

# KEYCORP LIMITED

ANNUAL REPORT 2009



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## LETTER FROM THE CHAIRMAN

### 2008/2009 ANNUAL REVIEW



“The culmination of two years of effort has resulted in a strong, profitable company, with good business prospects.”

#### ROBERT BISHOP

Chairman

Dear Shareholder,

Last year I reported that we were well on the path to turn around the business. This year, I am delighted to announce that we have delivered on our commitment. The Board and management's vision for Keycorp, first delivered to you some two years ago, has now reached fruition with the successful transformation of the business. The culmination of two years of effort has resulted in a strong, profitable company, with good business prospects. I am extremely proud to deliver this year's review.

#### CLEAR COMPANY STRATEGY

The business is now focused on our strategy of being a leading Australian provider of services to the payments and retail industry. Our new business model provides a sustainable revenue stream from our valued business partners that delivers better value to all our shareholders, compared to the prior business where product-centric low margin arrangements were a dominant feature of our earnings profile. The focus on being a specialist provider of payment solutions and services also minimises the need for significant ongoing investment in product research and development ensuring we can continue to appropriately manage our on-going costs.

#### RIGHT TEAM

Keycorp's strategy for repositioning was largely initiated by our former CEO, Dr Ken Carr. Ken's role was vital in performing this strategic task and we thank him for his outstanding contribution. With Keycorp's transformation complete, and consistent with the Company's focus on services, Ken stepped down and our then Chief Operations Officer, Joe Bonin, stepped into the role of CEO. The Board is confident that, with Joe and his executive team, we have a management team with the knowledge and experience to match our strategic focus in driving the business forward.

The board has also seen significant change during the year with the departure of two directors during the year. Barry Grisdale, our longest term director, retired during the second half of the year as did Christine Holgate. Both played significant roles in the process we undertook and I thank them for their commitment and contribution. We will continuously assess the size and structure of the board as we evaluate strategic opportunities going forward.

On behalf of the board, past and present, I would like to acknowledge the very significant contribution of all of our staff in managing through this quite difficult transition period and thank everyone for their efforts. This was a very significant restructuring of the business and the support of staff, including from those staff who were not directly part of the transition, was fundamental to our success.

#### MELBOURNE BASED HEAD OFFICE

The 2008-09 year saw Keycorp continue to focus on cost reductions. This included the relocation of head office functions, such as finance and human resources to our existing Melbourne facility. In addition, these actions enabled us to relocate our payment solutions sales and development function in Sydney to facilities more appropriate to the activities being conducted, from a customer contact, support and cost perspective.

#### BALANCE SHEET STRENGTH

Our transformation program has had a significant, positive impact on our balance sheet with net assets increasing by \$4.5 million during the year. The Company has repaid in full its bank debt facility and our bank, Westpac, has released its fixed and floating charge over the net assets effective January, 2009. As at 30 June 2009, the Company has approximately \$10 million in cash after the payment of dividends to shareholders totaling \$4.9 million in June 2009. This is a pleasing result and reflects the Company's strong operating cash flow capabilities.

The Company anticipates the release of investment deposits associated with the Westpac contract during the 2009-10 financial year. This will further strengthen the Company's capital structure by an additional \$9.5 million. We are assessing the most appropriate application of these funds to ensure we continue to build on the great work done to date.

**LETTER FROM THE CHAIRMAN** CONTINUED**SUSTAINABLE DIVIDEND PAYMENTS**

Your Board is confident of the Company's ability to deliver sustainable earnings and accordingly has instigated the regular payment of dividends to our shareholders. This is first time in Keycorp's history that there has been sufficient confidence in our ongoing profitability to support an intention to pay regular dividends.

We reiterate our previously stated intention to pay out dividends of between 50-70% of profits, after working capital is retained. We were delighted to deliver to shareholders a total of 7.5 cents per share, fully franked, for the 2008-09 financial year. This comprised ordinary dividends totaling 2.5 cents per share in addition to the payment of the 5 cents per share special dividend paid in June 2009.

**EARNINGS AND DIVIDEND GUIDANCE**

With the transformation of the business in place we are pleased to provide earnings guidance for the 2009 -10 financial year. The Company expects earnings before interest and tax (EBIT) of circa \$5.0 million which compares with \$3.7 million on a like-for-like basis for the 2008-09 financial year. This will be a 35% earnings improvement and is fully reflective of the extent of the improvements made across the Company. This will allow the Board to reward shareholders with dividends in accordance with the dividend policy.

On behalf of the Board of directors, management team and Keycorp's family of employees, I thank you for your continued support during what has been a somewhat arduous business transformation. With this transformation completed, the new Keycorp is well placed to continue to grow. We now look forward to reaping the rewards of our past efforts and capturing further opportunities in the marketplace.



**Robert Bishop**  
Chairman

“We were delighted to deliver to shareholders a total of 7.5 cents per share, fully franked, for the 2008-09 financial year.”

## CEO LETTER TO SHAREHOLDERS

### 2008/2009 ANNUAL REVIEW



“We are acknowledged as a leader in delivering time critical assurance services, which, coupled with nationwide coverage and technical servicing capabilities, offers our clients valuable points of service differentiation when compared with our competitors.”

**JOE BONIN**

Chief Executive Officer

Dear Shareholder,

It is with great pleasure that I provide my first report to you as Keycorp's Chief Executive Officer. In the course of my 8 years with the company I have been charged with expanding the customer services business and more recently with primary responsibility for all sales and services. I was appointed to my current role in April this year. It has been both an exciting and challenging journey for Keycorp and I am confident that the company is now in a strong position to fulfill its potential.

#### REAPING THE REWARDS

The hard work undertaken over the past two years has culminated in an outstanding result for the 2008-09 financial year.

The consolidated entity posted a profit after tax of \$9.3 million compared to a net loss of \$0.1 million in the 2007/08 financial year.

This outstanding result reflects the highly successful and comprehensive transformation program undertaken by the Company, including the divestment of non-core assets; implementation of cost reduction strategies; and the finalisation of underperforming legacy contracts.

Most pleasing is that, aside from the positive impact on results from disposal and restructuring initiatives, the adjusted result from continuing operations of \$3.7 million is a 193% improvement on the \$4.0 million loss on a like for like basis in the previous year. This is a solid operating result delivered from a restructured and continuing business that presents a sound and stable platform from which Keycorp can assuredly face the future.

Having disposed of Smartcard, Manufacturing and other non-core business units, and with Keycorp's transformation essentially complete, management's efforts are very focused on a business strategy centered upon our services capabilities. Keycorp's clear vision will drive its objective to become the leading Managed Services provider to the payments and retail industries in Australia. Given this focus, I'd like to take this opportunity to explain in more detail the activities and spectrum of services provided under our Managed Services offering.

#### SERVICES

Services will emerge as Keycorp's largest revenue contributor, growing from approximately 53% of total revenue in financial year 2008/09 to a forecast of approximately 65% of total revenues in 2009/10. The shift in focus to services has the positive feature of increasing our annuity style revenue leading to more stability and sustainability of profits. Revenue is recognised over contract terms of, generally, 3 to 5 years under Managed Payment Service Agreements (MPSA) with our preferred business partners.

During the 2008/09 financial year, revenue from services from continuing operations of \$27.4 million was in line with expectation, and slightly ahead when compared to the prior financial year. Segment profit before tax for continuing operations of \$9.0 million was a 46% improvement on the prior financial year reflecting the positive outcome of restructuring activities and the continued focus on operational cost controls and efficiencies.

As part of the services offering, we maintain a customer support and technical centre which also provides on-site field services operating on a 24 hours, 7 days per week basis. During the past year, our Managed Services team monitored over 218,000 customer sites, managed in excess of 578,000 assets and responded to an average of 18,000 client on-site service calls per month.

Our technical capability extends beyond support to payment industry customers, as Keycorp also provides comprehensive support services to large scale retailers where a focus on point of sale technologies and software applications is required.

We are quality and customer oriented, and constantly strive to improve our key customer metrics including our response rates. We are acknowledged as a leader in delivering time critical assurance services, which, coupled with nationwide coverage and technical servicing capabilities, offers our clients valuable points of service differentiation when compared with our competitors. Furthermore, our flexible and comprehensive call and asset management systems are unmatched in the marketplace.

## CEO LETTER TO SHAREHOLDERS CONTINUED

In the past year, the revenue contribution from services was due in part to successfully maximizing the opportunity associated with EMV payment upgrades. Several of our payment customers commenced large scale upgrades throughout the year and these are expected to continue in the following fiscal period.

As a result of continued services growth and the upgrade activity throughout the year, Keycorp achieved a significant milestone: its one millionth on site service call was recorded! This level of sustained activity is testament to both the robustness of the services model (people, systems and infrastructure) and the depth of trust placed by clients in Keycorp's management of services to their all-important customers.

### PAYMENT TECHNOLOGIES

Our payment technologies and services include EFTPOS terminal supply, branch technologies, payment software and loyalty software. Our key clients include large businesses from the retail and banking industries. Keycorp's software skills and functionality offering is a key product differentiator in this segment of the market. From our clients' perspective, we are able to provide a lower cost solution when considering both operating and capital expenditure. We manage the technology and regulatory risk, as well as aiming to deliver an improved end-user experience for our clients' customers.

In the past year, Keycorp's payment technologies delivered significant gains on the back of terminal upgrade programs resulting in segment revenue of \$24.7 million. This is a gain of 119% compared to the prior financial year. This revenue growth occurred across all of Keycorp's key customers. Even though, as previously advised, the Westpac legacy product supply and support agreements will expire at the end of the 2009/10 financial year, Keycorp is committed to new technologies, particularly those that leverage Keycorp's capabilities in payments software applications and platforms. Illustrative of this approach, for example, is the extension of our capabilities to supply an in branch PIN change solution utilizing our software design and development knowledge which will be deployed in the coming months.

While current and future operational earnings will need to be supported with some development expenditure, our transformation program has ensured the level of past research and development spending will not be repeated.

Our business focus is no longer dependent upon the relatively high expenditure associated with developing new product based technologies. Testament to the effectiveness of this approach is a segment pre-tax profit for continuing operations for the 2008/09 financial year of \$1.9 million compared to a loss of \$2.6 million in the prior financial year. As the Chairman states in his letter to shareholders, the Board and executive are committed to stringent cost management measures and initiatives consistent with the company's new business strategy.

### THE YEAR AHEAD

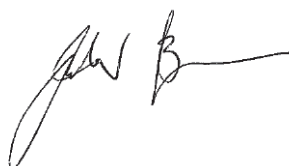
The financial and operational results from this year's activities demonstrate that the transformation program has delivered a business which provides a greater level of business and earnings certainty and transparency than has been possible in the past. Our strong relationships with our key business partners provide a level of confidence for the coming year.

While we expect product based revenue to decline in the financial year 2009-2010 due to the discontinuance of the Westpac legacy product supply and support agreement, we are forecasting higher overall operational earnings. Keycorp will continue to reap the rewards of our cost reduction and operational efficiency improvements which are expected to deliver an overall improvement in our operating result. I expect this level of improvement to be an ongoing feature of the business. A number of new contracts have been executed for terms in excess of three years, providing increased earnings certainty over the medium term.

Keycorp's current robust and scaleable business model will facilitate its expansion and growth potential. A sensible approach to future expansion will be centered on organic growth and extension of business lines. This process has commenced with several qualified opportunities in the pipeline. In addition, on the basis of our strong balance sheet, complementary acquisitions will be considered if they satisfy appropriate hurdle rates and return targets for our shareholders. It is important to reiterate that we will not pursue acquisitions recklessly. Furthermore, acquisitions must be aligned to our new business strategy and contribute to long term shareholder value.

I would like to thank Keycorp's staff for their dedicated hard work in delivering this year's achievements in a challenging transformational environment. Each member of the Keycorp team can take pride in this year's result in the knowledge it would not have been possible without his or her efforts.

I consider that Keycorp is in a position of strength, and it is with enthusiasm that I will approach the leadership of its future.



**Joe Bonin**  
Chief Executive Officer

**“Keycorp's clear vision will drive its objective to become the leading Managed Services provider to the payments and retail industries in Australia.”**

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 30 JUNE 2009

The Directors present their report together with the financial report of Keycorp Limited ('the Company') and of the Group, being the Company, its subsidiaries, and the Group's interest in associates for the financial year ended 30 June 2009 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, other directorships and independence status
NON-EXECUTIVE CHAIRMAN <b>Robert Bishop</b> BEcon, MAICD	<p>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.</p> <p>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.</p>
EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER <b>Joe Bonin</b> B Eng (Mech), Grad Dip Bus, MBA Grad Cert E-Bus, AAICD	<p>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.</p>
EXECUTIVE DIRECTOR <b>Ken Carr</b> DBA, MBA, FAICD, BSc	<p>Ken Carr was appointed Managing Director and Chief Executive Officer on 18 May 2007. Ken resigned from his position as Managing Director on 31 March 2009 and from the Board as a director on 30 June 2009.</p> <p>Ken was Group Chief Executive Officer of LongReach Group Limited prior to its merger in early November 2006 with Allied Technologies Group Ltd. He has held senior executive roles with organisations such as IBM Global Services Australia, Lucent Technologies, Computer Sciences of Australia and Unisys Australia Limited. He has a depth of experience in the telecommunications industry, having worked for telecommunications carriers such as British Telecom and AT&amp;T and was involved in the second licence bid and creation of Optus.</p> <p>During the last three financial years, Ken has been a director of the following listed companies, apart from Keycorp: Longreach Group Limited (ASX: LRX) from August 2004 to November 2006 and Longreach Group Limited (ASX: LRG) from November 2006 to July 2007.</p>

**DIRECTORS' REPORT CONTINUED****DIRECTORS (CONTINUED)**

## NON-EXECUTIVE DIRECTOR

**Barry Grisdale**

BSc (Elec Eng), BCom, MBA, FAICD

Barry Grisdale was appointed a director in January 2001. He has many years of senior executive experience in publicly listed and private technology companies around the globe. Past positions include Executive Director of Telstra Retail, CEO of Bull Information Systems (UK and Ireland) Ltd, and Vice President (Operations) for Groupe Bull based in Paris.

Barry has held no other listed company directorships during the past three financial years.

Barry was a director from January 2001 until his resignation on 26 March 2009. Barry was a member of the Audit and Risk Committee and the Remuneration and Nomination Committee up to the date of his resignation. The Board considered Barry to be an independent director.

## NON-EXECUTIVE DIRECTOR

**Christine Holgate**

MBA, PG Dip MKTG, PG Dip MGT ST, PG Dip P&amp;S

Christine Holgate joined as a director in January 2006. She has extensive marketing and sales experience in the telecommunications sector, having worked in the industry for the past 18 years. She has held senior management and board level positions in Energis, JP Morgan and Cable & Wireless PLC, and recently Telstra Corporation Limited, working in Europe, Asia, the Americas and Australia. Christine is the Chief Executive Officer and Managing Director of Blackmores Limited. Christine is also a board member of Aurora Television.

Christine was a director of Keycorp from January 2006 until her resignation on 13 February 2009. Christine was a member of the Remuneration and Nomination Committee up to the date of her resignation.

## NON-EXECUTIVE DIRECTOR

**Michael Ibrahim**

BEcon

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

Philip Jones was appointed a director in August 2005. He is Telstra's Managing Director of Data, IP and Enterprise Services and is responsible for managing the data and voice products and services used by Telstra's enterprise, government and small business customers. 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 is a member of the Audit and Risk Committee and was appointed to the Remuneration and Nomination Committee on 29 July 2009.

## COMPANY SECRETARY

**Melissa Letford**

BA (Psych), LLB

Melissa Letford joined Keycorp as Company Secretary and General Counsel in February 2008. As part of the company's reorganisation, Melissa's role was recently restructured to a part time role to support the company's ongoing corporate governance requirements. 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**

Keycorp commenced the year providing technology and service solutions to the electronic point of sale and smartcard industries. Following disposal of the smartcard business on September 1, 2008 and implementation of the revised business strategy, 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 generated a profit for the year of \$9.3m, a significant improvement from the loss of \$0.1m in the prior year and the first year the Group has reported a profit since 2004. The main drivers of this result were the improvement in the adjusted operating profit from continuing operations from an adjusted loss of \$4.0m in 2008 to a profit of \$3.7m in 2009 and the gain of \$9m, net of tax, on the sale of the smartcards business in September 2008.

The substantial improvement to Keycorp's adjusted operating result from ongoing operations is detailed in the table below.

	<b>2009</b>	<b>2008</b>	<b>Movement</b>	<b>Movement</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>%</b>
<b>Continuing Operations</b>				
Revenue	52 094	37 204	+14 890	+40%
Gross Profit	20 082	14 604	+5 478	+38%
Gross Margin	39%	39%		
<b>Result from operating activities</b>	<b>(1 618)</b>	<b>(5 948)</b>	<b>+ 4 330</b>	<b>+73%</b>
Adjustment addbacks:				
Restructuring expense	3 124	1 092	+2 032	+186%
Impairment of intangible fixed assets	2 120	853	+1 267	+149%
Impairment of tangible fixed assets	104	-	+104	+100%
<b>Adjusted result from operating activities</b>	<b>3 730</b>	<b>(4 003)</b>	<b>+7 733</b>	<b>+193%</b>

## DIRECTORS' REPORT CONTINUED

### REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

Revenues derived from continuing operations during the period increased by 40% driven by significant EMV upgrade activity in both the payment technology solutions and customer services business units. Despite the challenging economic conditions that prevailed during FY09 and the significant restructuring that occurred during the period, the Group managed to maintain its margins.

The successful completion of the Group's restructuring programme allowed the Group to reduce its overhead base to align with its ongoing requirement. Savings of almost \$2m were achieved year on year across sales and marketing, administrative and research and development expenses. As part of this programme a restructuring charge of \$3.1m was booked during the year inclusive of staff retention and redundancy payments, the change of head office from Sydney to Melbourne and a provision for further restructuring that will be required once the payment solutions and service elements of the Group's product legacy contract with Westpac finishes in May 2010. In addition to the head office move, the Sydney based payments solutions function relocated to more cost effective premises as well as being more central from a customer support perspective.

During the year the Group repaid in full its bank debt facility, cash generated from operations was positive and finished the year in a strong cash position with cash and cash equivalents of \$9.96m.

Year on year the Group's net debt position improved by over \$16.5m from a net debt position of \$10.4m at 30 June 2008 to a net cash position of \$6.1m at 30 June 2009. In addition \$9.5m of cash is expected to be released to the Group at year end as contractual performance and funding requirements relating to the Group's service and supply contract with Westpac expire towards the end of the financial year. The Group's working capital requirements are expected to further diminish during FY10 as the working capital intensive elements of the Westpac contract cease.

#### Customer Services

Revenues of \$27.4m increased by 6% over the prior year representing 53% of total revenue from continuing operations. The segment result of 32.5% of revenue compared favourably to the prior year result of 23.8% reflective of the positive impact of the various restructuring initiatives and continued focus on operational cost controls and efficiencies. The growth in revenue was assisted by successfully maximising the services opportunity associated with EMV payment upgrades with several customers commencing larger scale upgrades throughout the year.

Several longer term service contracts were renewed during the year further reinforcing the merits of the services oriented business strategy.

#### Payment Technology Solutions

In the past year, Keycorp's payment technology solutions delivered significant gains on the back of terminal upgrade programs resulting in segment revenue of \$24.7 million. This represented a gain of revenue from continuing operations from this segment of 119% compared to the prior financial year. This revenue growth occurred across all of Keycorp's key payment customers. Notwithstanding the expiry of the Westpac legacy product supply and support agreements at the end of the

2009/10 financial year, Keycorp is committed to new technologies, particularly those that leverage Keycorp's capabilities in payments software applications and platforms.

A segment pre-tax profit for 2009 of \$1.9m compared favourably to a loss of \$2.6m in the prior financial year testament to the effectiveness of the new business model of minimising expenditure associated with developing product based technologies.

#### Smartcards

Prior to the sale of the smartcard business in September 2008, revenue of \$3.6m from this segment was recorded. The segment result pre-tax of \$0.1m represented a return of 3%.

#### Dividends

The revised business model of a profitable, annuity style earnings business resulted in the implementation of a dividend policy in May 2009 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.

A 1.0 cent interim dividend fully franked per share and a 5.0 cent special dividend fully franked per share were paid on 12 June 2009.

A final dividend of 1.5 cents per share, fully franked will be paid on 9 October 2009.

#### Financial Year 2010 (FY10) Outlook

Keycorp enters FY10 in a strong operational and financial position with zero debt, a strong cash position and a business that generates positive cashflow from operations. The expected release of cash and a reduced working capital requirement arising from the Westpac contract expiry will further strengthen the Group's cash position. The business is well placed having implemented the majority of its business restructuring initiatives with a stable multi year contract based services business at its core.

The expectation is for growth in operational earnings from continuing operations due to full year impact of saving and efficiencies introduced in FY09.

Guidance for Earnings before Interest and tax (EBIT) is approximately \$5m which is a gain of 34% based on adjusted FY09 operational profit.

### CAPITAL STRUCTURE

Following the successful divestment of the Smartcards business in September 2008 the Group's Balance Sheet is in a strong position. Cash and cash equivalents at 30 June 2009 was \$9.96m (2008 \$4.5m). All bank loan facilities were repaid during the year. Net assets of the Group finished the 30 June 2009 year at \$30.2m which was \$4.5m higher than the previous year end.

In June 2009 the Company paid a 1 cent interim dividend and a 5 cent special dividend. The total cash payment was \$4.86M.

The Company did not issue any ordinary shares during the year. 1 000 000 options were granted to the newly appointed Chief Executive Officer on 1 April 2009. No options were 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 2009 were significantly lower than 2008 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 CHANGES IN THE STATE OF AFFAIRS

The consolidated entity disposed of the Smartcards business, on 1 September 2008 (refer to note 13 in the financial statements for more details).

On 31 October 2008, Keycorp Limited transferred certain assets and liabilities to Keycorp Services Pty Ltd at book value for a consideration of \$7 255 000. This exercise was completed as part of a reorganisation of the Group to transfer trading activities from Keycorp Limited such that its principal activity would primarily be a holding company for the Group.

## SIGNIFICANT EVENTS SINCE THE END OF THE FINANCIAL YEAR

Other than the declaration of a final dividend on 31 August 2009 the Directors have not become aware of any significant matter or circumstance that has arisen since 30 June 2009, 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.

## 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 7. 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 31 August 2009, the Directors resolved to pay a final fully franked dividend of 1.5 cents per ordinary share (\$1.2m), bringing dividends per share for fiscal 2009 to 7.5 cents per share, inclusive of a 5 cent per share special dividend. The record date for the final dividend will be 21 September 2009 with payment being made on 9 October 2009. Shares will trade excluding entitlement to the dividend on 15 September 2009. The financial effect of the final dividend has not been brought to account in the financial statements for the year ended 30 June 2009 and will be recognised in subsequent financial reports.

### Dividends declared and paid in fiscal 2009 :

The dividends declared and paid amounted to 6 cents per share (2008: nil)

Dividend	Date resolved	Date paid	Dividend per share	Total Dividend
Interim dividend for the year ended 30 June 2009	8 May 2009	12 June 2009	1 cent franked to 100%	\$0.8 million
Special dividend for the year ended 30 June 2009	8 May 2009	12 June 2009	5 cents franked to 100%	\$4.1 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 2010, 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.

**DIRECTORS' REPORT CONTINUED****UNISSUED SHARES UNDER OPTIONS**

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

<b>Grant Date</b>	<b>Options on issue (1)</b>	<b>Exercise price (2)</b>	<b>Exercisable after</b>	<b>Expiry date</b>
1 July 2004	25 000	\$0.98	01.07.06	01.07.09
1 July 2004	25 000	\$0.98	01.07.07	01.07.09
23 September 2004	2 000	\$1.39	23.09.06	23.09.09
23 September 2004	2 000	\$1.39	23.09.07	23.09.09
19 December 2005	12 500	\$1.4959	19.12.07	19.12.10
19 December 2005	12 500	\$1.4959	19.12.08	19.12.10
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
	1 299 000			

(1) 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.

(2) The payment of a capital return of 41 cents per share in September 2005 resulted in a reduction in option exercise prices of the same amount for options issued before that date.

The remuneration report that starts on page 15 contains details of options over unissued ordinary shares in Keycorp Limited granted during the year to the directors and the five most highly remunerated officers as part of their remuneration. No options were exercised during the year.

No shares in Keycorp Limited were issued during the year 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.

## 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:

Name	Ordinary shares	Options
Joe Bonin	40 000	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.

\* During the year 1 000 000 options were granted.

## DIRECTORS' MEETINGS

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

No. of meetings held during the year	Regular board meetings		Additional board meetings		Audit & Risk Committee meetings		Remuneration & Nomination Committee meetings		
	A	B	A	B	A	B	A	B	
11			2		3		1		
<b>Directors</b>	<b>Notes</b>	<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>
Robert Bishop	D	11	11	2	2	3	2	1	1
Kenneth Carr *		11	10	2	2	-	3	-	1
Barry Grisdale *		8	7	1	1	2	2	1	1
Christine Holgate *	E	6	6	1	1	-	-	1	1
Michael Ibrahim	C	11	11	2	2	3	3	-	1
Philip Jones	F	11	10	2	2	3	2	-	1

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 period the director was a member of the board and/or committee.

C Michael Ibrahim is a member of the Audit and Risk Committee and was appointed to the Remuneration & Nomination Committee on 29 July 2009

D Robert Bishop is a member of the Remunerations and Nominations 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 Christine Holgate is not a member of the Audit & Risk Committee but attends meetings by invitation. Resigned February 2009.

F Philip Jones is a member of the Audit and Risk Committee and was appointed to the Remuneration & Nomination Committee, on 29 July 2009

\* Not a Director at 30 June 2009.

## NON – AUDIT SERVICES

During the year Keycorp's auditor, KPMG, provided non audit services totalling \$55 656 (2008: \$25 965). These non audit services consisted of:

- Other assurance services \$36 313
- Taxation services (overseas) \$19 343

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

## DIRECTORS' REPORT CONTINUED

### 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 Consolidated entity.

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 done so in this report. 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 5 to 7.

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
- a person cannot hold the positions of both Chairman and Chief Executive Officer.

The Board is currently comprised of 2 independent directors, one of which is the Chairman, and 2 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.

The Board has assessed the independence of the current Non-Executive Directors and considers Robert Bishop (the Chairman), and Michael Ibrahim to be independent. Barry Grisdale who resigned on 26 March 2009 was also considered to be an independent director. Philip Jones and Joe Bonin (the Chief Executive Officer from 1 April 2009 and Director from 1 July 2009) 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 reduced board is appropriate for the restructured Group and reflective of Keycorp's reduced size. The Board will review the requirement to appoint an additional independent director by the end of the calendar year.

#### 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 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 11.

#### 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 5 to 7
- a majority of independent directors
- an independent chairperson, who is not the chairperson of the Board.

The Committee comprised Barry Grisdale (prior to his resignation), Michael Ibrahim and Philip Jones for the majority of the financial year satisfying the independence requirements. On Mr Grisdale's resignation in March 2009, the Board took the decision that in light of the restructure of the business it was appropriate not to replace Mr Grisdale on the committee with a further independent director at that time. The Board has since taken steps to meet the independence test by appointing Mr Rob Bishop to the committee with effect from 29 July 2009.

## DIRECTORS' REPORT CONTINUED

### CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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.

During the year one of the scheduled audit committee meetings was cancelled to facilitate focussing Group resources on completing the Group's restructuring programme.

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.

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001.

The procedures for selection, 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 15.

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.

### 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
- 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 affect 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
- the annual general meeting.

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.

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

This year the Board and the Board committees underwent an internal performance evaluation in light of the previous year's evaluation by external consultants. The process involved a board discussion of issues requiring attention and the formulation of appropriate action plans, along with a discussion as to how the recommendations in the prior year's external assessment had been met. The results identified improvements in the Board's performance when compared to the previous year. The Board intends to comply with the performance management policy detailed on the company's website in the coming year.

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 CEO, is delegated to the CEO. A clear performance management process is in place and all staff including the senior management excluding the CEO 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 2008 and will be evaluated again in September 2009. The Board is aware that some corporate staff including senior management were not reviewed, however this was due to the corporate restructuring and was not deemed necessary in light of foreshadowed redundancies. The evaluations were conducted for all staff that were associated with continuing operations.

## REMUNERATION REPORT

### REMUNERATION POLICIES AND PRACTICES – AUDITED

The Remuneration and Nomination Committee (Committee) is responsible for designing and implementing (upon Board approval) the Company's remuneration policies and practices. The Committee endorses Principle 9 of the Australian Stock Exchange (ASX) Corporate Governance Council's Principle of Good Governance; "Remuneration fairly and responsibly".

Details of the specific remuneration policies and the remuneration mixes paid by the Company are set out in this Remuneration Report which should be read in conjunction with note 27 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 5 to 7. Membership of and attendance at 2008/09 Committee Meetings are detailed on page 11.

Key management personnel, including directors of the Company have authority and responsibility for planning, directing and controlling the activities of the Company and the Group. Key management personnel comprise the directors of the Company and executives of the Company and 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 Annual General Meeting (AGM). During the year ended 30 June 2009 \$323,010, (2008: \$367 599) of the fee pool was used.

## DIRECTORS' REPORT CONTINUED

### REMUNERATION REPORT (CONTINUED)

For 2008/09 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 of which \$26 000 was fee sacrificed under the Keycorp Deferred Employee Share Plan (DESP)
- Non-Executive Directors each received \$65 000;
- an additional \$10 000 is paid to the Chairman of each Committee; and
- an additional \$5 000 is paid to every member of each Committee.

#### Equity Participation

No Non-Executive Director has received options as part of their remuneration. Non-Executive Directors do not receive any performance-related remuneration.

Of the current Board the Chairman and one Non-Executive Director participate in the Keycorp Deferred Employee Share Plan (DESP) by way of salary sacrifice.

#### 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 Philip Jones and Christine Holgate the Company pays all Non-executive Directors the statutory superannuation guarantee contribution.

#### Service Contracts

No Non-executive Director has a service contract with the Company 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 Company 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 and Nomination Committee.

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.

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
- company performance.

Company 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 and the Chief Financial Officer short term incentives may be paid upon the determination of the Board or Remuneration 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 Company; 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 1 million options were granted on 1 April 2009. There were no other awards during the year as detailed on page 10. The performance hurdles for these plans are discussed on page 17. Further details of all equity plans are available on pages 18 to 20.

**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 Company, including their personally-related entities.

**Service Contracts**

All Executive Officers who currently hold executive positions in the Company have permanent full-time contracts. S. Greenan has 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 6 month notice period.

**Chief Executive Officer**

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

- Base salary \$320 000 plus superannuation;
- Packaged benefits \$40 349;
- On target incentive \$125 000 based on performance objectives; and
- Long Term options of 1 000 000 Keycorp shares. These options vest in three equal tranches, 24, 36 and 48 months from his date of commencement. Vesting of the options is subject to Keycorp shares delivering Total Shareholder Returns (TSR) above the S&P ASX200 Information Technology Accumulation Index (XIJ) for twenty consecutive days on or after 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 and details of are included further in the Annual Report.

Dr Ken Carr resigned from his role of Chief Executive Officer on the 30 June 2009.

For the year ended 30 June 2009, details of Dr Carr's remuneration package are as follows:

- Base salary \$338 160;
- Packaged benefits \$44 488; and
- Short term cash bonus target: \$228 663.

At the 2007 Annual General Meeting, shareholders voted in approval for issuing 1 220 000 options to the former Chief Executive Officer Dr Carr at an exercise price of \$0.365 to subscribe for 1 220 000 fully paid ordinary shares in the Company, under the Keycorp Employee Share Option Incentive Plan.

The grant of options was made in three tranches:

- 406 667 options that may vest on 17 May 2009;
- 406 667 options that may vest on 17 May 2010; and
- 406 666 options that may vest on 17 May 2011.

These options would only vest if Keycorp's Total Shareholder Return (TSR) is greater than or equal to the S&P/ASX 200 Information Technology (XIJ) Index for twenty consecutive trading days on or after the first exercise date for each tranche. These options were forfeited upon Dr Carr's resignation.

**RELATIONSHIP BETWEEN POLICY & PERFORMANCE – AUDITED**

The Company's and Group's remuneration policies and practices are designed to ensure that remuneration packages are set at a fair and competitive rate, enabling the Company and 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.

**DIRECTORS' REPORT CONTINUED****REMUNERATION REPORT (CONTINUED)**

Each plan and its purpose are described below.

Finally, the table below sets out some indices in respect of the Company'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 Company's performance.

	2009 (i)	2008 (i)	2007 (i)	2006 (i)	2005 (ii)
EBITDA (\$m) (iii)	7.8	7.6	(8.0)	9.5	31.2
Net profit/(loss) (after tax) (\$m)	9.3	(0.1)	(11.5)	(2.9)	(2.0)
Dividends paid (\$m)	4.9	-	-	-	-
Change in share price (\$: at 30 June)	+0.09	(0.15)	(0.56)	(0.96)	+0.47
Return of capital	-	-	-	0.41	-
Basic Earnings / (Loss) per share (\$)	0.1143	(0.0012)	(0.1397)	(0.035)	(0.024)

(i) These indices have been prepared in accordance with Australian equivalents to International Financial Reporting Standards.

(ii) These indices have been prepared in accordance with previous Australian Generally Accepted Accounting Principles.

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

**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 on or after 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 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 17).

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 price payable by eligible employees for 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 were no other options granted during the year.

**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.

## DESCRIPTION

**Keycorp Deferred Employee Share Plan**

Shareholders approved the introduction of the Keycorp Deferred Employee Share Plan (DESP) at the 2005 AGM.

There are two components to the DESP: a company award and a salary sacrifice element.

*Company Award*

Under this part of the DESP, select key management personnel are offered “deferred shares” to be held subject to a series of holding locks.

Under these awards, shares were allocated in September 2007 and were subject to three separate vesting schedules:

- one-third are “available” to be released from holding lock after 2 years from the date of allocation (being September 2009);
- one-third are “available” to be released from holding lock after 3 years from the date of allocation (being September 2010); and
- one-third are “available” to be released from holding lock after 4 years from the date of allocation (being September 2011);

The following additional performance criteria must also be met prior to any vesting:

- the participant must remain continuously employed with the Company to receive those shares which are “available”; and
- the participant must achieve a solid performance rating or better against objectives contained in their individual Performance Agreement. The Performance Condition must be satisfied at any time prior to each tranche of shares becoming “available”.

Shares may not be sold or transferred until after they have vested, and prior to vesting a participant has only a conditional entitlement to the shares. Should the relevant conditions not be met, including for reason of cessation of employment, the entitlement will lapse (and shares will be forfeited by the participant).

All shares acquired under the DESP rank equally with all other ordinary shares, and carry full shareholder rights. However, they are not able to participate in any dividend reinvestment plans.

*Salary Sacrifice*

Under this part of the DESP, key management personnel may elect to sacrifice the whole or part of their remuneration to acquire shares in the Company at the same time each month when their remuneration is payable. Those shares are acquired on-market by the independent plan manager independent from the Company and the participant.

## RATIONALE

The DESP is a medium-term incentive and is a key retention tool. Key management personnel are awarded a number of shares which may vest in three tranches from the second anniversary from the date of allotment. Receipt of shares upon the holding lock being removed is dependent on the executive remaining employed with the Keycorp Group. Participants share in benefits enjoyed by shareholders (such as any dividends and the right to vote).

**DIRECTORS' REPORT CONTINUED****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 12-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 customers 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 in to account as well. This results in a differentiated distribution of the incentive pool between executives based on individual performance.

**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 offered to eligible employees in November 2007.

## 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.

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.

**Directors' and executive officers' remuneration (Company and Consolidated) - audited**

Set out in the following tables is the remuneration for the Directors and key management personnel of the Group during 2008/09 financial year. Prior year comparative tables are also included.

**2009****DIRECTORS – COMPANY AND CONSOLIDATED**

In AUD	Short term				Post employment				Equity based payments		Total	Proportion of remuneration performance related	Value of option as proportion of remuneration
	Salary & fees <sup>(11)</sup>	STI cash bonus <sup>(12),(13)</sup>	Non-monetary benefits <sup>(14),(15)</sup>	Total	Super-annuation benefits	Long service leave	Termination benefits	Options <sup>(16)</sup>	Shares				
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Non-Executive Directors</b>													
R. Bishop(Chair) <sup>(1)</sup>	104 000	-	9 730	113 730	11 700	-	-	-	26 000	151 430	-	-	-
B. Grisdale <sup>(2)</sup>	46 833	-	5 158	51 991	5 138	-	-	-	11 500	68 629	-	-	-
C. Holgate <sup>(3)</sup>	-	-	2 972	2 972	-	-	-	-	-	2 972	-	-	-
M. Ibrahim	64 417	-	7 380	71 797	7 125	-	-	-	14 750	93 672	-	-	-
P. Jones <sup>(3)</sup>	-	-	6 307	6 307	-	-	-	-	-	6 307	-	-	-
<b>Executive Director</b>													
K. Carr <sup>(4)</sup>	338 160	228 663	13 084	579 907	31 404	-	571 043	696	-	1 183 050	19.3	0.1	-
<b>Total</b>	<b>553 410</b>	<b>228 663</b>	<b>44 631</b>	<b>826 704</b>	<b>55 367</b>	<b>-</b>	<b>571 043</b>	<b>696</b>	<b>52 250</b>	<b>1 506 060</b>	<b>-</b>	<b>-</b>	<b>-</b>

**2008****DIRECTORS – COMPANY AND CONSOLIDATED**

In AUD	Short term				Post employment				Equity based payments		Total	Proportion of remuneration performance related	Value of option as proportion of remuneration
	Salary & fees <sup>(11)</sup>	STI cash bonus <sup>(12),(13)</sup>	Non-monetary benefits <sup>(14),(15)</sup>	Total	Super-annuation benefits	Long service leave	Termination benefits	Options <sup>(16)</sup>	Shares				
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Non-Executive Directors</b>													
R. Bishop(Chair) <sup>(1)</sup>	110 500	-	10 135	120 635	11 700	-	-	-	19 500	151 835	-	-	-
B. Grisdale <sup>(2)</sup>	68 000	-	8 150	76 150	20 987	-	-	-	12 000	109 137	-	-	-
C. Holgate <sup>(3)</sup>	-	-	8 150	8 150	-	-	-	-	-	8 150	-	-	-
M. Ibrahim	61 000	-	8 577	69 577	6 750	-	-	-	14 000	90 327	-	-	-
P. Jones <sup>(3)</sup>	-	-	8 150	8 150	-	-	-	-	-	8 150	-	-	-
<b>Executive Director</b>													
K. Carr <sup>(4)</sup>	314 000	150 000	14 918	478 918	31 404	38	-	3 371	-	513 731	29.2	0.7	-
<b>Total</b>	<b>553 500</b>	<b>150 000</b>	<b>58 080</b>	<b>761 580</b>	<b>70 841</b>	<b>38</b>	<b>-</b>	<b>3 371</b>	<b>45 500</b>	<b>881 330</b>	<b>-</b>	<b>-</b>	<b>-</b>

**DIRECTORS' REPORT CONTINUED****REMUNERATION REPORT (CONTINUED)****Directors' and executive officers' remuneration (Company and Consolidated) - audited (continued)****2009  
EXECUTIVES**

In AUD	Short term				Post employment			Equity based payments		Total	Proportion of remuneration performance related	Value of option as proportion of remun- eration
	Salary & fees (11)	STI cash bonus (12),(13)	Non- monetary benefits (14),(15)	Total	Super- annuation benefits	Long service leave	Termination benefits	Options (16)	Shares			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Executives Current</b>												
J. Bonin <sup>(9)*</sup>	296 926	95 000	15 036	406 962	25 313	25 444	-	28 059	-	485 778	19.6	5.8
S. Greenan <sup>(6)</sup>	61 262	11 667	2 313	75 242	4 275	1	-	-	-	79 518	14.7	-
M. Letford <sup>(19)^*</sup>	151 516	50 000	5 886	207 402	12 940	-	216 111	-	-	436 453	11.5	-
C. Little <sup>(22)*</sup>	127 702	30 000	5 064	162 766	12 127	8 297	-	-	-	183 190	16.4	-
W. Scheuber <sup>(20)*</sup>	169 504	85 709	10 288	265 501	14 732	4	-	-	-	280 237	30.6	-
<b>Former</b>												
J. Stevens <sup>(18)^</sup>	86 016	45 833	5 963	137 812	7 493	-	141 000	(16 627)	-	269 678	16.0	-
R. Ganeson <sup>(17)</sup>	22 304	-	1 654	23 958	6 678	-	57 821	(54 385)	-	34 072	-	-
P. Kensington <sup>(7)^*</sup>	166 320	33 333	10 977	210 630	14 841	-	311 723	-	-	537 194	6.2	-
<b>Total</b>	1 081 550	351 542	57 181	1 490 273	98 399	33 746	726 655	(42 953)	-	2 306 120	-	-
<b>Total Executives Group<sup>+</sup></b>	1 081 550	351 542	57 181	1 490 273	98 399	33 746	726 655	(42 953)	-	2 306 120	-	-
<b>Total Executives Company<sup>&lt;&gt;</sup></b>	426 156	129 166	24 480	579 802	41 952	-	726 655	(71 012)	-	1 277 397	-	-

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

^ Denotes the highest paid executives of the Company.

<> Company Executives include M. Letford and all former executives.

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



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

2008  
EXECUTIVES

In AUD	Short term				Total	Post employment	Equity based payments			Total	Proportion of remuneration performance related	Value of option as proportion of remuneration	
	Salary & fees <sup>(11)</sup>	Annual Leave	STI cash bonus <sup>(12),(13)</sup>	Non-monetary benefits <sup>(14),(15)</sup>		Super-annuation benefits	Long service leave	Termination benefits	Options <sup>(16)</sup>				Shares
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Executives Current</b>													
J. Bonin <sup>(9)*</sup>	335 689	25 757	210 000	9 209	580 655	22 529	11 097	-	32 436	-	646 717	37.5	5.0
R. Cusson <sup>(21)^*</sup>	230 040	15 319	136 774	8 150	390 283	22 898	4 591	-	15 773	-	433 545	35.2	3.6
R. Ganeson <sup>(17)^*</sup>	234 954	12 366	17 500	16 912	281 732	22 259	71	-	34 735	-	338 797	15.4	10.3
P. Kensington <sup>(7)</sup>	61 872	6 577	60 000	5 015	133 464	6 165	30	-	-	-	139 659	43.0	-
J. Stevens <sup>(18)^*</sup>	189 223	3 727	40 000	17 582	250 532	17 357	25	-	18 402	-	286 316	20.4	6.4
<b>Former</b>													
P. Herington <sup>*^^(8)</sup>	197 167	21 904	-	11 122	230 193	17 745	-	-	-	-	247 938	-	-
M. Knapman <sup>*^^(9)</sup>	76 800	1 200	-	5 531	83 531	7 020	-	239 580	(30 735)	-	299 396	-	-
M. Ritter <sup>(10)</sup>	200 538	22 220	40 000	12 726	275 484	19 419	-	38 633	-	-	333 536	12.0	-
<b>Total</b>	1 526 283	109 070	504 274	86 247	2 225 874	135 392	15 814	278 213	70 611	-	2 725 904	-	-
<b>Total Executives Group<sup>+</sup></b>	1 526 283	109 070	504 274	86 247	2 225 874	135 392	15 814	278 213	70 611	-	2 725 904	-	-
<b>Total Executives Company<sup>&lt;&gt;</sup></b>	990 056	61 093	254 274	64 312	1 369 735	93 444	4 717	239 580	38 175	-	1 745 651	-	-

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

^ Denotes one of the highest five paid executives of the Company.

&lt;&gt; Company Executives include, R. Cusson, R. Ganeson., P. Kensington, P. Herington, M. Knapman and J. Stevens

+ Group Executives include the company executives and J. Bonin, and M. Ritter.

**DIRECTORS' REPORT CONTINUED****REMUNERATION REPORT (CONTINUED)****Directors' and executive officers' remuneration (Company and Consolidated) - audited (continued)**

- 1) R Bishop appointed Chairman in June 2007.
- 2) B Grisdale resigned from the Board of Directors 26 March 2009.
- 3) These directors are appointed by Telstra as "nominee directors". There are no fees payable to either Telstra or these individual directors by Keycorp Limited in relation to these directorships. C Holgate resigned 13th February 2009.
- 4) Appointed Executive Director and Chief Executive Officer on 18 May 2007. K Carr resigned from the Chief Executive Officers position with effect 31st March and as a director on 30th June 2009.
- 5) J Bonin was appointed Chief Executive Officer with effect from 1st April 2009. Appointed a Director 1st July 2009.
- 6) S. Greenan was appointed Chief Financial Officer with effect from 13th March 2009.
- 7) P Kensington held the position of Chief Financial Officer from February 2008 until terminated in April 2009.
- 8) P Herington commenced employment on 12 March 2007 and retired effective 22 February 2008.
- 9) M Knapman terminated employment effective 28 September 2007.
- 10) M Ritter commenced employment on 5 February 2007 and terminated on 1 July 2008.
- 11) Includes any living away from home allowances.
- 12) The short term incentives (STI) cash bonus related to performance during the year.
- 13) Some STI bonus amounts may have been accrued at year end and paid subsequent to year end.
- 14) 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.
- 15) Non monetary benefits includes health insurance, car parking, salary continuance insurance and FBT payable by Keycorp on each of these items. These amounts also include Directors and Officers insurance paid by Keycorp in respect of each officer.
- 16) 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 and 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.
- 17) R. Ganeson resigned on 17 July 2008.
- 18) J Stevens terminated on 28th November 2008. Options previously expensed now reversed as service conditions not met.
- 19) M Letford's full time position was made redundant April 2009, M Letford now works for the Company on a part time basis. As the Company Secretary M Letford is not considered Key Management Personnel but is included as one of the most highly remunerated executives.
- 20) W. Scheuber (Sales and Business Development Manager) is considered Key Management Personnel from 1 July 2008.
- 21) R. Cusson was terminated in August 2008. Options previously expensed now reversed as service conditions not met.
- 22) C. Little (National Operations Manager) is considered Key Management Personnel from 1 July 2008.

**Fair value of options – Factors and assumptions – audited**

The following factors and assumptions were used in determining the fair value of options on grant date.

Grant date		Expiry date	Fair value per option	Exercise price	Prices of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
1 April 2009	Tranche 1	1 April 2014	\$0.1053	\$0.2323	\$0.2694	67.37%	3.93%	3.03%
1 April 2009	Tranche 2	1 April 2014	\$0.1191	\$0.2323	\$0.2694	67.37%	3.93%	3.03%
1 April 2009	Tranche 3	1 April 2014	\$0.1361	\$0.2323	\$0.2694	67.37%	3.93%	3.03%

**FAIR VALUE OF SHARES – FACTORS AND ASSUMPTIONS – AUDITED**

Fair value as defined by AASB 2 (Share Based Payments) is the amount for which an equity instrument granted could be exchanged between knowledgeable, willing parties in an arm's length transaction.

No deferred shares were allocated during the current year and prior year.

The fair value of deferred shares is based on the market value of Keycorp shares on the allocation date. The fair value is expensed over the vesting period of the shares.

**ANALYSIS OF BONUSES INCLUDED IN REMUNERATION – AUDITED**

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 and Executive Officers	Included in Remuneration \$(i)	% vested in the year	%Forfeited in year(ii)
<b>Directors</b>			
K. Carr (ex CEO)*	\$228 663	126.0%	-
<b>Executives</b>			
J. Bonin	\$95 000	100.0%	-
S. Greenan	\$11 667	100.0%	-
M. Letford	\$50 000	100.0%	-
C. Little	\$30 000	100.0%	-
W. Scheuber	\$85 709	100.0%	-
<b>Former Executives</b>			
P. Kensington *	\$33 333	83.3%	16.7%

(i) Amounts included in remuneration for the financial year represent the amount accrued in the financial year based on 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 and CFO), who adjudicates as to whether performance criteria have been met. No amounts "vest" in future financial years in respect of the short-term incentive bonus schemes for the 2009 financial year.

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

\* No longer employed by the Group or Company at 30 June 2009

**DIRECTORS' REPORT CONTINUED****REMUNERATION REPORT (CONTINUED)****Options and rights over equity instruments granted as compensation - audited**

Details of options over ordinary shares in the Company that were granted as compensation to each Director and executive officer during the reporting period and details on options that vested during the reporting period are as follows:

	Number of options granted in 2009	Grant date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during the year
CEO						
J. Bonin	333 333	1 April 2009	0.1053	0.2323	1 April 2014	-
	333 333	1 April 2009	0.1191	0.2323	1 April 2014	-
	333 334	1 April 2009	0.1361	0.2323	1 April 2014	-

The options were provided at no cost to the recipients. No options have been granted since the end of the financial year.

**EXERCISE OF OPTIONS GRANTED AS COMPENSATION – AUDITED**

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 the options granted as remuneration to each non-executive director of the Company (nil), the executive director and each executive are set out below:

	Options granted		% Vested in year	% Forfeited in year (i)	Financial year in which grant vests
	Number	Date			
<b>Executive Director</b>					
K. Carr (i)	406 667	09/11/07	100%	100%	-
	406 667	09/11/07	0%	100%	-
	406 666	09/11/07	0%	100%	-
<b>Executives</b>					
J. Bonin (iii)	33 333	09/03/06	100%	0%	30/06/08
	33 333	09/03/06	100%	0%	30/06/09
	33 334	09/03/06	0%	0%	30/06/10
	40 000	26/10/06	100%	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	1/4/09	0%	0%	30/06/11
	333 333	1/4/09	0%	0%	30/06/12
	333 334	1/4/09	0%	0%	30/06/13
R. Cusson (ii)	40 000	26/10/06	0%	100%	-
	40 000	26/10/06	0%	100%	-
	40 000	26/10/06	0%	100%	-
R. Ganeson (ii)	25 000	27/05/05	0%	100%	-
	33 333	09/03/06	0%	100%	-
	33 333	09/03/06	0%	100%	-
	33 334	09/03/06	0%	100%	-
	40 000	26/10/06	0%	100%	-
	40 000	26/10/06	0%	100%	-
	40 000	26/10/06	0%	100%	-
J. Stevens (ii)	46 666	09/03/06	0%	100%	-
	46 667	09/03/06	0%	100%	-
	46 667	09/03/06	0%	100%	-

(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) All options were forfeited on termination of employment with the company during the year.

(iii) Appointed Chief Executive Officer 1 April 2009. Appointed a Director 1 July 2009.

**DIRECTORS' REPORT CONTINUED****REMUNERATION REPORT (CONTINUED)****Analysis of movements in options - audited**

The movement during the reporting period, by total number, of options over ordinary shares in Keycorp Limited held by executive officers are detailed below:

Value of options			
	Granted in year \$ (i)	Exercised in year \$ (ii)	Lapsed in year \$ (iii)
<b>Executives</b>			
J. Bonin	120 167	-	-
K.Carr ( <i>resigned July 2009</i> )	-	-	(114 761)
R. Cusson ( <i>terminated August 2008</i> )	-	-	(2 796)
R. Ganeson ( <i>resigned July 2008</i> )	-	-	(2 511)
J. Stevens ( <i>terminated November 2008</i> )	-	-	(20 944)

- (i) The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes Merton "up and in" call barrier pricing model based on expected value generated by a Monte Carlo simulation model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.
- (ii) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Stock Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.
- (iii) The value of the options lapsed during the year is calculated using a black scholes model assuming the performance criteria had been achieved. In K Carr's situation all options were forfeited at his departure date from Keycorp.

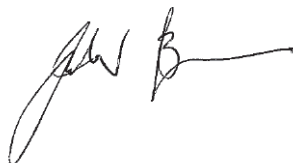
**LEAD AUDITOR'S INDEPENDENCE DECLARATION**

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 directors' 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, 31 August 2009



***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 2009 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.

A handwritten signature in black ink, appearing to read 'KPMG.' with a stylized flourish.

KPMG

A handwritten signature in black ink, appearing to be 'KR' with a long horizontal stroke extending to the right.

Kenneth Reid  
*Partner*

Sydney

31 August 2009

## INCOME STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Continuing operations</b>					
Revenue	6	52 094	37 204	6 348	14 098
Cost of sales		(32 012)	(22 600)	(4 414)	(10 036)
<b>Gross profit</b>		<b>20 082</b>	<b>14 604</b>	<b>1 934</b>	<b>4 062</b>
Sales and marketing expenses		(2 736)	(3 332)	(76)	(2 313)
Administration expenses	8(a)	(9 744)	(10 235)	(8 470)	(9 416)
Research and development expenses		(2 716)	(3 530)	(202)	(3 519)
Restructuring expenses		(3 124)	(1 092)	(2 253)	(851)
Other expenses	8(b)	(3 391)	(2 363)	(2 093)	(7 142)
Other income	7	11	-	129	-
<b>Results from operating activities</b>		<b>(1 618)</b>	<b>(5 948)</b>	<b>(11 031)</b>	<b>(19 179)</b>
Financial income	9	2 542	708	6 199	690
Financial expenses	9	(641)	(3 057)	(382)	(2 762)
<b>Net financing income / (expense)</b>		<b>1 901</b>	<b>(2 349)</b>	<b>5 817</b>	<b>(2 072)</b>
<b>Profit / (loss) before income tax</b>		<b>283</b>	<b>(8 297)</b>	<b>(5 214)</b>	<b>(21 251)</b>
Income tax (expense) / benefit	11	(65)	4 009	2 777	3 368
<b>Profit / (loss) from continuing operations</b>		<b>218</b>	<b>(4 288)</b>	<b>(2 437)</b>	<b>(17 883)</b>
<b>Discontinued operations</b>					
Profit of discontinued operations and gain on sale of discontinued operation, net of tax	13(d)	9 052	4 186	8 956	1 014
<b>Profit / (Loss) for the year</b>		<b>9 270</b>	<b>(102)</b>	<b>6 519</b>	<b>(16 869)</b>

#### Earnings per share

Basic profit / (loss) per share	35	\$0.1143	\$(0.0012)
Diluted profit / (loss) per share	35	\$0.1142	\$(0.0012)
<b>Continuing operations</b>			
Basic profit / (loss) per share from continuing operations	35	\$0.0027	\$(0.0520)
Diluted profit / (loss) per share from continuing operations	35	\$0.0027	\$(0.0520)

The notes on pages 34 to 90 are an integral part of these consolidated financial statements.



## STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Foreign currency translation differences for foreign operations	32(a)	87	(6)	-	-
<b>Income and expense recognised directly in equity</b>		87	(6)	-	-
<b>Profit / (Loss) for the year</b>		9 270	(102)	6 519	(16 869)
<b>Total recognised income and expense for the year</b>		<b>9 357</b>	<b>(108)</b>	<b>6 519</b>	<b>(16 869)</b>

Other movements in equity arising from transactions with owners as owners are set out in note 32.  
The amounts recognised directly in equity are disclosed net of tax.

The notes on pages 34 to 90 are an integral part of these consolidated financial statements.

## BALANCE SHEETS

### AS AT 30 JUNE 2009

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Assets</b>					
Cash and cash equivalents	36(a)	9 966	4 512	8 017	2 403
Trade and other receivables	16	10 460	6 099	74	1 254
Inventories	17	5 693	2 305	-	1 995
Net investment in finance leases	18	1 404	1 184	-	1 184
Investments	20	6 509	-	6 509	-
Other current assets	19	3 677	3 995	3 374	3 995
Assets classified as held for sale	14	-	18 257	-	15 649
<b>Total current assets</b>		<b>37 709</b>	<b>36 352</b>	<b>17 974</b>	<b>26 480</b>
Receivables	16	-	-	32 502	30 729
Other non current assets	19	441	555	-	555
Net investment in finance leases	18	4 832	5 497	-	5 497
Investments	20	-	5 474	-	6 969
Property, plant and equipment	22	889	1 620	368	1 183
Deferred tax assets	23	4 926	9 216	1 517	8 511
Intangible assets	24	1 637	4 952	38	1 762
<b>Total non-current assets</b>		<b>12 725</b>	<b>27 314</b>	<b>34 425</b>	<b>55 206</b>
<b>Total assets</b>		<b>50 434</b>	<b>63 666</b>	<b>52 399</b>	<b>81 686</b>
<b>Liabilities</b>					
Trade and other payables	25	8 016	5 367	20 890	26 544
Interest bearing loans and borrowings	26	1 202	11 094	-	11 094
Employee benefits	27	1 239	1 592	50	1 518
Provisions	28	4 423	3 672	1 648	3 394
Income tax payable	29	949	2 348	945	2 228
Other current liabilities	30	880	1 196	293	364
Liabilities classified as held for sale	14	-	7 654	-	4 607
<b>Total current liabilities</b>		<b>16 709</b>	<b>32 923</b>	<b>23 826</b>	<b>49 749</b>
Interest bearing loans and borrowings	26	2 640	3 842	-	3 842
Employee benefits	27	30	84	-	84
Provisions	28	150	-	-	-
Other non current liabilities	30	695	1 059	-	1 059
<b>Total non-current liabilities</b>		<b>3 515</b>	<b>4 985</b>	<b>-</b>	<b>4 985</b>
<b>Total liabilities</b>		<b>20 224</b>	<b>37 908</b>	<b>23 826</b>	<b>54 734</b>
<b>Net assets</b>		<b>30 210</b>	<b>25 758</b>	<b>28 573</b>	<b>26 952</b>
<b>Equity</b>					
Issued capital	31	60 808	60 808	60 808	60 808
Reserves	32(a)	74	(6)	-	-
Accumulated losses	32(b)	(30 672)	(35 044)	(32 235)	(33 856)
<b>Total equity</b>		<b>30 210</b>	<b>25 758</b>	<b>28 573</b>	<b>26 952</b>

The notes on pages 34 to 90 are an integral part of these consolidated financial statements.

## STATEMENTS OF CASH FLOWS

### FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Cash flows from operating activities</b>					
Cash receipts from customers		55 029	111 628	9 760	46 986
Cash paid to suppliers and employees		(52 484)	(106 751)	(18 141)	(57 352)
Cash generated from operations		2 545	4 877	(8 381)	(10 366)
Interest received		1 310	708	1 292	690
Interest paid		(689)	(1 498)	(382)	(1 308)
Income taxes paid		(1 909)	-	(1 863)	-
Restructuring costs		(2 403)	(898)	(1 911)	(898)
<b>Net cash from operating activities</b>	36(b)	<b>(1 146)</b>	<b>3 189</b>	<b>(11 245)</b>	<b>(11 882)</b>
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(407)	(814)	(180)	(613)
Development expenditure		(213)	(2 050)	(162)	(2 050)
Proceeds from disposal of non-current assets		39	75	39	-
Disposal of discontinued operation	13(b)	23 012	(503)	23 012	-
Acquisition of mezzanine note		(1 035)	(119)	(1 035)	(119)
Repayment of promissory note	13 (c)	1 064	5 134	-	-
Acquisition of subsidiaries	12	-	(2 977)	-	-
<b>Net cash from investing activities</b>		<b>22 460</b>	<b>(1 254)</b>	<b>21 674</b>	<b>(2 782)</b>
<b>Cash flows from financing activities</b>					
Repayment of borrowings – Bank term loan		(10 000)	(1 500)	(10 000)	(1 500)
Finance lease liabilities – new leases in the year		-	4 200	-	4 200
Finance lease liabilities – payments		(1 094)	(2 065)	(353)	(1 324)
Net advances from related parties		-	-	10 401	15 115
Repurchase and cancellation of own shares		-	(297)	-	(297)
Dividends paid		(4 868)	-	(4 868)	-
<b>Net cash from financing activities</b>		<b>(15 962)</b>	<b>338</b>	<b>(4 820)</b>	<b>16 194</b>
<b>Net increase in cash and cash equivalents</b>		<b>5 352</b>	<b>2 273</b>	<b>5 609</b>	<b>1 530</b>
Cash and cash equivalents at 1 July		4 512	2 346	2 403	809
Effect of exchange rate fluctuations on cash held		102	(107)	5	64
<b>Cash and cash equivalents at 30 June</b>	36(a)	<b>9 966</b>	<b>4 512</b>	<b>8 017</b>	<b>2 403</b>

The notes on pages 34 to 90 are an integral part of these consolidated financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. REPORTING ENTITY

Keycorp Limited (the "Company") is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2009 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates.

### 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 and the financial report of the Company comply 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 31 August 2009.

#### B) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

#### 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 23 – Utilisation of tax losses

Note 24 – Measurement of the recoverable amounts of intangible assets including goodwill

Note 28 – Provisions

### 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. 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.

In the Company's financial statements, investments in subsidiaries are carried at cost less impairment losses.

##### (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. Non monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

##### (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.

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
motor vehicles	4 years

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

### **D) Intangible assets**

#### **(i) Goodwill**

##### *Business combinations prior to 1 July 2004*

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has not been reconsidered in preparing the Group's opening AIFRS balance sheet at 1 July 2004.

##### *Business combinations since 1 July 2004*

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill) it is recognised immediately in profit or loss.

##### *Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses. (see note 3 (i))

#### **(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)(v) 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)(v) 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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 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.

#### 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.

#### (j) 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 (i.e., 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. 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.

In the Company's financial statements, the transactions of the Company sponsored employee share plan trust are treated as being executed directly by the Company (as the trust acts as the Company's agent). Accordingly, shares held by the trust are recognised as treasury shares and deducted from 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.

Investments in subsidiaries are accounted for in the Company's financial statements at their cost of acquisition 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 expected to be settled within 12 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.

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.

Employees and executives are entitled to shares under the Deferred Employee Share Plan ("DESP") and the Exempt Employee Share Plan (EESP). Any shares that the Company contributes under these plans are expensed over the service period. The Company will pay for the costs of administering these plans.

Offers under EESP may be considered on an annual basis. No future offers will be made under EESP without Board approval. The terms of future offers if any, may vary depending, amongst other things, on the profit performance of the Company from year to year. The EESP was suspended during the 2009 financial year.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement when they are due.

#### (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.

#### **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.

##### (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.

The current and deferred tax amounts for the tax consolidated group are allocated among the entities in the group using a 'group allocation method' approach. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amount of the assets and liabilities in the Company's balance sheet and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised in conjunction with any tax funding arrangement

amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution to or distribution from the subsidiary. Distributions firstly reduce the carrying amount of the investment in the subsidiary and are recognised as revenue.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group only to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

The members of the tax consolidated group have entered into a tax funding agreement which sets out the funding obligations of the members of the tax consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax loss deferred tax asset assumed by the head entity. The members of the tax consolidated group have also entered into a valid Tax Sharing Agreement under the tax consolidation legislation which sets out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations and the treatment of entities leaving the tax consolidated group.

No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

**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) Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, 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. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### U) 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.

#### V) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly cash, investments and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire plant and equipment and intangible assets other than goodwill.

#### 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 2009, but have not been applied in preparing this financial report:

Revised AASB 3 *Business Combinations (2008)* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 30 June 2010 financial statements and will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 5). The Group has not yet determined the potential effect of the revised standard on the group's disclosures.

Revised AASB 101 *Presentation of Financial Statements (2007)* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.

Revised AASB 127 *Consolidated and Separate Financial Statements (2008)* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations* changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report.

AASB 2008-5 *Amendments to Australian Accounting Standard* arising from the Annual Improvements Process and 2008-6 *Further Amendments to Australian Accounting Standards* arising from the Annual Improvements 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 2010 financial statements, are not expected to have any impact on the financial statements.

AASB 2008-7 *Amendments to Australian Accounting Standard - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement of dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amendments.

## 4. FINANCIAL RISK MANAGEMENT

### Overview

The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Company's and Group's exposure to each of the above risks, their 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 Company and 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 Company's and Group's activities. The Company and Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit and Risk Committee oversees management's monitoring of compliance with the Company's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and 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. In addition for the Company it arises from receivables due from subsidiaries.

### Trade and other receivables

The Company's and 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 Company and Group have 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.

### Investments

Investments are limited to the Mezzanine notes which the Company is required to acquire and hold under the Westpac Managed Payment Services Agreement (MPSA). Credit risk arises 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 have been 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.

### Guarantees

The Company has entered into a Deed of Cross Guarantee with certain subsidiaries as described in note 21. 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 21.

### 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.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flow requirements and matching the maturity profiles of financial assets and liabilities. At balance date the Group had \$9 966 000 in cash and cash equivalents and current assets exceed current liabilities by \$21 000 000.

### 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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 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.

The consolidated entity'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 consolidated entity may enter into short-term (2 to 6 months) forward exchange contracts.

The consolidated entity 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.

The consolidated entity did not hold any forward exchange contracts at 30 June 2009 or 30 June 2008.

#### 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. During the year the company engaged advisors to assess shareholder valuation optimisation. The Group ended the year with a net cash position of \$6 124 000 (2008: net debt position \$10 424 000).

Since the announcement of the Company's dividend policy on 8 May 2009 the Board monitors the level of dividends paid to shareholders. The Group's capital management position changed during the year from one of managing debt and tight cashflows to a bank debt free Balance Sheet with \$9.96m in cash and cash equivalents at 30 June 2009. The Board declared dividends for the financial year totalling 7.5 cents per share. Of this 5 cents was deemed to be a special dividend.

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

### 5. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

#### A) Business segments - Primary Segment

The Group's operations moving forward are organised and managed separately according to the nature of the products and services they provide, with each segment offering different products and serving different markets:

##### *Payment solutions*

Responsible for the development, and sale of secure electronic payment terminals and the provision of terminals under managed payment service agreements (MPSAs).

##### *Customer services*

Responsible for the service, installation and maintenance of payment terminals including EFTPOS terminal management services and the provision of services under managed payment service agreements (MPSAs).

##### *Smartcards (discontinued)*

Responsible for the design and sale of smartcards and secure smartcard operating systems for payments and identity markets. This segment was sold on 1 September 2008 and has accordingly been presented as a discontinued operation (refer to note 13).

## 5. SEGMENT REPORTING (CONTINUED)

	Payment Solutions (includes discontinued operations)		Smartcards (Discontinued)		Customer services and other (includes discontinued)		Corporate		Sub total		Less Discontinued **		Total from continuing operations	
	2009 \$000	2008* \$000	2009 \$000	2008 \$000	2009 \$000	2008* \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Revenue from external customers</b>														
Total external revenues	24 655	18 040	3 571	29 824	27 439	57 167	-	-	55 665	105 031	3 571	67 827	52 094	37 204
Unallocated revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total segment revenue</b>	<b>24 655</b>	<b>18 040</b>	<b>3 571</b>	<b>29 824</b>	<b>27 439</b>	<b>57 167</b>	<b>-</b>	<b>-</b>	<b>55 665</b>	<b>105 031</b>	<b>3 571</b>	<b>67 827</b>	<b>52 094</b>	<b>37 204</b>
Segment result	1 871	(1 945)	107	1 790	9 017	8 013	-	-	10 995	7 858	107	4 270	10 888	3 588
Other unallocated costs	-	-	-	-	-	-	(12 506)	(9 536)	(12 506)	(9 536)	-	-	(12 506)	(9 536)
<b>Results from operating activities</b>	<b>1 871</b>	<b>(1 945)</b>	<b>107</b>	<b>1 790</b>	<b>9 017</b>	<b>8 013</b>	<b>(12 506)</b>	<b>(9 536)</b>	<b>(1 511)</b>	<b>(1 678)</b>	<b>107</b>	<b>4 270</b>	<b>(1 618)</b>	<b>(5 948)</b>
Net financing (expense)/income	-	-	-	-	-	-	-	-	1 705	(2 045)	(196)	304	1 901	(2 349)
<b>Profit / (Loss) before tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>194</b>	<b>(3 723)</b>	<b>(89)</b>	<b>4 574</b>	<b>283</b>	<b>(8 297)</b>
Tax (expense) / benefit	-	-	-	-	-	-	-	-	658	1 467	723	(2 542)	(65)	4009
Gain on sale of discontinued operations (net of tax)	-	-	-	-	-	-	-	-	8 418	2 154	8 418	2 154	-	-
<b>Net profit / (loss) after tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9 270</b>	<b>(102)</b>	<b>9 052</b>	<b>4 186</b>	<b>218</b>	<b>(4 288)</b>
Segment assets	17 151	22 137	-	18 257	22 390	5 052	-	-	39 541	45 446	-	-	-	-
Unallocated assets	-	-	-	-	-	-	10 893	18 220	10 893	18 220	-	-	-	-
<b>Total assets</b>	<b>17 151</b>	<b>22 137</b>	<b>-</b>	<b>18 257</b>	<b>22 390</b>	<b>5 052</b>	<b>10 893</b>	<b>18 220</b>	<b>50 434</b>	<b>63 666</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Segment liabilities	2 986	12 341	-	7 654	14 432	2 329	-	-	17 418	22 324	-	-	-	-
Unallocated liabilities	-	-	-	-	-	-	2 806	15 584	2 806	15 584	-	-	-	-
<b>Total liabilities</b>	<b>2 986</b>	<b>12 341</b>	<b>-</b>	<b>7 654</b>	<b>14 432</b>	<b>2 329</b>	<b>2 806</b>	<b>15 584</b>	<b>20 224</b>	<b>37 908</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation amortisation and impairment	3 498	2 277	-	2 885	290	1 348	736	710	4 524	7 220	-	4 106	4 524	3 114

\* The Payment Solutions and Customer Services and other segments include the Canadian business which was sold during the prior year (note 13(c))

\*\* Comprises the Smartcards segment and Canadian business (note 13(a) & (c))

Unallocated assets and liabilities represent items that are not allocated across group entities and include cash, loans, investments and tax balances. Unallocated costs include corporate and head office costs, facilities, IT communication costs which have not been charged to individual businesses.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 5. SEGMENT REPORTING (CONTINUED)

Discontinued operations is made up of the following:

	Discontinued operations included in Payment Solutions *		Smartcards Discontinued		Discontinued operations included in Customer services and other *		Total Discontinued Operations	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Revenue from external customers</b>								
Total external revenue	-	6 771	3 571	29 824	-	31 232	3 571	67 827
Unallocated revenue	-	-	-	-	-	-	-	-
<b>Total segment revenue</b>	-	<b>6 771</b>	<b>3 571</b>	<b>29 824</b>	-	<b>31 232</b>	<b>3 571</b>	<b>67 827</b>
Segment results	-	638	107	1 790	-	1 842	107	4 270
Other unallocated costs	-	-	-	-	-	-	-	-
Gain on Acquisition of OSG	-	-	-	-	-	-	-	-
<b>Results from operating activities</b>	-	<b>638</b>	<b>107</b>	<b>1 790</b>	-	<b>1 842</b>	<b>107</b>	<b>4 270</b>
Net financing (expense)/ income	-	-	-	-	-	-	(196)	304
<b>Profit /(loss) before tax</b>	-	-	-	-	-	-	<b>(89)</b>	<b>4 574</b>
Tax benefit	-	-	-	-	-	-	723	(2 542)
Gain on sale of discontinued operations (net of tax)	-	-	-	-	-	-	8 418	2 154
<b>Net profit/loss after tax</b>	-	-	-	-	-	-	<b>9 052</b>	<b>4 186</b>

\* Keycorp Canada Inc, which was sold on 7 May 2008, had operations that were included in the consolidated entities Payment Solutions and Customer Services and other segments.

#### B) Geographical segments – secondary segment

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 American customers from Australia.

*Asia* – Sales to Asian customers from Australia.

*Europe* – Sales to European customers from Australia.

	Australia & New Zealand		North America		Asia		Europe		Total	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000
External segment revenues by location by customer	48 772	36 657	3 222	46 514	2 067	14 897	1 604	6 963	55 665	105 031
Segment assets by location of assets	50 357	53 899	-	12	-	-	77	9 755	50 434	63 666

**6. REVENUE**

	Consolidated						Company					
	Continuing		Discontinued		Total		Continuing		Discontinued		Total	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Revenue includes the following</b>												
Product and Software	24 655	10 656	3 571	36 595	28 226	47 251	6 062	13 484	3 098	29 077	9 160	42 561
Service	26 607	25 934	-	31 232	26 607	57 166	-	-	-	-	-	-
Finance lease interest income	832	614	-	-	832	614	286	614	-	-	286	614
	52 094	37 204	3 571	67 827	55 665	105 031	6 348	14 098	3 098	29 077	9 446	43 175

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000

**7. OTHER INCOME**

Sundry Income	11	-	10	-
Management fee	-	-	119	-
	11	-	129	-

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 8. EXPENSES FROM CONTINUING OPERATIONS EXCLUDING NET FINANCE COSTS

Expenses from continuing operations excluding net finance costs include the following items:

	Consolidated		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>a) Administrative expenses</b>				
Salaries and associated employee costs	2 292	4 114	2 091	4 018
External professional advice including audit fees	4 097	2 885	4 013	2 877
Computing and communications	946	1 121	712	885
Facilities and premises	1 490	1 674	1 106	1 288
Other	919	441	548	348
	9 744	10 235	8 470	9 416
<b>b) Other expenses comprise:</b>				
Impairment of intercompany receivables	-	-	-	6 203
Other expenses	2	433	62	308
	2	433	62	6 511
<i>Impairment of non current assets:</i>				
Investment in subsidiary	-	-	1 495	-
Intellectual property	220	-	-	-
Goodwill impairment	1 614	500	-	-
Plant and equipment	104	-	-	-
Total impairment expense	1 938	500	1 495	-
<i>Depreciation and amortisation of non current assets:</i>				
Intellectual property	240	240	-	-
Other intangibles assets	308	340	-	-
Capitalised software	56	80	47	71
Plant and equipment	377	484	225	362
Leasehold improvements	426	235	251	182
Furniture and fittings	44	51	13	16
Total depreciation and amortisation expense (continuing operations)	1 451	1 430	536	631
Total impairment, depreciation and amortisation expense (continuing operations)	3 389	1 930	2 031	631
<b>Total other expenses (continuing operations)</b>	<b>3 391</b>	<b>2 363</b>	<b>2 093</b>	<b>7 142</b>
<b>c) Operating lease rentals</b>	1 077	1 344	717	1 060
<b>d) Bad &amp; doubtful debts</b>				
Trade debtors – other persons/bodies corporate	218	151	(3)	29
Receivables from controlled entities	-	-	-	6 203
<b>e) Other provisions</b>				
Employee entitlements	395	1 042	74	562
Inventory obsolescence	182	196	-	196
Warranty expenses	127	10	46	-
<b>f) Other</b>				
Net loss / (gain) on disposal of non current assets	103	105	67	(1)

Amortisation and impairment of capitalised development costs of \$1 135 067 (2008: \$1 184 445) is included in consolidated research and development expenses. Amortisation and impairment of capitalised development costs of \$245 804 (2008: 1 184 445) is included in the company's research and development expenses. In 2008 a further \$ 2 693 451 related to discontinued operations (2009: \$nil).



**9. NET FINANCE (EXPENSES)/INCOME**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Interest income	1 261	708	1 243	690
Dividends received from subsidiaries	-	-	3 712	-
Net gain on foreign exchange	1 281	-	1 244	-
Financial income	2 542	708	6 199	690
Interest expense	220	1 476	220	1 476
Net loss on foreign exchange	-	1 132	-	837
Finance lease expense	421	449	162	449
Financial expenses	641	3 057	382	2 762
Net financing income/(expenses) from continuing operations	1 901	(2 349)	5 817	(2 072)

**10. PERSONNEL EXPENSES**

	<b>Note</b>	<b>Consolidated</b>		<b>Company</b>	
		<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Wages and salaries		10 695	24 669	2 176	6 230
Other associated personnel expenses		1 004	3 070	346	908
Contributions to defined contribution superannuation funds		886	1 264	226	756
(Decrease)/increase in liability for annual leave		(93)	(217)	(441)	17
(Decrease)/increase liability for long-service leave		(54)	(80)	(335)	(80)
Equity-settled share-based payment transactions	27	(30)	160	(30)	160
Total personnel expenses (continuing and discontinuing operations)		12 408	28 866	1 942	7 991

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****11. INCOME TAX EXPENSE**

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Recognised in the income statement</b>					
<b>Current tax expense</b>					
Current year		6 001	76	2 362	-
Adjustment for prior years		(274)	(612)	(154)	(612)
		5 727	(536)	2 208	(612)
<b>Deferred tax expense</b>					
Origination and reversal of temporary differences		(1 149)	460	(472)	583
Tax losses brought to account		(341)	(1 391)	(341)	(2 741)
		(1 490)	(931)	(813)	(2 158)
<b>Total income tax expense (benefit) in income statement</b>		<b>4 237</b>	<b>(1 467)</b>	<b>1 395</b>	<b>(2 770)</b>
<b>Attributable to:</b>					
Continuing operations		65	(4 009)	(2 777)	(3 368)
Discontinuing operations		4 172	2 542	4 172	598
		<b>4 237</b>	<b>(1 467)</b>	<b>1 395</b>	<b>(2 770)</b>
<b>Numerical reconciliation between tax expense and pre tax net profit</b>					
Profit/(loss) before tax – continuing operations		283	(8 297)	(5 214)	(21 251)
Profit/(loss) before tax – discontinuing operations		13 224	6 728	13 128	1 602
<b>Profit/(loss) before tax</b>		<b>13 507</b>	<b>(1 569)</b>	<b>7 914</b>	<b>(19 649)</b>
Income tax using the domestic corporation tax rate of 30% (2008: 30%)		4 052	(471)	2 374	(5 895)
Forgiveness intercompany loan		-	-	-	3 664
Dividends received		-	-	(1 114)	-
Utilisation of previously unrecognised tax losses		(341)	(861)	(341)	-
Other non deductible expenditure		800	1 077	630	73
Effect of tax losses not brought to account		-	46	-	-
Gain on disposal of business		-	(646)	-	-
(Over) / under provided in prior years		(274)	(612)	(154)	(612)
<b>Income tax expense/(benefit) in pre-tax net profit</b>		<b>4 237</b>	<b>(1 467)</b>	<b>1 395</b>	<b>(2 770)</b>

## 12. CHANGE IN COMPOSITION OF ENTITY

### PRIOR YEAR ACQUISITION OF SUBSIDIARIES

#### Business combination

On 19 May 2008, Multos Limited, a subsidiary of Keycorp Limited acquired the shares in Stepnexus Limited and Maosco Limited via a share purchase agreement from Stepnexus Holdings. Multos was a new company incorporated in the UK on 9 May 2008. This business was sold as part of the Smartcard sale on 1 September 2008 (refer note 13).

DETAILS OF THE ACQUISITION ARE AS FOLLOWS:

	Pre acquisition carrying amount	Fair value Adjustments	Recognise values on acquisition
	\$000	\$000	\$000
Property, plant and equipment	462	-	462
Intangible assets	-	4 811	4 811
Trade and other receivables	1 322	-	1 322
Cash and cash equivalents	464	-	464
Trades and other payables	(3 065)	-	(3 065)
Net identifiable assets and liabilities	(817)	4 811	3 994
Goodwill on acquisition			2 998
			6 992
Non cash repurchase of the Group's 10% existing investment in Stepnexus Holdings Inc			3 551
Consideration paid			3 441
Consideration paid comprised of:			
- Satisfied in cash			3 132
- Legal, professional and other related costs of acquisition			309
Cash acquired			(464)
Net cash outflow			2 977

In the 6 weeks to 30 June 2008, Multos Limited contributed a total loss after tax of \$153 022.

Pre-acquisition carrying amounts were determined based on applicable AASBs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values.

Goodwill recognised on acquisition primarily represents the value of the acquired business' workforce and anticipated synergies with the existing Smartcard business through use of the Multos technology.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****13. DISCONTINUED OPERATIONS****a) Smartcards segment**

On 1 September 2008 the Group sold its Smartcards business. The Smartcards business was classified as a discontinued operation at 30 June 2008.

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<i>Results of discontinued operation</i>					
Revenue	6	3 571	29 824	3 098	29 512
Expenses		(3 464)	(28 034)	(2 875)	(27 900)
Results from operating activities		107	1 790	223	1 612
Net financing income		(196)	(87)	-	-
Income tax benefit (expense)		723	(674)	723	(598)
Results from operating activities, net of income tax		634	1 029	946	1 014
Gain on sale of discontinued operation		13 313	-	12 905	-
Tax on gain on sale of discontinued operation		(4 895)	-	(4 895)	-
Profit for the year		9 052	1 029	8 956	1 014

**b) Effect of disposal on the financial position of the Group and Company**

	Consolidated		Company	
	2009 \$000	2009 \$000	2009 \$000	2009 \$000
Property, plant and equipment		(156)		(156)
Intangibles		(3 302)		(3 302)
Inventories		(1 116)		(1 116)
Trade and other receivables		(2 169)		(2 169)
Other current assets		(66)		(66)
Assets held for sale on acquisition of Multos operations		(9 627)		-
Trade and other payables		3 520		3 520
Employee benefits		466		466
Liabilities held for sale on acquisition of Multos operations		2 744		-
Loan to Multos Limited		-		(7 284)
Net assets and liabilities		(9 706)		(10 107)
Consideration received, satisfied in cash		23 274		23 274
Disposal costs		(262)		(262)
Net cash inflow		23 012		23 012
Net assets sold		(9 706)		(10 107)
Transfer of FCTR to income statement on disposal		7		-
Taxation on gain of sale of discontinued operations		(4 895)		(4 895)
Gain on sale of discontinued operations, net of tax		8 418		8 010

**c) Keycorp Canada Inc**

On 7 May 2008 the Group sold its entire shareholding in Keycorp Canada Inc

	<b>Note</b>	<b>Consolidated</b>	
		<b>2009</b>	<b>2008</b>
		<b>\$000</b>	<b>\$000</b>
<i>Results of discontinued operation</i>			
Revenue		-	38 003
Expenses		-	(35 523)
Results from operating activities		-	2 480
Net financing income /(expense)		-	391
Income tax expense		-	(1 868)
Results from operating activities, net of income tax		-	1 003
Gain on sale of discontinued operation		-	2 154
Profit/(loss) for the period		-	3 157
<i>Cash flows from (used in) discontinued operation</i>			
Net cash used in operating activities		-	2 799
Net cash from investing activities		-	(31)
Net cash from financing activities		-	(3 296)
Net cash (used in)/from discontinued operations		-	(528)
<i>Effect of disposal on the financial position of the Group</i>			
Property, plant and equipment		-	(1 633)
Intangibles		-	(115)
Inventories		-	(1 172)
Trade and other receivables		-	(5 296)
Other current assets		-	(268)
Non current receivables		-	(110)
Promissory note		-	6 198
Trade and other payables		-	4 028
Other current liabilities		-	384
Interest bearing loans and borrowings		-	702
Net assets and liabilities		-	2 718
Consideration received, satisfied in cash		-	-
Disposal costs		-	(503)
Net cash outflow		-	(503)
Net liabilities sold		-	2 718
Transfer of FCTR to income statement on disposal		-	(61)
Disposal costs		-	(503)
Gain on sale of discontinued operations		-	2 154

At sale date Keycorp Canada Inc owed Keycorp Investments Pty Limited a promissory note of \$6 198 000. As at 30 June 2008 \$5 134 000 had been repaid and the balance was repaid on 4 August 2008.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****13. DISCONTINUED OPERATIONS (CONTINUED)**

	Notes	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>d) Total discontinued operations</b>					
Net profit of Keycorp Canada Inc. business		-	1 003	-	-
Gain on disposal of Keycorp Canada Inc. business		-	2 154	-	-
Net Profit of Smartcards Segment		634	1 029	946	1 014
Gain on disposal of Smartcards Segment, net of tax		8 418	-	8 010	-
<b>Total net profit</b>		<b>9 052</b>	<b>4 186</b>	<b>8 956</b>	<b>1 014</b>
<hr/>					
<b>Basic earnings / (loss) per share</b>		\$0.1116	\$0.0508	-	-
<b>Diluted earnings / (loss) per share</b>		\$0.1115	\$0.0508	-	-

**14. NON CURRENT ASSETS HELD FOR SALE**

	Consolidated		Company	
	2009 \$000	2009 \$000	2008 \$000	2008 \$000
<b>Assets classified as held for sale</b>				
Property, plant and equipment	-	-	153	153
Intangible assets	-	-	3 302	3 302
Inventories	-	-	1 430	1 430
Trade and other receivables	-	-	3 603	3 603
Other current assets	-	-	90	84
Loan to subsidiary	-	-	-	7 077
Total assets of newly acquired Multos operations held for sale	-	-	9 679	-
	-	-	18 257	15 649
<hr/>				
<b>Liabilities classified as held for sale</b>				
Trade and other payables	-	-	(3 195)	(3 320)
Employee benefits	-	-	(773)	(538)
Deferred tax liability	-	-	(749)	(749)
Total liabilities of newly acquired Multos operations held for sale	-	-	(2 937)	-
	-	-	(7 654)	(4 607)

The sale of the Smartcard business was completed on 1 September 2008 (refer to note 13)

**15. DIVIDENDS**

	Cents per share	2009 \$000	Franked / Unfranked	Date of payment
Dividends declared and paid during the year ended 30 June 2009 by the group are:				
Ordinary dividend	\$0.010	811	Franked	12 June 2009
Special dividend	\$0.050	4 057	Franked	12 June 2009
Total amount		4 868		

No dividends paid in 2008. On 31 August 2009, the Directors resolved to pay a final fully franked dividend of 1.5 cents per ordinary share (\$1 215 000). Refer to note 37.

	Notes	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Dividend franking account					
30 per cent franking credits available to shareholders of Keycorp Limited for subsequent financial years.					
		-	-	8 942	8 483

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 there being sufficient available profits to declare dividends. In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has also assumed the benefit of \$8 942 000 (2008:\$8 483 000) franking credits.

**16. TRADE AND OTHER RECEIVABLES**

	Notes	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Current receivables</b>					
Trade debtors		4 293	4 956	212	1 058
Impairment loss		(782)	(126)	(170)	(9)
		3 511	4 830	42	1 049
Other debtors		6 949	1 269	32	205
		<b>10 460</b>	<b>6 099</b>	<b>74</b>	<b>1 254</b>
<b>Non current receivables</b>					
Loans to controlled entities	38	-	-	49 418	47 645
Impairment of loans to controlled entities	38	-	-	(16 916)	(16 916)
		-	-	<b>32 502</b>	<b>30 729</b>

The Group's exposure to credit, currency risks and impairment losses related to trade and other receivables are disclosed in note 39.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 17. INVENTORIES

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Spare parts and consumables</b>					
At cost		378	512	-	177
Provision for obsolescence		(100)	(277)	-	(177)
		278	235	-	-
<b>Finished goods</b>					
At cost (i)		5 970	2 266	-	2 191
Provision for obsolescence		(555)	(196)	-	(196)
		5 415	2 070	-	1 995
<b>Total inventories at lower of cost and net realisable value</b>		<b>5 693</b>	<b>2 305</b>	<b>-</b>	<b>1 995</b>

(i) Terminals acquired for use in one of the Group's MPSAs are acquired under finance leases. As at 30 June 2009, terminals with a book value of \$669,900 (2008: \$882,000) were acquired under finance lease.

### 18. NET INVESTMENT IN FINANCE LEASE

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Gross investment in the finance lease		8 022	8 716	-	8 716
Unearned finance income		(1 786)	(2 035)	-	(2 035)
<b>Present value of minimum lease payments receivable</b>		<b>6 236</b>	<b>6 681</b>	<b>-</b>	<b>6 681</b>

	Consolidated		Consolidated	
	Gross investment in the lease		Present value of minimum lease payments	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Less than one year	2 169	1 918	1 404	1 184
Between one and five years	5 853	6 798	4 832	5 497
	<b>8 022</b>	<b>8 716</b>	<b>6 236</b>	<b>6 681</b>

	Company		Company	
	Gross investment in the lease		Present value of minimum lease payments	
	2009 (i) \$000	2008 \$000	2009 \$000	2008 \$000
Less than one year	-	1 918	-	1 184
Between one and five years	-	6 798	-	5 497
	<b>-</b>	<b>8 716</b>	<b>-</b>	<b>6 681</b>

The Keycorp Group provides terminals and bundled services under managed payment service agreements (MPSA). These agreements are accounted for as finance leases. The contracts and lease terms expire in May 2012 and May 2013. After the original lease period, the lessee has the option to purchase the assets at their net book value at that date.

(i) During the year Keycorp Limited transferred the assets to Keycorp Services Pty Ltd, a wholly owned subsidiary. Further details on this transfer can be found in note 38.



**19. OTHER ASSETS**

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Other current assets</b>					
Prepayments		381	807	374	807
Security deposit	(i)	3 000	3 000	3 000	3 000
Deferred expenditure	(ii)	296	188	-	188
		<b>3 677</b>	<b>3 995</b>	<b>3 374</b>	<b>3 995</b>
<b>Other non current assets</b>					
Deferred expenditure	(ii)	<b>441</b>	<b>555</b>	<b>-</b>	<b>555</b>

(i) Cash backed security deposit to support Keycorp Limited's undertaking in respect of the Westpac managed payment and service agreement.

(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.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****20. INVESTMENTS****Current Investments**

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Debt securities held to maturity	20(a)	6 509	-	6 509	-
		<b>6 509</b>	<b>-</b>	<b>6 509</b>	<b>-</b>

**Non Current Investments**

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Debt securities held to maturity	20(a)	-	5 474	-	5 474
Investment in controlled entities	20(b)	-	-	-	1 495
		<b>-</b>	<b>5 474</b>	<b>-</b>	<b>6 969</b>

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 maturing on 15 June 2010, as required under the terms of the Asset & Proceeds Sale Agreement. The Group subscribed to additional notes during the year ended 30 June 2009. Full entitlement to interest income during the term will accrue in the range of 4.13% to 7.7% (2008: 6.8% to 7.7%) per annum.

b) Investment in controlled entities comprises:

	Country of incorporation	Ownership interest		Investment by Keycorp Limited	
		2009 %	2008 %	2009 \$000	2008 \$000
<b>Parent entity</b>					
Keycorp Limited					
<b>Subsidiaries</b>					
<i>At cost</i>					
Keycorp Services Pty Limited	Australia(ii)	100	100	-	-
Keycorp Technology Pty Limited	Australia(ii)	100	100	-	-
Keycorp (Asia) Limited	Hong Kong	100	100	-	-
Keycorp Systems Limited	UK(i)	100	100	-	-
Keycorp USA Limited	USA	100	100	-	-
Tillsmith Systems Inc	USA	100	100	-	-
Keycorp Payment Services Pty Limited	Australia	100	100	-	-
Keycorp Management Services Pty Limited	Australia	100	100	2*	2*
Multos Limited	UK(iii)	-	100	-	207*
<b>At recoverable amount</b>					
Keycorp Investments Pty Limited	Australia(ii)	100	100	3,739	3 739
Fox Technology Pty Limited	Australia (iv)	100	100	1 495	1 495
Provision for impairment				(5,234)	(3 739)
				<b>-</b>	<b>1 495</b>

Amounts marked with an asterisk (\*) are expressed in whole dollars.

- (i) Controlled entities which have been audited by audit firms other than the audit firm of the parent entity.
  - (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) Multos Limited was sold as part of the Smartcard business sale during the year.
  - (iv) Investment in Fox Technology assessed to be fully impaired 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 Limited, Keycorp Services Pty Limited and Keycorp Technologies Pty Limited from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors reports.

As a condition of the Class Order, Keycorp Limited and the controlled entities identified above (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 21.

- d) Investments accounted for using the equity method.  
The Group accounts for investments in associates using the equity method.  
The Group has the following investment in an associate:

Name of associate	Principal activity of associate	Country of incorporation	Company and Group's or residence		Group's carrying amounts of ownership interest in associate		Reporting date of associate investment in associate
			June 2009 %	June 2008 %	June 2008 \$'000	June 2007 \$'000	
POSTech Co Ltd (Shenzhen)	Research, develop, produce, sell and export electronic funds transfer point of sales (EFTPOS) terminals to the People's Republic of China.	China	-	30%	-	-	31 December

The associate company was deregistered during the financial year. The associate company did not trade during the current or prior financial years.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****21. 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>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>
<b>Summarised income statement and retained profits</b>		
Profit/(loss) before income tax (expense)	9 485	3 743
Income tax benefit/(expense)	(2 779)	823
Profit/(loss) after income tax	6 706	4 566
(Loss)/profit of discontinued operation	-	(23 387)
Accumulated losses at the beginning of the financial year	(32 548)	(13 887)
Dividends Paid	(4 868)	-
Equity settled transactions	(30)	160
Accumulated losses at the end of the financial year	(30 740)	(32 548)
<b>Current assets</b>		
Cash and cash equivalents	8 314	3 325
Trade and other receivables	4 595	4 698
Inventories	5 692	2 230
Net investment in finance lease	1 404	1 184
Other current assets	3 677	3 996
Assets classified as held for sale	-	15 649
Total current assets	23 682	31 082
<b>Non current assets</b>		
Receivables	12 241	8 052
Non current assets	441	555
Net investment in finance lease	4 832	5 497
Investments	6 534	6 995
Property, plant and equipment	889	1 612
Intangible assets	1 637	2 567
Deferred tax assets	4 765	8 595
Total non current assets	31 339	33 873
Total assets	55 021	64 955
<b>Current liabilities</b>		
Trade and other payables	13 210	8 172
Interest bearing loans and borrowings	1 202	11 094
Employee benefits	1 239	1 610
Provisions	4 336	3 635
Income tax payable	945	2 228
Other current liabilities	656	364
Liabilities classified as held for sale	-	4 607
Total non current assets	21 588	31 710

	<b>Closed Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>
<b>Non current liabilities</b>		
Interest bearing loans and borrowings	2 640	3 842
Employee benefits	30	84
Other non current liabilities	695	1 059
Total non current liabilities	3 365	4 985
Total liabilities	24 953	36 695
<b>Net assets</b>	<b>30 068</b>	<b>28 260</b>
<b>Shareholders' equity</b>		
Issued capital	60 808	60 808
Reserves	-	-
Accumulated losses	(30 740)	(32 548)
<b>Total Shareholders' equity</b>	<b>30 068</b>	<b>28 260</b>

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****22. PROPERTY, PLANT AND EQUIPMENT**

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Cost</b>					
<i>Plant and equipment</i>					
Balance at the beginning of year		8 790	14 295	7 306	10 046
Additions		193	671	136	556
Disposal of subsidiary		-	(2 727)	-	-
Disposals		(212)	(59)	(124)	(53)
Transfer to assets held for sale	14	-	(619)	-	(619)
Effect of movements in exchange rate		-	(147)	-	-
Transfer to subsidiary		-	-	(3 151)	-
Reclassification	(i)	-	(2 624)	-	(2 624)
Balance at the end of year		8 771	8 790	4 167	7 306
<i>Furniture and Fittings</i>					
Balance at the beginning of year		549	732	255	253
Additions		-	69	-	2
Disposal of subsidiary		-	(232)	-	-
Disposals		(324)	-	(244)	-
Effect of movements in exchange rate		-	(20)	-	-
Balance at the end of year		225	549	11	255
<i>Motor Vehicles</i>					
Balance at the beginning of year		-	1 708	-	-
Disposal of subsidiary		-	(1 171)	-	-
Disposals		-	(438)	-	-
Effect of movements in exchange rate		-	(99)	-	-
Balance at the end of year		-	-	-	-
<i>Leasehold improvements</i>					
Balance at the beginning of year		1 438	1 875	1 118	1 014
Additions		169	104	14	104
Disposals of subsidiary		-	(506)	-	-
Disposals		(1 132)	-	(1 132)	-
Effect of movements in exchange rate		-	(35)	-	-
Balance at the end of year		475	1 438	-	1 118
<b>Total cost of Property plant and equipment</b>		<b>9 471</b>	<b>10 777</b>	<b>4 178</b>	<b>8 679</b>

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Depreciation and impairment losses</b>					
<i>Plant and equipment</i>					
Balance at the beginning of year		7 735	9 379	6 453	6 516
Disposal of subsidiary		-	(1 989)	-	-
Disposals		(166)	(53)	(87)	(53)
Transfer to assets held for sale	14	-	(466)	-	(466)
Effect of movements in exchange rate		-	(91)	-	-
Reclassification	(i)	-	(56)	-	(56)
Transfer to subsidiary		-	-	(2 781)	-
Impairment Expense		104	-	-	-
Depreciation expense		377	1 011	225	512
Balance at the end of year		8 050	7 735	3 810	6 453
<i>Furniture and Fittings</i>					
Balance at the beginning of year		360	407	188	172
Disposal of subsidiary		-	(131)	-	-
Disposals		(254)	-	(201)	-
Effect of movements in exchange rate		-	(11)	-	-
Depreciation expense		44	95	13	16
Balance at the end of year		150	360	-	188
<i>Motor vehicles</i>					
Balance at the beginning of year		-	366	-	-
Disposal of subsidiary		-	(500)	-	-
Disposals		-	(268)	-	-
Effect of movements in exchange rate		-	(55)	-	-
Depreciation expense		-	457	-	-
Balance at the end of year		-	-	-	-
<i>Leasehold improvements</i>					
Balance at the beginning of year		1 062	1 095	855	673
Disposal of subsidiary		-	(383)	-	-
Disposals		(1 106)	-	(1 106)	-
Effect of movements in exchange rate		-	(23)	-	-
Depreciation expense		426	373	251	182
Balance at the end of year		382	1 062	-	855
<b>Total Accumulated depreciation</b>		<b>8 582</b>	<b>9 157</b>	<b>3 810</b>	<b>7 496</b>

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****22. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Net written down value</b>					
<i>Plant and equipment</i>					
Balance at the beginning of year		1 055	4 916	853	3 530
Additions		193	671	136	556
Disposal of subsidiary		-	(738)	-	-
Disposals		(46)	(6)	(37)	-
Transfer to assets held for sale	14	-	(153)	-	(153)
Effect of movements in exchange rate		-	(56)	-	-
Reclassification	(i)	-	(2 568)	-	(2 568)
Transfer to subsidiary		-	-	(370)	-
Impairment Expense		(104)	-	-	-
Depreciation expense		(377)	(1 011)	(225)	(512)
Balance at the end of year		721	1 055	357	853
<i>Furniture and Fittings</i>					
Balance at the beginning of year		189	325	67	81
Additions		-	69	-	2
Disposal of subsidiary		-	(101)	-	-
Disposals		(70)	-	(43)	-
Effect of movements in exchange rate		-	(9)	-	-
Depreciation expense		(44)	(95)	(13)	(16)
Balance at the end of year		75	189	11	67
<i>Motor Vehicles</i>					
Balance at the beginning of year		-	1 342	-	-
Disposal of subsidiary		-	(671)	-	-
Disposals		-	(170)	-	-
Effect of movements in exchange rate		-	(44)	-	-
Depreciation expense		-	(457)	-	-
Balance at the end of year		-	-	-	-
<i>Leasehold improvements</i>					
Balance at the beginning of year		376	780	263	341
Additions		169	104	14	104
Disposal of subsidiary		-	(123)	-	-
Disposals		(26)	-	(26)	-
Effect of movements in exchange rate		-	(12)	-	-
Depreciation expense		(426)	(373)	(251)	(182)
Balance at the end of year		93	376	-	263
<b>Total carrying amount of Property plant and equipment</b>		<b>889</b>	<b>1 620</b>	<b>368</b>	<b>1 183</b>
<b>Total Property plant and equipment</b>					
<b>Net written down value at the beginning of the year</b>		<b>1 620</b>	<b>7 363</b>	<b>1 183</b>	<b>3 952</b>
<b>Net written down value at the end of the year</b>		<b>889</b>	<b>1 620</b>	<b>368</b>	<b>1 183</b>

(i) During the prior year the legacy fleet terminals acquired under a Managed Payment Service Agreement with a net book value of \$2 568 000 were reclassified as finance lease receivables.



### 23. DEFERRED TAX ASSETS AND LIABILITIES

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Consolidated</b>						
Property, plant and equipment	268	199	-	-	268	199
Intangible assets	474	504	(235)	(742)	239	(238)
Trade debtors	239	64	-	(167)	239	(103)
Inventories	197	142	-	-	197	142
Income received in advance	67	127	-	-	67	127
Employee benefits	197	306	-	-	197	306
Accruals	280	832	-	-	280	832
Provisions	1 434	946	-	-	1 434	946
Finance lease receivable	1 567	1 822	(190)	(223)	1 377	1599
Other items	628	716	-	-	628	716
Tax loss carry forwards	-	4 690	-	-	-	4 690
Set off of tax	5 351	10 348	(425)	(1 132)	4 926	9 216
Set off of tax	(425)	(1 132)	425	1 132	-	-
<b>Net tax assets (liabilities)</b>	<b>4 926</b>	<b>9 216</b>	<b>-</b>	<b>-</b>	<b>4 926</b>	<b>9 216</b>
<b>Company</b>						
Property, plant and equipment	184	107	-	-	184	107
Intangible assets	-	-	-	(511)	-	(511)
Trade debtors	51	25	-	-	51	25
Inventories	-	112	-	-	-	112
Employee benefits	14	248	-	-	14	248
Accruals	78	610	-	-	78	610
Provisions	562	935	-	-	562	935
Finance lease receivable	-	1 822	-	(223)	-	1 599
Other items	628	696	-	-	628	696
Tax loss carry forwards	-	4 690	-	-	-	4 690
Tax assets (liabilities)	1 517	9 245	-	(734)	1 517	8 511
Set off of tax	-	(734)	-	734	-	-
<b>Net tax assets</b>	<b>1 517</b>	<b>8 511</b>	<b>-</b>	<b>-</b>	<b>1 517</b>	<b>8 511</b>

During the year additional carry forward tax losses of \$341 000 were brought to account and total tax losses of \$5 031 000 were utilised against current year taxable income.

#### TAX CONSOLIDATION

In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax liability.

#### UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets have not been recognised in respect of capital losses approximating \$8 157 000. Management is in the process of finalising the amount with its tax adviser.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****24. INTANGIBLE ASSETS**

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$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</i>					
Balance at the beginning of year		9 098	14 338	9 098	14 338
Acquisitions – internally developed		213	2 050	162	2 050
Transfer to subsidiary		-	-	(9 260)	-
Transfer to assets classified as held for sale	14	-	(7 290)	-	(7 290)
Balance at the end of year		9 311	9 098	-	9 098
<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		1 007	1 466	831	776
Additions		45	74	28	55
Disposal of subsidiary		-	(494)	-	-
Effect of movements in exchange rate		-	(39)	-	-
Balance at the end of year		1 052	1 007	859	831
<b>Total cost of Intangible assets</b>		<b>19 152</b>	<b>18 894</b>	<b>859</b>	<b>9 929</b>
<b>Amortisation and impairment losses</b>					
<i>Goodwill</i>					
Balance at the beginning of year		825	325	-	-
Impairment for the year		1 614	500	-	-
Balance at end of year		2 439	825	-	-
<i>Intellectual property</i>					
Balance at the beginning of year		3 615	3 375	-	-
Impairment for the year		220	-	-	-
Amortisation charge		240	240	-	-
Balance at the end of year		4 075	3 615	-	-
<i>Capitalised development</i>					
Balance at the beginning of year		7 393	7 503	7 393	7 503
Amortisation charge		849	3 525	246	3 525
Impairment for the year		286	353	-	353
Transfer to subsidiary		-	-	(7 639)	-
Transfer to assets classified as held for sale	14	-	(3 988)	-	(3 988)
Balance at the end of year		8 528	7 393	-	7 393
<i>Other intangible assets</i>					
Balance at the beginning of year		1 167	827	-	-
Amortisation for the year		308	340	-	-
Balance at the end of year		1 475	1 167	-	-

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<i>Computer software</i>					
Balance at the beginning of year		942	1 069	774	703
Disposal of subsidiary		-	(379)	-	-
Amortisation for the year		56	280	47	71
Effects of movements in exchange rates		-	(28)	-	-
Balance at the end of year		998	942	821	774
<b>Total accumulated amortisation and impairment losses</b>		<b>17 515</b>	<b>13 942</b>	<b>821</b>	<b>8 167</b>
<b>Net book value</b>					
<i>Goodwill</i>					
Balance at the beginning of year		2 414	2 914	-	-
Impairment charge		(1 614)	(500)	-	-
Balance at the end of year		800	2 414	-	-
<i>Intellectual property</i>					
Balance at the beginning of year		460	700	-	-
Impairment charge		(220)	-	-	-
Amortisation for the year		(240)	(240)	-	-
Balance at the end of year		-	460	-	-
<i>Capitalised development</i>					
Balance at the beginning of year		1 705	6 835	1 705	6 835
Acquisitions – internally developed		213	2 050	162	2 050
Amortisation for the year		(849)	(3 525)	(246)	(3 525)
Impairment for the year		(286)	(353)	-	(353)
Transfer to subsidiary		-	-	(1 621)	-
Transfer to assets classified as held for sale	14	-	(3 302)	-	(3 302)
Balance at the end of year		783	1 705	-	1 705
<i>Other intangible assets</i>					
Balance at the beginning of year		308	648	-	-
Amortisation for the year		(308)	(340)	-	-
Balance at the end of year		-	308	-	-
<i>Computer software</i>					
Balance at the beginning of year		65	397	57	73
Additions		45	74	28	55
Effect of movements in exchange rate		-	(11)	-	-
Disposal of subsidiary		-	(115)	-	-
Amortisation for the year		(56)	(280)	(47)	(71)
Balance at the end of year		54	65	38	57
<b>Net written down value at beginning of year</b>		<b>4 952</b>	<b>11 494</b>	<b>1 762</b>	<b>6 908</b>
<b>Net written down value at end of year</b>		<b>1 637</b>	<b>4 952</b>	<b>38</b>	<b>1 762</b>

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****24. INTANGIBLE ASSETS (CONTINUED)****AMORTISATION AND IMPAIRMENT CHARGE**

The amortisation and impairment charge in respect of capitalised development costs is recognised in research and development expenses in the income statement, of this amount \$1 135 000 (2008: \$1 184 445) relates to continuing and \$ NIL (2008: \$2 693 451) relates to discontinued operations.

**IMPAIRMENT TESTING FOR CASH GENERATING UNITS CONTAINING GOODWILL**

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

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009 \$000</b>	<b>2008 \$000</b>	<b>2009 \$000</b>	<b>2008 \$000</b>
Software development	-	1 614	-	-
EFTPOS terminal services	800	800	-	-
	800	2 414	-	-

The recoverable amount of the software development cash-generating unit is based on its value in using cash flow projections over a five year period and a terminal value discounted at 14.67% (2008: 14.87%). These calculations use cash flow projections based on actual operating results and forecasts of software and hosting revenues based on existing agreements in place and estimates of new agreements likely to be achieved. The calculations are not sensitive to changes in the discount rate. The carrying value of the unit was determined to be higher than its recoverable amount and an impairment loss of \$1,834,000 (2008: \$500,000) was recognised. \$1 614 000 of the impairment loss was allocated to goodwill and \$220 000 was allocated to Intellectual Property. The impairment charge is included in other expenses.

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 14.67% (2008: 14.87%). 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 the successful development and commercial exploitation or sale of the respective area of interest.

The key assumptions and the approach to determining their value in the current and previous period are:

<b>Assumption</b>	<b>How determined</b>
Access devices	Expected cash flows discounted at 14.67% (2008:14.87%) from existing contracts are compared to the carrying value of the asset and any necessary impairment recorded.

During the year \$286 000 (2008: \$353 000) of development costs relating to projects that are no longer expected to generate future economic benefits, were recognised as impaired and expensed to the income statement.

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.

**25. TRADE AND OTHER PAYABLES**

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Current</b>					
Trade creditors		4 557	2 354	144	1 388
Other creditors and accruals		3 459	3 013	51	1 648
		8 016	5 367	195	3 036
Amount payable to controlled entities	38	-	-	20 695	23 508
		8 016	5 367	20 890	26 544

The Group's exposure to currency and liquidity risk to trade and other payables is disclosed in note 39.

**26. INTEREST BEARING LIABILITIES**

This note provides information about the contractual terms of the Company's and Group's interest bearing liabilities, which are measured at amortised cost. For more information about the Company's and Group's exposure to interest rate, foreign currency and liquidity risk, see note 39.

	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Current liabilities</b>				
Bank term loan	-	10 000	-	10 000
Current portion of finance lease liabilities	1 202	1 094	-	1 094
	1 202	11 094	-	11 094
<b>Non-current liabilities</b>				
Finance lease liabilities	2 640	3 842	-	3 842
	2 640	3 842	-	3 842

Following the divestment of the Smartcards business during the financial year the Group used part of these sale proceeds to repay in full all bank loan facilities. Finance leases in place which are effectively fully funded by client contracts are the only interest bearing liability the Group had at 30 June 2009.

**TERMS AND DEBT REPAYMENT SCHEDULE**

Terms and conditions of outstanding loans are as follows:

	Consolidated						
				30 June 2009		30 June 2008	
	Currency	Interest rate	Year of maturity	Face value \$000	Carrying amount \$000	Face value \$000	Carrying amount \$000
Bank term loan - Tranche 1	AUD	BBSY +3.5%	2009	-	-	2 500	2 500
Bank term loan - Tranche 2	AUD	BBSY+1%	2009	-	-	7 500	7 500
Finance lease liabilities	AUD	9.12%-9.62%	2012	4 411	3 842	5 925	4 936
Total interest-bearing liabilities				4 411	3 842	15 925	14 936

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****26. INTEREST BEARING LIABILITIES (CONTINUED)**

	Company						
	Currency	Interest rate	Year of maturity	30 June 2009		30 June 2008	
				Face value \$000	Carrying amount \$000	Face value \$000	Carrying amount \$000
Bank term loan - Tranche 1	AUD	BBSY+3.5 %	2009	-	-	2 500	2 500
Bank term loan - Tranche 2	AUD	BBSY+1%	2009	-	-	7 500	7 500
Finance lease liabilities	AUD	9.12 %- 9.62%	2012	-	-	5 925	4 936
Total interest-bearing liabilities				-	-	15 925	14 936

During the year the finance leases were transferred from the parent company to Keycorp Services Pty Ltd.

**FINANCE LEASE LIABILITIES**

Finance lease liabilities of the Group are payable as follows:

	Consolidated					
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	2009 \$000	2009 \$000	2009 \$000	2008 \$000	2008 \$000	2008 \$000
Less than one year	1 514	312	1 202	1 514	421	1 094
Between one and five years	2 897	257	2 640	4 411	569	3 842
	4 411	569	3 842	5 925	990	4 936

	Company					
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	2009 \$000	2009 \$000	2009 \$000	2008 \$000	2008 \$000	2008 \$000
Less than one year	-	-	-	1 514	421	1 094
Between one and five years	-	-	-	4 411	569	3 842
	-	-	-	5 925	990	4 936

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 60 months commencing 1 May 2007. Keycorp Limited 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 (2008: \$5 811 000).

**27. EMPLOYEE BENEFITS**

	Consolidated		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Current</b>				
Salaries and wages accrued	612	872	4	780
Liability for long service leave	251	251	-	251
Liability for annual leave	376	469	46	487
	1 239	1 592	50	1 518
<b>Non-Current</b>				
Liability for long-service leave	30	84	-	84
	30	84	-	84

**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 recognition and measurement principles in AASB 2 have not been applied to option grants before 7 November 2002 in accordance with the transitional provisions in AASB 1.

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

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 27. EMPLOYEE BENEFITS (CONTINUED)

#### Options Issued:

Grant date	No of options	Vesting date	Vesting condition	Expiry date	Life of option	Exercise price
1 Jul 04	25 000	1 Jul 06	Note a	1 Jul 09	5 years	\$0.98
1 Jul 04	25 000	1 Jul 07	Note a	1 Jul 09	5 years	\$0.98
23 Sep 04	8 000	23 Sep 06	Note a	23 Sep 09	5 years	\$1.39
23 Sep 04	8 000	23 Sep 09	Note a	23 Sep 09	5 years	\$1.39
19 Dec 05	12 500	19 Dec 07	Note b	19 Dec 10	5 years	\$1.50
19 Dec 05	12 500	19 Dec 08	Note b	19 Dec 10	5 years	\$1.50
15 Jan 06	109 999	15 Jan 08	Note c	15 Jan 11	5 years	\$1.48
15 Jan 06	109 999	15 Jan 09	Note c	15 Jan 11	5 years	\$1.48
15 Jan 06	110 002	15 Jan 10	Note c	15 Jan 11	5 years	\$1.48
26 Oct 06	183 332	26 Oct 08	Note c	26 Oct 11	5 years	\$0.80
26 Oct 08	183 334	26 Oct 09	Note c	26 Oct 11	5 years	\$0.80
26 Oct 08	183 334	26 Oct 10	Note c	26 Oct 11	5 years	\$0.80
9 Nov 07	406 667	17 May 09	Note d	17 May 12	4.5 years	\$0.37
9 Nov 07	406 667	17 May 10	Note d	17 May 12	4.5 years	\$0.37
9 Nov 07	406 666	17 May 11	Note d	17 May 12	4.5 years	\$0.37
1 April 09	333 333	1 April 11	Note d	1 April 14	5 years	\$0.23
1 April 09	333 333	1 April 12	Note d	1 April 14	5 years	\$0.23
1 April 09	333 334	1 April 13	Note d	1 April 14	5 years	\$0.23

**Note a** These options are exercisable between one and three years from grant date providing performance hurdles are attained. The performance hurdles require continuous employment by the employee throughout the vesting period and for Keycorp Limited's share price to attain a pre-defined market price for a period of five consecutive trading days during the vesting period.

**Note b** These options are exercisable after two years (in respect of 50%) (First Exercise Date) and after three years (in respect of 50%) (Second Exercise Date) until five years from grant date providing performance hurdles are attained. The hurdle is determined by the percentage gain in the S&P/ASX 300 Accumulation Index (Index) for each of the non-exercise periods. The percentage gain in the Index over the relevant period is to be applied to the option price (i.e. the exercise price) to determine the relevant hurdle at each exercise date (Hurdle). At each exercise date, the Hurdle price will be determined by multiplying the option price by the percentage gain in the Index, calculated from the date of offer to the First Exercise Date or Second Exercise Date, as the case may be.

The first Hurdle will be determined on the First Exercise Date for 50% of the options offered. The condition will be met when the volume weighted average price for Keycorp Limited shares traded on the ASX on any five consecutive trading days in the three calendar months immediately preceding the First Exercise Date, or any five consecutive trading days after the First Exercise Date, is greater than or equal to the Hurdle price as calculated with reference to the Index.

The second Hurdle will be determined on the Second Exercise Date for the other 50% of the options offered. The condition will be met when the volume-weighted average price for Keycorp Limited shares traded on the ASX on any 5 consecutive trading days in the three calendar months immediately preceding the Second Exercise Date, or any five consecutive trading days after the Second Exercise Date, is greater than or equal to the Hurdle price as calculated with reference to the Index.

Once (and if) the Hurdle set for each of the exercise dates is met, the options are unconditional, vested and exercisable.

**Note c** 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 d** 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>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
Outstanding at the beginning of the period	\$0.85	2 836 000	\$1.26	2 460 800
Forfeited during the period	\$0.80	(2 537 000)	\$1.23	(844 800)
Exercised during the period	-	-	-	-
Granted during the period	\$0.23	1 000 000	\$0.37	1 220 000
Outstanding at the end of the period	\$0.44	1 299 000	\$0.85	2 836 000
Exercisable at the end of the period	\$1.20	185 666	\$1.40	970 166

The options outstanding at 30 June 2009 have an exercise price in the range of \$0.23 – \$1.50 and a weighted average contractual life remaining of 4.02 years.

During the financial year nil options were exercised (2008: nil). The weighted average share price at the dates of exercise was nil (2008: nil).

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

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 27. EMPLOYEE BENEFITS (CONTINUED)

#### Options 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
1 Jul 2004	Tranche 1	1 July 2009	\$0.42	\$0.98	\$1.48	43%	5.68%	2%
1 Jul 2004	Tranche 2	1 July 2009	\$0.49	\$0.98	\$1.48	43%	5.68%	2%
23 Sep 2004	Tranche 1	23 Sep 2009	\$0.53	\$1.39	\$1.96	40%	5.22%	2%
23 Sep 2004	Tranche 2	23 Sep 2009	\$0.62	\$1.39	\$1.96	40%	5.22%	2%
19 Dec 2005	Tranche 1	19 Dec 2010	\$0.36	\$1.50	\$1.50	35%	5.32%	0%
19 Dec 2005	Tranche 2	19 Dec 2010	\$0.45	\$1.50	\$1.50	35%	5.32%	0%
15 Jan 2006	Tranche 1	15 Jan 2011	\$0.58	\$1.48	\$1.51	36%	5.12%	0%
15 Jan 2006	Tranche 2	15 Jan 2011	\$0.58	\$1.48	\$1.51	36%	5.12%	0%
15 Jan 2006	Tranche 3	15 Jan 2011	\$0.58	\$1.48	\$1.51	36%	5.12%	0%
26 Oct 2006	Tranche 1	26 Oct 2011	\$0.36	\$0.80	\$0.90	44%	6.03%	0%
26 Oct 2006	Tranche 2	26 Oct 2011	\$0.36	\$0.80	\$0.90	44%	6.03%	0%
26 Oct 2006	Tranche 3	26 Oct 2011	\$0.36	\$0.80	\$0.90	44%	6.03%	0%
9 Nov 2007	Tranche 1	17 May 2012	\$0.01	\$0.37	\$0.33	89%	6.21%	0%
9 Nov 2007	Tranche 2	17 May 2012	\$0.01	\$0.37	\$0.33	89%	6.21%	0%
9 Nov 2007	Tranche 3	17 May 2012	\$0.01	\$0.37	\$0.33	89%	6.21%	0%
1 April 2009	Tranche 1	1 April 2014	\$0.1053	\$0.23	\$0.30	67.37%	3.93%	3.03%
1 April 2009	Tranche 2	1 April 2014	\$0.1191	\$0.23	\$0.30	67.37%	3.93%	3.03%
1 April 2009	Tranche 3	1 April 2014	\$0.1361	\$0.23	\$0.30	67.37%	3.93%	3.03%

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.

(i) The payment of a capital return of 41 cents per share in September 2005 resulted in a reduction of the option exercise price by 41 cents for the options outstanding at that date. The option hurdle price is a function of the percentage increase in the S&P/ASX 300 index and the option exercise price. The exercise price includes the capital return repayment.

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. (2008: nil)

	Consolidated		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Share options – equity settled	(69)	68	(69)	68
Expense arising from DESP granted in 2006 – equity settled	39	92	39	92
Total expense recognised as employee cost	(30)	160	(30)	160

**28. PROVISIONS**

	Consolidated		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Current</b>				
Warranty	1 280	1 708	-	1 708
Restructuring	1 238	517	618	276
Other provisions	1 905	1 447	1 030	1 410
	4 423	3 672	1 648	3 394
<b>Non current</b>				
Other provisions	150	-	-	-
	150	-	-	-

**Reconciliations**

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

*Warranty*

Carrying amount at the beginning of financial year	1 708	2 265	1 708	2 163
Provided during the year	127	46	-	36
Transfer to subsidiary	-	-	(1 540)	-
Disposal of subsidiary	-	(70)	-	-
Amounts utilised during the year	(555)	(533)	(168)	(491)
Carrying amount at end of financial year	1 280	1 708	-	1 708

The provision for warranty comprises a 1 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	517	897	276	324
Provided during the year	3 124	1 369	2 253	668
Released during the year	-	(441)	-	-
Disposal of subsidiary	-	(49)	-	-
Amounts utilised during the year	(2 403)	(1 259)	(1 911)	(716)
Carrying amount at end of financial year	1 238	517	618	276

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 year and following the expiry of the Westpac contract. The estimated costs include all statutory entitlements.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****28. PROVISIONS (CONTINUED)**

	Consolidated		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Other provisions</b>				
<b>Current</b>				
Carrying amount at beginning of financial year	1 447	727	1 410	688
Transferred from non current	-	268	-	268
Amounts utilised during the year	(442)	-	(442)	-
Transfer to subsidiary	-	-	(638)	-
Provided during the year	900	452	700	454
Carrying amount at end of financial year	1 905	1 447	1 030	1 410
<b>Other provision</b>				
<b>Non Current</b>				
Carrying amount at beginning of financial year	-	268	-	268
Provided/(Released) during the year	150	-	150	-
Transferred to current	-	(268)	-	(268)
Carrying amount at end of financial year	150	-	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. While these claims are currently being evaluated and defended the Company considered it prudent to make a provision to cover costs in defending and resolving these claims.

**29. CURRENT TAX LIABILITY**

	Consolidated		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Income tax payable	949	2 348	945	2 228

The current tax liability represents the amount of income taxes payable in respect of current and prior financial periods. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax liability initially recognised by the members in the tax-consolidated group.

**30. OTHER LIABILITIES**

	Consolidated		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Current</b>				
Income received in advance	516	832	293	-
Deferred gain on sale and finance lease back transactions	364	364	-	364
	<b>880</b>	<b>1 196</b>	<b>293</b>	<b>364</b>
<b>Non current</b>				
Deferred gain on sale and finance lease back transactions	695	1 059	-	1 059

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

**31. ISSUED CAPITAL**

	Consolidated		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Movements in share capital</b>				
Balance at beginning of financial year	60 808	61 105	60 808	61 105
Buyback and cancellation of shares (a)	-	(297)	-	(297)
<b>Balance at end of financial year</b>	<b>60 808</b>	<b>60 808</b>	<b>60 808</b>	<b>60 808</b>

There were no new shares issued during the year ending 30 June 2009.

(a) On 1 May 2008, Keycorp notified shareholders of an unmarketable parcel sale facility, of which 1 296 353 ordinary shares were purchased from shareholders at a price of \$0.23 and cancelled on 20 June 2008.

	No of shares	
	2009	2008
On issue at 1 July	81 127 585	82 423 938
Buyback and cancellation of shares	-	(1 296 353)
<b>On issue at 30 June – fully paid</b>	<b>81 127 585</b>	<b>81 127 585</b>

Terms and conditions of issued capital

- (i) Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.
- (ii) 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.
- (iii) Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

**32. RESERVES AND ACCUMULATED LOSSES****a) Foreign currency translation reserve**

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<i>Movements in foreign currency translation reserve:</i>					
Balance at beginning of financial year	(6)	(61)	-	-	-
Transfer to income statement on disposal of overseas subsidiary	(7)	61	-	-	-
Translation of overseas subsidiaries	87	(6)	-	-	-
<b>Balance at end of financial year</b>		<b>74</b>	<b>(6)</b>	<b>-</b>	<b>-</b>

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation of the reporting entity.

**b) Accumulated losses**

Balance at beginning of financial year		(35 044)	(35 102)	(33 856)	(17 147)
Equity settled transactions	10	(30)	160	(30)	160
Dividends paid		(4 868)	-	(4 868)	-
Net profit / (loss) attributable to members of Keycorp Limited		9 270	(102)	6 519	(16 869)
<b>Balance at end of financial year</b>		<b>(30 672)</b>	<b>(35 044)</b>	<b>(32 235)</b>	<b>(33 856)</b>

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****33. COMMITMENTS**

	Consolidated		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Operating Leases as lessee</b>				
Non – cancellable operating lease rentals are payable as follows:				
Within one year	372	1 311	98	1 071
Later than one year but no later than five years	343	273	231	48
<b>Balance at end of financial year</b>	<b>715</b>	<b>1 584</b>	<b>329</b>	<b>1 119</b>

**Capital expenditure commitments**

Aggregate expenditure commitments comprise:

Amounts not provided for:

Plant and equipment	-	120	-	120
<b>Total not provided for</b>	<b>-</b>	<b>120</b>	<b>-</b>	<b>120</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 3 years at which time all terms are renegotiated.

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

**34. AUDITOR'S REMUNERATION**

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Audit services</b>				
Auditors of the Company, KPMG Australia				
- audit and review of financial reports (Company and Group)	215 000	266 578	215 000	266 578
- audit and review of financial reports (other controlled entities)	-	29 448	-	-
Overseas KPMG firms:				
- audit and review of financial reports	11 000	64 513	-	-
	<b>226 000</b>	<b>360 539</b>	<b>215 000</b>	<b>266 578</b>
<b>Other assurance services:</b>				
Auditors of the Company KPMG Australia				
- other assurance services	36 313	9 750	36 313	9 750
- overseas KPMG firms – taxation services	19 343	16 215	-	-
	<b>55 656</b>	<b>25 965</b>	<b>36 313</b>	<b>9 750</b>

**35. EARNINGS PER SHARE**

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>Diluted earnings per share</b>	0.1142	(0.0012)
<b>Basic earnings per share</b>	0.1143	(0.0012)

The calculation of basic and diluted earnings per share at 30 June 2009 was based on the profit attributable to ordinary shareholders of \$9 270 000 (2008 loss: \$102 000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2009 of 81 127 585 (2008: 82 384 870). Diluted earnings per share takes into account outstanding options on issue.

**Earnings per share for continuing and discontinued operations**

from continuing operations	0.0027	(0.0520)
from discontinued operations	0.1116	0.0508
	<b>0.1143</b>	<b>(0.0012)</b>

Earnings per share for continuing and discontinued operations has been 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 (2008 : loss of \$4 288 000) and the profit relating to discontinued operations of \$9 052 000 (2008 : profit \$4 186 000).

The calculation of diluted earnings per share excludes 299 000 (2008: 2 354 685) share options because the effect of these options would have been anti dilutive.

**36(a) CASH AND CASH EQUIVALENTS**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Bank balances	9 966	4 512	8 017	2 403
Cash and cash equivalents in the statement of cash flows	9 966	4 512	8 017	2 403

The Groups exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 39.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****36(b) RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES**

	Note	Consolidated		Company	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Cash flows from operating activities					
Profit / (loss) for the period		9 270	(102)	6 519	(16 869)
Adjustments for:					
Depreciation		1 007	1 982	489	710
Amortisation and impairment of intangible assets		3 517	5 238	293	3 949
Impairment of investments		-	-	1 495	-
Impairment of loans to controlled entities		-	-	-	6 203
Unrealised exchange (gains) / losses		(22)	206	(5)	222
Loss on sale of property, plant and equipment		103	99	68	-
Gain on disposal of discontinued operations	13(a)	(13 313)	(2 154)	(12 905)	-
Equity – settled share – based payment transactions		(30)	160	(30)	160
Dividends received from subsidiaries		-	-	(3 712)	-
Operating Profit before changes in working capital and provisions		532	5 429	(7 788)	(5 625)
Change in trade and other receivables		(5 425)	2 775	1 180	3 058
Change in inventories		(3 388)	1 349	1 995	868
Change in assets classified as held for sale		-	3 929	-	-
Change in net investment in finance lease		445	(6 325)	6 681	(6 325)
Change in other current assets		432	(441)	1 176	(608)
Change in trade and other payables		4 302	(2 027)	(1565)	(1 041)
Change in provisions and employee benefits		494	(1 164)	(3 298)	(701)
Change in other current liabilities		(680)	957	(1 130)	1 041
Change in liabilities classified as held for sale		-	620	-	-
Change in income taxes		2 142	(1 913)	1 351	(2 549)
Transfer of working capital and provisions to subsidiary		-	-	(9 847)	-
Net cash from operating activities		(1 146)	3 189	(11 245)	(11 882)

**37. 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 31 August 2009, the Directors resolved to pay a final fully franked dividend of 1.5 cents per ordinary share (\$1 215 000), bringing dividends per share for fiscal 2009 to 7.5 cents per share, inclusive of a 5 cent per share special dividend. The record date for the final dividend will be 21 September 2009 with payment being made on 9 October 2009. Shares will trade excluding entitlement to the dividend on 15 September 2009. The financial effect of the final dividend has not been bought to account in the financial statements for the year ended 30 June 2009 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 other than \$515 000 of franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.



### 38. 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 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.
B. Grisdale	Director since January 2001. Resigned 26 March 2009.
P. Jones	Director since August 2005.
M. Ibrahim	Director since January 2006.
C. Holgate	Director since January 2006. Resigned 13 February 2009.

##### Executive Directors

K. Carr	Appointed a Director and Chief Executive Officer on 18 May 2007. Resigned as CEO on 31 March 2009 and as a Director in 30 June 2009.
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##### Executive Officers

J. Bonin	Appointed Chief Executive Officer 1 April 2009. Appointed a Director 1st July 2009.
S. Greenan	Chief Financial Officer. Appointed 13 March 2009.
W. Scheuber	Sales and Business Development Manager. (KMP from 1 July 2008)
C. Little	National Operations Manager. (KMP from 1 July 2008)
P. Kensington	Chief Financial Officer from 23 February 2008, terminated 30 April 2009.
J. Stevens	General Manager, Human Resources. Terminated 30 November 2008.
R. Ganeson	General Manager, Strategic Market Development. Resigned 17 July 2008.

(b) The key management personnel compensation included in 'personnel expenses' (see note 10) is as follows:

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
Short-term employee benefits	2 109 575	2 987 454	1 199 104	2 131 315
Other long term benefits	33 746	15 852	-	4 755
Post-employment benefits	140 826	206 233	84 379	164 285
Termination benefits	1 081 587	278 213	1 081 587	239 580
Share-based payments	9 993	119 482	(18 066)	87 046
	3 375 727	3 607 234	2 347 004	2 626 981

#### INDIVIDUAL DIRECTORS AND EXECUTIVES COMPENSATION DISCLOSURES

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 are provided in the Remuneration Report section of the Directors' report on pages 15 to 28.

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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 38. 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	Transaction	Note	Transactions value year ended 30 June		Balance outstanding as at 30 June	
			2009 \$	2008 \$	2009 \$	2008 \$
M. Ibrahim	Consulting Services	(i)	162 809	-	24 600	-

(i) During the 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.

### 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>								
K. Carr (resigned 30 June 2009)	2009	1 220 000	- (i)	-	1 220 000	-	406 667	-
	2008	-	1 220 000	-	-	1 220 000	-	-
<b>Executives</b>								
J. Bonin	2009	271 000	1 000 000 (ii)	-	51 000	1 220 000	106 666	106 666
	2008	271 000	-	-	-	271 000	-	51 000
<b>Former Executives</b>								
R. Cusson (terminated August 2008)	2009	127 000	-	-	127 000	-	-	-
	2008	127 000	-	-	-	127 000	-	7 000
R. Ganeson (resigned July 2008)	2009	270 000	-	-	270 000	-	-	-
	2008	270 000	-	-	-	270 000	-	25 000
J. Stevens (terminated November 2008)	2009	140 000	-	-	140 000	-	-	-
	2008	140 000	-	-	-	140 000	-	-

\* Under the relevant plan rules, all options are exercisable once vested. Therefore, there are no vested and un-exercisable options on issue.

The options were provided at no cost to the recipients

(i) 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.

(ii) 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.

## 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>						
R Bishop	2009	70 817	110 997	-	-	181 814
	2008	-	70 817	-	-	70 817
B. Grisdale (i)	2009	43 580	51 182	-	-	N/A
	2008	-	43 580	-	-	43 580
M. Ibrahim	2009	66 715	63 001	-	-	129 716
	2008	8 750	57 965	-	-	66 715
K Carr (ii)	2009	83 663	-	-	-	83 663
	2008	-	83 663	-	-	83 663
<b>Executive Current</b>						
J. Bonin (iii)	2009	-	40 000	-	-	40 000
	2008	-	-	-	-	-
<b>Former Executives</b>						
R. Cusson (i)	2009	62 400	-	-	-	N/A
	2008	62 400	-	-	-	62 400
J Stevens (i)	2009	2 703	-	-	-	N/A
	2008	-	2 703	-	-	2 703
P.Kensington (i)	2009	2 703	-	-	-	N/A
	2008	-	2 703	-	-	2 703

(i) Ceased to be key management personnel before the end of the financial year.

(ii) K Carr was an Executive Director until 30 June 2009.

(iii) J Bonin appointed Executive Director 1 July 2009. These shares were acquired on market during the 2009 financial year.

## NON KEY MANAGEMENT PERSONNEL DISCLOSURES

## IDENTITY OF RELATED PARTIES

The Group has a related party relationship with its subsidiaries (see note 20), associate (see note 20), and with its key management personnel (refer to disclosures for Key Management Personnel in this note).

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****38. RELATED PARTIES (CONTINUED)**

## RELATED PARTY LOANS

Loans are made between the Company and wholly owned subsidiaries for capital purchases and to fund shortfalls in operating cash requirements. Loans outstanding between the Company and its controlled entities are non-interest bearing and payable on demand. Loans receivable have been recognised in the Company's books as non current on the basis that the Company does not intend to call the loan within the next 12 months.

Entity	Net outstanding balance receivable/(payable) at:		
	Note	June 2009	June 2008
		\$	\$
<b>Wholly owned subsidiaries</b>			
<i>Receivables</i>			
Keycorp Investments Pty Limited		44 941 847	42 609 815
Keycorp Systems Limited		185 709	49 237
Fox Technology Pty Limited		4 290 842	4 985 492
		<b>49 418 398</b>	<b>47 644 544</b>
<i>Impairment of Intercompany Receivable</i>		(16 915 758)	(16 915 758)
<b>Net Receivables</b>	<b>16</b>	<b>32 502 640</b>	<b>30 728 786</b>
<i>Payables</i>			
Keycorp USA Limited		(120 260)	(141 919)
Keycorp Technologies Pty Limited		(135 939)	(120 881)
Keycorp Payment Services Pty Limited		(5 728 838)	(2 780 168)
Tillsmith Systems Inc.		(142 285)	(142 285)
Keycorp (Asia) Limited		(3 013)	(406 638)
Keycorp Services Pty Limited		(14 564 368)	(19 916 965)
	<b>25</b>	<b>(20 694 703)</b>	<b>(23 508 856)</b>

## RELATED PARTY TRANSACTIONS

(a) During the financial year the Company has entered into transactions with the following related parties on normal commercial terms and conditions:

Entity	Amount (paid)/received		Details of transaction
	June 2009	June 2008	
	\$	\$	
<i>Wholly owned subsidiaries</i>			
Keycorp Systems Limited	119 000	(1 260 856)	Management fees
Keycorp USA Limited	-	(435 030)	Management fees
Keycorp Asia Limited	-	(845 727)	Management fees
<i>Other related entity</i>			
StepNexus/Maosco (a)	-	(1 009 202)	Purchase of product and membership fees

A dividend of \$3 712 000 was paid to the Company by Keycorp Investments Ltd during the 2009 financial year (2008: \$NIL)

- (a) No longer part of the related Keycorp group in 2009 financial year. These entities were sold as part of the smartcard business.
- (b) Keycorp Services Pty Limited, a wholly owned entity, has provided products and services to a wholly owned entity of Keycorp Limited, Keycorp Payment Services Pty Limited in the amount of \$6 093 299 (2008: \$6 524 937) at normal terms and conditions.
- (c) Keycorp Services Pty Limited, a wholly owned entity, did not provide services to Keycorp Limited in the 2009 financial year (2008: \$2 084 401) at normal terms and conditions.
- (d) On 31 October 2008, Keycorp Limited transferred certain assets and liabilities to Keycorp Services Pty Ltd at book value for a consideration of \$7 255 000. This exercise was completed as part of a reorganisation of the Group to transfer trading activities from Keycorp Limited such that its principal activity would primarily be a holding company for the Group.

**Transactions with Telstra Corporation Ltd (major shareholder) during the 2009 financial year:**

**Company**

	Transaction value		Balance outstanding at 30 June	
	2009 \$	2008 \$	2009 \$	2008 \$
Sales revenue	-	15 337 174	-	983 646
Purchases	523 685	851 729	-	8 179

**Consolidated**

	Transaction value		Balance outstanding at 30 June	
	2009 \$	2008 \$	2009 \$	2008 \$
Sales revenue	12 849 904	-	1 886 459	-
Purchases	764 334	1 486 073	-	8 179

The Consolidated entity supplied services and products to Telstra during the financial year. The entity 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 this financial year Telstra Corporation Limited cancelled the previous guarantee of \$7 500 000 in relation to the Westpac Tranche 2 facility.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****39. FINANCIAL INSTRUMENTS**

## CREDIT RISK

**Exposure to credit risk**

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

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

	Consolidated		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Financial assets</b>				
Cash and cash equivalents	9 966	4 512	8 017	2 403
Trade and other receivables	10 460	6 099	74	1 254
Net investment in finance leases	6 236	6 681	-	6 681
Other current assets	3 000	3 000	3 000	3 000
Mezzanine note	6 509	5 474	6 509	5 474
Loans to subsidiaries	-	-	32 502	30 728
	36 171	25 766	50 102	49 540

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

	Consolidated		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Australia	4 185	4 889	187	991
North America	108	67	25	67
	4 293	4 956	212	1 058

In addition to the above trade receivables, the Company's maximum exposure to credit risk for intercompany loans \$49 418 398. At the reporting date by geographical region is Australia: \$49 233 000 and Europe \$186 000.

## IMPAIRMENT LOSSES

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

	Gross	Impairment	Gross	Impairment
	2009 \$000	2009 \$000	2008 \$000	2008 \$000
Not past due	2 217	-	4 272	-
Past due 0-30 days	943	-	473	-
Past due 31-120 days	603	265	42	-
Past due 121 days	530	517	169	126
	4 293	782	4 956	126

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

	Gross	Impairment	Gross	Impairment
	2009 \$000	2009 \$000	2008 \$000	2008 \$000
Not past due	25	-	703	-
Past due 0-30 days	-	-	334	-
Past due 31-120 days	-	-	12	-
Past due 121 days	187	170	9	9
	212	170	1 058	9

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

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Balance at beginning of the year	126	195	9	148
Disposal of subsidiary	-	(41)	-	-
Receivables written off during the year	(3)	(144)	-	(139)
Provision for impairment recognised during the year	659	116	161	-
Balance at end of the year	782	126	170	9

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.

The movement in the allowance for impairment in respect of loans to subsidiaries during the year was as follows:

	<b>Company</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>
Balance at beginning of the year	16 916	10 713
Release of provision	-	(6 405)
Provision for impairment recognised during the year	-	12 608
Balance at the end of the year	16 916	16 916

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****39. 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:

**Consolidated  
30 June 2009**

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<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)	-

**Consolidated  
30 June 2009**

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Financial liabilities</b>							
Secured bank loans	10 000	(10 620)	(469)	(10 151)	-	-	-
Finance lease liabilities	4 935	(5 926)	(757)	(757)	(1 515)	(2 897)	-
Trade and other payables	5 184	(5 184)	(4 474)	(710)	-	-	-
	20 119	(21 730)	(5 700)	(11 618)	(1 515)	(2 897)	-

**Company  
30 June 2009**

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Financial liabilities</b>							
Trade and other payables	195	(195)	(195)	-	-	-	-
Loan from subsidiaries*	20 695	(20 695)	(20 695)	-	-	-	-
	20 890	(20 890)	(20 890)	-	-	-	-

\* These loans are interest free with no fixed repayment date, and accordingly have been classified as current liabilities. However, the Company has the ability to control the timing of any loan repayments.



**Company**  
**30 June 2009**

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Financial liabilities</b>							
Secured bank loans	10 000	(10 620)	(469)	(10 151)	-	-	-
Finance lease liabilities	4 935	(5 926)	(757)	(757)	(1 515)	(2 897)	-
Trade and other payables	3 013	(3 013)	(3 013)	-	-	-	-
Loan from subsidiaries*	23 508	(23 508)	(23 508)	-	-	-	-
	41 456	(43 067)	(27 747)	(10 908)	(1 515)	(2 897)	-

\* These loans are interest free with no fixed repayment date, and accordingly have been classified as current liabilities. However, the Company has the ability to control the timing of any loan repayments.

**CURRENCY RISK**
**Exposure to currency risk**

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

	30 June 2009				30 June 2008			
	USD	Euro	GBP	CAD	USD	Euro	GBP	CAD
In thousands of AUD								
Cash and cash equivalents	328	24	56	-	1020	14	31	72
Trade receivables	108	-	-	-	67	-	-	-
	436	24	56	-	1 087	14	31	72
Trade payables	(313)	-	-	(1)	(441)	(25)	(12)	(2)
Gross balance sheet exposure	123	24	56	(1)	646	(11)	19	70

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

	30 June 2009				30 June 2008			
	USD	Euro	GBP	CAD	USD	Euro	GBP	CAD
In thousands of AUD								
Cash and cash equivalents	328	1	1	-	1 020	14	31	72
Trade receivables	25	-	-	-	67	-	-	-
Loans to subsidiaries	-	-	-	-	-	-	7 077	-
	353	1	1	-	1 087	14	7 108	72
Trade payables	(32)	-	-	(1)	(441)	(25)	(12)	(2)
Gross balance sheet exposure	321	1	1	(1)	646	(11)	7 096	70

During the year, all subsidiary loan balances are in AUD reporting currency.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****39. FINANCIAL INSTRUMENTS (CONTINUED)**

The following significant exchange rates applied during the year:

AUD	Average rate		Reporting date spot rate	
	2009	2008	2009	2008
GBP 1	0.464	0.446	0.487	0.482
USD 1	0.746	0.897	0.805	0.962
CAD 1	0.862	0.902	0.930	0.972

## CURRENCY RISK

**Sensitivity analysis**

A 10 percent strengthening of the dollar against the following currencies at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2008.

	Consolidated		Company	
	Equity	Profit or loss	Equity	Profit or loss
	\$000	\$000	\$000	\$000
<b>30 June 2009</b>				
GBP	-	(5)	-	(5)
USD	-	(11)	-	(29)
CAD	-	(2)	-	-
<b>30 June 2008</b>				
GBP	-	(2)	-	(2)
USD	-	(59)	-	(59)
CAD	-	(6)	-	(6)

A 10 percent weakening of the Australian dollar against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

## INTEREST RATE RISK

**Profile**

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

	Consolidated		Company	
	Carrying amount		Carrying amount	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Fixed rate instruments</b>				
Mezzanine note	6 509	5 474	6 509	5 474
Financial assets	6 236	6 681	-	6 681
Financial liability	(3 842)	(4 935)	-	(4 935)
	8 903	7 220	6 509	7 220
<b>Variable rate instruments</b>				
Financial liabilities	-	10 000	-	10 000

## 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 and Company's profit and loss on the above financial instruments by NIL (2008: \$100 000).

## FAIR VALUES

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

	Consolidated		Consolidated	
	Carrying amount	Net Fair value	Carrying amount	Net Fair value
<b>In thousands AUD</b>	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Financial assets</b>				
Cash and cash equivalents	9 966	9 966	4 512	4 512
Mezzanine notes	6 509	6 421	5 474	5 380
Net investment in finance lease	6 236	7 360	6 681	6 990
Trade and Other receivables	10 460	10 460	6 099	6 099
Other current assets	3 000	3 000	3 000	3 000
	36 171	37 207	25 766	25 981
<b>Financial liabilities</b>				
Trade and other payables	8 016	8 016	5 366	5 366
Bank term loan	-	-	10 000	10 000
Finance lease liabilities	3 842	4 016	4 935	4 858
	11 858	12 032	20 301	20 224
	Company		Company	
	Carrying amount	Net Fair value	Carrying amount	Net Fair value
<b>In thousands AUD</b>	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Financial assets</b>				
Cash and cash equivalents	8 017	8 017	2 403	2 403
Mezzanine notes	6 509	6 421	5 474	5 380
Net investment in finance lease	-	-	6 681	6 990
Trade and other receivables	74	74	1 254	1 254
Loans to subsidiaries	32 502	32 502	30 728	30 728
Other current assets	3 000	3 000	3 000	3 000
	50 102	50 014	49 540	49 755
<b>Financial liabilities</b>				
Trade and other payables	195	195	3 039	3 039
Loans from subsidiaries	20 695	20 695	23 508	23 508
Bank term loan	-	-	10 000	10 000
Finance lease liabilities	-	-	4 935	4 858
	20 890	20 890	41 482	41 405

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****39. FINANCIAL INSTRUMENTS (CONTINUED)**

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% (2008: 9.81%-10.32%)
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.

## DIRECTORS' DECLARATION

- 1 In the opinion of the Directors of Keycorp Limited ('the Company'):
  - (a) the financial statements and notes 1 to 39 and the Remuneration Report, in the Director's Report, set out on pages 15 to 28, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Company and the Group's financial position as at 30 June 2009 and of their 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;
  - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a); and
  - (c) 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 21 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 2009.

Signed in accordance with a resolution of the directors:



**J. Bonin**  
Chief Executive Officer and Executive Director  
Melbourne 31 August 2009



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

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

We have audited the accompanying financial report of Keycorp Limited (the Company), which comprises the balance sheets as at 30 June 2009, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 39 and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *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 Company's and the Group's financial position and of their 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 Keycorp Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2009 and of their 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 15 to 28 of the directors' report for the year ended 30 June 2009. 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 2009, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Kenneth Reid  
*Partner*

Sydney

31 August 2009

## SHAREHOLDERS INFORMATION

Additional information required by the Listing Rules of ASX Limited and not shown elsewhere in this report is as follows. The information is applicable as at 21 September 2009.

### 20 LARGEST SHAREHOLDERS

Shareholders	Ordinary shares held	% of issued shares
Telstra Corporation Limited	39,082,000	48.17
Mr Bernard Owen Stephens, Mrs Erin Josephine Stephens, Stephens Group S/F A/C	4,584,400	5.65
Merrill Lynch (Australia) Nominees Pty Ltd	3,947,476	4.87
Rubicon Nominees Pty Ltd	1,561,439	1.92
Ashabia Pty Ltd (Superannuation Fund)	900,000	1.11
Mr John William Wood	760,486	0.94
UBS Nominees Pty Ltd	733,300	0.90
Mr Anthony Mark Van Der Steeg	624,368	0.77
Jemgum Holdings Pty Ltd	600,000	0.74
Mr Ross Ian McDonald	456,074	0.56
Mr Graham Charles Hook	440,000	0.54
J P Morgan Nominees Australia Ltd	406,477	0.50
Stannard Bros Holdings Pty Ltd	390,016	0.48
KYC Employee Share Plan Managers Pty Ltd	370,792	0.46
Jemgum Holdings Pty Ltd (Jemgum Staff Super Fund A/C)	350,000	0.43
UBS Wealth Management Australia Nominees Pty Ltd	335,000	0.41
Ms FE Rivera Subido	325,000	0.40
Bridgecall Pty Ltd	323,056	0.40
National Nominees Ltd	313,945	0.39
Mr Wayne Henry Allan (Abraham Super Fund A/C)	300,000	0.37
<b>Total</b>	<b>56,803,829</b>	<b>70.02</b>

### DISTRIBUTION OF ORDINARY SHARES

Range	No. of holders	Ordinary shares held	% of issued shares
1 – 1 000 *	201	138,807	0.17
1 001 – 5 000 *	742	2,432,268	3.00
5 001 – 10 000	315	2,490,643	3.07
10 001 – 100 000	430	13,388,758	16.50
100 001 and over	56	62,677,109	77.26
<b>Total</b>	<b>1,744</b>	<b>81,127,585</b>	<b>100.00</b>

\* 233 shareholders hold less than a marketable parcel of shares (market value less than \$500 or 1 370 shares based on a market price of \$0.365).



### SUBSTANTIAL SHAREHOLDERS

The following shareholders have notified that they are substantial shareholders:

<b>Shareholders</b>	<b>Ordinary shares held</b>	<b>% of issued shares</b>
Telstra Corporation Limited	39 082 000	48.17%
Mr Bernard Owen Stephens, Mrs Erin Josephine Stephens, Stephens Group S/F A/C	4 584 400	5.65%

### ON-MARKET BUY-BACK

There is no current on-market buyback.

### VOTING RIGHTS

On a shown of hands, each shareholder present in person, each proxy who is not a shareholder and each duly appointed corporate representative who is not a shareholder shall have one vote.

On a poll, each shareholder shall have one vote for each fully paid share held and each person present as a proxy, and each duly appointed corporate representative, shall have one vote for each fully paid share held by the shareholder that the person represents.

## CORPORATE DIRECTORY

### KEYCORP LIMITED

ABN 61 002 519 986

### REGISTERED OFFICE & HEAD OFFICE

40 – 42 Montefiore Street  
Fairfield  
Melbourne VIC 3078  
Australia

Telephone: +61 3 9403 1777

Facsimile: +61 3 9403 1688

Web: [www.keycorp.net](http://www.keycorp.net)

### AUDITOR

KPMG

### KEYCORP SHARE REGISTRY

Computershare Investor Services Pty Limited  
Level 2 60 Carrington Street  
Sydney NSW 2000

GPO Box 2975  
Melbourne Vic 3001  
Australia

Telephone: (within Australia) 1300 855 505; (outside Australia) +61 3 9415 4000

Facsimile: +61 3 9473 2500

The notice of annual general meeting and form of proxy are presented separately.



# KEYCORP LIMITED

## ANNUAL REPORT 2009

