ANNUAL REPORT 2018

Table of Contents

Chairman's Letter

Dear Shareholders

It has been an exciting 12 months here at Tyro, one in which many new milestones were met, considerable investment was made and new initiatives were put in motion. All of which positions us well for success and we are in great shape, with a team that is truly engaged and totally focused on the year ahead.

On behalf of 'Team Tyro', I thank you all for your support throughout the 2018 financial year and for your continuing support.

The Year in a Snapshot – One of Outstanding Growth

In the Financial Statements and in the CEO's Review that follow, you will see we had a successful year growing our payments business whilst building out Tyro's suite of banking products. The financial highlights in FY18 included:

- 23% increase in total revenues to $148.3 million (FY17: $120.6 million);
- 26% increase in the value of payments transacted reaching $13.4 billion (FY17: $10.6 billion);
- 127% increase in loan originations in the year reaching $25.2 million (FY17: $11.1 million);
- 197% increase in deposit balances ending the year at $11.6 million (FY17: $3.9 million).

In keeping with our approach in prior years, our investment in technology and product development in FY18 has again been fully expensed, so that no internal development spend is carried on the Balance Sheet. This approach, coupled with our continuing investment in developing our products and capabilities, saw Tyro report a net loss after tax of $16.4 million (FY17: $12.8 million).

Operating Environment

It is perhaps an understatement to say the financial services sector in Australia is in the press for all the wrong reasons. The Financial Services Royal Commission has headlined numerous examples of poor sector behaviours and bad practice.

Tyro's mission since establishing its operation some 15 years ago is to concentrate on providing a long-neglected segment, 'Australia's small and medium businesses' with alternative banking services that put the customer first.

Our customer centric approach continues today where the culture at Tyro is to 'do the right thing'. This simple message, is our recipe for success.

Exceptional Team

I am pleased to say Tyro has an exceptionally talented, creative and driven team. They have a passion for making payments and banking for Australia's small and medium businesses a seamless and integrated experience. Our FY18 achievements were made possible by 'Team Tyro's' commitment to service and innovation. I acknowledge and express my appreciation of their commitment to pursuing our vision and thank them one and all for their efforts over this financial year.

Management + Board Changes

In January this year, we announced the appointment of Robbie Cooke as our new CEO and he got his 'feet under the desk' on 23 March. Your Board considered Robbie the ideal person to lead the Company through its next phase of growth with his background and experience in Australia customer-centric, digitally-oriented and technology-driven businesses (as the former Managing Director / CEO of both ASX-listed Tatts Group and Wotif.com). Robbie took the reins from Rob Ferguson who, since June 2017, led the Tyro executive team as acting Managing Director and CEO. I am happy to report that the leadership transition to Robbie was trouble free.

In July 2018 Rob Ferguson announced that he had decided after 12 years it was the right time for him to step down from his Board role at Tyro. Rob remains a shareholder and continues to be a passionate advocate of the Company. The entire team at Tyro has huge respect for Rob. On behalf of us all, I thank Rob for his significant commitment to the Company. Especially for his taking on the role as Acting CEO for a period of 9 months at the start of this financial year. We all owe Rob a significant debt of gratitude – thanks Rob!

With Rob’s departure, we welcomed David Fite to our Board. David brings a wealth of banking acumen and expertise by reason of his time as a senior banking executive (previously holding roles of Treasurer, Assistant CFO and a Group Executive at Westpac, and CFO and Senior Corporate Executive Officer at Japan’s Shinsei Bank). David is also an active investor in fintech companies (including Tyro since 2008).

Finally, at our Annual General Meeting last October after his serving as Tyro’s CEO and a Director for 12 years, Jost Stollmann did not stand for re-election. For more than a decade, Jost played a pivotal role at Tyro and it’s fair to say we would not be where we are today without him. I take this opportunity to say Jost, thanks from us all for your outstanding leadership and service at Tyro.

Towards a Successful FY19

With a talented and committed leadership team in place, a well-defined project pipeline locked in, clear goals and targets set and our passionate, dedicated and innovative Tyro team, I am excited to say that we are heading into FY19 in the best possible position. I express my gratitude to the Tyro team and to my fellow Tyro Board Members both past and present, for their commitment to the Company and for their contributions in the financial year, just past.

In closing, also at our Annual General Meeting last October I said that “*I believe that now is the right time for another person to chart Tyro’s course*”. Whilst my replacement as Chair of the Board has not been announced, our search is well progressed and I confirm my intention to leave the Board following the appointment of my successor.

On behalf of all your Tyro Directors, I look forward to joining you at our 2018 Annual General Meeting when we will have the opportunity to present our FY18 results to you in detail. If you are unable to attend our AGM in person we will provide an opportunity to ‘dial-in’ to ensure you are able to benefit from that update.

Again, thank you for your support.

Sincerely

Kerry Roxburgh
Chairman
Tyro Payments Limited

4 September 2018

Chief Executive Officer's Operating + Financial Review

Tyro is a truly unique business and in writing my first report to you as Tyro's CEO I wanted to take a few moments to reflect on what sets Tyro apart, as we are proudly different.

Tyro's DNA

Unlike most of today's 'fintechs' we have a long and successful history, having established our operation some 15 years ago in the EFTPOS / payments space. This was at a time when the 'glamour' and attention many of today's fintechs receive was virtually non-existent and the prospect of succeeding in what was a closed market was seen by many as remote at best.

In a similarly contrarian way, three years ago as a fintech we applied for and were granted an unrestricted Australian Banking Licence – the first new local entrant to the banking sector in a decade. We took this step with a plan and determination to establish a banking and payments business purpose built for Australia's small and medium enterprises – the backbone of our economy – who had been neglected by this country's banks for years.

Today we have a full, unrestricted, banking licence but unlike others we intend to stay niche, nimble and focused on designing products specific to our SME customers' wants, and to deliver these services in the right way. We remain a challenger at heart with an absolute focus on:

- disrupting the status quo for the benefit of our customers;
- re-engineering banking and payments to remove friction; and
- putting our customers at the centre of all that we do.

We work with some amazing businesses and are genuinely inspired by their success. This is the essence of Tyro and what drives us as a team.

The Year in Review

The 2018 financial year proved to be a very successful year for Tyro, with our three key business streams (payments, loans and deposits) showing strong growth. We continued to invest in building our segment position in the year and this strategy saw us:

- continue to expand our team;
- build on our product suite and functionality;
- become more focused on customer acquisition and retention; and
- invest in our systems and transactional scalability.

In our payments business we processed $13.4 billion in transactions on behalf of our merchants, a lift of 26% on the prior year (FY17: $10.6 billion) accelerating growth beyond the 23% year-on-year performance in the prior year. We added close to 5,000[1] new merchants to our payments business taking the total number of merchants trusting Tyro with their EFTPOS / payments requirements to more than 23,000 – a 27% increase on FY17 (and up on the 18% growth achieved in FY17).

In our banking business, our merchant cash advance loan product, which has to date only been offered to circa 4,000 of our 23,000 merchants, is showing a very promising growth profile and strong repeat usage. Since product inception we have originated more than $35 million in loans of which $25.2 million were originations made in FY18, a 127% lift (FY17: $11.1 million in originations).

Similarly, strong growth, albeit from a low base has been achieved by our Tyro Bank Account. This fee-free and interest paying business transaction deposit account achieved strong momentum with 1,285 active accounts in existence at year's end, a 262% increase on prior year (FY17: 355 active accounts).

In combination the strong performance from these three product streams saw our revenue in FY18 increase by 23% reaching a record $148.3 million (FY17: $120.6 million).

[1] Using Merchant IDs as a proxy for our customer numbers.

As we continued to invest in our technology platform; our team; and customer acquisition, our expenses (including impairment expenses) increased 22% to $86.6 million (FY17: $71.1 million). Consistent with prior years, we have not carried forward any capitalised internal IT or development spend – with all these costs being in effect expensed in the period incurred. This continuing investment in our business, coupled with our approach of expensing (not capitalising) all our technology development expenses again saw us in a loss position, with Tyro posting a net loss after tax of $16.4 million (FY17: loss of $12.8 million).

Our business is well positioned with total cash and investments of $85.5 million held at the end of the financial year (FY17: $97.6 million). Our total regulatory capital balance is also strong at $96.5 million (FY17: $109.9 million) and our capital ratio is very healthy at 139% (FY17: 179%). The capital ratio decline is partially due to the more efficient use of capital as we continue building our lending business.

Payments

Touching on our payments operation in a little more detail and as mentioned we saw very strong growth in our merchant numbers increasing from 18,329 to 23,245 at the end of FY18.

This 27% lift was the result of a renewed focus on customer acquisition which saw new merchant applications increase 56%. The increase in merchant numbers was also driven by an increase in our direct integration efforts with our Point of Sales (**POS**) and Practice Management Systems (**PMS**) partners. At the end of the financial year we had a segment leading 257 POS and PMS partners working with us (FY17: 231), with all these systems integrating seamlessly with our payment terminals. Our merchant satisfaction and retention levels were also a key area of attention in the year and we achieved market leading outcomes in both of these important areas.

As mentioned the value of transactions processed on our platform grew an impressive 26% with $13.4 billion in credit and debit card transactions processed in the 12 months to 30 June 2018 (FY17: $10.6 billion). We achieved an all-time record in monthly transaction values in December 2017 with $1.3 billion being processed in that month alone. Pleasingly even with these volume increases, our ongoing transaction reliability to our merchants remained at a high of 99.99% uptime availability for our core acquiring platform.

All the above factors combined to drive a very strong revenue outcome from our payments operation of $143.0 million (FY17: $115.8 million).

Banking Operations

Our two banking products, whilst still in their infancy, are displaying positive trends. These products are focused on providing our customers with innovative ways to meet their transactional and unsecured lending needs.

Deposits

Our Tyro Bank Account is a fee free interest bearing transactional account. As at 30 June 2018 we had 1,258 active Tyro Bank Accounts up from 355 as at 30 June 2017. We held $11.6 million of funds on deposit as at 30 June 2018 compared with $3.9 million a year prior.

Loans

Our Tyro Business Loan is a cash-flow based unsecured loan purpose-built to assist SMEs in growing their businesses. This product provides small unsecured loans to eligible Tyro merchants which are repaid via a pre-agreed percentage of their daily EFTPOS / payments settlements, offered on the basis of a fixed fee.

With average loan balances of less than $40,000 and an average loan term of less than 6 months, this product is being used by many of our SMEs as a way of accessing cash flow earlier to accelerate their growth initiatives. The highly attractive feature of this product is its ease of management, with repayments that cycle up or down in accordance with a merchant's daily card transaction volumes.

This innovative product was soft launched in early 2017 and to date it has only been offered to around 4,000 of our 23,000 merchants. As mentioned the product is displaying a very promising growth profile and has achieved strong repeat usage. We achieved a 127% lift in loan originations in FY18 reaching $25.2 million (FY17: $11.1 million) taking the total originations since product inception to more than $35 million in loans.

New Initiatives

We were proud to have been the first (and to date only) bank to have launched 'least cost routing' to market. Our 'Tap + Save' feature is a cost-saving initiative for our merchants that directs card payments through the transaction path that is the lowest cost for the merchant, instead of the most profitable for the bank. This initiative is a clear demonstration of our commitment to doing the right thing for those Australian businesses that have chosen to partner with Tyro.

Towards the end of FY18 we launched our 'born for business' marketing campaign to build awareness of Tyro in the market which is understandably low given the absence of a sustained marketing effort in the past. A continual marketing profile will be a feature in FY19 and beyond.

We secured exclusive rights with six of Australia's leading hospitality Point of Sale (**POS**) providers to connect to our newly announced Tyro Platform which is in development. This Platform aims to streamline the connectivity of third-party apps (such as Order Ahead and Loyalty apps) to POS systems. This initiative builds on our long history of system integration expertise and aims to remove the friction and complexity that multiple apps cause for merchants in their day-to-day operations.

We announced last week that we had entered into an agreement with the world's largest mobile and online payment platform, Alipay, to become the first Australian bank to offer a seamless, all-in-one EFTPOS solution with Alipay for Tyro's merchants and improve Australian businesses' access to the Chinese visitor market. We expect the first merchant integration to be operational this calendar year.

Also last week, Tyro was announced as the winner of the "Best Payments Services Bank" category at the prestigious 2018 Australian Business Banking Awards beating several of the 'majors' for this award.

In closing, I thank the amazing and talented team at Tyro - it is their enthusiasm, commitment and sheer hard work that drove our performance in FY18 and so I thank one and all for making our results in the year possible.

As always, our Annual General Meeting will provide an opportunity to provide you with further insights and to outline a few of the new initiatives we have in the pipeline for FY19, I hope you can join us for this event on 25 October 2018.

Robbie Cooke

Robbie Cooke
Chief Executive Officer
Tyro Payments Limited

4 September 2018

Directors' Report

The Board of Directors of Tyro Payments Limited (the **Company** or **Tyro**) present their report together with the financial statements for the financial year ended 30 June 2018.

DIRECTORS AND COMPANY SECRETARIES

The names and details of Tyro's Directors that held office during the period commencing on 1 July 2017 and ending on the date of this report are:

- Kerry Roxburgh
- Michael Cannon-Brookes
- Robert Ferguson (resigned 3 July 2018)
- David Fite (appointed 3 July 2018)
- Catherine Harris
- Paul Rickard
- Hans-Josef Jost Stollmann (resigned 17 October 2017)

Skills, qualifications, term of office, experience and responsibilities for each Director are set out below.

Kerry Roxburgh, Chairman

Non-executive Director since 18 April 2008

Kerry is currently the Lead Independent Non-executive Director of Ramsay Health Care Ltd and a Non-Executive Director of the Medical Indemnity Protection Society and of MIPS Insurance Ltd. He is Chairman of the Eclipx Group Ltd.

Kerry is a Member Practitioner of the Stockbrokers and Financial Advisers Association of Australia. In 2000 he completed a 3 year term as CEO of E*TRADE Australia (a business that he co-founded in 1997), continuing as its non-executive Chairman until June 2007, when it was acquired by the ANZ Bank and subsequently re-named ANZ Share Investing. Prior to this appointment he was an Executive Director of Hong Kong Bank of Australia Group (now HSBC Bank Australia) where for 10 years from 1986, he held various positions including Head of Corporate Finance and Executive Chairman of the group's stockbroker, James Capel Australia. Until 1986 Kerry practiced for more than 20 years as a Chartered Accountant.

Other Current Directorships

Chairman of ASX listed Eclipx Group Limited (Director since March 2015); Non-executive Director of ASX listed Ramsay Healthcare Ltd (since July 1997); Directorships with Medical Indemnity Protection Society Ltd and MIPS Insurance Pty Ltd.

Special Responsibilities

Chairman of the Board of Tyro, a Member of the Audit Committee, a Member of the Risk Committee and a Member of the Nominations and Remuneration Committee.

Mike Cannon-Brookes

Non-executive Director since 10 December 2009

Mike Cannon-Brookes is the Co-Founder and Co-CEO of Atlassian, a collaboration software company that helps teams organise, discuss and complete shared work. More than 120,000 large and small organisations across the world, including companies like Citrix, Dominos, Qantas and Twitter use Atlassian's collaboration products to help their teams work better together.

Mike was the youngest person ever to be awarded the 'Australian Entrepreneur of the Year' in 2006 by Ernst & Young alongside Co-Founder and Co-CEO Scott Farquhar. In 2016 they were awarded the AFR's 'Australian Business Person of the Year' and in 2017 Forbes named them on their 'Global Game Changers' list. Mike was recognised by the World Economic Forum as a 'Young Global Leader' in 2009.

Outside Atlassian, Mike is a technology investor in the areas of software, fintech, agriculture and energy. He serves as an adjunct professor at the University of New South Wales' School of Computer Science and Engineering, as well as chair of the Computer Science and Engineering Industry Advisory Board.

Mike holds a Bachelor of Commerce in Information Systems from the University of New South Wales, Australia.

Other Current Directorships

Executive Director of NASDAQ listed Atlassian Corp Plc (Director since October 2002); Non-executive Director of Zoox, Inc.

Special Responsibilities

Member of the Risk Committee.

Rob Ferguson

Non-executive Director since 17 November 2005, resigned 3 July 2018

During the year, Rob held the position of Acting Managing Director and Acting Chief Executive Officer of Tyro from 14 June 2017 to 23 March 2018.

Rob began his career as a research analyst for a Sydney stockbroker. He joined Bankers Trust Australia in 1972 and became Managing Director in 1985. By mid 1990s, BT had $50 billion under management. Rob became chairman of BT Funds Management in 1999 until he resigned from the position in 2002. He was previously Non-Executive Director of IMF Bentham Ltd and Westfield.

Other Current Directorships

Non-executive Director with ASX listed Watermark Neutral Fund Ltd; Non-executive Chairman of Smartward Pty Ltd.

Special Responsibilities

Acting Managing Director and Acting Chief Executive Officer of Tyro (resigned 23 March 2018).

Former Listed Public Company Directorships in Last 3 Years

Non-executive Chairman of the GPT Group (ceased 2 May 2018); Non-executive Chairman of Primary Health Care Limited (ceased 20 July 2018).

David Fite

Non-executive Director since 3 July 2018

David is currently an investor in various credit, financial services and technology businesses, and has been a shareholder in Tyro since 2008. David has significant executive experience in the financial services sector both domestically and globally. David has worked at Westpac Banking Corporation (holding various roles, including Treasurer, Assistant Chief Financial Officer and the Group Executive responsible for all retail and business banking products in Australia). David has also worked at Japan's Shinsei Bank (formerly known as The Long-Term Credit Bank of Japan) as its Senior Corporate Executive Officer, Chief Financial Officer and a member of its Board. Prior to entering the financial services sector, David was a consultant at Bain & Company in Boston and London focussing on manufacturing and consumer products industries.

Other Current Directorships

Non-executive Director of Judo Capital Holdings Ltd and Judo Capital Pty Ltd; Non-executive Director of Evari Insure Pty Ltd; Non-executive Director of Collect Ltd (New Zealand company).

Catherine Harris

Non-executive Director since 17 December 2015

Catherine is the Chair of Harris Farm Markets Pty Ltd. Her previous roles have included Federal Director of the Affirmative Action Agency and Deputy Chancellor of the University of NSW, Trustee of the Sydney Cricket Ground Trust, The National Gallery of Australia, The Australian Defence Force Academy, The MCA, St Margaret's Public Hospital, The Australian Rugby League Commission and the Australia Japan Foundation.

Catherine is an Officer in the Order of Australia and was awarded the Australian Public Service Medal, The Centenary Medal and has an Honorary Doctorate in Business from UNSW.

Other Current Directorships

Chair of Harris Farm Markets Pty Ltd; Director of The Australian Ballet; Independent Director of The Sports Australia Hall of Fame; Director of The Australian School of Business of UNSW.

Special Responsibilities

Chair of the Nominations and Remuneration Committee and a Member of the Audit Committee.

Paul Rickard

Non-executive Director since 28 August 2009

Paul is a company director, financial adviser and financial services consultant. He was previously the Executive General Manager, Payments & Business Technology for the Commonwealth Bank. During his 20 year career at the CBA, Paul was the founding Managing Director of CommSec, which he led from 1994 through to 2002. In 2005, Paul was named 'Stockbroker of the Year' and admitted to the Industry Hall of Fame.

Other Current Directorships

Non-executive Director of Property Exchange Australia Ltd, Switzer Asset Management Limited and ASX listed WCM Global Growth Ltd (April 2017) and holds Board positions with several other Australian private companies.

Special Responsibilities

Chair of the Audit Committee, Chair of the Risk Committee and a Member of the Nominations and Remuneration Committee.

Jost Stollmann

Non-executive Director, appointed as a Director on 5 April 2005, resigned 17 October 2017

Prior to taking up the Non-executive Director position, Jost held the position of Executive Director and Chief Executive Officer of Tyro since 5 April 2005. Jost retired as Chief Executive Officer, effective 24 October 2016 and as Executive Director, effective 14 June 2017.

Jost founded and grew the German system and network integrator CompuNet Computer AG into a US$1B company, sold it to GE Capital and led the integration and expansion of GE Capital IT Solutions across the continent as president of Europe. As Federal Shadow Minister of Economy and Technology, he ran and managed his own election campaign contributing significantly to the landslide victory of the first German government of Chancellor Gerhard Schröder.

Company Secretaries

Tyro's Company Secretaries as at 30 June 2018 were Justin Mitchell and Sami Wilson.

Justin was appointed on 19 March 2007 to build and manage the compliance and risk frameworks and oversee all regulatory obligations. Justin was appointed Company Secretary on 12 April 2007. In addition, Justin is the Chief Risk Officer.

Sami was appointed Company Secretary on 7 May 2018. In addition, Sami is Tyro's Senior Legal Counsel and joined Tyro in April 2018. Sami holds Bachelors of Law and Commerce and was previously a member of Herbert Smith Freehills' Private Equity team.

DIVIDENDS

No dividends or distributions were declared or paid for the year ended 30 June 2018.

CORPORATE INFORMATION AND CAPITAL STRUCTURE

Corporate Structure

Tyro is an unlisted public company. It is incorporated and domiciled in Australia. The registered office of the Company is Level 1, 155 Clarence Street, Sydney, New South Wales, 2000.

Capital Structure

Tyro's issued share capital as at the date of this report was 440,432,695 fully paid ordinary shares.

During the period commencing on 1 July 2017 and ending on the date of this report, 15,840,945 fully-paid ordinary shares were issued by Tyro upon the exercise of options, raising a total of $2.9 million in fully paid capital.

As at the date of this report, there were 36,334,251 unissued ordinary shares under options. When the options are exercised (assuming they have vested), Tyro will issue one fully-paid ordinary share in respect of each option exercised. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company. The expiry dates in respect of these options range from 29 August 2019 to 1 March 2024 (depending on the date of grant). The shares to be issued on exercise of these options will be issued at the relevant option's exercise price. The exercise prices for the outstanding options are: $0.06, $0.08, $0.10, $0.12, $0.14, $0.375, $0.45, $0.60, $1.49, $1.62 and $1.76.

Director and Officer Option Grants

During the period commencing on 1 July 2017 and ending on the date of this report (**Reporting Period**), the following options were granted by Tyro to:

- Tyro's Directors; and
- Tyro's 5 most highly remunerated officers (other than Directors).

When the options are exercised Tyro will issue one fully-paid ordinary share in respect of each option exercised.

Director	Options granted during Reporting Period
Kerry Roxburgh	75,000
Mike Cannon-Brookes	50,000
Rob Ferguson	250,000[1]
David Fite	75,000
Catherine Harris	50,000
Paul Rickard	50,000
Jost Stollmann	-
Officer	
Robbie Cooke, Chief Executive Officer	-
David Coombes, Director of Engineering	450,000
Bronwyn Yam, Director of Product	450,000
Joshua Walther, Director of Sales	250,000
Prav Pala, Chief Financial Officer	250,000

[1] At the time of the grant of these options, Rob Ferguson held the position of Acting Managing Director and Acting Chief Executive Officer of Tyro. Upon Rob's resignation as a Director on 3 July 2018, 229,185 of these options were forfeited as they had not yet vested.

OPERATING AND FINANCIAL REVIEW

Nature of Operations and Principal Activities

Tyro is an Australian bank and operates under the supervision of the Australian Prudential Regulation Authority (**APRA**). Tyro provides credit, debit and EFTPOS card acquiring, Medicare and private health fund claiming and rebating services to Australian businesses. Tyro takes money on deposit and offers unsecured cash-flow based lending to Australian EFTPOS merchants. The Company has implemented appropriate systems and controls to comply with the stringent prudential and regulatory requirements within the Australian Banking System.

Review of Operations and Financial Position

The Company reported the following operating results for the year and the comparative period:

(amounts in $'000s)	2018	2017
Revenue	$148,251	$120,628
Operating income	$69,088	$56,090
Operating loss before tax expense	($17,521)	($14,988)
Net loss	($16,370)	($12,775)

The Company had a net loss of $16.4 million for the year ended 30 June 2018. The Company continued to scale up its investment in building its banking business and embarked on a significant growth program including new product design, improved operating systems and distribution. The Company had interest income of $4.1 million for the year.

For further information refer to the CEO's Review on pages 5 to 7.

Regulatory Landscape, Capital and Funding

The Company holds an authority under the *Banking Act 1959* (Cth) to carry on a banking business as an Authorised Deposit-taking Institution and is subject to prudential capital requirements set by APRA. The Company is fully compliant with the prudential capital requirements prescribed by APRA and has sufficient capital to fund on-going operations. The information required by APS 330: Public Disclosure is provided in the 'Investors' section of Tyro's website at www.tyro.com/investors (under Regulatory Disclosures).

The Company had cash and cash equivalents of $28.6 million at the end of the reporting period.

Total Tier 1 capital held as at 30 June 2018 was $95.7 million. The Company has always held sufficient capital to meet its internal targets above APRA's prudential capital requirements.

Risk Management

The Board is responsible for reviewing and approving the risk management strategy, including determining the Company's appetite for risk. The Chief Executive Officer and Management team are responsible for implementing the risk management strategy and framework, and for developing policies, controls, processes and procedures for identifying and managing risk.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant events during the financial year

On 23 March 2018, Robbie Cooke was appointed as Chief Executive Officer.

Significant events after the balance date

In the opinion of the Directors, there have been no matters or circumstances which have arisen between 30 June 2018 and the date of this report that have significantly affected or may significantly affect the operations of the Company, the result of those operations or the state of affairs of the Company in subsequent financial years.

Likely developments and expected results

Tyro's key priorities and strategies for FY19 and beyond are discussed in the CEO's Review on pages 5 to 7. In the Directors' opinion, any further disclosure of information would be likely to result in unreasonable prejudice to the Company.

INDEMNIFICATION AND INSURANCE

The Company's Constitution allows the Company to pay insurance premiums for contracts insuring a Director, Secretary or other officer of the Company against any liability incurred in that person's capacity as an officer of the Company, to the extent permitted by law. During the financial year, consistent with the Company's Constitution, the Company paid a premium in respect of a contract insuring the current and former Directors of the Company, the Company Secretaries and the officers of the Company. The contract of insurance prohibits disclosure of the nature of the liabilities insured against and the amount of the premium.

Clause 104.1 of the Company's Constitution provides that each current and former Director, Secretary or other officer of the Company is indemnified, to the maximum extent permitted by law against any liability incurred by the person in their capacity as an officer of the Company (including legal costs incurred in defending any legal action or proceedings). The Company has also entered into deeds of indemnity, insurance and access with its Directors, Chief Executive Officer, Company Secretaries and Chief Financial Officer (and certain former officers) which will indemnify them against liability incurred as an officer of the Company, to the extent permitted by law.

Pursuant to the terms of the Company's standard engagement letter with the Company's auditor, Ernst & Young (**EY**), the Company has agreed to indemnify EY against any liability incurred as auditor, to the extent permitted by law.

MEETINGS OF DIRECTORS

The number of Board meetings and meetings of Board Committees held during the year and the number of meetings attended by each Director is as follows:

	Board		Audit Committee		Risk Committee		Nominations & Remuneration Committee	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Kerry Roxburgh	10	9	4	3	6	6	2	2
Mike Cannon-Brookes	10	6	nm	nm	6	2	1	1
Rob Ferguson[2]	10	8	nm	nm	nm	nm	nm	nm
Catherine Harris	10	8	4	2	3	3	2	2
Paul Rickard	10	10	4	4	4	4	1	1
Jost Stollmann[3]	4	4	nm	nm	nm	nm	1	1

A: number of meetings during the year while the Director was a member of the Board or Committee

B: number of meetings attended by the Director as a member during the year

nm: not a member of the relevant Committee

Committee Membership

As at the date of this report, the Company had a Board Audit Committee, a Board Risk Committee and a Board Nominations and Remuneration Committee.

Directors appointed to the Board Committees as at 30 June 2018 were:

Audit Committee	Risk Committee	Nominations & Remuneration Committee
P. Rickard (Chair)	P. Rickard (Chair)	C. Harris (Chair)
C. Harris	M. Cannon-Brookes	P. Rickard
K. Roxburgh	K. Roxburgh	K. Roxburgh

[2] Rob Ferguson resigned as a Director, following conclusion of the financial year, on 3 July 2018.
[3] Jost Stollmann resigned as a Director, on 17 October 2017.

Building a better
working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of Tyro Payments Limited

As lead auditor for the audit of Tyro Payments Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

Ernst & Young

Andrew Price
Partner
4 September 2018

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $000	2017 $000
Continuing Operations			
Fees and commission income	2	142,213	115,453
Interchange, integration and support fees expense	2	(78,511)	(63,761)
Net fees and commission income		63,702	51,692
Interest income on loans		1,567	450
Interest expense on deposits		(110)	(33)
Net banking operating income		1,457	417
Terminal and accessories sale		810	327
Terminal and accessories COGS		(542)	(744)
Net terminal and accessories sale income/(expense)		268	(417)
Interest income on treasury investments		2,498	2,866
Other income	2	1,163	1,532
Total operating income		**69,088**	**56,090**
Expenses			
Employee benefits expense (exc. share-based payments)	2	(53,370)	(45,820)
Share-based payments expense		(1,411)	(1,841)
Administrative expenses	2	(24,081)	(16,920)
Depreciation	9	(7,064)	(5,984)
Bank fee expenses		(181)	(180)
Impairment of inventories		-	(16)
Other expenses		(71)	(34)
Total operating expenses		**(86,178)**	**(70,795)**
Loan impairment expense	7	(411)	(230)
Foreign currency loss		(20)	(53)
Operating loss before tax expense		**(17,521)**	**(14,988)**
Income tax benefit	3	1,151	2,213
Net loss for the year		**(16,370)**	**(12,775)**
Other comprehensive income			
Net fair value gain on available-for-sale investments, net of tax		232	203
Total comprehensive loss for the period		**(16,138)**	**(12,572)**

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	2018 $000	2017 $000
ASSETS			
Current assets			
Cash and cash equivalents	4	28,564	24,052
Due from other financial institutions	5	17,812	52,438
Trade and other receivables	6	15,935	10,489
Prepayments		1,925	1,992
Inventories		2,588	1,148
Loans	7	7,590	4,511
Total current assets		74,414	94,630
Non-current assets			
Available-for-sale investments	8	39,097	21,097
Property, plant and equipment	9	14,696	13,482
Net deferred tax assets	3	11,351	10,300
Total non-current assets		65,144	44,879
TOTAL ASSETS		**139,558**	**139,509**
LIABILITIES			
Current liabilities			
Deposits	11	11,563	3,948
Trade payables and other liabilities	12	13,764	11,000
Provisions	13	3,922	2,636
Total current liabilities		29,249	17,584
Non-current liabilities			
Provisions	14	768	534
Total non-current liabilities		768	534
TOTAL LIABILITIES		**30,017**	**18,118**
NET ASSETS		**109,541**	**121,391**
EQUITY			
Contributed equity	15	141,258	138,381
Reserves	15	13,973	12,157
Accumulated losses	15	(45,690)	(29,147)
TOTAL EQUITY		**109,541**	**121,391**

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $000	2017 $000
Cash flows from operating activities			
Fees and commission income received		142,178	115,265
Interchange, integration and support fees expenses paid		(78,582)	(63,783)
Interest received		4,004	2,827
Interest paid		(103)	(29)
Other operating income received		1,998	1,733
Payments to employees and suppliers:			
Personnel expenses paid		(52,321)	(45,134)
Terminals purchased		(5,179)	(5,060)
Other operating expenses paid		(24,432)	(17,409)
Movement in net schemes receivable and other		(4,489)	(2,729)
Cash flows from operating activities before changes in customer deposits and lending balances		**(16,926)**	**(14,319)**
Net increase in customer loans		(3,489)	(4,741)
Net increase in retail deposits		7,616	3,489
Changes in customer deposits and lending balances arising from cash flow movements		**4,127**	**(1,252)**
Net cash flows from operating activities	4	**(12,799)**	**(15,571)**
Cash flows from investing activities			
Movement in term deposit investments			
Purchases		-	(24,698)
Proceeds on maturity		35,013	281
Movement in available-for-sale investments			
Purchases		(17,668)	(20,125)
Purchase of property, plant and equipment (exc. terminals)		(2,891)	(1,822)
Net cash flows from investing activities		**14,454**	**(46,364)**
Cash flows from financing activities			
Proceeds from exercise of share options	15	2,877	3,815
Net cash flows from financing activities		**2,877**	**3,815**
Net increase/(decrease) in cash and cash equivalents		4,532	(58,120)
Effect of foreign exchange rates on cash and cash equivalents		(20)	(52)
Cash and cash equivalents at beginning of year		24,052	82,224
Cash and cash equivalents at end of year	4	**28,564**	**24,052**

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

		Attributable to equity holders of Tyro Payments Limited						
	Note	**Contributed Equity $000**	**Available-for-Sale Revaluation Reserve $000**	**Share-Based Payments Reserve $000**	**Accumulated Losses $000**	**Option Premium Reserve $000**	**General Reserve for Credit Losses $000**	**Total $000**
At 30 June 2016		**134,566**	**420**	**8,435**	**(15,831)**	**167**	**550**	**128,307**
Loss for the year		-	-	-	(12,775)	-	-	(12,775)
Other comprehensive income		-	203	-	-	-	-	203
Total comprehensive income		-	203	-	(12,775)	-	-	(12,572)
Issue of share capital – from options exercised		3,815	-	-	-	-	-	3,815
Share-based payments		-	-	1,841	-	-	-	1,841
Transfer to general reserve for credit losses		-	-	-	(541)	-	541	-
At 30 June 2017		**138,381**	**623**	**10,276**	**(29,147)**	**167**	**1,091**	**121,391**
Loss for the year		-	-	-	(16,370)	-	-	(16,370)
Other comprehensive income		-	232	-	-	-	-	232
Total comprehensive income		-	232	-	(16,370)	-	-	(16,138)
Issue of share capital – from options exercised		2,877	-	-	-	-	-	2,877
Share-based payments		-	-	1,411	-	-	-	1,411
Transfer to general reserve for credit losses		-	-	-	(173)	-	173	-
At 30 June 2018	15	**141,258**	**855**	**11,687**	**(45,690)**	**167**	**1,264**	**109,541**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. STATEMENT OF ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are set out below.

The financial report of Tyro Payments Limited (the **Company**) was authorised for issue in accordance with a resolution of the Directors on 4 September 2018.

The Company is an unlisted public company, incorporated and domiciled in Australia. The nature of the operations and principal activities of the Company are described in the Directors' report.

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value.

Similar categories of income and expenses have been grouped together. Prior year comparative information for these amounts, where necessary, has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars, under the option available to the Company under ASIC Corporations Instrument 2016/191, unless otherwise stated.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards issued by the Australian Accounting Standards Board and complies with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

(c) Going concern

The Company had net current assets of $45.2 million as at 30 June 2018 (2017: $77.0 million).

The Directors consider the Company is able to pay its debts as and when they fall due, and therefore the Company is able to continue as a going concern.

(d) New accounting standards and interpretations

(i) Changes in accounting policies

The accounting policies are consistent with those applied in the previous financial year and the corresponding half-year interim period.

(ii) Accounting standards and interpretations issued but not yet effective

The following Australian Accounting Standards and Interpretations which may have a material impact on the Company have been issued, but are not yet effective, and unless otherwise stated have not been early adopted by the Company:

AASB 9 *Financial Instruments*

AASB 9 replaces AASB 139 and results in changes to accounting policies for financial assets and financial liabilities in the areas of Classification and Measurement, Impairment and Hedge Accounting. The Company will first apply AASB 9 in the financial year beginning 1 July 2018. Details of the implementation and major changes are outlined below:

Classification and Measurement:

AASB 9 introduces a new model that categorises financial assets based on the Company's business model for realising these assets and whether the contractual cash flows of the asset represent solely payments of principal and interest. The Company will apply the following policies for the new AASB 9 classification and measurement categories:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

- *Amortised Cost* - A financial asset will be measured at amortised cost if both of the following conditions are met:
  1. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
  2. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- *Fair Value through Other Comprehensive Income (FVOCI)* - A financial asset will be measured at FVOCI if both of the following conditions are met:
  1. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
  2. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- *Fair Value through Profit and Loss (FVPL)* - All financial assets that are not measured at amortised cost or FVOCI will be measured at FVPL. All financial assets that are equity instruments will be measured at FVPL unless the Company irrevocably elects to present subsequent changes in the fair value in other comprehensive income. The Company does not expect to make this election. The Company may also irrevocably elect to designate a financial asset as measured at FVPL on initial recognition if doing so eliminates or significantly reduces an accounting mismatch.

The accounting for financial liabilities is largely unchanged.

The Company expects a change to the classification and measurement of its loan product which under AASB 139 is currently classified as Loans and Receivables and measured at amortised cost. Under AASB 9, the loan product is assessed to be classified and measured at FVPL. The financial impact from the change is not expected to be material.

With the exception of the loan product, the Company expects no significant impact from the implementation of AASB 9.

Impairment:

AASB 9 introduces a revised impairment model which moves from an incurred loss model to an expected loss model which requires more timely recognition of expected credit losses as well as recognition of full lifetime expected losses. The standard uses a three-stage approach:

1. Stage 1 - For financial assets where there has been no significant increase in credit risk since origination a provision for 12-month expected credit losses is required;
2. Stage 2 - For financial assets where there has been a significant increase in credit risk a provision for full lifetime expected losses is required.
3. Stage 3 – For financial assets where the asset is credit impaired a provision for full lifetime expected losses is required.

The impairment model is only applicable to financial assets measured at amortised cost or FVOCI.

For financial assets at amortised cost, these will either be subject to the simplified approach or have low credit risk, and so are expected to have no significant impact from the implementation of AASB 9.

Hedge Accounting:

AASB 9 simplifies the hedge accounting requirements, including hedge effectiveness testing to better align to the risk management practices of an organisation.

The Company currently does not have any hedges in place.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

AASB 15 *Revenue from Contracts with Customers*

AASB 15 replaces AASB 118 and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principles explained in a step by step approach in the standard.

The Company will first apply AASB 15 in the financial year beginning 1 July 2018. Presentation changes in the Statement of Comprehensive Income and Statement of Financial Position are expected as a result of AASB 15 with the impacted revenue streams primarily related to merchant service fees and terminal rental income. The financial impact from the change is not expected to be material.

AASB 16 *Leases*

Introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessors, enhanced disclosures are required to improve information about the lessor's risk exposure, particularly to low value risk. AASB 16 applies to annual reporting periods beginning on or after 1 January 2019. AASB 16 is not mandatory until 1 July 2019 for the Company.

Other amendments to existing standards that are not yet effective are not expected to result in significant changes to the Company's accounting policies.

(e) Significant accounting judgements, estimates and assumptions

In applying the Company's accounting policies, Management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Company. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to Management. Actual results may differ from judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by Management in the preparation of these financial statements are outlined as follows:

<u>Share-based payments transactions</u> - The Company recognises the cost of equity-settled transactions with employees (including Key Management Personnel) by reference to the fair value of the equity instruments at the date on which they are granted. The fair value is determined using the Black-Scholes option valuation model, with the assumptions detailed in Note 10.

<u>Classification of and valuation of investments</u> - The Company classifies its investments in listed securities and floating rate notes as 'available-for-sale' investments and movements in fair values are recognised directly in equity. The fair value of listed shares has been determined by reference to published price quotations in an active market. Where no active market exists for a particular asset, the Company uses a valuation technique to arrive at the fair value. The fair value of floating rate notes has been estimated using pricing data inputs provided by an independent third party pricing service which factors in recent arm's length transactions into their valuation methods. This makes maximum use of observable market inputs and places minimal reliance on entity specific inputs.

<u>Estimation of useful lives of assets</u> - The estimation of the useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against their remaining useful lives. Adjustments to useful lives are made when considered necessary. Depreciation charges are included in Note 9. An impairment assessment is conducted and reviewed by Management at least annually as to whether indicators of impairment such as technical obsolescence exist.

<u>Long service leave</u> - Entitlements that arise in respect of non-current long service leave have been measured at their present values of expected future payments. Long service leave is calculated based on assumptions and estimates of when employees will take leave and the prevailing wage rates at the time the leave will be taken. Long service leave liability also requires a prediction of the number of employees that will achieve entitlement to long service leave.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

Taxation – Provisions for taxation require significant judgement with respect to outcomes that are uncertain. The Company has estimated its tax provisions based on expected outcomes. Deferred tax assets are recognised for deductible temporary differences as Management considers that it is probable that future taxable profits will be available to utilise those temporary differences. In forming their view, Management considers the probability of forecast future taxable income and performs stress testing on expected budgets to assess the likelihood of deferred tax assets being utilised. Management does not recognise deferred tax assets where utilisation is not considered probable. An assessment of research and development (**R&D**) activities and associated expenditure that is considered claimable, is conducted and reviewed by Management at least annually as part of the annual R&D tax incentive application. An assessment of the continuity of ownership test (and where applicable, the same business test) is also performed to support the recognition of any carry forward tax losses and R&D credits.

Software capitalisation –The Company has not capitalised any investments on in-house product development. All such costs have been expensed to the Statement of Comprehensive Income.

Loan impairment – Individually assessed provisions are made against loans that have been individually assessed as impaired. The Company raises specific provisions for impairment of these loans when there is objective evidence of impairment (i.e. when an event of default is triggered). The specific provision raised is based on the exposure amount at the date of default. Loans that do not have an individually assessed provision are assessed collectively for impairment. A collective provision is raised based on a risk rating system that considers the probability of default (based on an externally rated business score), loss given default rates (using an internally derived probability factor that takes into consideration the loans being unsecured), and the exposure at default.

(f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Fee income

The Company derives fee income from the following sources:

- Merchant service fee income is generated from merchant customers for credit, debit and charge card acquiring services. Fees are charged to merchants depending on the type of transaction being performed based on a percentage of transaction value or on a fixed amount per transaction. Fees related to payment transactions are recognised at the time transactions are processed. Related interchange fee, which is collected from merchants and paid to credit institutions is recognised as an expense instead of netting-off against merchant service fee income in the Statement of Comprehensive Income.
- Revenue from terminal rental income generated from merchants is based on a fixed rental from terminals.
- Revenue from Debit Card Interchange generated from banks is based on a fixed fee per transaction and is recognised when transactions are processed.
- Revenue from processing Medicare Easyclaim generated from merchants is based on a fixed fee per transaction and is recognised when transactions are processed.
- Revenue from Dynamic Currency Conversion (DCC) transactions generated from merchants is calculated based on the individual value of the transactions and is recognised once the transaction has been processed.

(ii) Interest income

Interest income is recognised in the Statement of Comprehensive Income using a method that approximates the effective interest method. The effective interest method measures the amortised cost of a financial asset and allocates the interest income over the relevant period using the effective interest which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(g) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset. Leases which transfer substantially all the risks and rewards incidental to ownership of an asset are classified as a finance lease. All other leases are operating leases.

For operating leases entered into by the Company as lessee, operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Deferred lease incentives are recognised as a liability on the Statement of Financial Position on inception of the lease and subsequently reduced on a straight line basis over the lease term by recognising the incentive through rent expense.

For purchased assets where the Company is the lessor under an operating lease, these are carried at cost and depreciated over their useful lives. Property, plant and equipment includes assets leased out under operating leases. Operating lease income is recognised on a straight-line basis over the lease term unless another systematic basis is more appropriate.

The Company does not have any finance leases in place.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and term deposits with an original maturity of three months or less from the date of acquisition.

(i) Due from other financial institutions

Includes term deposits with maturities greater than three months from the date of acquisition, and term deposits pledged to counterparties as collateral. These are initially measured at fair value and subsequently measured at amortised cost using a method that approximates the effective interest method.

(j) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts. Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Company will not be able to collect the debt.

(k) Prepayments

Prepayments are recognised for amounts paid whereby goods have not transferred ownership to the Company or where services have not yet been provided. Upon receipt of goods or the service the corresponding asset is recognised in the Statement of Financial Position or the expense is recognised in the Statement of Comprehensive Income.

(l) Inventories

(i) Cost and valuation

The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the Company from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. Inventories are subsequently held at the lower of cost and their net realisable value. Impairment is assessed on an annual basis. Inventories are derecognised upon transfer to property, plant and equipment when leased out to merchants or rights to benefits are transferred to a third party.

(ii) Impairment

Management make assessments of the net realisable value of inventory on an annual basis. The cost of inventory may not be recoverable where the inventory is damaged, wholly or partially obsolete, or if selling prices have declined. In accordance with AASB 102, where the cost of inventory exceeds the net realisable value, inventory is written down to their net realisable value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

Net realisable value is an estimate, based on the most reliable evidence at the time, of the amount the inventories are expected to realise.

(m) Loans

(i) Recognition and measurement

Loans to merchants are initially recognised at fair value. Subsequent to initial recognition, these assets are measured at amortised cost, less any provisions for impairments. As the merchant receives daily settlements, a percentage is taken towards loan repayments. The loan repayment includes a portion which recycles the upfront unearned fee charged to the merchant into the Statement of Comprehensive Income as interest income. This method of recognition approximates the effective interest method.

(ii) Provisions for loan impairments

Individually assessed provisions are made against loans that have been individually assessed as impaired. The Company raises specific provisions for impairment of these loans when there is objective evidence of impairment (i.e. when an event of default is triggered). The specific provision raised is based on the exposure amount at the date of default.

Loans that do not have an individually assessed provision are assessed collectively for impairment. A collective provision is raised based on a risk rating system that considers the probability of default (based on an externally rated business score), loss given default rates (using an internally derived probability factor that takes into consideration the loans being unsecured), and the exposure at default.

When a loan is uncollectible, it is written off against the related provision for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off go to the Statement of Comprehensive Income.

(n) Available-for-sale investments

Available-for-sale investments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the investment. After initial recognition these investments are measured at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is transferred to the Statement of Comprehensive Income.

Purchase and sale of investments are recognised on settlement date - the date on which the Company receives or delivers the asset.

(o) Income taxes

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(p) Deferred tax asset

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date (Note 3).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(q) Other taxes

Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised net of the amount of GST except for the following:

- when the GST incurred on the purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- trade receivables and trade payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the taxation authority is included as part of other receivables or other payables in the Statement of Financial Position. Commitments and contingencies are disclosed net of the amount of GST. Cash flows are included in the Statement of Cash Flows on a gross basis (unless stated otherwise) and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

(r) Property, plant and equipment

(i) Cost and Valuation

Property, plant and equipment are measured at cost less accumulated depreciation and any impairment in value. The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing parts when the cost is incurred and the recognition criteria are met. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant or equipment, as a replacement, provided that the recognition criteria are satisfied.

(ii) Depreciation

Depreciation is provided on a straight-line basis over the estimated useful life of each specific item of property, plant and equipment.

Estimated useful lives are as follows:	**2018**	**2017**
Plant and equipment:		
EFTPOS terminals	3 years	3 years
Furniture and office equipment	5 years	5 years
Computer equipment	4 years	4 years
Leasehold improvements	Remaining term of lease	Remaining term of lease

The assets' residual values, remaining useful lives and depreciation methods are reassessed and adjusted, if appropriate at each reporting date.

(iii) Impairment

Management has identified applicable impairment indicators in accordance with AASB 136 *Impairment of Assets*. The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs of disposal and its value in use.

(iv) De-recognition and disposal

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from continued use of the asset. Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in the Statement of Comprehensive Income in the year the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(s) Deposits from customers

Deposits from customers are initially recognised at fair value. Subsequent to initial recognition, these liabilities are measured at amortised cost. Interest expense on deposits is recognised in the Statement of Comprehensive Income using a method that approximates the effective interest method.

(t) Trade and other payables

Merchant payables arise when the Company has received monies from the relevant schemes and financial institutions that have not yet been settled with the merchant.

Payables to merchants are only recognised to the extent that a liability arises. This liability arises when the proceeds have been paid by the schemes and financial institutions and received by the Company.

Liabilities for trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

(u) Provisions and contingencies

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits may be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the impact of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed in the relevant notes to the financial statements. They may arise from uncertainty as to the existence of a liability or represent an existing liability in respect of which settlement is not probable or the amount cannot be reliably measured. Only when settlement becomes probable will a liability be recognised.

The Company is contingently liable for processed credit card sales transactions in the event of a dispute between the cardholder and a merchant. If a dispute is resolved in the cardholder's favour, the Company will credit or refund the amount to the cardholder and charge back the transaction to the merchant. If the Company is unable to collect the amount from the merchant, the Company will bear the loss for the amount credited or refunded to the cardholder.

Management evaluates the risk of such transactions and estimates its potential loss from chargebacks based primarily on historical experience and other relevant factors. A provision is recognised for merchant losses necessary to absorb chargebacks and other losses for merchant transactions that have been previously processed and on which revenues have been recorded.

(v) General reserve for credit losses

The Company provides for estimated future credit losses primarily from chargebacks, with a general reserve for credit losses. The Company estimates the reserve by using a multiple of historical losses over a rolling 120 day period of transaction values. The general reserve for credit losses is then allocated as a separate reserve within equity.

The Company also provides for estimated future credit losses from loans to ensure the Company has sufficient capital to cover credit losses estimated to arise over the full life of the loans as required by APRA Prudential Standard APS 220.

The methodology and assumptions used for estimating the general reserve for credit losses required are reviewed regularly.

(w) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

Entitlements arising in respect of salaries and wages, annual leave and other employee benefits that are expected to be settled within one year have been measured at their nominal amounts. Employees are entitled to 20 days annual leave each year.

Entitlements that arise in respect of long service leave which are expected to be settled more than 12 months after the reporting date have been measured at their present values of expected future payments. Long service leave is calculated based on assumptions and estimates of when employees will take leave and the prevailing wage rates at the time the leave will be taken. Long service leave liability also requires a prediction of the number of employees that will achieve entitlement to long service leave. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match as closely as possible to the estimated future cash outflows.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave to be taken in the future by all employees at the reporting date is estimated to be less than the annual entitlement for sick leave.

(x) Share-based payment transactions

Share-based compensation benefits are provided to employees (including Key Management Personnel) via the Employee Share Option Plan, whereby employees render services in exchange for rights over the Company's shares.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined internally using the Black-Scholes option valuation model.

The cost of equity-settled transactions is recognised, together with any corresponding increase in equity, over the period in which the employees become fully entitled to the award (the **vesting period**).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is based on the best available information at the reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest. There were no modifications to the terms of the outstanding options during the financial year. Details of the types of share-based payments and their respective terms and vesting conditions are disclosed in Note 10.

The Company also has share-based compensation benefits in the form of share performance rights which are tied to a performance condition. The policy treatment is consistent with that for share options via the Employee Share Option Plan.

(y) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are accounted in contributed equity as a deduction, net of tax, from the proceeds of issue.

(z) Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of exchange ruling at the reporting date.

Non-monetary assets and liabilities are translated at their historic rates of exchange at their respective transaction dates.

(aa) De-recognition of assets and liabilities

Assets and liabilities are derecognised from the Statement of Financial Position upon sale, maturity or settlement. The Company de-recognises scheme receivables against associated merchant payables as the risks and rewards are passed through in line with contractual obligations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. REVENUE AND EXPENSES

The operating loss before tax expense has been arrived at after accounting for the following items:

	2018 $000	2017 $000
Fees and commission income		
Merchant service fee	125,618	101,092
Terminal rental income	11,793	9,643
Other fee income	4,802	4,718
	142,213	115,453
Interchange, integration and support fees expense		
Interchange fees and scheme fees	(71,863)	(57,656)
Integration, support and other fee expense	(6,648)	(6,105)
	(78,511)	(63,761)
Other income		
Sublease and other rental income	1,124	1,310
Other income	39	222
	1,163	1,532
Employee benefits expense		
Wages, salaries and bonuses	(45,784)	(39,491)
Superannuation	(4,213)	(3,793)
Other employee benefits expense	(3,373)	(2,536)
	(53,370)	(45,820)
Administrative expenses		
Contractor and consulting costs	(5,201)	(1,532)
Communications, hosting and licencing costs	(4,132)	(3,098)
Rent	(4,052)	(4,013)
Marketing	(2,899)	(2,000)
Terminal management and logistics	(1,671)	(1,162)
Recruitment	(957)	(1,453)
Accounting	(686)	(961)
Legal	(585)	(423)
Other administrative expenses	(3,898)	(2,278)
	(24,081)	(16,920)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

3. INCOME TAX

a) Income tax benefit

Major components of income tax benefit for the period ended 30 June 2018:

	2018 $000	2017 $000
Current income tax		
Current income tax charge	-	-
Deferred income tax		
Relating to origination and reversal of temporary differences	1,151	2,213
Income tax benefit in the statement of comprehensive income	**1,151**	**2,213**
Amount reported directly in other comprehensive income		
Deferred tax related to items recognised in equity during the year	-	-
Deferred tax on unrealised gain on available-for-sale investment	(100)	(87)
Income tax expense reported in equity	**(100)**	**(87)**

b) Reconciliation of income tax expense and prima facie tax:

	2018 $000	2017 $000
Operating loss before tax	**(17,521)**	**(14,988)**
At the statutory income tax rate of 30%	5,256	4,496
Research and development incentive	184	435
Share-based payment remuneration	(423)	(551)
Entertainment expenses	(106)	(62)
Adjustment in respect to previous year's tax balances	-	(711)
Tax effect of current year losses for which no deferred tax asset is recognised	(3,760)	(1,394)
Total income tax benefit	**1,151**	**2,213**

c) Deferred income tax assets and liabilities

	2018 Statement of Financial Position $000	2018 Statement of Comprehensive Income $000	2018 Other Comprehensive Income $000	2017 Statement of Financial Position $000	2017 Statement of Comprehensive Income $000	2017 Other Comprehensive Income $000
Deferred tax assets						
Fixed assets	1,097	173	-	925	224	-
Provisions & accruals	3,021	513	-	2,508	398	-
Other (legal fees)	58	(24)	-	83	(4)	-
Lease break fee	21	(21)	-	42	(21)	-
R&D credits	5,502	(1,139)	-	6,641	1,182	-
Tax losses	2,093	1,677	-	416	416	-
	11,792	1,179		10,615	2,195	
Prepayments	(9)	(4)	-	(6)	(6)	-
Available-for-sale investments	(367)	-	(100)	(267)	-	(87)
Unrealised FX gain	(65)	(24)	-	(42)	24	-
	(441)	(28)	(100)	(315)	18	(87)
Total	**11,351**	**1,151**	**(100)**	**10,300**	**2,213**	**(87)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

4. CASH AND CASH EQUIVALENTS

	2018 $000	2017 $000
Deposits at call	18,564	24,052
Short term deposits	10,000	-
	28,564	24,052

Deposits at call include cash at banks, cash held in the exchange settlement account with the Reserve Bank of Australia, and cash in hand. Short-term deposits are those with maturities of three months or less from date of acquisition.

Reconciliation of operating loss after tax to net cash flows used in operations	2018 $000	2017 $000
Operating loss	(16,370)	(12,775)
Adjustments for:		
Depreciation	7,064	5,984
Share-based payments expense	1,411	1,841
Loan impairment expense	411	230
Foreign currency loss	20	53
(Gain)/loss on disposal of property plant and equipment	(10)	12
Deferred tax benefits	(1,151)	(2,213)
Changes in assets and liabilities		
(Increase) in loans	(3,489)	(4,741)
(Increase) in interest and other receivables	(4,549)	(3,382)
(Increase) in inventories	(1,440)	(225)
Decrease/(increase) in prepayments	67	(1,026)
Increase in retail deposits	7,616	3,489
(Decrease) in interest and other payables	(3,898)	(3,777)
Increase in provisions	1,519	959
Net cash from operating activities	(12,799)	(15,571)

5. DUE FROM OTHER FINANCIAL INSTITUTIONS

	2018 $000	2017 $000
Term deposits	10,000	44,698
Deposits held as collateral	7,812	7,740
	17,812	52,438

Includes term deposits with maturities greater than three months from the date of acquisition and deposits pledged to counterparties as collateral. Refer to Note 17 for details of deposits held as collateral.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

6. TRADE AND OTHER RECEIVABLES

	2018 $000	2017 $000
Scheme and other receivables	11,812	6,897
Merchant acquiring fees	3,978	3,192
Interest receivable	145	400
	15,935	10,489

The Company's ageing of scheme and other trade receivables before impairment is as follows:

	Total $000	Current $000	1-30 days $000	31-60 days $000	61-90 days $000	>90 days $000
Carrying value 2018	**11,812**	11,234	455	3	41	79
Carrying value 2017	**6,897**	6,013	476	23	292	93

7. LOANS

	2018 $000	2017 $000
Loans (net of unearned fees)	7,985	4,647
Specific provision for impairment	(206)	(24)
Collective provision for impairment	(189)	(112)
	7,590	4,511

In July 2016, the Company launched the Smart Growth Funding product in pilot, which was offered to existing Tyro EFTPOS merchants. In January 2017, the product exited pilot into wider availability. The loans are unsecured, with an upfront ("unearned") fee charged to the merchant. As the merchant receives daily settlements, a percentage is taken towards loan repayments. The loan repayment includes a portion which reduces the loan principal and a portion which recycles the unearned fee into the Statement of Comprehensive Income as interest income. This method of recognition approximates the effective interest method. In the Statement of Financial Position, any outstanding unearned fees are netting off against the loan balance.

Provision for impairment

	2018 $000	2017 $000
Specific provisions		
Opening balance	24	-
Net movement in provision	334	118
Sub-total	**358**	**118**
Bad debts written off	(152)	(94)
Closing balance – specific provisions	**206**	**24**

	2018 $000	2017 $000
Collective provisions		
Opening balance	112	**-**
Net movement in provision	77	112
Closing balance – collective provisions	**189**	**112**
Total provision for impairment	**395**	**136**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

8. AVAILABLE-FOR-SALE INVESTMENTS

	2018 $000	2017 $000
Floating rate notes	37,875	20,265
Investment in VISA shares	1,222	832
	39,097	**21,097**

VISA shares were acquired following the demutualisation of VISA International, as a result of which listed VISA shares were issued to members of the VISA network.

9. PROPERTY, PLANT AND EQUIPMENT

Reconciliation of net carrying amounts at the beginning and end of the year:

	EFTPOS Terminals $000	Furniture and Office Equipment $000	Computer Equipment $000	Leasehold Improvements $000	Total $000
Year ended 30 June 2018					
At 30 June 2017 net of accumulated depreciation and impairment	6,933	1,342	2,156	3,051	13,482
Additions/transfers	5,734	2	2,316	251	8,303
Disposals/transfers	(24)	-	(1)	-	(25)
Depreciation for the year	(4,758)	(392)	(1,237)	(677)	(7,064)
At 30 June 2018 net of accumulated depreciation and impairment	7,885	952	3,234	2,625	14,696
At 30 June 2017					
Cost or fair value	20,484	2,113	4,909	3,995	31,501
Accumulated depreciation and impairment	(13,551)	(771)	(2,753)	(944)	(18,019)
Net carrying amount	6,933	1,342	2,156	3,051	13,482
At 30 June 2018					
Cost or fair value	26,119	2,115	7,222	4,246	39,702
Accumulated depreciation and impairment	(18,234)	(1,163)	(3,988)	(1,621)	(25,006)
Net carrying amount	7,885	952	3,234	2,625	14,696

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

9. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	EFTPOS Terminals $000	Furniture and Office Equipment $000	Computer Equipment $000	Leasehold Improvements $000	Total $000
Year ended 30 June 2017					
At 30 June 2016 net of accumulated depreciation and impairment	6,364	1,212	1,716	3,265	12,557
Additions/transfers	4,871	444	1,242	388	6,945
Disposals/transfers	(36)	-	-	-	(36)
Depreciation for the year	(4,266)	(314)	(802)	(602)	(5,984)
At 30 June 2017 net of accumulated depreciation and impairment	6,933	1,342	2,156	3,051	13,482
At 30 June 2016					
Cost or fair value	15,853	1,662	3,662	3,607	24,784
Accumulated depreciation and impairment	(9,489)	(450)	(1,946)	(342)	(12,227)
Net carrying amount	6,364	1,212	1,716	3,265	12,557
At 30 June 2017					
Cost or fair value	20,484	2,113	4,909	3,995	31,501
Accumulated depreciation and impairment	(13,551)	(771)	(2,753)	(944)	(18,019)
Net carrying amount	6,933	1,342	2,156	3,051	13,482

10. SHARE-BASED PAYMENTS

The Company will provide benefits to employees (including Key Management Personnel (**KMP**)) from time to time including share-based payments as remuneration for service.

(a) Employee Share Option Plan

The Employee Share Option Plan (**ESOP**) was established to grant options over ordinary shares in the Company to employees or Directors who provide services to the Company.

Options granted pursuant to the ESOP may be exercised, in whole or part, subject to vesting terms and conditions as indicated below:

Type of Option	Vesting Terms and Conditions
Linear vesting schedule	Options granted will vest in proportion to the time that passes linearly during the vesting schedule, subject to maintaining continuous status as an employee or KMP with the Company during the vesting schedule.
Service vesting schedule	The options that vest according to a period of service may be exercised as to a set number of shares per agreed day of service, as defined in the specific option grant.
Fully vested at time of grant	Options may be exercised as to all shares from the vesting commencement date.

All option grants must be held for a minimum period commencing on the date on which the options are granted and continuing until the earlier of:

- the date which is 3 years after the date on which options are granted; or
- the date on which the participant ceases employment with the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

10. SHARE-BASED PAYMENTS (cont'd)

Other relevant terms and conditions applicable to options granted under the Employee Share Option Plan include:

- The term of each option grant shall be 6 to 7 years from the date of grant or such shorter term as provided in the Employee Share Option Plan agreement.
- Each option entitles the holder to one ordinary share.
- All awards granted under the Employee Share Option Plan are equity-settled.

(b) Fair value of options under the ESOP

The fair value of each option is estimated on the date of grant using the Black-Scholes option valuation model. The table below lists the assumptions used in determining the fair value of the options granted during the year ended 30 June 2018:

	Sep 2017	**Oct 2017**	**Jan 2018**	**Feb 2018**	**Mar 2018**
Dividend yield (%)	0%	0%	0%	0%	0%
Expected volatility (%)	40%	40%	38%	38%	38%
Risk-free interest rate (%)	2.22%	2.33%	2.34%	2.38%	2.35%
Share price ($)	$1.08	$1.08	$1.05	$1.05	$1.05

A zero dividend policy assumption is used for valuing all option grants. This is in line with the Company's capital management policy and growth strategy.

Expected volatility used is the historical volatility of the peer group. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The average expected life for 6 and 7 year options is assumed to be 5 - 6 years from the grant date. The expected life for 10 year options is assumed to be 5 - 8 years. For all other options with a contractual life of 5 year or less, the expected life is assumed to be the total contractual life from the date of grant to the expiry date.

There were 14,090,505 options exercised during the year ended 30 June 2018 (2017: 37,612,657).

The weighted average remaining contractual life for share options outstanding as at 30 June 2018 was 4 years (2017: 4 years).

The following table summarises further details of the share options outstanding at 30 June 2018:

Range of Exercise Prices	**Contractual life**	**Vesting conditions**	**No. of Outstanding Options**	
			2018	**2017**
162 cents	10 years or less	No vesting in first 6 months of 5 year linear vesting period	400,000	700,000
6 cents to 176 cents	10 years or less	5 year linear vesting	31,715,817	30,455,628
6 cents to 45 cents	5 years and 10 years	12 months service	1,043,478	1,043,478
6 cents to 55 cents	3, 5 and 10 years	12 months linear vesting	10,626	3,208,697
6 cents to 55 cents	10 years or less	Fully vested at time of grant	-	4,640,587
Total			33,169,921	40,048,390

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

10. SHARE-BASED PAYMENTS (cont'd)

The following table illustrates the number and weighted average exercise prices (**WAEP**) in cents and movements of share options during the year:

	2018 *No*	**2018** *WAEP (cents)*	**2017** *No*	**2017** *WAEP (cents)*
Linear vesting schedule				
Outstanding at the beginning of the year	34,364,325	19	46,604,233	12
Granted during the year	10,813,180	175	11,782,640	150
Exercised during the year	(9,449,918)	25	(20,686,087)	13
Forfeited/expired during the year	(3,601,144)	120	(3,336,461)	110
Outstanding at the end of the year	32,126,443	91	34,364,325	70
Exercisable at the end of the year	4,682,461	36	8,819,708	19
Fully vested at time of grant				
Outstanding at the beginning of the year	4,640,587	8	21,684,244	10
Granted during the year	-	-	-	-
Exercised during the year	(4,640,587)	8	(16,926,570)	7
Forfeited/expired during the year	-	-	(117,087)	55
Outstanding at the end of the year	-	-	4,640,587	8
Exercisable at the end of the year	-	-	4,640,587	8
Service Vesting Schedule				
Outstanding at the beginning of the year	1,043,478	6	1,043,478	6
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Forfeited/expired during the year	-	-	-	-
Outstanding at the end of the year	1,043,478	6	1,043,478	6
Exercisable at the end of the year	1,043,478	6	1,043,478	6
Total outstanding at the end of the year	33,169,921		40,048,390	
Total exercisable at the end of the year	5,725,939		14,503,773	

Refer to Note 21, for outstanding share options at the end of the year that are not part of ESOP.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

10. SHARE-BASED PAYMENTS (cont'd)

(c) Share performance rights

During the period, the Company agreed to grant 1,200,000 share performance rights as part of an equity incentive arrangement. There were no performance rights outstanding at the beginning of the period.

Fair value of rights granted

While the terms and conditions were yet to be agreed and finalised as at 30 June 2018, for the purpose of fair valuing the performance rights, the following estimated model inputs were used in the Black-Scholes valuation model:

Grant date	Mar-18
Vesting period	3 equal tranches over three years following a performance condition being met
Expiry date	10 years from performance condition being met
Share price at grant date ($)	$1.05
Dividend yield (%)	0%
Expected volatility (%)	N/A
Risk-free interest rate (%)	N/A

The fair value output estimate of $1.05 is not expected to change materially assuming no significant changes in the draft terms and conditions.

Expenses arising from share-based payment transactions

During the period, of the $1.4 million recognised as share-based payment expenses, $0.2 million relates to share performance rights.

11. DEPOSITS

	2018 $000	2017 $000
Deposits	11,563	3,948
	11,563	3,948

The deposits are at call, earn a daily interest with rates that increase for every dollar held for longer than 30 days, 60 days and 90 days, and are guaranteed by the Australian Government up to $250,000 per customer.

12. TRADE PAYABLES AND OTHER LIABILITIES

	2018 $000	2017 $000
Accounts payable	2,933	1,910
Deferred rent incentive	2,978	3,239
Accruals – scheme fees, commissions, bonuses and others	4,332	3,971
Other liabilities – payroll liabilities and clearing suspense	3,521	1,880
	13,764	11,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

13. PROVISIONS

	2018 $000	2017 $000
Annual leave provision		
Balance at the beginning of the year	1,907	1,462
Provided for during the year	3,446	2,996
Released during the year	(2,878)	(2,551)
Balance at the end of the year	2,475	1,907
Long service liability		
Balance at the beginning of the year	299	286
Provided for during the year	82	258
Released during the year	(78)	(245)
Balance at the end of the year	303	299
Other provisions		
Balance at the beginning of the year	430	-
Provided for during the year	714	430
Balance at the end of the year	1,144	430
Total provisions - current liabilities	**3,922**	**2,636**

Other provisions have been calculated based on contractual obligations. No discounting has been applied as the amounts are expected to be settled in less than twelve months.

14. NON-CURRENT LIABILITIES

Provisions:	2018 $000	2017 $000
Long service leave liability		
Balance at the beginning of the year	272	349
Provided for during the year	132	117
Released during the year	(45)	(194)
Balance at the end of the year	359	272
Make good provision		
Balance at the beginning of the year	262	114
Provided for during the year	147	148
Balance at the end of the year	409	262
Total provisions - non-current liabilities	**768**	**534**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

15. CONTRIBUTED EQUITY AND RESERVES

(i) Ordinary shares

Issued and fully paid	2018 Number of Shares	2017 Number of Shares	2018 $000	2017 $000
Ordinary shares paid at 5 cents each	61,018,733	61,018,733	3,051	3,051
Ordinary shares paid at 6 cents each	185,865,638	182,642,334	11,152	10,959
Ordinary shares paid at 8 cents each	15,848,939	9,355,246	1,267	748
Ordinary shares paid at 10 cents each	8,659,606	8,089,164	866	809
Ordinary shares paid at 12 cents each	463,539	112,037	56	13
Ordinary shares paid at 14 cents each	52,389	-	7	-
Ordinary shares paid at 15 cents each	10,475,433	10,475,433	1,571	1,571
Ordinary shares paid at 30 cents each	35,575,640	34,055,009	10,673	10,217
Ordinary shares paid at 37.5 cents each	2,799,346	1,146,511	1,050	430
Ordinary shares paid at 45 cents each	9,414,989	8,347,550	4,237	3,756
Ordinary shares paid at 55 cents each	12,562,168	12,562,168	6,909	6,909
Ordinary shares paid at 60 cents each	895,848	148,696	537	89
Ordinary shares paid at 1.0361 dollars each	96,638,869	96,638,869	100,127	100,128
Ordinary shares paid at 1.49 dollars each	36,118	-	54	-
	440,307,255	**424,591,750**	**141,557**	**138,680**
Costs directly attributable to the capital raising (net of tax)			(299)	(299)
Ordinary shares			**141,258**	**138,381**

During the year ended 30 June 2018, 15,715,505 ordinary shares were issued upon exercise of options, raising a total of $2.9 million in fully paid capital.

Terms and conditions of contributed equity
Ordinary shares have the right to receive dividends when declared and, in the event of winding up of 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 ordinary shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(ii) Share-based payments reserve	2018 $000	2017 $000
Balance at the beginning of the year	10,276	8,435
Share-based payments expensed	1,411	1,841
Balance at the end of the year	**11,687**	**10,276**

The share-based payments reserve is used to record the value of share-based payments or benefits provided to any Directors and employees as part of their remuneration or compensation.

(iii) General reserve for credit losses	2018 $000	2017 $000
Balance at the beginning of the year	1,091	550
Transfer from accumulated losses:		
Provision for chargeback losses	72	146
Provision for lending losses	101	395
Balance at the end of the year	**1,264**	**1,091**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

15. CONTRIBUTED EQUITY AND RESERVES (cont'd)

The general reserve for credit losses has been created to satisfy APRA's prudential standards for ADIs as described in Note 1(v). The Company applies an internal methodology to estimate the credit risk of its merchant customers and the maximum losses based upon a number of assumptions concerning the performance of merchants in relation to the Company's credit risk grading system and actual experience.

(iv) Available-for-sale revaluation reserve	**2018 $000**	**2017 $000**
Balance at the beginning of the year	623	420
Total revaluations for the year	232	203
Balance at the end of the year	**855**	**623**

(v) Option premium reserve	**2018 $000**	**2017 $000**
Balance at the beginning of the year	167	167
Total options transferred to shares	-	-
Balance at the end of the year	**167**	**167**

	2018 $000	**2017 $000**
Total reserves at the end of the year	**13,973**	**12,157**

(vi) Accumulated losses	**2018 $000**	**2017 $000**
Movements in accumulated losses were as follows:		
Accumulated losses at the beginning of the financial year	(29,147)	(15,831)
Net loss attributable to shareholders of the Company	(16,370)	(12,775)
Transfer to general reserve for credit losses	(173)	(541)
Accumulated losses at the end of the financial year	**(45,690)**	**(29,147)**

16. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES

The Company's principal financial instruments include cash and cash equivalents, deposits due from other financial institutions, trade and other receivables, loans, available-for-sale investments, deposits and trade and other payables.

(i) Risk management

The Board is responsible for approving and reviewing the risk management strategy, including determining the Company's appetite for risk. The CEO and Management team are responsible for implementing the risk management strategy and framework, and for developing policies, controls, processes and procedures for identifying and managing risk.

Various Management committees, including the Management Risk Committee (**MRC**) and the Asset and Liability Management Committee (**ALCO**), ensure appropriate execution of the risk management strategy and framework is applied in the day-to-day operations and regularly report to the Board Risk Committee.

(ii) Risk controls

Risks are controlled through a system that identifies key risks, establishes controls to manage those risks (with an emphasis on preventative control), and maintains a regular review process to monitor the effectiveness of controls. Business risks are controlled within tolerance levels approved by the MRC, ALCO and the Board.

(iii) Internal Audit

The Company has an independent and adequately resourced Internal Audit function. The Internal Audit function provides independent assurance to the Board on the adequacy and effectiveness of the control environment and risk framework.

(iv) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its lending and investing activities, including deposits with banks and financial institutions, foreign exchange transactions and available-for-sale investments.

The maximum exposure to credit risk is represented by the carrying amounts of the financial assets at the reporting date. The Company's credit risk management principles define the framework and core values which govern its credit risk taking activities and reflect the priorities established by the Board.

From these principles flow the development of target market strategies, underwriting standards and credit procedures which define the operating processes. The operation of a credit risk grading system coupled with ongoing monitoring, reporting and review allows the Company to identify changes in credit quality at client and portfolio levels and to take corrective actions in a timely manner.

Credit losses from chargebacks

In addition, the Company is subject to the risk of credit card losses via chargebacks. The maximum period the Company is potentially liable for such chargebacks is 120 days after the date of the transaction. The Company prudently manages credit risk associated with its merchant portfolio both at an individual and a portfolio level, by monitoring the concentration of risk by industry and type of counterparty.

It is the Company's policy that all merchants are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation.

As part of equity, a General Reserve for Credit Losses is raised to cover losses due to uncollectible chargebacks that have not been specifically identified. The reserve is calculated based on estimated future credit losses as described in Note 1(v). The Company does not hold any credit derivatives or collateral to offset its credit exposure. The Company trades only with recognised, creditworthy third parties and as such no collaterals are requested. Credit exposures are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant at the reporting date.

16. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES (cont'd)

Credit losses from loans

The Company is also subject to the risk of credit losses from its unsecured loan product which commenced on 1 July 2016. The Company manages this risk in accordance with the Board approved Lending Credit Risk policy. Responsibility for monitoring and management of this risk is delegated to the CRO. The CRO is also responsible for ensuring the Lending Credit Risk policy is reviewed regularly and submitted to the Board Risk Committee for approval.

To manage the risk of credit losses, various underwriting criteria is in place before a loan can be offered, which includes assessment of credit bureau scores, age of credit files and no adverse records, time in business, and an internal credit risk grading. A merchant must also have an acquiring transaction history to be eligible for a loan offer. A personal guarantee is required.

The Company provides for credit losses from these loans to ensure the Company has sufficient provisions and capital to cover credit losses estimated to arise over the full life of the loans as described in Note 1(v).

30 June 2018

Standard & Poors Credit Rating*	Cash and balances with financial institutions ($000)	Due from other financial institutions ($000)	Trade receivables ($000)	Available-for-sale investments ($000)	Loans and advances ($000)
AAA	16,414	-	968	-	-
AA	12,150	17,744	28	20,205	-
A+	-	68	-	5,414	-
A	-	-	114	-	-
A-	-	-	3	3,933	-
BBB+	-	-	-	9,545	-
unrated	-	-	14,822	-	7,590
	28,564	**17,812**	**15,935**	**39,097**	**7,590**

30 June 2017

Standard & Poors Credit Rating*	Cash and balances with financial institutions ($000)	Due from other financial institutions ($000)	Trade receivables ($000)	Available-for-sale investments ($000)	Loans and advances ($000)
AAA	15,336	-	951	-	-
AA	8,716	39,340	22	5,114	-
A+	-	65	-	5,020	-
A	-	-	-	3,927	-
A-	-	-	48	-	-
BBB+	-	13,033	-	7,036	-
unrated	-	-	9,468	-	4,511
	24,052	**52,438**	**10,489**	**21,097**	**4,511**

*Long-term credit rating

(v) Operational risk

Operational risk is the risk that arises from inadequate or failed internal processes and systems, human error or misconduct, or from external events. It also includes, amongst other things, technology risk, model risk and outsourcing risk.

The Board Risk Committee is responsible for monitoring the operational risk profile, the performance of operational risk management and controls, and the development and ongoing review of operational risk policies.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

16. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES (cont'd)

(vi) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, foreign currency risk, commodity price risk and other price risk, such as equity price risk. The Company does not engage in financial market trading activities nor assume any foreign exchange, interest rate or other derivative positions and does not have a trading book. The Company does not undertake any hedging around the values of its financial instruments as any risk of loss is considered insignificant to the operations of the Company.

Any government securities, bank bills or other marketable instruments that the Company holds are for investment or liquidity purposes and held in the normal course of business in line with investment and liquidity guidelines. Each component of market risk is detailed below as follows:

1) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has exposure to interest rate risk primarily on its variable interest-bearing cash and cash equivalent balances, floating rate notes, term deposits and variable Smart Account deposits.

Interest rate sensitivity analysis

The following demonstrates the sensitivity to a reasonably possible change in interest rates. With all other variables held constant, the Company's profit after tax is affected as follows:

An increase of 50 basis points for 12 months in the general cash rate (assuming other factors remain constant) will increase the Company's profit after tax and increase equity by $403,019 (2017: $486,949). A decrease of 50 basis points in the general cash rate will have an equal and opposite effect.

The following table shows the financial assets and liabilities on which the interest rate sensitivity analysis has been performed.

(amounts in $'000s)	**Variable Interest Rate**	**Fixed Interest Rate**			**Total**
		< 3 Months	**3 to 12 Months**	**> 1 Year**	
Financial assets					
Cash and cash equivalents	18,564	10,000	-	-	**28,564**
Other term deposits	1,460	11,547	2,978	-	**15,985**
USD term deposit	-	-	1,759	-	**1,759**
Loans (before impairment)	-	2,069	5,455	461	**7,985**
Floating rate notes	37,875	-	-	-	**37,875**
Financial liabilities					
Smart Account deposits	(11,563)	-	-	-	**(11,563)**

2) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is not exposed to foreign currency risk in the settlement of merchant transactions as all monies received and paid are in Australian Dollars. The Company's settlement of fees with card schemes and the purchases of inventory from foreign suppliers are transacted in foreign currencies at the exchange rate prevailing at the transaction date. At the reporting date the Company has some US Dollar and Euro exposure.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

16. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES (cont'd)

Foreign currency sensitivity analysis

The following demonstrates the sensitivity to a reasonably possible change in the US dollar and Euro exchange rates, with all other variables held constant.

An appreciation of 15% of the US Dollar and Euro compared to the Australian Dollar (assuming other factors remain constant), will increase the Company's profit after tax and increase equity by $381,991 (2017: $396,464). A depreciation of 15% of the US Dollar and Euro compared to the Australian Dollar will reduce the Company's profit after tax and reduce equity by $282,341 (2017: $293,038).

The following table shows the financial assets and liabilities on which the foreign currency sensitivity analysis has been performed.

		AUD 2018 ($000)	AUD 2017 ($000)
USD Term Deposit	USD	1,759	1,690
Union Pay Deposit	USD	68	65
Available-for-sale investments - VISA shares	USD	1,222	832
Trade Payables	EUR	809	254
Trade Payables	USD	75	86

3) Other price risk

The Company's investment in available-for-sale financial investments (Visa shares) is valued by way of reference to an underlying listed equity on the New York Stock Exchange and as such its fair value will fluctuate in direct proportion with the quoted market price indicated.

(vii) Capital Management

The Company's capital management objectives are to:

- Maintain a sufficient level of capital above the regulatory minimum to provide a buffer against loss arising from unanticipated events, and allow the Company to continue as a going concern; and
- Ensure that capital management is closely aligned with the Company's business and strategic objectives.

The Company manages capital adequacy according to the framework set out by APRA Prudential Standards.

APRA determines minimum prudential capital ratios (eligible capital as a percentage of total risk-weighted assets) that must be held by all ADIs. Accordingly, the Company is required to maintain a minimum prudential capital ratio (eligible capital as a percentage of total risk-weighted assets) on a Level 1 basis as determined by APRA.

The Board considers the Company's strategy, financial performance objectives, and other factors relating to the efficient management of capital in setting target ratios of capital above the regulatory required levels. These processes are formalised within the Company's Internal Capital Adequacy Assessment Process (**ICAAP**). The Company operates under the specific capital requirements set by APRA. The Company has satisfied its minimum capital requirements throughout the 2018 financial year in the form of Tier 1 capital which is the highest quality components of capital.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

16. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES (cont'd)

Capital Adequacy

	2018 ($000)	2017 ($000)
Risk weighted capital ratios		
Common equity tier 1	138%	178%
Tier 1	138%	178%
Total capital ratio	**139%**	**179%**
Qualifying capital		
Tier 1		
Contributed capital	141,258	138,381
Accumulated losses & reserves	(32,981)	(18,081)
Common equity tier 1 capital	**108,277**	**120,300**
Less		
Net deferred tax assets	(11,351)	(10,300)
Other adjustments	(1,222)	(832)
Total Tier 1 capital	**95,704**	**109,168**
Tier 2		
General reserve for credit losses[1]	769	696
Total Tier 2 capital	**769**	**696**
Total qualifying capital	**96,473**	**109,864**
Total risk weighted assets	**69,208**	**61,494**

1. Standardised approach (to a maximum of 1.25% of total credit risk weighted assets)

(viii) Liquidity risk

The Company's liquidity risk is the risk that the Company will have insufficient liquidity to meet its obligations as they fall due. This could potentially arise as a result of mismatched cash flows.

The Company manages this risk by the ALCO approved liquidity framework. Responsibility for liquidity management is delegated to the CFO and CEO. The CFO manages liquidity on a daily basis and submits weekly reports to the Management team, and monthly reports to ALCO. The CFO is also responsible for monitoring and managing capital planning. The capital plan outlines triggers for additional funding should liquidity be required.

Liquidity risk management framework models the ability to fund under both normal conditions and periods of stress. The capital plan and liquidity management is reviewed at least annually.

At the reporting date, the Board of Directors determined that there was sufficient cash available to meet its anticipated expenditure and other financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

16. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES (cont'd)

Maturity analysis

Amounts in the table below are based on contractual undiscounted cash flows for the remaining contractual maturities.

(amounts in $'000s)	**<3 months**	**3-6 months**	**>6-12 months**	**>1-5 years**	**>5 years**	**Total**
As at 30 June 2018						
Financial liabilities						
Deposits	(11,563)	-	-	-	-	(11,563)
Trade payables and other liabilities	(13,764)	-	-	-	-	(13,764)
	(25,327)	**-**	**-**	**-**	**-**	**(25,327)**

	<3 months	**3-6 months**	**>6 -12 months**	**>1-5 years**	**>5 years**	**Total**
As at 30 June 2017						
Financial liabilities						
Deposits	(11,430)	-	-	-	-	(11,430)
Trade payables and other liabilities	(3,948)	-	-	-	-	(3,948)
	(15,378)	**-**	**-**	**-**	**-**	**(15,378)**

(ix) Fair values

The Company uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The table below shows the Company's financial assets that are measured at fair value. Management has assessed that for other financial assets and liabilities not disclosed in the table below, that due to their short term maturity profile, the carrying amount is an approximation of fair value.

	Year ended 30 June 2018 ($000)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Asset				
Floating rate notes	37,875	-	-	37,875
VISA shares	1,222	-	-	1,222
	39,097	**-**	**-**	**39,097**

	Year ended 30 June 2017 ($000)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Asset				
Floating rate notes	20,265	-	-	20,265
VISA shares	832	-	-	832
	21,097	**-**	**-**	**21,097**

Quoted market price represents the fair value determined based on quoted prices in active markets as at the reporting date without any deduction for transaction costs.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

16. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES (cont'd)

Transfer between categories

In the year ended 30 June 2018, the Company further invested in floating rate notes which have a short-term repricing profile and are of high credit quality. The fair value of these floating rate notes is obtained from an independent third party pricing service that uses tradable prices and quotes from active markets. In order to align with this quoted price methodology, during the year there were transfers of floating rate notes out of Level 2 into the Level 1 fair value hierarchy. $37.9 million of floating rate notes are reported in Level 1 as at 30 June 2018 and $20.3 million were restated in the comparative period into Level 1.

17. COMMITMENTS AND CONTINGENCIES

Commitments relating to BECS

The Company pays merchants through the BECS system (Bulk Electronic Clearing System). As a result of BECS intra-day settlements, which went live in November 2013, all merchant settlements committed are processed on the same day.

Contingent liabilities arising from commitments are secured by way of standby letters of credit or bank guarantees as follows:

Contingent liabilities – secured	2018 $000	2017 $000
(I) Irrevocable standby letters of credit in favour of:		
MasterCard International	3,159	3,090
Visa International	60	60
UnionPay International	68	65
(ii) Bank Guarantee in favour of:		
UIR Australia, the lessor of 155 Clarence Street, Sydney	4,525	4,525
	7,812	**7,740**

The Company has provided an irrevocable standby letter of credit of $3.3 million (in 2017: $3.2 million) secured through fixed charges over term deposits with the Commonwealth Bank of Australia and Westpac Banking Corporation, to MasterCard International, Visa International and Union Pay International. These are one-year arrangements that are subject to automatic renewal on an annual basis. MasterCard International and Visa International, at their discretion, may increase the required amounts of the standby letters of credit upon written request to the Company. The required amounts of the standby letters of credit are dependent on MasterCard International's and Visa International's view of their risk exposure to the Company.

A bank guarantee is held with the Westpac Banking Corporation in relation to the lease arrangement for the office premises. The amount represents up to 9 month's rent and includes all annual increases of 4% since 2016 until lease maturity and is refundable on expiry of the lease agreement, subject to satisfactory vacation of the leased premises.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

18. LEASES

(a) Operating lease commitments - Company as lessor

Prior to April 2010, the Company operated a "rent to own" model whereby ownership of the terminal would transfer to the merchant once they had made 36 consecutive rental payments. However, the Company carried the risk of repairing or replacing the terminal over the 3 year period. The merchant would then continue to pay a service and maintenance fee after this period.

From April 2010, the Company has moved to a perpetual rental model whereby there will be no transfer of ownership of the asset, and the merchant will pay terminal rental for the duration that they are with the Company. There is no minimum rental period for merchants and they are able to terminate with the Company at any time with no penalty or buy out fees.

Type of Terminals	Cost ($000)	Accumulated Depreciation ($000)	Net Carrying Value ($000)
Yomani, Yomani XR and Yoximo 3G (including accessories)	21,189	13,304	7,885
Xenta and Xentissimo	4,930	4,930	-
	26,119	**18,234**	**7,885**

(b) Operating lease commitments - Company as lessee

Future minimum rentals payable under the non-cancellable operating leases as at 30 June 2018 are as follows:

	2018 $000	2017 $000
Within one year	4,482	4,212
After one year but not more than five years	12,279	16,424
More than five years	-	-
	16,761	**20,636**

The operating lease commitments relate to the lease of the Company's registered office located at 155 Clarence Street, Sydney NSW. It is a non-cancellable lease with a term of up to 7 years ending 22 January 2022. The lease agreement provides the Company with the option to extend the lease for another 3 years. Lease payments are subject to annual increases of 4%.

19. SEGMENT REPORTING

The Company operates in one geographical segment being Australia. Currently the acquiring business segment which provides EFTPOS solutions to merchants (transaction processing, clearing and settlement activities within the Australian Payments System) comprises the only material contributor to the Company’s Statement of Comprehensive Income. Therefore, no segment reporting attributed to other products has been presented in the current year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

20. AUDITOR'S REMUNERATION

	2018 $000	2017 $000
Amounts paid or payable to the auditor, Ernst & Young (EY), for audit and non-audit services performed during the year are set out as follows:		
Audit of the financial reports of the Company	384	347
Other services in relation to the Company		
Tax compliance	72	146
Regulatory compliance	160	57
Other assistance and services	30	20
	646	**570**

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in Note 20 do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company jointly sharing economic risks and rewards.

21. RELATED PARTY DISCLOSURES

(a) Compensation of Key Management Personnel

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to Key Management Personnel.

Details of Key Management Personnel

Directors	Title	Appointed
Kerry Roxburgh	Non-executive Director, Chairman	18 April 2008
Mike Cannon-Brookes	Non-executive Director	10 December 2009
Rob Ferguson[1]	Non-executive Director	17 November 2005
Catherine Harris	Non-executive Director	17 December 2015
Paul Rickard	Non-executive Director	28 August 2009
Jost Stollmann[2]	Non-executive Director	05 April 2005

1. Non-executive Director since 17 November 2005. Appointed to Acting Managing Director and Acting Chief Executive Officer from 14 June 2017 to 23 March 2018.
2. Executive Director since 5 April 2005. Appointed to Non-executive Director on 14 June 2017, resigned effective 17 October 2017.

Executives	Title	Appointed
Robbie Cooke	Chief Executive Officer	23 March 2018
David Coombes	Director of Engineering	03 July 2017
Justin Mitchell	Chief Risk Officer	19 March 2007
Praveenesh Pala	Chief Financial Officer	20 October 2014
Joshua Walther	Director of Sales	25 May 2017
Bronwyn Yam	Director of Product	16 October 2017

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

21. RELATED PARTY DISCLOSURES (cont'd)

	2018 $000	2017 $000
Compensation of Key Management Personnel		
Short-term benefits	3,312	2,661
Long-term benefits (long service leave)	-	71
Post-employment benefits (superannuation)	264	254
Termination benefits	-	924
Share-based payments	563	330
Total	**4,139**	**4,240**

Interests held by Key Management Personnel

Share options held by Key Management Personnel to purchase ordinary shares have the following expiry dates and exercise prices.

Issue Year	Expiry Year	Exercise Price($)	2018 Number Outstanding	2017 Number Outstanding
FY07/08	FY17/18	$0.300	-	436,996
FY08/09	FY18/19	$0.060	1,043,478	1,043,478
FY10/11	FY17/18	$0.060	-	2,940,587
FY10/11	FY17/18	$0.080	3,250,000	5,250,001
FY13/14	FY20/21	$0.375	528,287	1,758,644
FY14/15	FY21/22	$0.450	549,297	1,140,846
FY15/16	FY22/23	$0.600	461,289	929,030
FY16/17	FY23/24	$1.490	477,076	932,051
FY16/17	FY23/24	$1.620	200,000	400,000
FY17/18	FY23/24	$1.620	400,000	-
FY17/18	FY23/24	$1.760	3,605,680	-

During the period, the Company agreed to grant 1,200,000 share performance rights to a member of Key Management Personnel. Details are covered in Note 10(c).

(b) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year. These transactions were on arm's length commercial terms and conditions.

Related Party		2018 $000	2017 $000
Atlassian Pty Ltd	Software purchased	(47)	(73)
Atlassian Pty Ltd	Sub-lease rental income	-	560

Mike Cannon-Brookes, a Non-Executive Director of the Company is Co-Founder, CEO and Director of Atlassian. The Company entered into an agreement with Atlassian to sublease Level 4 of 155 Clarence Street, commencing 1 April 2016 to 31 December 2016, with an option to renew for up to two months. Atlassian vacated the premises in March 2017.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

21. RELATED PARTY DISCLOSURES (cont'd)

(c) Share options with related parties (not under ESOP)

In December 2010, the Company granted 7.5 million share options to related parties for providing a (now expired) loan facility to the Company for liquidity purposes, which was drawn down. These options are not under ESOP.

During the year, 1.6 million share options were exercised and 5.9 million share options were outstanding with a WAEP of 8 cents as at 30 June 2018.

	Outstanding options at the end of the year
Euclid Capital Partners, related party of David Fite (Shareholder)[1]	2,625,000
Abyla Pty Ltd, related party of Mike Cannon-Brookes (Director)	1,625,000
Robert Ferguson (Director)	1,625,000
Total	**5,875,000**

1. Appointed Director subsequent to the end of financial year

22. MATTERS SUBSEQUENT TO THE END OF FINANCIAL YEAR

In the opinion of the Directors, there have been no matters or circumstances which have arisen between 30 June 2018 and the date of this report that have significantly affected or may significantly affect the operations of the Company, the result of those operations or the state of affairs of the Company in subsequent financial years.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Tyro Payments Limited, I state that:

In the opinion of the Directors:

a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:

   I. giving a true and fair view of the Company's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

   II. complying with Accounting Standards and Corporations Regulations 2001;

b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1; 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.

On behalf of the Board

Kerry Roxburgh
Chairman

Sydney, 4 September 2018

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Independent Auditor's Report to the Members of Tyro Payments Limited

Opinion

We have audited the financial report of Tyro Payments Limited (the Company), which comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.
In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Company's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial report and our auditor's report thereon. The other information comprises the Chief Executive Officer's Year in Review and Directors' Report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our auditor's report.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Sydney
4 September 2018

ADDITIONAL INFORMATION FOR SHAREHOLDERS

Information for Shareholders

A hard copy of this Annual Report can be obtained by contacting the Company Secretary. The Company became a disclosing entity in the 2016 financial year and publishes an Interim Financial Report for each half-year ended 31 December.

Details of announcements released by Tyro can be found on Tyro's Investors page at www.tyro.com.

Annual General Meeting

The Tyro Annual General Meeting will be held at the Four Seasons Hotel, at 199 George Street, Sydney NSW 2000 on Thursday 25 October 2018, commencing at 3pm.

Share Registry Information

Tyro maintains its share registry. For information about your shareholding or to notify a change of address or contact details, please contact Tyro's Company Secretary via:

Tyro Payments Limited
Attn: Company Secretary
Level 1, 155 Clarence Street
Sydney NSW 2000

Phone: +61 2 8907 1700

Email: cosec@tyro.com

Electronic Communications

Shareholders can elect to receive the Annual Report and other shareholder communications by email. Shareholders who wish to register or notify a change of their email address should contact Tyro's Company Secretary via:

Tyro Payments Limited
Attn: Company Secretary
Level 1, 155 Clarence Street
Sydney NSW 2000

Phone: +61 2 8907 1700

Email: cosec@tyro.com

CORPORATE DIRECTORY

Directors
Kerry Roxburgh (Chairman)
Mike Cannon-Brookes
David Fite
Catherine Harris
Paul Rickard

Company Secretary
Justin Mitchell
Sami Wilson

Registered Office
Level 1, 155 Clarence Street
Sydney NSW 2000
+61 2 8907 1700

Auditors
Ernst & Young
200 George Street
Sydney NSW 2000
+61 2 9248 5555

Website
www.tyro.com

Level 1, 155 Clarence Street
Sydney NSW 2000