

Tyro Payments Limited
ABN 49 103 575 042

Annual Report to Shareholders
Year ended 30 June 2012

The CEO Report

Building a specialised banking institution (SCCI) for merchants

Tyro Payments Limited (or “Tyro”) is an Australian banking institution accepting electronic payments on behalf of merchants. Tyro does not take money on deposit.

Tyro holds an authority under the Banking Act to carry on a banking business as a Specialist Credit Card Institution (SCCI) and operates under the supervision of the Australian Prudential Regulation Authority (APRA). Tyro is a Principal Member of Visa and MasterCard and a Tier 1 Member of the payment clearing streams BECS and CECS.

Tyro is an accredited provider for Medicare Australia Easyclaim. Patients can use the Tyro Medicare Easyclaim solution to claim their Medicare rebate once they have paid their account—the rebate is then paid into their bank account almost immediately.

Tyro provides an in-house developed, end-to-end solution, authorising, clearing and settling electronic card payments. Tyro accepts Visa, MasterCard, American Express/JCB, Diners, PIN based EFTPOS as well as Medicare Easyclaim, gift and loyalty card transactions.

The Tyro solution is IP based and all transactions are processed in real time.

At the end of June 2012, Tyro completed its fifth full fiscal year trading, since the commercial launch of its EFTPOS facility on 26 April 2007.

Our vision and guiding principles

Tyro Payments provides the Merchant’s EFTPOS and it just works. Tyro listens, understands, develops, integrates and supports flawless solutions that plug in and just work for the merchant’s business.

Tyro People dare to challenge the EFTPOS Industry and they succeed. Tyros learn, think, respect, debate, decide, act and grow for a new world where innovation, fairness and transparency prevail.

Tyro shares the wealth and recognition fairly among its many stakeholders. Tyro aspires to build wealth for its staff and shareholders and to contribute innovation and competition to the Australian banking industry.

Our governance

Whilst senior management has responsibility for day-to-day management, in line with prudential and regulatory requirements, the Board of Directors (the board) has ultimate responsibility for Tyro’s sound and prudent management.

In line with best practice and in particular the requirements of APRA Prudential Standard CPS510: Governance, the board establishes frameworks, policy and direction, supported by operational management. The board also establishes advisory committees in respect of key aspects of the business which assist it in carrying out its functions, as well as providing it with expert advice on key issues.

The primary role of the board is to provide effective governance over company affairs, including its strategic direction, establishing goals for management and monitoring the achievement of those goals, to ensure that the interests of stakeholders are protected and the confidence of the merchant acquiring market is maintained, whilst having regard for the interests of all stakeholders including customers, employees and suppliers.

The board currently consists of five directors, with a majority of three directors including the Chairman meeting APRA’s independence requirements.

The directors of the board have set standards applicable at all levels of Tyro to ensure compliance with the Tyro Code of Conduct, the Corporations Act 2001, the National Privacy Principles 2001 and the Banking Act 1959 and all other applicable regulation. The board has established a policy of board renewal that ensures it has the necessary expertise and general reinvigoration while also maintaining ongoing understanding of Tyro’s business.

The year's highlight for Tyro was passing the break-even point

In the month of December 2011 and then every month from March 2012 onwards, Tyro delivered a net profit.

Since February 2003, Tyro has been working on developing its technology, gaining access to the banking system and building its merchant portfolio. After nine years, Tyro has now crossed the monthly break-even point.

	Jul 11 - Dec 11	Jan 12 - Jun 12	FY 2011/12
	\$	\$	\$
	(unaudited)	(unaudited)	(audited)
Revenue			
Fees and commission income	12,680,749	14,382,215	27,062,964
Fees and commissions expense	(7,935,576)	(8,212,192)	(16,147,768)
Net fees and commissions Income	<u>4,745,173</u>	<u>6,170,023</u>	<u>10,915,196</u>
Terminal and accessories sale	245,555	318,348	563,903
Terminal and accessories COGS	(175,974)	(237,332)	(413,306)
Net Terminal and Accessories Sale Income	<u>69,581</u>	<u>81,017</u>	<u>150,597</u>
Interest Income	385,401	408,751	794,152
Foreign Currency Gain	71,985	-	71,985
Net gain on financial instruments	<u>425</u>	<u>496</u>	<u>920</u>
Total Operating income	<u>5,272,565</u>	<u>6,660,286</u>	<u>11,932,851</u>
<i>Less: Expenses</i>			
Medicare Rollout external expenses	7,355	2,005	9,360
Engineering expenses	1,422,892	1,506,285	2,929,178
Operations expenses	1,788,608	1,886,932	3,675,540
Sales and marketing expenses	851,794	831,370	1,683,164
Administrative expenses	1,817,802	1,991,728	3,809,530
Bad debt and chargeback loss expense	890	33,626	34,517
Total operating expenses	<u>5,889,342</u>	<u>6,251,948</u>	<u>12,141,290</u>
Interest Expense	209,797	23,308	233,106
Foreign Currency Loss	-	2,187	2,187
Operating loss before tax expense	<u>(826,574)</u>	<u>382,843</u>	<u>(443,731)</u>
Share based payments expense	84,503	-	84,503
Net profit/(loss) for the period	<u>(911,077)</u>	<u>382,843</u>	<u>(528,234)</u>

Historical financial year summary

Tyro launched its first EFTPOS facility in April 2007. In the following five fiscal years the transaction volume grew by 125 per cent year on year and the operating income by 92 per cent. The operations, support services and sales marketing capacity was successively put into place. This led to a 16 per cent annual increase of the total expenses.

Unaudited information	FY0708	FY0809	FY0910	FY1011	FY1112
Transaction Volume in AUD	115,453,972	510,888,137	1,310,465,042	1,983,290,792	2,950,695,145
Operating Income	870,575	2,580,520	6,578,940	7,694,629	11,873,327
Employment Expenses	3,717,161	3,921,667	4,683,300	5,520,530	7,856,206
Other Expenses	1,994,879	2,800,133	2,938,174	3,646,196	4,227,746
Share based payments	1,013,245	971,875	781,423	133,774	84,503
Total Expenses	6,725,285	7,693,675	8,402,897	9,300,500	12,168,455
Expense Ratio	773%	298%	128%	121%	102%
Interest Expense	-	-	-	209,645	233,106
EBIT	(5,854,710)	(5,113,155)	(1,823,957)	(1,605,871)	(295,128)

EBIT % Change	18%	13%	64%	12%	82%
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Building the merchant portfolio

Tyro has grown its merchant portfolio in the health and general retailing space.

	Month of June 2011	Month of June 2012	Growth
No of merchants or merchant outlets (MID)	4,520	6,351	40.51%
No of credit and debit card transactions	2,553,213	3,855,041	50.99%
No of Medicare Easyclaim transactions	804,514	882,169	9.65%
Value of credit and debit card transactions	\$183.1 million	\$271.7 million	48.39%

Tyro Health: Medical Practices and Pharmacies

Since launching, Tyro has focused on opportunities within primary care and related health markets. Specifically Tyro has targeted the installed base of Health Communication Network (HCN). HCN is the leading Australian provider of e-health and practice automation solutions and addresses both the General Practitioner and Specialist Practitioner market place.

During the year, Tyro has certified further Point of Sale (POS) software vendors that target specifically the pharmacy space. We expect to build our presence in that segment further.

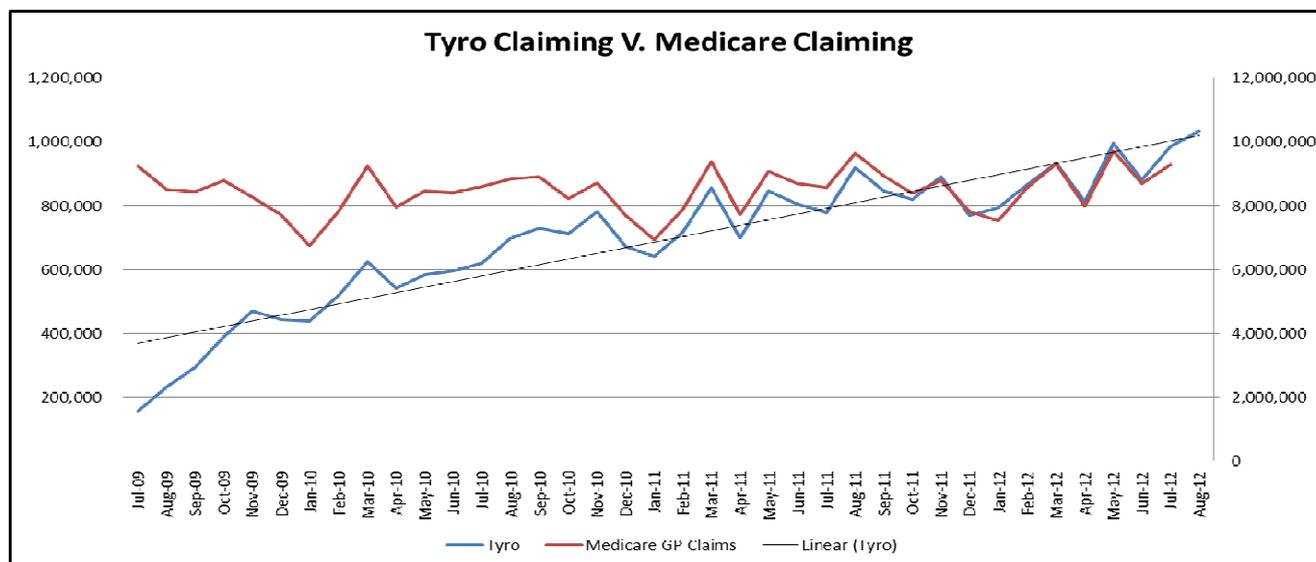
Medicare Easyclaim

Tyro has deployed Australia's first integrated Easyclaim platform. Easyclaim is a real-time Medicare claiming and reimbursement service for patient-paid and bulk bill claims using an EFTPOS terminal and the EFTPOS network from the medical practice immediately after the consultation has occurred.

HCN has integrated the Easyclaim platform into its PracSoft practice management system (PMS). The seamless electronic payment, claiming, reimbursement and reconciliation solution was launched in April 2009. The claim and Medicare card data is automatically transferred from the PMS, where it resides, through the Tyro EFTPOS terminal to Medicare and from Medicare back to the PMS for reconciliation.

During the year the integrated Medicare Easyclaim solution was also launched with Blue Chip, HCN's equivalent PMS for the specialist medical practices space. Since report date, Tyro has launched Easyclaim with a second PMS provider Medilink.

Medicare statistics show that in June 2012 there were 8,685,740 million claims for GP Professional Attendances. During the same month, Tyro processed 881,496 Easyclaim transactions. Thus at this juncture, Tyro is assumed to process in excess of 10.15% of GP professional attendances in Australia. By end of June 2012, a total of 1,327 HCN practices used integrated Easyclaim.



Tyro Retail

Tyro is continuing to execute its overall strategy of accessing merchants via Point of Sale (POS) vendors. The Tyro Terminal Adaptor (TTA) enables the POS vendors to implement the EFTPOS integration protocol directly with Tyro. This means that integration with Tyro TTA no longer requires weeks of effort but merely days and integrations are far more robust.

As at 30 June 2011, Tyro had 37 certified POS integrations. During the year, Tyro completed integration and certification with a 12 further POS vendors. Currently, Tyro has 69 certified POS and PMS solutions, 8 POS solutions in certification and 26 at some stage of development.

The Product Management Team has been working closely with POS providers to deliver integrated reporting, reconciliation and settlement solutions that automate the end of day processing used by our merchants. There is a "headless" version of the TTA that allows the POS vendor to provide integrated EFTPOS with his own skin i.e. the look and feel of his own user interface.

Tyro Hospitality

During the 2011 financial year Tyro launched its integrated Pay at Table solution. This solution permits the payment terminal to communicate with a restaurants POS over a wireless network, thus permitting pay at table transactions to be conducted on an integrated basis. There is now a comprehensive suite of features including tipping at table, tip completion at the POS, splitting amounts and opening bar tabs.

At this stage, Tyro is not aware of any other acquirer that offers similar functionality. As at June 30th 2012 Tyro has signed up to 664 hospitality merchants.

Leveraging the Internet

The Tyro architecture has brought EFTPOS into the internet age. Tyro removes constraints and enables businesses, no longer tied to legacy technology, to radically improve the efficiency of their processes.

Merchants can increase transaction speed and lower communication expense by using the public internet or for larger retail organisations their corporate network.

Software vendors can integrate directly with Tyro eliminating an expensive software and hardware middleware layer and thus point of failure used by incumbents for aggregation and integration purposes.

Tyro provides the capability of secure integrated credit and debit card processing in a "thin client" (web-based) infrastructure. At this stage, Tyro is not aware of any other acquirer that offers similar functionality.

Availability

Tyro has maintained 100% uptime with its live-live infrastructure. Even during maintenance downtime merchants are able to continue to transact as our terminals will automatically connect to any available application switch within either of our two data centres. When integrated the merchant's POS also uses either data centre.

During the year, Tyro regularly tested recovery of our infrastructure components and transient network failures.

Security

Since April 2012, all EFTPOS terminals in Australia must support EMV acceptance (Chip cards). 100% of Tyro's active terminal fleet are accepting chip cards.

While competitors claim exemption from PCI PA DSS, Tyro has retained its accreditation for this certification. Because of the architecture it uses, Tyro has remained without any merchant or terminal compromises. Its competitors have not fared so well with their exempted solutions, with a number of reports in the press around card data compromises.

Tyro did have some minor incidences during the year which it quickly got on top of, upgrading the software to better protect its merchants. In addition to get on the front foot, Tyro has tightened security in the terminal application to prevent unreported stolen terminals from being used to commit fraud. This upgrade is being rolled out now.

Tyro continues to look for ways to enhance the security of its applications. Tyro has commenced implementing additional fraud controls around refunds, which will be rolled out during the next 6 months.

Environmental Sustainability

Climate change is not simply an environmental issue. It is a key business and social issue which impacts us all.

By the very nature of its innovative internet-based technology, Tyro is contributing to a more sustainable future with paperless statements, integrated receipt, online reporting and web based documentation. With the development of integrated receipt Tyro continues to further expand its environmental awareness beyond corporate headquarters to a growing proportion of its customer base.

Tyro has implemented a company wide recycling program and continues to search for new and efficient ways to minimise its environmental footprint.

Employees

Tyro employed 68 employees as at 30 June 2012 (compared to 54 employees at 30 June 2011). They are critical to its continued success. By utilising comprehensive recruitment and pre-screening practices for all employees, along with at least annual performance management reviews, Tyro endeavours to recruit, retain and suitably reward the best people in the industry. All employees are offered to participate in the Employee Share Option Plan.

The highlights in the industry

Hype around new mobile payment technologies mainly capitalising on the propagation of smartphones is invigorating innovation and investment into front-end payment solutions. With NFC, iPhone 5, Apple Passbook, Google Wallet, Square, PayPal and others, consumers and merchants are daily overwhelmed with news on new developments in mobile payments and mobile-pass technology.

As these new solutions get adopted, this will result in dramatically increased transaction volumes putting further stress on the failing back-end legacy core payment systems. Tyro has been very vocal and critical in that regard.

Regulatory environment

The Reserve Bank of Australia (RBA) has concluded its Strategic Review of Innovation in the payment space with increased engagement and oversight. There are significant efforts under way to reinforce the governance framework, so as to drive the overdue investments into an open, real-time retail payment infrastructure addressing:

- real-time interbank settlement and account posting
- network choice in contactless environments
- retail payment system reliability
- access to the payment system infrastructure

Tyro continues to suffer from constraints due to the challenging eftpos access regime and expansion barriers and imbalanced and discriminatory structures and behaviours in the payment space. The score card for the industry's ability of allowing a new entrant to compete within fair rules and on a level playing field continues to fall short.

If that remains the case, parallel payment worlds will develop without regulatory oversight and thus with all the risks and failures that this engenders for the community. It is in the public interest to have an open but regulated payment system where innovation can happen inside the system with trust and security maintained.

The RBA is currently reviewing the domestic debit card system. It has decided to maintain the designation although narrowing the definition to debit card transactions under the eftpos Payment Australia Limited scheme. Currently the RBA is reviewing the eftpos access regime and the eftpos interchange fee. The outcome of this review may have a significant impact on Tyro and the sole acquirer business model in general.

Positioning in the new world

The new world of mobile internet connected POS and EFTPOS devices and of cloud based applications should play well to Tyro's strengths of an end-to-end internet acquiring platform and its secure internet integration architecture. Tyro owning its technology should be able to compete well with bringing innovative solutions fast to market and with custom tailored features and functions to the requirement of specific vertical market segments.

Currently, Tyro is extending its software partnerships to those vendors that provide selling and payment solutions in this new cloud world. Tyro proposes the easiest, safest and most reliable direct integration model for new POS software entrants or incumbents extending their offerings to the new platforms.

Tyro is launching its new desktop colour contactless terminal in October followed by a mobile version mid next year. While there is a lot of enthusiasm, Tyro has to be recognisant that the real ubiquitous infrastructure for smartphones and tablets to be capable of handling payments, passes and membership cards is possibly a decade away. And even then, merchants will have to accept all the older payment instruments, be it cash, check, magnetic and EMV card, mobile wallet, coupons...

Tyro sees itself as the trusted partner of the software industry and the merchant community navigating through the proliferation of payment instruments and offering seamless and efficiently integrated solutions.

Strategic choice – further investment

Against the background of all the opportunities arising from new technologies, Tyro intends to invest significantly into the further build-up of its engineering team. Tyro is currently in the market seeking top notch Java Developers. This is challenging, since Tyro needs only top talent to work on its mission critical payment and banking applications. On the other hand Tyro is very unique and attractive marrying agile development methods, with deep banking knowledge and an opportunity to make a major difference for the Australian community.

Tyro Payments Limited
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Directors Report
Year ended 30 June 2012

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Directors Report

The Board of Directors of Tyro Payments Limited has pleasure in submitting its report for the financial year ended 30 June 2012. The names and details of the company's directors in office during the financial year and until the date of this report are as follows. All directors were in office for the entire year.

Names, qualifications, experience and special responsibilities:

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 Charter Hall Group, Tasman Cargo Airlines Ltd and of TEKTUM Ltd. He is Deputy Chairman of Marshall Investments Pty. Ltd. He is also a member of the Advisory Boards of AON Insurance and of Built Pty. Ltd.

In 2000 he completed a 3 year term as CEO of E*TRADE Australia (a business that he co-founded in 1997), becoming its non-executive Chairman until June 2007, when it was acquired by the ANZ Bank. Prior to this appointment he was an Executive Director of Hong Kong Bank of Australia Group 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 Mr Roxburgh was in practice for more than 20 years as a Chartered Accountant. Kerry is a member of the Audit Committee, Remuneration Committee and Risk Committee.

Directorships held over the last three years:

- LawCover Insurance Group – Deputy Chairman (Resigned July 2011)
- Eircom Holdings Limited – Chairman (Resigned January 2010)
- Professional Insurance Australia Limited (Resigned June 2010)

Michael Cannon-Brookes

Non-executive Director since 10 December 2009

Michael is Co-Founder, CEO and director of Atlassian, an innovative, award-winning enterprise software company based in Australia and established in 2002. Michael was named Australian IT Professional of the Year in 2004, awarded 'Australian Entrepreneur of the Year' by Ernst & Young in 2006 and honoured by the World Economic Forum in 2009 as a Young Global Leader. Michael is an active investor and advisor to technology-focused ventures. Michael is Chairman of the Remuneration Committee and member of the Audit and Risk Committees.

Directorships held during the past three years:

- Atlassian Corporation Pty Limited & Subsidiaries
- Tyro Payments Limited

Rob Ferguson

Non-executive Director since 14 November 2005

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. Through his ongoing delivery of higher investment performance, he and his team built BT Funds Management into the leader in the retail mutual funds business. By mid 1990s, BT had \$50 billion under management. Rob became chairman of BT Funds Management in 1999 until he resigned the position in 2002. Rob is Chairman of the Risk Committee and a member of the Audit and Remuneration Committees.

Directorships held during the past three years:

- Chairman of GPT Management Holdings Limited
- Deputy Chair of the Sydney Institute
- Director of the Lowy Institute.
- Tyro Payments Limited
- Non-executive Chairman of IMF (Australia) Ltd
- Non-executive Chairman of Primary Health Care Limited
- Chairman of SmartWard Holdings Pty Ltd (appointed Feb-12)

Other previous directorships of listed or unlisted companies held by Rob Ferguson:

- Director of Westfield Holdings Ltd (1994 – 2004)
- Chairman of Vodafone Australia (2000 – 2002)
- Chairman of Nextgen Limited (2000 – 2004)
- Director of Racing NSW (2004 – 2009)

Paul Rickard

Non-executive Director since 28 August 2009.

Paul is the Principal of a financial services consultancy firm, which he established following a 20 year career with the Commonwealth Bank of Australia. He was previously the Executive General Manager, Payments & Business Technology and the Chief Information Officer for the Business and Institutional Banks. During his 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. Paul is Chairman of the Audit Committee and member of the Risk Committee.

Directorships held during the past three years:

- Tyro Payments Limited
- National E-Conveyancing Development Limited
- Halidon Asset Management Ltd
- Religare Securities Australia Pty Ltd (ceased)
- Switzer Financial Group Pty Ltd
- Lumus Financial Services Pty Ltd

Jost Stollmann

Director and CEO since 5 April 2005

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.

Directorships held during the past three years:

- Tyro Payments Limited

Justin Mitchell

Company Secretary since 12 April 2007

Justin is Company Secretary and Head of Compliance & Risk at Tyro Payments Limited. Justin's wide risk, compliance and audit experience includes the design and set up of internal audit functions, design and implementation of risk frameworks and internal compliance plans and controls. Justin has not held any directorships during the past three years.

Interests in the shares and options of the company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Tyro Payments Limited were:

Director	Shares	Options
Kerry Roxburgh ¹	940,182	1,787,967
Michael Cannon-Brookes ²	2,966,667	2,736,110
Rob Ferguson ³	30,352,950	4,587,477
Paul Rickard	248,204	1,333,334
Jost Stollmann ⁴	53,467,309	17,710,127

¹ Includes ordinary shares and options jointly held with Alex Roxburgh as trustees for the Kerry & Alex Roxburgh Superannuation Fund being associate of Kerry Roxburgh

² Includes shares and options held by Abyla Pty Ltd and Grokco Pty Ltd being associates of Michael Cannon-Brookes

³ Includes ordinary shares and options held by Torryburn Superannuation Fund and Ordinary Shares and options jointly held by Simon Peter Price and Rachel Emma Ferguson being associates of Rob Ferguson

⁴ Includes ordinary shares and options held by Fiona Stollmann being an associate of Jost Stollmann

DIVIDENDS

No dividends have been declared or paid since the date of incorporation.

CORPORATE INFORMATION

Corporate Structure

Tyro Payments Limited ("Tyro") is an unlisted public company. It is incorporated and domiciled in Australia. The registered office of Tyro is Level 2, 125 York Street, Sydney, New South Wales, 2000.

Nature of operations and principal activities

Tyro's principal activities are:

- Credit and Debit Acquiring Services: Tyro is a financial institution providing credit and debit acquiring services. As such, it has implemented the necessary frameworks, policies, procedures and systems to comply with the stringent prudential and regulatory requirements to perform electronic transaction processing, clearing and settlement activities within the Australian banking sector.
- Software development: Tyro's focus is on using proven modern technology to provide extremely reliable, secure, low cost and flexible acquiring services to merchants in partnership with the software industry. As such, Tyro owns its own switching and payment software and has continued to develop this for further competitive advantage over the course of the year.

There have been no significant changes in the nature of those activities during the year.

OPERATING AND FINANCIAL REVIEW

Overview

Tyro was founded on 3 February 2003 by Peter Haig, Andrew Rothwell and Paul Wood. Two founders Peter Haig and Andrew Rothwell have maintained their active association with Tyro. In November 2004, Jost Stollmann became a major investor, then Director and CEO. Kerry Roxburgh joined as non-executive Director on 18 April 2008. He was appointed Chairman of the Board on 19 February 2010.

Tyro positions itself as a specialised institution focused on merchant acquiring acting as a developer of its own acquiring technology, as a processor of its own transactions and as acquirer of record with its own banking authority.

Performance Indicators

Reviewing and approving all Tyro business strategies and significant policies, the board ensures that it is satisfied that all aspects of management and operations conform to its strategy, direction and policies. Additionally, the board monitors management practice and ensures that senior management adhere to set KPI's in all spheres of the business. It practices a rigorous program of board meetings, board committee meetings and the stringent review of a range of regular management reports encompassing all aspects of the business, including finance, operations, sales and strategy.

In particular, the board ensures that an effective system of risk management and internal control is established and maintained, and that senior management proactively monitors the effectiveness of the risk management framework.

Operating Results for the Year

Tyro reported an operating loss after providing for income tax of \$528,234 (2011: \$1,815,517 loss).

2012		2011		2010	
Revenues	Operating Loss	Revenues	Operating Loss	Revenues	Operating Loss
\$28,433,480	\$528,234	\$19,912,640	\$1,815,517	\$14,298,130	\$1,823,959

One of Tyro's business partners agreed with Tyro to forego commission payments for the period extending from the 1 January 2009 to 30 June 2010 in return for a heightened commission payment for the period from the 1 July 2010 to 31 December 2011.

The impact of this agreement decreased losses for FY 0809 by \$0.1 million and FY 0910 by \$0.9 million. Losses increased by \$0.7 million for FY 1011 and by \$0.4 million for FY 1112.

Investments for Future Performance

Tyro has invested significantly in human resources to develop testing of our availability and speed of the switching and payments system architecture. It has also invested in the purchase of computer servers and networking to ensure sufficient scalability of the production IT infrastructure to meet the expected demand for acquiring services.

In parallel, the Company has been building the non-engineering capability of the business to support the sales and operational capability necessary as it scales up its acquiring services.

Currently, Tyro is in the market to hire Java Developers to increase the engineering capacity further.

Capital Structure

During the period, Tyro issued 54,618,733 ordinary shares on 12 December 2011 raising \$2,730,936.65 of additional capital. The capital was raised to ensure Tyro is fully compliant with prudential capital requirements imposed by APRA and to fund on-going operations.

A further 1,036,232 ordinary shares were issued upon exercise of options on 25 June 2012 raising \$65,507.26.

As at 30 June 2012 Tyro had accounts payable of \$393,799.

Cash from Operations

Tyro continued to operate at a loss for the 2011/12 financial year, in line with the fact that it still operated under the heightened commission agreement for the first half of the period, accrued officer bonuses for the prior year, migrated Officer bonuses and Director compensation from share based payments to cash. Also, Tyro is still in the phase scaling up the operational business. Tyro had interest income of \$794,152, for the period.

Funding

Tyro had cash and cash equivalents of \$18,183,122 at the end of the period.

Under its banking authority as a Specialist Credit Card Institution (SCCI), Tyro is subject to a Prudential Capital Ratio (PCR) set by APRA. The regulatory minima are set in three ways, by a PCR, minimum Tier 1 Ratio and a minimum Net Tier 1 Capital requirement. The PCR is confidential and cannot be disclosed. APRA requires Tyro to always maintain a prudent buffer above the regulatory minima.

Internal limits are always above the capital minima and these internal limits currently are:

	PCR	Tier 1 Ratio	Net Tier 1 Capital
Level 1	22%	22%	\$5.5 million

Total Tier 1 capital held as at 30 June 2012 was \$11.5M. Tyro has always held sufficient capital to meet APRA's prudential capital requirements.

Risk Management

Tyro is prudentially supervised by APRA and is required to comply with prudential standards and provide quarterly capital adequacy reporting. Tyro has undertaken improvements to its risk management frameworks, policies, procedures and systems required to ensure on-going compliance with regulatory requirements and to satisfy both business needs and external stakeholders.

Statement of Compliance

This report is based on the guidelines in The Group of 100 Incorporated Publication *Guide to the Review of Operations and Financial Condition*.

Liquidity

Although Tyro has made operating losses in prior years, this is in line with expectations given that Tyro remains in the development and scaling up phase of its business. Tyro has maintained its operating loss for the fiscal year ended 30 June 2012 in line with forecast and holds sufficient cash to pay its debts as and when they become due and payable. It is also able to manage and control its expenses.

For these reasons the directors believe Tyro is a viable going concern as the next phase of the business plan approaches; one of a fully operational business.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs.

Significant events after balance date

There are no significant events after balance date.

Likely developments and expected results

The directors expect that in the 2012/13 financial year Tyro will continue to grow the acquiring business and continue to expand the functionality of electronic transaction acquiring services.

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 77,384,544 un-issued ordinary shares under options under the Employee Share Option Plan.

There are a further 7,500,000 un-issued shares attached to the 17 December 2010 loan facility for \$2.5M, these options expire on 17 December 2020.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, Tyro has not in respect of any person who is, or has been, an officer or auditor of the company or of a related body corporate:

Indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings with the exception of the general indemnity provisions contained in the Company's Constitution.

During or since the financial year, Tyro has paid premiums in relation to a contract insuring all of its directors and officers against legal costs incurred in defending proceedings for conduct involving:

- (a) a willful breach of duty; or
- (b) a contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director is as follows:

	Board Meetings	Audit Committee	Risk Committee	Remuneration Committee
Number of meetings held during the year	7	4	6	2
Director				
Kerry Roxburgh	6	2	6	2
Michael Cannon-Brookes*	4	4	4	2
Rob Ferguson	6	4	6	2
Paul Rickard	6	4	5	1
Jost Stollmann*	6	4	6	2

* Both Michael Cannon-Brookes and Jost Stollmann did not attend one Board Meeting due to declared conflict of interest at that meeting.

Committee Membership

As at the date of this report, Tyro had an Audit Committee, a Risk Committee and a Remuneration Committee of the Board of Directors. Members acting on the Committees of the Board during the year were:

Audit Committee	Remuneration Committee	Risk Committee
P. Rickard (Chairman)	M. Cannon-Brookes (Chairman)	R Ferguson (Chairman)
M. Cannon-Brookes	R. Ferguson	M. Cannon-Brookes
R Ferguson	K Roxburgh	P. Rickard
K Roxburgh		K Roxburgh

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

In relation to our audit of the financial report of Tyro Payments Limited for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

A handwritten signature in blue ink, appearing to read 'Clare Sporle'.

Clare Sporle
Partner
20 September 2012

TYRO PAYMENTS LIMITED
ABN 49 103 575 042

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 \$	2011 \$
Continuing Operations			
Fees and commission income	2	27,075,425	18,579,778
Fees and commission expense	2	(16,147,767)	(11,665,071)
Net fees and commission income		10,927,658	6,914,707
Terminal and accessories sale		563,903	717,668
Terminal and accessories COGS		(418,995)	(566,551)
Net terminal and accessories sale income		144,908	151,117
Interest Income	2	794,152	615,194
Other Income	2	5,689	12,946
Dividend income on financial instruments	2	920	666
Total Operating income		11,873,327	7,694,630
<u>Less: Expenses</u>			
Engineering expenses	2	3,079,812	2,408,427
Operations expenses	2	3,772,523	3,161,851
Sales and marketing expenses	2	1,758,750	1,004,072
Administrative expenses	2	3,580,190	2,353,153
Other expenses	2	46,978	55,276
Interest Expense		233,106	209,645
Total operating expenses		12,471,359	9,192,424
Foreign currency gain/(loss)		69,798	(317,723)
Operating loss before tax expense		(528,234)	(1,815,517)
Income tax expense	3	-	-
Net loss for the year		(528,234)	(1,815,517)

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

TYRO PAYMENTS LIMITED
ABN 49 103 575 042

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Note	2012 \$	2011 \$
ASSETS			
Current Assets			
Cash and cash equivalents	4	18,183,122	14,298,801
Trade and other receivables	5	2,257,350	1,995,789
Prepayments		164,368	157,765
Inventories	6	135,595	108,151
Total Current Assets		<u>20,740,435</u>	<u>16,560,506</u>
Non-current Assets			
Available-for-sale investment	7	206,839	120,399
Property, plant and equipment	8	1,650,608	1,388,465
Total Non-current Assets		<u>1,857,447</u>	<u>1,508,864</u>
TOTAL ASSETS		<u>22,597,882</u>	<u>18,069,370</u>
LIABILITIES			
Current Liabilities			
Trade payables and other liabilities	10	10,108,361	6,109,187
Interest-bearing loans and borrowings	11	-	2,413,052
Provisions	12	381,809	295,839
Total Current Liabilities		<u>10,490,170</u>	<u>8,818,078</u>
Non - current Liabilities			
Long service leave liability	13	197,585	93,917
Total Non - current Liabilities		<u>197,585</u>	<u>93,917</u>
TOTAL LIABILITIES		<u>10,687,755</u>	<u>8,911,995</u>
NET ASSETS		<u>11,910,127</u>	<u>9,157,375</u>
EQUITY			
Contributed equity	14	33,197,663	30,401,219
Reserves	14	7,078,942	6,525,997
Retained earnings	14	(28,366,478)	(27,769,841)
TOTAL EQUITY		<u>11,910,127</u>	<u>9,157,375</u>

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

TYRO PAYMENTS LIMITED
ABN 49 103 575 042

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 \$	2011 \$
Cash flows from operating activities			
Payments to suppliers and employees		(23,708,570)	(16,676,378)
Interest and fee income received		27,681,105	18,726,209
Dividend income received		920	666
Receipts from Terminals & accessories sale		563,903	717,668
Net cash flows from operating activities	4	<u>4,537,358</u>	<u>2,768,165</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,233,416)	(916,839)
Proceeds from disposal of property, plant and equipment		7,386	-
Net cash flows from investing activities		<u>(1,226,030)</u>	<u>(916,839)</u>
Cash flows from financing activities			
Proceeds from loan		1,999,665	2,500,000
Loan repayment		(4,499,665)	-
Interest paid on Loans		(106,849)	-
Proceeds from equity fund raising		3,110,044	-
Net cash flows from financing activities		<u>503,195</u>	<u>2,500,000</u>
Net increase in cash and cash equivalents		3,814,523	4,351,326
Net foreign exchange difference		69,798	(317,723)
Cash and cash equivalents at beginning of year		14,298,801	10,265,198
Cash and cash equivalents at end of year	4	<u><u>18,183,122</u></u>	<u><u>14,298,801</u></u>

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

TYRO PAYMENTS LIMITED
ABN 49 103 575 042

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

Attributable to equity holders of Tyro Payments Limited

	Contributed Equity	Asset Revaluation Reserve	Employee Equity Benefits Reserve	Retained Earnings	Option Premium Reserve	General Reserve for Chargeback Losses	Total
Note	\$	\$	\$	\$	\$	\$	\$
At 1 July 2010	30,401,219	45,516	6,043,972	(25,906,818)	-	95,489	10,679,378
Loss for the year	-	-	-	(1,815,517)	-	-	(1,815,517)
Other comprehensive income	-	(6,980)	-	-	-	-	(6,980)
Total comprehensive income	-	(6,980)	-	(1,815,517)	-	-	(1,822,497)
Issue of share capital	-	-	-	-	-	-	-
Share-based payments	-	-	133,774	-	-	-	133,774
Transfer to general reserve for credit losses	-	-	-	(47,506)	-	47,506	-
Option premium reserve	-	-	-	-	166,720	-	166,720
At 30 June 2011	<u>30,401,219</u>	<u>38,536</u>	<u>6,177,746</u>	<u>(27,769,841)</u>	<u>166,720</u>	<u>142,995</u>	<u>9,157,375</u>
Loss for the year	-	-	-	(528,234)	-	-	(528,234)
Other Comprehensive income	-	86,439	-	-	-	-	86,439
Total comprehensive income	-	86,439	-	(528,234)	-	-	(441,795)
Issue of share capital	2,796,444	-	-	-	-	-	2,796,444
Share-based payments	-	-	84,503	-	-	-	84,503
Transfer to general reserve for credit losses	-	-	-	(68,403)	-	68,403	-
Option premium reserve	-	-	-	-	313,600	-	313,600
At 30 June 2012	14 <u>33,197,663</u>	<u>124,975</u>	<u>6,262,249</u>	<u>(28,366,478)</u>	<u>480,320</u>	<u>211,398</u>	<u>11,910,127</u>

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

TYRO PAYMENTS LIMITED
ABN 49 103 575 042

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 20 September 2012.

Tyro Payments Limited is an unlisted public company, incorporated and domiciled in Australia.

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards.

Unless otherwise indicated, all amounts are expressed in Australian Dollars (\$).

The financial report has been prepared on the basis of historical cost, with the exception of available for sale financial instruments which have been measured at fair value.

The principal accounting policies applied in the preparation of the financial report are set out below. These policies have been consistently applied to the current year and the comparative period, unless otherwise stated in the relevant note disclosures. Where necessary, comparative information has been reclassified to be consistent with current period disclosures.

(b) Going concern

The Company is in its sixth year of operation and has made an operating loss of \$528,234 (2011: \$1,815,517). It commenced operations in April 2007 with the launch of stand-alone EFTPOS facilities to the general public and has been incurring losses since.

The Company has a history of raising sufficient capital to meet the Company's expenditure and prudential capital needs. Tyro Payments Limited is able to control its expenses. Should current cash levels not be sufficient to meet the Company's prudential capital requirements, the Company may seek to raise additional funding internally from existing shareholders and/or externally from additional strategic investors or implement cost reduction measures. Liabilities recognised relate to trade payables from the course of ordinary operations. No other lending has been sought from financial or other entities.

It is for the above reasons that 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.

(c) 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 issued by the International Financial Reporting Standards Board.

(d) Accounting standards and interpretations issued but not effective

Australian Accounting Standards and Interpretations, which have recently been issued or amended but are not yet effective have not been adopted by the Company for the annual reporting period ended 30 June 2012, as outlined in the table below.

These new standards, when applied in future periods, are not expected to have a material impact on the Statement of Financial Position and Statement of Comprehensive Income of the Company.

TYRO PAYMENTS LIMITED
ABN 49 103 575 042

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(d) Accounting standards and interpretations issued but not effective (cont'd)

Reference	Title	Summary	Application date of standard	Application date for Company
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.</p> <p>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> ▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▶ The remaining change is presented in profit or loss <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.</p>	1-Jan-13	1-Jul-13

TYRO PAYMENTS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(d) Accounting standards and interpretations issued but not effective (cont'd)

Reference	Title	Summary	Application date of standard	Application date for Company
AASB 13	Fair Value Measurement	<p>AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p> <p>Consequential amendments were also made to other standards via AASB 2011-8.</p>	1-Jan-13	1-Jul-13
AASB 1053	Application of Tiers of Australian Accounting Standards	<p>This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:</p> <p>(a) Tier 1: Australian Accounting Standards; and</p> <p>(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.</p> <p>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.</p> <p>The following entities apply Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) for-profit entities in the private sector that have public accountability (as defined in this Standard); and</p> <p>(b) the Australian Government and State, Territory and Local Government.</p>	1-Jul-13	1-Jul-13

TYRO PAYMENTS LIMITED
ABN 49 103 575 042

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

AASB 2010-2	Amendments to Australian Accounting Standards arising from reduced disclosure requirements	This Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose	30-Jun-14	1-Jul-14
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1-Jul-12	1-Jul-12

(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:

Share-based payments transactions - The Company recognises the cost of equity-settled transactions with employees 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 9.

Classification of and valuation of investments - The Company classifies its investments in listed securities 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.

Estimation of useful lives of assets - 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 8.

(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.

TYRO PAYMENTS LIMITED
ABN 49 103 575 042

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(i) Fee income

The Company derives fee income from the following sources:

- Merchant service fee income is generated from merchant customers for credit and debit 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 the payment transactions are recognised at the time transactions are processed. Interchange fee 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 DC Interchange generated from banks is based on a fixed fee per transaction and is recognised when transactions are processed.

- Revenue from gift-card transaction fees generated from merchants 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 DCC transactions generated from merchants is based on a fixed fee per transaction and is recognised when transactions are processed.

(ii) Interest income

- Interest income is recognised in the Statement of Comprehensive Income on an accruals basis, using the effective interest method. This 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.

(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 in which the Company retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as lease rental income. Operating lease payments are recognised as an income or expense in the Statement of Comprehensive Income on a straight-line basis over the lease term.

Deferred income is recognised as a liability on the Statement of Financial Position on inception of the lease. The deferred lease incentive is then recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease, through lease expense.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. For the purposes of the Statement of Cash Flows, cash and cash equivalents are reported net of outstanding bank overdrafts.

TYRO PAYMENTS LIMITED
ABN 49 103 575 042

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(i) 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. Term Deposits are included in Trade and other receivable.

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.

(j) 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.

(k) 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.

The Company currently does not have any investments categorised as held-for-trading.

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

(l) Inventories

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 recoverable amounts. Impairment is assessed on an annual basis (refer to Note 1(p)). 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.

(m) 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.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

TYRO PAYMENTS LIMITED
ABN 49 103 575 042

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(n) 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.

Cash flows used in or from operating activities are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the taxation authority are classified as part of the Company's operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST.

(o) Acquisition of assets

All assets acquired including property, plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus any incidental costs directly attributable to the acquisition.

Expenditure is only recognised as an asset only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the item can be measured reliably. All other expenditure is expensed as incurred.

(p) Recoverable amount of inventory and property, plant and equipment

The carrying amounts of inventory and property, plant and equipment valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amounts at Statement of Financial Position. If the carrying amount of such an asset exceeds its recoverable amount, the asset is written down to its recoverable amount.

The write-down is expensed in the reporting period in which it occurs.

The recoverable amount of an asset is the greater of its fair-value-less-costs-to-sell and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where a group of assets working together supports the generation of cash inflows, their recoverable amounts are determined as part of the cash-generating unit to which the group of asset belongs, unless the value-in-use of this group of assets can be estimated to be close to its fair value.

TYRO PAYMENTS LIMITED
ABN 49 103 575 042

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(p) Recoverable amount of inventory and property, plant and equipment

The carrying amounts of inventory and property, plant and equipment valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amounts at Statement of Financial Position. If the carrying amount of such an asset exceeds its recoverable amount, the asset is written down to its recoverable amount.

The write-down is expensed in the reporting period in which it occurs.

The recoverable amount of an asset is the greater of its fair-value-less-costs-to-sell and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where a group of assets working together supports the generation of cash inflows, their recoverable amounts are determined as part of the cash-generating unit to which the group of asset belongs, unless the value-in-use of this group of assets can be estimated to be close to its fair value.

(q) Property, plant and equipment

(i) Cost and Valuation

Property, plant and equipment are measured at cost less accumulated depreciation and any impairment in value (Note 1 (l)). 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:

	2012	2011
Plant and equipment:		
- EFTPOS terminals	3 years	3 years
- Furniture and office equipment	5 years	5 years
- Computer equipment	4 years	4 years

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

(iii) Impairment

The impairment testing for property, plant and equipment is conducted in accordance with the Accounting Policy in Note 1(o).

(iv) Derecognition 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.

Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

TYRO PAYMENTS LIMITED
ABN 49 103 575 042

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(r) Trade and other payables

Merchant payables arise when the Company has received monies from the relevant schemes and financial institutions.

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 Tyro.

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.

(s) Interest-bearing loan and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and liabilities are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the cost of the loans and liabilities. The fair value of the options attached to the loan is also included in the cost of the loan. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for 12 months after the reporting date. Borrowing costs consists of interest and other costs incurred in the borrowing of funds.

(t) 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 will 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 for chargebacks based primarily on historical experience and other relevant factors. A provision is maintained 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.

(u) General reserve for chargebacks

The Company provisions against credit risk by a general reserve for chargebacks. 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 chargebacks is then allocated as a separate reserve within equity. The methodology and assumptions used for estimating chargeback provisions are reviewed regularly to reduce any possibilities that uncollectible chargebacks may not have been specifically identified.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(v) 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.

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

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.

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 reporting date is estimated to be less than the annual entitlement for sick leave.

(w) 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 9.

(x) 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.

(y) 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.

(z) Derecognition of assets and liabilities

Assets and liabilities are derecognised from the Statement of Financial Position upon sale, maturity or settlement. Gains and losses arising from derecognition of these assets and liabilities are accounted in the Statement of Comprehensive Income.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2. REVENUE AND EXPENSES	2012	2011
	\$	\$
Fees and commission income		
Easyclaim income	2,152,863	1,785,018
DCC commission	371,684	364,948
Merchant service fee	20,768,595	13,775,930
Debit card interchange fee	1,423,441	957,849
Terminal rental income	2,149,956	1,613,444
Development fee	147,485	26,146
Other fee income	61,401	56,443
	<hr/>	<hr/>
	27,075,425	18,579,778
Fees and commission expense		
Interchange fees	10,165,037	6,629,829
Switching and settlement fees	573,783	420,517
Gift card processing expense	22,536	18,867
Scheme fees	2,406,837	1,999,486
Commissions expense	2,782,908	2,500,640
Other expense	196,666	95,732
	<hr/>	<hr/>
	16,147,767	11,665,071
Interest income		
Interest on cash at bank and term deposit	794,152	615,194
	<hr/>	<hr/>
	794,152	615,194
Other Income		
Gain on disposal of PPE	5,689	12,946
	<hr/>	<hr/>
	5,689	12,946
Net gain on available-for-sale investments		
Miscellaneous share income	920	666
Engineering expenses		
Employee benefits expense	2,686,510	2,282,259
Executive bonuses	261,600	-
Recruitment	84,118	51,632
Depreciation	12,986	22,179
Other expenses	34,598	52,357
	<hr/>	<hr/>
	3,079,812	2,408,427
Operations expenses		
Communication and hosting	155,339	175,055
Employee benefits expense	1,729,638	1,429,388
Depreciation	918,627	791,497
Software and hardware maintenance	156,087	123,991
Terminal management & logistics	490,658	378,684
Data centre and infrastructure	171,131	155,256
Other expenses	151,043	107,980
	<hr/>	<hr/>
	3,772,523	3,161,851

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2. REVENUE AND EXPENSES (cont'd)	2012	2011
	\$	\$
Sales and marketing expenses		
Marketing and branding	33,872	79,665
Employee benefits expense	1,348,031	903,875
Executive Bonuses	261,600	-
Other expenses	115,247	20,532
	<u>1,758,750</u>	<u>1,004,072</u>
Administrative expenses		
Employee benefits expense	1,129,557	905,009
Directors' remuneration	256,202	-
Executive bonuses	439,270	-
Professional fees	356,588	317,384
Interconnect and membership	179,259	157,759
Legal	130,811	119,065
Telephone and internet	73,277	42,226
Depreciation	37,961	42,101
Travel	19,840	35,616
Office supplies	61,829	52,666
Insurance	55,827	51,967
Provision for employee leave (adjustment)/entitlement	189,641	127,319
Public relations	40,000	-
Recruitment	22,474	15,803
Utilities	20,015	15,911
Occupancy expenses	434,170	285,097
Share based payments expense	84,503	133,774
Other expenses	48,966	51,456
	<u>3,580,190</u>	<u>2,353,153</u>
<i>Extracted from the above are the following:</i>		
Employee benefits expense		
Wages, salaries and commissions	5,785,829	4,804,858
Termination payment	35,206	27,270
Superannuation	686,160	432,356
	6,507,195	5,264,484
Depreciation of non-current assets		
Property, plant and equipment	969,574	855,777
Other expenses		
Other Write offs	12,461	50,616
Bad debt and chargeback loss expense	34,517	4,660
	<u>46,978</u>	<u>55,276</u>

Other Write offs refer to a once of expense taken as a result of the implementation of a system reconciliation of all receivable and settlement accounts that had been previously unreconciled. This has been initiated in the previous year but was finalised in the current year.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

3. INCOME TAX

(a) Income tax expense	2012	2011
The major components of income tax expenses are	\$	\$
Statement of Comprehensive Income		
<u>Current income tax</u>		
Current income tax charge	(60,078)	(313,734)
Derecognition of deferred tax asset from tax losses*	60,078	313,734
<u>Deferred income tax</u>		
Deferred income tax relating to origination and reversal of temporary differences	(228,746)	(343,685)
Derecognition of deferred income tax from temporary differences*	<u>228,746</u>	<u>343,685</u>
Income tax expense reported in the statement of comprehensive income	<u>-</u>	<u>-</u>
(b) Amount charged or credited directly to equity		
Deferred tax on unrealised gain/(loss) on available-for-sale investment	19,727	(2,094)
Derecognition of deferred income tax*	<u>(19,727)</u>	<u>2,094</u>
Income tax expense reported in equity	<u>-</u>	<u>-</u>
(c) Reconciliation between tax expense recognised in statement of comprehensive income and tax expense calculated per the statutory income tax rate		
Accounting profit before income tax	(528,234)	(1,815,517)
At the statutory income tax rate of 30%	(158,470)	(544,655)
Non deductible expenditure	30,455	42,266
Other	(160,808)	(155,030)
Derecognition of deferred income tax*	<u>288,823</u>	<u>657,419</u>
Total	<u>-</u>	<u>-</u>
(d) Recognised deferred tax assets and liabilities		
(i) Deferred tax assets		
Property plant and equipment	133,716	201,734
Provisions and accruals	70,352	24,176
Available-for-sale investments	-	2,094
Other	<u>25,575</u>	<u>119,249</u>
	<u>229,643</u>	<u>347,253</u>
(ii) Deferred tax liabilities		
Property plant and equipment	-	-
Prepayments	897	1,474
Available-for-sale investments	19,727	-
Other	<u>2,052</u>	<u>-</u>
	<u>22,676</u>	<u>1,474</u>
Net deferred tax asset/(liability) prior to derecognition	206,967	345,779
Derecognition of deferred income tax from temporary differences*	<u>(206,967)</u>	<u>(345,779)</u>
Net deferred tax asset recognised in the Statement of Financial Position	<u>-</u>	<u>-</u>

* The Company has not recognised any deferred tax on the basis that it does not meet the requirements under AASB 112 Income Taxes. The Company has carry forward tax losses of approximately \$21,697,720 (2011: \$21,498,261) which are available for offset against future taxable income subject to meeting relevant statutory tests.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

4. CASH AND CASH EQUIVALENTS

Comparatives for prior period have been restated due to the reclassification of term deposits from "Cash and cash equivalents" to "Receivables" (Note 5)

	2012	2011
	\$	\$
Call deposits	2,264,640	2,285,245
Exchange settlement balance	15,917,982	12,012,732
Cash in hand	500	824
	<u>18,183,122</u>	<u>14,298,801</u>

Call deposits earn interest at floating rates based on daily bank deposit rates. The Reserve Bank of Australia (RBA) pays interest on balances held in exchange settlement accounts at a rate of 25 basis points below the cash rate. Refer to note 16 for details of cash and cash equivalents pledged as security. Term deposits earn interest based on an agreed rate and term.

	2012	2011
	\$	\$
Reconciliation of operating loss after tax to net cash flows used in operations		
Operating loss for the year	(528,234)	(1,815,517)
<i>Adjustments for:</i>		
Depreciation of non-current assets	969,574	855,777
Share-based payments and share issuance expense	84,503	133,774
Gain / Loss on disposal of property plant and equipment	(5,689)	12,946
<i>Changes in assets and liabilities</i>		
(Increase) / Decrease in trade and other receivables	(261,561)	229,747
(Increase) / Decrease in prepayments	(38,972)	(13,948)
(Increase) / Decrease in inventory	(27,444)	172,731
Increase /(Decrease) in trade and other payables	4,345,182	3,192,655
Net cash used in operating activities	<u>4,537,358</u>	<u>2,768,165</u>

5. TRADE AND OTHER RECEIVABLES

Comparatives for prior period have been restated due to the reclassification of term deposits from "Cash and cash equivalents" to "Receivables" (Note 4)

Trade debtors	436,085	454,478
Term deposits	1,729,748	1,501,849
Interest receivable	21,525	21,384
Other receivables	69,992	18,078
	<u>2,257,350</u>	<u>1,995,789</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

5. TRADE AND OTHER RECEIVABLES (cont'd)

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

	Current \$	1-30 days* \$	31-60 days* \$	61-90 days* \$	>90 days* \$
Trade and other receivables before impairment	<u>401,962</u>	<u>99,323</u>	<u>20,831</u>	<u>2,680</u>	<u>2,806</u>
Carrying value 2012 (Total \$527,602)					
2011 (Total \$493,940)	<u>274,602</u>	<u>218,313</u>	<u>1,023</u>	<u>2</u>	<u>-</u>

* These balances are past due net of impairment at reporting date.

6. INVENTORIES

	2012 \$	2011 \$
Terminals and accessories	<u>135,595</u>	<u>108,151</u>

7. AVAILABLE-FOR-SALE INVESTMENTS

Investment in VISA shares	<u>206,839</u>	<u>120,399</u>
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These investments were acquired following the demutualisation of VISA International, as a result of which listed VISA shares were issued to members of the VISA network. All VISA shares were listed on the New York Stock Exchange (NYSE) on 26th March 2008 with VISA's certificate of incorporation providing for the mandatory buyback of up to 80% of the common stock allocated to VISA members out of IPO proceeds as soon as possible after listing.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

8. PROPERTY, PLANT AND EQUIPMENT

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

	<i>Eftpos Terminals \$</i>	<i>Furniture and Office Equipment \$</i>	<i>Computer Equipment \$</i>	<i>Total \$</i>
Year ended 30 June 2012				
At 1 July 2011 net of accumulated depreciation and impairment	1,063,297	48,051	277,117	1,388,465
Additions/transfers	1,129,350	9,527	94,539	1,233,416
Disposals/transfers	(1,699)	-	-	(1,699)
Depreciation for the year	<u>(814,352)</u>	<u>(21,076)</u>	<u>(134,146)</u>	<u>(969,574)</u>
At 30 June 2012 net of accumulated depreciation and impairment	<u>1,376,596</u>	<u>36,503</u>	<u>237,510</u>	<u>1,650,608</u>
At 1 July 2011				
Cost or fair value	2,954,383	160,059	1,585,192	4,699,634
Accumulated depreciation and impairment	<u>(1,891,087)</u>	<u>(112,007)</u>	<u>(1,308,075)</u>	<u>(3,311,169)</u>
Net carrying amount	<u>1,063,297</u>	<u>48,051</u>	<u>277,117</u>	<u>1,388,465</u>
At 30 June 2012				
Cost or fair value	4,075,953	167,276	1,679,730	5,922,959
Accumulated depreciation and impairment	<u>(2,699,357)</u>	<u>(130,773)</u>	<u>(1,442,221)</u>	<u>(4,272,351)</u>
Net carrying amount	<u>1,376,596</u>	<u>36,503</u>	<u>237,509</u>	<u>1,650,608</u>
	<i>Eftpos Terminals \$</i>	<i>Furniture and Office Equipment \$</i>	<i>Computer Equipment \$</i>	<i>Total \$</i>
Year ended 30 June 2011				
At 1 July 2010 net of accumulated depreciation and impairment	1,009,498	69,294	261,556	1,340,348
Additions/transfers	720,721	6,247	185,710	912,678
Disposals/transfers	(8,197)	-	(587)	(8,784)
Depreciation for the year	<u>(658,726)</u>	<u>(27,490)</u>	<u>(169,561)</u>	<u>(855,777)</u>
At 30 June 2011 net of accumulated depreciation and impairment	<u>1,063,296</u>	<u>48,051</u>	<u>277,118</u>	<u>1,388,465</u>
At 1 July 2010				
Cost or fair value	2,254,817	159,121	1,403,179	3,817,118
Accumulated depreciation and impairment	<u>(1,245,319)</u>	<u>(89,827)</u>	<u>(1,141,624)</u>	<u>(2,476,770)</u>
Net carrying amount	<u>1,009,498</u>	<u>69,294</u>	<u>261,556</u>	<u>1,340,348</u>
At 30 June 2011				
Cost or fair value	2,954,383	160,059	1,585,192	4,699,634
Accumulated depreciation and impairment	<u>(1,891,087)</u>	<u>(112,007)</u>	<u>(1,308,075)</u>	<u>(3,311,169)</u>
Net carrying amount	<u>1,063,297</u>	<u>48,051</u>	<u>277,117</u>	<u>1,388,465</u>

Fully depreciated assets as at 30th June 2012 \$1,913,275 (2011: \$1,240,429)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

9. SHARE-BASED PAYMENTS

The Company will provide benefits to employees and Directors from time to time including share-based payments as remuneration for service.

(a) Employee Share Option Plan

The Employee Share Option Plan 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 Employee Share Option Plan 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 consultant with the Company during the vesting schedule.
Service vesting schedule	The options 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.

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

- the term of each option grant shall be 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

"The fair value of each option is estimated on the date of grant using the Black-Scholes Option Valuation Model. No options were issued for the year ended 30 June 2012. The table below lists the assumptions used in determining the fair value of the options granted during the year ended 30 June 2011:

	2011
Dividend yield (%)	0%
Expected volatility (%)	74%
Risk-free interest rate (%)	4.70% - 5.28%
Share price (\$)	\$0.04

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 7 year options is assumed to be 5 - 6 years from the grant date. The expected life for 10 year option 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 1,036,232 options exercised during the year ended 30 June 2012 (2011: 0).

The weighted average remaining contractual life for the share options outstanding as at 30 June 2012 was 4.65 years (2011: 5.65 years).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

9. SHARE-BASED PAYMENTS (Cont'd)

The following table summarises further details of the stock options outstanding at 30 June 2012:

Range of Exercise Prices	Contractual life	Vesting conditions	No of Outstanding Options	
			2012	2011
6 cents to 55 cents	10 years or less	5 year linear vesting	19,496,689	20,650,800
6 cents to 45 cents	5 years and 10 years	12 months service	1,565,217	2,434,782
6 cents to 55 cents	3, 5 and 10 years	12 months linear vesting	14,936,349	15,679,793
6 cents to 55 cents	10 years or less	Fully vested at time of grant	29,399,137	31,210,566
Total			65,397,392	69,975,941

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

	2012	2012	2011	2011
	No	WAEP (Cents)	No	WAEP (Cents)
<i>Linear vesting schedule</i>				
Outstanding at the beginning of the year	36,330,593	12	29,762,147	22
Granted during the year	-		9,301,317	8
Exercised during the year	(166,667)	8	-	
Forfeited/expired during the year	(1,730,888)	26	(2,732,871)	20
Outstanding at the end of the year	34,433,038	12	36,330,593	12
Exercisable at the end of the year	33,881,821	12	31,935,352	13
<i>Fully vested at time of grant</i>				
Outstanding at the beginning of the year	31,210,566	10	21,782,169	10
Granted during the year	-		9,905,804	6
Exercised during the year	-		-	
Forfeited/expired during the year	(1,811,429)	19	(477,407)	39
Outstanding at the end of the year	29,399,137	7	31,210,566	10
Exercisable at the end of the year	29,399,137	7	31,210,566	10
<i>Service vesting schedule</i>				
Outstanding at the beginning of the year	2,434,782	6	2,634,782	6
Granted during the year	-		-	
Exercised during the year	(869,565)	6	-	
Forfeited/expired during the year	-		(200,000)	10
Outstanding at the end of the year	1,565,217	6	2,434,782	6
Exercisable at the end of the year	1,565,217	6	2,434,782	6
Total outstanding at the end of the year	65,397,392		69,975,941	
Total exercisable at the end of the year	57,333,296		58,333,493	

The expense recognised in the Statement of Comprehensive Income in relation to share-based payments is disclosed in Note 2.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

10. TRADE PAYABLES AND OTHER LIABILITIES

	2012	2011
	\$	\$
Merchant payables	8,070,479	4,762,856
Accounts payable	393,799	456,922
Rent payable	66,894	-
Interest payable	-	106,849
Accruals	1,176,930	475,840
Other liabilities	400,259	306,720
	<u>10,108,361</u>	<u>6,109,187</u>

11. INTEREST-BEARING LOANS AND BORROWINGS

Loans from related parties	-	2,413,052
	<u>-</u>	<u>2,413,052</u>

On 17 December 2010, Tyro received a loan for liquidity funding purposes. The loan was for \$2.5M until 15 January 2012 at a contractual interest rate of 8%.

12. PROVISIONS

	2012	2011
	\$	\$
Annual leave provision		
Balance at the beginning of the year	295,839	262,438
Provision during the year	130,630	99,376
Leave taken during the year	(44,660)	(65,975)
Balance at the end of the year	<u>381,809</u>	<u>295,839</u>

13. LONG SERVICE LEAVE LIABILITY

	2012	2011
	\$	\$
Balance at the beginning of the year	93,917	-
Provision during the year	103,669	93,917
Balance at the end of the year	<u>197,585</u>	<u>93,917</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

14. CONTRIBUTED EQUITY AND RESERVES

		2012	2011
		\$	\$
<i>(i) Ordinary Shares</i>			
Issued and fully paid			
Ordinary shares paid at 5 cents each	54,618,733	2,730,937	-
Ordinary shares paid at 6 cents each	148,608,005	8,916,480	8,864,306
Ordinary shares paid at 8 cents each	166,667	13,333	-
Ordinary shares paid at 10 cents each	3,540,688	354,069	354,069
Ordinary shares paid at 15 cents each	10,475,433	1,571,315	1,571,315
Ordinary shares paid at 30 cents each	32,520,837	9,756,251	9,756,251
Ordinary shares paid at 45 cents each	8,111,112	3,650,001	3,650,001
Ordinary shares paid at 55 cents each	11,282,322	6,205,277	6,205,277
		33,197,663	30,401,219
		33,197,663	30,401,219

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.

		No:	
		Shares	\$
<i>Movement in ordinary shares on issue</i>			
At 1 July 2010		213,668,832	30,401,219
<u>No shares issued during the year</u>		-	-
At 1 July 2011		213,668,832	30,401,219
<u>Shares issued during the year:</u>			
- 11 Dec 2011 shares exercised at 5c each		54,618,733	2,730,937
- 19 June 2012 shares exercised at 6c each		869,565	52,174
- 19 June 2012 shares exercised at 8c each		166,667	13,333
At 30 June 2012		269,323,797	33,197,663
		269,323,797	33,197,663
		2012	2011
		\$	\$

(ii) Share-based payments reserve

Balance at the beginning of the year	6,177,746	6,043,972
Share-based payments expensed during the year	84,503	133,774
Balance at the end of the year	6,262,249	6,177,746
	6,262,249	6,177,746

Nature and purpose of reserve

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

Refer to Note 9 for further details of these plans.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

14. CONTRIBUTED EQUITY AND RESERVES (Cont'd)

	2012	2011
	\$	\$
<i>(iii) General reserve for credit losses:</i>		
Balance at the beginning of the year	142,995	95,489
Transfer to retained earnings	68,403	47,506
Balance at the end of the year	<u>211,398</u>	<u>142,995</u>

The general reserve for credit losses has been created to satisfy Australian Prudential and Regulation Authority (APRA) prudential standards for Authorised Deposit-Taking Institutions (ADI) to maintain a general reserve for credit losses. The Company applies an internal methodology to estimate the credit risk of its merchant customers and the maximum expected 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.

	2012	2011
	\$	\$
<i>(iv) Available-for-sale investment revaluation reserve</i>		
Balance at the beginning of the year	38,536	45,516
Total revaluations for the year	86,439	(6,980)
Balance at the end of the year	<u>124,975</u>	<u>38,536</u>
<i>(v) Option Premium Reserve</i>		
Balance at the beginning of the year	166,720	-
Total premium received	313,600	-
Total revaluations for the year	-	166,720
Balance at the end of the year	<u>480,320</u>	<u>166,720</u>

In 2012 consideration of \$313,600 was received by the Company to extend the life of some options. In prior year, the option premium reserve revaluation corresponds to the fair value of the equity instruments issued in consideration for the \$2.5 million loan taken out by Tyro. The fair value of these options has been determined using the Black-Scholes Option Valuation Model.

Total reserves at the end of the year	<u>7,078,942</u>	<u>6,519,016</u>
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(vi) Retained losses

Movements in retained losses were as follows:

Retained losses at the beginning of the financial year	(27,769,841)	(25,906,818)
Net loss attributable to shareholders of the Company	(528,234)	(1,815,517)
Transfer to general reserve for credit losses	(68,403)	(47,506)
Retained losses at the end of the financial year	<u>(28,366,478)</u>	<u>(27,769,841)</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

15. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES

The Company's principal financial instruments include cash and cash equivalents, trade and other receivables, held-to-maturity investments, available-for-sale financial assets and trade and other payables.

(i) Risk management

The Board is responsible for approving and reviewing the risk management strategy and framework and all risk management policies. The Board also ensures senior management has identified all risks and that those risks are managed and controlled appropriately. Senior management is responsible for implementing the Board's approved risk management strategy and for developing policies, controls, processes and procedures to identify and manage risks in all of the Company's activities. The Board has installed a Board Risk Committee to assist the Board in fulfilling its responsibilities in the management of risk. The Risk Committee oversees matters relating to credit, capital, liquidity, operational and other aspects of risk management.

(ii) Risk controls

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

(iii) Internal audit

The Company has an internal audit function which provides independent assurance to the Board on the adequacy and effectiveness of the control environment and risk framework. Internal Audit also reviews the controls implemented by management to ensure compliance with APRA's prudential requirements. This program of internal control and audit is reviewed and approved on a regular basis by the Audit Committee.

(iv) Credit risk

Credit risk represents the loss if counterparties fail to perform as contracted. Credit risk arises from trade receivables, cash and cash equivalent balances, exposures to merchants and held to maturity investments. The maximum exposure to credit risk is represented by the carrying amounts of the financial assets at 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.

In addition, the Company is subject to the risk of credit card 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 provision 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 estimation of potential credit risk in the merchant portfolio. 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 reporting date.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(iv) Credit risk (Cont'd)

30 June 2012

Standard & Poors Credit Rating*	Cash and balances with financial institutions	Trade receivables
AAA	15,917,982	
AA-	2,264,451	1,729,748
A	190	
unrated		527,602

30 June 2011

Standard & Poors Credit Rating*	Cash and balances with financial institutions	Trade receivables
AAA	12,012,732	
AA	2,285,064	1,501,849
A+	181	
unrated		493,940

*Long-term credit rating

(v) Operational risk

Operational risk is the risk that arises from inadequate or failed internal processes, people and systems, or from external events. The definition is aligned to the regulatory (Basel II) definition, including legal and regulatory risk but excluding strategic and reputation risk.

(vi) Market risk

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices or conditions, and comprises interest rate risk, foreign currency risk and other 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:

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Interest rate risk

The Company's financial assets and liabilities are subject to interest rate risk as their fair values will fluctuate in accordance with movements in the market interest rates. The Company has exposure to interest rate risk on its variable interest-bearing cash and cash equivalent balances. Held-to-maturity investments in treasury bonds are at fixed interest rate rates and as such are not exposed to any interest rate risk fluctuations. All other financial assets and financial liabilities at reporting date are non-interest bearing.

The following net exposure to interest rate risk is to be reported at reporting date:

	2012	2011
Cash and cash equivalents	18,183,122	14,298,801
	18,183,122	14,298,801

Sensitivity analysis:

An increase of 100 basis points in the general cash rate (assuming every other factors being constant) will reduce the Company's loss after tax and increase equity by \$181,831 (2011:\$142,988). A decrease of 100 basis points in the general cash rate will have an equal and opposite effect.

(b) Foreign Currency risk

Tyro 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 and any balances at reporting date are translated at the exchange rate prevailing the balance sheet date. At reporting date the Company has some US Dollar and Euro exposure.

The following USD and EUR net exposure is to be reported at reporting date:

		AUD 2012	AUD 2011
Available-for-sale investments-VISA shares	USD	206,839	120,399
Trade Payables	EUR	68,854	207,153
USD Term Deposit	USD	1,275,635	1,210,541

Sensitivity analysis:

An appreciation of 15% of the US Dollar and EUR compared to the Australian Dollar (assuming every other factors being constant) will reduce the Company's loss after tax and increase equity by \$212,961.45 (2011: \$177,879). A depreciation of 15% of the US Dollar and EUR compared to the Australian Dollar will increase the company's loss after tax and reduce equity by \$370,367.73 (2011:\$309,354).

(c) Other Price Risk

The Company's investment in available-for-sale financial assets is valued by way of reference to an underlying listed equity on the New York Stock Exchange (NYSE) and as such its fair value will fluctuate in direct proportion with the quoted market price indicated. However, this investment is not linked to any NYSE Market Index and any form of Price risk as a result of movements caused by any specific index is considered minimal. No sensitivity analysis has been performed.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(c) Other Price Risk

(vii) Liquidity risk

Liquidity risk is the risk that the Company will have insufficient liquidity to meet its obligations as they fall due. This risk is managed by liquidity forecasting, maintaining adequate cash resources for future expenditure and other financial commitments. The Company's liquidity risk management policy aims to ensure that enough high quality liquid assets are always available for the Company's cash flow and liquidity requirements. The company forecasts cash flow and liquidity needs on a monthly basis with detailed period analysis for critical funding periods such as Christmas. The company also has a capital plan in place which outlines triggers for required funding should liquidity be required.

At balance sheet date, the board of directors determined that there was sufficient cash resources available to meet its anticipated expenditure and other financial liabilities.

	< 6 months \$000	6-12 months \$000	Total \$000
Year ended 30 June 2012			
Liquid financial assets			
Cash and cash equivalents	18,183,122	-	18,183,122
Trade and other receivables	981,715	1,275,635	2,257,350
	<u>19,164,837</u>	<u>1,275,635</u>	<u>20,440,472</u>
Financial Liabilities			
Trade payables and other liabilities	(10,108,361)	-	(10,108,361)
Interest-bearing loans and borrowings	-	-	-
	<u>(10,108,361)</u>	<u>-</u>	<u>(10,108,361)</u>
Net inflow/(outflow)	<u>9,056,476</u>	<u>1,275,635</u>	<u>10,332,111</u>
	< 6 months \$000	6-12 months \$000	Total \$000
Year ended 30 June 2011			
Liquid financial assets			
Cash and cash equivalents	14,298,801	-	14,298,801
Trade and other receivables	1,995,789	-	1,995,789
	<u>16,294,590</u>	<u>-</u>	<u>16,294,590</u>
Financial Liabilities			
Trade payables and other liabilities	(6,002,337)	(106,849)	(6,109,187)
Interest-bearing loans and borrowings	-	(2,413,052)	(2,413,052)
	<u>(6,002,337)</u>	<u>(2,519,902)</u>	<u>(8,522,239)</u>
Net inflow/(outflow)	<u>10,292,253</u>	<u>(2,519,902)</u>	<u>7,772,351</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(viii) 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 fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

Year ended 30 June 2012

	Quoted market price (Level 1)	Valuation technique - market observable inputs (Level 2)	Valuation technique - non market observable inputs (Level 3)	Total
Financial Asset				
Available for sale	206,839		-	206,839

Year ended 30 June 2011

	Quoted market price (Level 1)	Valuation technique - market observable inputs (Level 2)	Valuation technique - non market observable inputs (Level 3)	Total
Financial Asset				
Available for sale		120,399	-	120,399

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

For financial instruments not quoted in active markets, the Company uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Transfer between categories

There were transfers between Level 1 and Level 2 during the current year. But no transfers between Level 1 and Level 2 during the previous year.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(ix) Capital Management

The Capital Plan is reviewed within the strategic process and is included within the strategic plan and 3 year business plan (financials) including key performance targets and contingency plans if key performance measures are not met. The Company maintains capital to cover risks inherent in the business and as aligns its objectives and processes in respect of risk management around the prudential standards. The adequacy of the Company's capital is regularly monitored and measured consistent with the rules and requirements of APRA. The Company has an internal policy target ratio above the prudential limit requirement and includes elements for risk exposures such as market, operations and credit risk.

During the past year, the Company complied in full with APRA's capital minima. In all planning, the Company maintains a buffer above regulatory capital adequacy requirements to ensure that the level of capital held is appropriate for the level and type of risks associated with the acquiring business.

Regulatory capital

	Actual 2012	Actual 2011
Tier 1 capital	11,479,104	8,835,427
Tier 2 capital	26,878	14,819
Total capital	<u>11,505,981</u>	<u>8,850,246</u>

Risk weighted assets

	5,275,543	5,462,961
Tier 1 capital ratio	218%	162%
Total capital ratio	218%	162%

Below defines what APRA considers as Capital:

Tier 1 Capital consists of ordinary shares, general reserves, retained earnings, non-cumulative irredeemable preference shares (approved by the Board and APRA) and other APRA approved Tier 1 Capital instruments.

Upper Tier 2 Capital consists of general provision for Doubtful Debts and other APRA approved Upper Tier 2 Capital instruments. Lower Tier 2 Capital (not to exceed 50% of net Tier 1 Capital) consists of APRA approved Term Subordinated Debt.

The Company does not have any lower Tier 2 Capital (2011: nil).

16. COMMITMENTS AND CONTINGENCIES

Commitments relating to BECS

	2012	2011
	\$	\$
Contingent liabilities -secured		
<i>(i) Irrecoverable standby letters of credit in favour of:</i>		
- MasterCard International	2,675,635	2,610,541
- Visa International	140,000	140,000
<i>(ii) Bank Guarantee in favour of:</i>		
- Dukeville Pty Ltd, the lessor of 125 York Street, Sydney	<u>454,113</u>	<u>291,308</u>
	3,269,748	3,041,849

The Company has provided an irrevocable standby letter of credit of \$2,815,635 secure through fixed charges over term deposits with the Commonwealth Bank of Australia and Westpac Banking Corporation, to MasterCard International and Visa International. These are one-year arrangements that are subject to automatic renewal on a yearly 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 9 month's rent and is refundable on expiry of the lease agreement, subject to satisfactory vacation of the leased premises.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

17. LEASES

(a) Operating lease commitments - Company as lessor

Prior to April 2010, Tyro 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 Tyro bears 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. There is no minimum rental period for merchants and they are able to terminate with Tyro at any time with no penalty or buy out fees. 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 Tyro.

Type of Terminals	Cost	Depreciation Expense	Net Carrying Value
Xenta	2,362,487	1,547,572	814,915
Xentissimo	1,713,467	1,151,785	561,682
	4,075,954	2,699,357	1,376,597

(b) Operating lease commitments - Company as lessee

Future minimum rentals payable under the non-cancellable operating leases as at 30 June 2012 are as follows:

	2012 \$	2011 \$
- Within one year	544,324	353,100
- After one year but not more than five years	1,548,460	912,175
	2,092,784	1,265,275

The operating lease commitments relates to the lease of the Company's registered office located at 125 York Street, Sydney NSW. It is a non-cancellable lease with a term of 4 years ending 31 January 2016. The lease agreement provides the Company with a right of renewal on expiry at which time all terms will be renegotiated. Lease payments are subject to discretionary annual increases of 4%.

18. SEGMENT REPORTING

The Company operates in one geographical segment being Australia and within one business segment being the provision of credit and debit card acquiring services to merchants.

19. AUDITOR'S REMUNERATION

	2012 \$	2011 \$
Amounts received or due and receivable by Ernst & Young:		
- an audit of the financial report of the Company	196,875	190,000
- other services in relation to the Company	46,255	45,474
	243,130	235,474

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

20. RELATED PARTY DISCLOSURES

(a) Key Management Personnel

The total cash remuneration paid to the Directors and Executives of the Company amounted to \$1,669,930 (2011: \$944,613). Details of compensation paid to key management personnel including all monetary and non-monetary components are shown in the various tables in this note.

Details of Key Management Personnel

		Appointed	Resigned
Directors			
Kerry Roxburgh	Non-executive Chairman	18-Apr-08	
Michael Cannon-Brookes	Non-executive	10-Dec-09	
Rob Ferguson	Non-executive	14-Nov-05	
Paul Rickard	Non-executive	28-Aug-09	
Jost Stollmann	Chief Executive Officer	05-Apr-05	

Executives	Title	
Garry Duursma	VP Sales and Marketing	01-Jan-07
Peter Haig	Chief Information Officer	03-Feb-03
Justin Mitchell	Company Secretary	19-Mar-07

	2012	2011
	\$	\$
Compensation of Key Management Personnel		
Short-term Benefits	1,954,130	817,667
Post Employment benefits (superannuation)	159,800	126,947
Share-based Payments	13,701	237,871
Total	<u>2,127,631</u>	<u>1,182,485</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

20. RELATED PARTY DISCLOSURES (cont'd)

30 June 2012	Short-term Benefits Salary & Fees (\$)	Termination Benefits (\$)	Post Employment Superannuation (\$)	Share-based Payments Options (\$)	Total (\$)
Directors					
Kerry Roxburgh	60,000	-	5,400	-	65,400
Michael Cannon-Brookes	40,000	-	3,600	-	43,600
Rob Ferguson	40,000	-	3,600	-	43,600
Paul Rickard	40,000	-	3,600	-	43,600
Jost Stollmann	466,946	-	43,225	3,101	513,272
Executives					
Garry Duursma	491,596	-	24,942	2,324	518,862
Peter Haig	479,815	-	44,383	5,647	529,845
Justin Mitchell	335,773	-	31,050	2,629	369,452
	<u>1,954,130</u>	<u>-</u>	<u>159,800</u>	<u>13,701</u>	<u>2,127,631</u>

30 June 2011	Short-term Benefits Salary & Fees (\$)	Termination Benefits (\$)	Post Employment Superannuation (\$)	Share-based Payments Options (\$)	Total (\$)
Directors					
Kerry Roxburgh	-	-	-	18,373	18,373
Michael Cannon-Brookes	-	-	-	11,066	11,066
Rob Ferguson	-	-	-	11,066	11,066
Thomas Girgensohn	-	-	-	5,116	5,116
Paul Rickard	-	-	-	11,066	11,066
Jost Stollmann	206,468	-	44,742	48,561	299,771
Executives					
Garry Duursma	244,199	-	21,905	43,096	309,200
Peter Haig	221,331	-	46,080	56,651	324,062
Justin Mitchell	145,669	-	14,220	32,876	192,765
	<u>817,667</u>	<u>-</u>	<u>126,947</u>	<u>237,871</u>	<u>1,182,485</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

20. RELATED PARTY DISCLOSURES (cont'd)

Shareholdings of Key Management Personnel and their Related Entities Transactions

	Outstanding at start of year	Shares issued/ transferred during the year	On exercise of options	Outstanding at end of year
30 June 2012				
Directors				
Kerry Roxburgh	690,182	-	250,000	940,182
Michael Cannon-Brookes	-	2,000,000	966,667	2,966,667
Rob Ferguson	22,072,348	-	8,280,602	30,352,950
Paul Rickard	124,102	-	124,102	248,204
Jost Stollmann	41,585,685	-	11,881,624	53,467,309
Executives				
Garry Duursma	2,155,379	-	957,946	3,113,325
Peter Haig	5,405,977	-	-	5,405,977
Justin Mitchell	-	-	700,000	700,000
Total	<u><u>72,033,673</u></u>	<u><u>2,000,000</u></u>	<u><u>23,160,941</u></u>	<u><u>97,194,614</u></u>

	Outstanding at start of year	Shares Issued during the year	On exercise of options	Outstanding at end of year
30 June 2011				
Directors				
Kerry Roxburgh	690,182	-	-	690,182
Michael Cannon-Brookes	-	-	-	-
Rob Ferguson	22,072,348	-	-	22,072,348
Thomas Girgensohn	8,533,052	-	-	8,533,052
Paul Rickard	124,102	-	-	124,102
Jost Stollmann	41,585,685	-	-	41,585,685
Executives				
Garry Duursma	2,155,379	-	-	2,155,379
Peter Haig	5,405,977	-	-	5,405,977
Justin Mitchell	-	-	-	-
Total	<u><u>80,566,725</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>80,566,725</u></u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

20. RELATED PARTY DISCLOSURES (cont'd)

Option Holdings of Key Management Personnel

	Outstanding at start of period 1-Jul-11	Options granted as remuneration	Other movement*	Options exercised/ expired/forfeited during the year	Outstanding at end of period 2012	Exercisable at end of period 2012
30 June 2012						
<i>Linear/Service vesting schedule</i>						
Directors						
Kerry Roxburgh	1,787,967	-	-	-	1,787,967	1,787,967
Michael Cannon-Brookes	1,111,110	-	966,667	-	1,111,110	2,077,777
Rob Ferguson	2,962,477	-	-	-	2,962,477	2,962,477
Paul Rickard	1,333,334	-	-	-	1,333,334	1,333,334
Jost Stollmann	4,640,464	-	-	436,364	4,204,100	3,790,056
Executives						
Garry Duursma	545,046	-	-	-	545,046	217,837
Peter Haig	2,812,244	-	-	-	2,812,244	2,396,997
Justin Mitchell	595,927	-	-	-	595,927	366,069
	<u>15,788,569</u>	<u>-</u>	<u>966,667</u>	<u>436,364</u>	<u>15,352,205</u>	<u>14,932,514</u>
<i>Fully vested at time of grant</i>						
Directors						
Kerry Roxburgh	250,000	-	-	250,000	-	-
Michael Cannon-Brookes	2,591,667	-	966,667	966,667	2,591,667	2,591,667
Rob Ferguson	9,905,862	-	-	8,280,602	1,625,260	1,625,260
Paul Rickard	124,102	-	-	124,102	-	-
Jost Stollmann	25,496,742	-	-	11,990,715	13,506,027	13,506,027
Executives						
Garry Duursma	6,495,820	-	-	957,946	5,537,874	5,537,874
Peter Haig	10,254,809	-	(1,666,667)	-	8,588,142	8,588,142
Justin Mitchell	3,105,538	-	700,000	700,000	3,105,538	3,105,538
	<u>58,224,540</u>	<u>-</u>	<u>-</u>	<u>23,270,032</u>	<u>34,954,508</u>	<u>34,954,508</u>
Total	<u>74,013,109</u>	<u>-</u>	<u>-</u>	<u>23,706,396</u>	<u>50,306,713</u>	<u>48,920,355</u>

* Other options transfer or issuance

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

20. RELATED PARTY DISCLOSURES (cont'd)

Option Holdings of Key Management Personnel

	Outstanding at start of period 1-Jul-10	Options granted as remuneration	Other movement*	Options exercised/ expired/forfeited during the year	Outstanding at end of period 2011	Exercisable at end of period 2011
30 June 2011						
<i>Linear/Service vesting schedule</i>						
Directors						
Kerry Roxburgh	666,667	1,121,300	-	-	1,787,967	1,787,967
Michael Cannon-Brookes	444,443	666,667	-	-	1,111,110	1,111,110
Rob Ferguson	2,328,631	666,667	-	32,821	2,962,477	2,962,477
Paul Rickard	1,349,817	666,667	-	333,333	1,683,151	1,683,151
Jost Stollmann	666,667	666,667	-	-	1,333,334	1,333,334
Executives						
Garry Duursma	545,046	-	-	-	545,046	108,868
Peter Haig	2,812,244	-	-	-	2,812,244	2,213,014
Justin Mitchell	595,927	-	-	-	595,927	289,520
	<u>14,183,239</u>	<u>3,787,968</u>	<u>-</u>	<u>499,487</u>	<u>17,471,720</u>	<u>15,550,358</u>
<i>Fully vested at time of grant</i>						
Directors						
Kerry Roxburgh	250,000	-	-	-	250,000	250,000
Michael Cannon-Brookes	-	-	2,591,667	-	2,591,667	2,591,667
Rob Ferguson	8,280,862	-	1,625,000	-	9,905,862	9,905,862
Paul Rickard	124,102	-	-	-	124,102	124,102
Jost Stollmann	19,980,438	3,891,304	1,625,000	-	25,496,742	25,496,742
Executives						
Garry Duursma	4,321,907	2,173,913	-	-	6,495,820	6,495,820
Peter Haig	7,863,505	2,391,304	-	-	10,254,809	10,254,809
Justin Mitchell	1,656,255	1,449,283	-	-	3,105,538	3,105,538
	<u>42,477,069</u>	<u>9,905,804</u>	<u>5,841,667</u>	<u>-</u>	<u>58,224,540</u>	<u>58,224,540</u>
Total	<u>56,660,308</u>	<u>13,693,772</u>	<u>5,841,667</u>	<u>499,487</u>	<u>75,696,260</u>	<u>73,774,898</u>

* Other options transfer or issuance

TYRO PAYMENTS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

20. RELATED PARTY DISCLOSURES (cont'd)

Option Terms and Conditions

Stock option grants may be exercised, in whole or in part, subject to vesting terms and conditions indicated below:

<u>Type</u>	<u>Terms and Conditions</u>
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 consultant with the Company during the vesting schedule.
Service vesting schedule	Options granted will vest in proportion to the time that passes during the vesting schedule, subject to maintaining continuous status as providing service to the Company during the vesting schedule.
Fully vested at time of grant	Options may be exercised as to all shares from the grant date.

(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 commercial terms & conditions.

Related Party	2012	2011
	\$	\$
Health Communications Network	Commissions Paid 2,268,273	2,038,749

Rob Ferguson, a director of Tyro Payments is also the Non-Executive Chairman of Primary Health Care Ltd. Health Communications Network is a subsidiary of Primary Health Care Ltd.

c) Loans from related parties

On 17 December 2010 the company entered into a loan facility of \$2,500,000 with four lenders, all of whom being Directors, major shareholders or related parties for the purpose of funding operational liquidity requirements. The Loan Facility commenced on 17 December 2010 and ended on 16 January, 2012. Consideration for the facility is 8% p.a. interest rate and 7,500,000 options granted at time of drawdown. The facility was documented and approved by the Board. The interest expense attributable to the options attached to the loan as at 30 June 2012 was \$86,947. No additional rights are attached to the options. The options do represent an equity instrument and thus have a corresponding reserve against equity in the Statement of Equity. The term of the options is 10 years and the exercise price is \$0.08 per option. The average effective interest rate including options for the \$2,500,000 facility is 15.3%.

	Loan Amount	Number of Options	Interest paid
Abyla Pty Ltd ABN 92 119 827 593 related party Michael Cannon-Brookes (Director)	\$625,000.00	1,625,000	\$27,397.26
Fiona Stollmann related party Jost Stollmann (Director)	\$625,000.00	1,625,000	\$27,397.26
Euclid Capital Partners ABN 79 937 786 536 related party David Fite (Shareholder)	\$625,000.00	2,625,000	\$27,397.26
Robert Alexander Ferguson (Director)	\$625,000.00	1,625,000	\$27,397.26

TYRO PAYMENTS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

20. RELATED PARTY DISCLOSURES (cont'd)

On 17 November 2011 the company entered into a twenty eight day loan facility of \$999,999 with three lenders, all of whom being Directors or related parties for the purpose of funding operational liquidity requirements. Consideration paid consisted of an Establishment Fee equal to 1% of loan amount, a Line Fee of 1.5% of maximum loan amount and interest equal to 12% per annum payable on the total outstanding. The facility was documented and approved by the Board.

	Loan Amount	Interest Paid
Abyla Pty Ltd ABN 92 119 827 593 related party Michael Cannon-Brookes (Director)	\$333,333.00	\$3,068.49
Robert Alexander Ferguson (Director)	\$333,333.00	\$3,068.49
Fiona Stollmann related party Jost Stollmann (Director)	\$333,333.00	\$3,068.49

On 30 January 2012 the company entered into a seven day loan facility of \$999,666 with three lenders, all of whom being Directors or related parties to Directors for the purpose of funding operational liquidity requirements. Consideration paid was interest equal to 12% per annum payable on the total outstanding. The facility was documented and approved by the Board.

	Loan Amount	Interest Paid
Abyla Pty Ltd ABN 92 119 827 593 related party Michael Cannon-Brookes (Director)	\$333,000.00	\$766.36
Euclid Capital Partners ABN 79 937 786 536 related party David Fite (Shareholder)	\$333,333.00	\$767.12
Fiona Stollmann related party Jost Stollmann (Director)	\$333,333.00	\$767.12

21. MATTERS SUBSEQUENT TO END OF THE FINANCIAL YEAR

No matter or circumstance has arisen subsequent to 30 June 2012 that has affected or may significantly affect:

- (a) the Company's operations in future financial years; or
- (b) the results of those operations in future financial years; or
- (c) the Company's state of affairs in future financial years.

DIRECTORS' DECLARATION

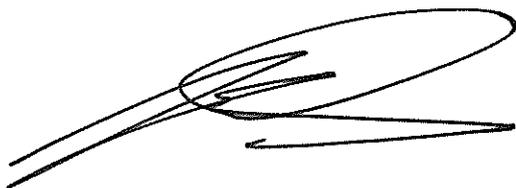
In accordance with a resolution of the directors of Tyro Payments Limited, I state that:

(1) In the opinion of the directors:

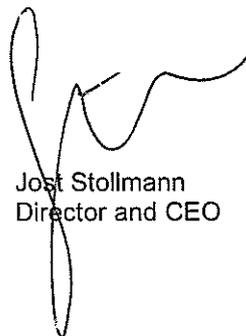
- a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
 - I. giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - II. complying with Accounting Standards and Corporations Regulations 2001;
- b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1;
- 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; and
- d) this declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period year ending 30 June 2012.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2012.

On behalf of the Board



Kerry Roxburgh
Chairman



Jost Stollmann
Director and CEO

Sydney, 20 September 2012

Independent auditor's report to the members of Tyro Payments Limited

Report on the Financial Report

We have audited the accompanying financial report of Tyro Payments Limited, which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this auditor's report was signed.

Auditor's Opinion

In our opinion:

1. the financial report of Tyro Payments Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Tyro Payments Limited at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young

Ernst & Young



Clare Sporle
Partner
Sydney
20 September 2012

TYRO PAYMENTS LIMITED
ABN 49 103 575 042

Corporate Information

Directors

Kerry Roxburgh (Chairman)
Mike Cannon-Crookes
Rob Ferguson
Paul Rickard
Jost Stollmann

Company Secretary

Justin Mitchell

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Solicitors

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Auditors

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