive remuneration:

- fixed annual remuneration comprising of salary and superannuation; and
- "at risk" remuneration, comprising of both short- and long-term elements.

### Fixed Annual Remuneration

Executives are offered a base salary and benefits. The base salary is reviewed and benchmarked annually against the market.

# Keycorp Limited

## Directors Report (*continued*)

### for the year ended 30 June 2010

#### REMUNERATION REPORT (CONTINUED)

Adjustments to base salary are made based on promotion or significant changes to an executive's responsibilities, pay relativities to market and individual performance in relation to agreed performance objectives. Base salary may be increased annually.

#### **"At Risk"/Performance linked remuneration**

##### *Short-term incentives*

Short-term incentives in the form of cash bonuses are paid to executives based on a combination of:

- individual performance; and
- Group performance.

Group performance is measured against a range of mainly quantitative financial performance measures. These measures include:

- revenue and profit targets;
- generation of new business;
- corporate governance and reporting requirements;
- delivery against project milestones; and
- delivery against customer service / satisfaction levels.

Specific targets are set for the Chief Executive Officer which are described below.

Performance targets are agreed with each executive at the beginning of each performance period and results are assessed against those targets to determine the value of any payment. The Chief Executive Officer's short term incentive may be paid upon the determination of the Board or Remuneration & Nomination Committee. Other executive short term incentives are payable in accordance with employment contracts at the discretion of the Chief Executive Officer.

The proportion of individual and company performance differs amongst executives depending on the nature and responsibilities of their position and market relativities.

##### *Long-term incentives*

Long-term incentives are determined based on a combination of two objectives:

- performance of the Group; and
- ensuring the retention of key executives.

Since October 2006, share option allocations under the Keycorp Employee Share Option Incentive Plan (ESOIP) have only been made to the Chief Executive Officer. Following the appointment of Joe Bonin as Chief Executive Officer, one million options were granted on 1 April 2009. There were no options granted during the current year as detailed on page 9. The performance hurdles for these plans are discussed on the next page. Further details of all equity plans are available on pages 22 to 24.

#### **Other Benefits**

Senior executives may also receive additional non-cash benefits as part of their remuneration. Non-cash benefits typically include long-term salary continuance insurance and life insurance, partial contributions towards the executive's private health care plan, and car parking fees.

No loans have been made to any director or executive of the Group, including their personally-related entities.

# Keycorp Limited

## Directors Report (*continued*)

### for the year ended 30 June 2010

#### REMUNERATION REPORT (CONTINUED)

##### Service Contracts

All Executive Officers who currently hold executive positions in the Group have permanent full-time contracts. S. Greenan, C. Little, W. Scheuber and J. Nicholas all have a minimum three-month termination notice clause, M. Letford has a minimum two month termination notice clause, while all other executives currently have a minimum one-month termination notice, which can be triggered by either party. There are no other contractual termination payments for any executive except for the CEO who has a six month notice period.

##### Chief Executive Officer

Mr Joe Bonin was appointed Chief Executive Officer on 1 April 2009. Mr Bonin's annual remuneration details are as follows:

- Base salary \$320,000;
- Packaged benefits \$39,243;
- On target incentive \$125,000 based on performance objectives; and
- Long Term options over 1,000,000 Keycorp shares. These options were granted in the prior year and vest in three equal tranches, 24, 36 and 48 months from the grant date. Vesting of the options is subject to Keycorp shares delivering Total Shareholder Returns (TSR) greater or equal to the S&P/ ASX200 Information Technology Accumulation Index (XIJ) for at least twenty consecutive trading days should be rewarded immediately prior to the first exercise date for each tranche.

In relation to an appropriate award for the Chief Executive Officer, the Directors sought independent advice and based on this, selected a model of simple out-performance against the S&P/ASX 200 Information Technology Index.

Further details on options issued are included further in the Financial Statements.

#### RELATIONSHIP BETWEEN POLICY & PERFORMANCE

The Group's remuneration policies and practices are designed to ensure that remuneration packages are set at a fair and competitive rate, enabling the Group to attract, motivate and retain executives and board members of a high calibre. The nature and levels of remuneration are regularly assessed against relevant market surveys, with input from Human Resources and independent advisors when required.

A diverse range of remuneration tools are employed at Keycorp. Remuneration is a mix of fixed and "at-risk" pay and of short, medium and long-term awards. The executives (including the Chief Executive Officer) who are key management personnel are rewarded for both company and individual performance and these rewards are based on the achievement of targets set in prior financial years and measured during the year and targets set in the current financial year to be measured at some future point in time. Non-executive Directors who are key management personnel do not have any "at-risk" remuneration but instead are paid fees within the pool limit as approved by shareholders.

It is noted that some awards have been designed to reward any increase in share price and this is a condition to vesting. Other awards enable participants to enjoy any increase in share price and any returns to shareholders. Cash payments are only made upon the achievement of pre-determined financial targets. Together, these policies attempt to align key management personnel and shareholder interests.

Each plan and its purpose are described further below.

**Keycorp Limited**  
**Directors Report (continued)**  
**for the year ended 30 June 2010**

**REMUNERATION REPORT (CONTINUED)**

Finally, the table below sets out some indices in respect of the Group's performance (and the effect on shareholder wealth) in the current financial year and the previous four financial years. The "at-risk" component paid to key management personnel is dependent in part on the Group's performance.

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>EBITDA (\$m) (ii)</b>	8.1	7.8	7.6	(8.0)	9.5
<b>Net profit/(loss) (after tax) (\$m) (i)</b>	5.6	9.3	(0.1)	(11.5)	(2.9)
<b>Dividends paid (\$m)</b>	2.4	4.9	-	-	-
<b>Change in share price (\$: at 30 June)</b>	+0.12	+0.09	(0.15)	(0.56)	(0.96)
<b>Return of capital</b>	-	-	-	-	0.41
<b>Basic Earnings / (Loss) per share (\$)</b>	0.0684	0.1143	(0.0012)	(0.1397)	(0.035)

(i) Net Profit / loss has been prepared in accordance with Australian Accounting Standards.

(ii) Excludes discontinued activities, impairment of intangible assets, depreciation, amortisation and restructuring costs.

**Keycorp Limited**  
**Directors Report (continued)**  
**for the year ended 30 June 2010**

**REMUNERATION REPORT (CONTINUED)**

DESCRIPTION

**Keycorp Employee Share Option Incentive Plan**

Shareholders approved the introduction of the Keycorp Employee Share Option Incentive Plan (ESOIP) at the 1996 Annual General Meeting.

Each option granted under the ESOIP entitles the employee to acquire one ordinary share of Keycorp Limited. There are no voting or dividend rights attaching to the options until they are exercised by the employee, at which point ordinary shares which rank equally with all other Keycorp shares, are issued and quoted on the ASX. The options cannot be transferred and will not be quoted on the ASX.

The options granted are exercisable between two and four years from grant date providing performance hurdles are attained. The hurdles are twofold and require continuous employment by the employee during the vesting period and for Keycorp's Total Shareholder Return (TSR) to be greater than or equal to the S&P/ASX 300 Accumulation Index for twenty consecutive trading days immediately prior to the first exercise date for each tranche. The S&P/ASX 300 Accumulation Index was deemed the most representative index for options granted through to October 2006. Options granted to the Chief Executive Officer on 1 April 2009, established the S&P/ASX 200 Information Technology (XIJ) index as a reference for TSR performance from this date. (See note under "Chief Executive Officer" on page 20).

Growth in TSR is defined as share price growth, any dividends paid and reinvested on the ex-dividend date (adjusted for rights, bonus issues and any capital reconstructions).

All options expire on the earlier of their expiry date or termination of the individual's employment. In certain circumstances, at the discretion of management, employees included in an involuntary redundancy program are eligible to retain and exercise share options in accordance with the terms and conditions of the particular options issue.

The exercise price of these options is determined as the weighted average market price for Keycorp Limited shares traded on the ASX for the five days prior to the date of the offer of options.

The last options issued under this plan were granted on 1 April 2009 to J. Bonin following his appointment as Chief Executive Officer. There have been no other options granted since this date.

RATIONALE

The ESOIP is a long-term equity plan designed to align remuneration with growth in share price (and therefore growth in shareholder value). The ESOIP is a key long-term retention tool for key executives.

**Keycorp Limited**  
**Directors Report (continued)**  
**for the year ended 30 June 2010**

**REMUNERATION REPORT (CONTINUED)**

**DESCRIPTION**

**Keycorp Short Term Incentive Plan**

The Keycorp Short Term Incentive Plan (STI) is designed to reward the executives (including the Chief Executive Officer) who are key management personnel when key performance measures are achieved over a twelve month business cycle. The target reward is set on an individual basis in relation to each key management personnel dependant on their level or responsibility and is confirmed to executives in writing separately.

Both financial and non-financial measures determine the amount (if any) of the pool of money available for payment under this Plan. These measures include revenue and profit targets, the generation of new business, delivery against project milestones and delivery against customer's satisfaction/service levels.

Where the Board approves a pool for the STI payment, the performance of individuals is measured against specific key performance indicators. An executive's contribution relative to other executives (individual performance factors) are taken into account as well. This results in a differentiated distribution of the incentive pool between executives based on individual performance.

**RATIONALE**

The purpose of this plan is to measure (and balance) the Company's financial performances as well as an executive's individual performance. It is a short-term reward for past performance.

**Keycorp Limited**  
**Directors Report (continued)**  
**for the year ended 30 June 2010**

**REMUNERATION REPORT (CONTINUED)**

DESCRIPTION

**Keycorp Exempt Employee Share Plan**

*Salary Sacrifice : The Share Save Offer*

Shareholders approved the introduction of the Keycorp Exempt Employee Share Plan (EESP) at the 2005 AGM.

The EESP gives eligible Australian employees the opportunity to acquire up to \$1,000 of Keycorp shares per financial year, tax free. The employee nominates to acquire up to \$500 worth of Keycorp shares that will be deducted from their pre-tax salary or wages over the financial year. Keycorp matches this contribution on a dollar for dollar basis by purchasing or issuing an additional \$500 of shares (to total \$1 000 worth of shares for the participant). The invitation to eligible employees to participate in the EESP occurs only once a year, in accordance with the relevant taxation legislation.

Shares acquired under this plan rank equally with all existing ordinary shares of Keycorp Limited and are quoted on the ASX. Shares acquired under the EESP must be held under a trading lock until the earlier of three years from allocation and cessation of employment with the Keycorp Group.

Employee shareholders are entitled to any dividends paid and to vote at general meetings. The Keycorp Exempt Employee Share Plan was last offered to eligible employees in November 2007.

RATIONALE

The EESP is a broad-based incentive designed to give employees an interest in Keycorp's share price and to recognise their individual contributions to the Company.

## REMUNERATION REPORT (CONTINUED)

### Directors' and executive officers' remuneration (Company and Consolidated)

Set out in the following tables is the remuneration for the Directors and other key management personnel of the Group for the 2009/2010 financial year. Prior year comparative tables are also included.

2010

#### DIRECTORS - COMPANY AND CONSOLIDATED

In AUD	Short term				Post employment	Equity based benefits				Total	Proportion of Total Remuneration performance related	
	Salary & Fees	STI Cash bonus	Non-monetary benefits	Total	Super-annuation benefits	Long service leave	Termination benefits	Options	Shares		Options	STI / LTI / Options
		(4) (5)	(6) (7)					(8)				
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Non- Executive Directors</b>												
R. Bishop (Chair)	130,000	-	6,179	136,179	11,700	-	-	-	-	147,879	-	-
M. Ibrahim	80,000	-	5,760	85,760	7,200	-	-	-	-	92,960	-	-
G. Hooper (1)	-	-	3,758	3,758	-	-	-	-	-	3,758	-	-
P. Jones (1)	-	-	1,692	1,692	-	-	-	-	-	1,692	-	-
<b>Executive Director</b>												
J. Bonin (2) (10)	320,000	130,000	10,443	460,443	28,800	3,740	-	49,150	-	542,133	9.1	33.0
<b>Total</b>	<b>530,000</b>	<b>130,000</b>	<b>27,832</b>	<b>687,832</b>	<b>47,700</b>	<b>3,740</b>	<b>-</b>	<b>49,150</b>	<b>-</b>	<b>788,422</b>	<b>-</b>	<b>-</b>

2009

#### DIRECTORS - COMPANY AND CONSOLIDATED

In AUD	Short term				Post employment	Equity based benefits				Total	Proportion of Total Remuneration performance related	
	Salary & Fees	STI Cash bonus	Non-monetary benefits	Total	Super-annuation benefits	Long service leave	Termination benefits	Options	Shares		Options	STI / LTI / Options
		(4) (5)	(6) (7)					(8)				
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Non- Executive Directors</b>												
R. Bishop (Chair)	104,000	-	9,730	113,730	11,700	-	-	-	26,000	151,430	-	-
M. Ibrahim	64,417	-	7,380	71,797	7,125	-	-	-	14,750	93,672	-	-
P. Jones (1)	-	-	6,307	6,307	-	-	-	-	-	6,307	-	-
<b>Executive Director</b>												
J. Bonin (2) (10)*	296,926	95,000	15,036	406,962	25,313	25,444	-	28,059	-	485,778	5.8	25.3
<b>Total</b>	<b>465,343</b>	<b>95,000</b>	<b>38,453</b>	<b>598,796</b>	<b>44,138</b>	<b>25,444</b>	<b>-</b>	<b>28,059</b>	<b>40,750</b>	<b>737,187</b>	<b>-</b>	<b>-</b>

## REMUNERATION REPORT (CONTINUED)

### Directors' and executive officers' remuneration (Company and Consolidated) (continued)

2010

#### EXECUTIVES

In AUD	Short term				Post employment				Equity based benefits		Total	Proportion of Total Remuneration performance related	
	Salary & Fees	STI Cash bonus	Non-monetary benefits	Total	Super-annuation benefits	Long service leave	Termination benefits	Options	Shares		Options	STI / LTI / Options	
		(4) (5)	(6) (7)					(8)					
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Executives Current</b>													
S. Greenan *	190,000	60,000	7,436	257,436	17,100	28	-	-	-	274,564	-	21.9	
M. Letford ^*	156,000	-	6,571	162,571	5,850	8	-	-	-	168,429	-	-	
C. Little (9) *	159,196	38,200	8,190	205,586	14,568	5,102	-	-	-	225,256	-	17.0	
W. Scheuber *	180,000	87,500	9,462	276,962	16,200	84	-	-	-	293,246	-	29.8	
J. Nicholas (3) *	65,385	25,000	2,621	93,006	5,887	7	-	-	-	98,900	-	25.3	
<b>Total</b>	<b>750,581</b>	<b>210,700</b>	<b>34,280</b>	<b>995,561</b>	<b>59,605</b>	<b>5,229</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,060,395</b>	<b>-</b>	<b>-</b>	
<b>Total Executives Group +</b>	<b>594,581</b>	<b>210,700</b>	<b>27,709</b>	<b>832,990</b>	<b>53,755</b>	<b>5,221</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>891,966</b>	<b>-</b>	<b>-</b>	
<b>Total Executives company &lt;&gt;</b>	<b>156,000</b>	<b>-</b>	<b>6,571</b>	<b>162,571</b>	<b>5,850</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>168,429</b>	<b>-</b>	<b>-</b>	

\* Denotes one of the five highest paid executives of the Group.

^ Denoted the highest paid executives of the Company.

<> Company Executives include M. Letford.

+ Group Executives include all company executives and J. Bonin, S. Greenan, W. Scheuber and C. Little.

2009

#### EXECUTIVES

In AUD	Short term				Post employment				Equity based benefits		Total	Proportion of Total Remuneration performance related	
	Salary & Fees	STI Cash bonus	Non-monetary benefits	Total	Super-annuation benefits	Long service leave	Termination benefits	Options	Shares		Options	STI / LTI / Options	
		(4) (5)	(6) (7)					(8)					
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Executives Current</b>													
S. Greenan	61,262	11,667	2,313	75,242	4,275	1	-	-	-	79,518	-	14.7	
M. Letford ^*	151,516	50,000	5,886	207,402	12,940	-	216,111	-	-	436,453	-	11.5	
C. Little (9) *	127,702	30,000	5,064	162,766	12,127	8,297	-	-	-	183,190	-	16.4	
W. Scheuber *	169,504	85,709	10,288	265,501	14,732	4	-	-	-	280,237	-	30.6	
<b>Total</b>	<b>509,984</b>	<b>177,376</b>	<b>23,551</b>	<b>710,911</b>	<b>44,074</b>	<b>8,302</b>	<b>216,111</b>	<b>-</b>	<b>-</b>	<b>979,398</b>	<b>-</b>	<b>-</b>	
<b>Total Executives Group +</b>	<b>509,984</b>	<b>177,376</b>	<b>23,551</b>	<b>710,911</b>	<b>44,074</b>	<b>8,302</b>	<b>216,111</b>	<b>-</b>	<b>-</b>	<b>979,398</b>	<b>-</b>	<b>-</b>	
<b>Total Executives company &lt;&gt;</b>	<b>151,516</b>	<b>50,000</b>	<b>5,886</b>	<b>207,402</b>	<b>12,940</b>	<b>-</b>	<b>216,111</b>	<b>-</b>	<b>-</b>	<b>436,453</b>	<b>-</b>	<b>-</b>	

\* Denotes one of the highest five paid executives of the Group.

^ Denoted the highest paid executives of the Company.

<> Company Executives include M. Letford.

+ Group Executives include all company executives and J. Bonin, S. Greenan, W. Scheuber, C. Little and J. Nicholas.

## REMUNERATION REPORT (CONTINUED)

### Directors' and executive officers' remuneration (Company and Consolidated) (continued)

- 1) These directors are appointed by Telstra as "nominee directors". There are no fees payable to either Telstra or these individual directors of Keycorp Limited in relation to these directorships. P Jones resigned on 22 October 2009 and G Hooper was appointed to the board on 22 October 2009.
- 2) J Bonin was appointed Chief Executive Officer with effect from 1 April 2009 and as a Director on 1 July 2009. Mr Bonin was a Key Management Personnel for the entire duration of the 2009 financial year.
- 3) J Nicholas was appointed Business Development Manager with effect from 29 March 2010.
- 4) The short term incentives (STI) cash bonus relates to performance during the year.
- 5) Some STI bonus amounts may have been accrued at year end and paid subsequent to year end.
- 6) The company pays the insurance premium in respect of a directors' and officers' liability insurance policy. The average premium per person has been included in these tables.
- 7) Non monetary benefits include health insurance, car parking, salary continuance, life insurance and any FBT payable by Keycorp on these items.
- 8) The fair value of options is calculated at the date of grant using a Black-Scholes Merton "up and in" call barrier pricing model, which takes account of factors such as the option exercise price, the current level of volatility of the underlying share price and the time of maturity of the option. The value of such options is being amortised and disclosed as part of director and executive remuneration on a straight line basis over the option vesting period. In valuing the options, market conditions have been taken into account.
- 9) C Little's eligible annual incentive for the year ended 30 June 2010 was \$40,000. C Little's STI bonus variance of \$1,800 came about due to the 2009 STI accrual of \$30,000 being \$1,800 more than the actual STI bonus paid following the finalisation of the 2009 Annual Performance Review process.
- 10) J Bonin's eligible annual incentive for the year ended 30 June 2010 was \$125,000. J Bonin's STI bonus variance of \$5,000 came about due to the 2009 STI accrual of \$95,000 being \$5,000 less than the actual STI bonus paid following the finalisation of the 2009 Annual Performance Review process.

## REMUNERATION REPORT (CONTINUED)

### ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

Details of the vesting profile of the short term incentive cash bonuses awarded as remuneration to the executive director of the Company and specific executives are set out below:

Short term incentive bonus			
Directors / Executive Officers	Included in remuneration \$(i)	% vested in the year	% Forfeited in the year(ii)
<b>Directors</b>	\$130,000	100.0%	-
J.Bonin (CEO)			
<b>Executives</b>			
S.Greenan	\$60,000	100.0%	-
M. Letford	-	-	-
J. Nicholas	\$25,000	100.0%	-
C. Little	\$38,200	100.0%	-
W. Scheuber	\$87,500	100.0%	-

(i) Amounts included in remuneration for the financial year represent the amount accrued in the financial year based on the achievement of personal goals and satisfaction of specified performance criteria. Any bonus paid is at the discretion of the Chief Executive Officer (CEO) (or the Remuneration and Nomination Committee, in the case of the CEO), who adjudicates as to whether performance criteria have been met. These amounts have been adjusted for under/over accruals in relation to the prior year following finalisation of the 2009 annual performance review process.

(ii) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

#### Options and rights over equity instruments granted as compensation

There were no options over ordinary shares issued to any Director or executive during the current financial year.

There were no shares issued on exercise of options, previously granted as compensation, during the reporting period and prior period.

#### Analysis of options and rights over equity instruments granted as compensation

Details of the vesting profile of options granted as remuneration to the Chief Executive Officer are set out below: executive are set out below:

	Options granted		% Vested in year	Forfeited in year (i)	Financial year in which grant vests (ii)
	Number	Date			
<b>Executive Director</b>					
J. Bonin	33,333	09/03/06	0%	0%	30/06/08
	33,333	09/03/06	0%	0%	30/06/09
	33,334	09/03/06	0%	0%	30/06/10
	40,000	26/10/06	0%	0%	30/06/09
	40,000	26/10/06	0%	0%	30/06/10
	40,000	26/10/06	0%	0%	30/06/11
	333,333	1/04/2009	0%	0%	30/06/11
	333,333	1/04/2009	0%	0%	30/06/12
	333,334	1/04/2009	0%	0%	30/06/13

(i) The percentage forfeited in the year represents the reduction from the maximum number of options available to vest due to the service or highest performance criteria not being achieved.

(ii) The vesting of options is subject to a performance condition based on total shareholder return relative to the S&P ASX indices.

#### Analysis of movements in options

There was no movement of options over ordinary shares in Keycorp Limited held by Key Management Personnel or five highest remunerated Group Executives during the financial year.

#### Lead Auditor's Independence declaration

The lead auditor's independence declaration (made under section 307C of the Corporations Act 2001) is set out on page 29 and forms part of this report.

#### ROUNDING OFF

The amounts contained in this director's report and in the financial report have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the company under ASIC Class Order 98/100 dated July 1998. the company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.



**J Bonin**

Director

Melbourne, 27 August 2010



***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Keycorp Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

MWB

Matthew Webb  
*Partner*

Sydney

27 August 2010

**Keycorp Limited and its Controlled Entities**  
**CONSOLIDATED INCOME STATEMENT**  
for the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
<b>Continuing operations</b>			
Revenue	6	46,629	52,094
Cost of Sales		(27,086)	(32,012)
<b>Gross Profit</b>		<b>19,543</b>	<b>20,082</b>
Sales & marketing expenses		(1,717)	(2,736)
Administration expenses	7(a)	(4,909)	(9,460)
Research & development expenses		(2,226)	(2,716)
Restructuring expenses		150	(3,124)
Other expenses	7(b)	(3,573)	(3,675)
Other Income		66	11
Total expenses excluding finance costs		<u>(12,209)</u>	<u>(21,700)</u>
<b>Results from operating activities</b>		<b><u>7,334</u></b>	<b><u>(1,618)</u></b>
Financial income	8	1,045	2,542
Financial expenses	8	(313)	(641)
<b>Net financial income</b>		<u>732</u>	<u>1,901</u>
<b>Profit before income tax</b>		<u>8,066</u>	<u>283</u>
Income tax expense	10	(2,515)	(65)
<b>Profit from continuing operations</b>		<u>5,551</u>	<u>218</u>
Profit of discontinued operation and gain on sale of discontinued operation, net of income tax	11	-	9,052
<b>Profit for the period attributable to owners of the company</b>		<b><u>5,551</u></b>	<b><u>9,270</u></b>
<b>Earnings per share</b>			
Basic earnings per share		\$0.0684	\$0.1143
Diluted earnings per share		\$0.0680	\$0.1142
<b>Continuing operations</b>			
Basic earnings per share		\$0.0684	\$0.0027
Diluted earnings per share		\$0.0680	\$0.0027

The Consolidated Income Statement is to be read in conjunction with the notes to the financial statements set out on pages 35 to 87.

**Keycorp Limited and its Controlled Entities**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 30 June 2010**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit from continuing operations	5,551	218
Profit of discontinued operation and gain on sale of discontinued operation, net of income tax	-	9,052
<b>Profit for the period</b>	<u>5,551</u>	<u>9,270</u>
<b>Other Comprehensive Income</b>		
Foreign currency translation differences for foreign operations	(7)	80
<b>Other comprehensive income for the period, net of tax</b>	<u>(7)</u>	<u>80</u>
<b>Total comprehensive income for the period attributable to owners of the Company</b>	<u><u>5,544</u></u>	<u><u>9,350</u></u>

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 35 to 87.

**Keycorp Limited and its Controlled Entities**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 30 June 2009

	Issued Share Capital \$'000	Foreign Currency Translation Reserve \$'000	Accumulated Losses \$'000	Total Equity \$'000
<b>Balance at 1 July 2008</b>	60,808	(6)	(35,044)	<b>25,758</b>
<b>Total Comprehensive income for the period</b>				
Profit for the period	-	-	9,270	<b>9,270</b>
<b>Other comprehensive income</b>				
Foreign currency translation differences	-	80	-	<b>80</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>80</b>	<b>9,270</b>	<b>9,350</b>
<b>Transactions with owners, recorded directly in equity</b>				
<b>Contributions by and distributions to owners</b>				
Dividends to equity holders			(4,868)	<b>(4,868)</b>
Share based payment transactions	-	-	(30)	<b>(30)</b>
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>(4,898)</b>	<b>(4,898)</b>
<b>Balance at 30 June 2009</b>	<b>60,808</b>	<b>74</b>	<b>(30,672)</b>	<b>30,210</b>

for the year ended 30 June 2010

	Issued Share Capital \$'000	Foreign Currency Translation Reserve \$'000	Accumulated Losses \$'000	Total Equity \$'000
<b>Balance at 1 July 2009</b>	60,808	74	(30,672)	<b>30,210</b>
<b>Total Comprehensive income for the period</b>				
Profit for the period	-	-	5,551	<b>5,551</b>
<b>Other comprehensive income</b>				
Foreign currency translation differences	-	(7)	-	<b>(7)</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(7)</b>	<b>5,551</b>	<b>5,544</b>
<b>Transactions with owners, recorded directly in equity</b>				
<b>Contributions by and distributions to owners</b>				
Dividends to equity holders	-	-	(2,434)	<b>(2,434)</b>
Share based payment transactions	-	-	55	<b>55</b>
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>(2,379)</b>	<b>(2,379)</b>
<b>Balance at 30 June 2010</b>	<b>60,808</b>	<b>67</b>	<b>(27,500)</b>	<b>33,375</b>

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 35 to 87.

**Keycorp Limited and its Controlled Entities**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2010**

	Note	2010 \$'000	2009 \$'000
<b>Assets</b>			
Cash and cash equivalents	32(a)	27,853	9,966
Trade and other receivables	13	4,308	10,460
Inventories	14	450	5,693
Net investment in finance leases	15	1,518	1,404
Investments	16	-	6,509
Other current assets	17	1,254	3,677
<b>Total current assets</b>		<b>35,383</b>	<b>37,709</b>
Net investment in finance leases	15	4,168	4,832
Property, plant and equipment	19	809	889
Deferred tax assets	20	3,606	4,926
Intangible assets	21	1,299	1,637
Other non current assets	17	271	441
<b>Total non-current assets</b>		<b>10,153</b>	<b>12,725</b>
<b>Total assets</b>		<b>45,536</b>	<b>50,434</b>
<b>Liabilities</b>			
Trade and other payables	22	2,441	8,016
Interest bearing liabilities	23	1,311	1,202
Employee benefits	24	1,254	1,239
Provisions	25	2,409	4,423
Income tax payable	26	2,136	949
Other current liabilities	27	643	880
<b>Total current liabilities</b>		<b>10,194</b>	<b>16,709</b>
Interest bearing liabilities	23	1,203	2,640
Employee benefits	24	30	30
Provisions	25	403	150
Other non current liabilities	27	331	695
<b>Total non-current liabilities</b>		<b>1,967</b>	<b>3,515</b>
<b>Total liabilities</b>		<b>12,161</b>	<b>20,224</b>
<b>Net assets</b>		<b>33,375</b>	<b>30,210</b>
<b>Equity</b>			
Issued capital	28	60,808	60,808
Reserves		67	74
Accumulated losses		(27,500)	(30,672)
<b>Total equity</b>		<b>33,375</b>	<b>30,210</b>

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 35 to 87.

**Keycorp Limited and its Controlled Entities**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the year ended 30 June 2010**

	Note	2010 \$'000	2009 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		57,296	55,029
Cash paid to suppliers and employees		<u>(41,346)</u>	<u>(52,484)</u>
Cash generated from operations		15,950	2,545
Interest received		1,059	1,310
Interest paid		(301)	(689)
Income taxes paid		(8)	(1,909)
Restructuring costs		(811)	(2,403)
Settlement costs of contractual arrangements		(3,435)	-
<b>Net cash flows from operating activities</b>	32(b)	<u><b>12,454</b></u>	<u><b>(1,146)</b></u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(176)	(407)
Development expenditure		(109)	(213)
Proceeds from disposal of non-current assets		-	39
Acquisition of mezzanine notes		(1,179)	(1,035)
Proceeds from repayment of mezzanine notes		7,688	-
Disposal of discontinued operation		-	23,012
Repayment of promissory note		-	1,064
<b>Net cash flows from investing activities</b>		<u><b>6,224</b></u>	<u><b>22,460</b></u>
<b>Cash flows from financing activities</b>			
Repayment of borrowings - bank term loan		-	(10,000)
Finance lease liabilities - payments		(1,328)	(1,094)
Dividends paid	12	(2,434)	(4,868)
Proceeds from return of security deposit		3,000	-
<b>Net cash flows used in financing activities</b>		<u><b>(762)</b></u>	<u><b>(15,962)</b></u>
Net increase in cash and cash equivalents		17,916	5,352
Cash and cash equivalents at the beginning of the financial period		9,966	4,512
Effect of exchange rate fluctuations on cash held		(29)	102
<b>Cash and cash equivalents at the end of the financial period</b>		<u><b>27,853</b></u>	<u><b>9,966</b></u>

This consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 35 to 87.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 1. REPORTING ENTITY

Keycorp Limited (the "Company") is a company domiciled in Australia. The consolidated financial statements as at and for the year ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

#### 2. BASIS OF PREPARATION

##### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group complies with the International Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 27 August 2010.

##### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except where stated otherwise.

##### (c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

##### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 20 – Recognition of deferred tax assets including tax losses;
- Note 21 – Measurement of the recoverable amount of intangible assets; and
- Note 25 – Provisions

##### (e) Changes in accounting policies

###### Overview

Starting as of 1 July 2009, the Group has changed its accounting policies in the following areas:

- Accounting for business combinations (refer note 3a);
- Determination and presentation of operating segments (refer note 3v); and
- presentation of financial statements (refer note 3w).

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as exhibited in Notes 2(e), 3(v) and 3(w) which address changes in accounting policies. Certain comparative amounts have been reclassified to conform with the current year's presentation.

##### (a) Basis of consolidation

###### (i) *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. The Group has adopted revised AASB3 Business Combinations (2008) and amended AASB 127 Consolidated and Separate Financial Statements (2008) for business combinations occurring in the financial year starting 1 July 2009. There is no impact of the adoption of this revised standard in either year.

###### (ii) *Transactions eliminated on consolidation*

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

##### (b) Foreign currency

###### (i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. Foreign currency differences arising on translation are recognised in the income statement.

Non monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the transaction date.

###### (ii) *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity, the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

##### (c) Property, plant and equipment

###### (i) *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation (see 3(c)(iv)) and impairment losses (see 3(i)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net with "other expenses" in profit or loss.

###### (ii) *Leased assets*

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Other leases are operating leases.

###### (iii) *Subsequent costs*

The Group recognises in the carrying amount of an item of property, plant and equipment the costs of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The costs of day to day servicing of the property, plant and equipment are recognised in the income statement as incurred.

###### (iv) *Depreciation*

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

- |                          |              |
|--------------------------|--------------|
| • plant and equipment    | 3 to 6 years |
| • furniture and fittings | 5 to 8 years |
| • leasehold improvements | Lease term   |

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### (d) Intangible assets

###### (i) Goodwill

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination. If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

###### (ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised only if the product or process is technically and commercially feasible, the costs can be measured reliably, future economic benefits are probable and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see 3(d)(vi) below) and impairment losses (see accounting policy 3(i)).

###### (iii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation (see 3(d)(vi) below) and accumulated impairment losses (see accounting policy 3(i)).

###### (iv) Capitalised software

Capitalised software is measured at cost less accumulated amortisation and accumulated impairment losses.

###### (v) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### (vi) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- capitalised development costs 1 to 3 years
- intellectual property 3 to 5 years
- Other intangible assets for the term of the customer contracts (4 to 5 years)
- capitalised software 3 to 5 years

##### (e) Non current assets held for sale and discontinued operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable accounting standards. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify.

##### (f) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy 3(i)).

##### (g) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- (i) spare parts – purchase costs assigned to individual items of inventory on the basis of weighted average cost.
- (ii) finished goods – purchase costs assigned to individual items of inventory on the basis of weighted average cost.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### (h) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

##### (i) Impairment

The carrying amounts of the Group's assets other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cashflows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement, unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

##### (i) *Calculation of recoverable amount*

The recoverable amount of the Group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (that is the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**(ii) Reversal of impairment**

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(j) Share capital**

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

Dividends are recognised as a liability in the period in which they are declared.

**(k) Investments**

Where the Group has the positive intent and ability to hold debt securities to maturity, they are stated at amortised cost less impairment losses.

**(l) Interest bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the borrowings on an effective interest basis.

**(m) Employee benefits**

**(i) Wages, salaries, annual leave, sick leave and non-monetary benefits**

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are due to be settled within twelve months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees. A provision is recognised for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### (ii) *Long-term service benefits*

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the Group's obligations.

##### (iii) *Share based payment transactions*

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes Merton "up and in" call barrier pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

The Exempt Employee Share Plan ("EESP") was suspended during the 2010 financial year.

##### (iv) *Defined contribution superannuation plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than twelve months after the end of the period in which the employees render the service are discounted to their present value.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(v) Termination benefits**

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group made an offer encouraging voluntary redundancy, it is probably that the offer will be accepted, and the number of acceptances can be estimated reliably.

**(n) Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation to make a future sacrifice of economic benefits as a result of past transactions or other past events, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**(i) Warranties**

A provision for warranties is recognised for all products under warranty at the reporting date based on sales volume and past experience of the level and cost of repairs and returns.

**(ii) Restructuring**

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

**(iii) Leasehold restoration**

Provision is made for the estimated cost of restoring leasehold premises to their original condition where required by the operating lease agreement. The amount of the provision is capitalised and is depreciated over the term of the lease.

**(o) Trade and other payables**

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled within agreed supplier payment terms.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### (p) Revenue

###### (i) *Goods sold and services rendered*

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the labour hours incurred to date as a percentage of total estimated hours for each contract. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

Any revenue received for which goods have not been delivered or services have not been rendered is classified as 'income received in advance' in the balance sheet and is recognised as revenue in the income statement only when the goods have been delivered or the services are rendered.

###### (ii) *Lease financing and service*

Lease financing revenue is recognised as it accrues, based on the effective interest yield inherent in the underlying leasing contract. Lease service revenue is recognised on a straight line basis over the life of the leasing contract.

###### (iii) *Licence income*

Licence income is recognised when the significant risks and rewards of ownership in respect of the intellectual property has passed to the buyer which is normally the date the product is delivered to the customer.

##### (q) Expenses

###### (i) *Operating lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

###### (ii) *Finance lease payments*

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed. Gains arising on sale and leaseback transactions that are classified as finance leases are deferred and brought to account over the period of the lease.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### *(iii) Net financing costs*

Net financing costs comprise interest payable on borrowings, including finance leases, calculated using the effective interest method, interest receivable on funds invested, banking fees and the amortisation of ancillary costs incurred in connection with the arrangement of borrowings, dividend income and foreign exchange gains and losses. Interest income is recognised in the income statement as it accrues, using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

##### **(r) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

##### *(i) Tax consolidation*

The Company is the head entity in a tax consolidated group comprising the Company and all of its Australian wholly owned subsidiaries. The implementation of the tax consolidations system for the tax consolidated group was 1 July 2003.

**Keycorp Limited and its Controlled Entities**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2010**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(s) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**(t) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

**(u) Operating Segments**

As of 1 July 2009 the Group determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8: Operating Segments. Previously operating segments were determined and presented in accordance with AASB 114: Segment Reporting. The new accounting policy in respect of operating segment disclosures is presented as follows.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative segment information has been re-presented in conformity with the transitional requirements of AASB 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Chief Executive Officer to make decisions about the resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Based on the Group's internal reporting to the Chief Executive Officer, the Group's continuing operations have been deemed to constitute one operating segment.

##### (v) Presentation of Financial Statements

The Group applies revised AASB 101: Presentation of Financial Statements (2007), which became effective for the Group as of 1 July 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

##### (w) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.

**Keycorp Limited and its Controlled Entities**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2010**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

AASB 124 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvement Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 4. FINANCIAL RISK MANAGEMENT

##### Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- currency risk;
- liquidity risk; and
- market risk.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has delegated responsibility for the development and monitoring of risk management policies to the Audit and Risk Committee. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit and Risk Committee oversees management's monitoring of compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

##### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

##### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the country in which customers operate, have an influence on credit risk.

As part of the Group finance policies each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase/credit limits are established for each customer, which represents the maximum open amount without requiring approval from the Audit and Risk Committee; these limits are reviewed periodically. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group does not require collateral in respect of trade and other receivables.

The Group has established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables and investments. The main component of this allowance is a specific loss component that relates to individually significant exposures.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Investments

Investments are limited to the Mezzanine notes which the Company was required to acquire and hold under the Westpac Managed Payment Services Agreement (MPSA). Credit risk arise where the actual utilisation rate of the underlying terminal assets falls below the predetermined rate and the credit risk associated with the end user of the terminal. These risks were mitigated through contractual terms that provide for fee increases in the event utilisation falls below set levels and through the financial structuring of the Mezzanine notes. The Mezzanine notes were repaid in full in May 2010.

##### Guarantees

The Company has entered into a Deed of Cross Guarantee with certain subsidiaries as described in note 18. Under the terms of the Deed, the Company has guaranteed the repayment of all current and future creditors in the event any of the entities party to the Deed are wound up. Details of the consolidated financial position of the Company and subsidiaries party to the Deed are set out in note 18.

##### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

##### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Where considered appropriate, the Group will enter into forward foreign exchange contracts to hedge foreign currency exposure under the guidelines set by the Audit and Risk Committee.

##### Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the Australian Dollar (AUD). The currencies giving rise to this risk are primarily US dollars (USD).

The Group's future cashflows in foreign currencies are predominantly hedged naturally, meaning the inflows of foreign currencies from customer sales are generally matched with outflows of foreign currency purchases. To manage the timing mismatches of these foreign currency movements, the group may enter into short-term (two to six months) forward exchange contracts.

The group does not qualify for hedge accounting on these forward exchange contracts and accordingly these are accounted for as trading instruments. Accordingly, changes in the fair value of forward exchange contracts are recognised in the income statement.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group did not hold any forward exchange contracts at 30 June 2010 or 30 June 2009.

##### **Interest rate risk**

The Group is not currently exposed to significant interest rate risk.

##### **Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group ended the year with a net cash position of \$25,339,000 (2009: \$6,124,000).

Since the announcement of the Company's dividend policy on 8 May 2009 the Board monitors the level of dividends paid to shareholders. There were no changes in the Group's approach to capital management during the year. The Board declared dividends for the financial year totalling 3.5 cents per share (2009: 6.0 cents per share, including 5.0 cents per share special dividend).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 5. OPERATING SEGMENTS

The Group has one reportable segment. The Group's operations from continuing activities are managed as one business. The consolidated income statement and consolidated statement of financial position represent the financial performance and financial position of the Group's operating segment. The Chief Executive Officer reviews internal management reports on a monthly basis.

#### Geographical segments

For geographical segments, segment revenue is based on the geographical location of the customers. Segment assets are based in the geographical location of the assets.

The Group's business segments operate geographically as follows:

#### *Australia & New Zealand*

Sales and service operations supporting Australia and New Zealand markets including sales made from these markets to geographical areas not separately identified below.

*North America* - Sales to North American customers from Australia.

*Asia* - Sales to Asian customers from Australia.

*Europe* - Sales to European customers from Australia.

	External segment revenues location of customer		Segment non current assets by location of assets (ii)	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Australia &amp; New Zealand</b>	43,372	48,772	2,379	2,967
<b>North America</b>	3,234	3,222	-	-
<b>Asia</b>	-	2,067	-	-
<b>Europe</b>	23	1,604	-	77
<b>Total (i)</b>	<b>46,629</b>	<b>55,665</b>	<b>2,379</b>	<b>3,044</b>

(i) The 2009 amount includes \$3,571,000 of revenue from discontinued operations.

(ii) This comprises property, plant and equipment, intangible assets and other assets.

The Group predominantly trades within Australia.

#### Major Customers

Three (2009: two) of the Group's customers each generated revenue in excess of 10% of total Group revenues. Revenues from these customers amounted to \$17,816,000, \$9,994,000 and \$5,836,000 respectively. (2009: \$23,206,000 and \$12,405,000).

**Keycorp Limited and its Controlled Entities**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2010**

**6. REVENUE**

	<b>Consolidated</b>					
	Continuing		Discontinued		Total	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue includes the following items:</b>						
Product and Software	18,213	24,655	-	3,571	18,213	28,226
Services	27,424	26,607	-	-	27,424	26,607
Finance lease interest income	992	832	-	-	992	832
<b>Total revenue</b>	<b>46,629</b>	<b>52,094</b>	<b>-</b>	<b>3,571</b>	<b>46,629</b>	<b>55,665</b>

**Keycorp Limited and its Controlled Entities**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2010**

**7. EXPENSES FROM CONTINUING OPERATIONS EXCLUDING NET FINANCE COSTS**

Expenses excluding net financing costs include the following items:

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>a) Administration expenses</b>		
Salaries and associated employee costs	1,678	2,292
External professional advice including audit fees	2,034	4,097
Computing and communications	313	946
Facilities and premises	710	1,206
Other	174	919
	4,909	9,460
<b>b) Other expenses comprise:</b>		
Settlement costs of contractual arrangements (i)	2,043	-
Other expenses	974	286
	3,017	286
<i>Impairment of non current assets:</i>		
Intellectual property	-	220
Goodwill impairment	-	1,614
Plant and equipment	-	104
Total impairment expense	-	1,938
<i>Depreciation and amortisation of non current assets:</i>		
Intellectual property	-	240
Other intangibles assets	-	308
Capitalised software	34	56
Plant and equipment	391	377
Leasehold improvements	76	426
Furniture and fittings	55	44
Total depreciation and amortisation expense (continuing operations)	556	1,451
Total impairment, depreciation and amortisation expense (continuing operations)	556	3,389
<b>Total other expenses (continuing operations)</b>	<b>3,573</b>	<b>3,675</b>

Amortisation and impairment of capitalised development costs of \$413,000 (2009: \$1,135,000) is included in consolidated research and development expenses.

(i) These settlement costs were incurred in closing out the Westpac contract which was six years in duration.

<b>c) Operating lease rentals</b>	421	1,077
<b>d) Bad &amp; doubtful debts</b>		
Trade debtors - other persons/bodies corporate	(7)	218
<b>e) Other provisions</b>		
Employee entitlements	(69)	395
Inventory obsolescence	501	182
Warranty expenses	154	127
<b>f) Other</b>		
Net loss on disposal of non current assets	-	103

**Keycorp Limited and its Controlled Entities**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2010**

**8. NET FINANCIAL INCOME**

	Consolidated	
	2010	2009
	\$'000	\$'000
Interest income	1,100	1,261
Net gain/(loss) on foreign exchange	(55)	1,281
Financial income	1,045	2,542
Interest expense	-	220
Finance lease expense	313	421
Financial expenses	313	641
Net financial income	732	1,901

**9. PERSONAL EXPENSES**

	Note	Consolidated	
		2010	2009
		\$'000	\$'000
Wages and salaries		8,746	10,695
Other associated personnel expenses		631	1,004
Contributions to defined contribution superannuation funds		604	886
Decrease in liability for annual leave	24	(85)	(93)
Increase/(decrease) liability for long-service leave	24	16	(54)
Equity-settled share-based payment transactions	24	55	(30)
Total personnel expenses (continuing and discontinuing operations)		9,967	12,408

**Keycorp Limited and its Controlled Entities**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2010**

**10. INCOME TAX EXPENSE**

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Recognised in the income statement</b>		
<b>Current tax expense</b>		
Current year	1,600	6,001
Adjustment for prior years	(405)	(274)
	<b>1,195</b>	<b>5,727</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	1,320	(1,149)
Tax losses brought to account	-	(341)
	<b>1,320</b>	<b>(1,490)</b>
<b>Total income tax expense in income statement</b>	<b>2,515</b>	<b>4,237</b>
<b>Attributable to:</b>		
Continuing operations	2,515	65
Discontinuing operations	-	4,172
	<b>2,515</b>	<b>4,237</b>
<b>Numerical reconciliation between tax expense and pre tax net profit</b>		
Profit before tax – continuing operations	8,066	283
Profit before tax – discontinuing operations	-	13,224
<b>Profit before tax</b>	<b>8,066</b>	<b>13,507</b>
Income tax using the domestic corporation tax rate of 30% (2009: 30%)	2,420	4,052
Utilisation of previously unrecognised tax losses	-	(341)
Other non deductible expenditure	500	800
Over provided in prior years	(405)	(274)
<b>Income tax expense in pre-tax net profit</b>	<b>2,515</b>	<b>4,237</b>

**Keycorp Limited and its Controlled Entities**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2010**

**11. DISCONTINUED OPERATIONS**

On 1 September 2008 the Group sold its Smartcards business. There were no discontinued operations for the year ended 30 June 2010.

	Note	Consolidated	
		2010 \$'000	2009 \$'000
<b>Results of discontinued operation</b>			
Revenue	6	-	3,571
Expenses		-	(3,464)
Results from operating activities		-	107
Net financing expense		-	(196)
Income tax benefit		-	723
Results from operating activities, net of income tax		-	634
Gain on sale of discontinued operation		-	13,313
Tax on gain on sale of discontinued operation		-	(4,895)
<b>Profit for the period</b>		-	<b>9,052</b>
<b>Effect of disposal on the financial position of the Group</b>			
Property, plant and equipment		-	(156)
Intangibles		-	(3,302)
Inventories		-	(1,116)
Trade and other receivables		-	(2,169)
Other current assets		-	(66)
Assets held for sale on acquisition of Multos		-	(9,627)
Trade and other payables		-	3,520
Employee benefits		-	466
Liabilities held for sale on acquisition of Multos		-	2,744
<b>Net assets and liabilities</b>		-	<b>(9,706)</b>
Consideration received, satisfied in cash		-	23,274
Disposal costs		-	(262)
<b>Net cash inflow</b>		-	<b>23,012</b>
Net assets sold		-	(9,706)
Transfer of FCTR to income statement on disposal		-	7
Tax on gain on sale of discontinued operation		-	(4,895)
<b>Gain on sale of discontinued operations, net of tax</b>		-	<b>8,418</b>
<b>Basic earnings / (loss) per share</b>		-	<b>\$ 0.1116</b>
<b>Diluted earnings / (loss) per share</b>		-	<b>\$ 0.1115</b>

**Keycorp Limited and its Controlled Entities**  
**Notes to the consolidated financial statements**  
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**12. DIVIDENDS**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Dividends paid</b>		
Previous year final dividend paid	1,217	-
Interim dividend paid	1,217	811
Special dividend paid	-	4,057
<b>Total dividends paid</b>	<b>2,434</b>	<b>4,868</b>
<b>Dividends paid per ordinary share</b>		
	<b>cents</b>	<b>cents</b>
Previous year final dividend paid	1.5	-
Interim dividend paid	1.5	1.0
Special dividend paid	-	5.0
<b>Total dividends paid</b>	<b>3.0</b>	<b>6.0</b>

Keycorp dividends paid are fully franked at a tax rate of 30%

Keycorp dividends per share to be paid in respect of fiscal year are detailed below:

	<b>2010</b>	<b>2009</b>
	<b>cents</b>	<b>cents</b>
Dividends per ordinary share		
Interim dividend	1.5	1.0
Final dividend (i)	2.0	1.5
Special dividend	-	5.0
	<b>3.5</b>	<b>7.5</b>

(i) On 27 August 2010, the Directors declared to pay a final fully franked dividend of \$0.02 cents per ordinary share (\$1,622,000). Refer to note 33.

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Dividend franking account		
30 per cent franking credits available to shareholders of Keycorp Limited for subsequent financial years.	8,560	8,942

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

- (a) franking credits that will arise from the payment of the current tax liabilities;
- (b) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependant upon the company meeting the solvency test under the Corporations Act 2001 and there being sufficient available profits to declare dividends in accordance with the company's constitution.

**Keycorp Limited and its Controlled Entities**  
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**13. TRADE AND OTHER RECEIVABLES**

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Current receivables</b>		
Trade debtors	2,695	4,293
Impairment loss	(423)	(782)
	2,272	3,511
Other debtors	2,036	6,949
	<b>4,308</b>	<b>10,460</b>

The Group's exposure to credit, currency risks and impairment losses related to trade and other receivables are disclosed in note 35.

**14. INVENTORIES**

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Spare parts and consumables</b>		
At cost	387	378
Provision for obsolescence	(273)	(100)
	114	278
<b>Finished goods</b>		
At cost (i)	1,219	5,970
Provision for obsolescence	(883)	(555)
	336	5,415
<b>Total inventories at lower of cost and net realisable value</b>	<b>450</b>	<b>5,693</b>

(i) Terminals acquired for use in one of the Group's managed payment service agreements are acquired under finance leases. As at 30 June 2010, terminals with a book value of \$486,000 (2009: \$669,900) were acquired under finance lease.

**15. NET INVESTMENT IN FINANCE LEASES**

	Consolidated	
	2010	2009
	\$'000	\$'000
Gross investment in finance leases	7,526	8,022
Unearned finance income	(1,840)	(1,786)
<b>Present value of minimum lease payments receivable</b>	<b>5,686</b>	<b>6,236</b>

	Gross investment in the leases		Present value of minimum lease payments	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Less than one year	2,482	2,169	1,518	1,404
Between one and five years	5,044	5,853	4,168	4,832
	<b>7,526</b>	<b>8,022</b>	<b>5,686</b>	<b>6,236</b>

The Keycorp Group provides terminals and bundled services under Managed Payment Service Agreements (MPSAs). These agreements are accounted for as finance leases. The contracts and lease terms expire in May 2012 and April 2013. After the original lease period, the lessee has the option to purchase the assets at depreciated values at that date.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 16. INVESTMENTS

Current Investments	Consolidated	
	2010 \$'000	2009 \$'000
Debt securities held to maturity	-	6,509
	-	6,509

(a) Debt securities – Mezzanine Notes: Pursuant to the sale of the EFTPOS terminal assets and associated rental proceeds related to the Westpac contract to a third party investor in June 2005, the Group subscribed to Mezzanine Notes, as required under the terms of the Asset & Proceeds Agreement. The Group subscribed to \$1,179,000 of additional notes during the year (2009: \$1,035,000). Entitlement to interest income during the term accrued in the range of 4.13% to 7.7% (2009: 4.13% to 7.7%) per annum. The Mezzanine notes were repaid in full in May 2010.

(b) The entities in the group comprise:

	Country of incorporation	Ownership interest	
		2010 %	2009 %
<b>Parent entity</b>			
Keycorp Ltd			
<b>Subsidiaries</b>			
Keycorp Services Pty Ltd	Australia <sup>(ii)</sup>	100	100
Keycorp Technology Pty Ltd	Australia <sup>(ii)</sup>	100	100
Keycorp (Asia) Ltd	Hong Kong <sup>(i)</sup>	100	100
Keycorp Systems Ltd	UK <sup>(i)</sup>	100	100
Keycorp USA Ltd	USA <sup>(i)</sup>	100	100
Tillsmith Systems Inc	USA <sup>(i)</sup>	100	100
Keycorp Payment Services Pty Ltd	Australia	100	100
Keycorp Management Services Pty Ltd	Australia <sup>(iii)</sup>	-	100
Keycorp Investments Pty Ltd	Australia <sup>(ii)</sup>	100	100
Fox Technology Pty Ltd	Australia	100	100

(i) Controlled entity no longer trading.

(ii) Entities subject to ASIC class order relief 98/1418 are relieved from the preparation, audit and lodgement of financial reports and directors' reports

(iii) Entity deregistered during the year.

(c) Deed of Cross Guarantee

Pursuant to Class Order 98/1418 (as amended) dated 13 August 1998, relief has been granted to Keycorp Investments Pty Ltd and Keycorp Services Pty Ltd from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors reports.

Keycorp Limited, the controlled entities identified above and Keycorp Technology Pty Ltd (the "Closed Group"), entered into a Deed of Cross Guarantee on 30 December 1999. The effect of the deed is that Keycorp Limited has guaranteed to each creditor to pay any deficiency in the event of winding up of any of the controlled entities in the "Closed Group". All controlled entities in the "Closed Group" have also given a similar guarantee in the event that Keycorp Limited is wound up. Refer to note 18.

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**Notes to the consolidated financial statements**  
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**17. OTHER ASSETS**

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Other current assets</b>		
Prepayments	925	381
Security deposit (i)	-	3,000
Deferred expenditure (ii)	329	296
	<b>1,254</b>	<b>3,677</b>
<b>Other non current assets</b>		
Deferred expenditure (ii)	<b>271</b>	<b>441</b>

(i) Cash backed security deposit to support Keycorp Limited's undertaking in respect of the Westpac contract. This deposit was released to the Group upon the expiry of the Westpac contract in May 2010.

(ii) Deferred expenditure includes upfront costs incurred to fulfil certain obligations under the managed payment service agreements. These costs are amortised over the term of the agreements.

**Keycorp Limited and its Controlled Entities**  
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**18. DEED OF CROSS GUARANTEE**

A consolidated income statement and consolidated balance sheet comprising the Company and controlled entities which are a party to the Deed of Cross Guarantee (members of the "Closed Group"), after eliminating all transactions between parties to the Deed of Cross Guarantee are as follows:

	<b>Closed Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Summarised income statement and statement of comprehensive income and accumulated losses</b>		
Profit before income tax expense	4,628	9,485
Income tax benefit / (expense)	268	(2,779)
Profit after income tax	4,896	6,706
Accumulated losses at the beginning of the financial year	(30,740)	(32,548)
Dividends Paid	(2,434)	(4,868)
Equity settled transactions	55	(30)
Accumulated losses at the end of the financial year	(28,223)	(30,740)
<b>Statement of Financial Position</b>		
<b>Current assets</b>		
Cash and cash equivalents	26,791	8,314
Trade and other receivables	3,705	4,595
Inventories	450	5,692
Net investment in finance lease	1,518	1,404
Other current assets	1,141	3,677
Total current assets	33,605	23,682
<b>Non current assets</b>		
Receivables	10,344	12,241
Net investment in finance lease	4,168	4,832
Investments	144	6,534
Property, plant and equipment	809	889
Intangible assets	1,299	1,637
Deferred tax assets	3,272	4,765
Other non current assets	271	441
Total non current assets	20,305	31,339
Total assets	53,910	55,021
<b>Current liabilities</b>		
Trade and other payables	12,605	13,210
Interest bearing loans and borrowings	1,311	1,202
Employee benefits	1,254	1,239
Provisions	1,688	4,336
Income tax payable	2,136	945
Other current liabilities	364	506
Total current liabilities	19,358	21,438
<b>Non current liabilities</b>		
Interest bearing loans and borrowings	1,203	2,640
Employee benefits	30	30
Provisions	403	150
Other non current liabilities	331	695
Total non current liabilities	1,967	3,515
Total liabilities	21,325	24,953
<b>Net assets</b>	<b>32,585</b>	<b>30,068</b>
<b>Shareholders' equity</b>		
Issued capital	60,808	60,808
Accumulated losses	(28,223)	(30,740)
<b>Total Shareholders' equity</b>	<b>32,585</b>	<b>30,068</b>

**Keycorp Limited and its Controlled Entities**  
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**19. PROPERTY, PLANT AND EQUIPMENT**

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Cost</b>		
<i>Plant and equipment</i>		
Balance at the beginning of year	8,771	8,790
Additions	435	193
Disposals	(179)	(212)
Balance at the end of year	9,027	8,771
<i>Furniture and Fittings</i>		
Balance at the beginning of year	225	549
Additions	3	-
Disposals	-	(324)
Balance at the end of year	228	225
<i>Leasehold improvements</i>		
Balance at the beginning of year	475	1,438
Additions	4	169
Disposals	-	(1,132)
Balance at the end of year	479	475
<b>Total cost of Property plant and equipment</b>	<b>9,734</b>	<b>9,471</b>
<b>Depreciation and impairment losses</b>		
<i>Plant and equipment</i>		
Balance at the beginning of year	8,050	7,735
Disposals	(179)	(166)
Impairment Expense	-	104
Depreciation expense	391	377
Balance at the end of year	8,262	8,050
<i>Furniture and Fittings</i>		
Balance at the beginning of year	150	360
Disposals	-	(254)
Depreciation expense	55	44
Balance at the end of year	205	150
<i>Leasehold improvements</i>		
Balance at the beginning of	382	1,062
Disposals	-	(1,106)
Depreciation expense	76	426
Balance at the end of year	458	382
<b>Total Accumulated depreciation</b>	<b>8,925</b>	<b>8,582</b>

**Keycorp Limited and its Controlled Entities**  
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**19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Net written down value</b>		
<i>Plant and equipment</i>		
Balance at the beginning of year	721	1,055
Additions	435	193
Disposals	-	(46)
Impairment Expense	-	(104)
Depreciation expense	(391)	(377)
Balance at the end of year	765	721
<i>Furniture and Fittings</i>		
Balance at the beginning of year	75	189
Additions	3	-
Disposals	-	(70)
Depreciation expense	(55)	(44)
Balance at the end of year	23	75
<i>Leasehold improvements</i>		
Balance at the beginning of year	93	376
Additions	4	169
Disposals	-	(26)
Depreciation expense	(76)	(426)
Balance at the end of year	21	93
<b>Total carrying amount of Property plant and equipment</b>	<b>809</b>	<b>889</b>
<b>Total Property plant and equipment</b>		
<b>Net written down value at the beginning of the year</b>	<b>889</b>	<b>1,620</b>
<b>Net written down value at the end of the year</b>	<b>809</b>	<b>889</b>

**Keycorp Limited and its Controlled Entities**  
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**20. DEFERRED TAX ASSETS AND LIABILITIES**

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Consolidated</b>						
Plant and equipment	276	268	-	-	276	268
Intangible assets	444	474	(111)	(235)	333	239
Trade debtors	127	239	-	-	127	239
Inventories	347	197	-	-	347	197
Income received in advance	84	67	-	-	84	67
Employee benefits	176	197	-	-	176	197
Accruals	-	280	-	-	-	280
Provisions	906	1,434	-	-	906	1,434
Finance lease receivable	1,141	1,567	(136)	(190)	1,005	1,377
Other items	352	628	-	-	352	628
<b>Subtotal</b>	<b>3,853</b>	<b>5,351</b>	<b>(247)</b>	<b>(425)</b>	<b>3,606</b>	<b>4,926</b>
Set off of tax	(247)	(425)	247	425	-	-
<b>Net tax assets</b>	<b>3,606</b>	<b>4,926</b>	<b>-</b>	<b>-</b>	<b>3,606</b>	<b>4,926</b>

**Unrecognised deferred tax assets**

Recent tax legislation, which received royal assent on 3 June 2010, has amended the rules applying to capital losses incurred by the Group. The company is working through the legislation with its tax advisors to determine whether these losses are available for use by the Group. Subject to further analysis, should such losses be determined to be available to Keycorp the maximum amount utilisable is currently capped at approximately \$12,862,000 as capital losses may only be off set against capital gains. Deferred tax assets have not been recognised in respect of these potential tax capital losses as the company is not satisfied that it is probable that such losses meet the legislative requirements necessary for the losses to be available for use by the Group.

**Keycorp Limited and its Controlled Entities**  
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**21. INTANGIBLE ASSETS**

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Cost</b>		
<i>Goodwill</i>		
Balance at the beginning and end of year	3,239	3,239
<i>Intellectual property</i>		
Balance at the beginning and end of year	4,075	4,075
<i>Capitalised development costs</i>		
Balance at the beginning of year	9,311	9,098
Acquisitions – internally developed	-	213
Balance at the end of year	9,311	9,311
<i>Other intangible assets</i>		
Balance at the beginning and end of year	1,475	1,475
<i>Computer software</i>		
Balance at the beginning of year	1,052	1,007
Additions	109	45
Balance at the end of year	1,161	1,052
<b>Total cost of Intangible assets</b>	<b>19,261</b>	<b>19,152</b>
<b>Amortisation and impairment losses</b>		
<i>Goodwill</i>		
Balance at the beginning of year	2,439	825
Impairment for the year	-	1,614
Balance at end of year	2,439	2,439
<i>Intellectual property</i>		
Balance at the beginning of year	4,075	3,615
Impairment for the year	-	220
Amortisation charge	-	240
Balance at the end of year	4,075	4,075
<i>Capitalised development costs</i>		
Balance at the beginning of year	8,528	7,393
Amortisation charge	413	849
Impairment for the year	-	286
Balance at the end of year	8,941	8,528
<i>Other intangible assets</i>		
Balance at the beginning of year	1,475	1,167
Amortisation for the year	-	308
Balance at the end of year	1,475	1,475
<i>Computer software</i>		
Balance at the beginning of year	998	942
Amortisation for the year	34	56
Balance at the end of year	1,032	998
<b>Total accumulated amortisation and impairment losses</b>	<b>17,962</b>	<b>17,515</b>

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**21. INTANGIBLE ASSETS (CONTINUED)**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Net book value</b>		
<i>Goodwill</i>		
Balance at the beginning of year	800	2,414
Impairment charge	-	(1,614)
Balance at the end of year	800	800
<i>Intellectual property</i>		
Balance at the beginning of year	-	460
Impairment charge	-	(220)
Amortisation for the year	-	(240)
Balance at the end of year	-	-
<i>Capitalised development costs</i>		
Balance at the beginning of year	783	1,705
Acquisitions – internally developed	-	213
Amortisation for the year	(413)	(849)
Impairment for the year	-	(286)
Balance at the end of year	370	783
<i>Other intangible assets</i>		
Balance at the beginning of year	-	308
Amortisation for the year	-	(308)
Balance at the end of year	-	-
<i>Computer software</i>		
Balance at the beginning of year	54	65
Additions	109	45
Amortisation for the year	(34)	(56)
Balance at the end of year	129	54
<b>Net written down value at beginning of year</b>	<b>1,637</b>	<b>4,952</b>
<b>Net written down value at end of year</b>	<b>1,299</b>	<b>1,637</b>

**Impairment testing for cash generating units containing goodwill**

For the purposes of impairment testing, goodwill is allocated to the Group's cash generating units which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill is allocated as follows:

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
EFTPOS terminal services	800	800
	800	800

The recoverable amount of the EFTPOS terminal services cash-generating unit is based on its value in use. This was determined based on cash flow projections over a five year period and a terminal value discounted at 15.96% (2009: 14.67%). These calculations are based on actual operating results and the forecasts of service revenues from existing managed service agreements and estimates of new agreements likely to be achieved. The calculations are not sensitive to changes in the discount rate. The carrying amount of the unit was determined to be lower than its recoverable amount.

**CAPITALISED DEVELOPMENT COSTS**

The recoverability of the capitalised development costs is dependent on successful development and commercial exploitation.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

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#### 21. INTANGIBLE ASSETS (CONTINUED)

The key assumptions and the approach to determining their value in the current and previous period are expected cash flows discounted at 15.96% (2009:14.67%) from existing contracts are compared to the carrying value of the asset and any necessary impairment recorded

During the year no development costs (2009: \$286,000) relating to projects that are no longer expected to generate future economic benefits, were recognised as impaired.

The impairment analysis for goodwill and other intangible assets, including capitalised development costs, is principally based upon discounted estimated future cash flows from the use and eventual disposal of the assets. Factors such as lower than anticipated sales and resulting decreases in net cash flows and changes in the discount rates used could lead to impairments in future periods.

#### 22. TRADE AND OTHER PAYABLES

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	2010	2009
	\$'000	\$'000
<b>Current</b>		
Trade creditors	581	4,557
Other creditors and accruals	1,860	3,459
	2,441	8,016
Amount payable to controlled entities		
	2,441	8,016

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The Group's exposure to currency and liquidity risk to trade and other payables is disclosed in note 35.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

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#### 23. INTEREST BEARING LIABILITIES

This note provides information about the contractual terms of the Group's interest bearing liabilities, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 35.

	2010 \$'000	2009 \$'000
<b>Current liabilities</b>		
Current portion of finance lease liabilities	1,311	1,202
	1,311	1,202
<b>Non-current liabilities</b>		
Finance lease liabilities	1,203	2,640
	1,203	2,640

#### TERMS AND DEBT REPAYMENT SCHEDULE

Terms and conditions of outstanding loans are as follows:

	Interest rate	Year of maturity	30 June 2010		30 June 2009	
			Face value \$'000	Carrying amount \$'000	Face value \$'000	Carrying amount \$'000
Finance lease liabilities	9.12%-9.62%	2012	2,897	2,514	4,411	3,842
Total interest-bearing liabilities			2,897	2,514	4,411	3,842

Finance Lease liabilities are denominated in Australian dollars

#### Finance Lease Liabilities

Finance lease liabilities of the Group are payable as follows:

	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	2010 \$'000	2010 \$'000	2010 \$'000	2009 \$'000	2009 \$'000	2009 \$'000
Less than one year	1,514	203	1,311	1,514	312	1,202
Between one and five years	1,383	180	1,203	2,897	257	2,640
	2,897	383	2,514	4,411	569	3,842

Keycorp Limited has obtained a third party financing facility of \$6,000,000 (through Key Equipment Finance) to fund the sale and leaseback of terminal equipment used in certain Managed Payment Service Agreements (MPSA). The facility may be drawn in multiple tranches and is repayable over sixty months commencing 1 May 2007. Keycorp Ltd has an option to purchase the equipment at the written down value on expiry of the MPSA. At balance sheet date the amount of the facility utilised is \$5,811,000 (2009:\$5,811,000).

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**24. EMPLOYEE BENEFITS**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Salaries and wages accrued	696	612
Liability for long service leave	267	251
Liability for annual leave	291	376
	<b>1,254</b>	<b>1,239</b>
<b>Non-Current</b>		
Liability for long-service leave	30	30
	<b>30</b>	<b>30</b>

**Share based payments**

Shareholders approved the introduction of the Keycorp Employee Share Option Incentive Plan (ESOIP) at the 1996 Annual General Meeting.

Each option granted under the ESOIP entitles the employee to acquire one ordinary share of Keycorp Limited. There are no voting or dividend rights attaching to the options until they are exercised by the employee, at which point ordinary shares which rank equally with all other Keycorp shares are issued and quoted on the ASX. The options cannot be transferred and will not be quoted on the ASX.

All options expire on the earlier of their expiry date or termination of the individual's employment. In certain circumstances, at the discretion of management, employees included in an involuntary redundancy program are eligible to retain and exercise share options in accordance with the terms and conditions of the particular options issue.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares.

**Options Issued:**

<b>Grant date</b>	<b>No of options</b>	<b>Vesting date</b>	<b>Vesting condition</b>	<b>Expiry date</b>	<b>Life of option</b>	<b>Exercise price</b>
15-Jan-06	109,999	15-Jan-08	Note a	15-Jan-11	5 years	\$1.48
15-Jan-06	109,999	15-Jan-09	Note a	15-Jan-11	5 years	\$1.48
15-Jan-06	110,002	15-Jan-10	Note a	15-Jan-11	5 years	\$1.48
26-Oct-06	183,332	26-Oct-08	Note a	26-Oct-11	5 years	\$0.80
26-Oct-08	183,334	26-Oct-09	Note a	26-Oct-11	5 years	\$0.80
26-Oct-08	183,334	26-Oct-10	Note a	26-Oct-11	5 years	\$0.80
1-Apr-09	333,333	1-Apr-11	Note b	1-Apr-14	5 years	\$0.23
1-Apr-09	333,333	1-Apr-12	Note b	1-Apr-14	5 years	\$0.23
1-Apr-09	333,334	1-Apr-13	Note b	1-Apr-14	5 years	\$0.23

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**24. EMPLOYEE BENEFITS (CONTINUED)**

Note a. The options granted are exercisable between one and three years (in respect of three equal tranches) from grant date providing performance hurdles are attained. The performance hurdles require continuous employment through the vesting period in respect of each tranche and for the Keycorp Limited total shareholder return (TSR) to be greater than or equal to the S&P/ASX 300 Accumulation Index for twenty consecutive trading days on or after the first exercise date. Growth in the TSR is defined as share price growth and dividends paid and reinvested on the ex-dividend date (adjusted for rights, bonus issues and any capital reconstructions). The hurdle can be satisfied at any time on or after the first exercise date up to the last exercise date.

Note b. The options granted are exercisable between one and three years (in respect of three equal tranches) from grant date providing performance hurdles are attained. The performance hurdles require continuous employment through the vesting period in respect of each tranche and for the Keycorp Limited total shareholder return (TSR) to be greater than or equal to the S&P/ASX 200 information Technology Accumulation Index for twenty consecutive trading days on or after the first exercise date. Growth in the TSR is defined as share price growth and dividends paid and reinvested on the ex-dividend date (adjusted for rights, bonus issues and any capital reconstructions). The hurdle can be satisfied at any time on or after the first exercise date up to the last exercise date.

The number and weighted average exercise prices of share options are as follows:

	<b>Weighted average exercise price</b>	<b>No. of options</b>	<b>Weighted average exercise price</b>	<b>No. of options</b>
	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
Outstanding at the beginning of the period	\$0.44	1,299,000	\$0.85	2,836,000
Lapsed during the period	\$1.16	(79,000)	\$0.80	(2,537,000)
Exercised during the period	-	-	-	-
Granted during the period	-	-	\$0.23	1,000,000
Outstanding at the end of the period	\$0.39	1,220,000	\$0.44	1,299,000
Exercisable at the end of the period	-	-	-	-

The options outstanding at 30 June 2010 have an exercise price in the range of \$0.23 - \$1.48 and a weighted average contractual life remaining of 3.25 years.

The fair value of services received in return for options granted are measured by reference to the fair value of options granted.

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**24. EMPLOYEE BENEFITS (CONTINUED)**

**Option issued**

Grant Date		Expiry date of option	Fair value price (i)	Exercise at grant date	Share price volatility	Estimated interest rate	Risk free yield	Dividend yield
15-Jan-06	Tranche 1	15 Jan 2011	\$0.58	\$1.48	\$1.51	36%	5.12%	0%
15-Jan-06	Tranche 2	15 Jan 2011	\$0.58	\$1.48	\$1.51	36%	5.12%	0%
15-Jan-06	Tranche 3	15 Jan 2011	\$0.58	\$1.48	\$1.51	36%	5.12%	0%
26-Oct-06	Tranche 1	26 Oct 2011	\$0.36	\$0.80	\$0.90	44%	6.03%	0%
26-Oct-06	Tranche 2	26 Oct 2011	\$0.36	\$0.80	\$0.90	44%	6.03%	0%
26-Oct-06	Tranche 3	26 Oct 2011	\$0.36	\$0.80	\$0.90	44%	6.03%	0%
01-Apr-09	Tranche 1	1 April 2014	\$0.11	\$0.23	\$0.30	67%	3.93%	3%
01-Apr-09	Tranche 2	1 April 2014	\$0.12	\$0.23	\$0.30	67%	3.93%	3%
01-Apr-09	Tranche 3	1 April 2014	\$0.14	\$0.23	\$0.30	67%	3.93%	3%

The estimate of the fair value of the services received is measured based on the Black Scholes Merton “up and in” call barrier pricing model. The contractual life of the options is used as an input into the model.

The expected volatility is based on the historic volatility (calculated on the weighted average remaining life of the share options), adjusted for any expected changes to volatility due to publicly available information.

Options are granted under service, market and non-market performance conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services rendered.

No shares were granted under the Deferred Employee Share Plan during the year. (2009: nil)

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Share options – equity settled	49	(69)
Expense arising from employee share plans	6	39
<b>Total expense recognised as employee cost</b>	<b>55</b>	<b>(30)</b>

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**25. PROVISIONS**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Warranty	366	1,280
Restructuring	277	1,238
Other provisions	1,766	1,905
	<b>2,409</b>	<b>4,423</b>
<b>Non current</b>		
Warranty	229	-
Other provisions	174	150
	<b>403</b>	<b>150</b>

**Reconciliations**

Reconciliations of the carrying amounts of each class of provision as set out below:

*Warranty*

Carrying amount at the beginning of financial year	1,280	1,708
Provided during the year	-	127
Released during the year	(115)	-
Amounts utilised during the year	(570)	(555)
Carrying amount at end of financial year	595	1,280

The provision for warranty comprises a one year product warranty against manufacturer's defects and a deferral of revenue in respect of sales of extended warranty services which have not been delivered at balance date. The warranty provision is released evenly over the duration of the warranty period.

*Restructuring*

Carrying amount at beginning of financial year	1,238	517
Provided during the year	-	3,124
Released during the year	(150)	-
Amounts utilised during the year	(811)	(2,403)
Carrying amount at end of financial year	277	1,238

The provision for restructuring primarily includes employee termination benefits as a result of management programs to reorganise the operational structure of the organisation during the previous year and following the expiry of the Westpac contract. The estimated costs include all statutory entitlements.

**Other provisions**

**Current**

Carrying amount at beginning of financial year	1,905	1,447
Released during the year	(589)	-
Amounts utilised during the year	(1,087)	(442)
Provided during the year	1,537	900
Carrying amount at end of financial year	1,766	1,905

**Other provision**

**Non Current**

Carrying amount at beginning of financial year	150	-
Provided during the year	24	150
Carrying amount at end of financial year	174	150

Other provisions include provisions for lease restoration costs, legal provisions and onerous contract obligations. Third party claims have been made with allegations that include failure to provide contracted deliverables and breach of contract.

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**26. INCOME TAX PAYABLE**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Income tax payable	2,136	949

The current tax liability represents the amount of income taxes payable in respect of current and prior financial periods.

**27. OTHER LIABILITIES**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Income received in advance	279	516
Deferred gain on sale and finance lease back transactions	364	364
	<b>643</b>	<b>880</b>
<b>Non current</b>		
Deferred gain on sale and finance lease back transactions	331	695

The gain on the sale and finance lease back transaction was deferred and is being recognised over the term of the lease arrangements.

**28. ISSUED CAPITAL**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at the beginning and the end of the financial year	60,808	60,808

There were no movements in share capital during the financial year or the preceeding financial year.

	<b>No of shares</b>	
	<b>2010</b>	<b>2009</b>
On issue at the beginning and the end of the financial year – fully paid	81,127,585	81,127,585

Terms and conditions of issued capital:

(i) Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

(ii) Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

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**29. COMMITMENTS**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Operating Leases as lessee</b>		
Non – cancellable operating lease rentals are payable as follows:		
Within one year	62	372
Later than one year but no later than five years	155	343
<b>Balance at end of financial year</b>	<b>217</b>	<b>715</b>

The Group leases various properties under non-cancellable operating leases expiring from one to five years. Leases generally provide the Group with a right of renewal at which time all terms are negotiated.

All other leases relating to equipment are generally arranged with a maximum period of three years at which time all terms are renegotiated.

At year end no company within the consolidated group had any capital commitments.

**30. AUDITOR'S REMUNERATION**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Audit services</b>		
Auditors of the Company, KPMG Australia		
- audit and review of financial reports (Company and Group)	209,750	215,000
Overseas KPMG firms:		
- audit and review of financial reports	11,000	11,000
	<b>220,750</b>	<b>226,000</b>
<b>Other assurance services:</b>		
Auditors of the Company KPMG Australia		
- other assurance services	-	36,313
- overseas KPMG firms – taxation services	4,078	19,343
	<b>4,078</b>	<b>55,656</b>

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**31. EARNINGS PER SHARE**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Basic earnings per share	0.0684	0.1143
Diluted earnings per share	0.0680	0.1142

The calculation of basic and diluted earnings per share at 30 June 2010 was based on the profit attributable to ordinary shareholders of \$5,551,000 (2009 profit: \$9,270,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2010 of 81,127,585 (2009: 81,127,585). Diluted earnings per share takes into account outstanding options on issue.

<b>Earnings per share for continuing and discontinued operations</b>		
from continuing operations	0.0684	0.0027
from discontinued operations	-	0.1116
	<b>0.0684</b>	<b>0.1143</b>

In the preceding financial year earnings per share for continuing and discontinued operations was calculated using the same figures as earnings per share, except that the profit for the period used in the calculation is the profit relating to continuing operations of \$218,000 and the profit relating to discontinued operations of \$9,052,000.

The calculation of diluted earnings per share excludes 245,000 (2009: 299,000) share options because the effect of these options would have been anti dilutive.

**32. (a) CASH AND CASH EQUIVALENTS**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank balances	27,853	9,966
Cash and cash equivalents in the statement of cash flows	27,853	9,966

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 35.

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**32. (b) RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES**

	Note	2010 \$'000	2009 \$'000
<b>Cash flows from operating activities</b>			
Profit for the period		5,551	9,270
<b>Adjustments for:</b>			
Depreciation	19	522	1,007
Amortisation and impairment of intangibles	21	447	3,517
Equity settled transactions	24	55	(30)
Unrealised exchange losses / (gains)		22	(22)
Gain on sale of subsidiary	11	-	(13,313)
Loss on sale of plant & equipment		-	103
<b>Operating profit before changes in working capital, provisions and items classified as investing and financing activities</b>		<b>6,597</b>	<b>532</b>
<b>Items related to investing and financing activities</b>		<b>(3,266)</b>	<b>-</b>
<b>Changes in working capital and provisions:</b>			
Change in trade and other receivables		6,152	(5,425)
Change in inventories		5,243	(3,388)
Change in net investment finance lease		550	445
Change in other assets		2,593	432
Change in trade and other payables		(5,575)	4,302
Change in provisions and employee benefits		(1,746)	494
Change in other liabilities		(601)	(680)
Change in income taxes		2,507	2,142
		<b>9,123</b>	<b>(1,678)</b>
<b>Net cash flows from operating activities</b>		<b>12,454</b>	<b>(1,146)</b>

**33. SUBSEQUENT EVENTS**

Other than the declaration of a final dividend as noted below, the Directors are unaware of any matters or circumstance that have occurred since the end of the financial year that has significantly affected or may significantly affect the operations or the state of affairs of the group in future financial years.

On 27 August 2010, the Directors declared to pay a final fully franked dividend of 2.0 cents per ordinary share (\$1,622,000), bringing dividends per share for fiscal 2010 to 3.5 cents per share. The record date for the final dividend will be 8 September 2010 with payment being made on 24 September 2010. The financial effect of the final dividend has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in subsequent financial reports. There are no income tax consequences for the Keycorp Group and Keycorp Limited resulting from the resolution and payment of the final dividend by the Group other than \$695,000 of franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

# Keycorp Limited and its Controlled Entities

## Notes to the consolidated financial statements

### for the year ended 30 June 2010

#### 34. RELATED PARTIES

##### Key management personnel disclosures

(a) The following were key management personnel (KMP) of the group at any time during the reporting period and up to the date of this report unless otherwise indicated were key management personnel for the entire period:

##### Non Executive Directors

R. Bishop (Chairman)	Appointed as Chairman in June 2007. Director since January 2006.
P. Jones	Director since August 2005. Resigned 22 October 2009.
M. Ibrahim	Director since January 2006.
G. Hooper	Appointed as Director 22 October 2009, resigned 6th August 2010.
D. Kirton	Appointed as Director 7 August 2010.

##### Executive Directors

J. Bonin	Appointed Chief Executive Officer 1 April 2009. Appointed a Director 1 July 2009.
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##### Executive Officers

S. Greenan	Chief Financial Officer. Appointed 13 March 2009.
C. Little	National Operations Manager. (KMP from 1 July 2008).
J. Nicholas	National Sales/Business Development Manager. Appointed 29 March 2010.
W. Scheuber	Product and Software Development Manager. (KMP from 1 July 2008).

(b) The key management personnel compensation included in 'personnel expenses' (see note 9) is as follows

	2010	2009
	\$	\$
Short-term employee benefits	1,520,822	2,109,575
Other long term benefits	8,961	33,746
Post-employment benefits	101,455	140,826
Termination benefits	0	1,081,587
Share-based payments	49,150	9,993
	1,680,388	3,375,727

##### Individual directors and executives compensation disclosures

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

##### Other key management personnel transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

Some of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

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**34. RELATED PARTIES (CONTINUED)**

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

Key management person and their related parties (i)	Transaction	Transactions value ended 30 June		Balance outstanding as at 30 June		
		2010 \$	2009 \$	2010 \$	2009 \$	
M. Ibrahim	Consulting Services	(i)	-	162,809	-	24,600

(i) During the preceding financial year, the company engaged the consulting services of Mr M. Ibrahim, a director of the company through Deehab Investments Pty Ltd, a company controlled by Mr Ibrahim. The consulting services provided had terms and conditions which are consistent with market rates and were due and payable under normal payment terms.

## Keycorp Limited and its Controlled Entities

### Notes to the consolidated financial statements

#### for the year ended 30 June 2010

### 34. RELATED PARTIES (CONTINUED)

#### Options and rights over equity instruments granted as compensation

The movement during the reporting period in the number of options over ordinary shares in Keycorp Limited held, directly, indirectly or beneficially, by each key management person, including their related parties is as follows:

		Held at beginning of financial year	Granted as remuneration	Exercised	Lapsed	Held at end of financial year	Vested during year	Vested and Exercisable at 30 June *
<b>Executive Director</b>								
J. Bonin (i)	2010	1,220,000	-	-	-	1,220,000	-	-
	2009	271,000	1,000,000	-	51,000	1,220,000	-	-
<b>Former Executive Director</b>								
K.Carr (ii) (resigned 29 June 2009)	2009	1,220,000	-	-	1,220,000	-	406,667	-

\* Under the relevant plan rules, all options are exercisable once vested. Vesting is subject to a performance condition that is based on total shareholder return relative to S&P ASX indices. At 30 June 2010 this condition had not been satisfied.

The options were provided at no cost to the recipients

(i) J Bonin was made CEO on 1 April 2009 and an Executive Director of the Company on 1 July 2009. 1,000,000 options were granted in three equal tranches on 1 April 2009. The exercise dates are 1 April 2011, 1 April 2012 and 1 April 2013 with an exercise price of \$0.2323 for each tranche and a fair value at grant date of \$0.1053, \$0.1191 and \$0.1361 for each tranche respectively.

(ii) Options granted to the former Chief Executive Officer were approved by shareholders at the 2007 Annual General Meeting. 1,220,000 Options were granted on 9 November 2007 in three equal tranches and have exercise dates of 17 May 2009, 17 May 2010 and 17 May 2011 with an exercise price of \$0.37 and a fair value of \$0.01. These options lapsed at the time K Carr ceased employment with the company.

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**34. RELATED PARTIES (CONTINUED)**

**Shareholdings**

Details of the movements in the number of ordinary shares in Keycorp Limited held during the financial year by each key management personnel, including their related parties, are set out below:

	Year	Held at start of year	Purchases during year	Received on exercise of option	Sales	Held at end of year
<b>Director</b>						
J. Bonin (ii)	2010	40,000	26,300	-	-	66,300
	2009	-	40,000	-	-	40,000
R. Bishop	2010	181,814	-	-	-	181,814
	2009	70,817	110,997	-	-	181,814
M. Ibrahim	2010	129,716	-	-	-	129,716
	2009	66,715	63,001	-	-	129,716
K. Carr (i)	2010	N/A	-	-	-	N/A
	2009	83,663	-	-	-	83,663
<b>Executive</b>						
<b>Current</b>						
S.Greenan	2010	-	32,000	-	-	32,000
	2009	-	-	-	-	-
C. Little	2010	-	11,635	-	-	11,635
	2009	-	-	-	-	-
W. Scheuber	2010	4,000	-	-	-	4,000
	2009	4,000	-	-	-	4,000

(i) K Carr was an Executive Director until 30 June 2009. K. Carr is not a KMP at 30 June 2010 following his resignation. K Carr at 30th June 2010 held 83,663 shares in the Company.

(ii) J Bonin appointed Executive Director 1 July 2009.

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**34. RELATED PARTIES (CONTINUED)**

**NON KEY MANAGEMENT PERSONNEL DISCLOSURES**

**IDENTITY OF RELATED PARTIES**

The Group has a related party relationship with its subsidiaries (see note 16) and with its key management personnel (refer to disclosures for Key Management Personnel in this note).

Transactions with Telstra Corporation Ltd (largest shareholder) during the 2010 financial year:

	Transaction value		Balance outstanding at 30 June	
	2010	2009	2010	2009
	\$	\$	\$	\$
Sales revenue	11,838,471	12,849,904	916,290	1,886,459
Purchases	521,405	764,334	44,873	-

The Group supplied services and products to Telstra during the financial year. The Group also acquired services and products from Telstra during the financial year. Both these transaction types were conducted on standard commercial trading terms. Neither party has provided guarantees. It is expected that the balances outstanding at year end will be settled through the transfer of funds.

On 28 June 2002 Telstra Corporation Limited (previously the ultimate parent entity) notified Keycorp Limited that it no longer held a controlling interest in the Company. Telstra Corporation Limited still retains a significant investment in Keycorp Limited and does have representation on the Keycorp Board of Directors and as such is classified as a related party. During the preceding financial year Telstra Corporation Limited cancelled a guarantee of \$7,500,000 in relation to the Westpac Tranche 2 facility.

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**35. FINANCIAL INSTRUMENTS**

**CREDIT RISK**

**Exposure to credit risk**

The carrying amount of the Group's financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date was:

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>		
Cash and cash equivalents	27,853	9,966
Trade and other receivables	4,308	10,460
Net investment in finance leases	5,686	6,236
Other current assets	-	3,000
Mezzanine note	-	6,509
	<b>37,847</b>	<b>36,171</b>

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Australia	2,540	4,185
North America	155	108
	<b>2,695</b>	<b>4,293</b>

**IMPAIRMENT LOSSES**

The ageing of the Group's trade receivables at the reporting date was:

	<b>Impairment</b>		<b>Gross</b>	<b>Impairment</b>
	<b>Gross</b>			
	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Not past due	843	-	2,217	-
Past due 0-30 days	1,393	-	943	-
Past due 31-120 days	(18)	-	603	265
Past due 121 days	477	423	530	517
	<b>2,695</b>	<b>423</b>	<b>4,293</b>	<b>782</b>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of the year	782	126
Receivables written off during the year	(204)	(3)
Provision for impairment recognised / (released) during the year	(155)	659
Balance at end of the year	<b>423</b>	<b>782</b>

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

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**35. FINANCIAL INSTRUMENTS (CONTINUED)**

**LIQUIDITY RISK**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

<b>30 June 2010</b>						
<b>\$000</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 mths or less</b>	<b>6-12 mths</b>	<b>1-2 years</b>	<b>2-5 years</b>
<b>Financial liabilities</b>						
Finance lease liabilities	2,514	(2,896)	(757)	(757)	(1,382)	-
Trade and other payables	2,441	(2,441)	(2,441)	-	-	-
	4,955	(5,337)	(3,198)	(757)	(1,382)	-

<b>30 June 2009</b>						
<b>\$000</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 mths or less</b>	<b>6-12 mths</b>	<b>1-2 years</b>	<b>2-5 years</b>
<b>Financial liabilities</b>						
Finance lease liabilities	3,842	(4,411)	(757)	(757)	(1,515)	(1,382)
Trade and other payables	8,016	(8,016)	(7,042)	(974)	-	-
	11,858	(12,427)	(7,799)	(1,731)	(1,515)	(1,382)

**CURRENCY RISK**

**Exposure to currency risk**

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

<b>In AUD \$000</b>	<b>30 June 2010</b>				<b>30 June 2009</b>			
	<b>USD \$000</b>	<b>EURO \$000</b>	<b>GBP \$000</b>	<b>CAD \$000</b>	<b>USD \$000</b>	<b>EURO \$000</b>	<b>GBP \$000</b>	<b>CAD \$000</b>
Cash and cash equivalents	74	-	-	-	328	24	56	-
Trade receivables	155	-	-	-	108	-	-	-
	229	-	-	-	436	24	56	-
Trade payables	(15)	-	(3)	-	(313)	-	-	(1)
Gross balance sheet exposure	214	-	(3)	-	123	24	56	(1)

The following significant exchange rates applied during the year:

<b>AUD</b>	<b>Average rate</b>		<b>Reporting date spot rate</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
GBP	0.562	0.464	0.568	0.487
USD	0.882	0.746	0.856	0.805
CAD	0.932	0.862	0.897	0.930

**Keycorp Limited and its Controlled Entities**  
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**35. FINANCIAL INSTRUMENTS (CONTINUED)**

**CURRENCY RISK**

**Sensitivity analysis**

A 10 percent strengthening of the Australian dollar against the above currencies at 30 June would not have had a significant effect in either year on equity and profit or loss.

**INTEREST RATE RISK**

**Profile**

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2010	2009
	\$'000	\$'000
<b>Fixed rate instruments</b>		
Mezzanine note	-	6,509
Financial assets	5,686	6,236
Financial liability	(2,514)	(3,842)
	3,172	8,903

**FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

**FAIR VALUE SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS**

A change of 100 basis points in interest rates would have increased or decreased the Group's profit and loss and equity on the above financial instruments by \$278,000 (2009: \$nil). This is based on cash holdings which aren't disclosed above.

**FAIR VALUES**

The fair values of financial assets and liabilities, together with the carrying amounts shown on the balance sheet are as follows:

	Carrying amount	Net Fair value	Carrying amount	Net Fair value
	2010	2010	2009	2009
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
Cash and cash equivalents	27,853	27,853	9,966	9,966
Mezzanine notes	-	-	6,509	6,421
Net investment in finance lease	5,686	5,686	6,236	7,360
Trade and Other receivables	4,308	4,308	10,460	10,460
Other current assets	-	-	3,000	3,000
	37,847	37,847	36,171	37,207

**Keycorp Limited and its Controlled Entities**  
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**35. FINANCIAL INSTRUMENTS (CONTINUED)**

	Carrying amount	Net Fair value	Carrying amount	Net Fair value
	2010	2010	2009	2009
	\$'000	\$'000	\$'000	\$'000
<b>Financial liabilities</b>				
Trade and other payables	2,441	2,441	8,016	8,016
Finance lease liabilities	2,514	2,514	3,842	4,016
	4,955	4,955	11,858	12,032

The following methods and assumptions are used to determine the fair values of financial assets and liabilities

Cash and cash equivalents,  
short term investments

The carrying amount approximates fair value because of their short term to maturity.

Mezzanine notes

Fair value is calculated based on discounted expected future principal and interest cash flows.

Bank term loan

The carrying amount approximates fair value because of the short term to maturity.

Finance lease

Fair value is calculated based on a discounted expected future principal and interest cash flows using an effective interest rate of 4.6% - 5.3% (2009:4.6% - 5.3%).

Trade and other receivables/  
payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

**Keycorp Limited and its Controlled Entities**  
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**36. PARENT ENTITY DISCLOSURES**

As at, and throughout, the financial year ending 30 June 2010 the parent company of the Group was Keycorp Limited.

**Result of the parent entity**

	<b>Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit for the period	3,304	6,519
Other comprehensive income	-	-
Total comprehensive income for the period	3,304	6,519

**Financial position of parent entity at year end**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Current assets	24,443	17,974
Total assets	55,648	52,399
Current liabilities	26,151	23,826
Total Liabilities	26,151	23,826

**Total equity of the parent entity comprising of:**

	<b>2010</b>	<b>2009</b>
Share capital	60,808	60,808
Retained earnings	(31,311)	(32,235)
	29,497	28,573

The parent entity did not have capital commitments for the acquisition of property plant and equipment at the end of the year or the preceeding financial year.

**Parent entity guarantees in respect of debts of its subsidiaries**

The parent entity has entered into the following guarantees:

- a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of certain of its subsidiaries. Further details to the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in Note 18.

- a Deed of Guarantee with the effect that the Company guarantees the performance and obligations of Keycorp Services Pty Limited and Keycorp Payment Services Pty Limited under certain specified commercial contracts.

## Keycorp Limited

### Directors' declaration

- 1 In the opinion of the directors of Keycorp Limited (the Company):
  - (a) the consolidated financial statements and notes 1 to 36 and the Remuneration report in the Directors' report, set out on pages 17 to 28, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the group entities identified in Note 16 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.
- 3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2010.
- 4 The directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



Joe Bonin  
*Executive Director*

Dated at Melbourne this twenty seventh day of August 2010



## **Independent auditor's report to the members of Keycorp Limited**

### **Report on the financial report**

We have audited the accompanying financial report of the Group comprising Keycorp Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the consolidated statement of financial position as at 30 June 2010, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 36 and the directors' declaration.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is 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. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's opinion*

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

### **Report on the remuneration report**

We have audited the Remuneration Report included in pages 17 to 28 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Keycorp Limited for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

MWB

Matthew Webb  
*Partner*

Sydney

27 August 2010