APPENDIX 4E
PRELIMINARY FINAL REPORT

UNDER ASX LISTING RULE 4.3A

Company details

NAME OF ENTITY:	AFTERPAY TOUCH GROUP LIMITED
ACN:	618 280 649
REPORTING PERIOD:	FOR THE YEAR ENDED 30 JUNE 2019
PREVIOUS PERIOD:	FOR THE YEAR ENDED 30 JUNE 2018

Results for announcement to the market

STATUTORY RESULTS SUMMARY

			CHANGE FROM YEAR ENDED 30 JUNE			
				2019		2018
		%		$M		$M
Total income [1]	▲	86%	to	264.1	from	142.3
Loss before tax	▼	463%	to	(42.8)	from	(7.6)
Loss after tax	▼	387%	to	(43.8)	from	(9.0)
Loss after tax attributable to the ordinary equity holders of Afterpay Touch Group Limited (before non-controlling interests)	▼	377%	to	(42.9)	from	(9.0)

1. Total income consists of Afterpay income, Pay Now revenue and Other income. The impact of the adoption of AASB 15 and AASB 9 is recognised in current period results, whereas as permitted by the new standards, the prior corresponding period impact was reflected in opening retained earnings.

Total income increased by 86% from $142.3 million to $264.1 million for the financial year ended 30 June 2019 compared to the financial year ended 30 June 2018. The growth is primarily driven by the first full year performance of the Afterpay US business and continued strong growth in the Australian and New Zealand Afterpay businesses. The Group launched its Afterpay service in the United Kingdom in May 2019 under the Clearpay brand name, which made a minor contribution during the period.

Total income for the financial year ended 30 June 2019 includes an $8.4 million negative impact from the adoption of two new accounting standards (AASB 15 and AASB 9) in the period. Excluding this impact, total income for the financial year ended 30 June 2019 would have increased by 91% compared to the prior corresponding period to $272.5 million.

The Group achieved stable year on year performance in underlying earnings, as measured by pro forma earnings before interest, tax, depreciation and amortisation (Pro forma EBITDA (excluding significant items)), despite a significant investment in start-up costs to grow and launch the US and UK platforms, as previously announced by the Group. Pro forma EBITDA (excluding significant items) was $35.5 million for the financial year ended 30 June 2019 slightly above the $35.2 million achieved in the prior corresponding period. Continued strong earnings in Australia and New Zealand was offset by the significant investment required to support the Group's global expansion.

The Group recorded a statutory loss before and after tax of $42.8 million and $43.8 million, respectively, for the financial year ended 30 June 2019. Statutory loss before tax is significantly impacted by one-off and non-cash items (including share-based payment expenses and the initial application of new accounting standards) which totaled $44.8 million in the period. Excluding these items, the statutory loss before and after tax would have been a statutory profit.

FINANCIAL SUMMARY

	YEAR ENDED 30 JUNE		
	2019	2018	MOVEMENT
	$m	$m	%
Total income [1]	264.1	142.3	86%
Pro forma EBITDA[2] (excl. significant items)	**35.5**	**35.2**	**1%**
Initial application of new accounting standards [3]	(6.8)	-	N/A
EBITDA (excl. significant items)	**28.7**	**35.2**	**(18%)**
Share-based payments	(30.5)	(16.4)	86%
One-off items	(7.5)	(3.0)	150%
International expansion & strategy alignment costs	(4.4)	(1.3)	238%
Net gain on sale of business	1.3	-	N/A
Business combination	(3.3)	(1.7)	94%
AUSTRAC related costs	(1.1)	-	N/A
EBITDA	**(9.3)**	**15.8**	**(159%)**
Net interest expense	(11.1)	(6.1)	82%
Depreciation & amortisation	(22.4)	(17.3)	29%
Loss before tax	**(42.8)**	**(7.6)**	**463%**

1. Total income consists of Afterpay income, Pay Now revenue and Other income. The impact of the adoption of AASB 15 and AASB 9 is recognised in current period results, whereas as permitted by the new standards, the prior corresponding period impact was reflected in opening retained earnings.
2. Pro forma Earnings Before Interest, Tax, Depreciation and Amortisation excludes the impact of new accounting standards (AASB 15 and AASB 9).
3. Initial application of new accounting standards is recognised in current period results, whereas as permitted by AASB 15 and AASB 9, the prior corresponding period impact was reflected in opening retained earnings.

NET TANGIBLE ASSETS PER ORDINARY SHARE

	2019	2018
	$	$
Net tangible assets per ordinary share	2.22	0.51

Dividends

No dividends will be declared or paid for the financial year ended 30 June 2019.

Basis of preparation

This preliminary final report is based on the Consolidated Financial Statements of Afterpay Touch Group Limited which have been audited by Ernst & Young.

Other information required by Listing Rule 4.3A

Additional Appendix 4E disclosure requirements and commentary on significant features of the operation performance, results of segments, trends in performance and other factors affecting the results of the year are contained in the Consolidated Financial Statements for the financial year ended 30 June 2019 and in the Directors' Report for the financial year ended 30 June 2019.

This document should be read in conjunction with the 2019 Annual Report, 2019 Directors' Report and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth)* and the ASX Listing Rules.

afterpaytouch

AFTERPAY TOUCH GROUP LIMITED – ANNUAL REPORT – FOR THE YEAR ENDED 30 JUNE 2019

THE WORLD'S MOST LOVED WAY TO PAY

afterpaytouch

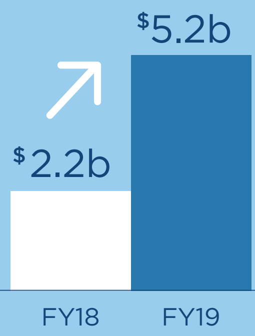
AFTERPAY TOUCH GROUP LIMITED - ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2019

PERFORMANCE HIGHLIGHTS

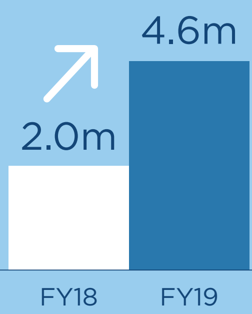
Key Operating Metrics

AFTERPAY
UNDERLYING SALES



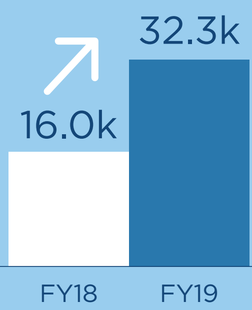
UP
140%

AFTERPAY
ACTIVE CUSTOMERS[1]



UP
130%

AFTERPAY
ACTIVE MERCHANTS[1]



UP
101%

1. As at 30 June 2019, defined as having transacted at least once in the last 12 months.

Key Financial Metrics

FY19 PRO FORMA[1]
TOTAL INCOME – GROUP

$272.5 MILLION

↑ 91% ON PRIOR YEAR

FY19 PRO FORMA[1]
TOTAL INCOME – AFTERPAY

$251.6 MILLION

↑ 115% ON PRIOR YEAR

FY19 PRO FORMA[1]
NET TRANSACTION MARGIN (NTM)[2] – GROUP

$136.5 MILLION

↑ 93% ON PRIOR YEAR

FY19 PRO FORMA[1]
NET TRANSACTION MARGIN – AFTERPAY

$126.1 MILLION

↑ 126% ON PRIOR YEAR

FY19 PRO FORMA[1]
EBITDA (EXCLUDING SIGNIFICANT ITEMS) – GROUP

$35.5 MILLION

↑ 1% ON PRIOR YEAR

1. New accounting standards adopted from 1 July 2018 impacted Afterpay income, Pay Now revenue and receivables impairment expense. To enable comparability to prior year performance we have presented pro forma financials which remove the impact of these accounting standard changes.
2. Net transaction margin is equal to Afterpay net transaction margin and Pay Now gross margin.

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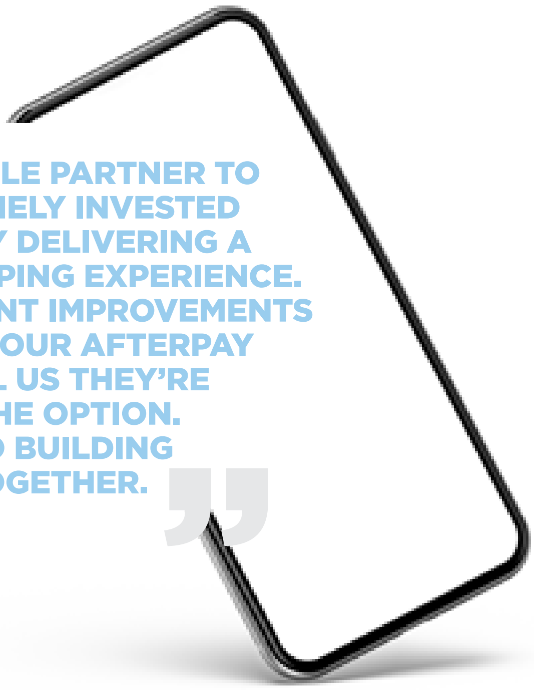


"AFTERPAY IS A VALUABLE PARTNER TO DSW. THEY ARE GENUINELY INVESTED IN DRIVING GROWTH BY DELIVERING A DIFFERENTIATED SHOPPING EXPERIENCE. WE'VE SEEN SIGNIFICANT IMPROVEMENTS IN CRITICAL KPIS WITH OUR AFTERPAY CUSTOMERS, WHO TELL US THEY'RE VERY PLEASED WITH THE OPTION. WE LOOK FORWARD TO BUILDING UPON THIS SUCCESS TOGETHER."

CHAD MILLER – DIRECTOR, CUSTOMER EXPERIENCE, DSW

ABOUT AFTERPAY TOUCH GROUP

Afterpay Touch Group is a global technology-driven payments company comprising the Afterpay and Pay Now (Touch) services and businesses. The Group was formed from the merger of Afterpay and Touchcorp in June 2017. The Group's mission is to be 'the world's most loved way to pay'.

Afterpay

Afterpay is a modern-day instalment payment service that enables consumers to buy products on a 'buy now, receive now, pay later' basis. Afterpay was founded in Australia in 2014 and has since launched its Afterpay service in New Zealand, the United States and the United Kingdom.

The Afterpay service is offered as a payment option by participating merchants either online or instore. Customers who choose to purchase products using Afterpay receive the purchased products upfront and repay the purchase price (or order value) in four equal instalment payments (every two weeks) to Afterpay. Afterpay pays the merchant for the purchased products upfront.

Participating merchants pay a fee to Afterpay for using the Afterpay service. Merchant fees are structured as a percentage of the order value or purchase price, and in most circumstances, a fixed fee per transaction is also applied. The majority of Afterpay's income is derived from merchants rather than customers.

Afterpay is an alternative to traditional credit. Afterpay is a no cost service to the customer if instalment payments are made on time. Responsible spending rules and consumer protections are built into the service – these rules help ensure customers never revolve in debt, no exceptions. In circumstances where the customer does not pay their instalment payments on time, their service is immediately suspended, and late payment fees can be applied. Late payment fees are fixed, capped and do not accumulate or compound over time.

The Afterpay service has gained significant popularity in the Australian and New Zealand markets with both customers and Afterpay's merchant partners. Afterpay launched in the US in May 2018 and has achieved rapid growth. Afterpay also recently launched in the UK under the Clearpay brand.

Pay Now

Pay Now comprises innovative digital payment businesses servicing major consumer-facing organisations in the telecommunications, health and convenience retail sectors in Australia.

The Pay Now segment comprises three service lines, Mobility, Health and e-Services. Each of these service lines provide payment guarantee services for businesses against fraud using proprietary platforms. They also enable consumers to quickly and simply purchase products both instore and online, through methods such as mobile apps and interactive voice recognition (IVR) systems.

MESSAGE FROM THE INTERIM CHAIR

Dear Shareholders,

The 2019 financial year was another transformational year for the Afterpay Touch Group as we moved even further towards fulfilling our mission of being '*the world's most loved way to pay*'.

A number of significant milestones were achieved during the 2019 financial year with the team kept busy establishing and expanding our global operations and ensuring we have the best people to successfully execute and communicate our extraordinary story.

The Afterpay service has been extremely well received in the US market and we have now attracted over 2.1 million active customers[1] in the US. Annualised underlying sales in the US has reached $1.7 billion[2] in only 14 months since launch. Meanwhile, we already have over 200,000 active customers[1] in the UK since launch in May 2019. The pace at which we have acquired customers in the UK has exceeded that of the US and was achieved in a smaller addressable market. We continued to consolidate our market-leading market position in Australia and New Zealand, which included the expansion of our instore proposition and entry into new verticals. Over $1 billion worth of Afterpay transactions have now been processed instore in Australia and New Zealand. Globally, we now have more than 5.2 million active customers[1] and 35,300 active merchants[1]. Afterpay's underlying sales run rate is over $7.2 billion globally[2].

Our growth and belief in our differentiated business model has driven our value; and in FY19 we became a S&P/ASX 100 company with a current market capitalisation of approximately $6 billion.

The heart and soul of our business drives success

I have been on the Board of the Afterpay Touch Group for over two years and have seen it transform substantially over this period. When I consider the rapid pace of growth in this business and how quickly it catapulted into a S&P/ASX 100 company, I reflect on how this happened and what makes us different to other companies.

When I read the Group's mission — 'to be the world's most loved way to pay' — I feel proud to be part of a company that has such a bold aspiration. But this is the perfect statement for us as it represents so much of what we stand for:

- **We trust and respect** our customers by offering them the option to enjoy life now and pay later in a contained and simple time frame;
- **We care** by putting in place a number of rigorous customer protections that align with responsible lending practices; and
- **We help** our merchants, in particular small-to-medium businesses, connect with millions of customers each and every day.

I believe having a strong purpose, well-articulated values, and a workforce that is aligned and passionate about our mission is a great recipe for strong business performance. Our FY19 results are certainly a testament to that.

1 As at 23 August 2019, defined as having transacted at least once in the last 12 months.
2 Based on the month of June 2019.

Some of the challenges we have faced

There is no denying the Afterpay Touch Group is unique. It is unique in its service, business model and stated addressable market. We have grown faster than most ASX-listed companies and have transitioned from an Australian start-up to a globally recognised brand.

With this comes a number of opportunities — and, of course, some challenges. We acknowledge that we don't always get it right, but we learn from our mistakes and continue to strive to do the right thing.

I am very pleased that in this year's report we have included more information on the various initiatives and commitments we make to our people, our customers and the community. Our focus on aspiring to do the right thing by our stakeholders will ensure the sustainability of our business for many years to come.

As our service challenges an incumbent and highly regulated sector, we knew that it would be important to engage collaboratively with regulators. Compliance with regulatory requirements and our company-specific policies and procedures are core to our operations.

During the year, the Group participated in the Australian Senate Economics References Committee's inquiry into Credit and Financial Services, and we supported the recommendations and outcomes from that Inquiry. The 'buy now, pay later' sector continues to not be subject to the National Credit Code; however, the Australian Securities and Investment Commission (ASIC) has now been provided with Product Intervention Powers to formally regulate our product. The powers enable ASIC to intervene in the 'buy now, pay later' sector if it believes there is a significant detriment to consumers.

On 12 June 2019, a Group subsidiary, Afterpay Pty Ltd, received a notice from AUSTRAC requiring it to appoint an external auditor to carry out an audit in respect of its anti-money laundering/counter-terrorism financing (AML/CTF) compliance. The Board takes this matter very seriously and has approached this formal process as an opportunity to identify opportunities to further improve our AML/CTF compliance practices. An external auditor has been appointed, and an interim audit report is due by 24 September 2019, followed by a final audit report due by 23 November 2019. We welcome the opportunity to continue to work closely with AUSTRAC and all other regulators, and are committed to continually improving what we do.

Attracting and retaining talent is a key focus for the Group. The number of new and innovative technology businesses that exist globally means that competition for highly experienced and well-credentialed people in this sector is extremely high. In order to attract the right people, the Group needs to be flexible in how it structures its remuneration and must compete with some of the most successful and innovative employers in the world. We do however acknowledge that as an S&P/ASX 100 company, our remuneration arrangements should evolve to reflect the maturity of our organisation and the expectations of shareholders. We have listened to our shareholders and have spent considerable time and effort developing a new framework, with the assistance of external advisors, to strike a balance between the need to compete for world-class talent as well as meeting the expectations of the market.

Improving our governance and organisation structure

We understand that having grown into a $6 billion company, our investors expect a level of governance that is commensurate with similar-sized companies. We are heavily focused on meeting these expectations and, to demonstrate our commitment, we announced several Board changes that will allow us to transition to a majority independent Board with an independent Chair. A global search process has commenced to recruit at least two additional independent Directors and an independent Chair who will complement the existing Board's skill set.

We also announced a new management structure that has been designed to reflect the ongoing globalisation and expansion of our business. As part of this reorganisation, co-founder, Anthony Eisen, has assumed the role of Chief Executive Officer and Managing Director, and co-founder Nick Molnar, assumed the role of Global Chief Revenue Officer, while also continuing to lead the US business. Malte Feller formally joined the team as Global Chief Operating Officer in July 2019 and brings significant experience in the operations of fast-growing, globally expanding technology enterprises.

I would like to take the opportunity to thank David Hancock, who held the role of Group Head of the Group since 2017 and will be stepping down from the Board at the conclusion of 2019 financial year-end matters. David has been instrumental in the successful development of our business and preparing the Group for the next phase of growth. We are very grateful for the leadership that David has provided.

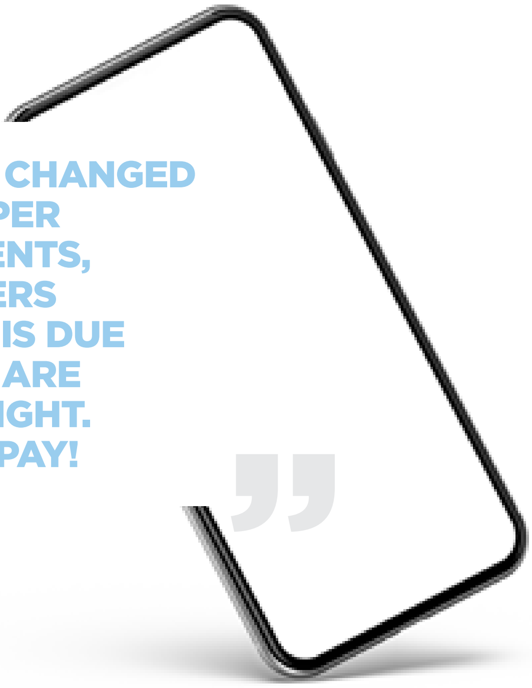
Our future

In the midst of all the activity in FY19, we announced that we are targeting underlying sales of $20bn++ and a net transaction margin (NTM) of 2% by the end of FY22. We successfully raised $317 million of equity in June 2019 to support the execution of our mid-term strategy.

The year ahead will be another significant one for the Group as we continue to execute on our mid-term strategy. We will grow our platform in key markets and continue to innovate to ensure that we are meeting the needs of our customers and merchant partners. Importantly, we will remain true to our purpose and continue to develop our unique culture, enabling our people to do their best work.

On behalf of the Board, I would like to thank my fellow Directors and our highly talented people for their hard work and significant contribution throughout the year. I would also like to thank our shareholders and funding partners for their support, and our customers, our merchant partners, and everyone who interacts with our services, for their contribution to our success.

Elana Rubin
Independent Interim Chair



“THIS HAS HONESTLY CHANGED THE WAY I SHOP. SUPER AFFORDABLE PAYMENTS, THEY SEND REMINDERS BEFORE A PAYMENT IS DUE AND THE PAYMENTS ARE SPREAD OUT JUST RIGHT. I LOVE USING AFTERPAY!”

CASEY THOMPSON

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

Dear fellow Shareholders

Our purposefully different business model continued to outperform in FY19 and we couldn't be more proud of what we have achieved.

The past 12 months have been a period of immense growth for our company. Our platform and business model have continued to resonate strongly with our customers and merchants in Australia and internationally. My belief in our passion and determination to empower the customer and innovate the retail economy remains as strong as ever. What has changed is that I am now privileged to be in the role of CEO and Managing Director of the Group. This transition provides me with even more time to focus on delivering our ambitious growth strategy.

Our strategy is simple. To be successful we must do three things: we must continue to GROW; we must continue to PERFORM; and we must continue to INNOVATE. And we need to continue doing all of this with our mindset of aspiring to do the right thing. If we achieve this, I believe we will deliver value to our people, our customers, our merchant partners, our communities and, of course, our shareholders. I am confident that we have the right business model, the right people and the right culture to succeed in our mission of becoming 'the world's most loved way to pay'.

Grow

To become 'the world's most loved way to pay' we need to continue to scale our network. We now have a greater understanding of the sheer scale of the addressable global market available to us, and we are confident that our purposefully different business model will see our strong growth trajectory continue for many years to come.

Our platform is now truly global. We launched our Afterpay Day sales event globally across Australia, New Zealand, the US and the UK for the first time in August 2019. Over 388,000 active customers, of which 10% were newly acquired customers, and almost 13,000 merchants participated in the two-day sales event. Our brand continues to resonate. Afterpay Day is now a recognised event on the retail calendar, and the incredible customer and merchant recognition drove us to achieve record global underlying sales of $69 million for the two-day event.

Afterpay's immediate markets present a $6 trillion opportunity, which includes an online contribution of $780 billion alone. Our experience in expanding our operations to date supports our strategy to accelerate our investment in the global opportunity to maximise shareholder value. Millennials and Gen Z are moving away from traditional forms of credit and are empowered to budget through Afterpay by spending their own money. Millennials make up 27% of the global population and will have the highest spending power by 2020. By 2025, Millennials in the US will contribute to almost half of all salary earned. As part of our mid-term strategy, we are targeting $20bn++ in underlying sales and a 2% net transaction margin. Executing on our strategic objectives and reaching our targets will position us well to maximise long-term shareholder value.

MILLENNIALS MAKE UP 27%[1] OF THE ENTIRE GLOBAL POPULATION	BY 2020, MILLENNIALS WILL HAVE THE HIGHEST SPENDING POWER, **ALMOST US$15 TRILLION WORLDWIDE**[2]	BY 2025, MILLENNIALS WILL CONTRIBUTE **ALMOST HALF OF ALL SALARY EARNED IN THE US**[3]
MILLENNIALS AND GEN Z ARE DRIVING CHANGE IN GLOBAL SPENDING HABITS, WHICH IS MEANINGFUL TODAY AND WILL BE EVEN MORE MEANINGFUL IN 10 YEARS		**AFTERPAY IS UNIQUELY POSITIONED TO BENEFIT FROM THIS SHIFT**

Notes: 1. A.T. Kearney (2016). 2. Financial Times (2018). 3. Visa (2015).

Perform

Our continued performance is well demonstrated in our FY19 results.

The Group achieved pro forma total income of $272.5 million, up 91% on FY18. This was driven by a 140% uplift in underlying sales as a result of continued outperformance in Australia and New Zealand, and very strong growth in the US. Our pro forma EBITDA (excluding significant items) of $35.5 million has remained stable, an exceptional result that was achieved despite significant investment to support the Group's global expansion.

Our Group net transaction margin improved by 93% in dollar terms compared to the prior year and we saw a 40bps reduction in our pro forma gross losses as a percentage of underlying sales. This is a great outcome as it reflects the nature of our purposefully different business model and our principles of responsible spending.

We have a strong balance sheet to support our mid-term growth aspirations. We further diversified our funding and have maintained an appropriate debt maturity profile, including establishing a dedicated US receivables warehouse facility of US$300 million in H2 FY19. In addition to this, we raised $317 million in equity in June 2019 to underpin the funding of our expansion plans and execution of our mid-term strategy. As at the end of FY19, we had liquidity of $610.1 million and our receivables warehouse facilities are fully undrawn. Importantly, we have capacity to fund in excess of $16 billion of underlying sales above current run-rate, leaving us well capitalised to achieve our mid-term strategy.

Innovate

Innovation is in our DNA; it is what got us here and is what will keep us around for a long time. I am proud that our efforts were recognised by FinTech Australia, which awarded us the FinTech Organisation of the Year for the third year in a row.

Our priority is to deliver value for our customers and merchants through an expanding network effect and other initiatives. Our approach to innovation is based on four principles:

Listen – listening to our customers and merchants to better understand what they want and need and how they measure value.

People & Culture – having the right people and culture in place to drive innovation and embrace opportunities to deliver change that adds value.

Process – having an operating model that empowers our teams and drives collaboration across the organisation and a streamlined decision making process to prioritise and scale our best ideas.

Product – continuously identifying product and technology innovations that deliver value to our customers and merchants will keep us ahead of our competitors.

Our innovation pipeline is strong and will enable us to expand our addressable market without increasing risk for our customers and merchants. We will ensure that any innovation we add to our business aligns with our purpose and values, and builds on our aspiration to do the right thing.

Our people

It is our global team of over 400 people that has made this company what it is today. They have delivered another year of strong results and have continued to work with integrity and a strong passion for the business and its customers. Striving to do the right thing is a mindset that extends across our organisation. While we don't always get things right, we ensure we use the learnings from our mistakes to identify areas in which we can improve. We are committed to doing the right thing for our people, for our customers, and for all of our stakeholders in the community.

It is a huge source of pride to see our Australian-led technology and talent perform on a global stage. Likewise, it is a privilege that our Group keeps attracting globally leading talent into our team in multiple jurisdictions. We continue to build a world-leading risk, data and technology team; now spanning all markets. Our senior leadership team has been significantly complemented by Carl Scheible who is leading our UK business and Malte Feller who has been appointed as our Global Chief Operating Officer.

On behalf of my co-founder Nick Molnar and the entire senior leadership team, I'd like to take this opportunity to thank everyone in the Afterpay Touch Group team for their ongoing commitment and for turning our aspirations into reality. I would like to thank the Board and senior team for their unwavering support and effective leadership over the past year. In particular, I would like to thank David Hancock for his vision, drive, commitment and leadership over the past two and a half years; firstly as a member of our Board and then taking on the role of Group Head. Lastly, I'd like to thank our customers, merchant partners and investors for being a key part of the success and growth of our business.

The coming year will no doubt be another significant one for us. We will continue to grow, perform and innovate — and move even closer to our goal of becoming 'the world's most loved way to pay'.

Anthony Eisen
Chief Executive Officer and Managing Director

"AS A COLLEGE STUDENT WHO NEEDS TO BE ON A BUDGET BUT STILL LOVES TO SHOP I RECOMMEND THIS TO ALL OF MY FRIENDS!"

DOMONTIERO

SUSTAINABILITY

ASPIRING TO DO THE RIGHT THING

Our Commitment to our People

Our people are our greatest asset and our business is all about human connection. Having the right culture and a team of people with shared values and a clear purpose is critical to the sustainability of our business. It allows us to retain and attract the best people possible and provides an environment where continuing to innovate for our customers and merchants is always front of mind.

We're proud of our young and dynamic workforce and its close alignment to our core customer base. Over 60% of us are millennials with an average age of 36 across the Group. The globalisation and expansion of our business means we can provide career development opportunities for many of our people across geographies.

We engage with our people in a transparent manner and encourage feedback at all times. Our 'all hands' sessions are regular company-wide briefings from the Chief Executive Officer and Managing Director that are broadcast to all employees and typically used for making major announcements — any questions can be asked of our founders and executive team.

We seek to maintain a workplace that reflects a new generation of work, including our open plan offices, flat team structures and a relaxed dress code that allows for individual expression. We also aspire to be part of tech-based precincts in the cities we operate. Our Sydney office is based out of a converted warehouse in Surry Hills, our new offices in Melbourne will be located in Cremorne's emerging tech precinct, and our US office is located in San Francisco, the epicentre of Silicon Valley.

DIVERSITY, INCLUSION AND PAY EQUITY

Having a culture that values diversity and inclusion is key to our business as it helps us better understand our customers.

Gender diversity is important to us. Females currently account for approximately 45% of our workforce. Gender diversity at the senior management level is an area where we believe we can improve in the future. In 2019, we strengthened our commitment to gender diversity by completing a broad pay parity review which resulted in a short- and long-term plan to correct like-for-like gender pay gaps — we continue to work towards 100% global gender pay equity.

When we think about diversity, we think beyond gender diversity. Our workforce is diverse in many ways and embraces people of all races, age/generational perspectives, sexual orientation, gender identity and gender expression, political and religious beliefs, work styles, socioeconomic backgrounds and life experiences.

Aligning our diversity with an inclusive culture that encourages people to speak up and share their ideas is important for a company whose competitive advantage is linked to innovation. By listening to our people, we are able to gain insight into our customer base and deliver innovative solutions that meet the needs of our users.

As a leadership team we are in the process of further developing initiatives to improve diversity at all levels, including gender diversity. These initiatives will target our recruitment and promotion processes that aim to empower all of our employees.

We fully support the principles of equal employment opportunity (EEO) and provide employee training on protecting human rights. We address EEO principles and grievance-handling processes in our Code of Conduct and also have a whistle-blower policy in place for our employees to raise confidential concerns.

VOLUNTEERING AND CHARITABLE INITIATIVES

We believe that we have a responsibility to give back to our community and as such we enable our employees to take paid volunteering leave. In 2019, this paid leave offered 2,500+ volunteer hours for employees to give back to important causes. Our core focus in innovation means we are keen to support others who do the same. As such, our employee volunteer program operates in partnership with 10 x 10, a live crowd-funding organisation that supports innovative, grass roots charities across a wide range of sustainability issues. We are continuously evolving our charitable strategic direction and we intend to advance our efforts in areas that create shared value, including the promotion of financial health, small business mentorships and supporting the growth of females in tech.

CASE STUDY ON DIVERSITY AND INCLUSION

CULTURE CLUB

Culture Club is a global committee that includes ambassadors from our various teams and geographies. The committee is dedicated to leading and driving our unique culture and instilling our values from the bottom up. Diversity and inclusion is a key focus for the Culture Club and has resulted in a number of initiatives and events being rolled out globally.

US

In the US, the team created events to coincide with San Francisco's LGBTQ+ Pride Parade. During that week they rolled out a number of initiatives including:

- A sexuality and gender workshop
- A Pride newsletter
- A fundraising event
- Wig Friday

Approximately 70 employees and their friends and family participated in the 2019 Parade March.

Our Commitment to our Customers

Millennials form the core of our customer base and they are turning away from traditional credit cards and debt due to general distrust and caution. This is demonstrated by credit card ownership rates in this core group being 37% lower than those of older generations and falling[1]. This trend is manifested in the Group's own statistics, which show that 85% of our customers use their own money, not credit cards, to make repayments. Approximately 77% of millennials in Australia are using our service as a budgeting tool and they have different spending priorities compared to older generations[1]. For example[1]:

- Home ownership rates among young people are down 25% from 40 years ago;
- Young people are cutting back on alcohol and tobacco; and
- They are instead spending more on public transport and private health insurance.

Simply put, this group is reframing the 'what' and 'how' of spending — and they are choosing Afterpay because we fit this shifting consumer mindset.

Afterpay has received a Roy Morgan Research Net Trust Score of 61[2], which was higher than all other Australian and international digital payments companies. This is a clear demonstration of the strong brand reputation we have with our customers and the trust they have in our service.

In March 2019, Afterpay conducted its own annual customer Net Promoter Score survey, which saw Afterpay continue to outperform relevant peer groups. We use this survey to track our performance and also to identify opportunities for improvement. Afterpay's Net Promoter Score consistently sits above 80.

RESPONSIBLE SPENDING AND CONSUMER PROTECTIONS

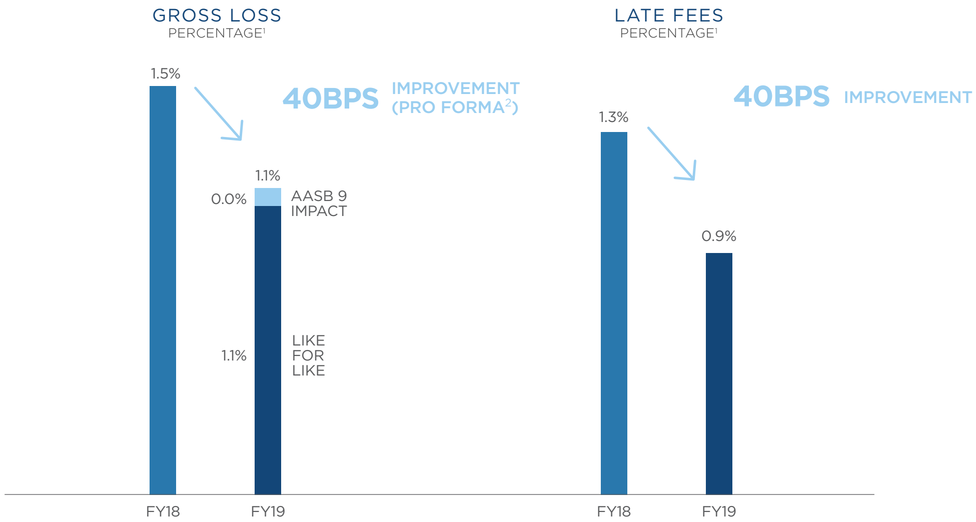
Our Afterpay service is an alternative to traditional credit products that profit from customers being charged interest fees and revolving debt. Our proprietary platform verifies serviceability by requiring up-front payments for first time customers and low initial spending limits that only increase once positive repayment behaviour has been demonstrated. Our consumer protections include freezing accounts at the first sign of non-payment, relatively low spending limits, caps on late fees, and requiring each individual transaction to be approved. We protect our customers from being trapped in a cycle of debt by prohibiting debt rollovers or allowing payment to extend the debt. Customers have responded well to Afterpay's service — we see around 95% of all payments made on time.

Our business model is one where we do not seek to generate income from our customer, but rather, we partner with merchants who pay a fee when a transaction occurs. While we do charge customers a late fee if they fail to pay an instalment on time, these fees are relatively low, are capped and do not cover Afterpay's costs as a result of failed repayments.

Today, more than 90% of customers are repeat purchasers, which is a positive for Afterpay as our business model freezes out those who cannot pay on time. We are proud of the fact that more than 80% of our income is derived from merchants and our late fee income is on a downwards trajectory. We are also pleased that our customer repayment profile is continuing to improve, with our gross losses declining from 1.5% in FY18 to 1.1% (pro forma)[3] in FY19.

What sets us apart from many other 'buy now, pay later' services is that we never charge interest and our late fees never compound — this is the complete opposite of the business model of traditional credit products.

1. Review conducted by AlphaBeta Advisors with data supplied by Afterpay, IPSOS and illion (June 2018).
2. Roy Morgan Research Base: Australians 14+; July 17-June 18 NPSSM and Net Trust Score is a service mark of Bain & Company, Inc., Satmetrix Systems, Inc. and Mr Frederick Reichheld.
3. New Accounting standards adopted from 1 July 2018 impacted Afterpay income and receivables impairment expense. To enable comparability to prior year performance we have presented pro forma financials which remove the impact of the accounting standard changes.



Note: Change calculations may not equate due to rounding.

1. Gross Loss and Late Fees are shown as a percentage of underlying sales in the period.
2. New accounting standards adopted from 1 July 2018 impacted Afterpay income and receivables impairment expense. To enable comparability to prior year performance we have presented pro forma financials which remove the impact of these accounting standard changes

HARDSHIP

Customer trust and our customer-centric value proposition gives us a reason to exist. Supporting our customers is important to us, and we want to be there for them when times are tough. While the significant majority of payments from customers are paid on time, we understand that some customers may experience unforeseen life circumstances that place them in financial difficulty. As such, we have a hardship policy in place that provides customers, under a range of circumstances, with extra time to make repayments without having to incur additional fees. We have a dedicated hardship team and have been a member of the Australian Financial Complaints Authority (AFCA) since 2016. We are proud of our track record on customer complaints. The most common complaint to AFCA about Afterpay, to date, has been around 'denial of service' — that is, those that have frozen accounts.

We continue to identify initiatives that seek to further prevent our customers paying late fees or overcommitting to more than they can repay.

Our Commitment to Continuous improvement in Corporate Governance

The Board is committed to having a governance framework in place that reflects the needs of the business now and into the future. We recognise that management of our risks and opportunities are critical to the long-term sustainability of our business and we are determined to continue integrating these issues into our purpose, strategic objectives, culture and values.

BOARD INDEPENDENCE

We are in the process of transitioning to a majority independent Board headed by an independent Chair. We are currently undertaking a rigorous process to recruit at least two additional independent Directors and an independent Chair. We intend to select people who will complement the skills of our existing Directors and are taking into consideration factors such as:

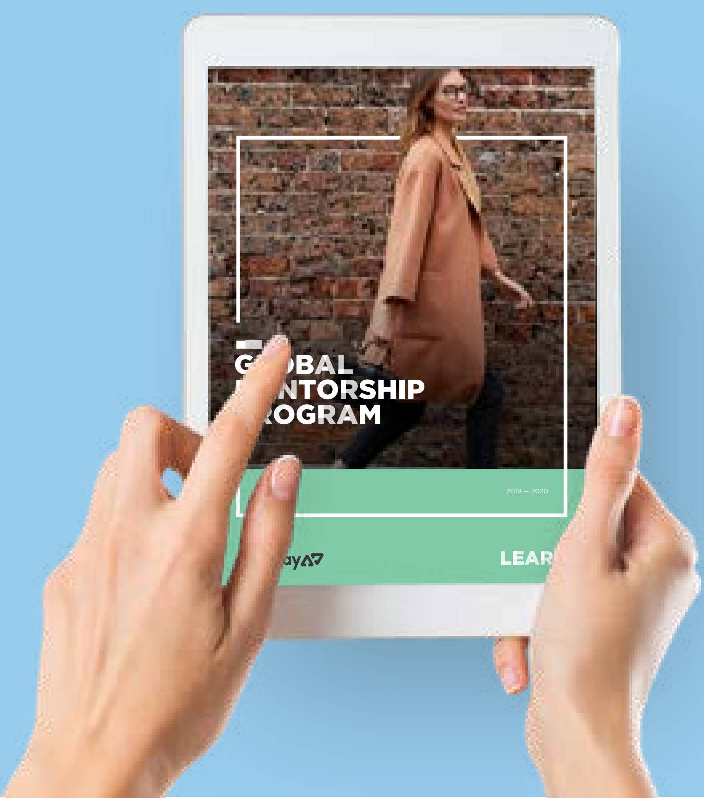
- Ensuring we have the right mix of skills and experience;
- Greater gender and cultural diversity; and
- The need to reflect the global nature of our company.

The new Directors along with our existing Board members will help guide the strategic direction of the business and look to position the Group for long-term growth and continued success.

CUSTOMER CASE STUDY HEALTHCARE

We help customers manage their budgets and their health by providing an alternative way to pay and break down the barrier to treatment, especially for medical services that may not be covered by Medicare or are outside core private health insurance. This includes services such as dental, optometry and certain pharmaceuticals. Our offering is rapidly expanding deeper into the healthcare sector. We are partnering with more than 1,300 practices to deliver services to more than 43,000 customers.

"WE WANT TO HELP SMBs DREAM BIG AND WE BELIEVE IN THE VALUE OF SHARED SUCCESS WITH MUTUAL BENEFIT"



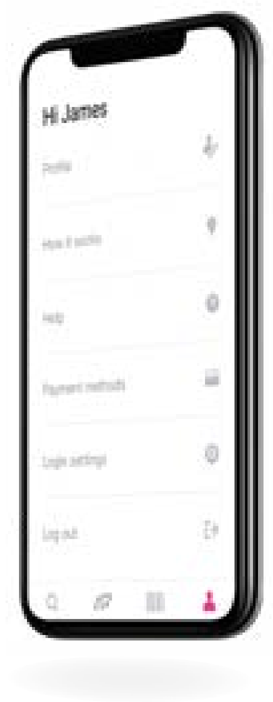
FINANCIAL INITIATIVES (INCLUDING SMB MENTORING)

More than 90% of our merchant partnerships are with small and medium-sized businesses (SMBs). We want to help SMBs dream big and we believe in the value of shared success with mutual benefit. Our Global Mentorship Program, targeted to SMBs, provides unparalleled opportunities for them to be recognised via digital platform marketing, global networking and participating in mentorships with some of the world's most successful retailers. Merchants have experienced increased basket sizes, increased conversion rates, the addition of highly loyal or 'sticky' customers and consistently lower return rates. For example, Australian SMB merchants that were on-boarded in FY18 grew their basket size by approximately 8% in FY19. We will continue to expand our platform to provide further benefits to all of our merchants and continue to connect them with an even larger customer base.

DATA PRIVACY AND FINANCIAL CRIME

Ensuring our customers' data privacy and security is one of our essential responsibilities in an environment of rapidly developing digital financial technology. We recognise that we have a responsibility to protect the privacy and security of customer and merchant data. Our information security teams employ a wide-ranging set of technologies, processes and programs to mitigate data security risks and safeguard the data entrusted to us by customers and merchants.

Compliance with regulatory requirements including those relating to financial crime, fraud and money laundering, is important to us. We are committed to working closely with AUSTRAC and all other regulators to identify opportunities to ensure our systems and processes continue to be fit for purpose as our business grows.



CLIMATE CHANGE

We acknowledge that climate change is a critical risk that is already affecting countries and industries globally, as detailed in the latest Intergovernmental Panel on Climate Change (IPCC) Special Report on *Global Warming of 1.5 degrees*.

We understand the importance of considering the impact of climate change on the sustainability of our business and aim to be transparent with our investors and other stakeholders by disclosing on climate change-related data, including the reporting of our greenhouse gas (GHG) emissions.

In the following table, we have included our FY19 Scope 1 and Scope 2 GHG emissions, our energy use and water consumption across 76% of our Australia and New Zealand facilities. We see this as a first step towards more meaningful disclosure in future years and intend to assess the materiality of our climate change-related risks and opportunities.

KEY PERFORMANCE INDICATOR	UNIT	FY19
GREENHOUSE GAS (GHG) EMISSIONS		
Scope 1[1]	tCO2e	1.79
Scope 2[2]	tCO2e	173.36
Total	tCO2e	175.15
Carbon intensity per unit of revenue	tCO2e/Millions$A	0.66
Carbon intensity per full-time equivalent (FTE) employee	tCO2e/FTE	0.47
ENERGY USE		
Electricity consumption	MWh	177.92
Australia	MWh	175.58
New Zealand	MWh	2.34
WATER CONSUMPTION		
Total annual water consumption	kL	1,762

Notes:
1. Scope 1 – direct emissions from sources under our operational control in Australia and New Zealand, representing 76% of our emissions by FTE.
2. Scope 2 – indirect emissions from the production of electricity purchased to run own operations in Australia and New Zealand, representing 76% of our global emissions by FTE.

Future Commitments

Our approach to sustainability is based on delivering shared value and mutual benefit to all of our stakeholders. Our business model is inherently structured to create the most value for our shareholders when our customers and stakeholders prosper. Over the next 12 months, we will be evolving the way we approach sustainability and intend to develop a more structured approach to how we strategically integrate, report and disclose the positive impact that comes from our desire to do the right thing.

> **“I LOVE AND ADORE @AFTERPAYUSA BECAUSE IT HELPS ME TO BE FINANCIALLY INTELLIGENT. I GET TO BUY THE THINGS I COULD ONLY WISH FOR AND MAKE SURE I’M SAVING AND TAKING CARE OF MY OBLIGATIONS! PLEASE, PLEASE, PLEASE ADD MORE STORES WITH THE #AFTERPAY OPTION!”**
>
> **IAMMIAR83**

OPERATING & FINANCIAL REVIEW

REVIEW OF GROUP PERFORMANCE AND FINANCIAL POSITION

The Group has delivered strong financial results in FY19 as our brand and business model continues to resonate across multiple markets. The Group has achieved strong growth in total income and has maintained stable pro forma EBITDA, despite investments made to support the Group's growth strategy.

Group Performance

The pro forma[1] total operating income and other income for the Group for financial year ended 30 June 2019 was $272.5 million, up 91% on the prior comparable period and driven principally by strong growth in Afterpay income (income from merchant fees). The Group achieved pro forma EBITDA (excluding significant items) of $35.5 million, a good result considering the significant investments made to support the Group's global expansion. Other expenses (excluding significant items) increased to $117.2 million, up 153%. The Group reported a statutory loss before tax of $42.8 million for the period as the Group continued to invest in technology, people and marketing to scale its operations in all regions.

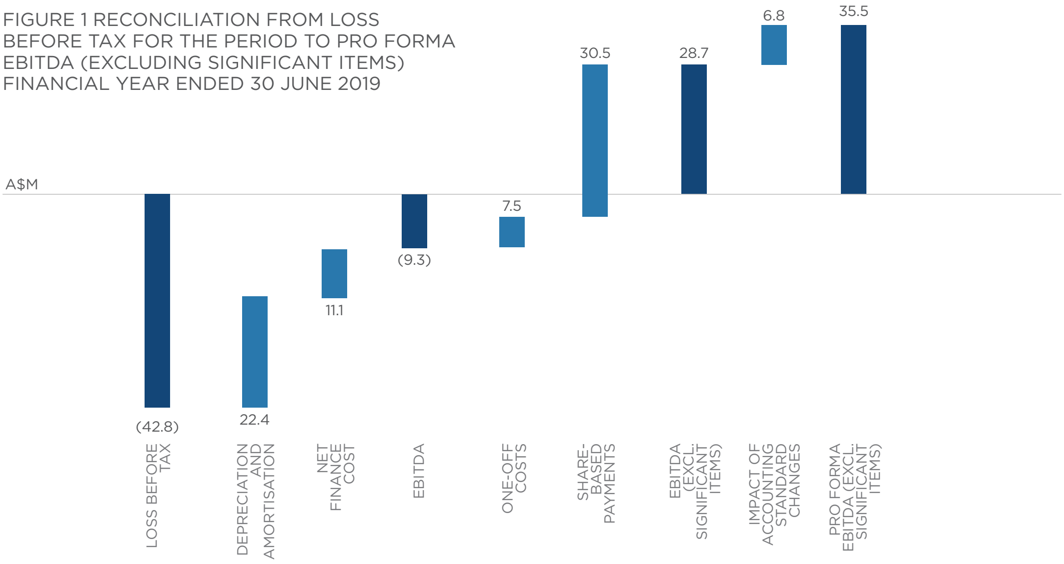
SUMMARY FINANCIAL RESULTS

	FULL-YEAR				
	FY19		FY18	CHANGE[2]	CHANGE[2]
A$'000 (UNLESS OTHERWISE STATED)	STATUTORY	PRO FORMA[1]		$	%
Total operating and other income	264,112	272,525	142,345	130,180	91%
Receivables impairment expense	(58,675)	(56,506)	(32,610)	(23,896)	73%
Cost of sales	(59,562)	(63,358)	(28,210)	(35,148)	125%
Other expenses[3]	(117,182)	(117,182)	(46,362)	(70,820)	153%
EBITDA (excl. significant items)[4]	28,693	35,479	35,163	316	1%
Loss before tax	(42,786)	N/A	(7,586)	~	~

1. The statutory results for financial year ended 30 June 2019 reflect the adoption of two new accounting standards; AASB 9 – Financial Instruments and AASB 15 – Revenue from Contracts with Customers. The adoption of these standards has affected the preparation of the Statement of Comprehensive Income (profit and loss statement) and the Consolidated Statement of Financial Position (balance sheet). To enable comparison on a like-for-like basis with the prior comparable period (financial year ended 30 June 2018), in this report pro forma financial results are presented which remove the impact of these accounting standard changes.
2. Change is calculated as the pro forma result for the financial year ended 30 June 2019 against the financial year ended 30 June 2018.
3. Other expenses in FY19 comprises employment expenses of $51.4 million plus operating expenses of $73.2 million less significant items of $7.5 million.
4. EBITDA is a non-IFRS measure that has not been audited but is a key financial metric used by management at a Group level. EBITDA (excluding significant items) is calculated by adjusting reported results for significant and non-recurring items. Pro forma EBITDA (excluding significant items) is calculated by adjusting reported results for significant and non-recurring items as well as the impact of the adoption of new accounting standards.

A reconciliation of loss before tax as presented in the Consolidated Statement of Comprehensive Income to pro forma EBITDA (excluding significant items) is set out in Figure 1 below. EBITDA is a non-IFRS measure that has not been audited but is a key financial metric used by management to operate the business at a Group level.

FIGURE 1 RECONCILIATION FROM LOSS BEFORE TAX FOR THE PERIOD TO PRO FORMA EBITDA (EXCLUDING SIGNIFICANT ITEMS) FINANCIAL YEAR ENDED 30 JUNE 2019



Business Service Performance

AFTERPAY

Afterpay was the primary growth driver and contributor to total income for the Group. In the financial year ended 30 June 2019, pro forma Afterpay income (income from merchant fees) increased by 133% on the prior comparable period to $205.5 million. Other income (late fees) increased to $46.1 million from $28.4 million in the prior comparable period and declined as a percentage of total Afterpay income and other income consistent with the Group's strategy and inbuilt consumer protections in the product.

Key drivers:

PRO FORMA AFTERPAY INCOME[1]

FULL-YEAR TO		
30 JUN 19	30 JUN 18	Afterpay Income
$205.5M	**$88.3M**	↑ **133%**
3.9%	**4.0%**	
% Afterpay underlying sales	% Afterpay underlying sales	On prior comparative period

Significant increase in Afterpay income was due to the strong performance across each region in which the Group operates.

Afterpay underlying sales (the total value of sales processed via the Afterpay platform) doubled in Australia and New Zealand, while the US performed strongly in its first full year of operation, and the recent launch in the UK produced pleasing results, albeit immaterial to the overall result.

Afterpay income at 3.9% of underlying sales was broadly in line with the prior comparative period despite a higher contribution from less mature international markets with an earlier life-cycle customer and merchant mix.

OTHER INCOME (LATE FEES)

FULL-YEAR TO		
30 JUN 19	30 JUN 18	Late fees as % total Afterpay income and other income
$46.1M	**$28.4M**	
18.7%	**24.4%**	↓ **570 BPS**[2]
% total Afterpay income and other income	% total Afterpay income and other income	On prior comparative period

Other income (late fees) increased in the period as a dollar value primarily driven by the significant increase in underlying sales and customers utilising the platform.

Importantly, due to active steps taken by the business, other income declined as a percentage of total Afterpay income[3] to below 20% (18.7%).

1. Pro forma financial results for the financial year ended 30 June 2019.
2. Basis points change calculated as the financial year ended 30 June 2019 result less the financial year ended 30 June 2018 result.
3. Late fees as a percentage of Afterpay total income (statutory)

PAY NOW

Pro forma Pay Now revenue declined by $4.7 million to $20.9 million when compared to the prior period, largely resulting from the sale of the e-Services EU business line in October 2018.

Afterpay Platform KPIs

The financial results of the Afterpay segment were driven by a number of underlying key performance indicators. Underlying sales (the total value of sales processed through the Afterpay platform) was $5.2 billion in the financial year ended 30 June 2019, growing by 140% on the prior comparable period. This material growth in Afterpay underlying sales was driven by a more than doubling of active customers and active merchants, as well as increased usage of the Afterpay service by existing customers.

Key drivers:

AFTERPAY UNDERLYING SALES[1]

FULL-YEAR TO			
30 JUN 19	30 JUN 18	Afterpay underlying sales	140% increase in Afterpay underlying sales reflected continued growth across all channels in Australia and New Zealand (instore and online), the first full year of operation in the US, and small contribution from the UK business, which was launched in May 2019.
$5.2B	$2.2B	↑ 140% On prior comparative period	

AFTERPAY ACTIVE CUSTOMERS[1,2]

AS AT		
30 JUN 19	30 JUN 18	Active Customers
4.6M	2.0M	↑ 130% On prior comparative period

Strong growth in customers adopting the Afterpay platform largely driven by the US (+1.7m) and ANZ (+0.9m).

The 1.8m active customers as at 30 June 2019 in the US demonstrates the platform is resonating with a new customer base in a new region, after only launching the service in May 2018.

AFTERPAY ACTIVE MERCHANTS[1,2]

AS AT		
30 JUN 19	30 JUN 18	Active Merchants
32.3k	16.0k	↑ 101% On prior comparative period

Increasing number of merchants onboarded to the Afterpay platform in ANZ (+12k) and the US (+3.7k), reflecting an increase in both large enterprise retailers (which in turn drive new customer visibility and adoption) as well as a continued focus on onboarding SMB merchants (who are typically higher margin).

1. Unaudited information.
2. As at 30 June 2019, defined as those having transacted at least once in the last 12 months.

Expenses & EBITDA

The Group's pro forma EBITDA (excluding significant items) was $35.5 million in the financial year ended 30 June 2019, up 1% on the prior comparable period, remaining stable despite significant investments in establishing operations in new geographies.

Key drivers:

PRO FORMA RECEIVABLES IMPAIRMENT EXPENSE (GROSS LOSS)[1]

FULL-YEAR TO		
30 JUN 19	30 JUN 18	Gross loss % Afterpay underlying sales
$56.5M	**$32.6M**	
1.1%	**1.5%**	↓ **40 BPS**[4]
% Afterpay underlying sales	% Afterpay underlying sales	On prior comparative period

Receivables impairment expenses of 1.1% of Afterpay underlying sales, down from 1.5% in the comparative period reflects the Group's continued focus and investment in risk management to reduce losses.

OTHER EXPENSES (EXCL. SIGNIFICANT ITEMS)[2,3]

FULL-YEAR TO		
30 JUN 19	30 JUN 18	Other Expenses % of total underlying sales
$117.2M	**$46.4M**	
2.2%	**2.1%**	↑ **10 BPS**[4]
% total underlying sales	% total underlying sales	On prior comparative period

Increased investment in people, processes and systems, particularly to support growth of the US and UK businesses, as well as increased marketing spend to drive enterprise retailer adoption as a key element of the Group's mid-term strategy.

PRO FORMA EBITDA (EXCL. SIGNIFICANT ITEMS)[1,2]

FULL-YEAR TO		
30 JUN 19	30 JUN 18	Pro forma EBITDA (excl. significant items)
$35.5M	**$35.2M**	↑ **1%** On prior comparative period

Maintained relatively stable (+1%) pro forma EBITDA (excluding significant items) as strong growth in operating income and stable margins in the Afterpay business was offset by continued investment in establishing Afterpay in the US and UK markets in line with the Group's mid-term strategy, which was announced at the first half 2019 results announcement.

1. Pro forma financial results for the financial year ended 30 June 2019.
2. Unaudited financial information.
3. Other expenses in FY19 comprises employment expenses of $51.4 million plus operating expenses of $73.2 million less significant items of $7.5 million.
4. Basis points change is calculated as the financial year ended 30 June 2019 result less the financial year ended 30 June 2018 result.

Financial Position

The Group's net asset position increased to $648.5 million as at 30 June 2019, up from $183.6 million at the prior reporting date. Total assets were $820.5 million, an increase of $428.2 million which is primarily due to growth in cash and cash equivalents ($198.9 million) and receivables ($213.6 million). Receivables have increased by $213.6 million to $452.7 million due to the continued growth in Afterpay underlying sales. Total liabilities as at 30 June 2019 were $172.0 million, a decrease of $36.7 million from the prior comparable period.

Debt and Funding

Total debt has decreased to $50.2 million as at 30 June 2019 from $161.6 million at the prior comparable period. The Group had a net cash position of $183.3 million at 30 June 2019, compared to a net debt position of $105.3 million in the prior corresponding period. The reduction in debt has occurred primarily due to proceeds from equity raises ($459.3 million) completed during the financial year being used to repay debt and partially fund receivables growth.

The Group's capital management framework is designed to ensure that it is able to meet its funding requirements to support current and future growth. The Group has a diversity of funding by both source and maturity. The Group continued to develop its access to funding sources and maturity across the financial year ending 30 June 2019.

As at 30 June 2019, the Group had the following funding sources:

- a $500 million receivables warehouse funding facility in Australia (nil drawn);
- a $49.7 million[1] senior unsecured note in Australia (fully drawn);
- a NZ$20 million revolving cash advance facility in New Zealand (nil drawn);
- a US$300 million receivables warehouse funding facility in the United States (nil drawn); and
- $231.5 million of cash (excluding restricted cash of $2.0 million classified within Other Financial Assets).

The total debt position comprised primarily of the $49.7 million senior unsecured note. Importantly, the Group's warehouse funding facilities were undrawn at 30 June 2019, providing significant growth funding capacity. The Group has $946.9 million of undrawn committed facilities (in AUD equivalent value) to fund future underlying sales growth. The weighted average term to maturity across the Group's funding facilities as at 30 June 2019 was 1.6 years.

1. Drawn debt of $49.7 million as shown in the Statement of Financial Position (Note 12) is adjusted for capitalised borrowing costs and accrued interest. The senior unsecured notes have a carrying value of $50.0 million.

Note on Adoption of New Accounting Standards

The statutory results for financial year ending 30 June 2019 reflect the adoption of two new accounting standards; AASB 9 – Financial Instruments and AASB 15 – Revenue from Contracts with Customers. The adoption of these standards has affected the preparation of various line items in the Statement of Comprehensive Income (profit and loss statement) and the Consolidated Statement of Financial Position (balance sheet). To enable comparison on a like-for-like basis with the prior comparable period (financial year ended 30 June 2018), pro forma financial results are presented in this report which remove the impact of these accounting standard changes.

The table below provides a reconciliation of the financial results to the pro forma financial results across each key line item that has been impacted by the accounting standard changes.

RECONCILIATION FROM FINANCIAL RESULTS TO PRO FORMA RESULTS

	FULL-YEAR ENDED 30 JUNE 2019		
A$'000 (UNLESS OTHERWISE STATED)	UNADJUSTED	ACCOUNTING STANDARD CHANGES	PRO FORMA
Impact on income:			
Afterpay income	247,017	4,617	251,634
Pay Now revenue	17,095	3,796	20,891
Total income	264,112	8,413	272,525
Impact on Afterpay NTL:			
Net Transaction Loss	(22,222)	2,167	(20,055)
Impact on Pay Now cost of sales:			
Cost of sales	(6,720)	(3,796)	(10,516)
Impact on EBITDA:			
EBITDA (excl. significant items)	28,693	6,785	35,479

OPERATING & FINANCIAL REVIEW
OUR BUSINESS & STRATEGY

The Group's international expansion has continued in FY19, with the first full year of operations in the US, a launch in the UK, and Afterpay consolidating its market-leading position in Australia and New Zealand.

UNITED STATES

The Group's first full year of operations in the US has delivered merchant, customer and underlying sales growth beyond expectations. In a short period, Afterpay has become a leader in the US in what we do; which is a service that customers and merchants prefer over interest-bearing competitor products. We reached over $1.7 billion in annualised underlying sales based on the month of June 2019 and now have approximately 2.1 million active customers[1] and 4,700 active merchants[1]. Merchants are also increasingly attracted to the marketing and lead generation benefits of the Afterpay platform, with the US business reaching over 3.8 million retailer referrals in the month of July 2019 alone. During FY19, the US business achieved merchant margins that were broadly in line with the Australian business as a result of a higher contribution from small-to-medium businesses to total underlying sales. The US business has also achieved an improvement in losses through the optimisation of risk systems and growth in the returning customer base. Growth in the US is now supported by a dedicated US$300 million receivables funding facility announced in May 2019, which is able to fund in excess of US$4 billion of underlying sales. Afterpay is now partnering with or onboarding over 6,500 merchants[2], which represent more than 10% of the online fashion and beauty industry in the US[3].

UNITED KINGDOM

The Group launched strongly in the UK, commencing operations in May 2019 under the Clearpay brand. UK customer additions reached over 200,000[1] after 15 weeks of operations — exceeding the pace of growth experienced in the US over the same period. We are now partnering with or onboarding[2] over 150 merchants[1] in the UK. Underlying sales contribution of $5.6 million for FY19 represented seven weeks of trading – Australia took 14 months to reach the same level. Our business model is resonating with key UK merchants including Boohoo, JD Sports and Pretty Little Thing. In this early phase, Clearpay is focused on the Group's core segments of fashion and beauty, with a goal to broaden this base in the future.

AUSTRALIA & NEW ZEALAND

The Group's leading market positions in Australia and New Zealand were reinforced in FY19, despite the increasing number of 'buy now, pay later' operators in the sector. The acceleration of the Group's instore proposition has been a key feature of the continued strong growth in underlying sales in Australia and New Zealand. Instore cumulative underlying sales has now reached $1 billion and has contributed 18% to Australia and New Zealand's combined underlying sales in FY19.

New industry verticals and cross-border trade remain nascent opportunities for Afterpay in Australia and New Zealand. The Group entered into new verticals including healthcare and travel in FY19 and will continue to explore new segments and grow cross-border trade in FY20.

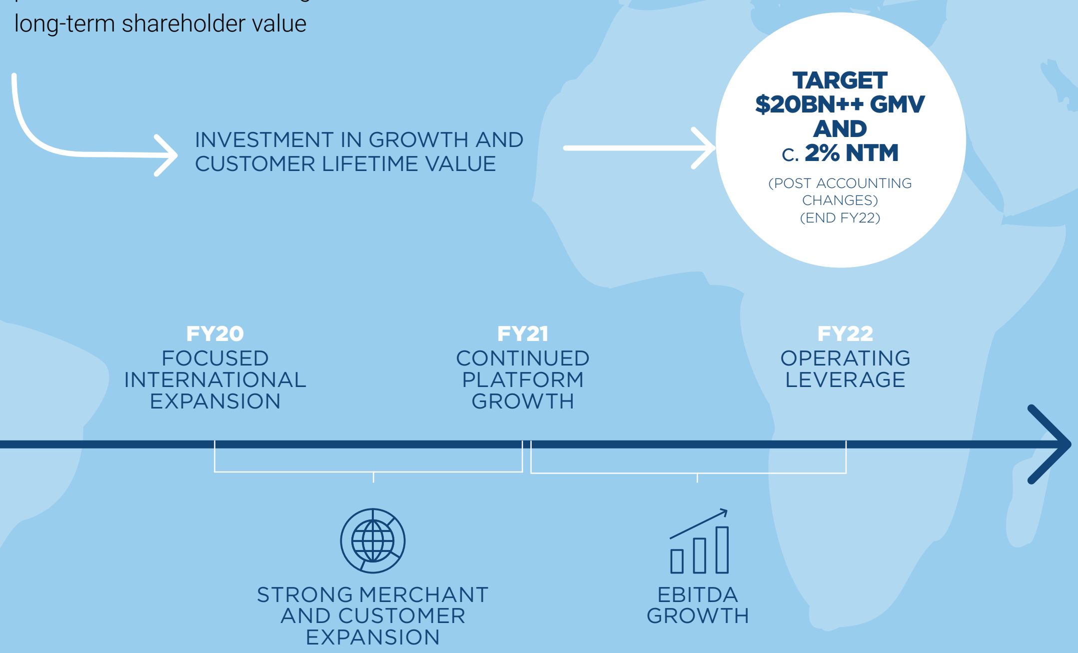
1. As at 23 August 2019.
2. Includes active and signed merchants.
3. Calculated using data sourced from Euromonitor.

WE ARE INVESTING FOR GROWTH AND ARE TARGETING $20BN++ OF UNDERLYING SALES AND A 2% NET TRANSACTION MARGIN BY THE END OF FY22.

MID-TERM STRATEGY

The addressable opportunity for the Afterpay platform globally is substantial. The immediate markets where Afterpay is present represent a $6 trillion opportunity, including an online contribution of $780 billion. The Group's experience to date supports an accelerated investment in this global opportunity to maximise shareholder value including accelerating growth in the US, building our business in the UK and continued investment in Australia and New Zealand.

Our execution path and expansion plan is based on maximising long-term shareholder value



STRATEGIC PILLARS

The Group's four strategic pillars drive the strategic and operational priorities that underpin our mid-term strategy:

GROW

SCALE OUR NETWORK AMONG OUR CUSTOMERS AND MERCHANTS AS WE CONTINUE ON OUR MISSION TO BECOME THE WORLD'S MOST LOVED WAY TO PAY

PERFORM

DELIVERING **STRONG FINANCIAL PERFORMANCE** AND VALUE

INNOVATE

CONTINUED CUSTOMER AND MERCHANT INNOVATION OF OUR PRODUCT AND PLATFORM, REFLECTIVE OF OUR CORE VALUES AND DIFFERENTIATED APPROACH

DO THE RIGHT THING

ASPIRING TO DO THE RIGHT THING BY OUR **PEOPLE**, OUR **COMMUNITIES** AND ALL OF OUR **STAKEHOLDERS**

Our strategic pillars will drive the execution of the following priorities in FY20:

- **Accelerate underlying sales growth.** FY20 will represent only the second full year the Group has operated in the US and it will be the first full year of operations in the UK. These markets are still nascent opportunities for Afterpay, and there is significant potential to accelerate our online offering or expand into new channels and verticals. We continue to assess further international expansion opportunities.
- **Invest in enterprise.** The Group's partnerships with large enterprise merchants are important to attract new consumers and drive our customer base. Co-marketing investments with enterprise merchants are typically high return-on-investment and will continue to be developed in a considered way to support platform growth.
- **Scale small-to-medium (SMB) businesses.** Our platform connects millions of consumers with tens of thousands of small, medium and large businesses. The deep pool of SMB merchants presents a meaningful opportunity for the Group to grow in Australia and New Zealand and could support stronger margins globally. The Group adopts a strategic approach to identifying SMB merchants to work with, and investments will be made in technology and processes to accelerate onboarding of SMB merchants and maximise the SMB opportunity.
- **Invest further in platform innovation.** Driving loyalty and customer engagement will unlock further opportunities for the Group. Our focus is to increase our customer lifetime value by building on our existing strong engagement and creating new income opportunities. New innovative product features will provide consumers and merchants with new ways to engage on our platform. The Group is committed to enabling and investing in its innovation mindset and culture to support further platform innovation.
- **Broaden base capabilities.** The Group is committed to the continual development of a strong foundation in risk and compliance as well as business support and infrastructure. We have enhanced our capabilities in these areas with well-credentialed strategic hires over the past year in a number of our teams including technology, product development, risk and analytics, and compliance and assurance. We will continue investing in and developing our talent pool to ensure that the Group is well positioned to fully leverage its innovative culture.

OPERATING & FINANCIAL REVIEW KEY RISKS & CHALLENGES

The nature of the Group's business and the pace of change in the sector in which we operate mean we have a number of opportunities to grow the business, but also a number of inherent risks and uncertainties. Some of these risks may not be within the Group's control.

The Board and Management are committed to continuously developing and improving strategies, controls and mitigations to support the delivery of sustainable outcomes for stakeholders in a rapidly changing environment. The Group has strengthened its risk and business development resources and processes while continuing to invest in improving its transaction integrity engine and expanding its service offering.

The material business risks for the Group are summarised below.

REGULATORY RISKS

The Group operates in a range of jurisdictions including Australia, New Zealand, the US and the UK, and may become subject to additional legal, regulatory, tax, licensing, compliance requirements and industry standards. These environments are constantly changing as a result of our geographic expansion. Changes in how the Group is regulated, or a failure (or alleged failure) to comply with legal obligations, could have a material adverse impact on revenues, profitability and the ability of the Group to operate or expand in accordance with its strategy. In particular, enforcement action by a regulator or a government agency could involve material fines or penalties, or a requirement to operate in a manner that restricts the Group's desired business model.

Some of these regulatory risks could relate to:

- Financial product regulation
- Regulatory interpretation and exercise of discretions by regulators
- AML/CTF laws and compliance obligations
- Privacy laws
- Compliance costs

Our response: We recognise that our business model was not fully envisaged by the law and, as such, we are committed to continuing to work with regulators across all jurisdictions. We understand the importance of clear, transparent and timely communications with regulators. In FY19, we participated in the Australian Senate Inquiry, engaged with ASIC through their 'buy now, pay later' review process, and commenced the current ongoing AML/CTF audit. Compliance with regulatory requirements and company-specific policies and procedures remain core to our operations and we are focused on continuous improvement in this area.

COMPETITIVE LANDSCAPE RISKS

The Group's Afterpay service is a market leader in Australia in the 'buy now, pay later' sector. A number of operators currently offer 'buy now, pay later' services, as well as the transaction-processing technology solutions that our Pay Now service offers. Existing competitors, as well as new competitors entering the industry, both in Australia and offshore, may engage in aggressive customer acquisition campaigns, develop superior technology offerings or consolidate with other entities to deliver enhanced scale benefits. Such competitive pressures may materially and adversely impact the Group's ability to retain and grow its merchant base and its customers in all markets, and therefore impact revenue and profitability.

Our response: We continue to differentiate our businesses from competitors and maintain focus on executing our mid-term strategy. This strategy includes further investing in the Afterpay platform, continued investment in high return-on-investment co-marketing opportunities, and maintaining a fundamental innovation mindset to continue to provide mutually beneficial initiatives to customers and merchants. In the main, our competitors continue to offer interest-bearing products, which mimic the traditional credit industry – products that our target markets are averse to.

BRAND REPUTATION AND PROTECTION RISKS

The Group's strong brand reputation is critical to our ability to increase the number of merchants and end customers which in turn impacts our revenue and profitability. Damage to our brand could lead to a loss of key merchants and customers, or result in failure to secure new merchants or customers on favourable terms. A significant event or issue related to the Group's activities or behaviours could have a negative impact on our strong brand position. The Group's brand could also be impacted by negative sentiment towards the 'buy now, pay later' sector driven by competitor behaviours or services.

Furthermore, it is critical for the Group to protect our intellectual property in brands, software, systems and technology. A loss of that intellectual property, either by reason of unauthorised use or successful challenge by a third party, could have a material adverse impact on the Group's financial performance and reputation.

Our response: We continue to communicate the core principles of our business model, including the consumer protections that we have in place, in order to differentiate our service from other 'buy now, pay later' providers. We have a Code of Conduct, a whistle-blower policy, and a strong culture focused on doing the right thing to mitigate against adverse events or issues that may impact our brand reputation. We take enforcement action to protect our intellectual property when we become aware of the unauthorised use of our brands; and we seek to register or otherwise protect our intellectual property as necessary. We are proud of the fact that Afterpay's Net Promoter Score among our customers is consistently above 80.

TECHNOLOGY RISKS

The Group must adequately maintain, develop and protect its technology to meet its future business needs. This includes ensuring its technology:

- **remains current:** there is a risk that new products, technologies or alternative systems developed by third parties will supersede our technology. This may materially and adversely impact the Group's revenue and/or profitability.
- **is effective:** the Group's business model relies on its technology to assess the potential for fraud and a customer's repayment capability for each transaction in real time. The Group's financial results are sensitive to net transaction losses, and a failure of our technology in this regard could have a material adverse impact on profitability.
- **is easy to integrate:** our technology and systems need to smoothly integrate and operate with various third-party systems and platforms, particularly websites, point of sale systems and other merchant systems.
- **has appropriate capacity:** continued increases in transaction volumes may require the Group to expand and adapt its network infrastructure to avoid interruptions to its systems. Expansions into new offshore markets may require additional data centre capacity.
- **is protected:** there is a risk that unauthorised use or copying of any of the Group's software, data, specialised technology or platforms will occur.

The Group is also dependent on third-party technology systems, communication networks, banking and payment processing providers in the operation of its technology. Any failures or disruptions to such platforms may cause our technology to become unavailable.

Our response: We have a technology strategy with processes, procedures and investment that take into consideration the mitigation of these technology risks. One of our strategic pillars is to innovate to deliver further opportunities for customers, and to connect merchants with even more consumers via our highly successful Afterpay platform. Innovation is part of our DNA and we will continue to make considered investments in the platform and technology talent pool.

DATA SECURITY RISKS

Through the ordinary course of business, the Group collects a wide range of confidential and personal information. Cyber-attacks on the Group's technology platforms could lead to breaches of such information. Any data security breaches or the Group's failure to protect confidential and personal information could result in the loss of information integrity or breach the Group's obligations under applicable laws or agreements; either of these may have a material adverse impact the Group's financial performance and reputation.

Our response: We recognise that we have a responsibility to protect the privacy and security of customer data. Our information security teams employ a wide-ranging set of technologies, processes and programs to mitigate these risks in order to safeguard the data entrusted to the Group by customers and merchants. We have recently strengthened its capabilities in cyber security and data protection expertise through key hires.

MACROECONOMIC RISKS

The Group is exposed to several macroeconomic risks, such as retail trading conditions, employment rates, poor consumer confidence and weakness in local or global economies. Our business depends on customers transacting with retail merchants, which in turn can be affected by changes in general economic conditions. This could impact the Group's ability to generate revenue and collect from customers.

Our response: We regularly analyse and monitor economic and retail conditions and other relevant data to help mitigate the future impact on our Afterpay and Pay Now businesses. For example, our proprietary risk decision making rules are constantly reviewed and refined to mitigate credit risk on customer repayments. Having operations across multiple global markets also enables us to minimise the impact of any downturn in economic conditions or consumer sentiment specific to a local economy.

CAPITAL MANAGEMENT RISKS

The Group has financing arrangements with a number of external lending partners to support the funding of purchases by customers. In the unlikely event of repayments not being made or certain terms and conditions not being satisfied under the Group's facilities, lending partners may terminate their obligations.

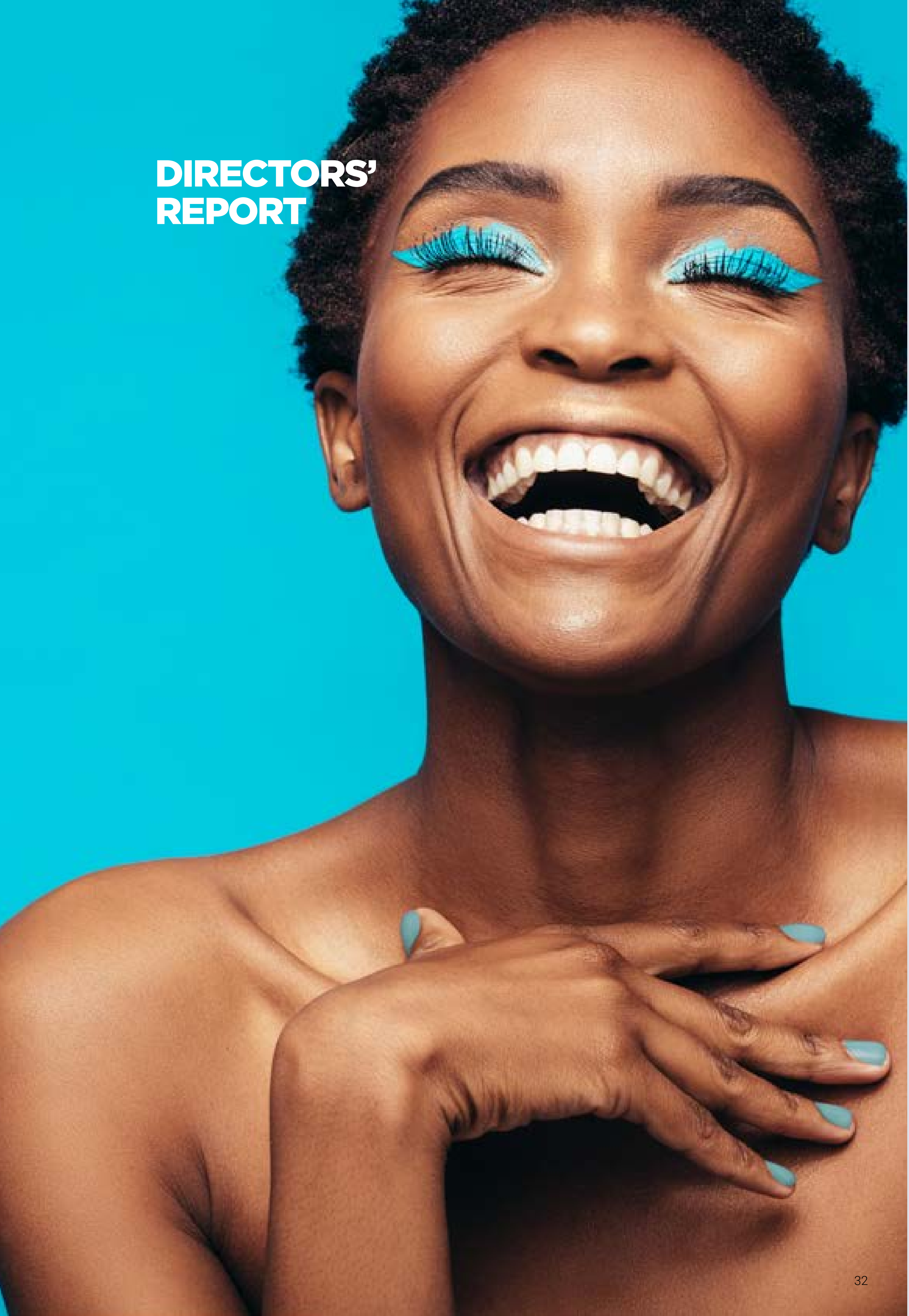
Our response: Our capital management framework is designed to ensure that we are able to meet the funding requirements to support current and future growth. The liquidity, debt maturity profile and funding capacity of the Group are continuously monitored, and we continue to work on maintaining strong relationships with our funding partners.

KEY PERSONNEL RISKS

The Group's ability to effectively execute our growth strategy depends on the performance and expertise of our key management personnel. The loss of key management personnel, or any delay in their replacement, may adversely affect the Group's future financial performance. We also rely on being able to attract and retain highly skilled specialists across a range of areas, including technology which is a field where competition for talent is intense. The inability to retain, replace or grow our talent may have a material adverse impact on our ability to operate the business and develop and commercialise new features or services.

Our response: We believe that having the right employee value proposition in place to attract and retain key personnel is important. Furthermore, having the right culture with shared values and a clear purpose is critical to the sustainability of the business. In order to attract the right people, we remain flexible on how we structure remuneration in order to compete with some of the most successful and innovative employers in the world. This is balanced with evolving our remuneration framework to reflect the maturity of the organisation and the expectations of shareholders.

DIRECTORS' REPORT



DIRECTORS' REPORT

The Directors submit their report on the consolidated entity consisting of Afterpay Touch Group Limited (Company) and the entities it controlled (Group) at the end of, or during the year ended, 30 June 2019.

Directors

The names and details of the Group's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire financial year unless otherwise stated.

- Elana Rubin
- Anthony Eisen
- Nick Molnar
- David Hancock
- Clifford Rosenberg
- Dana Stalder

Changes to the Afterpay Touch Group Board were announced in July 2019 (effective 1 July 2019).

- Anthony Eisen was appointed as Chief Executive Officer and Managing Director.
- Nick Molnar was appointed Global Chief Revenue Officer and remains on the Board as an Executive Director.
- Elana Rubin was appointed as Independent Interim Chair.
- David Hancock's role as Group Head will come to an end in line with the timing stipulated in David's employment agreement, and he will step down from the Board at the conclusion of the 2019 financial year-end matters.

Information on Directors

ELANA RUBIN / INTERIM CHAIR, INDEPENDENT NON-EXECUTIVE DIRECTOR

Interim Chair of Afterpay Touch Group since 1 July 2019

Independent Non-Executive Director of Afterpay Touch Group since 30 March 2017

Background and experience: Elana previously served as an Independent Non-Executive Director of Afterpay Touch Group, a position she held for more than two years. Elana has been a longstanding director of a number of public and private companies, with extensive experience in property, insurance and financial services.

Other roles: Elana is currently a Non-Executive Director of ASX listed Mirvac Limited and Slater and Gordon Limited. She is also a director of several unlisted companies and/or government bodies. Elana was previously a Non-Executive Director of TAL Life and Bravura Solutions and was the former Chair of AustralianSuper and the Victorian WorkCover Authority. Elana has over 20 years' experience as a Non-Executive Director.

Interests in Shares and Options:

57,141 ordinary shares in Afterpay Touch Group Limited

ANTHONY EISEN / CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

Chief Executive Officer and Managing Director since 1 July 2019

Executive Chairman of Afterpay Touch Group 5 July 2017 – 30 June 2019

Background and experience: Prior to his current role, Anthony served as Executive Chairman of Afterpay Touch Group for two years. Anthony has over 25 years' experience in investing, public company directorships and providing corporate advice across a variety of sectors. Prior to co-founding Afterpay, he was the Chief Investment Officer at Guinness Peat Group (GPG). He was actively involved in a number of financial services, software and technology companies in which GPG was a major shareholder. Before joining GPG, Anthony was involved in investment banking, specialising in mergers and acquisitions.

Other roles: Anthony is currently a Director of Foundation Life (N.Z) Limited and Stone & Chalk Pty Ltd.

Interests in Shares and Options:

20,450,574 ordinary shares in Afterpay Touch Group Limited

1,500,000 unlisted options relating to equity awards under the Group's legacy remuneration framework (refer section 5.4(a) and 7.4 of the Remuneration Report for further detail) with an exercise price of $1.00 per option and an expiry date of 31 December 2020

NICK MOLNAR / GLOBAL CHIEF REVENUE OFFICER AND EXECUTIVE DIRECTOR

Global Chief Revenue Officer of Afterpay Touch Group since 1 July 2019

Executive Director of Afterpay Touch Group since 5 July 2017

Background and experience: Nick has extensive experience in online retail. Prior to co-founding Afterpay, Nick launched the leading American online jeweller, Ice.com, into Australia under the local brand Iceonline.com.au. Nick successfully grew Ice in Australia to become the largest online-only jewellery and watch retailer. Prior to launching Ice, Nick was an Investment Analyst at venture capital fund M. H. Carnegie & Co., where he was primarily responsible for growth stage investment opportunities in the technology sector. Nick holds a Bachelor of Commerce from Sydney University.

Interests in Shares and Options:

20,450,574 ordinary shares in Afterpay Touch Group Limited

1,500,000 unlisted options relating to equity awards under the Group's legacy remuneration framework (refer section 5.4(a) and 7.4 of the Remuneration Report for further detail), with an exercise price of $1.00 per option and an expiry date of 31 December 2020

DAVID HANCOCK / EXECUTIVE DIRECTOR

Executive Director of Afterpay Touch Group since 5 July 2017

Group Head of Afterpay Touch Group 5 July 2017 – 30 June 2019

Independent Non-Executive Director of Afterpay Touch Group 30 March 2017 – 5 July 2017

Background and experience: David has over 30 years of broad experience in financial services. This experience includes being Chief Executive Officer of listed Tower Limited, Executive General Manager at the Commonwealth Bank of Australia, with a variety of roles including capital markets, fixed income and equities. Prior to that, he served in senior investment banking roles at JPMorgan where he was a Managing Director. Previous to that, David spent approximately 10 years at Citi (formerly County Natwest) where he was Managing Director and Co-Head of Investment Banking.

Other roles: David currently serves as Chairman of FinClear Pty Ltd and has previously been a Director of ASX listed companies Tower Limited, Elmo Software Limited and Freedom Insurance Group Ltd.

Interests in Shares and Options:

950,000 ordinary shares in Afterpay Touch Group Limited

200,000 unlisted options relating to equity awards under the Group's legacy remuneration framework (refer section 5.4(a) and 7.4 of the Remuneration Report for further detail), with an exercise price of $1.00 per option and an expiry date of 31 December 2020

2,699,087 unlisted options relating to equity awards under the Group's legacy remuneration framework (refer section 5.4(a) and 7.4 of the Remuneration Report for further detail), with an exercise price of $2.70 per option and an expiry date of 1 September 2022

CLIFFORD ROSENBERG / INDEPENDENT NON-EXECUTIVE DIRECTOR

Independent Non-Executive Director of Afterpay Touch Group since 30 March 2017

Background and experience: Clifford has spent more than 20 years working at digital companies leading innovation and change in the industry both as an entrepreneur and senior executive. Clifford was previously a senior executive at LinkedIn, serving as the Managing Director of LinkedIn for South East Asia, Australia and New Zealand. Prior to LinkedIn, Clifford was Managing Director at Yahoo Australia and New Zealand, and previously the founder and Managing Director of iTouch Australia and New Zealand, one of the biggest mobile content and application service providers in Australia. Prior to iTouch Clifford was the Head of Strategy for Vodafone Australasia. Clifford has a Bachelor of Business Science (Honours) and a Master of Science in Management.

Other roles: Clifford is also a Non-Executive Director of ASX listed companies Nearmap Ltd, A2B Australia Limited and Technology One Limited. Clifford has previously been a Director of ASX listed companies IXUP Limited and Pureprofile Ltd.

Interests in Shares and Options:

650,574 ordinary shares in Afterpay Touch Group Limited

700,000 unlisted options relating to equity awards under the Group's legacy remuneration framework (refer section 7.4 of the Remuneration Report for further detail), with an exercise price of $0.20 per option and an expiry date of 1 September 2020

200,000 unlisted options relating to equity awards under the Group's legacy remuneration framework (refer section 7.4 of the Remuneration Report for further detail), with an exercise price of $1.00 per option and an expiry date of 31 December 2020

DANA STALDER / INDEPENDENT NON-EXECUTIVE DIRECTOR

Independent Non-Executive Director of Afterpay Touch Group since 24 January 2018

Background and experience: Dana is a General Partner with Matrix Partners, a global technology focused venture capital firm, where he focuses primarily on FinTech, Consumer Marketplaces, and Enterprise Software investing. Dana has over 20 years of experience as a technology company operator and investor, with leadership experience cutting across multiple disciplines including sales, marketing, finance, technology and product management at companies such as Netscape, eBay and PayPal. Dana holds a Bachelor of Science in Commerce from Santa Clara University.

Other roles: Dana currently serves on the Board of Directors of several private US-based technology companies.

Interests in Shares and Convertible Notes:

Dana is a General Partner in Matrix Partners, which is the general partner of Matrix Partners X, L.P. and Weston & Co. X LLC, however he does not have a relevant interest in the APT shares and convertible notes held by those two entities

Matrix Partners X, L.P. – 2,717,394 ordinary shares in Afterpay Touch Group and 1 convertible note

Weston & Co X LLC – 163,032 ordinary shares in Afterpay Touch Group and 1 convertible note

CHRISTOPHER STEVENS / GENERAL COUNSEL AND COMPANY SECRETARY

General Counsel and Company Secretary since 17 September 2018

Background and experience: Christopher has over 15 years' experience as a corporate, commercial and regulatory lawyer with leading Australian and international organisations. Prior to his appointment, Christopher was Deputy General Counsel at Tabcorp Limited and previously established the Global Legal Operations function at fast-fashion retailer ASOS.com in London. Christopher is a member of the Association of Corporate Counsel GC100, Law Institute of Victoria and Governance Institute of Australia.

"AFTERPAY HAS TO BE THE BEST THING ON EARTH"

GEORGIE RENEE

Meetings of Directors

During the financial year ended 30 June 2019, Afterpay Touch Group Limited held 26 meetings of the Board of Directors, of which 11 were standard scheduled Board meetings and 15 were held to discuss special business. Special Board meetings were often called at short notice to address significant emerging issues.

The attendance of the Directors at meetings of the Board and standing Board Committees during the year in review were as follows:

	BOARD				COMMITTEES					
	SCHEDULED		SPECIAL		AUDIT, RISK AND COMPLIANCE		REMUNERATION AND NOMINATION		AML/CTF REVIEW SUB-COMMITTEE [4]	
	ELIGIBLE [1]	ATTENDED	ELIGIBLE [1]	ATTENDED	ELIGIBLE [1]	ATTENDED	ELIGIBLE [1]	ATTENDED	ELIGIBLE [1]	ATTENDED
Anthony Eisen	11	11	15	14 [3]	-	8 [2]	-	1 [2]	4	4
David Hancock	11	10	15	13 [3]	-	8 [2]	-	1 [2]	4	4
Nick Molnar	11	11	15	11 [3]	-	7 [2]	-	1 [2]	-	-
Elana Rubin	11	11	15	14	8	8	1 [5]	1	4	4
Clifford Rosenberg	11	11	15	11	8	8	1 [5]	1	-	-
Dana Stalder	11	9	15	10	8	7	-	1 [2]	-	-

1. The number of meetings held during the time the Director was a member of the Board or of the relevant Committee.
2. Denotes the Director is not a member of the relevant committee.
3. Denotes Anthony did not attend one meeting as he had a material personal interest in the substantive matter discussed during the relevant meetings, David did not attend two meetings as he had a material personal interest in the substantive matter discussed during the relevant meetings, and Nick did not attend one meeting as he had a material personal interest in the substantive matter discussed during the relevant meetings.
4. The AML/CTF Review Sub-Committee was established on 19 June 2019.
5. In addition to discussions at Remuneration and Nomination Committee meetings, remuneration related matters were also discussed on a number of occasions at full Board meetings due to the strategic importance to the Group of its personnel. These discussions are not included in the number of Remuneration and Nomination Committee meetings.

As at the date of this report, the Group has an Audit, Risk and Compliance Committee, Remuneration and Nomination Committee and AML/CTF Review Sub-Committee of the Board of Directors. The members of each committee are as follows:

AUDIT, RISK AND COMPLIANCE COMMITTEE	REMUNERATION AND NOMINATION COMMITTEE	AML/CTF REVIEW SUB-COMMITTEE [1]
Dana Stalder (Chair)	Clifford Rosenberg (Chair)	Elana Rubin (Chair)
Clifford Rosenberg	Elana Rubin	Anthony Eisen
Elana Rubin		David Hancock
		Christopher Stevens
		Damian Kassabgi
		Leon Zwier

1. The Committee was established on 19 June 2019.

Principal Activities

The principal activities of the Afterpay Touch Group are to provide technology-driven payments solutions for consumers and businesses through its Afterpay and Pay Now services and businesses.

Financial Result

The Group reported a statutory loss of $43.8 million after tax for the 12 months ended 30 June 2019 (2018: loss of $9.0 million after tax).

Operating and Financial Review

The Operating and Financial Review on Pages 20 to 31 forms part of this Directors' Report and sets out:

- a review of operations during the year and the results of those operations;
- comments on the financial position; and
- the business strategies of the Group

Any other detail on likely developments in the operations of the consolidated entity and prospects for future financial years have not been included in this report because the Directors believe it to be commercial-in-confidence and therefore likely to result in unreasonable prejudice to the Group.

Significant Changes in the State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the consolidated entity during the financial period, except as otherwise noted in this report.

Significant Events Subsequent to the End of the Full Year

The Directors are not aware of any matters or circumstances that have arisen since 30 June 2019 that have significantly affected or may significantly affect the operations of the consolidated entity in subsequent financial years, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Dividends

No dividends were paid to shareholders during the year.

Share-based Payment Plans

Details of share-based payment plans are disclosed in Note 19 of the Financial Statements.

Sustainability

The Group understands the importance of considering the impact of environmental and social factors on the sustainability of its businesses. The Group also understands there is heightened expectation from investors to report on climate change initiatives and metrics.

As a first step, pages 12 to 19 disclose some climate change information and sustainability initiatives that are in place across the Group. The Group sees this as a first step towards more meaningful disclosure in future years. The Group is intending to conduct an assessment of the materiality of its climate-related risks and opportunities as well as develop a sustainability framework that allows the measurement, monitoring and improvement of performance on climate risks. Progress on the sustainability framework will be disclosed in the FY20 Annual Report.

The Group also confirms that it is not subject to any particular or significant environmental legislation under a law of the Commonwealth, State or Territory law of Australia.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors support and have adhered to the principles of corporate governance.

The Board monitors the operational and financial position and performance of Afterpay Touch Group and oversees its business strategy, including approving the strategic goals of the Group and considering and approving its annual business plan and associated budget. The Board is committed to generating appropriate levels of shareholder value and financial return, and achieving the growth and success of the Group. In conducting the Group's business with these objectives, the Board seeks to ensure that the Group is properly managed to protect and enhance shareholder interests and that the Group, its Directors, officers and personnel operate in an appropriate environment of corporate governance. Accordingly, the Board has adopted a framework of corporate governance including risk management practices and internal controls that it believes appropriate for the Group's businesses. Details of the Group's key policies and the charters for the Board and each of the committees are available at www.afterpaytouch.com

Remuneration Report

The Remuneration Report set out on pages 42 to 67 forms part of this Directors' Report.

Insurance of Directors and Officers

During the year, the Group paid a premium for a Directors and Officers Liability Insurance Policy. This policy covers Directors and Officers of the Group and the Consolidated entity. In accordance with normal commercial practices under the terms of the insurance contracts, the disclosure of the nature of the liabilities insured against and the amount of the premiums are prohibited by the policy.

Indemnification of Auditors

To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Proceedings on Behalf of the Group

No person has sought to bring proceedings on behalf of the Group, and the Group is not a party to any proceedings, for the purpose of taking responsibility on behalf of the Group for any such proceedings, or for a particular step in any such proceedings.

Non-Audit Services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group and/or the consolidated entity are important.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit, Risk and Compliance Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit, Risk and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision making capacity for the Group, acting as advocate for the Group or jointly sharing economic risk and rewards.

Details of the audit and non-audit fees paid or payable for services provided by the auditor of the parent entity, and its related practices, are detailed in Note 23.

Auditor Independence

A copy of the Auditors' Independence Declaration as required under Section 307C of the *Corporations Act 2001* is included in this Report.

Rounding Off of Amounts

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (unless otherwise stated) under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors' Reports) Instruments 2016/191. The Group is an entity to which the legislative instrument applies.

This report is made in accordance with a resolution of the Directors.

Elana Rubin
Independent Interim Chair
Melbourne
28 August 2019

Building a better working world

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Auditor's Independence Declaration to the Directors of Afterpay Touch Group Limited

As lead auditor for the audit of the financial report of Afterpay Touch Group Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Afterpay Touch Group Limited and the entities it controlled during the financial year.

Ernst & Young

David McGregor
Partner
28 August 2019

REMUNERATION REPORT

1 Executive summary

On behalf of the Board of Directors of Afterpay Touch Group Limited (the Group), we are pleased to present the FY19 Remuneration Report (Report).

Our people are our greatest asset and our business is all about human connection. We value our people and seek to provide a workplace that delivers high employee engagement and satisfaction. We have a high-performing culture that supports our pace of growth and global expansion achievements and future aspirations. It is our fundamental belief that the behaviour and performance of all employees should be aligned with our values and expectations to drive business performance. We embrace diversity and promote an inclusive culture to ensure we can continue to innovate by listening to our people and their ideas.

1.1 FY19 – GLOBAL EXPANSION, RENEWED LEADERSHIP

FY19 saw the continued evolution of the Group from a start-up, Australian-focused business to a company delivering its Afterpay service to an increasingly global customer base. Since the Group's initial public offering only approximately three years ago, the Group has undergone a period of rapid growth, which has today positioned the Group as an emerging global technology company in a new sector. During FY19, the Group achieved a number of important milestones in its aspiration to be the "world's most loved way to pay". The Group continued to expand its customer and retail network in its home market of Australia; take up of the Afterpay service in the US exceeded expectations in the first full year of operations; and the Afterpay service was successfully launched in the UK under the Clearpay name. The Group also achieved exceptional growth in respect of key financial and non-financial indicators, which are set out in section 5.

At Afterpay Touch Group, we are focused on never losing sight of our key stakeholders (including customers, merchants, shareholders and other external parties) and on ensuring we meet regulatory, market and community expectations. In July 2019, the Group announced important changes to its Board and executive leadership team to further enhance our governance practices and executive talent pool, as well as to support the execution of the Group's mid-term strategy and delivery of value to our shareholders. As part of a commitment to evolve the independence and capabilities of our Board, independent Non-Executive Director Elana Rubin was appointed as Independent Interim Chair from 1 July 2019 and a global search has commenced to recruit at least two additional independent Directors and an independent Chair. Co-Founders and Executive Directors Anthony Eisen and Nick Molnar assumed new roles as Chief Executive Officer and Managing Director, and Global Chief Revenue Officer and Executive Director respectively, and remain fully committed to the business and as excited as ever to execute on the Group's global growth plan. Refer section 3 for further detail.

As the Group has grown, there have been a number of regulatory reviews into the 'buy now, pay later' segment, including an ASIC review and a Senate Inquiry, both of which recognised the Group's business model as different to traditional credit. In late FY19, the Group's subsidiary (Afterpay Pty Ltd) received a notice from AUSTRAC requiring it to appoint an external auditor to carry out an audit in respect of its AML/CTF compliance. The Board takes its regulatory responsibilities very seriously and welcomes the opportunity to continue to work closely and constructively with all regulators.

In light of the ongoing AUSTRAC matter, while the Board has assessed performance against the FY19 short term incentive (STI) measures, the Executive Key Management Personnel (KMP) have volunteered for their STI awards to be withheld until the outcomes of the final report of the external audit are released in November 2019. The Board reserves its discretion to make any adjustments to final STI outcomes for the Executive KMP as appropriate, to reflect the outcomes of the AUSTRAC audit. Consideration will be given to any impact on Non-Executive Director fees (if appropriate), following the final report of the AUSTRAC audit.

Refer below for further detail in respect of FY19 incentive outcomes and their link to Group performance.

1.2 EXECUTIVE KMP REMUNERATION – OUR NEW FY20 FRAMEWORK

In only a few years, the Group has grown rapidly from an Australian-focused start-up in 2015 to the S&P/ASX 100 listed global company it is today. The Group's executive remuneration arrangements have been reflective of its origins as a smaller company while balancing the need to attract and retain top-tier talent in a highly competitive global technology talent pool to deliver on our growth aspirations. In the global technology sector, in particular, service-based equity arrangements (e.g. option tranches) are common practice. These service-based equity arrangements have been successful in attracting and securing key talent that the Group would have not otherwise been able to attract. The Group does, however, acknowledge that our remuneration framework should be evolved to reflect the growing maturity and scale of the organisation and the expectations of shareholders.

The Board has listened and is committed to addressing stakeholder feedback. During FY19, the Board spent considerable time and effort developing a new framework with assistance from external advisors, that aims to strike a balance between the need to compete for world-class talent as well as meet the expectations of a top 100 S&P/ASX company.

The new remuneration arrangements will apply from FY20 and will be disclosed in detail in next year's remuneration report.

Key features

Key features of the new framework include:

- **delivery of executive remuneration packages in four components** being moderate fixed cash remuneration (comprising base salary and superannuation), an annual fixed grant of restricted stock units (RSUs), which vest in equal parts over three years subject to service, a moderate cash short-term incentive (STI), and a formal long-term incentive program (LTI) comprising annual grants of market priced options, which are subject to formal long-term performance hurdles tested over three years. Refer below for further detail as to how the new framework will apply to existing and new Executive KMP;
- **remuneration packages that are highly leveraged to the long term (as opposed to the short term) and equity (as opposed to cash) to generate strong alignment between Executive KMP and shareholders, encourage long-term sustainable decision making and support our objective of remaining competitive for talent in the US market and unlisted technology segments.** The fixed cash remuneration component is positioned below market in recognition of the annual fixed grant of RSUs (which serves as a retention device and aids in the attraction of key talent out of the global technology markets where service-based equity is common practice). The combination of these two elements (fixed cash and RSUs) comprises the "fixed remuneration" component of the remuneration package and is positioned at or around the median of total fixed remuneration of peer companies. Cash STI is also positioned low relative to peer companies, with the LTI component making up the majority of Executive KMP total remuneration. Our moderate STI and formal LTI programs are aligned to Australian listed market expectations and comprise the "at-risk" component of the remuneration package;
- **a new balanced scorecard approach used for the FY20 STI, which reflects the key value drivers of the business. Performance against each of the scorecard measures will be transparently disclosed to the market at the end of each financial year.** From FY20, Executive KMP STI will be assessed against five key categories of measures, being financial (50%), customer (20%), merchants (10%), innovation (10%) and people (10%). Performance metrics and targets will be set at challenging levels in line with the Group's mid-term strategy (refer section 2.5 for further detail;

- **introduction of a performance-tested LTI.** Annual LTI grants will be tested against two equally weighted measures, being absolute gross merchandise value (GMV) (i.e. underlying sales) (50%) and Afterpay net transaction margin (NTM) (50%) assessed over three years. Delivery of the LTI in market value options will also encourage a focus on the Group's share price performance;
- **strengthening our consequence management mechanisms to set a clear 'tone from the top' and provide the Board with the ability to address any sub-optimal behaviour.** Malus / clawback requirements will apply to all elements of the framework. In addition to overarching Board discretion, the STI will also be subject to a Board discretion modifier for 'doing the right thing', where the Board will consider regulatory and conduct issues, risk, brand and reputation, and the quality of financial results in determining final incentive outcomes and may make downwards adjustments (as appropriate); and
- **greater transparency of the Group's employee incentive plans by satisfying new Awards under incentive programs in APT listed parent company equity going forward** (refer sections 8.1 and 8.2 for further detail).

Transitionary approach

- **all new employees joining at the Executive KMP level** will commence on the framework and be eligible to receive all four elements (i.e. fixed remuneration (base salary and superannuation, and RSUs) and at-risk remuneration (cash STI and LTI) from FY20;
- **it is intended that the Co-Founders (Anthony and Nick) will forego any STI or RSU component under the new framework having regard to their existing shareholding and the vesting dates of legacy option grants which encourage a focus on long-term sustainable performance.** They have also elected to remain on their current base salary until a review is conducted in FY20. Any participation in the LTI (as determined by the Board) will be disclosed in the 2019 Notice of Meeting (if applicable). Details of their FY20 remuneration packages will be disclosed once finalised; and
- **the CFO will transition onto the new STI scorecard approach for FY20 and onto the equity components of the new framework over time having regard to the vesting dates of his legacy option grants.** The CFO will only receive fixed cash remuneration and STI for FY20 (i.e. he will not receive an LTI or RSUs in FY20) given he has a legacy option grant that is not yet vested.

Refer section 2 for further detail in respect of the new framework.

1.3 NON-EXECUTIVE DIRECTOR FEE REVIEW

As part of continuing to evolve our Board composition and increasing our representation of independent Directors, the Group is currently undertaking a global search to recruit a new independent Chair and at least two additional independent Directors over the medium term to complement the skill sets of the existing Non-Executive Directors.

The Group's FY19 Non-Executive Director fees were set at a time when the Group was significantly smaller in market capitalisation, complexity and geographic spread, and as a consequence, Board and Committee fees are positioned well below market. As part of ensuring its Non-Executive Directors are competitively remunerated and the need to be market competitive to attract and retain new Directors (including overseas Directors), the Board undertook a review of Non-Executive Director fees (facilitated by independent market data provided by an independent remuneration consultant) during FY19.

Informed by this review, the Board determined that an increase to Non-Executive Director fees (effective from FY20) was appropriate. In addition, shareholder approval will be sought at the 2019 AGM for an increase to the aggregate Non-Executive Director fee pool to provide sufficient flexibility to compensate an independent Chair and additional independent Director appointments (including overseas appointments) over the medium term.. Refer section 6.3 for further detail.

1.4 FY19 INCENTIVE OUTCOMES AND LINK TO GROUP PERFORMANCE

Subject to the outcomes of the final report of the AUSTRAC audit, the maximum STI awards that the Executive KMP will be eligible to receive in respect of FY19 are set out in section 5.3(a), reflecting the Group's exceptional performance across all regions. In particular, GMV (i.e. underlying sales), active customers and active merchants were up 140%, 130% and 101% on FY18 respectively; Australia and New Zealand continued to track strongly; and the performance of the US business significantly exceeded expectations.

In FY19, legacy one-off equity awards (in the form of options) vested for all four Executive KMP. None of these options were exercised by Executive KMP during FY19. Details regarding these awards were disclosed in the FY18 Remuneration Report. The options vesting with the Group Head in FY19 received shareholder approval at the 2018 AGM. No new one-off equity grants were made during FY19 to Executive KMP. Refer section 5.4(a) for further detail.

2 Our new FY20 remuneration framework

2.1 COMPETING FOR WORLD-CLASS TALENT IN THE GLOBAL TECHNOLOGY SECTOR

Afterpay Touch Group is one of a small segment of ASX listed companies operating in the global technology sector and competing for world-class talent in a highly competitive global technology talent pool (particularly out of the US). The remuneration packages offered to top-tier talent within these markets are typically more highly leveraged to the long term than the Australian market, and often place greater emphasis on large one-off equity grants, a significant portion of which are typically subject to continued employment only rather than long-term performance hurdles.

The Group's executive remuneration arrangements to date (which have comprised low base salary, low cash short-term incentives and one-off equity awards (negotiated on a bilateral basis) subject to continued service and KPIs in some cases (refer section 5.4)) have been highly reflective of the need to attract top talent out of these markets (particularly as a cash-constrained company in the start-up phase) to deliver exceptional returns to our shareholders.

However, as the Group is now a larger listed company with a much higher market capitalisation, the Board acknowledges that our existing remuneration arrangements need to evolve to meet the expectations of our stakeholders as a top S&P/ASX 100 company.

During FY19, the Board undertook an extensive review of the Group's executive remuneration arrangements for Executive KMP and engaged with a number of our investors and proxy advisers to understand their key concerns. Having regard to this feedback, the Board has developed a new framework (to apply from FY20) that aims to strike an appropriate balance between the need to compete for world-class talent out of the technology sector in different markets and meet the expectations of a top S&P/ASX 100 company. On the following pages, we set out further detail in respect of the new framework (which will be disclosed in detail in the FY20 Remuneration Report). We also set out below a summary of the key issues raised by stakeholders and how these have been addressed under the new framework.

2.2 STAKEHOLDER CONCERNS RAISED IN FY18

We set out below an overview of the changes we have made to address stakeholder concerns raised in FY18.

STAKEHOLDER CONCERNS RAISED IN FY18

CONCERN RAISED	CHANGES WE HAVE MADE (FY20)
A lack of an overall strategy for remunerating executives (including no clear comprehensive LTI plan)	• From FY20, new Executive KMP will be remunerated under a consistent framework with packages comprising four elements, being moderate fixed cash remuneration, an annual grant of RSUs vesting in equal tranches annually over three years, low cash STI and a formal annual LTI program. The fixed cash remuneration and RSUs comprise the "fixed remuneration" and the STI and LTI comprise the "at-risk" remuneration in the package. Refer section 2.4 for further detail as to how the new framework will apply to existing and new Executive KMP • Packages will be highly leveraged to the long term (as opposed to the short term) and to equity (as opposed to cash)
Lack of transparency particularly around STI measures, weighting and targets, making it difficult to ascertain whether measures are truly stretching	• From FY20, cash STI will be tested against a balanced scorecard reflecting key value drivers in the business. The Group is committed to providing greater transparency in respect of STI measures under the new framework (including the reasons why they have been chosen) and performance against each STI measure when it discloses STI outcomes in the FY20 Remuneration Report
One-off equity grants were excessive with short vesting periods and no performance hurdles	• From FY20, the annual LTI program will be wholly performance tested against two key equally weighted metrics (being GMV (i.e. underlying sales) and Afterpay NTM) over a three-year performance period • Consistent with market practice, the LTI will also take the form of smaller annual grants of market value options (as opposed to large one-off equity awards) • One-off equity awards (negotiated on a bilateral basis) without long-term performance testing will not be part of the remuneration framework going forward
Lack of transparency as to dilution impact of equity plans	• Going forward all new offers under Group Employee Incentive Plans will be satisfied by equity in the listed company rather than unlisted subsidiaries (refer section 8.1 and 8.2 for further detail on the US ESOP and UK ESOP)

2.3 FY20 REMUNERATION FRAMEWORK – SNAPSHOT

1. OUR STRATEGIC PILLARS

GROW

Scale our network among our customers and merchants as we continue on our mission to be the 'world's most loved way to pay'

PERFORM

Delivering strong financial performance and value

INNOVATE

Continued customer and merchant innovation of our product and platform, reflective of our core values and differentiated approach

DO THE RIGHT THING

Aspiring to do the right thing by our people, our communities and all of our stakeholders

2. OUR EXECUTIVE KMP REMUNERATION POLICY & PRINCIPLES

ATTRACT, MOTIVATE AND RETAIN WORLD'S BEST TALENT

Ensure we are market competitive in attracting and retaining world-class talent from the global technology talent pool, with the skills and experience to drive the Group's international expansion and returns for shareholders

ACTING LIKE OWNERS AND PAY FOR PERFORMANCE

Generate strong alignment between executive reward and shareholder outcomes

Drive an 'ownership mindset' among participants and encourage a focus on long-term sustainable decision making in the interests of all our stakeholders

STRATEGY LED AND CUSTOMER CENTRIC

Aligned with the Group's key value drivers and strategic objectives

Support the Group's high-performance culture and focus executives on delivering exceptional results and the best possible user experience for our customers

DOING THE RIGHT THING

Has the structure and transparency expected of a large ASX listed company going forward

Meets the expectations of our shareholders, customers, regulators and the broader community

3. OUR FY20 EXECUTIVE KMP REMUNERATION FRAMEWORK

FIXED COMPONENT

FIXED BASE SALARY + SUPER

1 YEAR

Positioned **below the median of peers** (in recognition of annual RSU grant)

Annual review process with adjustments only for change in role or promotion, internal relativities and significant market changes

RSU RESTRICTED EQUITY

3 YEARS

Vesting in equal tranches over three years (subject to service at vesting dates)

Combination of fixed cash remuneration and face value of RSUs is positioned at or around the median of total fixed remuneration of peer companies

Subject to malus and clawback

AT-RISK COMPONENT

STI BALANCED SCORECARD

1 YEAR

Paid in cash at end of financial year

Positioned **below median of peers**

Subject to clawback and Board discretion modifier for 'doing the right thing'

LTI MARKET VALUE OPTIONS (100%)

PERFORMANCE TESTED AGAINST ABSOLUTE GMV UNDERLYING SALES (50%) AND NET TRANSACTION MARGIN (50%)

3 YEARS

LTI grants made annually

Above market position (75th percentile)

Subject to subsequent performance testing over three years

Subject to malus and clawback

2.4 FY20 REMUNERATION FRAMEWORK – MORE DETAIL

ELEMENT	DESCRIPTION	STRATEGIC, CULTURAL, TALENT LINK
FIXED COMPONENT		
FIXED CASH REMUNERATION	Fixed cash remuneration comprises base salary and superannuation Fixed remuneration is **positioned conservatively** (albeit having regard to): • the individual's role, responsibilities, skills, experience and performance levels; and • the remuneration levels offered by comparable companies with whom the Group competes for talent	• **Positioned conservatively** (i.e. below the median of peers) in recognition of the annual RSUs component • Reviewed annually with adjustments only for change in role or promotion, internal relativities and significant market changes (not CPI / wage growth increases)
RESTRICTED EQUITY (ANNUAL GRANT)	• **Instrument:** restricted stock units (RSUs) (i.e. a right to a share upon satisfaction of vesting conditions) granted annually on a face value basis • **Vesting period / conditions:** three equal tranches vesting annually over three years (subject to continued employment) • Subject to **malus / clawback** and no dividend or voting rights over vesting period	• Restricted equity component generates strong alignment between executives and shareholders and provides a retention device for key talent (as vesting is subject to continued employment at vesting dates) • Combination of fixed cash remuneration and face value of RSUs is positioned at or around the median of total fixed remuneration of peer companies
AT-RISK COMPONENT		
SHORT-TERM INCENTIVE	• **Instrument:** cash • **Performance period:** financial year • **Vesting conditions:** balanced scorecard comprising financial (50%), customer (20%), merchants (10%), innovation (10%) and people (10%) – refer section 2.5 for further detail • Subject to **clawback** and **Board discretion modifier for 'doing the right thing'** (i.e. downward adjustments for conduct, risk, regulation, reputation and brand, and quality of results)	• To reward for achievement of stretching annual goals set in line with the Group's mid-term strategy and reflecting key value drivers of the business to deliver returns for shareholders • Positioned below the median of peer companies (in favour of heavy weighting towards LTI)
LONG-TERM INCENTIVE	• **Instrument / allocation methodology:** market value options granted annually using a Black Scholes methodology • **Performance period:** three years • **Vesting conditions:** GMV (i.e. underlying sales) – 50%, net transaction margin (NTM) – 50%, and subject to payment of exercise price. Refer section 2.5(b) for further detail • Subject to malus and clawback	• **LTI opportunity levels are positioned above market** (i.e. packages are highly leveraged to LTI) • •To reward for achievement of challenging long-term goals, generate strong alignment between executives and shareholders, and encourage sustainable decision making in the long-term interests of shareholders • Market price options also encourage a focus on growing the Group's share price and total shareholder return

Under the FY20 framework, fixed cash pay is positioned low relative to peers in recognition of the annual RSU grant. The sum of these elements represents "total fixed remuneration" and is positioned around the median of peer companies. Cash STI levels are conservative relative to peers, with packages highly leveraged to the LTI.

FY20 TRANSITIONARY APPROACH – NEW AND EXISTING EXECUTIVE KMP

- All new employees joining at the Executive KMP level will commence on the framework and be eligible to receive all four elements (as set out above) from FY20
- It is intended that the Co-Founders (Anthony and Nick) will forego any STI or RSU component under the new framework having regard to their existing shareholding and the vesting dates of legacy option grants which encourage a focus on long-term sustainable performance. They have also elected to remain on their current base salary until a review is conducted in FY20. Any participation in the LTI (as determined by the Board) will be disclosed in the 2019 Notice of Meeting (if applicable). Details of their FY20 remuneration packages will be disclosed once finalised
- The CFO will transition onto the new STI scorecard approach for FY20 and onto the equity components of the new framework over time having regard to the vesting dates of his legacy option grants. The CFO will only receive fixed cash remuneration and STI for FY20 (i.e. he will not receive an LTI or RSUs in FY20) recognising that he has a legacy option grant that is not yet vested

2.5 FY20 PERFORMANCE MEASURES

(a) FY20 STI scorecard

In FY20, STI awards to Executive KMP will be determined based on an assessment of the balanced scorecard set out below (with threshold and target levels of vesting of 50% and 100% in respect of each measure). Our balanced scorecard reflects annual objectives aligned with our key value drivers and generation of long-term value for our shareholders (with the introduction of new measures relating to 'innovation and 'people' to reflect their importance to our business).

Targets will be set at challenging levels to ensure Executive KMP are rewarded for exceptional performance. Specific details of how the Group has performed against each STI measure will be transparently disclosed in the FY20 Remuneration Report, once outcomes are known.

In addition to retaining overarching discretion in respect of the FY20 remuneration framework, final STI outcomes will be subject to a **Board discretion modifier whereby the Board may make downward adjustments (including to zero) for regulatory issues, conduct issues, brand and reputational issues, and non-financial and financial risk issues.** In determining final outcomes, the Board will also have regard to the quality of the result in each category (facilitated by contra / supplementary indicators, including customer complaints and customer Net Promoter Score (NPS)).

In addition, as part of its overarching discretion under the Plan, the Board may reduce final STI outcomes having regard to affordability considerations and the Group's financial performance over the period.

FY20 STI SCORECARD

CATEGORY	MEASURES	WEIGHTING	RATIONALE
FINANCIAL (50%)	GMV (I.E. UNDERLYING SALES)	25%	Strong annual growth in our underlying financials, including GMV (i.e. underlying sales) and EBITDA, is critical to delivering long-term shareholder value
	EBITDA	25%	
CUSTOMER (20%)	NUMBER OF ACTIVE CUSTOMERS	10%	We are committed to putting our customers first and achieving our mission to be 'the world's most loved way to pay'. Execution of our mid-term strategy is underpinned by strong customer expansion annually. STI measures reflect both the number of customers as well as customer defaults
	NET TRANSACTION LOSS (NTL)	10%	
MERCHANTS (10%)	NUMBER OF ACTIVE MERCHANTS	10%	Expansion of our global merchant base and supporting more leading retailers is core to our long-term success.
INNOVATION (10%)	ACHIEVEMENT OF FY20 PRODUCT DEVELOPMENT ROADMAP MILESTONES	10%	We are a platform. We are focussed on providing new and valuable experiences to customers and merchants. 'Innovation' reflects achievement of key product, technology and network build milestones
PEOPLE (10%)	eNPS (I.E. EMPLOYEE NET PROMOTER SCORE)	10%	Our people are at the heart of everything we do. A high-performing and engaged workforce are critical to delivering superior returns for our shareholders. The Board will continue to review our people measure (and other STI measures) to ensure they are fit for purpose.
Final STI outcomes will be subject to a Board discretion modifier for 'doing the right thing' and assessment of the quality of results.			

(b) FY20 LTI measures

The LTI component of the Group's FY20 remuneration framework will be tested against two equally weighted measures, being **GMV (i.e. underlying sales)** and **Afterpay net transaction margin (NTM)** over the three-year performance period. These measures were selected as they align with the Group's stretching mid-term strategy, are reflective of the key value drivers of the business over the long term and, in the Board's view, strike an appropriate balance between growth and long-term profitability. Remuneration packages are also highly leveraged to the performance-tested LTI to encourage long-term sustainable decision making in the interests of our customers and other key stakeholders.

While a number of ASX listed companies have some form of share price measure in their LTI (e.g. relative TSR), the use of market value options under the LTI (with an exercise price based on Afterpay Touch Group's share price at the time of grant) has an implicit share price hurdle. **That is, executives are incentivised to drive share price performance in the interests of our shareholders, as the market price at the time of vesting will need to exceed the exercise price for the options to deliver any value to executives.**

We set out below the vesting schedule and associated targets in respect of GMV (i.e. underlying sales). Specific targets in respect of Afterpay NTM will be disclosed at the end of the performance period due to commercial sensitivity. Specifically, a key component of Afterpay NTM is Afterpay's revenue margin, which is the average price at which Afterpay negotiates its merchant contracts across the portfolio in any given period.

FY20 LTI MEASURES

MEASURE	DESCRIPTION	VESTING SCHEDULE
GMV (UNDERLYING SALES) (50%)	GMV (i.e. underlying sales) is a measure of the dollar value of total merchandise sold through the Afterpay platform.	**Target (50% vesting)** — \$15B in final year of performance period **Maximum (100% vesting)** — \$25B in final year of performance period Vesting on a straight-line basis between target and maximum levels of performances Three-year performance period from 1 July 2019 to 30 June 2022
AFTERPAY NET TRANSACTION MARGIN (NTM) (50%)	Net transaction margin is a measure of gross profit margin (post-receivables impairment expense and receivables financing costs, pre-operating costs) generated by transactions on the Afterpay platform. A transparent disclosure of the calculation of NTM (that reconciles to the statutory accounts) will be provided at the end of the performance period.	**Target (50% vesting)** – targets to be disclosed at the end of the performance period due to commercial sensitivity **Maximum (100% vesting)** – targets to be disclosed at the end of the performance period due to commercial sensitivity Vesting on a straight-line basis between target and maximum levels of performances Three-year performance period from 1 July 2019 to 30 June 2022.

3 Who is covered by this report

This Report outlines the remuneration arrangements in place for the Executive KMP of the Group in FY19, which comprises all Non-Executive Directors and senior executives who have authority and responsibility for planning, directing and controlling the activities of the Group. The table below sets out the Group's Executive KMP during FY19.

As announced to the market in July 2019, the Group has made a number of changes to its Board and Executive Leadership Team (effective 1 July 2019), which are reflected in the table below.

As part of its commitment to evolving its Board, the Group's Board appointed independent Non-Executive Director Elana Rubin as Independent Interim Chair and a global search is underway to appoint at least two additional independent Directors and an independent Chair (refer section 6.1 for further detail on composition of the Board).

Anthony Eisen (Co-Founder and Executive Chairman in FY19) will continue to lead the Group in a newly formed Chief Executive Officer and Managing Director role, and will focus on managing the global business and overseeing management of the Group's operations. Nick Molnar (Co-Founder, Executive Director and CEO of Afterpay in FY19) will maintain his focus on managing the US business and building global merchant relations in his new role as Global Chief Revenue Officer and Executive Director.

Our Group Head and Executive Director, David Hancock (who has played a key role in the integration of Afterpay and Touchcorp and the successful development of Afterpay Touch GroupGroup) will step down from the Board at the conclusion of 2019 financial year matters. In line with his contractual arrangements, the role of Group Head will also come to an end and David will facilitate the transition of his role to the Chief Executive Officer and Managing Director, and other members of the leadership team over a period of up to 12 months.

The Group was also pleased to announce the appointment of Frerk-Malte Feller (Malte) (effective 1 July 2019) in a newly created Global Chief Operating Officer role. Malte brings extensive experience in fast growing, global technology enterprises to the Group's leadership team, including Facebook, eBay and PayPal. Malte is expected to be an Executive KMP for FY20.

KMP DURING THE REPORTING PERIOD

KMP	POSITION	TERM AS KMP
EXECUTIVE KMP		
Anthony Eisen[1]	Chief Executive Officer and Managing Director	Full Year
David Hancock[2]	Group Head and Executive Director	Full Year
Nick Molnar[3]	Global Chief Revenue Officer and Executive Director	Full Year
Luke Bortoli	Global Chief Financial Officer	Full Year
NON-EXECUTIVE DIRECTORS		
Clifford Rosenberg	Director	Full Year
Elana Rubin[4]	Independent Interim Chair	Full Year
Dana Stalder	Director	Full Year

1. Anthony Eisen held the role of Executive Chairman during the 2019 financial year i.e. until 30 June 2019. Anthony ceased in his role as Executive Chairman on 30 June 2019 and assumed the role of Chief Executive Offer and Managing Director effective 1 July 2019.
2. David Hancock held the position of Group Head and Executive Director during the 2019 financial year i.e. until 30 June 2019. David will transition his role to the Chief Executive Officer and Managing Director and other members of the leadership team over a period of up to 12 months and will step down from the Board at the conclusion of 2019 financial year matters.
3. Nick Molnar held the position of Executive Director and CEO, Afterpay during the 2019 financial year i.e. until 30 June 2019. Nick assumed the role of Global Chief Revenue Officer (reporting to the Chief Executive Officer and Managing Director) effective 1 July 2019.
4. Elana Rubin was appointed as Independent Interim Chair, effective 1 July 2019.

4 Executive KMP Remuneration Framework FY19 – snapshot

As noted in section 2.3, Executive KMP remuneration is designed to support the Group's organisational strategy and key value drivers, align remuneration outcomes with the shareholder experience, encourage an ownership mindset among Executive KMP, and support the attraction, motivation and retention of the world's best talent from the global technology talent pool.

As set out in the table below, total annual remuneration for Executive KMP during FY19 included a moderate fixed remuneration component (comprising base salary and superannuation) and a moderate cash STI (subject to achievement of performance conditions), which Executive KMP volunteered to be withheld by the Board in light of the ongoing AUSTRAC matter (refer section 5.3(a) for further detail). The Executive KMP have legacy one-off equity awards vesting in FY19, which were negotiated on a bilateral basis and have previously been disclosed to shareholders. No new one-off equity awards were made to Executive KMP during FY19 (as the Group transitions to its new annual LTI program – refer section 2 for further detail in respect of the new FY20 remuneration framework and the transitionary approach in respect of new and existing Executive KMP).

ELEMENTS OF EXECUTIVE KMP REMUNERATION IN FY19

ELEMENT	DESCRIPTION	STRATEGIC LINK
FIXED REMUNERATION	Fixed remuneration comprises base salary and superannuation (and, in some cases, other benefits such as relocation allowances). Fixed remuneration is set having regard to: • the individual's role, responsibilities, skills, experience and performance levels; and • the remuneration levels offered by comparable companies with whom the Group competes for talent. Refer section 5.2 for further detail.	Fixed remuneration is ongoing remuneration in recognition of day-to-day accountabilities. The Group positions fixed remuneration conservatively (albeit at market competitive levels) relative to companies with a similar market capitalisation in favour of higher at-risk components.
SHORT TERM INCENTIVE	Executive KMP participate in the Group's short-term incentive (STI) program. • **Instrument**: cash awarded annually if performance conditions are met • **Performance measures**: achievement of challenging financial and non-financial key performance indicators (KPIs) tied to the Group's key strategic drivers. Refer section 5.3 for further detail.	Cash STI is positioned conservatively relative to peers (in favour of long-term equity based awards). The STI is intended to motivate and reward executives for delivering exceptional performance over the short term. STI performance measures and targets are tied to the key value drivers of the business and the Group's core strategic objectives, and are set at challenging levels to drive performance in the interests of our shareholders.
LEGACY ONE-OFF EQUITY AWARDS	Executive KMP were eligible to receive one-off equity awards (in the form of options, loans shares or rights) at the time they commenced employment with the Group. The Executive KMP have legacy awards vesting in FY19 (in the form of options). No new one-off grants were made in FY19. • **Instrument**: legacy awards on foot for Executive KMP comprise options (which vest subject to payment of strike price) • **Performance / vesting conditions**: subject to continued employment at the end of the vesting period and payment of exercise price (and KPIs in some cases, aligned with the Group's key strategic pillars and generation of long-term value to shareholders) • **Vesting period**: varied per individual. Options typically vest in two or three equal tranches after one, two and three years following the grant date (as appropriate). Refer section 5.4 for further detail.	The Group's legacy one-off equity award arrangements reflected the need to compete for talent as a small company with limited financial resources and in the global technology sector where these arrangements are commonly used. Global technology markets are highly competitive for talent and place a greater emphasis on at-risk, equity based remuneration than is typical among ASX listed companies. The one-off equity awards generate a strong alignment with the shareholder experience. One-off awards also provided a strong retention hook for key talent during the start-up phase by requiring that Executive KMP remain employed until the end of the vesting period to realise the incentive.

5 Executive KMP Remuneration Framework – FY19 outcomes

5.1 OVERVIEW OF COMPANY PERFORMANCE

The Group is committed to ensuring a strong alignment between the Group's performance and shareholder experience, and what is paid to its executives in remuneration. During the Reporting Period, the Group achieved exceptional growth in respect of key financial and non-financial indicators set out in the table below. Group performance is only shown from 1 July 2017 as the Group was only formed in June 2017.

FY19 GROUP PERFORMANCE RELATIVE TO FY18

A$M (UNLESS OTHERWISE STATED)	FY19	FY19 PRO FORMA (EXCL. ACC. CHANGES)[1]	FY18	CHANGE[2] %
Share price performance as at y/e ($/sh)	25.07	25.07	9.35	168%
Total dividends paid	0	0	0	0%
GMV (i.e. underlying sales)	5,247.2	5,247.2	2,184.6	140%
Active customers (m)	4.6	4.6	2.0	130%
Active merchants ('000s)	32.3	32.3	16.0	101%
Total income[3]	264.1	272.5	142.3	91%
Afterpay NTM	119.3	126.1	55.7	126%
EBITDA (excluding significant items)	28.7	35.5	35.2	1%

1. New accounting standards adopted from 1 July 2018 impacted Afterpay income, Pay Now revenue and receivables impairment expense. To enable comparability to prior year performance, the Group has presented pro forma financials, which remove the impact of these accounting standard changes. Total income, Afterpay NTM and EBITDA are the only three items in the table above impacted by the new accounting standards and for which pro forma financials have been presented.
2. Change percentage based on FY19 pro forma compared to FY18.
3. Total income comprises Afterpay income, other income (late fees) and Pay Now revenue.

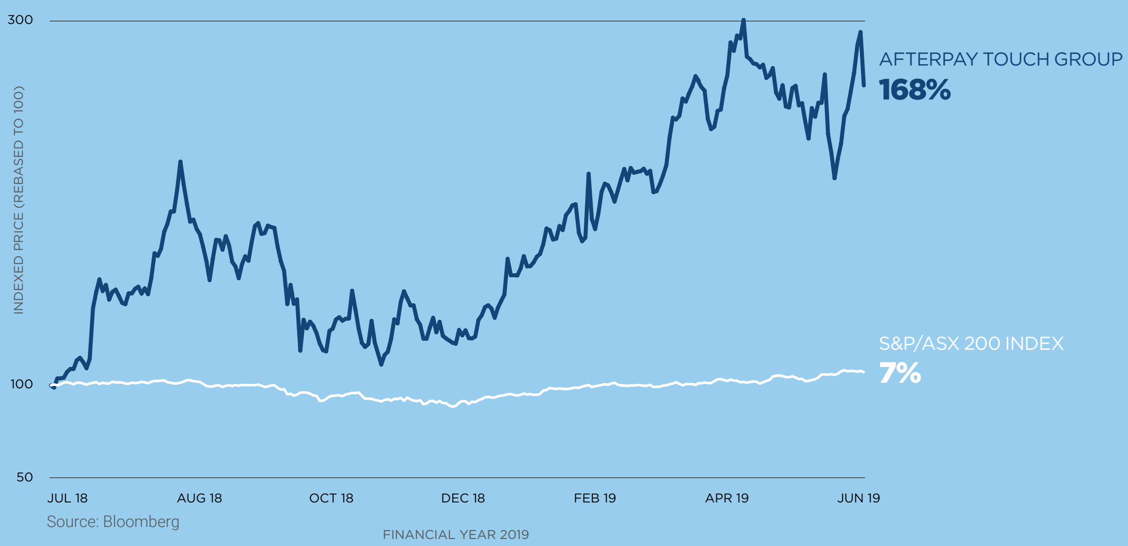
The Group's share price increased materially during the Reporting Period when compared to the benchmark ASX 200 Index. The Group's share price rose from $9.35 at 29 June 2018 (the last trading day of FY18) to $25.07 at 28 June 2019 (the last trading day of FY19). Over the same period the S&P/ASX 200 Index rose from 6194.20 to 6618.78. This represented a return to the Group's shareholders of 168% compared with 7% for the S&P/ASX 200 Index as illustrated by the chart below.

5.2 FIXED ANNUAL REMUNERATION

As noted in section 4, all Executive KMP receive fixed remuneration comprising cash, compulsory superannuation and any salary-sacrificed items (including fringe benefits). As appropriate, Executive KMP receive additional support, including accommodation allowances, travel, ad hoc taxation advice and insurance. Executive KMP do not receive retirement benefits beyond superannuation.

Having regard to the ongoing remuneration review conducted in FY19, the Board determined that no fixed pay increases should be made for Executive KMP in FY19.

APT'S SHARE PRICE PERFORMANCE COMPARED TO THE S&P/ASX 200



Source: Bloomberg

5.3 SHORT-TERM INCENTIVE OVERVIEW

(a) FY19 overview

The Board has assessed performance against the FY19 STI Group KPIs (as set out in section 5.3(b)) and Individual KPIs. However, in light of the ongoing AUSTRAC audit, the Executive KMP have volunteered for their STI awards to be withheld by the Board until the final report is handed down in November 2019. The Board reserves its discretion to make any adjustments to final STI outcomes for the Executive KMP, as appropriate to reflect the outcomes of the AUSTRAC audit.

Subject to the outcomes of the final report of the AUSTRAC audit, the maximum STI awards that Executive KMP will be eligible to receive in respect of FY19 are set out below. These outcomes reflect the Group's exceptional performance against key metrics, including GMV (i.e. underlying sales), active customers and active merchants, which were up 140%, 130% and 101% on FY18 respectively. Despite significant investment in the US and UK, pro forma EBITDA (excluding significant items) was also up 1% on FY18. Final STI awards will be disclosed in the FY20 Remuneration Report.

TABLE 7. EXECUTIVE KMP STI OUTCOMES

EXECUTIVE KMP	MAXIMUM STI OPPORTUNITY[1] ($)	MAXIMUM STI OPPORTUNITY (% OF FIXED REMUNERATION[2])	MAXIMUM VALUE OF STI AWARDED[3]	% OF MAXIMUM FY19 STI AWARDED	% OF MAXIMUM STI AWARD FORFEITED
Anthony Eisen[4]	N/A	N/A	300,000	N/A[4]	N/A[4]
			(WITHHELD)		
David Hancock	300,000	87%	300,000	100%	0%
			(WITHHELD)	(WITHHELD)	
Nick Molnar	300,000	86%	300,000	100%	0%
			(WITHHELD)	(WITHHELD)	
Luke Bortoli	400,000	127%	400,000	100%	0%
			(WITHHELD)	(WITHHELD)	

1. These figures represent the maximum STI that can be earned by Executive KMP when performance targets are met.
2. Total fixed remuneration earned in FY19 includes base salary and superannuation as well as leave accruals, but excludes other benefits (e.g. relocation and accommodation allowances).
3. STI awards to the Executive KMP will be withheld until the final report of the AUSTRAC audit is handed down in November 2019.
4. Anthony Eisen's terms of employment do not specify a STI component. Based on FY19 performance, Anthony would have been eligible for a bonus at the discretion of the Board. Anthony has volunteered that this bonus be withheld until the outcomes of the AUSTRAC audit are known.

(b) FY19 Group KPI outcomes

STI outcomes are determined by the Board based on an assessment of performance against a scorecard of stretching group KPIs (as well as individual KPIs per executive, which are specific to their role).

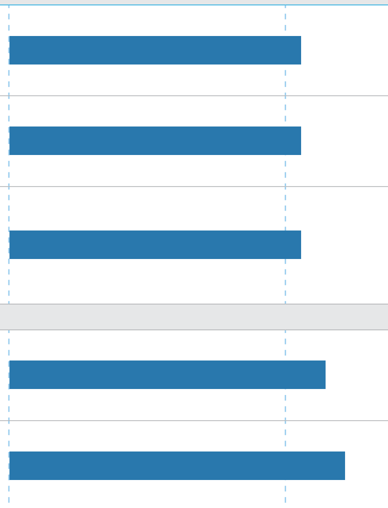
The FY19 Group KPIs scorecard is set out in the table below. Each measure has an equal weighting (with threshold and target levels of performance, which result in 50% and 100% vesting of each component respectively, with straight line vesting in between). Performance below threshold results in no vesting.

If the Group achieves maximum levels of performance against the Group KPIs (i.e. target performance or above against each measure resulting in a Group KPIs outcome of 100%), Executive KMP are eligible to receive their maximum STI opportunities (as set out in section 5.3(a)).

The Board then assesses each Executive KMP's performance against their individual KPIs (including 'what' the executive achieved during FY19 and 'how' these outcomes have been achieved) in determining final STI awards to each individual Executive KMP (noting performance against individual KPIs can only reduce the outcome).

The table below sets out Group performance against the Group KPIs scorecard for FY19. The Group KPIs outcome was 100% for FY19 reflecting achievement of above target levels of performance in respect of each measure. However, as noted above, the Executive KMP have volunteered for their STI awards to be withheld until the final report of the AUSTRAC audit is handed down in November 2019.

FY19 GROUP PERFORMANCE AGAINST GROUP KPIS SCORECARD



GROUP KPIS	WEIGHTING (%)	FY19 OUTCOME	OUTCOME COMMENTARY
FINANCIAL KPIS		THRESHOLD 50% / TARGET 100%	
GMV (I.E. UNDERLYING SALES)	20%		GMV (i.e. underlying sales) of $5.2bn was above FY19 Target and 2.4x the GMV in FY18
AFTERPAY NTM	20%		Pro forma[1] Afterpay NTM of $126.1m was above FY19 Target and 2.3x the NTM in FY18
EBITDA	20%		Pro forma[1] EBITDA (excl. sig. items) of $35.5m was above FY19 Target (net of subsequently announced investments in US and UK).
NON-FINANCIAL KPIS			
ACTIVE CUSTOMERS	20%		Active customers of 4.6m was above FY19 Target and 2.3x the 2.0m customers at end of FY18
ACTIVE MERCHANTS	20%		Active merchants of 32.3k was above FY19 Target and 2.0x the 16.0k merchants at end of FY18
		Group outcome (FY19) – 100%	

1. New accounting standards adopted from 1 July 2018 impacted Afterpay income, Pay Now revenue and receivables impairment expense. To enable comparability to prior year performance, we have presented pro forma financials, which remove the impact of these accounting standard changes.

(c) Further detail

The table below outlines the key terms and conditions applying to the STI arrangements for the Executive KMP during the Reporting Period.

DESCRIPTION OF EXECUTIVE KMP STI GRANTED IN FY19

ELEMENT	DESCRIPTION
OVERVIEW OF STI	STI arrangements are an at-risk component of Executive KMP remuneration involving the payment of a cash award if performance conditions are met.
PERFORMANCE PERIOD	STI awards are measured over the 12-month financial year. Any STI award payments are made after performance is tested at the end of the performance period.
PERFORMANCE CONDITIONS	STI performance conditions include Group KPIs and individual KPIs. These performance measures reflect the key drivers of the Group's business strategy, with the aim of rewarding Executive KMP for the successful execution of the Group's strategy over the short term in the interests of shareholders. As set out in section 5.3(b) above, Group KPIs cover the following key areas (reflecting core value drivers of the business): • **Financial performance** including GMV (i.e. underlying sales), NTM and EBITDA performance; • **Merchants** including number of active merchants; and • **Customers** including number of active customers. Individual KPIs consist of business goals specific to the Executive KMP's role and aligned with the Group's strategies, as well as a compliance component. The Board believes that having a mix of financial and non-financial KPIs will encourage individual performance against financial criteria strongly linked to year-on-year shareholder returns as well as the achievement of personal business goals consistent with the Group's overall objectives. From FY20, Executive KMP STI will be assessed against a balanced scorecard of measures across five categories, being financial, customer, merchant, people and innovation (refer section 2.5 for further detail). Performance against the STI measures will be transparently disclosed to the market after the performance period in the FY20 Remuneration Report.

ELEMENT	DESCRIPTION
MEASUREMENT OF PERFORMANCE CONDITIONS	Performance against the KPIs is assessed annually by the Board based on recommendations from the Remuneration & Nomination Committee (with input from the Group Head) after the end of the performance period as part of the broader performance review process for each Executive KMP. Financial and non-financial conditions are assessed quantitatively against predetermined benchmarks where appropriate. When testing financial KPIs, financial results are extracted by reference to the Group's accounting system. These methods of assessing performance were chosen because they are, as far as practicable, objective and fair. The use of the Group's accounting system ensures the integrity of the measure and alignment with the true financial performance of the Group.
TREATMENT ON CESSATION OF EMPLOYMENT	Generally, if an Executive KMP ceases to be employed during the 12-month performance period in 'good leaver' circumstances, they will be entitled to a pro rata STI award unless the Board determines otherwise.

5.4 LEGACY ONE-OFF EQUITY AWARDS — FURTHER DETAIL

(a) Legacy one-off equity awards vesting in FY19 financial year — overview

As noted above, members of the Executive KMP received one-off grants of equity (typically in the form of options) at the time they commenced employment with the Group.

Each of the Executive KMP had legacy one-off equity awards (in the form of options) vesting in FY19. None of these options have been exercised. These awards have previously been disclosed to shareholders with the Group Head's awards voted on by shareholders at the 2018 AGM. No one-off equity grants were made during FY19 to Executive KMP.

As noted in section 2, under the FY20 framework, new LTI awards will be performance tested over three years against GMV (i.e. underlying sales) (50%) and NTM (50%).

(i) Chief Executive Officer and Global Chief Revenue Officer

Co-Founders Anthony Eisen and Nick Molnar (who founded the Afterpay business and have been instrumental in building and leading the Group and delivering exceptional returns to shareholders) were each granted 1,500,000 options in March 2016 under the Group's legacy one-off equity award arrangements (with an exercise price of $1.00 and expiry date of 31 December 2020). The options vested in three equal tranches annually over three years from the date of grant (subject to continued employment). The final tranche of these options (i.e. 500,000 options) vested with each of the Co-Founders in March 2019 (but have not been exercised).

(ii) Group Head

As detailed in the Group's 2018 Notice of Meeting, shareholders approved a grant of options to David Hancock at the 2018 AGM (in satisfaction of David's contractual award arrangements). The arrangements were necessary to attract an executive of David's significant expertise and experience to oversee the merger of the Afterpay and Touchcorp businesses.

The first tranche of David's options (1,206,532 options with an exercise price of $2.70 and an expiry date of 1 September 2022) vested with David upon receipt of shareholder approval at the 2018 AGM.

The second tranche of David's options (1,492,555 options with the same exercise price and expiry date) were also approved by shareholders at the 2018 AGM and are subject to the achievement of KPIs and his continued employment with the Group. David's KPIs include specific financial targets relating to EBITDA and revenue, and non-financial targets in respect of customer NPS, merchant NPS and employee NPS. This tranche will be tested on 1 September 2019.

On 1 March 2019 David had 66,667 options vest with an exercise price of $1.00. This was the third and final equal tranche of options granted on 1 March 2016 as consideration for serving on the Board through the IPO process. These arrangements were necessary to attract a Director of David's calibre at this important milestone in the Group's history.

(iii) Global Chief Financial Officer

In June 2018, Global Chief Financial Officer Luke Bortoli was granted 1,350,000 options under the Group's legacy one-off equity arrangements (with an exercise price of $5.00 and expiry date of 31 December 2022).

The option awards were necessary to attract an executive of Luke's calibre, skillset and experience to the Group in May 2018, with Luke having held a number of senior finance and strategy roles in the technology / gaming sector and investment banking.

The options were eligible to vest in equal tranches over three years, subject to achievement of specific financial KPIs (as well as role-specific KPIs) and his continued employment with the Group.

During FY19, the Board determined that the first tranche of Luke's legacy 450,000 options, should vest in full on 1 June 2019, as the service conditions and KPIs were achieved.

In addition to his continued employment, the KPIs attaching to the first tranche of options included achievement of specific quantitative targets, including finance costs, which are a significant individual cost item for the Group under the influence of finance team activities. In FY19, the Group achieved exceptional performance in respect of finance costs with total financing costs of $11.7m or 0.22% of underlying sales relative to $6.6m or 0.30% of underlying sales in the prior corresponding period. Other role-specific KPIs include completion of key milestones related to the design and establishment of a globalised finance function, implementation of new finance systems, the establishment of receivables funding facilities in the ANZ and US markets, and development of a three-year capital management plan to support the mid-term strategy.

Luke's remaining tranches are eligible to vest on 1 June 2020 and 1 June 2021 subject to achievement of specific quantitative targets, including finance costs and non-financial targets, including the continued building of a Finance function that is scalable to support the Group's global growth aspirations and capital management initiatives. Specific targets and performance against them will be disclosed at the end of the respective vesting periods.

(b) Legacy one-off equity awards – further detail

The table below outlines the key terms and conditions applying to the legacy one-off equity award arrangements in respect of Executive KMP vesting during the Reporting Period. No one-off equity grants were made during FY19 to Executive KMP (as the Group transitions onto its new FY20 remuneration framework – refer section 2 for further detail).

DESCRIPTION OF LEGACY ONE-OFF EQUITY AWARDS FOR EXECUTIVE KMP

ELEMENT	DESCRIPTION
OVERVIEW OF LEGACY ONE-OFF EQUITY AWARD ARRANGEMENTS ELIGIBLE FOR VESTING DURING REPORTING PERIOD	Under the Group's one-off equity award arrangements to date, Executive KMP are eligible to receive one-off equity awards (in the form of options, loan shares or rights) in APT equity at the time they commence employment. One-off equity awards were a key part of the Group's strategy to attract and retain key executive talent to the organisation from the highly competitive global technology talent pool where these arrangements are more commonly employed. The Executive KMP set out in this Report received options in APT equity. No one-off equity awards were made to Executive KMP in FY19 and the remuneration framework for FY20 introduces a formal performance-tested LTI plan.
FORM OF AWARD	Options entitle the holder to one share in the Group for every option exercised, subject to payment of the exercise price at the end of the vesting period and continued employment of the Executive. Options are granted for nil consideration as they are part of an Executive's remuneration.
VESTING PERIOD	Option awards were negotiated on a bilateral basis with varying vesting periods for each individual Executive KMP. Options granted to Executive KMP typically vest in two or three equal tranches after one, two or three years following the grant date (as appropriate).

ELEMENT	DESCRIPTION
VESTING CONDITIONS	Option awards are subject to continued employment at the end of the vesting period and only convert to shares after payment of the exercise price. In some cases, options may also be subject to the achievement of KPIs over the vesting period. KPIs may take the form of financial and non-financial performance conditions that are aligned with the Group's financial, strategic, capital management and governance plans over the vesting period (in addition to continued employment).
MEASUREMENT OF PERFORMANCE CONDITIONS	Performance against KPIs is assessed for each member of the Executive KMP after each of the relevant vesting dates by the Board, based on recommendations from the Remuneration & Nomination Committee and Group Head where appropriate. Financial and non-financial performance conditions are assessed quantitatively against predetermined benchmarks where appropriate. When testing the financial performance conditions, financial results are extracted by reference to the Group's financial statements. Where quantitative assessment is not practicable, qualitative performance appraisals are undertaken by the Board in consultation with the Remuneration & Nomination Committee. These methods of assessing performance were chosen because they are, as far as practicable, objective and fair. The use of financial statements ensures the integrity of the measure and alignment with the true financial performance of the Group.
DISPOSAL RESTRICTIONS	Options are subject to dealing restrictions until they are exercised. Upon exercise and payment of the exercise price, participants are allocated fully paid ordinary shares in the Group. Participants are free to deal with the shares allocated to them following vesting (and exercise where applicable) subject to the Group's Securities Trading Policy.
TREATMENT ON CESSATION OF EMPLOYMENT	Options only vest at the applicable vesting date if the participant: • remains employed with the Group on that date; or • they have ceased employment as 'a good leaver' (for example, due to death, total or permanent disablement, illness, genuine redundancy, or other factors determined by the Board to constitute sufficient reason to treat the person as 'a good leaver').
CHANGE OF CONTROL	If a takeover bid is made, or a scheme of arrangement, selective capital reduction or other transaction is initiated that has an effect similar to a full takeover bid for shares in the Group, the Board has discretion to waive any outstanding performance conditions.
CLAWBACK	The Board has clawback powers that it may exercise in specific circumstances if, for example, a participant has acted fraudulently or unlawfully, or engaged in conduct in material breach of the Group's policies and codes of conduct, and this contributed to the vesting of their options.

5.5 EXECUTIVE KMP REMUNERATION STATUTORY TABLE

The table below sets out Executive KMP remuneration for FY19 (and FY18 for comparative purposes) in accordance with the requirements of the Accounting Standards and *Corporations Act 2001 (Cth)*. The table reflects the accounting value of remuneration attributable to KMP, derived from the various components of their remuneration. As per section 5.3(a), in light of the ongoing AUSTRAC audit, the Executive KMP have volunteered for their STI awards to be withheld by the Board until the final report is handed down in November 2019.

STATUTORY REMUNERATION TABLE

AFTERPAY TOUCH GROUP REMUNERATION FOR THE YEARS ENDING 30 JUNE 2019 AND 30 JUNE 2018	FINANCIAL YEAR	SHORT-TERM SALARY & FEES	CASH BONUS	NON-MONETARY BENEFITS[1]	SUPER-ANNUATION	LONG-TERM LONG SERVICE LEAVE	TERMINATION	SHARE-BASED PAYMENTS OPTIONS	LOAN SHARES	TOTAL	TOTAL PERFORMANCE RELATED
		$	$	$	$	$	$	$	$	$	%
EXECUTIVE KMP											
ANTHONY EISEN	**2019**	**323,140**	**300,000**	**-**	**25,000**	**2,836**	**-**	**379**	**-**	**651,355**	**46%**
	2018	283,518	300,000	-	32,600	2,293	-	1,135	-	619,546	49%
DAVID HANCOCK	**2019**	**320,050**	**300,000**	**-**	**25,000**	**1,721**	**-**	**14,812,642**	**-**	**15,459,413**	**98%**
	2018	321,499	300,000	33,319	30,542	573	-	163	11,986,348[4]	12,672,444	97%
NICK MOLNAR	**2019**	**323,141**	**300,000**	**78,449**	**25,000**	**5,109**	**-**	**379**	**-**	**732,078**	**41%**
	2018	298,771	300,000	126,097	34,050	5,118	-	1,135	-	765,171	39%
LUKE BORTOLI	**2019**	**294,212**	**420,000[5]**	**34,104**	**21,905**	**591**	**-**	**2,714,828**	**-**	**3,485,640**	**90%**
	2018[2]	32,315	-	8,251	3,070	-	-	237,009	-	280,645	84%
NADINE LENNIE	2018[3]	386,856	-	-	25,000	-	-	-	124,447	536,303	23%
TOTAL	**2019**	**1,260,543**	**1,320,000**	**112,553**	**96,905**	**10,257**	**-**	**17,528,228**	**-**	**20,328,486**	
	2018	1,322,959	900,000	167,667	125,262	7,984	-	239,442	12,110,795	14,874,109	

1 Non-monetary benefits includes benefits such as insurance, rent and relocation expenses.
2 Luke Bortoli commenced employment as the Group's CFO on 21 May 2018.
3 Nadine Lennie ceased employment with the Group on 15 March 2018.
4 David Hancock's one-off 2,000,000 loan shares awarded in 2018 were included for accounting purposes and disclosed in the 2018 Remuneration Report pending approval by shareholders. The 2,000,000 loan shares were cancelled and replaced with 2,699,087 options as approved at the 2018 AGM. 1,206,532 options vested on 1 September 2018 in respect of this award and 1,492,555 options will be tested for vesting conditions at 1 September 2019. David Hancock also had 66,667 options vest in FY19 and FY18 relating to his service on the Board of Afterpay through the IPO process.
5 Luke Bortoli's cash bonus of $420,000 comprises $400,000 relating to STI for FY19 performance and $20,000 relating to performance for a partial year in FY18 that was determined following the release of the FY18 Annual Report.

5.6 ACTUAL REMUNERATION SNAPSHOT

During FY19, take-home pay received by the Executive KMP comprised fixed remuneration only. This reflects that the Executive KMP volunteered for their STI awards to be withheld until the outcomes of the final report of the AUSTRAC audit are released in November 2019 (refer section 5.3). Subject to finalisation of the AUSTRAC audit, the maximum STI that Executive KMP may be eligible to receive in respect of FY19 is $300,000 (other than the CFO who is eligible to receive up to $400,000). In addition, none of the options that vested with the Executive KMP (refer section 5.4 for further detail) were exercised during FY19.

The table below outlines a summary of the actual take-home pay received by Executive KMP during the Reporting Period. Unlike the statutory remuneration tables in section 5.5, the below table has not been prepared in accordance with the requirements of the Australian Accounting Standards and is unaudited. It is included on a voluntary basis to show the remuneration actually received by Executive KMP during the Reporting Period.

FY19—ACTUAL REMUNERATION—EXECUTIVE KMP

KMP	FIXED REMUNERATION[1] (1)	NON-MONETARY BENEFITS[2] (2)	FY19 CASH STI[3] (3)	OPTIONS VESTED AND EXERCISED IN FY19[4] (4)	TOTAL ACTUAL REMUNERATION (1) + (2) + (3) + (4)
Anthony Eisen	348,140	-	-	-	348,140
Nick Molnar	348,141	78,449	-	-	426,590
David Hancock	345,050	-	-	-	345,050
Luke Bortoli	316,117	34,104	-	-	350,221

1. Total fixed remuneration earned in FY19 includes base salary and superannuation as well as leave accruals, but excludes other benefits (e.g. relocation and accommodation allowances).
2. Non-monetary benefits represent non-monetary benefits, such as rent and relocation expenses.
3. As noted in section 5.3, Executive KMP have volunteered for their FY19 STI awards to be withheld until the final report of the AUSTRAC audit is released.
4. No options vested and were subsequently exercised by Executive KMP in the Reporting Period. The take-home amount or proceeds from the exercise of options is only received at the time of exercising the options. Those proceeds remain uncertain given they are subject to the market price of APT shares at the date of exercise.

6 Non-Executive Director remuneration

6.1 BOARD CHANGES FOR FY20

As the Group continues on its journey from an Australia-focused start-up to an ASX listed company with a global presence, the Group is committed to ensuring it meets the highest standards of corporate governance and external expectations, which includes the composition and independence of its Board. Ensuring the Board has the right composition and set of skills, expertise, experience and values to support the expansion and globalisation of the Afterpay business is critical to the Group's long-term success.

Reflecting this, and as announced to the market in July 2019, the Group is in the process of transitioning to a majority independent Board with an independent Chair. As noted above, an initial step towards this transition was the appointment of Elana Rubin as Independent Interim Chair (effective 1 July 2019) until a new independent Chair is appointed. Executive Chairman (Anthony Eisen) assumed the role of Chief Executive Officer and Managing Director (effective 1 July 2019).

The Group is currently in the process of conducting a global search to recruit at least two additional independent Directors and an independent Chair to complement the skill sets of existing Non-Executive Directors and to support the international expansion of the Group.

The Board undertook a review of Non-Executive Directors' fees with external assistance in FY19 to ensure that fees are set at market-competitive levels to support the attraction and retention of world-class Director talent (refer section 6.3 for further detail).

6.2 REMUNERATION POLICY AND ARRANGEMENTS

The Board sets the fees for the Non-Executive Directors in line with the key objectives of the Group's Non-Executive Director remuneration policy set out below. The Remuneration & Nomination Committee makes recommendations to the Board regarding remuneration for Non-Executive Directors.

The Executive Directors are not entitled to be paid Directors' fees. This extended to Anthony Eisen in his role as Executive Chair during FY19.

NON-EXECUTIVE DIRECTOR REMUNERATION POLICY

Market competitive to secure and retain talented, qualified Directors	Preserving and safeguarding independence and impartiality	Aligning Director and security holder interests
The Board's policy is to remunerate Non-Executive Directors at market-competitive rates to attract and retain Non-Executive Directors of the highest calibre and requisite expertise having regard to: • fees paid for comparable companies; and • the size, complexity and international spread of the Group's operations	Director remuneration consists of base fees, and additional fees for the Chair and members of any Board Committee (with the exception of the new role of independent Chair who will receive an all-inclusive fee from FY20). No element of Non-Executive Director remuneration is 'at risk' (i.e. Non-Executive Directors are not entitled to any performance-related remuneration) to preserve the Directors' independence and impartiality.[1]	Directors are encouraged to hold securities in the Group to create alignment between the interests of Directors and shareholders. In FY19, the Group introduced a formal minimum shareholding policy for Non-Executive Directors to further strengthen this alignment (refer section 6.4).

1. Non-Executive Director Clifford Rosenberg was granted options under legacy arrangements (in respect of pre-IPO advisory services and service on the Board of Afterpay at the time of IPO), which were exchanged for APT options as part of the merger of Afterpay Holdings and Touch Group. These relate to legacy one-off arrangements and have now fully vested.

6.3 FEES AND OTHER BENEFITS

(a) Board and Committee fees

As noted above, during FY19, the Board undertook a review of Non-Executive Directors' fees and independent remuneration consultants were engaged to provide market data in respect of Directors' fees and the aggregate fee pool.

The Board determined that an increase to Board and Committee fees was appropriate (in conjunction with the introduction of a new minimum shareholding requirement – refer section 6.4) having regard to:

- **the need to be market competitive for world-class Non-Executive Director talent.** The Group's current fees were set when the Group was significantly smaller in market capitalisation, complexity and geographic spread, and were positioned well below market relative to other Australian companies of a comparable size by market capitalisation (i.e. generally below the 10th percentile), as well as the fees paid by other specific ASX-listed comparator companies in the fin-tech and technology sectors.

  Reflecting the need to ensure the Group is able to attract and retain high-calibre Non-Executive Directors with the requisite skills, expertise and experience (recognising the Board is responsible for the stewardship of the Group), Board and Committee fees have been increased to be positioned just below the median of the market capitalisation comparator group (comprising companies' market capitalisation ranging from $2.5bn to $9.95bn at the time of preparation of the market data during FY19). Market competitiveness of fees is particularly important as the Group looks to recruit at least two additional Non-Executive Directors to support the Group's global expansion.

  In addition, as the Board seeks to attract overseas directors (particularly out of the US where director fee levels are significantly higher than Australian fees), the Board will retain the discretion to provide overseas Directors with an uplift to the base member fee (as set out below) of up to 50% (as required). This uplift would not apply to Committee fees; and

- **the significant workload of directors** in light of the international expansion of the Group into new markets, including the UK, and the increasing complexity of the regulatory environment in which the Group operates.

The table below sets out the fees payable (inclusive of superannuation) to the Non-Executive Directors during FY19 and the fees proposed for FY20 (effective 1 July 2019). As noted above, overseas directors on the Afterpay Board may receive an uplift of up to 50% on the FY20 base member fee (as required) to ensure market competitiveness. Committee fees are paid in addition to the Non-Executive Director base fee, with the exception of the newly created role of independent Chair who receives an 'all-inclusive fee' and is not eligible for additional Committee fees.

NON-EXECUTIVE DIRECTOR FEES

BOARD AND COMMITTEE FEES (PER ANNUM)	FY19 (AS OF 1 JANUARY 2019)	FY20 (EFFECTIVE 1 JULY 2019)[1]	MEDIAN FEE ($) IN COMPARATOR GROUP[2]
Chair of the Board – base fee	N/A[3]	$350,000 (all inclusive)[4]	$383,500
Non-Executive Director – base fee	$85,000	$150,000[5]	$153,300
Committee Chair (Audit, Risk & Compliance)	$20,000	$30,000	$35,200
Committee Chair (Remuneration & Nomination)	$15,000	$25,000	$31,000
Committee Member (Audit, Risk & Compliance)	$5,000	$15,000	$18,200
Committee Member (Remuneration & Nomination)	$5,000	$12,500	$16,500

1. As noted above, consideration will be given to any impact on Non-Executive Director fees (if appropriate), following the release of the final report of the AUSTRAC audit.
2. These figures represent the median fee (i.e. 50th percentile) of the comparator group comprising companies with a market capitalisation ranging from $2.50bn to $9.95bn at the time of preparation of the data. The Board also considered the fees paid by other specific ASX listed comparator companies in the fin-tech and technology sectors and a number of additional factors, including complexity of operations, geographic spread and workload of Directors, in determining an appropriate level of fees for FY20.
3. Anthony Eisen held the position of Executive Chairman during FY19. He assumed the role of Chief Executive Officer and Managing Director effective 1 July 2019. Anthony did not receive Non-Executive Director fees during FY19 in his role as Executive Chairman.
4. Elana Rubin assumed the role of Independent Interim Chair effective 1 July 2019. Elana's fee is all-inclusive, i.e. she will not receive additional Committee fees.
5. The Board will retain the discretion to provide overseas directors with an uplift to the base member fee of up to 50% (as required).

In addition to Board fees, Non-Executive Directors are entitled to be reimbursed for all reasonable business-related expenses, including travel, as may be reasonably incurred in the discharge of their duties. The Group does not make sign-on payments to new Non-Executive Directors and the Board does not provide for retirement allowances / benefits for Non-Executive Directors (other than superannuation).

(b) Aggregate fee pool

Non-Executive Directors' fees (including committee fees) were set by the Board within the maximum aggregate amount of $700,000 in FY19.

In recognition of the need to appropriately compensate an independent Chair and to provide the flexibility to appoint multiple new Non-Executive Directors in the medium term (including overseas Directors), shareholder approval will be sought at the 2019 AGM to increase the fee pool cap to $1,800,000. The proposed fee pool of $1,800,000 is positioned below the median fee pool of companies within the market capitalisation comparator group (noted above) of $1,950,000.

6.4 NEW MINIMUM SHAREHOLDING REQUIREMENTS (FY20)

In FY19, the Board resolved to introduce a new minimum shareholding requirement for its Non-Executive Directors to facilitate share ownership and further strengthen the alignment between Directors and the Group's shareholders.

The table below sets out key information regarding this policy.

NEW MINIMUM SHAREHOLDING REQUIREMENTS

	QUANTUM	TIMEFRAME
Non-Executive Directors	1 x base member fee[1]	The later of: • 3 years from the effective date of the policy; and • 3 years from date of commencement as Non-Executive Director

1. Base member fee is calculated net of income tax.

6.5 NON-EXECUTIVE DIRECTORS – STATUTORY REMUNERATION

The fees paid or payable to the Non-Executive Directors of the Group in respect of the 2019 financial year are set out in the table below.

NON-EXECUTIVE DIRECTORS – STATUTORY REMUNERATION

AFTERPAY TOUCH GROUP REMUNERATION FOR THE YEARS ENDING 30 JUNE 2019 AND 30 JUNE 2018	FINANCIAL YEAR	SHORT TERM BENEFITS SALARY & FEES $	LONG-TERM BENEFITS SUPERANNUATION $	SHARE BASED PAYMENTS OPTIONS $	TOTAL $	PERFORMANCE RELATED %
Elana Rubin	**2019**	**109,589**	**10,411**	**-**	**120,000**	**0%**
	2018	94,959	7,541	-	102,500	0%
Clifford Rosenberg	**2019**	**105,000**	**-**	**1,790[3]**	**106,790**	**2%**
	2018	97,802	2,375	8,037[3]	108,214	7%
Dana Stalder	**2019**	**90,000**	**-**	**-**	**90,000**	**0%**
	2018[1]	26,192	-	-	26,192	0%
Michael Jefferies[2]	2018[2]	47,359	2,814	163	50,336	0%
TOTAL	**2019**	**304,589**	**10,411**	**1,790**	**316,790**	**-**
	2018	266,312	12,730	8,200	287,242	

1. Dana Stalder was appointed as a Non-executive Director on 24 January 2018.
2 Michael Jefferies was Non-Executive Director for the period of 5 July 2017 to 16 January 2018.
3 Clifford Rosenberg was granted options under legacy arrangements (in respect of pre-IPO advisory services and service on the Board of Afterpay at the time of IPO), which were exchanged for APT options as part of the merger of Afterpay Holdings and Touch Group. These relate to legacy one-off arrangements and have now fully vested.

7 Remuneration governance

7.1 RESPONSIBILITY FOR SETTING REMUNERATION

The Group has a robust governance framework in place to ensure the Group's remuneration practices are fair, reasonable and consistent with best practice. The diagram below provides an overview of this framework.

AFTERPAY TOUCH GROUP BOARD

Review and approve remuneration policy and principles, remuneration framework for executives and Non-Executive Directors, and specific remuneration outcomes for Executive KMP (including exercise of discretion).

REMUNERATION & NOMINATION COMMITTEE

ROLE AND RESPONSIBILITIES

The Board has adopted a Remuneration Policy. In line with that Policy, the Committee is responsible for assisting the Board to set the Remuneration Policy and determine the appropriate remuneration for Directors and senior management. The Committee refers to the Policy when developing Board recommendations about Executive KMP remuneration outcomes.

The Remuneration & Nomination Committee Charter sets out the Remuneration & Nomination Committee's role and responsibilities, composition, structure and membership requirements.

COMPOSITION

It is critical that the Remuneration & Nomination Committee is independent of management Management when making decisions affecting employee remuneration. Accordingly, the Committee consists entirely of Non-Executive Directors, all of whom are independent. Where appropriate, the Group Head, Chief Executive Officer and Managing Director, and Chief Financial Officer attend Committee meetings. However, they do not participate in formal decision-making or in discussions relating to their own remuneration.

MANAGEMENT

Proposals on executive remuneration outcomes implementing remuneration policies

REMUNERATION ADVISERS

External and independent remuneration advice and information (refer section 7.2 for further detail)

For further details of the composition and responsibilities of the Remuneration & Nomination Committee, please refer to Corporate Governance Statements on our website (https://www.afterpaytouch.com/corporate-governance/)

7.2 USE OF REMUNERATION CONSULTANTS

The Remuneration & Nomination Committee (through the Chair of the Committee) may seek and consider advice from external advisers from time to time to assist the Committee discharge its duties. Any advice from consultants is used to guide the Committee and the Board, but does not serve as a substitute for thorough consideration by Non-Executive Directors.

During the Reporting Period, KPMG 3dc were engaged by the Remuneration & Nomination Committee to provide independent advice on a range of matters, including Executive KMP remuneration. In FY19, KPMG 3dc provided remuneration recommendations as defined in section 9B of the *Corporations Act 2001* in relation to the Executive KMP remuneration framework for Executive KMP and Non-Executive Director fees for FY20. KPMG 3dc was paid $75,000, excluding GST for these services.

The Board is satisfied that the recommendations were made free from any undue influence by the member or members of Executive KMP to whom the recommendations relate. In addition to adhering to Board-approval protocols, KPMG 3dc provided a formal declaration in this regard.

KPMG as a firm also provided other advice related to broader data, governance, tax and legal services during FY19. KPMG was paid a total of $195,500, excluding GST, and disbursements for services provided to Afterpay Touch Group during FY19.

7.3 DETAILS OF EXECUTIVE SERVICE AGREEMENTS

All Executive KMP have a written Executive Service Agreement with the Group. The key terms of these agreements are detailed in the table below.

KEY TERMS OF EXECUTIVE KMP CONTRACTS IN FY19

TERM	EXECUTIVE KMP
DURATION	Ongoing term
PERIODS OF NOTICE REQUIRED TO TERMINATE	Either party may terminate the contract by giving three months' notice for all Executive KMP other than David Hancock for whom six months' notice applies. The Group may terminate immediately in certain circumstances, including where the relevant Executive KMP engages in serious misconduct.
TERMINATION PAYMENTS	David Hancock is entitled to six months' base salary where termination occurs (i) by the Group without notice or for incapacity, or (ii) by David Hancock on other grounds (such as a material adverse change in role). David Hancock is not entitled to this payment if the Group terminates for cause. Other members of the Executive KMP are entitled to three months' salary where termination occurs other than for cause.

7.4 EXECUTIVE KMP AND DIRECTOR SHARE OWNERSHIP

The two tables below set out the number of shares held directly, indirectly or beneficially by Directors and Executive KMP (including their related parties).

Co-Founders Anthony Eisen and Nick Molnar retain a significant shareholding in the Group and do not intend to sell any further shares during the next financial year (FY20). As indicated to the market, both Anthony and Nick remain fully committed to the Group and remain as excited as ever to continue to build Afterpay's global footprint.

MOVEMENTS IN SHAREHOLDINGS NOT HELD UNDER AN EMPLOYEE SHARE PLAN

NON-EXECUTIVE DIRECTORS	OPENING BALANCE 1-JUL-18	PURCHASE OF SHARES	DISPOSAL OF SHARES	OTHER CHANGES DURING THE YEAR	BALANCE 30-JUN-19
Elana Rubin	56,567	574	-	-	57,141
Clifford Rosenberg	800,000	574	(150,000)	-	650,574
Dana Stalder	-	-	-	-	-
EXECUTIVE KMP					
Anthony Eisen	22,500,000	574	(2,050,000)	-	20,450,574
David Hancock	1,900,000	-	(950,000)	-	950,000
Nick Molnar	22,500,000	574	(2,050,000)	-	20,450,574
Luke Bortoli	-	50,000	(50,000)	-	-

MOVEMENTS IN SHAREHOLDINGS HELD UNDER AN EMPLOYEE SHARE PLAN

NON-EXECUTIVE DIRECTORS	INSTRUMENT	OPENING BALANCE 1-JUL-18	GRANTED	EXERCISED	LAPSED / CANCELLED	BALANCE 30-JUN-19	EXERCISABLE 30-JUN-19
Clifford Rosenberg	Options[2]	900,000	-	-	-	900,000	900,000
EXECUTIVE KMP							
Anthony Eisen	Options	1,500,000	-	-	-	1,500,000	1,500,000
David Hancock[1]	Options	200,000	2,699,087	-	-	2,899,087	1,406,532
	Loan Shares	2,000,000	-	-	(2,000,000)	-	-
Nick Molnar	Options	1,500,000	-	-	-	1,500,000	1,500,000
Luke Bortoli	Options	1,350,000	-	-	-	1,350,000	450,000

1 David Hancock's one-off 2,000,000 loan shares awarded in FY18 were included for accounting purposes and disclosed in the 2018 Remuneration Report pending approval by shareholders. The 2,000,000 loan shares were cancelled and replaced with 2,699,087 options as approved at the FY18 AGM.
2 Clifford Rosenberg was granted options under legacy arrangements (in respect of pre-IPO advisory services and service on the Board of Afterpay at the time of IPO), which were exchanged for APT options as part of the merger of Afterpay Holdings and Touch Group. These relate to legacy one-off arrangements and have now fully vested.

8 Further information

8.1 US ESOP

A share option plan was established in Afterpay US, Inc. (Afterpay US) for its employees in June 2018 with a total option pool of 10% of Afterpay US at that time per the terms of the US Employee Share Ownership Plan (US ESOP). The US ESOP was approved by shareholders at the 2018 AGM. No KMP participated in the US ESOP Plan. Refer to section 3.4 of our FY18 Remuneration Report for further detail.

The US ESOP was intended to facilitate the attraction and retention of world-class talent in the US who are critical to delivering the Group's US growth aspirations. The Board believes the US ESOP has been successful in its aims and critical to attracting the talent needed to achieve the success that Afterpay has been able to achieve in a short timeframe in the US market.

There are a small number of US ESOP awards that are currently proposed but have not yet been issued that will be made in the short term. It is expected that these awards will take the US ESOP issuance close to (or at) the 10% limit of the Afterpay US option pool. **There is no intent to expand the US ESOP beyond the 10% maximum threshold (noted above)**.

In response to stakeholder concerns as to the transparency of the US ESOP for the Group's shareholders, **the US ESOP will be closed to new offers once the small number of US awards noted above have been made. This will occur within the next 12 months.**

Going forward, new incentive awards made to US employees will be provided by way of equity awards in the Parent company (i.e. the Australian listed entity being Afterpay Touch Group Limited) to ensure consistency with market practice and transparency for our shareholders. All existing US ESOP grants will remain on foot to be tested (as appropriate) and vest in the ordinary course to provide certainty to our people.

As previously announced, the shares in Afterpay US that may be issued to participants in the US ESOP can be exchanged for shares in the Group in certain circumstances. The number of shares in the Group that may be issued in exchange will be based on a valuation of Afterpay US and is capped at 21,777,661 (being 10% of the number of shares on issue at the date the Matrix convertible notes issue was announced). This maximum number is now less than 9% of current shares on issue in the Group due to further share issues since that date.

8.2 UK ESOP

Under the terms of the acquisition of Clearpay Finance Limited (Clearpay), Thinksmart Limited (Thinksmart) retained 10% of the issued shares in Clearpay and agreed (as part of the sale and purchase agreement) to provide for an option pool out of this holding that could be used for the purposes of a UK Employee Share Option Plan (UK ESOP). The intention to operate the UK ESOP over Thinksmart's shares in Clearpay was announced at the time of the transaction.

As of the reporting date, the terms of the UK ESOP are not finalised and no options have been granted under the plan. However, as previously announced, the UK ESOP options will not be options over unissued shares in Clearpay, but will instead entitle employees to acquire existing Clearpay shares from the 10% of Clearpay that is held by ThinkSmart. A maximum of 3.5% of Clearpay is allocated from ThinkSmart's holding for this purpose, at no cost to Clearpay. **In this way, the UK ESOP will not dilute the Group's 90% shareholding in Clearpay.**

As previously announced, the shares in Clearpay held by ThinkSmart and by UK ESOP participants may be exchanged for shares in the Group in certain circumstances, and the Group may elect to pay the assessed value in cash instead of shares. The number of shares in the Group that may be issued for such an exchange will be based on a valuation of Clearpay. In relation to the Clearpay shares held by UK ESOP participants, the number of Group shares is intended to be capped at 3% of shares on issue at the date of adoption of the UK ESOP.

There are a number of options that are proposed to be issued to UK employees in the period immediately following the UK ESOP terms being finalised. After the 3.5% of Clearpay pool has been allocated to UK employees (which is expected to occur within 12 months), **new incentive awards made to UK employees will be provided by way of equity awards in the Parent company (i.e. the Australian listed entity being Afterpay Touch Group Limited) to ensure consistency with market practice and transparency for our shareholders.**

8.3 MOVEMENT OF SECURITIES

The table below discloses the number of share options and loan shares granted, vested or lapsed during the year for Executive KMP.

OPTIONS AND LOAN SHARES AWARDED, VESTED AND LAPSED DURING THE REPORTING PERIOD FOR EXECUTIVE KMP

KEY MANAGEMENT PERSONNEL	FINANCIAL YEAR	OPTIONS AWARDED DURING THE REPORTING PERIOD	AWARD DATE	FAIR VALUE PER OPTION AT AWARD DATE3 $	VESTING DATE[4]	EXERCISE PRICE $	EXPIRY DATE	NO. VESTED DURING THE REPORTING PERIOD	NO. LAPSED DURING THE REPORTING PERIOD	VALUE OF OPTIONS GRANTED DURING THE REPORTING PERIOD $	VALUE OF OPTIONS / LOAN SHARES EXERCISED DURING THE REPORTING PERIOD $
Anthony Eisen	2019	-	-	-	-	-	-	500,000	-	-	-
David Hancock[1]	2019	2,699,087	5/12/18	10.37	1/9/18	2.7	1/9/22	1,273,199	-	27,989,532	-
Nick Molnar	2019	-	-	-	-	-	-	500,000	-	-	-
Luke Bortoli[2]	2019	-	-	-	-	-	-	450,000	-	-	-

1. David Hancock's one-off 2,000,000 loan shares awarded in 2018 were included for accounting purposes and disclosed in the 2018 Remuneration Report pending approval by shareholders. The 2,000,000 loan shares were cancelled and replaced with 2,699,087 options as approved at the 2018 AGM. 1,206,532 options vested on 1 September 2018 in respect of this award and 1,492,555 options will be tested for vesting conditions at 1 September 2019. David also 66,667 options vest in FY19 and FY18 relating to David's service on the Board of Afterpay through the IPO process.
2. One third of Luke Bortoli's options vested on 1 June 2019, the remaining two thirds will vest on 1 June 2020 and 1 June 2021, respectively.
3. The fair value of options and loan shares are calculated using the Binomial Model.
4. Vesting date is the earliest date the vested options can be exercised.

8.4 OTHER TRANSACTIONS AND BALANCES WITH EXECUTIVE KMP

(a) Loans to Executive KMP

No Executive KMP or their related parties held any loans from the Group during the Reporting Period.

(b) Other Executive KMP transactions

The Group did not engage in any transactions with Executive KMP or their related parties during the Reporting Period.

AFTERPAY TOUCH GROUP FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019	NOTE	2019 $'000	2018[1] $'000
Afterpay income	2	200,868	88,328
Pay Now revenue	2	17,095	25,571
Other income	2	46,149	28,446
Total income		**264,112**	**142,345**
Cost of sales		(59,562)	(28,210)
Gross profit		**204,550**	**114,135**
Depreciation & amortisation expenses	3	(22,371)	(17,329)
Employment expenses	3	(51,445)	(22,245)
Share-based payment expenses		(30,545)	(16,374)
Receivables impairment expenses	6	(58,675)	(32,610)
Operating expenses	3	(73,210)	(27,077)
Operating loss		**(31,696)**	**(1,500)**
Finance income		563	531
Finance cost		(11,653)	(6,617)
Loss before tax		**(42,786)**	**(7,586)**
Income tax expense	10a	(1,013)	(1,390)
Loss for the year		**(43,799)**	**(8,976)**
Other comprehensive loss			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods (net of tax)			
Exchange differences on translation of foreign operations		(776)	(45)
Total other comprehensive loss for the period, net of tax		**(776)**	**(45)**
Total comprehensive loss for the year, net of tax		**(44,575)**	**(9,021)**
Loss attributable to			
Owners of Afterpay Touch Group Limited		(42,861)	(8,976)
Non-controlling interests		(938)	-
Earnings per share for loss attributable to the ordinary equity holders of Afterpay Touch Group Limited	4	$	$
Basic loss per share		(0.18)	(0.04)
Diluted loss per share		(0.18)	(0.04)

1. Due to the adoption of AASB 15 for Afterpay income and Pay Now revenue, and the adoption of AASB 9 for Receivables impairment expenses using the modified retrospective approach, the 2018 comparatives are not comparable to 2019 for recognition and measurement, as disclosed further in Note 24.

The above Consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019	NOTE	2019 $'000	2018 [1] $'000
ASSETS			
Current Assets			
Cash & cash equivalents	5	231,456	32,559
Receivables	6	452,699	239,068
Other financial assets	7	3,003	23,935
Other current assets		9,130	7,859
Total Current Assets		**696,288**	**303,421**
Non-Current Assets			
Property, plant & equipment	8	4,213	4,008
Intangible assets	9	89,072	72,495
Deferred tax assets	10d	27,280	9,261
Other non-current financial assets	7	3,035	2,165
Other non-current assets		580	875
Total Non-Current Assets		**124,180**	**88,804**
TOTAL ASSETS		**820,468**	**392,225**
LIABILITIES			
Current Liabilities			
Trade & other payables		109,981	42,916
Employee benefit provision		2,585	1,793
Contract liabilities		100	252
Interest bearing borrowings	12	597	50
Financial liabilities	13	1,772	-
Income tax payable	10	5,370	1,582
Total Current Liabilities		**120,405**	**46,593**
Non-Current Liabilities			
Employee benefits provision		317	157
Office lease provision		565	365
Financial liabilities	13	1,039	-
Interest bearing borrowings	12	49,626	161,555
Total Non-Current Liabilities		**51,547**	**162,077**
TOTAL LIABILITIES		**171,952**	**208,670**
NET ASSETS		**648,516**	**183,555**
EQUITY			
Issued capital	11	674,769	192,628
Accumulated losses		(70,575)	(22,195)
Reserves		41,365	13,122
Equity attributable to the owners of Afterpay Touch Group Limited		**645,559**	**183,555**
Non-controlling interests		2,957	-
TOTAL EQUITY		**648,516**	**183,555**

1. Due to the adoption of AASB 15 for Afterpay income and Pay Now revenue, and the adoption of AASB 9 for Receivables impairment expenses using the modified retrospective approach, the 2018 comparatives are not comparable to 2019 for recognition and measurement, as disclosed further in Note 24.

The above Consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019	ISSUED CAPITAL $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	ACCUMULATED LOSSES $'000	RESERVES $'000	TOTAL $'000	NON-CONTROLLING INTEREST $'000	TOTAL $'000
At 1 July 2018	**192,628**	**(45)**	**(22,195)**	**13,167**	**183,555**	**-**	**183,555**
Initial application of accounting standards[1]	-	-	(5,519)	-	**(5,519)**	-	**(5,519)**
At 1 July 2018	**192,628**	**(45)**	**(27,714)**	**13,167**	**178,036**	**-**	**178,036**
Loss for the period	-	-	(42,861)	-	**(42,861)**	(938)	**(43,799)**
Other comprehensive loss	-	(776)	-	-	**(776)**	-	**(776)**
Total comprehensive loss for the period	**-**	**(776)**	**(42,861)**	**-**	**(43,637)**	**(938)**	**(44,575)**
Transactions							
Issue of share capital	459,269	-	-	-	**459,269**	-	**459,269**
Share issue expenses (net of tax)	(10,050)	-	-	-	**(10,050)**	-	**(10,050)**
Issue of ordinary shares, as consideration for a business combination	17,826	-	-	-	**17,826**	-	**17,826**
Non-controlling interest on acquisition of subsidiary	-	-	-	(1,039)	**(1,039)**	1,981	**942**
Share options exercised	15,096	-	-	(3,678)	**11,418**	372	**11,790**
Share-based payments	-	-	-	33,736	**33,736**	1,542	**35,278**
At 30 June 2019	**674,769**	**(821)**	**(70,575)**	**42,186**	**645,559**	**2,957**	**648,516**

1. Refer Note 24 for details

FOR THE YEAR ENDED 30 JUNE 2018	ISSUED CAPITAL $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	ACCUMULATED LOSSES $'000	RESERVES $'000	TOTAL $'000	NON-CONTROLLING INTEREST $'000	TOTAL $'000
At 1 July 2017	**171,411**	**-**	**(13,219)**	**1,891**	**160,083**	**-**	**160,083**
Loss for the year	-	-	(8,976)	-	**(8,976)**	-	**(8,976)**
Other comprehensive loss	-	(45)	-	-	**(45)**	-	**(45)**
Total comprehensive loss for the year	**-**	**(45)**	**(8,976)**	**-**	**(9,021)**	**-**	**(9,021)**
Transactions							
Issue of share capital	18,700	-	-	-	**18,700**	-	**18,700**
Share issue expenses (net of tax)	(203)	-	-	-	**(203)**	-	**(203)**
Share options exercised	2,720	-	-	(431)	**2,289**	-	**2,289**
Share-based payments	-	-	-	11,707	**11,707**	-	**11,707**
At 30 June 2018	**192,628**	**(45)**	**(22,195)**	**13,167**	**183,555**	**-**	**183,555**

The above Consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019	NOTE	2019 $'000	2018[1] $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods & services tax)		4,823,012	2,208,612
Payments to employees (inclusive of on-costs)		(39,827)	(17,853)
Payments to merchants & suppliers (inclusive of goods & services tax)		(4,916,304)	(2,287,985)
Income taxes paid		(9,073)	(1,004)
Net cash (outflow) from operating activities	5	**(142,192)**	**(98,230)**
Cash flows from investing activities			
Interest received		686	524
Increase in term deposits		(866)	(2,165)
Payments for development of intangible assets		(21,055)	(11,499)
Purchase of intangibles		(485)	-
Purchase of plant & equipment		(2,070)	(1,082)
Proceeds from sale of business		7,500	-
Net cash (outflow) from investing activities		**(16,290)**	**(14,222)**
Cash flows from financing activities			
Proceeds from borrowings		414,988	179,663
Repayment of borrowings		(526,493)	(65,000)
Decrease/(increase) of restricted cash		21,711	(14,848)
Proceeds from exercise of share options		13,631	2,276
Proceeds from issue of shares		459,269	18,700
Capital raising expenses		(11,424)	-
Interest & bank fees paid		(14,549)	(7,009)
Net cash inflow from financing activities		**357,133**	**113,782**
Net increase in cash & cash equivalents		198,651	1,330
FX on cash balance		246	1,627
Cash & cash equivalents at beginning of the year		32,559	29,602
Cash & cash equivalents at end of the year	5	**231,456**	**32,559**

1. The prior year cash at end of year balance has been restated to be comparable with the current year presentation of cash in transit. Other comparative cash flow figures have been updated accordingly.

The above Consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The Consolidated Financial Statements of Afterpay Touch Group Limited for the financial year ended 30 June 2019 were authorised for issue in accordance with a resolution of the Directors on 28 August 2019.

The securities of Afterpay Touch Group Limited (the Company) are listed on the Australian Securities Exchange (ASX). The activities of Afterpay Touch Group Limited and its subsidiaries (the Group) are described in the Directors' Report. The Group's principal place of business is 406 Collins Street, Melbourne, Victoria, Australia.

The Company was incorporated on 30 March 2017 as a for-profit company and domiciled in Australia.

These financial statements:

- are general-purpose financial statements, which have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001*;
- comply with Australian Accounting Standards and International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board;
- have been prepared on a going concern basis using historical cost basis and is presented in Australian dollars and all values are rounded to the nearest thousand ($'000), except when otherwise indicated in accordance with the Australian Securities and Investments Commission (ASIC) Corporations Instrument 2016/191;
- where necessary, comparative information has been restated to conform to changes in presentation in the current year; and
- apply significant accounting policies consistently to all periods presented, unless otherwise stated.

Significant estimates and judgements

Management has identified a number of accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of these assumptions may be found in the following notes to the financial statements:

Note 6 Receivables;

Note 9 Intangible assets;

Note 10 Taxation; and

Note 19 Share-based payment plans.

GROUP PERFORMANCE

2. SEGMENT INFORMATION

The Group's reportable operating segments have been identified based on the financial information currently provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer and Managing Director, Global Chief Revenue Officer and Executive Director and Global Chief Financial Officer. The business operates under the following segments:

- **Afterpay AU:** Comprises the Afterpay Australia platform;
- **Afterpay US:** Comprises the Afterpay United States platform;
- **Afterpay Other:** Comprises other Afterpay platforms outside of Australia and the United States that are in expansion phase or below the quantitative thresholds per AASB 8 *Operating Segments*;
- **Pay Now:** Comprises Mobility, Health and e-Services; and
- **Corporate:** Comprises Group expenses that are not directly attributable or allocated to the Afterpay or Pay Now segments.

Non-IFRS financial measures are reviewed by the CODM for decision making purposes. EBITDA (excluding significant items) has been disclosed in the period as it is the most IFRS-like measure reported to the CODM.

The number of operating segments has increased from the 30 June 2018 financial statements as a reflection of the new markets in which the Group has entered with the Afterpay services. The 2018 comparatives have been restated in line with the current year presentation. The Group is in the early stages of expanding the Afterpay platform into markets outside of Australia. The Group is reviewing its global operating model, financial reporting systems and relevant financial measures reviewed by the CODM for decision making purposes in light of its expansion. The Group's reportable operating segments may change in the future in line with this expansion and review.

Services provided between operating segments are on an arm's-length basis and are eliminated on consolidation.

YEAR ENDED 30 JUNE 2019	AFTERPAY AU $'000	AFTERPAY US $'000	AFTERPAY OTHER $'000	PAY NOW $'000	CORPORATE $'000	TOTAL $'000
Total segment income [1]	**196,832**	**39,002**	**11,183**	**17,095**	**-**	**264,112**
Segment results						
Segment pro forma EBITDA (excl. significant items and accounting standard charges)	**90,661**	**(21,963)**	**(3,008)**	**4,930**	**(35,141)**	**35,479**
Initial application of new accounting standards [2]	(3,681)	(2,591)	(514)	-	-	(6,786)
Segment EBITDA (excl. significant items) [3]	**86,980**	**(24,554)**	**(3,522)**	**4,930**	**(35,141)**	**28,693**
Share-based payments						(30,545)
One-off items						(7,473)
EBITDA						**(9,325)**
Depreciation & amortisation						(22,371)
EBIT						**(31,696)**
Net finance expense						(11,090)
Loss before income tax						**(42,786)**
Income tax expense						(1,013)
Loss for the year						**(43,799)**

1. Total segment income includes Afterpay income, Pay Now revenue and Other income, which relates to Afterpay's late fees.
2. Initial application of new accounting standards is recognised in current period results, whereas, as permitted by AASB 15 and AASB 9, the prior corresponding period impact was reflected in the opening retained earnings for the 30 June 2019 financial year.
3. Segment EBITDA (excluding significant items) excludes the impact of share-based payments and one-off items.

YEAR ENDED 30 JUNE 2018	AFTERPAY AU $'000	AFTERPAY US $'000	AFTERPAY OTHER $'000	PAY NOW $'000	CORPORATE $'000	TOTAL $'000
Total segment income	**114,202**	**484**	**2,088**	**25,571**	**-**	**142,345**
Segment results						
Segment EBITDA (excl. significant items) [1]	**43,633**	**(2,747)**	**96**	**7,247**	**(13,066)**	**35,163**
Share-based payments						(16,374)
One-off items						(2,960)
EBITDA						**15,829**
Depreciation & amortisation						(17,329)
EBIT						**(1,500)**
Net finance expense						(6,086)
Loss before income tax						**(7,586)**
Income tax expense						(1,390)
Loss for the year						**(8,976)**

1. Segment EBITDA (excluding significant items) excludes the impacts of share-based payments and one-off items.

Significant accounting policies – Revenue & Income

Pay Now Revenue Recognition

The Pay Now business primarily generates its revenue via transaction fees for delivery of completed transactions and integration fees to connect new, or grant existing customers access to additional service models.

The transaction revenue is generated from facilitating the sales of electronic products and services where the Group receives a fee (either fixed or a percentage of the transaction volume) for every successful transaction. Revenue is recognised on completion of a successful transaction or when products are delivered and activated by end-customers. The Group is generally remunerated for the transactional services on a weekly and monthly basis.

Revenue from integration services is considered a distinct service, and is recognised by reference to the stage of completion of a contract or contracts in progress at balance date. Stage of completion is measured by reference to labour hours of each contract, which aligns with the transfer of the services. Where there is a final customer acceptance condition in the contract, revenue is recognised only upon customer acceptance.

For the financial year ended 30 June 2019, the transaction and integration revenue post adoption of AASB 15 *Revenue from Contracts with Customers* was $15.6 million (2018: $23.0 million) and $1.5 million (2018: $2.6 million), respectively. As the Group adopted AASB 15 on 1 July 2018 and used the modified retrospective approach, the 2018 comparatives are not comparable to 2019 for recognition and measurement. Refer below for further details.

The Group continues to recognise its 'Contract liabilities' under AASB 15 in respect of any unsatisfied performance obligations. Any liabilities are disclosed as 'Contract liabilities' in the Consolidated statement of financial position. The Group does not have any contract assets due to the invoicing and payment terms generally being in advance of the service provision.

The Group does not have contracts where the period between the transfer of the promised good or services to the customer and payment by the customer exceeds 1 year. Therefore, the Group does not adjust any of the transaction prices for the time value of money. Payments from customers are generally collected within 30 days of the provision of services.

Income Recognition

Afterpay income

Afterpay income is derived from the difference between the customer's underlying order value processed on the Afterpay platform and the amount paid to the merchant by Afterpay, referred to as Merchant fees. Afterpay pays merchants upfront the net amount of the previous day orders less the Merchant fees, which consists of fixed and variable rates, and Afterpay then assumes all non-repayment risk from the customer. There are no interest or fees charged by Afterpay to customers, other than late fees described below.

Merchant fees are recognised in the Consolidated statement of comprehensive income using the Effective Interest Rate (EIR) method, accreting the Merchant fees over the average period from initial payment to the merchant by Afterpay to the final instalment paid by the customer to Afterpay. The Group defers Afterpay income over the average time it takes for the collection of the receivable to occur, with the current average weighted duration to recoup end-customer payments being approximately 30 days or less.

Other income – Late fees

Late fee charges are currently used by Afterpay as an incentive to encourage end-customers to pay their outstanding balances as and when they fall due. Late fees are recognised as Other income when late fees become payable and are expected to be recovered.

Impact of the adoption of AASB 15 *Revenue from Contracts with Customers* (AASB 15) on Revenue & Income.

(a) Impact on initial adoption

The Group has adopted AASB 15 using the modified retrospective method with the date of initial application of 1 July 2018. The cumulative effect of applying AASB 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, information for the prior corresponding period was not restated. Refer to Note 24 for further information.

(b) Impact of adoption on current year

AASB 15 supersedes AASB 118 *Revenue* and related interpretations, and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. It makes several changes to the previous guidance on the criteria to which revenue is recognised. By applying the five-step approach specified in the standard, the recognition of revenue is directly aligned with the delivery of performance obligations specified within the contracts with customers.

The Group has performed an assessment of its contracts with customers in accordance with AASB 15 and has determined the following impacts and changes to its accounting policies as a result of adoption.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (EXTRACT)	30 JUNE 2019 UNDER AASB 15 & AASB 9 [1]	AASB 15 & AASB 9 ADJUSTMENTS	30 JUNE 2019 UNDER AASB 118
	$'000	$'000	$'000
Afterpay income	200,868	4,617	205,485
Pay Now revenue	17,095	3,796	20,891
Other income	46,149	-	46,149
Total income	**264,112**	**8,413**	**272,525**
Cost of sales	(59,562)	(3,796)	(63,358)
Gross profit	**204,550**	**4,617**	**209,167**

1. Afterpay income is recognised under AASB 9 as of 1 July 2018 as discussed below.

Afterpay income

Prior to the adoption of AASB 9 and AASB 15, Afterpay income was recognised as revenue at customer order date in accordance with AASB 118. Due to the adoption of the new standards, Afterpay income (previously disclosed as 'Revenue') is recognised in the Consolidated statement of comprehensive income under AASB 9 *Financial Instruments* using the EIR method.

Pay Now revenue

The Pay Now business has marketing contribution agreements, some of which are with merchants based on agreed monthly underlying sales or revenue processed on the Pay Now platform. Prior to the adoption of AASB 15, these marketing contribution agreements were recognised as part of cost of sales. In accordance with AASB 15, transaction revenue for Pay Now is recorded net of any marketing contribution costs (based on monthly underlying sales or revenue) because the customer is not deemed to provide a distinct good or service in exchange for the marketing contribution.

3. EXPENSES

	2019 $'000	2018 $'000
Depreciation & amortisation expenses		
Depreciation	(1,978)	(1,808)
Amortisation	(20,393)	(15,521)
Total depreciation & amortisation expenses	**(22,371)**	**(17,329)**
Employment expenses		
Wages & salaries	(42,429)	(19,199)
Other employee on-costs	(9,016)	(3,046)
Total employment expenses	**(51,445)**	**(22,245)**
Operating expenses		
Debt recovery costs, including bank charges	(9,721)	(6,569)
Consulting & contractor costs	(17,177)	(4,339)
Marketing expenses	(22,877)	(5,794)
Communication & technology	(8,202)	(2,653)
Operating lease expenses	(4,122)	(1,530)
Foreign currency gains	2,961	1,395
Net gain on sale of business[1]	1,271	-
Merger related costs	-	(1,686)
AUSTRAC related costs	(1,079)	-
General & administrative expenses	(14,264)	(5,901)
Total operating expenses	**(73,210)**	**(27,077)**

1. This represents the net gain on sale of the European e-Services business, which was completed on 1 November 2018. As the European e-Services business does not represent a separate major line of business or geographical area of operations, it was not disclosed separately in accordance with AASB 5 *Non-current assets held for sale and discontinued operations*.

The Group continues to invest in development to create new, and enhance existing products, and services for merchants and customers. Employee-related development costs that are eligible for capitalisation for the financial year ended 30 June 2019 are $21.5 million (2018: $11.5 million). Refer to Note 9 for further information.

Significant accounting policies – foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Consolidated Financial Statements are presented in Australian dollars ($), which is the Group's functional and presentation currency. Exchange differences arising on translation of the foreign controlled entities are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the Consolidated statement of comprehensive income upon disposal of any net investment.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in the

Consolidated statement of comprehensive income. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the Consolidated statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the Consolidated statement of comprehensive income on a net basis within other gains/(losses).

4. EARNINGS PER SHARE (EPS)

The following table outlines the loss and share data used in the basic and diluted EPS calculations:

	2019	2018
	$'000	$'000
Loss attributable to owners of Afterpay Touch Group Limited for basic EPS	(42,861)	(8,976)
	No.'000	No.'000
Weighted average number of ordinary shares for basic EPS	**231,919**	**214,551**
Effect of dilution from:		
Share options ('000)	11,827	16,487
Weighted average number of ordinary shares adjusted for the effect of dilution	**243,746**	**231,038**

Basic EPS amounts are calculated by dividing the loss for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the financial year.

Diluted EPS amounts are calculated by dividing the loss attributable to ordinary equity holders of Afterpay Touch Group Limited by the sum of the weighted average number of ordinary shares outstanding during the year and the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The share options number above does not take into account any options or similar conversion rights issued under the two convertible notes issued to Matrix Partners X L.P and Weston & Co X LLC (Matrix Convertible Notes), Afterpay US, Inc., 2018 Equity Incentive Plan (US ESOP), put and call option to acquire the remaining 10% of ClearPay Finance Limited (Clearpay) that were on issue as at 30 June 2019 or prospective equity incentive plan for UK employees (UK ESOP).

The potential number of APT shares that could be issued under these arrangements were excluded from the share options number above given the number of APT shares to be issued will only be determined on exercise and conversion which will occur at a future date and based on future valuations which are unable to be reliably estimated today. In all arrangements, the number of APT shares which may be issued on conversion is subject to maximum levels.

Matrix Convertible Notes

The Matrix Convertible Notes may be converted into APT shares in certain circumstances between 5 and 7 years from the date of issue of the notes (being 19 January 2018), with conversion at the noteholder's election. The number of APT shares which may be issued on conversion is determined by a conversion value calculated based on 10% of the future value of Afterpay US, Inc. in excess of US$50 million (to be determined by an independent valuation at the time of conversion) divided by the volume weighted average price of APT shares over the 30 trading days up to (but excluding) the date on which an exercise notice is delivered. The maximum number of shares in APT that may be issued is capped at 21,777,661 (being 10% of the number of APT shares on issue at the date of issue of the Matrix Convertible Notes). It is unlikely that the maximum number of APT shares would be issued on conversion, because for this to happen it would necessarily mean that the value of APT (excluding Afterpay US, Inc.) is negligible or very low in comparison to the assessed value of Afterpay US, Inc. Conversion of the Matrix Convertible Notes may be accelerated, at the Group's election, in the event of a change of control occurring with respect to the Group.

US ESOP

Options issued under the US ESOP are options to acquire common stock in Afterpay US, Inc. In specified circumstances, common stock in Afterpay US, Inc. which is received via the exercise of US ESOP options may be exchanged for APT shares. The exercised common stock in Afterpay US, Inc. will automatically be exchanged for fully paid ordinary shares of APT if conversion of the Matrix Convertible Notes occurs between 5 and 7 years from the date of issue of the notes (being 19 January 2018). Exchange for APT shares may also occur at the discretion of the APT Board if the Matrix Convertible Notes are not converted and are no longer on issue, at least 5 years have elapsed since the US ESOP was initially adopted, and other specified corporate events have not occurred. Holders of exercised stock do not have a separate right to require exchange for APT shares. The number of APT shares which are issued to US ESOP holders upon exchange will be based on the future value of Afterpay US, Inc. shares (to be determined by an independent valuation at the time of exchange) compared to a volume weighted average price (VWAP) of APT shares over the 30 trading days up to (but excluding) the date of conversion of the Matrix Convertible Notes or the date of discretionary conversion by APT (as applicable). The total US ESOP pool is limited to 10% of Afterpay US, Inc. fully diluted shares on issue. The Group's ownership interest in Afterpay US, Inc. will not decline below 90% due to the exercise of options on Afterpay US, Inc. common stock under the US ESOP plan and will increase back to 100% following the exchange of Afterpay US, Inc. common stock for APT shares (assuming no other issues of common stock in Afterpay US, Inc. in the intervening period). The maximum number of APT shares that can be issued under the US ESOP in exchange for exercised shares cannot exceed 21,777,661 APT shares (being 10% of the number of APT shares on issue at the date the Matrix Convertible Notes were issued). It is unlikely that the maximum number of APT shares would be issued on conversion, because for this to happen it would necessarily mean that the value of APT (excluding Afterpay US, Inc.) is negligible or very low in comparison to the assessed value of Afterpay US, Inc.

Clearpay Put and Call Option

As discussed in Note 15, on 23 August 2018, the Group acquired 90% of the issued shares in ClearPay Finance Limited (Clearpay) (an unlisted entity based in the United Kingdom, 100% owned by ThinkSmart Limited) (ThinkSmart) for total consideration of 1.0 million APT shares. The Group has a call option to acquire the remaining Clearpay shares held by ThinkSmart, which is exercisable any time after 5 years from the completion date being 23 August 2018. If the Group does not exercise its call option within that period, then ThinkSmart has a put option to sell all the remaining shares it holds in Clearpay to the Group, exercisable any time after 5.5 years from completion date. APT has the right to exercise the call option earlier than 5 years from the completion date in the event of a change of control of either APT or ThinkSmart. APT may also exercise the Call option early on certain events of default or insolvency events in relation to ThinkSmart, in which case the exercise price will be based on Clearpay's net tangible assets instead of the valuation principles described below.

Under the terms of the acquisition of Clearpay, ThinkSmart also agreed to provide for an option pool out of its remaining 10% shareholding that could be used for the purposes of an equity incentive plan for UK employees of Clearpay (UK ESOP) of up to 3.5%, which will reduce ThinkSmart's shareholding to 6.5% following exercise of the maximum pool of options. As of the reporting date, that plan is not finalised, and no options have been granted under the proposed UK ESOP.

Consideration for the remaining Clearpay shares held by ThinkSmart at the time of exercise of the put or call option will be determined by agreement, or failing agreement, by an independent expert valuation of Clearpay shares. Consideration may be paid by the Group in cash or APT shares, at APT's election. The number of APT shares in the Group that may be issued for such an exchange will be based on the 5-trading day VWAP of APT shares up to the date of option exercise. Any exchange of Clearpay shares held by ThinkSmart as a result of its exercise of the put option is capped at 5% of APT shares on issue at the time of exchange.

UK ESOP

It is the Group's intention to establish an equity incentive plan for UK employees or UK ESOP with an options pool in Clearpay over a maximum of 3.5% of Clearpay shares on issue. As of the reporting date, that plan is not finalised, and no options have been granted under the proposed UK ESOP. Under the terms of the acquisition of Clearpay, ThinkSmart agreed to provide for an options pool out of its remaining 10% shareholding that could be used for the purposes of a UK ESOP of up to 3.5%. In this way, the UK ESOP will not dilute the Group's 90% shareholding in Clearpay.

It is intended that the UK ESOP options will have both continued service and performance based vesting conditions. The exercise price is yet to be determined, however upon exercise of the options, the exercise price will be paid to ThinkSmart as the provider of the option shares. The UK ESOP options, even if vested, will only be able to be exercised in conjunction with exercise of the ThinkSmart put or call option (including in the event of early exercise, such as on a change of control), and if not exercised with such event, the options will lapse. This is intended to ensure that there are no outstanding UK ESOP options once APT moves to 100% shareholding in Clearpay.

Further, it is intended that any Clearpay shares provided to employees on the exercise of their vested options will be sold to APT at the same per-share price as the Clearpay Put and Call Option (as applicable) as outlined as above. APT will have the election to pay for the UK ESOP shares in cash or in the form of APT shares at equivalent value, subject to a cap of 3% of APT shares on issue at the date of first adoption of the UK ESOP Rules.

After the 3.5% of Clearpay pool has been allocated to UK employees (which is expected to occur within 12 months), new incentive awards made to UK employees will be provided by way of equity awards in the parent company (i.e. APT) to ensure a globally aligned and consistent approach going forward.

It is unlikely that the maximum number of APT shares of 8% across the Clearpay Put and Call Option and UK ESOP would ever be issued, because for this to happen it would necessarily mean that the value of APT (excluding Clearpay) is negligible or very low in comparison to the assessed value of Clearpay.

ASSETS AND LIABILITIES

5. CASH & CASH EQUIVALENTS

	2019 $'000	2018[1] $'000
Cash at bank & in hand	121,365	17,394
Short-term deposits	110,091	15,165
Total cash & cash equivalents	**231,456**	**32,559**

Reconciliation from the net loss before tax to the net cash flows from operations

	2019 $'000	2018[1] $'000
Loss before tax	(42,786)	(7,586)
Adjustments for:		
Depreciation & amortisation expenses	22,371	17,329
Share-based payment expenses	30,545	16,374
Finance cost	11,653	6,617
Finance income	(563)	(531)
Gain on sale of European e-Services business	(1,271)	-
Unrealised foreign currency gains	(2,535)	(1,501)
Changes in assets and liabilities:		
Increase in total receivables	(213,631)	(140,683)
Impact of accounting standard changes on receivables	(7,847)	-
Decrease in other financial assets and other assets	2,861	2,424
Increase in trade & other payables	68,084	10,331
Income tax paid	(9,073)	(1,004)
Net cash used in operating activities	**(142,192)**	**(98,230)**

1. The prior year cash at end of year balance has been restated to be comparable with the current year presentation of cash in transit. Other comparative cash flow figures have been updated accordingly.

Significant accounting policies – cash & cash equivalents

Cash & cash equivalents in the Consolidated statement of financial position comprises cash at bank and in hand, cash in transit and short-term deposits with an original maturity of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the Consolidated statement of cash flows, cash and cash equivalents consists of cash and cash equivalents as defined above.

6. RECEIVABLES

	2019 $'000	2018 $'000
Trade receivables – Pay Now	**7,983**	**5,423**
Consumer receivables		
Consumer receivables - face value	*482,123*	*248,788*
Consumer receivables - recognised over time[1]	*(9,647)*	*-*
Net consumer receivables	**472,476**	**248,788**
Less provision for doubtful debts		
Opening balance[2]	(18,054)	(5,292)
Provided in the year	(58,675)	(32,610)
Debts written off/collected	48,969	22,759
Total provision for doubtful debts	**(27,760)**	**(15,143)**
Net consumer receivables balance	**444,716**	**233,645**
Total receivables	**452,699**	**239,068**

1. Value of receivables when Afterpay income is recognised over the collection period using the EIR method.
2. Due to the initial application of AASB 9 the opening balance has been adjusted, refer to Note 24 for further information.

Impact of the adoption of AASB 9 *Financial Instruments* (AASB 9) on Receivables

The Group has adopted AASB 9, the date of initial application being 1 July 2018. The adoption of AASB 9 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The effect of initially applying AASB 9 is recognised at the date of initial application as an adjustment to opening retained earnings, as disclosed in Note 24, therefore comparative figures have not been restated.

(a) Impact on current year – classification and measurement change

On adoption of AASB 9, the Group's management assessed which business models to apply to the financial assets held by the Group and classified its financial instruments into the appropriate AASB 9 categories. There are no significant impacts resulting from the classification. The Group's financial assets are initially recognised at amortised cost, and subject to impairment.

(b) Impact on current year – impairment charge

The adoption of AASB 9 has changed the Group's accounting for impairment losses for financial assets by replacing the previously applied AASB 139's incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach under AASB 9.

(c) Impact on the financial statements – additional changes

There is no impact to the statement of cash flows and the basic and diluted EPS.

The adoption of AASB 9 did not impact the Group's borrowings as the current debt arrangements are not hedged and do not include any derivative financial instruments.

Other adjustments

In addition to the adjustments to Consumer receivables, upon adoption of AASB 9, other items of the primary financial statements, such as deferred taxes and opening retained earnings were adjusted as necessary. The impacts of these adjustments have been summarised in Note 24.

Significant accounting policies

Trade receivables – Pay Now

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

Generally, trade receivables have 7–30 day payment terms and due to the short-term nature, their carrying amount (less allowance for doubtful debts) is approximately equal to their fair value. There are no Pay Now contract assets at 30 June 2019.

Trade receivables impairment – Pay Now

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be non-collectable are written off when identified. The Group applies a simplified approach in calculating the ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit experience adjusted for forward-looking factors specific to the debtors and the economic environment.

Consumer receivables – Afterpay

Consumer receivables are amounts due from consumers for outstanding instalment payments on orders processed on the Afterpay platform. The Group's business model is to hold the receivables with the objective to collect the contractual cash flows. Consumer receivables are measured at amortised cost using the EIR method. They are generally due within 14–56 days.

Receivables Impairment – Consumer receivables - Afterpay

The Group applies the general provision approach permitted under AASB 9 to account for ECLs on Consumer receivables measured at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the Afterpay terms and all the cash flows that the Group expects to receive. Due to the short-term nature of the Afterpay receivables, the ECLs are based on the lifetime ECL.

The Group uses ageing of Consumer receivables as the basis for ECL measurement given the short duration of consumer payment terms (maximum 56 days).

At each reporting date, the Group assesses impairment risk on initial recognition of the Consumer receivable and movements in the ageing of outstanding Consumer receivables to estimate the ECL.

Under this impairment approach, AASB 9 requires the Group to classify Consumer receivables into three stages, which measure the ECL based on credit migration between the stages. The Group has defined these stages as follows:

STAGE	MEASUREMENT BASIS
Receivables not yet due (Stage 1)	While the Consumer receivables are not yet due, an ECL has been determined based on a probability of a default event occurring over the life of the Consumer receivables.
Receivables aged 1 to 61 days (Stage 2)	Although there is usually no objective evidence of impairment, when a consumer has not paid by the due date, it is an indication that credit risk has increased. As a result, the loss allowance for that Consumer receivable is measured at an amount equal to the lifetime ECL for increased credit risk. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of the Consumer receivables.
Receivables aged greater than 61 days (Stage 3)	Stage 3 includes Consumer receivables aged greater than 61 days past due where there is objective evidence of impairment at reporting date. Ageing greater than 61 days is considered to have an adverse impact on the estimated future cash flows of the Consumer receivables.

	STAGE 1 NOT YET DUE $'000	STAGE 2 AGED 1 – 61 DAYS $'000	STAGE 3 AGED GREATER THAN 61 DAYS $'000	TOTAL $'000
2019[1]				
Consumer receivables – face value[2]	453,266	21,880	6,977	482,123
Provision for doubtful debts	(6,434)	(14,440)	(6,886)	(27,760)
Net consumer receivables	**446,832**	**7,440**	**91**	**454,363**
2018				
Consumer receivables – face value[2]	230,660	13,608	4,520	248,788
Provision for doubtful debts[3]	(1,531)	(9,189)	(4,193)	(14,913)
Net consumer receivables	**229,129**	**4,419**	**327**	**233,875**

1 The simplified provision approach prescribed in AASB 9 is used for Trade receivables – Pay Now, therefore these receivables and provision for doubtful debts are excluded from the ECL staging table for both 2019 and 2018. The 2018 Provision for doubtful debts included $0.2 million related to Pay Now (2019:$0).
2. ECL for Afterpay Consumer receivable is calculated on the Consumer receivables – face value.
3 Due to the initial application of AASB 9, opening balances have been adjusted; however, comparative information has not been restated. Refer to Note 24 for further information.

As the Group's Consumer receivables are short term in nature, the staging transfer disclosures have not been provided. Prior period Consumer receivables balances are either fully written off or collected during the current financial year.

Significant accounting judgements, estimates and assumptions

Judgement is applied in measuring ECL and whether the risk of default has increased significantly since initial recognition of the Consumer receivable. The Group considers both quantitative and qualitative information, including historical loss experience, internal expert risk assessment and data examination and forward-looking information and analysis. Historical balances as well as the proportion of those balances that have defaulted over time are used as a basis to determine the probability of default. The Group also considers forward looking adjustments, including macro-economic seasonality trends that are not captured within the base ECL calculations. The inclusion of forward-looking information increases the degree of judgement required to assess effects on the Group's ECLs. The assumptions and methodologies applied are reviewed regularly.

Write off

The Group's policy under AASB 9 remains the same as it was under AASB 139. Receivables are written off when the Group has no reasonable expectation of recovery. Any subsequent recoveries following write off are credited to Receivables impairment expenses within the Consolidated statement of comprehensive income in the period in which they were recovered.

7. OTHER FINANCIAL ASSETS

	2019 $'000	2018 $'000
Total Current – Other financial assets	3,003	23,935
Total Non-Current – Other financial assets	3,035	2,165
Total other financial assets	**6,038**	**26,100**

Other financial assets include restricted cash held in trust of $2.0 million (2018: $23.7 million) under the Group's Australian receivables warehouse facility and term deposits of $4.0 million (2018: $2.4 million). Refer to Note 12(a)(i) for further information on the Group's Australian receivables warehouse facility.

The Non-Current other financial assets are term deposits with AA-/BBB+ banks and bank guarantee collateral (Note 21), which is part of the Group's normal business operations.

8. PROPERTY, PLANT & EQUIPMENT

The net book value of property, plant and equipment of $4.2 million (2018: $4.0 million) primarily includes computer equipment, furniture fittings and leasehold improvements. During the period, the Group purchased property, plant and equipment of $2.4 million (2018: $1.3 million), disposed $0.2 million (2018: $0) and recognised depreciation of $2.0 million (2018: $1.8 million).

Significant accounting policies

Recognition and measurement

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Useful life of assets

Depreciation is calculated on the straight-line basis over the estimated useful life of the specific assets of 3–5 years.

9. INTANGIBLE ASSETS

	CORE TECHNOLOGY $'000	CUSTOMER CONTRACTS $'000	OTHER INTANGIBLES $'000	GOODWILL $'000	TOTAL $'000
Cost					
At 1 July 2017	42,310	15,352	126	23,575	81,363
Additions	11,493	-	14	-	11,507
30 June 2018	**53,803**	**15,352**	**140**	**23,575**	**92,870**
Additions	21,538	-	689	-	22,227
Acquisition of a subsidiary	-	-	3,985	16,232	20,217
Disposal	(6,473)	(1,248)	-	-	(7,721)
At 30 June 2019	**68,868**	**14,104**	**4,814**	**39,807**	**127,593**
Amortisation					
At 1 July 2017	(4,854)	-	-	-	(4,854)
Amortisation	(10,619)	(4,882)	(20)	-	(15,521)
At 30 June 2018	**(15,473)**	**(4,882)**	**(20)**	**-**	**(20,375)**
Amortisation	(13,369)	(4,605)	(2,419)	-	(20,393)
Disposal	1,692	555	-	-	2,247
At 30 June 2019	**(27,150)**	**(8,932)**	**(2,439)**	**-**	**(38,521)**
Net book value					
At 30 June 2019	**41,718**	**5,172**	**2,375**	**39,807**	**89,072**
At 30 June 2018	38,330	10,470	120	23,575	72,495

Significant accounting policies

(a) Recognition and measurement

(i) Intangible assets

Intangible assets, including Core technology, Customer contracts and Other intangibles are measured at cost on initial recognition. Intangible assets acquired as a result of a business combination are measured at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in the Consolidated statement of comprehensive income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Core technology

Core technology includes internally generated software being developed as research and development projects.

Research costs are expensed as incurred.

Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the ability to reliably measure the expenditure during development; and
- the ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit.

(ii) Goodwill

On acquisition, goodwill is initially measured at the excess of the purchase consideration of the acquired business over the fair value of the identifiable net assets.

Goodwill is allocated to each of the cash generating units expected to benefit from the business combination. Goodwill is not amortised, but is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually.

(b) Useful life of intangible assets, other than goodwill

A summary of the policies applied to the Group's intangible assets is as follows:

	CORE TECHNOLOGY	CUSTOMER CONTRACTS	OTHER INTANGIBLES
USEFUL LIVES	Finite	Finite	Finite
AMORTISATION METHOD USED	3–5 years – Straight-line	3–5 years – Straight-line	2–7 years – Straight-line
INTERNALLY GENERATED/ ACQUIRED	Internally generated and acquired	Acquired	Acquired
IMPAIRMENT TESTING	Amortisation method is reviewed at every reporting period. Reviewed annually for indicators of impairment.		

(c) Impairment tests for intangible assets, including goodwill

The Group initially considers the relationship between its market capitalisation and its book value, among other factors specific to each cash generating unit (CGU), when reviewing for indicators of impairment.

At 30 June 2019, the market capitalisation of the Group was significantly greater than the Group's equity book value, indicating no potential impairment of goodwill or impairment of the assets of the CGUs. In addition, the Group performed a detailed impairment review of goodwill and concluded that there was no impairment for the financial year ended 30 June 2019.

For the purpose of the annual impairment test, goodwill is allocated to CGUs. The carrying amount of each CGU is compared to its recoverable amount. In assessing for impairment, the Group's assets are grouped at the lowest level of separately identifiable cash inflows, which are largely independent of the cash flows from other assets or CGUs. Assets apart from goodwill that have previously recognised impairment in the past are reviewed for possible reversal at the end of each reporting period.

The Group has allocated goodwill from the acquisition of Clearpay to the Clearpay CGU which is included within Afterpay Other segment. Afterpay Other is the operating segment that is expected to benefit from the acquisition. The remaining goodwill has been allocated consistently with 30 June 2018.

A summary of the goodwill allocation and impairment testing assumptions are presented below:

	AFTERPAY AU	AFTERPAY OTHER	PAY NOW	TOTAL
	$'000	$'000	$'000	$'000
Goodwill allocation	21,220	16,232	2,355	**39,807**
Risk-weighted pre-tax discount rate	*17.6%*	*N/A*	*12.6%*	*N/A*
Risk adjusted growth rate beyond 5 years	*2.0%*	*N/A*	*2.0%*	*N/A*

Afterpay AU and Pay Now

The recoverable amounts have been determined based on a value-in-use calculation using five-year post-tax cash flow projections. The post-tax cashflow projections are based on the Group's expectations of growth, excluding the impact of possible future acquisitions, business improvement and restructuring.

Afterpay Other

The goodwill within Afterpay Other only relates to the Clearpay CGU. The recoverable amount of Clearpay has been determined based on a fair value less costs of disposal calculation using a number of inputs including cash flow projections based on two years of financial forecasts approved by senior management. The valuation is measured using inputs that are not based on observable market data. Therefore, they are considered to be level 3 within the fair value hierarchy as per AASB 13 *Fair Value Measurement*. Cash flows are projected over a two-year period to reflect the current economic conditions and the growth profile of the business, which commenced trading in May 2019. Cash flows beyond the two-year period are extrapolated using a revenue multiple.

The Group has performed a detailed sensitivity analysis as part of its impairment testing to ensure that the results of its testing are reasonable. The discount rate would need to increase by approximately 200 basis points, or the terminal value growth rate would need to decrease by approximately 300 basis points, before the recoverable amount of any of the CGUs would equal its carrying value.

As the Group continues to acquire operations and reorganise the way operations are managed, reporting structures may change giving rise to a reassessment of CGUs and/or the allocation of goodwill to those CGUs.

Significant accounting judgements, estimates and assumptions

The asset impairment assessment requires management judgement with respect to an estimate of the recoverable amount of the CGU using a discounted cash flow methodology. This calculation uses cash flow projections based on operating budgets and strategic business plans, after which a terminal value is applied, based on management's view of the expected long-term growth profile of the business. The determination of cash flows over the life of an asset requires management judgement in assessing the future number of merchant acquisitions, customer usage, potential price changes as well as any changes to the costs of the product and of other operating costs incurred by the Group. The implied pre-tax discount rate is calculated with reference to long-term government bond rates, external analyst views and the Group's pre-tax cost of debt.

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10. TAXATION

(a) Income tax expense

	2019 $'000	2018 $'000
The major components of income tax expense:		
Current income tax charge	(15,263)	(8,974)
Adjustments in respect of current income tax of previous years	55	62
Deferred income tax		
Relating to origination/reversal of temporary differences	14,082	7,493
Adjustment in relation to deferred income tax of previous years	113	29
Income tax expense as reported in the income statement	**(1,013)**	**(1,390)**

(b) Statement of changes in equity

	2019 $'000	2018 $'000
Deferred income tax related to items credited directly to equity, opening retained earnings	(2,362)	-
Deferred income tax related to items credited directly to equity, capital raising costs	(4,293)	(84)
Total deferred income tax related to items credited directly to equity	**(6,655)**	**(84)**

(c) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:

	2019 $'000	2018 $'000
Accounting loss before tax	**(42,786)**	**(7,586)**
At the Group's statutory rate of 30% (2018: 30%)	12,836	2,276
Expenditure not allowed for income tax purposes	(12,150)	(3,558)
Foreign tax rate differential	(1,911)	(59)
Amount under provided in prior years	168	91
Tax losses not recognised	-	(140)
Utilisation of tax losses not previously recognised	44	-
Income tax expense	**(1,013)**	**(1,390)**

(d) Deferred income tax

	2019 $'000	2018 $'000
Deferred income tax at 30 June relates to the following:		
Deferred tax liabilities		
Capitalisation of development expenditure	47	3,612
Prepayments	262	413
Customer contracts	1,805	3,144
Unrealised foreign exchange	758	447
Property, plant & equipment	159	-
Deferred receivables	1,449	-

Other	796	195
Gross deferred tax liabilities	**5,276**	**7,811**
Set-off of deferred tax assets	(5,276)	(7,811)
Net deferred tax liabilities	**-**	**-**
Deferred tax assets		
Employee benefits	3,754	3,307
Other provisions	1,429	-
Capital raising costs	3,790	1,085
R&D offsets	-	410
Provision for doubtful debts	8,328	4,530
Deferred receivables	2,305	-
Losses	11,774	6,818
Other	1,176	922
Gross deferred tax assets	**32,556**	**17,072**
Set-off of deferred tax liabilities	(5,276)	(7,811)
Net deferred tax assets	**27,280**	**9,261**

Significant accounting judgements, estimates and assumptions

Taxation interpretation, regulation and timing recognition

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences between the actual results and the tax positions in the financial report could necessitate future adjustments to current and deferred tax already recorded.

Significant accounting policies

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Consolidated statement of comprehensive income except for those items recognised directly in equity.

Current tax in respect of the taxable income for the year is measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax is recognised using the balance sheet method in which temporary differences are calculated based on the difference between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets are recognised for deductible temporary differences and unused tax credits and tax losses only to the extent that it is probable that future taxable profit will be available against which the assets can be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

Afterpay Touch Group Limited and its wholly-owned Australian controlled subsidiaries formed a tax consolidated group effective from 15 August 2017. Afterpay Touch Group Limited and the members of the tax consolidated group recognise their own current tax and deferred tax assets and liabilities arising from temporary differences using the 'standalone taxpayer approach' by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation. In addition to its current and deferred tax balances, Afterpay Touch Group Limited has assumed the current tax liabilities and any deferred tax assets arising from unused tax credits or losses of the members in the tax consolidated group.

Nature of tax funding arrangements and tax sharing arrangements

Entities in the tax consolidated group entered into a tax funding agreement with the head entity. The arrangements require payments to/(from) the head entity equal to the current tax liability/(asset) assumed by the head entity and any deferred taxes relating to unused tax losses or unused tax credits transferred to the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed.

The inter-entity receivables/(payables) are at call. Contributions to fund the current tax liabilities are payable as per the tax funding agreement. The head entity, in conjunction with other members of the tax consolidated group, has entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

Other taxes

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

- when the GST incurred on a 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
- receivables and 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 receivables or payables in the Consolidated statement of financial position.

Cash flows are included in the Consolidated 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, is classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

CAPITAL STRUCTURE, FINANCING & RISK MANAGEMENT

11. EQUITY

	2019 $'000	2018 $'000
Issued and fully paid	674,769	192,628

Movement in ordinary shares on issue

	No.'000	$'000
At 1 July 2017	**212,409**	**171,411**
Share issued	2,880	18,700
Share options exercised	915	2,720
Capital raising costs (net of tax)	-	(203)
At 30 June 2018	**216,204**	**192,628**
Shares issued	22,131	459,269
Share options exercised	12,157	15,096
Acquisition of a subsidiary	1,000	17,826
Capital raising costs (net of tax)	-	(10,050)
At 30 June 2019	**251,492**	**674,769**

For the financial year ended 30 June 2019, Afterpay Touch Group Limited raised capital totalling $459.3 million. This comprised:

- $117.0 million Institutional Placement and $25.0 million Share Purchase Plan ('SPP'), completed by September 2018; and
- $317.3 million Institutional Placement completed in June 2019.

Significant accounting policies – contributed equity

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

Shares to be held by the Afterpay Touch Group Employee Share Plan Trust from 8 April 2019 will be disclosed as treasury shares and deducted from contributed equity. The trust is Consolidated in accordance with the principles in Note 16. As of 30 June 2019, there are no treasury shares that are held by the Trust for the purpose of issuing shares under the Group's incentive plans.

Information relating to employee options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is disclosed in Note 19.

12. INTEREST BEARING BORROWINGS

	2019 $'000	2018 $'000
Secured interest bearing borrowings	-	111,593
Senior unsecured notes	49,737	49,491
Convertible notes	144	128
Finance lease liabilities	342	393
Total interest bearing borrowings	**50,223**	**161,605**
Total Current	597	50
Total Non-Current	49,626	161,555
Total interest bearing borrowings	**50,223**	**161,605**

a) Secured interest bearing borrowings comprise:

(i) The Group's Australian receivables warehouse funding facility totalling $500.0 million (2018: $350.0 million) provided by National Australia Bank (NAB) ($300.0 million) and Citi ($200.0 million). As at 30 June 2019, the facility is undrawn. The facility is secured against Afterpay AU receivables, which are transferred into the facility. As at 30 June 2019, the carrying value of Afterpay AU Consumer receivables is $339.7 million. The facility matures in November 2020 (NAB) and August 2020 (Citi). For the financial year ended 30 June 2019, drawings under this facility incurred a weighted average interest rate of 3.6% p.a. (2018: 3.8%).

(ii) On 2 May 2019, Afterpay US signed a US$300.0 million receivables warehouse funding facility with Citi. As at 30 June 2019, the facility is undrawn. The facility is secured against Afterpay US receivables, which are transferred into the facility. As at 30 June 2019, the carrying value of Afterpay US Consumer receivables is $84.0 million. The facility matures in May 2021.

(iii) The Group also holds a NZ$20.0 million facility with ASB to assist with funding the Group's New Zealand operations. As at 30 June 2019, the facility is undrawn.

b) Senior unsecured notes with a carrying value of $50.0 million were issued to institutional and professional investors on 27 April 2018 for a fixed rate of 7.25% over a four-year maturity with interest payable semi-annually.

c) Convertible notes with a carrying value of US$0.1 million were issued to Matrix Partners on 19 January 2018. The notes carry a fixed interest rate of 6.0% for a 7-year maximum term. The notes have a conversion period of 5 to 7 years from the date of issue with conversion at the noteholder's election. See Note 4 for further details, including the conversion mechanism.

Significant accounting policies

Interest bearing borrowings

All borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowings. After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any borrowing costs and any discount or premium on settlement.

Borrowings are classified as non-current liabilities when the Group has an unconditional right to defer settlement for at least 12 months from reporting date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds.

Borrowings are removed from the Consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred, or liabilities assumed, is recognised in the Consolidated statement of comprehensive income as Other income or Finance costs.

Derivative financial instruments and hedging

The Group does not use derivative financial instruments to hedge its risks associated with interest rate fluctuations. This decision is within the scope of the existing company risk profile.

13. FINANCIAL LIABILITIES

	NOTE	2019 $'000	2018 $'000
Liability to US ESOP option participants	19	1,772	-
Put option on remaining Clearpay UK shares	15	1,039	-
Total financial liabilities		**2,811**	**-**
Total Current		1,772	-
Total Non-Current		1,039	-
Total financial liabilities		**2,811**	**-**

Reconciliation of liabilities arising from financing activities

2019	OPENING BALANCE $'000	CASH MOVEMENTS: CASH FLOWS $'000	NON-CASH MOVEMENTS: AMORTISATION $'000	FOREIGN EXCHANGE MOVEMENT $'000	OTHER $'000	PUT OPTION $'000	CLOSING BALANCE $'000
Secured interest bearing borrowings	**111,593**	(111,593)	-	-	-	-	-
Senior unsecured notes	**49,491**	-	294	-	(48)	-	**49,737**
Convertible notes	**128**	-	-	8	8	-	**144**
Finance lease liabilities	**393**	(94)	-	-	43	-	**342**
Total interest bearing borrowings	**161,605**	**(111,687)**	**294**	**8**	**3**	**-**	**50,223**
Financial liabilities	**-**	2,164	-	-	(392)	1,039	**2,811**
Total borrowings & financial liabilities	**161,605**	**(109,523)**	**294**	**8**	**(389)**	**1,039**	**53,034**

2018	OPENING BALANCE $'000	CASH MOVEMENTS: CASH FLOWS $'000	NON-CASH MOVEMENTS: AMORTISATION $'000	FOREIGN EXCHANGE MOVEMENT $'000	OTHER $'000	NEW LEASE $'000	CLOSING BALANCE $'000
Secured interest bearing borrowings	**46,748**	64,664	-	-	181	-	**111,593**
Senior unsecured notes	**-**	48,846	-	-	645	-	**49,491**
Convertible notes	**-**	128	-	-	-	-	**128**
Finance lease liabilities	**-**	(11)	-	-	-	404	**393**
Total borrowings & financial liabilities	**46,748**	**113,627**	**-**	**-**	**826**	**404**	**161,605**

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits, other financial assets, financial liabilities and interest-bearing borrowings.

The Group manages its exposure to key financial risks, including interest rate, foreign currency, liquidity and credit risk in accordance with the Group's financial risk management policy; the objective of which is to support the delivery of the Group's financial targets, while protecting future financial security.

These mitigations include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange, and by depositing funds with several different banking institutions. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

INTEREST RATE RISK	The Group's exposure to market interest rates relate primarily to the Group's cash & cash equivalents, other financial assets and interest bearing borrowings. Refer Note 14(a).
FOREIGN CURRENCY RISK	Risk that fluctuations in foreign exchange rates may impact the Group's results. The Group's Consolidated statement of financial position at 30 June 2019 can be affected by movements in the US Dollar, New Zealand Dollar, and Great British Pound. Refer Note 14(b).
LIQUIDITY RISK	The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of credit facilities. The Group mitigates funding and liquidity risks by ensuring it has (1) sufficient funds on hand to meet its working capital and investment objectives; (2) is focused on improving operational cash flow and (3) has adequate flexibility in financing facilities to balance the growth objectives with short-term and long-term liquidity requirements. Refer Note 14(c).
CREDIT RISK	Credit risk arises from the financial assets of the Group. The Group's exposure to credit risk arises from potential default of the end-consumer receivable, with a maximum exposure equal to the carrying amount of these instruments. The Group utilises its proprietary fraud engine and risk decisioning rules to mitigate credit risk for its Afterpay Consumer Receivables. The Group regularly reviews the adequacy of the provision for doubtful debts to ensure that it is sufficient to mitigate credit risk exposure in terms of financial reporting. The provision for doubtful debts represents management's best estimate at reporting date of the expected credit losses based on their experienced judgement. Further details have been provided in Note 6. Credit risk also arises from cash held with bank and financial institutions, and from the investment of financial assets when they are available with designated counterparties.

(a) Interest rate risk

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk:

	2019 $'000	2018 $'000
Financial Assets		
Cash & cash equivalents	231,456	32,559
Other financial assets	6,038	26,100
Total financial assets	**237,494**	**58,659**
Financial Liabilities		
Interest bearing borrowings	-	111,593
Total financial liabilities	-	**111,593**
Net exposure	**237,494**	**(52,934)**

The Convertible Notes and Senior unsecured notes are on a fixed interest rate basis. The Group's Australian receivables warehouse funding facility was fully repaid prior to 30 June 2019. Consequently, they are not exposed to interest rate risks.

The financial liabilities as disclosed in Note 13 comprise the put option held by ThinkSmart and early exercised unvested options by US ESOP participants (Note 19), which are not exposed to interest rate risks.

There are no other financial liabilities subject to interest rate risk as at 30 June 2019. The Group has not hedged any interest rate risk during the year or at 30 June 2019.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 30 June 2019, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

JUDGEMENTS OF REASONABLY POSSIBLE MOVEMENTS:	POST TAX PROFIT HIGHER/(LOWER) 2019 $'000	POST TAX PROFIT HIGHER/(LOWER) 2018 $'000	EQUITY HIGHER/(LOWER) 2019 $'000	EQUITY HIGHER/(LOWER) 2018 $'000
-0.25% (25 basis points)	(416)	93	(416)	93
+1.00% (100 basis points)	1,662	(371)	1,662	(371)

(b) Foreign currency risk

The Group has not hedged any foreign currency risk during the financial year or at 30 June 2019.

At 30 June 2019, the Group has the following exposure to foreign currency that is not designated in cash flow hedges:

	2019 $'000	2018 $'000
Financial Assets		
Cash & cash equivalents		
NZD	4,173	670
USD	31,379	20,900
GBP	4,512	-
Other	2	6
Receivables & other financial assets		
NZD	17,846	5,422
USD	84,597	6,775
GBP	3,296	-
Other	-	589
	145,805	**34,362**
Financial Liabilities		
Trade & other payables		
NZD	2,950	761
USD	37,559	2,958
GBP	3,683	-
Other	-	329
Financial liabilities		
USD	1,916	-
GBP	1,039	-
	47,147	**4,048**
Net exposure	**98,658**	**30,314**

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the reporting date.

At 30 June 2019, if exchange rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

JUDGEMENTS OF REASONABLY POSSIBLE MOVEMENTS:	POST TAX PROFIT (HIGHER)/LOWER 2019 $'000	POST TAX PROFIT (HIGHER)/LOWER 2018 $'000	EQUITY HIGHER/(LOWER) 2019 $'000	EQUITY HIGHER/(LOWER) 2018 $'000
AUD/NZD +10%	(1,213)	(339)	1,213	339
AUD/NZD -5%	703	196	(703)	(196)
AUD/USD +10%	(4,868)	(1,573)	4,868	1,573
AUD/USD -5%	2,818	911	(2,818)	(911)
AUD/GBP+10%	(196)	-	196	-
AUD/GBP -5%	114	-	(114)	-
AUD/Other +10%	-	(16)	-	16
AUD/Other -5%	-	10	-	(10)

(c) Liquidity risk

The Group's Australian receivables warehouse funding facility was fully repaid prior to 30 June 2019.

Maturity analysis of financial assets and liabilities is based on management's expectation of settlement

The table below reflects all contractually fixed payments and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities.

YEAR ENDED 30 JUNE 2019	< 1 YEAR $'000	1-2 YEARS $'000	2-3 YEARS $'000	> 3 YEARS $'000	TOTAL $'000
Financial Assets					
Cash & cash equivalents	231,456	-	-	-	231,456
Receivables	452,699	-	-	-	452,699
Other financial assets	3,003	-	3,035	-	6,038
Total financial assets	**687,158**	**-**	**3,035**	**-**	**690,193**
Financial Liabilities					
Trade & other payables	109,981	-	-	-	109,981
Senior unsecured notes	3,625	3,625	53,625	-	60,875
Convertible notes	-	-	-	199	199
Financial liabilities	1,772	-	-	1,039	2,811
Financial lease liabilities	94	94	258	-	446
Total financial liabilities	**115,472**	**3,719**	**53,883**	**1,238**	**174,312**
Net maturity	**571,686**	**(3,719)**	**(50,848)**	**(1,238)**	**515,881**

YEAR ENDED 30 JUNE 2018	< 1 YEAR $'000	1-2 YEARS $'000	2-3 YEARS $'000	> 3 YEARS $'000	TOTAL $'000
Financial Assets					
Cash & cash equivalents	32,559	-	-	-	32,559
Receivables	239,068	-	-	-	239,068
Other financial assets	23,935	-	2,165	-	26,100
Total financial assets	**295,562**	**-**	**2,165**	**-**	**297,727**
Financial Liabilities					
Trade & other payables	42,916	-	-	-	42,916
Interest bearing borrowings	4,240	112,239	-	-	116,479
Senior unsecured notes	3,625	3,625	3,625	53,625	64,500
Convertible notes	-	-	-	192	192
Financial lease liabilities	94	94	94	258	540
Total financial liabilities	**50,875**	**115,958**	**3,719**	**54,075**	**224,627**
Net maturity	**244,687**	**(115,958)**	**(1,554)**	**(54,075)**	**73,100**

The carrying value of financial assets and liabilities approximates their fair value.

Capital management

The Group reviews its capital management position on a regular basis to ensure that it maintains adequate funding for near-term and medium-term obligations.

In particular, the Group periodically reviews its capital management strategy to ensure that funding initiatives are in place to support medium-term growth objectives and, as detailed in Note 11, the Group raised $459.3 million in the year ending 30 June 2019 for the purpose of funding medium-term underlying sales and other working capital.

As detailed in Note 12, the Group has Senior unsecured notes and receivable warehouse funding facilities. The Senior unsecured notes contain an interest cover covenant and the receivables warehouse funding facilities contain portfolio parameters. The Group satisfied the interest cover covenant and portfolio parameters during the financial year ended and at 30 June 2019.

The Group's cash and net debt position as at the end of the reporting period is as follows:

	2019 $'000	2018 $'000
Cash & cash equivalents	231,456	32,559
Restricted cash	2,030	23,741
Interest bearing borrowings	50,223	161,605
Net cash/(net debt)	**183,263**	**(105,305)**

Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table summarises the levels of the fair value hierarchy for financial liabilities held at fair value:

YEAR ENDED 30 JUNE 2019	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Financial liabilities	-	-	1,039	1,039
Total financial liabilities	**-**	**-**	**1,039**	**1,039**

YEAR ENDED 30 JUNE 2018	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Financial liabilities	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**

GROUP STRUCTURE

15. BUSINESS COMBINATIONS

On 23 August 2018, the Group acquired 90% of the issued shares in ClearPay Finance Limited (Clearpay) (an unlisted entity based in the United Kingdom, 100% owned by ThinkSmart Limited) (ThinkSmart) for total consideration of 1.0 million Afterpay Touch Group (APT) shares.

The Group has a call option to acquire the remaining 10% of Clearpay, which is exercisable any time after 5 years from the completion date being 23 August 2018. If the Group does not exercise its call option within that period, then ThinkSmart has a put option to sell the remaining 10% of issued shares it holds in Clearpay (excluding 3.5% of issued shares that are to be allocated to an equity incentive plan to UK employees) to the Group, exercisable any time after 5.5 years from completion date. In each case the sale price will be based on agreed valuation principles. Consideration for the remaining 10% of issued shares in Clearpay can be paid by the Group in cash or APT shares. A discounted cash flow model has been used to obtain the fair value of the put option held by ThinkSmart with $1.0 million recognised as a financial liability of the Group as at 30 June 2019. The measurement basis of the put option is fair value through profit and loss and is classified as a level 3 financial liability in accordance with AASB 13 *Fair Value Measurement*.

The acquisition of Clearpay meets the recognition criteria for consolidation, with the transaction treated as though the Group has effectively acquired 100% of Clearpay at the completion date. The financial statements for the financial year ended 30 June 2019 therefore includes 100% of the results of Clearpay for the ten-month period from the completion date (23 August 2018).

Clearpay contributed income of $0.14 million and incurred $8.1 million of losses to the Group for the period from 23 August 2018 to 30 June 2019 (the majority being the one-off costs to launch the business). If the acquisition had taken place on 1 July 2018, total income would have been approximately $0.2 million and the loss for the period would have been approximately $8.6 million.

The Group has acquired Clearpay to accelerate and de-risk the Group's launch of the Afterpay product into the UK market and is consistent with its NZ and US expansion strategies to partner with local market participants. Goodwill is the difference between the fair value of the net assets of ClearPay Finance Limited and the deemed purchase consideration. The goodwill has been adjusted from the provisional allocation at 31 December 2018 to reflect finalised taxation amounts. Details of the purchase consideration and the fair values of the identifiable assets and liabilities of Clearpay as at the date of acquisition were as follows:

	FAIR VALUE RECOGNISED ON ACQUISITION $'000
Assets	
Current assets	355
Intangible assets	3,985
Total assets	**4,340**
Liabilities	
Trade and other payables	52
Deferred tax liabilities	713
Total identifiable net assets at fair value	**3,575**
Less: non-controlling interest	(1,981)
Add: Goodwill arising on acquisition	16,232
Purchase consideration transferred	**17,826**

Acquisition-related costs of approximately $0.9 million are included in the operating expenses in the Consolidated statement of comprehensive income.

The Group recognises a non-controlling interest in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in Clearpay retained by ThinkSmart, the Group elected to recognise the non-controlling interests at its proportionate fair value.

Significant accounting policies

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed).

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of the net assets acquired over the aggregate consideration transferred, the gain is recognised in the Consolidated statement of comprehensive income.

16. RELATED PARTY DISCLOSURE

Ultimate controlling entity

The ultimate controlling entity is Afterpay Touch Group Limited, otherwise described as the parent company.

Subsidiaries

The Consolidated Financial Statements include the financial statements of Afterpay Touch Group Limited and its subsidiaries. These are listed in the following table:

NAME	COUNTRY OF INCORPORATION	% EQUITY INTEREST 2019
Afterpay Pty Ltd [1]	Australia	100%
Afterpay Holdings Pty Ltd [1]	Australia	100%
Afterpay Warehouse Trust	Australia	100%
Afterpay Touch Group Employee Share Plan Trust [2]	Australia	100%
Afterpay Touch Group No.2 Pty Ltd [1]	Australia	100%
Afterpay US, Inc. [3]	United States	99%
Afterpay Receivables Warehouse-C LLC [2]	United States	100%
Afterpay US Services, LLC [2]	United States	100%
Afterpay NZ Limited	New Zealand	100%
ClearPay Finance Limited [2]	United Kingdom	90%
ClearPay Finance HCB Limited [2]	United Kingdom	90%
Touchcorp Limited [1]	Bermuda	100%
Touch Holdings Pty Ltd [1]	Australia	100%
Touch Networks Australia Pty Ltd [1]	Australia	100%
Touch Australia Pty Ltd [1]	Australia	100%
Touch Networks Pty Ltd [1]	Australia	100%
Touchcorp Singapore Pte Ltd	Singapore	100%
Touch Networks Payments (Malaysia) Sdn Bhd	Malaysia	100%

1. Refer to Note 18 for further information on the parties subject to a deed of cross guarantee.
2. These are the companies that were acquired or created during the period.
3. The Group's equity interest in Afterpay US, Inc is 98.52% due to vested and exercised options under the US ESOP. Refer to Note 19 for further information.

17. INFORMATION RELATING TO AFTERPAY TOUCH GROUP LIMITED (THE PARENT)

	2019 $'000	2018 $'000
Current Assets	12,085	6,314
Non-Current Assets	720,087	237,886
Total Assets	**732,172**	**244,200**
Current Liabilities	12,008	6,011
Non-Current Liabilities	49,140	49,492
Total Liabilities	**61,148**	**55,503**
Net Assets	**671,024**	**188,697**
Issued capital	641,949	181,927
Reserves	45,193	11,198
Accumulated losses	(16,118)	(4,428)
Total Equity	**671,024**	**188,697**
Loss of the Parent entity	(14,943)	(4,044)
Total comprehensive loss of the Parent entity	**(14,943)**	**(4,044)**

18. DEED OF CROSS GUARANTEE

The subsidiaries identified in Note 16 'Related Party Disclosure' are parties to a deed of cross guarantee under which each guarantees the debts of the others. By entering into the Deed, the wholly-owned entities have been relieved of the requirement to prepare a financial report and Directors' Report under ASIC Corporations (Wholly-owned Companies) Instruments 2016/785.

These subsidiaries and Afterpay Touch Group Limited together referred to as the 'Closed Group', originally entered into the Deed on 29 November 2017. The effect of the Deed is that each party to it has guaranteed to pay any deficiency in the event of the winding up of any of the entities in the Closed Group. The Consolidated statement of financial position of the subsidiaries that are members of the Closed Group is as follows:

	2019 $'000	2018 $'000
ASSETS		
Current Assets		
Cash & cash equivalents	171,842	25,140
Receivables	347,660	227,093
Other financial assets	857	2,306
Other current assets	5,106	8,604
Total Current Assets	**525,465**	**263,143**
Non-Current Assets		
Property, plant & equipment	3,627	3,902
Intangible assets	44,076	30,766
Deferred tax asset	15,446	13,795
Other financial assets	2,450	-
Other non-current assets	580	875
Related party receivables	177,510	-
Total Non-Current Assets	**243,689**	**49,338**
TOTAL ASSETS	**769,154**	**312,481**
LIABILITIES		
Current Liabilities		
Trade & other payables	70,447	39,546
Employee benefit provision	2,511	1,785
Contract liabilities	100	252
Interest bearing borrowings	597	50
Income tax payable	5,122	1,481
Total Current Liabilities	**78,777**	**43,114**
Non-Current Liabilities		
Employee benefit provision	317	157
Related party borrowings	-	64,118
Office lease provision	565	365
Interesting bearing borrowings	49,480	49,833
Total Non-Current Liabilities	**50,362**	**114,473**
TOTAL LIABILITIES	**129,139**	**157,587**
NET ASSETS	**640,015**	**154,894**
EQUITY		
Contributed equity	630,580	166,264
Accumulated losses	(29,759)	(25,862)
Reserves	39,194	14,492
TOTAL EQUITY	**640,015**	**154,894**

	2019 $'000	2018 $'000
Consolidated statement of comprehensive loss		
Profit before income tax	1,855	2,708
Income tax expense	(11,969)	(4,332)
Loss after income tax	**(10,114)**	**(1,624)**

EMPLOYEE REMUNERATION

19. SHARE-BASED PAYMENT PLANS

Employees (including senior executives) of the Group may receive remuneration in the form of share-based payments whereby employees render services as consideration for equity instruments (equity-settled transactions). The Group currently has share-based payment plans in Australia (Afterpay Touch Group Limited Employee Incentive Plan or APT ESOP), the US (Afterpay US, Inc. 2018 Equity Incentive Plan or US ESOP) and is in the process of establishing a plan in the UK (ClearPay Finance Limited 2019 Share Option Plan or UK ESOP). These plans align the interests of employees with the objectives of the Group and incentivise Executive Directors, senior executives and staff to drive long term sustainable performance in the interests of our shareholders. Under the ESOP plans, awards are made to employees, contractors and others who have the ability to drive the Group's performance. ESOP awards are generally delivered in the form of options over shares which vest over a number of years subject to meeting certain performance measures. Options which are granted under the ESOP plans carry no dividend or voting rights.

APT ESOP

The APT ESOP includes option awards over APT ordinary shares which typically vest over a two to five-year service period and are conditional on the achievement of agreed KPIs in certain circumstances. Historically, the Group has also issued performance rights to certain senior executives and staff as part of the APT ESOP which vest over a one to two-year period and loan shares (non-interest bearing, limited recourse loans from the Group for the sole purpose of acquiring shares in APT) which also vest over a one to two-year service period. Under AASB 2 *Share-based payment*, these performance rights and loan shares are treated as 'in substance options' even where the equity instrument itself is not a share option.

US ESOP

The US ESOP includes options to acquire common stock in Afterpay US, Inc. In specified circumstances, common stock in Afterpay US, Inc. which is received via the exercise of US ESOP options may be exchanged for APT shares. The exercised common stock in Afterpay US, Inc. will automatically be exchanged for fully paid ordinary shares of APT if conversion of the Matrix Convertible Notes occurs. Exchange for APT shares may also occur at the discretion of the APT Board if the Matrix Convertible Notes are not converted and are no longer on issue, at least 5 years have elapsed since the US ESOP was initially adopted, and other specified corporate events have not occurred. Holders of exercised shares do not have a separate right to require exchange for APT shares. The number of APT shares which are issued to US ESOP holders upon exchange will be based on the future value of Afterpay US, Inc. shares (based on the same valuation as referred to in the Matrix Convertible Notes) compared to a VWAP of APT shares over the 30 trading days up to (but excluding) the date of conversion of the Matrix Convertible Notes or the date of discretionary conversion by APT (as applicable). The total US ESOP pool is limited to 10% of Afterpay US, Inc. fully diluted shares on issue. The Group's ownership interest in Afterpay US, Inc. will not decline below 90% due to the exercise of options on Afterpay US, Inc. common stock under the US ESOP plan and will increase back to 100% following the exchange of Afterpay US, Inc. common stock for APT shares (assuming no other issues of common stock in Afterpay US, Inc. in the intervening period). The maximum number of APT shares that can be issued under the US ESOP in exchange for exercised shares cannot exceed 21,777,661 APT shares (being 10% of the number of APT shares on issue at the date the Matrix Convertible Notes were issued). It is unlikely that the maximum number of APT shares would be issued on conversion because for this to happen it would necessarily mean that the value of APT (excluding Afterpay US, Inc.) is negligible or very low in comparison to the assessed value of Afterpay US, Inc.

The US ESOP was established to facilitate the attraction and retention of top-tier talent in the US over the last 18 months, who have been critical to delivering the Group's US growth aspirations. While successful in achieving these aims there is no intent to expand the US ESOP Plan beyond the 10% total option pool noted above and it will be closed to any new grants within 12 months (refer section 8.1 of the Remuneration Report for further detail). New incentive awards made to US employees will be provided by way of equity awards in the parent company (i.e. APT) to ensure a globally aligned and consistent approach going forward.

UK ESOP

It is the Group's intention to establish an equity incentive plan for UK employees or UK ESOP with an options pool in Clearpay over a maximum of 3.5% of Clearpay shares on issue. As of the reporting date, that plan is not finalised, and no options have been granted under the proposed UK ESOP. Under the terms of the acquisition of Clearpay, ThinkSmart agreed to provide for an options pool out of its remaining 10% shareholding that could be used for the purposes of a UK ESOP of up to 3.5%. In this way, the UK ESOP will not dilute the Group's 90% shareholding in Clearpay.

It is intended that the UK ESOP options will have both continued service and performance based vesting conditions. The exercise price is yet to be determined, however upon exercise of the options the exercise price will be paid to ThinkSmart as the provider of the option shares. The UK ESOP options, even if vested, will only be able to be exercised in conjunction with exercise of the ThinkSmart put or call option (including in the event of early exercise, such as on a change of control), and if not exercised with such event the options will lapse. This is intended to ensure that there are no outstanding UK ESOP options once APT moves to 100% shareholding in Clearpay.

Further, it is intended that any Clearpay shares provided to employees on the exercise of their vested options will be sold to APT at same per-share price as the Clearpay Put and Call Option (as applicable) as outlined in Note 4. APT will have the election to pay for the UK ESOP shares in cash or in the form of APT shares at equivalent value, subject to a cap of 3% of APT shares on issue at the date of first adoption of the UK ESOP Rules.

After the 3.5% of Clearpay pool has been allocated to UK employees (which is expected to occur within 12 months), new incentive awards made to UK employees will be provided by way of equity awards in the parent company (i.e. APT) to ensure a globally aligned and consistent approach going forward.

It is unlikely that the maximum number of APT shares of 8% across the Clearpay Put and Call Option and UK ESOP would ever be issued because for this to happen it would necessarily mean that the value of APT (excluding Clearpay) is negligible or very low in comparison to the assessed value of Clearpay.

APT ESOP

	2019		2018		2019		2018		2019	2018
	NO.	WAEP	NO.	WAEP	NO.	WAEP	NO.	WAEP	NO.	NO.
	SHARE OPTIONS				LOAN SHARES				PERFORMANCE RIGHTS	
	'000	$	'000	$	'000	$	'000	$	'000	'000
Outstanding at the beginning of the year	21,005	1.66	16,085	0.61	1,910	3.62	2,346	3.03	35	155
Granted during the year	5,444	10.31	5,100	4.99	-	-	338	5.89	-	-
Forfeited during the year	(187)	1.08	(147)	2.28	-	-	-	-	-	(12)
Exercised during the year	(11,355)	0.80	(33)	2.23	(767)	3.18	(774)	2.82	(35)	(108)
Outstanding at the end of the year	**14,907**	**5.49**	**21,005**	**1.66**	**1,143**	**3.91**	**1,910**	**3.62**	**-**	**35**
Exercisable at the end of the year	**7,589**	**1.93**	**10,531**	**0.62**	**813**	**3.46**	**1,187**	**3.38**	**-**	**35**

The exercise price of the APT ESOP options granted during the year ranges from $2.70 to $25.74. The weighted average share price during the year is $17.79.

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ADDITIONAL SECURITIES EXCHANGE INFORMATION

A share-based payment expense of $30.5 million was recognised for the year ended 30 June 2019 (2018: $16.4 million). The share-based payment expense for the year ended 30 June 2019 includes an issue of 2,699,087 options to the Group Head that was approved at the 2018 Annual General Meeting on 28 November 2018. This grant replaced the 2,000,000 Loan Shares which were proposed to be granted to the Group Head as disclosed in the Group's 30 June 2018 Annual Report. A share-based payment expense of $14.8 million was recognised for the year ended 30 June 2019 for the options granted to the Group Head and reflecting the share price increase in the period and up until the date of the 2018 Annual General Meeting. Prior to the approval of shareholders, the share-based payment expense relating to the Group Head's share-based compensation (whether loan shares or options) was based on a fair value calculation at the prevailing APT share price at each period end. The share-based payment expense therefore increased as APT's share price increased.

US ESOP

	2019		2018	
	NO. SHARE OPTIONS '000	WAEP $	NO. SHARE OPTIONS '000	WAEP $
Outstanding at the beginning of the year	6,992	0.25	-	-
Granted during the year	4,078	0.27	6,992	0.25
Forfeited during the year	(428)	-	-	-
Exercised and vested during the year	(1,644)	0.27	-	-
Outstanding at the end of the year	**8,998**	**0.27**	**6,992**	**0.25**
Exercisable and vested at the end of the year	**382**	**0.27**	**-**	**-**

The APT ESOP and US ESOP tables above provide a breakdown of APT ESOP shares options, APT ESOP loan shares, APT ESOP performance rights and US ESOP share options for the year ended 30 June 2019 and the prior comparable period. As at 30 June 2019, the aggregate of the number of APT ESOP share options (14.9 million), APT loan shares (1.1 million) and US ESOP share options (9.0 million) outstanding is 25.0 million (2018: 29.9 million).

For the year ended 30 June 2019, the Group received $2.2 million (2018: $0) from Afterpay US option holders who elected to early exercise unvested options and at balance date, there was $1.8 million (2018: $0) outstanding for early exercised and unvested options. An early exercise mechanism is provided under the US ESOP whereby option holders may elect to exercise options and receive unvested common stock in Afterpay US, Inc. before full vesting of the options occurs. Any unvested options and any such unvested common stock may be subject to, among other things, a repurchase right whereby Afterpay US, Inc. can, at its election, repurchase those securities if the Board determines it to be appropriate such as if the vesting conditions are not met. If the repurchase right is exercised, the Group has the contractual obligation to return the funds to the option holder in accordance with the terms of the US ESOP. The repurchase price is set at the lower of the fair market value and the early exercise price. A financial liability of $1.8 million has been recognised as a current financial liability in the financial statements to account for this potential repurchase event. The weighted average exercise price of the US ESOP options granted during the year was $0.27.

The US ESOP provides for options on non-voting common stock in Afterpay US, Inc. and when vested and exercised will be recognised as a non-controlling interest in Afterpay US, Inc. in accordance with AASB 10 *Consolidated Financial Statements*.

Significant accounting judgements, estimates and assumptions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using the Binomial Model. That cost is recognised in employee benefits expense together with a corresponding increase in equity reserves over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

Where the transaction is with a non-employee, the cost is based on the fair value of the asset or service received. That cost is recognised, together with a corresponding increase in other capital reserves or share capital in equity, over the period in which the performance and/or service conditions are fulfilled and/or the asset or service is delivered/received.

Settlement of share options upon vesting are recognised as contributed equity.

The share-based payments expense considers the impact of any non-vesting conditions, but ignores the effect of any service and non-market performance vesting conditions. Non-market vesting conditions are taken into account when considering the number of options expected to vest and at the end of each reporting period, the Group revisits its estimate. Revisions to the prior period estimate are recognised in the Consolidated statement of comprehensive income and equity.

The fair value of performance rights is determined in accordance with the fair market value of the shares available at the grant date. The fair value of performance rights has been calculated using the five-day VWAP of the five trading days immediately preceding grant date.

The value of the US and UK businesses are a significant estimate used to determine the fair value of the options issued under the US ESOP, the fair value of the share-based payments component of the Matrix convertible notes and the options to acquire the remaining 10% of Clearpay. These fair values are determined by valuations conducted by independent valuers.

Some inputs to the Binomial Model require application of significant judgement.

The fair value of options granted during the financial year ended 30 June was estimated on the grant date using the following assumptions:

	2019	2018	2019	2018	2019	2018
	APT ESOP		US ESOP		MATRIX CONVERTIBLE NOTES	
Expected volatility	50%	40%	60%	60%	60%	60%
Risk-free interest rate	2.20%	2.07%	2.51%	2.52%	2.66%	2.66%
Expected life (years)	4	4	5	5	6	7
Dividend yield	0%	0%	0%	0%	0%	0%

The weighted average fair value of the options granted under the APT ESOP and US ESOP during the period was $9.33 and $0.23, respectively (2018: $2.32 and $0.25, respectively).

Convertible notes

The Group determined the US$0.1 million Convertible Notes subscribed by Matrix included a share-based payment component, for services to be delivered by Matrix. The fair value of the Convertible Notes when issued of US$1.7 million exceeded their face value and were determined to be a share-based payment in accordance with AASB 2 *Share-based payments*.

The fair value of the Convertible Notes was determined by using the multi-stage process, which involved calculating the equity value of Afterpay US, Inc., which was then used as an input into the Binomial Model. The share-based payments will be recognised over the expected period the services will be performed, currently estimated at 5 years. Refer Note 4 for further information.

20. KEY MANAGEMENT PERSONNEL

COMPENSATION OF KEY MANAGEMENT PERSONNEL	2019 $	2018 $
Short-term employee benefits	2,997,685	2,656,938
Post-employment benefits	107,316	137,992
Other long-term benefits	10,257	7,984
Share-based payment	17,530,018	12,358,437
Total compensation	**20,645,276**	**15,161,351**

Compensation of Key Management Personnel (KMP) includes Executive KMP and Non-Executive Directors. Compensation details for KMP are included in Sections 5.5 and 6.5 of the Remuneration Report.

ITEMS NOT RECOGNISED IN THE FINANCIAL STATEMENTS

21. COMMITMENTS AND CONTINGENCIES

Contingent liabilities and contingent assets

Details of contingent liabilities and contingent assets where the probability of future payments is not considered remote are set out below as well as details of contingent liabilities, which although considered remote, the Directors consider should be disclosed as they are not disclosed elsewhere in the notes to the financial statements.

(a) Contingent liabilities – AUSTRAC

On 12 June 2019, AUSTRAC issued a notice (the 'Notice') requiring an external audit of Afterpay Pty Ltd (Afterpay) to examine its compliance with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (AML/CTF). The Group has established a dedicated Sub-Committee of the Board of Directors in order to support the external audit process and other AML/CTF matters, led by Independent Interim Chair, Elana Rubin. The Sub-Committee reports to the Board.

Mr Neil Jeans was appointed as the auditor on 29 July 2019. The audit will cover the period from 19 January 2015 to the date of the Notice. An interim report is required to be provided to AUSTRAC by 24 September 2019 and the final report is due by 23 November 2019.

The audit has commenced but has not concluded. At this stage, it is not possible to determine the extent of any potential financial impact to the Group that might result from the audit. Consequently, no amounts have been included as contingent liabilities as at the date of this report.

(b) Legal commitments and claims

Claims can be raised by customers and suppliers against the Group in the ordinary course of business. There were no outstanding claims at 30 June 2019 that required recognition of a provision or contingent liability.

Bank guarantees

The Group had entered into a bank guarantee arrangement totalling of $2.2 million in 2018 of which $2.0 million has been cross guaranteed as part of a Consolidated sub-agency agreement. The remaining guarantee is part of the Group's normal business operations.

Operating lease commitments – Group as Lessee

The Group has entered commercial leases for its registered offices in Melbourne, Sydney, New Zealand, the United States and United Kingdom. The Group has also entered into leases for a data centre and associated communication costs, and an agreement of the supply of terminals. There are no restrictions placed upon the lessee by entering into this lease. Future minimum rentals payable under the non-cancellable operating lease are as follows:

	2019 $'000	2018 $'000
Within one year	4,930	1,864
After one year but not more than five years	2,189	3,174
Total minimum lease payments	**7,119**	**5,038**

Significant accounting policies – 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 the specific asset and whether the arrangement conveys a right to use the asset.

Group as a Lessee

Operating lease payments are recognised as an expense in the Consolidated statement of comprehensive income on a straight-line basis over the lease term.

Finance leases are recognised as a lease asset and lease liability in the Consolidated statement of financial position, calculated at the present value of the minimum lease payments at inception of the lease. Depreciation of the lease asset is recognised on a straight-line basis through the Consolidated statement of comprehensive income.

A proportion of the lease payment is assigned as a finance charge in the Consolidated statement of comprehensive income with the remainder allocated as a reduction in the lease liability in the Consolidated statement of financial position.

22. EVENTS AFTER THE BALANCE SHEET DATE

No matters or circumstances have occurred subsequent to period end that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

OTHER INFORMATION

23. AUDITOR'S REMUNERATION

	2019 $	2018 $
Amounts received or due and receivable by Ernst & Young (Australia) for:		
Total audit or review of the financial report of the entity and any other entity in the consolidated Group	997,061	371,145
Support of new accounting standards implementation	206,760	130,000
Other assurance services	73,840	-
Other non-audit services	-	29,208
Total auditor's remuneration	**1,277,661**	**530,353**

24. OTHER SIGNIFICANT ACCOUNTING POLICIES

Impact of new accounting standards on Opening retained earnings

A number of new or amended standards became applicable for the current reporting period and the Group has changed its accounting policies as a result of adopting the following standards:

- AASB 9 *Financial Instruments*; and
- AASB 15 *Revenue from Contracts with Customers.*

AASB 9 was adopted without restating comparative information. The adjustments arising from the adoption of AASB 9 are not reflected in the Consolidated statement of financial position as at 30 June 2018, but are recognised in the opening balance of retained earnings on 1 July 2018.

The Group adopted AASB 15 using the modified retrospective method with the date of initial application of 1 July 2018. The cumulative effect of initially applying AASB 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated.

The following table shows the adjustments recognised for each individual item as a result of the adoption of AASB 15 and AASB 9 on 1 July 2018. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EXTRACT)	30 JUNE 2018 AS ORIGINALLY PRESENTED $'000	DOUBTFUL DEBT IMPACT OF AASB 9 [1] $'000	REVENUE & INCOME IMPACT OF AASB 15 $'000	1 JULY 2018 $'000
Current Assets				
Receivables	239,068	(2,911)	(4,936)	231,221
Non-Current Assets				
Deferred tax assets	9,261	859	1,469	11,589
Total Assets	**248,329**	**(2,052)**	**(3,467)**	**242,810**
Equity	192,628	-	-	192,628
Retained earnings	(22,195)	(2,052)	(3,467)	(27,714)
Total Equity	**170,433**	**(2,052)**	**(3,467)**	**164,914**

1. Refer to Note 6 Receivables for further details.

New accounting standards issued but not yet effective

Australian Accounting Standards and Interpretations that are issued, but are not yet effective, up to the date of issuance of the Group's financial statements, are disclosed below. The Group intends to adopt these new standards and interpretations, if applicable, when they become effective.

(a) AASB 16 *Leases*

AASB 16 *Leases* (AASB 16) replaces the current AASB 117 *Leases* standard for the Group's financial year commencing on 1 July 2019. AASB 16 sets out a comprehensive model for identifying and measuring lease arrangements. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. Contracts that are leases within the scope of AASB 16 from the lessee's perspective require the recognition of a right-of-use (ROU) asset and a related lease liability, being the present value of future lease payments. This results in an increase in the recognised assets and liabilities in the Group's Consolidated statement of financial position. The income statement will include interest expense on the lease liability together with depreciation of the ROU asset. As compared to AASB 117, the pattern of expense recognition changes with higher costs in the earlier stages of the lease as a result of the interest expense being determined on the lease liability that amortises over the lease term.

Transition

The new standard is expected to impact leases that are currently classified by the Group as operating leases, being mainly leases over premises and terminals. Alternative methods of calculating the ROU assets are permitted under AASB 16, which impacts the size of the transition adjustment. The Group will apply the modified retrospective approach as permitted by AASB 16. Under the modified retrospective transition approach, prior period comparative financial statements are not restated.

Based on the elected transition method, the Group will recognise lease liabilities of approximately $8.6 million, which is the present value of the remaining lease payments and ROU assets of approximately $9.0 million based on lease liabilities (subject to certain adjustments). As permitted by AASB 16, the Group is electing practical expedients to not recognise short-term or low values leases on its Consolidated statement of financial position at the transition date.

Judgement has been applied by the Group in determining the transition adjustment, which includes the determination of which contractual arrangements represent a lease, the period over which the lease exists, the incremental borrowing rate of the Group, and the variability of future cash flows.

(b) AASB Interpretation 23 *Uncertainty over Income Tax Treatment*

Interpretation 23 clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* (AASB 112) where there is uncertainty over income tax treatments and requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances are presented.

Interpretation 23 will apply to the Group from 1 July 2019. The Group's existing recognition and measurement accounting policies are aligned with the requirements of Interpretation 23 and hence no transition adjustment to retained earnings is required.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Afterpay Touch Group Limited, I state that:

In the opinion of the Directors:

(a) The financial statements and notes of Afterpay Touch Group Limited for the financial year ended 30 June 2019 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of its financial position as at 30 June 2019 and of the Group's performance for the financial year ended on that date; and

(ii) complying with Accounting standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*.

(b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;

(c) The remuneration disclosures set out in the Directors' Report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

(d) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in the financial statements.

The Directors have been given the declarations by the Chief Executive Officer and Managing Director required by section 295a of the *Corporations Act 2001*.

On behalf of the Board.

Elana Rubin
Independent Interim Chair
Melbourne
28 August 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AFTERPAY TOUCH GROUP LIMITED

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent Auditor's Report to the Members of Afterpay Touch Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Afterpay Touch Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Acquisition of Clearpay Finance Limited

Why significant	How our audit addressed the key audit matter
On 23 August 2018, the Group acquired 90% of the issued shares in Clearpay Finance Limited (Clearpay) from Thinksmart Limited (Thinksmart) for total consideration of 1 million Afterpay Touch Group Limited (APT) shares. The acquisition has been accounted for in accordance with AASB 3 *Business Combinations*. The Group acquired identifiable intangible assets of $4.0 million, other net liabilities of $0.4 million, and goodwill of $16.2 million was recognised. The purchase price accounting for the acquisition was finalised during the financial year. The share consideration was payable in two tranches resulting in judgment around the measurement of the deferred consideration for the second tranche. As described in Note 15, the Group has a call option and Thinksmart has a put option over the remaining shares. The Group has recognised a financial liability of $1.0 million for the put option which is recognised at fair value. The acquisition of Clearpay was a key audit matter based on the quantitative materiality of the acquisition and the judgements involved in the finalisation of the purchase price accounting exercise. Refer to Note 15 of the financial report for the relevant disclosures in relation to the acquisition.	Our audit procedures included the following: ▸ We assessed the terms and conditions of the share purchase agreement to obtain an understanding of the transaction and the key terms. ▸ We assessed the value of the purchase consideration inclusive of the deferred consideration with reference to the APT share price at the date of acquisition. ▸ We assessed the competence, qualifications and objectivity of the experts engaged by the Group to assist with the identification and valuation of assets acquired, and the liabilities assumed. ▸ We involved our valuation specialists to assess the reasonableness of the valuation approach and the methodology applied to fair value the assets acquired, liabilities assumed and the fair value of the put option. ▸ We assessed the adequacy of the related disclosures in the financial report in respect of the acquisition.

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Capitalisation of internally generated intangible assets

Why significant	How our audit addressed the key audit matter
The Group's revenue is generated through the processing of transactions with its customers through its internally developed software platforms disclosed as Core Technology in Note 9 of the financial report. Software development is core to the Company's operations and requires judgement as to whether it meets the capitalisation criteria as per AASB 138 *Intangible Assets*. Costs incurred during the year that were capitalised to the Core Technology totalled $21.5 million. The capitalisation of internally generated intangible assets was a key audit matter due to the significant management judgements, including: • whether the costs incurred relate to research costs that should be expensed or development costs that are eligible for capitalisation; • the assessment of future economic benefits and the technical feasibility of the product; and • the timing of amortisation and the useful lives of the assets.	Our audit procedures included the following: • We selected a sample of projects to determine the nature of the project, the status of the project and assess whether the project met the capitalisation criteria per Australian Accounting Standards. • For a sample of capitalised employee costs we agreed the rates for development staff to employee contracts and obtained evidence to support the hours charged to development projects. In addition, we tested a sample of controls to evaluate the effectiveness of the Group's key controls related to payroll processing. • We assessed the useful lives and amortisation rate allocated to capitalised development costs as well as recalculating the amortisation expense for the period for all intangible assets. • We assessed the consistency of the capitalisation methodology applied by the Company in comparison to prior reporting periods. • We assessed the adequacy of the related disclosures in the financial report in respect of the capitalised costs.

Provision for doubtful debts for Afterpay consumer receivables

Why significant	How our audit addressed the key audit matter
The nature of the Group's business is to assume the credit risk of merchant transactions with consumers. With the adoption of AASB 9 *Financial Instruments*, the Group has applied the forward looking expected credit loss (ECL) model. A provision of $27.8 million has been recognised at 30 June 2019.	Our audit procedures included the following: • We assessed whether the methodology applied by management in the model is in accordance with the requirements of AASB 9. • We assessed the mathematical accuracy of the model and recalculated the aging of the consumer receivables at period end.

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Why significant	How our audit addressed the key audit matter
This was a key audit matter as significant judgement is involved to determine the provision for doubtful debt based on the estimated loss rates on outstanding receivables. The Group's disclosure for the impairment on consumer receivables is disclosed in Note 6 of the financial report.	▸ We assessed the integrity of assumptions around current and historical loss rates for receivables throughout the period. We compared these assumptions to those of the prior period and investigated any significant variances. ▸ We assessed the adequacy of the provision by comparing the post period end cash receipts to the outstanding consumer receivables at period end. ▸ We assessed the adequacy of the related disclosures in the financial report in respect of the consumer receivables.

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

The Directors are responsible for the other information. The other information comprises the information included in the Company's Annual Report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

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

Responsibilities of the Directors for the Financial Report

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

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

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Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 42 to 67 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Afterpay Touch Group Limited for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

David McGregor
Partner
Melbourne
28 August 2019

ADDITIONAL SECURITIES EXCHANGE INFORMATION

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 5 August 2019 (**Reporting Date**).

Corporate Governance Statement

The Company's Directors and management are committed to conducting the Group's business in an ethical manner and aspire to the highest standards of corporate governance. The Board regularly reviews its corporate governance policies and processes to ensure they are appropriate and meet governance standards and regulatory requirements. The Company's corporate governance policies and charters are all available at https://www.afterpaytouch.com/corporate-governance/

For the 2019 financial year, the Company's governance practices substantially complied with the *ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (Third Edition)* (**Recommendations**). Further details are set out in the Company's Corporate Governance Statement, which sets out key aspects of the Company's corporate governance framework and practices, and discloses how the Company substantially complied with the Recommendations.

The Company's Corporate Governance Statement, together with the ASX Appendix 4G, have been lodged with the ASX and are available at https://www.afterpaytouch.com/corporate-governance/

Substantial holders

As at the Reporting Date, the names of the substantial holders of the Company and the number of equity securities in which those substantial holders and their associates have a relevant interest, as disclosed in substantial holding notices given to the Company, are as follows:

HOLDER OF EQUITY SECURITIES	CLASS OF EQUITY SECURITIES	NUMBER OF EQUITY SECURITIES HELD	% OF TOTAL ISSUED SECURITIES CAPITAL IN RELEVANT CLASS
Anthony Eisen	Ordinary Shares	20,450,574	8.09
Nicholas Molnar	Ordinary Shares	20,450,574	8.09
EQT Holdings Limited	Ordinary Shares	13,184,001	5.22

Number of holders

As at the Reporting Date, the number of holders in each class of equity securities is as follows:

CLASS OF EQUITY SECURITIES	NUMBER OF HOLDERS
Fully paid ordinary shares	40,747
Options to acquire ordinary shares	58
Convertible Note	2

Less than marketable parcels of ordinary shares (UMP Shares)

The number of holders of less than a marketable parcel of ordinary shares based on the closing market price at the Reporting Date is as follows:

TOTAL SHARES	UMP SHARES	UMP HOLDERS	% OF ISSUED SHARES HELD BY UMP HOLDERS
252,635,692	22	900	0.00005

Voting rights of equity securities

The only class of equity securities on issue in the Company that carries voting rights is fully paid ordinary shares.

As at the Reporting Date, there were 40,747 holders of a total of 252,635,692 ordinary shares of the Company.

At a general meeting of the Company, every holder of ordinary shares present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each ordinary share held. On a poll, every member (or his or her proxy, attorney or representative) is entitled to vote for each fully paid share held and in respect of each partly paid share, is entitled to a fraction of a vote equivalent to the proportion that the amount paid up (not credited) on that partly paid share bears to the total amounts paid and payable (excluding amounts credited) on that share. Amounts paid in advance of a call are ignored when calculating the proportion.

Distribution of holders of equity securities

The distribution of holders of equity securities on issue in the Company as at the Reporting Date is as follows:

DISTRIBUTION OF ORDINARY SHAREHOLDERS			
HOLDINGS RANGES	HOLDERS	TOTAL UNITS	%
1 – 1,000	31,119	9,472,094	3.75
1,001 – 5,000	7,686	17,415,282	6.89
5,001 – 10,000	1,030	7,626,522	3.02
10,001 – 100,000	834	20,608,210	8.16
100,001 – 999,999,999	78	197,513,584	78.18
Totals	**40,747**	**252,635,692**	**100.00**

DISTRIBUTION OF OPTION HOLDERS			
HOLDINGS RANGES	HOLDERS	TOTAL UNITS	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	30	1,033,334	6.93
100,001 – 999,999,999	28	13,874,087	93.07
Totals	**58**	**14,907,421**	**100.00**

The Company has issued one convertible note to each of two holders, Matrix Partners X L.P and Weston & Co X LLC.

Twenty largest shareholders

The Company only has one class of quoted securities, being ordinary shares. The names of the 20 largest holders of ordinary shares, and the number of ordinary shares and percentage of capital held by each holder, is as follows:

RANK	HOLDER NAME	BALANCE AS AT REPORTING DATE	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	39,715,163	15.72
2	CITICORP NOMINEES PTY LIMITED	26,790,115	10.60
3	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	24,545,356	9.72
3	ANTHONY MATHEW EISEN	20,450,574	8.09
5	NICHOLAS MOLNAR PTY LTD <NICHOLAS DAVID FAMILY A/C>	20,450,574	8.09
6	ATC CAPITAL PTY LTD	9,984,000	3.95
7	NATIONAL NOMINEES LIMITED	7,775,494	3.08
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	5,701,110	2.26
9	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	3,293,153	1.30
10	ESTATE LATE ADRIAN CLEEVE	3,200,001	1.27
11	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	2,801,559	1.11
12	MATRIX PARTNERS X L P	2,717,394	1.08
13	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	2,606,737	1.03
14	BNP PARIBAS NOMS PTY LTD <DRP>	2,070,555	0.82
15	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	1,979,865	0.78
16	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	1,957,359	0.77
17	MR RICHARD HARRIS	1,770,000	0.70
18	FIFTY SECOND CELEBRATION PTY LTD <MCBAIN FAMILY A/C>	1,475,000	0.58
19	UBS NOMINEES PTY LTD	1,195,883	0.47
20	NORFOLK ENCHANTS PTY LTD <TROJAN RETIREMENT FUND A/C>	1,000,000	0.40
	Total number of shares of Top 20 Holders	**181,479,892**	**71.82**
	Total Remaining Holders' Balance	**71,155,800**	**28.18**

Escrow

CLASS OF RESTRICTED SECURITIES	TYPE OF RESTRICTION	NUMBER OF SECURITIES	END DATE OF ESCROW PERIOD
Ordinary shares	Voluntary escrow	250,000	18 October 2019
Ordinary shares	Voluntary escrow	1,440,213	16 January 2021
Ordinary shares	Voluntary escrow	1,440,213	16 January 2025
Ordinary shares	Voluntary escrow	844,996	On APT's instructions

Unquoted equity securities

The number of each class of unquoted equity securities on issue, and the number of holders in each such class, are as follows:

CLASS OF EQUITY SECURITIES	NUMBER OF UNQUOTED EQUITY SECURITIES	NUMBER OF HOLDERS
Options to acquire ordinary shares	14,907,421	58
Convertible Note	2	2

No person holds 20% or more of any class of Unquoted Equity Securities on issue.

Company Secretary

The Company's General Counsel & Company Secretary is Christopher Stevens.

Registered Office

The address and telephone number of the Company's registered office is:
Level 5
406 Collins Street
Melbourne VIC 3000
Telephone: +61 1300 100 729

Share Registry

The address and telephone number of the Company's share registry, Computershare Investor Services, are:

Street Address:
Yarra Falls
452 Johnson Street
Abbotsford Victoria 3067

Telephone: 1300 137 328

Stock Exchange Listing

The Company's ordinary shares are quoted on the Australian Securities Exchange (ASX). The Company was admitted to the official list of the ASX on 29 June 2017 (ASX issuer code: APT).

Other Information

The Company is not currently conducting an on-market buy-back.

There are no issues of securities approved for the purposes of item 7 of section 611 of the Corporations Act that have not yet been completed.

No securities were purchased on-market during the reporting period under or for the purposes of an employee incentive scheme or to satisfy the entitlements of the holders of options or other rights to acquire securities granted under an employee incentive scheme.

CORPORATE INFORMATION

Afterpay Touch Group Limited ACN 618 280 649

Board of Directors

Elana Rubin (Interim Chair, Independent Non-Executive Director)
Anthony Eisen (Chief Executive Officer and Managing Director)
Nicholas Molnar (Global Chief Revenue Officer and Executive Director)
David Hancock (Executive Director)
Clifford Rosenberg (Independent Non-Executive Director)
Dana Stalder (Independent Non-Executive Director)

Australian Registered Office

Level 5
406 Collins Street
Melbourne VIC 3000

General Counsel & Company Secretary

Christopher Stevens

Solicitors

Baker & McKenzie
Level 19, CBW
181 William Street
Melbourne VIC 3000

Auditor

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

Share Registry

Computershare Investor Services Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Phone: 1300 137 328
web.queries@computershare.com.au

Stock Exchange Listing

Afterpay Touch Group Limited shares are listed on the Australian Securities Exchange