

KEYCORP ANNOUNCES: CASH OFFER FROM ARCHER CAPITAL

FOR IMMEDIATE RELEASE

Melbourne, 9 September 2010

Highlights:

- Cash offer from Archer Capital for all Keycorp shares at \$0.58 per share (Value of \$0.60 cum the announced 2010 annual dividend).
- Proposed acquisition to be implemented via a Scheme of Arrangement requiring shareholder approval.
- Directors intend to vote in favour of the scheme
- Offer represents a substantial premium to both Keycorp's Enterprise Value and the Volume Weighted Average Price (VWAP).
- Scheme booklet to be issued to shareholders in due course.
- Shareholder meeting to be held in November 2010.

Keycorp Limited (ASX: KYC) has entered into a binding agreement with Archer Capital VCLP GF 1, LP ('Archer') for the proposed acquisition by an Archer wholly-owned subsidiary of all the shares in Keycorp.

Under the recommended offer, Keycorp shareholders will receive \$0.58 cash per share. This offer is over and above the \$0.02 per share dividend that was announced by the company on 27 August 2010.

The proposed acquisition will be implemented via a Scheme of Arrangement and is subject to a number of conditions, including Keycorp shareholder approval and court approval. The attachment to this announcement sets out the key terms of the scheme implementation agreement, executed between Keycorp and Archer on 8 September 2010.

Each Keycorp Director recommends that shareholders vote in favour of the scheme in the absence of a superior proposal and subject to the independent expert's report concluding the scheme is in the best interests of Keycorp shareholders. Subject to those same qualifications, each Director of Keycorp intends to vote in favour of the scheme with respect to their eligible individual shareholdings.

Archer is one of Australia's leading private equity investment houses with funds under management or advisement in excess of \$2 billion and has the longest track record of any leveraged buyout manager in Australia. Archer has a longstanding interest in the payments sector and is attracted to Keycorp's leading position in the Australian EFTPOS market, its high quality management team and its considerable potential for future organic and investment driven growth.

Archer will guarantee and indemnify Keycorp in respect of the obligations and liabilities of its subsidiary under each of the relevant transaction documents. The acquisition will be entirely funded by Archer from its Growth Fund 1.

The cash consideration of \$0.58 per Keycorp share represents a substantial premium of:

- 42% to the underlying Enterprise Value¹ of Keycorp of \$0.19 per share on 7 September 2010, representing the market capitalisation of Keycorp less net cash;
- 14.9% to the closing price of \$0.505 per share on 7 September 2010, being the last trading day prior to this announcement (an 18.8% premium, including the dividend payable);



- 14.4% to the three month volume weighted average price to 7 September 2010 of \$0.507 per share (an 18.3% premium, including the dividend payable).
- 20.8% to the 12 month volume weighted average price to 7 September 2010 of \$0.48 per share (a 25% premium, including the dividend payable).

Keycorp Chairman Robert Bishop said: “The Board believes that Keycorp’s next phase of growth is best executed in a private context by a well-capitalised and supportive investor such as Archer. The offer represents a very good opportunity for Keycorp shareholders to immediately realise the value of the various business actions implemented recently. The team at Keycorp has delivered solid results over the past two years, however, it needs to be acknowledged that the company’s recently stated earnings guidance and growth strategy, particularly via complementary acquisitions, is not without risk. As a Board, in the absence of a superior proposal and subject to the conclusions of the independent expert’s report, we are unanimously of the view that Archer’s proposal is in the best interests of all shareholders.”

Keycorp Chief Executive Officer Joe Bonin said: “Over the past eighteen months, we have examined numerous options to better address the requirements of significant business growth and preservation of shareholder value within the current capital structure. We believe Archer’s strong financial position and longer term view provides a more appropriate capital structure to support growth via acquisition that will benefit Keycorp’s customers, employees and partners more than is achievable under the current capital structure and small market capitalisation.”

Grant Thornton has been engaged to prepare an independent expert’s report and to provide an opinion as to whether the proposed transaction is in the best interests of Keycorp shareholders.

A scheme booklet with full details of the transaction, including the Independent Expert’s report, is expected to be dispatched to Keycorp shareholders in October 2010. The shareholder meeting to approve the scheme is expected to be held in November 2010. A more detailed timetable for the approval and implementation of the transaction, as well as voting procedures will be included in the scheme booklet.

Ironbark Corporate Advisory and SLM Corporate are acting as corporate advisors and Middleton’s Lawyers is acting as legal adviser to Keycorp.

Keycorp shareholders will also be able to receive information and ask questions on the proposed transaction through a dedicated information line accessed by calling 1800 648 622 (toll free for shareholders calling from within Australia) and +61 2 8256 3377 (for shareholders calling from overseas).

This information line will commence from 9.00am September 13, and will be updated as the transaction progresses.

ENDS

About Keycorp

Keycorp (ASX:KYC) is the largest provider specialising in servicing and maintaining EFTPOS and point-of-sale systems in end user premises throughout Australia. Services include installation, training and maintenance of payment systems including fully outsourced managed payment services. Keycorp also develops highly secure payments and transaction software and has the widest EMV installed base across multiple banks/acquirers and terminal types in Australia. The company has developed sophisticated call and asset management systems that enable the provision of fully integrated help desk services in support of our customers. For further information see: <http://www.Keycorp.net> or contact:

Mr Rob Bishop Chairman Keycorp Limited Tel: + 61 3 9403 1777 or Fax: + 61 3 9403 1688
--

¹ Underlying Enterprise Value of the business is calculated as the \$0.505 share price on 7 September 2010 less \$0.315 per share in net cash (cash on hand less interest bearing liabilities) at 30 June 2010.



Scheme Implementation Agreement Summary

Summary

Keycorp Limited (**Keycorp**) and Archer Capital VCLP GF1, LP (**Archer**) have entered into a Scheme Implementation Agreement (Scheme Agreement). Under the Scheme Agreement, the bidder will be a wholly-owned subsidiary of Archer to be incorporated after the date of the Agreement (**Bidder**). The Bidder proposes to acquire all of the Scheme Shares for a cash consideration of A\$0.58 per Scheme Share. Archer has agreed to guarantee the obligations of the Bidder under the Scheme.

The Scheme Agreement sets out the obligations of Keycorp and Archer in relation to a scheme to be put to Keycorp Shareholders. A copy of the Scheme Agreement will be set out in the Scheme Booklet that is to be provided to Keycorp Shareholders prior to the Scheme Meeting. A summary of some of the key terms of the Scheme Agreement is set out below.

Conditions

Implementation of the Scheme is subject to a number of conditions precedent including the following:

- **Regulatory approvals:** ASIC and ASX issue or provide necessary approvals before the Second Court Date;
- **No restraining order:** there being no material legal restraint or prohibition preventing the Scheme in effect at 8:00am on the Second Court Date;
- **Shareholder approval:** a resolution of the Scheme Shareholders has been passed by the majorities required under section 411(4)(a)(ii) of the Corporations Act;
- **Court approval:** the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act;
- **No Material Adverse Event, No Prescribed Occurrence:** no occurrence of a Keycorp Material Adverse or Keycorp Prescribed Occurrence between the date of the Scheme Agreement and 8:00am on the Second Court Date;
- **Warranties:** No Keycorp or Archer Warranty becomes materially incorrect before the Second Court Date;
- **Independent Expert's conclusion:** the Independent Expert provides the Independent Expert's Report to Keycorp's Board stating that in its opinion the Scheme is in the best interests of the Keycorp's Shareholders, and the Independent Expert does not change its conclusion or withdraw its report by notice in writing to Keycorp prior to 8.00am on the Second Court Date;
- **Employee options exercised or cancelled:** all existing options and performance rights held in respect of Keycorp shares have been exercised, cancelled or transferred; and
- **Customers:** by no later than 10 Business Days after the date of the Scheme Agreement, Archer has met with major customers as agreed with the Target and confirmed to Archer's satisfaction, acting reasonably, that the relationships are of good commercial standing and received a commitment from those customers to provide any consents required under their contracts to the implementation of the Scheme.

Indemnity

Archer indemnifies Keycorp against any loss suffered by Keycorp arising out of any failure of Archer to perform any obligation or pay any liability under any Transaction Document.



Termination

Archer may terminate the Scheme Agreement at any time before 8:00am on the Second Court Date by written notice to Keycorp if:

- there is an unremedied material breach of the Scheme Agreement by Keycorp including the breach of a representation or warranty made by Keycorp;
- a Keycorp Prescribed Occurrence and/or Keycorp Material Adverse Change has occurred after the date of the Scheme Agreement;
- a Competing Proposal is announced after the date of the Scheme Agreement and is recommended by the Keycorp Board; or
- a Competing Proposal is announced after the date of the Scheme Agreement which is superior to the Scheme which is not recommended by Keycorp and Archer announces an alternative proposal that matches or is superior to that Competing Proposal.

Keycorp may terminate the Scheme Agreement at any time before 8:00am on the Second Court Date by notice in writing to Archer if:

- there is an unremedied material breach of the Scheme Agreement by Archer including the breach of a representation or warranty made by Archer;
- an insolvency event occurs in relation to Archer; or
- the Keycorp Board recommends to Keycorp Shareholders any Superior Proposal.

The Scheme automatically terminates if it is not approved by the Court or Keycorp Shareholders.

Exclusivity

Keycorp has agreed to the following exclusivity arrangements:

- Keycorp must use its best endeavours to ensure that its Representatives do not, without the written consent of Archer, do any of the following:
 - (a) procure, invite, encourage, continue, initiate or solicit an offer, approach, negotiation or discussions with (whether directly or indirectly, formally or informally);
 - (b) enter into any contract, arrangement or understanding in whatever capacity with; or
 - (c) facilitate or allow any enquiries, evaluation or due diligence by,
any third party in relation to a Competing Proposal .
- Keycorp must notify Archer of:
 - (a) any approach, inquiry or proposal made to Keycorp or any of its Representatives, and any attempt on the part of any person to initiate or continue any negotiations or discussions with Keycorp in relation to a Competing Proposal; or
 - (b) any request for information relating to a Competing Proposal.
- The exclusivity provisions do not apply to the extent that they restrict Keycorp from taking or refusing to take any action with respect to a bona fide Competing Proposal (which was not solicited or invited by Keycorp and was not otherwise brought about as a result of any breach of the exclusivity provisions) provided that the Keycorp directors, acting in good faith (and based on written legal advice), have determined, that:
 - (a) the Competing Proposal is a Superior Proposal; and
 - (b) failing to respond or taking or refusing to take that action in respect of that Competing Proposal would be likely to involve



a breach of the fiduciary or statutory duties.

- Subject to Keycorp complying with its disclosure obligations at law, Keycorp agrees not to accept or recommend a Competing Proposal to its shareholders unless it has notified Archer of the terms of the Competing Proposal and has given Archer 72 hours after such notification to provide a matching or superior proposal (whether by way of scheme of arrangement or otherwise) to the relevant Competing Proposal.

Change of recommendation

Subject to the provisions in relation to "Termination" and "Exclusivity" above, and also the provisions regarding "Break Fee" below, the Keycorp Board may change its recommendation if:

- a Superior Proposal is made; and
- the Independent Expert does not conclude that the Scheme is in the best interests of Keycorp Shareholders.

Break Fee

A Break Fee of \$400,000 will be payable by Keycorp to Archer if:

- a Competing Proposal is recommended by Keycorp prior to the date of termination of the Scheme Agreement;
- a Competing Proposal is announced prior to the date of termination of the Scheme Agreement and within 1 year after the announcement the Competing Proposal is completed, provided that no Break Fee is payable if, at all times prior to the termination of the Scheme Agreement, the board of Keycorp did not recommend the Competing Proposal and actively defended the Competing Proposal;
- any member of the Keycorp Board fails to recommend the Scheme, withdraws their recommendation that Keycorp shareholders vote in favour of the Scheme, or makes a public statement indicating that they no longer support the Scheme (or that they support a Competing Proposal) in any case prior to the date of termination of the Scheme Agreement;
- Archer is entitled to terminate where there is an unremedied material breach of the Agreement by Keycorp, and terminates the Agreement; or
- a Keycorp Material Adverse Change or a Keycorp Prescribed Occurrence occurs (other than as a result of events outside the control of the Keycorp) and as a result either the applicable conditions precedent is not fulfilled or the Scheme Agreement is terminated by Archer.

Reverse Break Fee

Archer agrees to pay Keycorp a Break Fee of \$400,000 if Keycorp is entitled to terminate where there is an unremedied material breach of the Agreement by Archer, and terminates the Agreement.

Key Definitions

Announced Dividend

The final 2010 dividend of \$0.02 per Keycorp Share announced by Keycorp on 27 August 2010.

Competing Proposal

Competing Proposal means a proposed transaction or arrangement which would, if entered into or completed substantially in accordance with its terms, be inconsistent with the Scheme, or pursuant to which a person other than Archer would:

- directly or indirectly acquire, have a right to acquire or otherwise acquire an economic interest in, all or a substantial part of the business of the Keycorp Group;
- acquire a relevant interest in more than 20% of Keycorp Shares or



otherwise acquire control of Keycorp or the Keycorp Group within the meaning of section 50AA of the Corporations Act; or

- otherwise acquire or merge with Keycorp whether by way of takeover offer, scheme of arrangement, shareholder approved acquisition, capital reduction, share buy back, sale or purchase of assets, joint venture, reverse takeover, dual-listed company structure or other synthetic merger or any other transaction or arrangement.

Keycorp Material Adverse Change

A Keycorp Material Adverse Change will occur if one or more changes, events, occurrences or known matters which have, will have or will be reasonably likely to have:

- the effect of a diminution in the consolidated working capital (being current assets less current liabilities) of Keycorp and all its subsidiaries, taken as a whole (calculated on the basis of AIFRS and in the same manner as the Keycorp's financial statements as at 30 June 2010), of more than 10% as compared to that disclosed in Keycorp's audited financial statements as at 30 June 2010, adjusted for the Announced Dividends; or
- the effect of a diminution in the consolidated net assets of Keycorp and all its subsidiaries, taken as a whole (calculated on the basis of AIFRS and in the same manner as the Keycorp's financial statements as at 30 June 2010), of at least 10% as compared to that disclosed in the Keycorp's audited financial statements as at 30 June 2010, adjusted for payment of the Announced Dividends; or
- a diminution in the consolidated annual earnings before interest and tax (calculated on the basis of AIFRS and in the same manner as Keycorp's financial statements as at 30 June 2010), for the Financial Year ending 30 June 2011 of Keycorp and all its subsidiaries, taken as a whole, of at least \$500,000, as compared with Keycorp's position if the event had not occurred; or
- the result that Keycorp is unable to carry on its business in substantially the same manner as it is currently carried on or that its trading prospects or future value will be affected in a materially adverse manner,

other than:

- the execution of the Transaction Documents or announcement of the Scheme and the completion of the transaction contemplated by them; or
- an event, occurrence or change fairly disclosed in the Due Diligence Materials or in any announcement on ASX made by Keycorp prior to the parties entering into the Scheme Agreement.

Keycorp Prescribed Occurrence

Keycorp Prescribed Occurrence means: :

- Keycorp converting all or any of its securities into a larger or smaller number of securities;
- Keycorp or a Subsidiary resolving to reduce its capital in any way;
- Keycorp or a Subsidiary:
 - (a) entering into a buy-back agreement; or
 - (b) Keycorp resolving to approve the terms of a buy-back agreement under subsection 257C(1) or 257D(1) of the Corporations Act;
- Keycorp or a Subsidiary issuing shares, or granting an option over its shares or agreeing to make such an issue or grant such an option, including under any existing employee share plans of Keycorp;



- Keycorp or a Subsidiary issuing, or agreeing to issue, convertible notes;
- Keycorp agreeing to pay, declaring or paying a dividend to its members (other than the Announced Dividends);
- Keycorp or a Subsidiary disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property;
- Keycorp acquiring any asset which exceeds the amount of \$1,000,000 without the prior written consent of Archer (which may not be unreasonably withheld);
- an application being made to court or a resolution being passed or an order is made for the winding up or dissolution of Keycorp or a Subsidiary;
- Keycorp or a Subsidiary proposing or taking any steps to implement a scheme of arrangement or other compromise or arrangement with its creditors or any class of them;
- a receiver, receiver and manager, liquidator, provisional liquidator, administrator, trustee or similar officer being appointed in respect of Keycorp or a Subsidiary or any of its assets;
- there being issued any material proceedings commenced against Keycorp and Keycorp has failed to have those proceedings withdrawn or dismissed prior to the Second Court Date (except for any litigation the commitments which have been fairly disclosed to Archer);
- Keycorp making any change to its constitution without Archer's consent; and
- the resignation of any agreed key employee or, except as required by law or otherwise permitted under the Scheme Agreement or with the prior written consent of Archer (which may not be unreasonably withheld), any member of the Keycorp Group with respect to a key employee:
 - (a) materially altering the terms of employment;
 - (b) paying retention payments; or
 - (c) terminating their employment.

Scheme A scheme of arrangement under Part 5.1 of the Corporations Act between Keycorp and the Scheme Shareholders.

Superior Proposal Means a Competing Proposal which:

- in the determination of the Board acting in good faith is reasonably capable of being completed, taking into account both the nature of the Competing Proposal and the person or persons making it; and
- in the determination of the Board acting in good faith and in order to satisfy what the Board considers to be its fiduciary or statutory duties would, if completed substantially in accordance with its terms, result in a transaction more favourable to the Shareholders than the transactions contemplated by this Agreement.

Transaction Documents Means the following documents:

- the Scheme Agreement;
- the Scheme; and
- the Deed Poll.

