

ASX RELEASE

Sale of TNS business to Telstra for \$55 million

41 cents per share capital return; FY05 guidance upgraded

FOR IMMEDIATE RELEASE

Sydney, 28 June 2005

Secure electronic transaction solutions provider Keycorp Limited (ASX: KYC) today announced the sale of its Transaction Network Solutions (TNS) business to Telstra Corporation (ASX: TLS) for \$55 million and a related pro-rata capital return of 41 cents per share (totalling approximately \$33.5 million). The remaining sale proceeds after the pro-rata capital return will be largely available to fund growth opportunities including potential acquisitions.

Keycorp also announces an upgrade to FY05 revenue and earnings guidance.

The sale of the TNS business to Telstra and the pro-rata capital return are subject to Keycorp shareholder approval at an Extraordinary General Meeting (EGM) scheduled for late August 2005.

The TNS sale

The Keycorp board has taken into account a number of issues in reaching the decision to sell the TNS business to Telstra at this time, including but not limited to:

- ◆ **On-going investment:** The TNS platform requires continuous investment to reflect current technology and future investment is required to maintain the competitiveness of the TNS platform and develop the next generation of Internet Protocol (IP) based solutions.
- ◆ **Limited operational influence:** Keycorp has limited operational influence over the delivery of TNS services to customers. Given Telstra's expertise in networks and payments carriage, it has had responsibility for the delivery of TNS services to customers.
- ◆ **Business growth prospects:** Keycorp's share of TNS revenues reduced in the current financial year under the revenue sharing formula agreed with Telstra. Keycorp's other operations, over which it has full operational control, are all profitable and growing.

- ◆ **EPS impacts¹**: Keycorp expects that the result of the sale of the TNS business will be Earnings per Share (EPS) positive in the 2006 financial year and in subsequent periods.

Keycorp's Chief Executive Officer, Bruce Thompson said the TNS sale provides the opportunity for Keycorp to protect shareholder value by crystallising the present value of Keycorp's future TNS cash flows.

"Although the TNS business has been an important generator of cash in the past, our other operations, over which we have full operational control, exhibit greater growth potential going forward and, following a successful turnaround over the last few years, are profitable in their own right," he said.

"Keycorp and Telstra will continue to work together on a preferred basis to address opportunities in the secure payments market in Australia."

David Thodey, Group Managing Director of Telstra Business and Government, said: "The acquisition of the TNS business and the consequential ceasing of the associated revenue sharing arrangements with Keycorp makes good commercial sense for Telstra given the fair price paid for the business. This transaction also enables Telstra to tap into the enormous growth of IP technologies by developing IP-based payments solutions for its major bank and merchant customers, whilst also continuing to work together with Keycorp to exploit new market opportunities as they arise."

Telstra owns approximately 48 percent of Keycorp ordinary shares and has indicated to Keycorp that it has no plans to sell those shares.

Details of the new co-operation agreement between Telstra and Keycorp, to be entered into subject to shareholder approval, will be set out in an explanatory memorandum which is expected to be dispatched to Keycorp shareholders in late July 2005.

Pro-rata capital return

The board considers it appropriate to return a significant part of the proceeds from the sale to shareholders. The primary reason for returning capital is to ensure that Keycorp's capital structure is optimised. The board is of the view that, in the absence of a well advanced and significant acquisition opportunity, the retention of the entire proceeds from the TNS sale would be inefficient from a capital management perspective. However, the board also believes it is important that, in line with Keycorp's strategic vision, part of the sale proceeds should be retained for the purpose of growth opportunities such as acquiring controlling

¹ The EPS impacts referred to are made on the assumption that if the TNS business were to be retained, amortisation of goodwill associated with the TNS business would remain at \$10 million per annum.

interests in appropriate businesses with recurring income streams to replace the TNS business.

Subject to a special resolution of shareholders being approved, and assuming the sale of the TNS business is approved, all shareholders will receive a pro-rata capital return of 41 cents per share. Keycorp has requested an Australian Tax Office class ruling to confirm the nature (that is, capital v. income) of the pro-rata capital return.

The next steps

At the Extraordinary General Meeting, Keycorp shareholders will be asked to approve two interdependent resolutions for both the sale of the TNS business to Telstra and the pro-rata capital return. If approved, the TNS sale will be effective from 1 July, 2005 and it is anticipated that the pro-rata capital return of 41 cents per Keycorp share will be paid to shareholders in September 2005.

A notice of meeting and an explanatory memorandum which will contain an independent expert's report by Deloitte Corporate Finance Pty Limited is expected to be dispatched to shareholders in late July 2005.

Guidance upgrade

In relation to revenue and earnings guidance, the directors are pleased to advise Keycorp's FY05 revenue is forecast to rise approximately 38 percent to \$140 million from \$101.3 million in FY04. Previous guidance on FY05 revenue was a range of \$110 million to \$120 million.

The directors also advise that Keycorp's FY05 EBITDA is forecast to rise approximately 34 percent to \$29 million from \$21.6 million in FY04. Previous guidance on profit was limited to the company's expectation that EBITDA would grow in FY05.

The strong trend in FY05 revenue and profit is despite a lower forecast contribution from the TNS business. The EBITDA contribution from TNS in FY05 is forecast to fall approximately 36 percent to \$17.2 million from \$26.7 million in FY04.

Access Devices, Smartcards and Services & Fleet Management are all on track for strong increases in revenue and profit in FY05.

The stronger contribution within Services & Fleet Management includes the benefits of refinancing the \$100 million Westpac contract. The refinancing will remove the existing project debt and the related fixed assets from the balance sheet. The move to off balance sheet financing better aligns the revenue and profit with actual work undertaken and cash flow generated. As a result, a more significant proportion of revenue and profit will be

reflected in the early years (rather than the later years) of the contract. In particular, the refinancing will bring forward an additional \$18 million of revenue in FY05. Total revenue for the year from the contract is likely to be \$33 million.

This guidance upgrade is subject to relevant legal documentation for the refinancing of the Westpac contract being signed. Keycorp believes that all material terms of the refinancing have been agreed and anticipates the documentation being signed prior to 30 June 2005.

Taxation

In preparing the TNS business for sale, it has become apparent that, due to potentially incorrect utilisation of tax losses in 2001/2002, additional tax payments may be required to be made to the ATO. The tax payment may range from zero to \$4.6 million and the future income tax benefit (FITB) on Keycorp's balance sheet may need to be reduced by an amount of between zero and \$6.5 million. Keycorp will continue to investigate whether a tax payment and/or a reduction of the FITB will be required.

It is important to note that actual amounts have yet to be finalised and therefore it is inappropriate to give after-tax earnings guidance at this time.

Summary

"Our performance year-to-date is ahead of budget and reflects the benefits of our lower cost base following a period of reorganisation coupled with the emerging success of our growth strategy," said Mr Thompson.

"Our vision is to transform from a product-based business to a solutions and services business in the secure electronic transactions sector. The sale of the TNS business and the recently announced acquisition of a majority stake in Fox Technology Ltd is part of this transformation. We have a range of growth opportunities in payment terminals, smartcards, managed services and IP-based payment solutions.

"If shareholders approve our strategy for divestment of the TNS business we will be very well placed to accelerate our growth because our cash reserves will increase by around \$20 million after completion of the TNS sale and pro-rata capital return."

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Notes to Editors

About Keycorp

Keycorp Limited (ASX: KYC) is a global provider of secure electronic transactions: with solutions from smartcards and point-of-service transaction systems to managed terminal services.

Keycorp's electronic payment terminals include EMV-compliant terminals capable of processing credit, charge, debit and stored value transactions. The terminals are designed for use at a retail point of sale, over the phone, in mobile environments or via the Internet, and can communicate with host systems via fixed or mobile communications.

The company is a founding member of the MULTOS consortium, which has responsibility for developing the MULTOS multi-application smartcard operating system. Keycorp develop and distribute smartcard operating systems such as MULTOS as well as smartcard applications.

Keycorp's services business provides deployment, training, onsite services, maintenance, warranties and repair programs, expedited replacement, tele-training, help-desk, remote terminal management, asset tracking, and asset management.

For further information see: <http://www.keycorp.net> or contact:

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