

# KEYCORP LIMITED

## Chairman's message



Dear shareholder,

As you may know, I joined the Keycorp Board early last year as a Non Executive Director, with the belief that my financial services experience could be leveraged to benefit Keycorp's growth.

Serious issues emerged in early 2007 however and these have had to be the Board's priority.

Steps have been taken to redress the issues and protections put in place to prevent their reoccurrence – but the Board must enact substantial, long-term change to effect a sustainable business model for Keycorp.

The Board has expended extensive effort recently on making those changes and developing:

- better financial controls
- a refocused business strategy, and
- a stronger balance sheet.

To build on this platform, we needed to identify a CEO who had the specific skills necessary to implement that business model. We were pleased to announce the appointment of Dr Ken Carr as CEO in June.

Ken's arrival – as a highly experienced executive (Lucent, British Telecom, LongReach group) – along with my appointment as Chairman and other board and management changes, give Keycorp a fresh leadership focused on stabilising the business and positioning for growth.

**Robert Bishop**

## CEO's message



I was recently asked by a former Chairman, "What was the attraction in joining Keycorp Limited?" – a company he was not familiar with at the time.

My response bears repeating: namely that everything I have seen about Keycorp points to a business that has

- strong, commercially viable product lines
- extensive distribution partnerships, and
- major revenue growth potential because of the size and scale of existing Keycorp business partners.

In a sector that, both here and offshore, is dominated by fledgling firms with no material revenues and commercially unproven product lines, this is an unusual and highly attractive combination for a company of Keycorp's relatively small size.

That said, there is a deal of housekeeping to be undertaken.

With that in mind, we have acted to

- turn some fixed costs into variable costs aligned with revenue growth,
- reduce overheads to match our revenues and forward commitments, and
- instigate cash controls to match expenses to revenues where possible.

Longer term, the Board and I agree that we also need

- a more predictable business model, and
- improved and ongoing revenue stability.

We must focus our attentions on rebuilding the business and our credibility with our customers, shareholders, suppliers and staff.

### **Business review**

A review of the business is underway which will be looking at a number of items including the total segmentation of the payments processing market, Keycorp's current primary market.

This will specifically include a review of the smartcard and electronic processing business lines, and our recently acquired Canadian operations.

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The outcome will clarify where value can be added to the business and the future directions for company focus and growth. It will also encompass capital management programmes that may be needed to achieve this.

The outcomes of this review should coincide with the AGM later this year, although some actions may be required earlier.

Predictability and transparency with clear milestones will be an element of both the review and future plan which will focus on the actions that will create the best return for our shareholders.

## Recent hurdles addressed

The company recently suffered several setbacks, including two unrelated tax matters (one relating to a 1994 transaction), inventory issues and faulty equipment – but these have now largely been dealt with.

On a positive note, our largest shareholder, Telstra, agreed to partially guarantee banking facilities in March.

This has provided valuable support to help us manage the business review to ensure the end result is aligned to our ongoing business.

While we are well within the limits of our bank facilities today, we are renegotiating those facilities and the Telstra guarantee to secure the company's funding in the medium term.

## Chief Financial Officer

An interim Chief Financial Officer, Peter Herington, was appointed in March to oversee a review of financial, business and technology controls. I am pleased to confirm that Peter has accepted a permanent position with Keycorp.

## Remuneration revision

A review of remuneration has been undertaken and new policies are now in place.

Reduced fixed remuneration and increased performance-linked incentives now apply, as suits a company of Keycorp's developing business status.

## End of year results

The financial audit is now underway. Our previous guidance to the market stands, although it is, naturally, subject to audit. Further impairments under the audit process will be considered as appropriate.

The FY07 results will be announced at the end of August and the outcomes of the current business review project will be available by the AGM in November.

## Future direction

Given strong existing relationships with major Australian banks, and our established reputation for EFTPOS services and MULTOS technology, we are in an ideal position to capitalise on the growth in the managed payments services market. This is clearly where our future lies.

**Yours sincerely**  
**Ken Carr**

## Your annual report

Due to recent legislation, annual reports may be made available on the company's website and printed copies distributed to shareholders only on request.

Keycorp will send you a form you may use to elect to receive the printed annual report.

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## Payment services deal confirms Keycorp strategy

We announced on May 29<sup>1</sup> that we had signed a major deal with First Data Resources Australia to manage their payment terminals.

We will manage, support and assist First Data to grow the fleet of terminals as well as maintaining existing terminal systems. We will also provide a comprehensive support helpdesk. The agreement is expected to generate \$11 million over five years for us.

It is our third major managed payment services contract and follows the multi-year agreements with Westpac and Bank of Queensland.

This deal confirms our strategy of transitioning our business into a payments solutions provider.

<sup>1</sup> See ASX Announcement 29 May 2007  
[www.asx.com.au](http://www.asx.com.au)