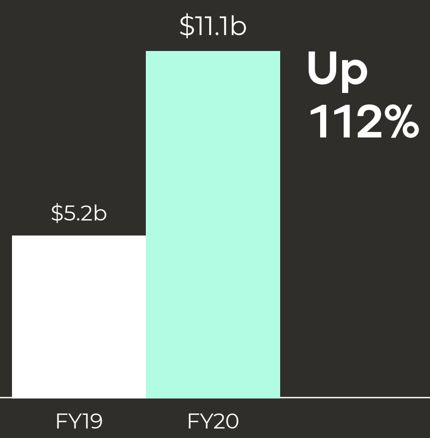
evolution.

Afterpay Limited FY20 Annual Report

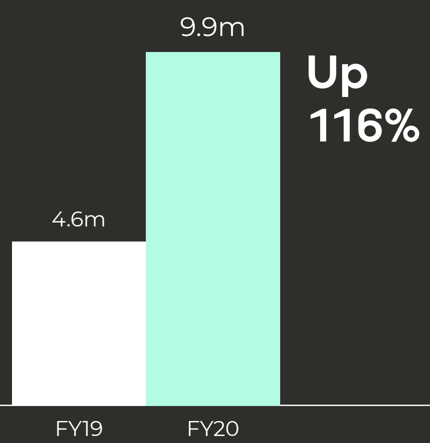
Performance highlights.

Key Operating Metrics

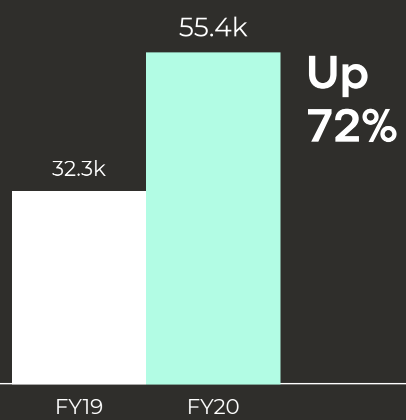
Afterpay Underlying Sales[1]



Afterpay Active Customers[1, 2]



Afterpay Active Merchants[1, 2]



Change calculations may not equate due to rounding.
Notes: 1. Unaudited information.
2. Active is defined as having transacted at least once in the last 12 months.

Key Financial Metrics

Group Total Income

$519.2 million

Up 97% on prior year

Afterpay Total Income[1]

$502.7 million

Up 103% on prior year

Group Net Transaction Margin[2]

$261.3 million

Up 101% on prior year

Afterpay Net Transaction Margin

$250.2 million

2.3%[3]

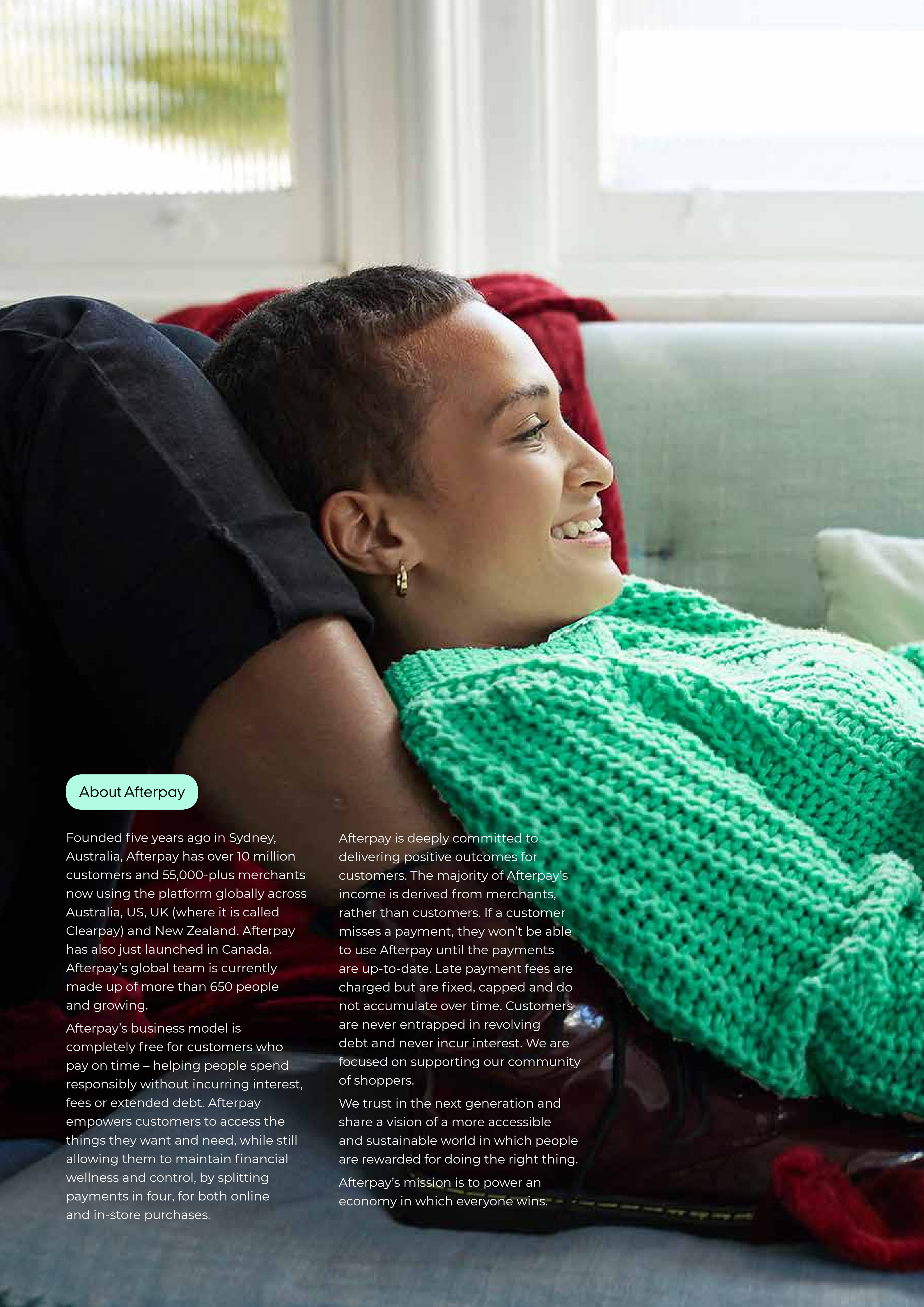
Up 110% on prior year

EBITDA
(excluding Significant items)

$44.4 million

Up 73% on prior year

Change calculations may not equate due to rounding. Notes: 1. Afterpay Total Income includes Afterpay Income and Other Income (Late Fees), excludes Pay Now Revenue. 2. Group Net Transaction Margin is equal to Afterpay Net Transaction Margin and Pay Now Gross Margin. 3. Afterpay Net Transaction Margin as a percentage of Afterpay Underlying Sales.



About Afterpay

Founded five years ago in Sydney, Australia, Afterpay has over 10 million customers and 55,000-plus merchants now using the platform globally across Australia, US, UK (where it is called Clearpay) and New Zealand. Afterpay has also just launched in Canada. Afterpay's global team is currently made up of more than 650 people and growing.

Afterpay's business model is completely free for customers who pay on time – helping people spend responsibly without incurring interest, fees or extended debt. Afterpay empowers customers to access the things they want and need, while still allowing them to maintain financial wellness and control, by splitting payments in four, for both online and in-store purchases.

Afterpay is deeply committed to delivering positive outcomes for customers. The majority of Afterpay's income is derived from merchants, rather than customers. If a customer misses a payment, they won't be able to use Afterpay until the payments are up-to-date. Late payment fees are charged but are fixed, capped and do not accumulate over time. Customers are never entrapped in revolving debt and never incur interest. We are focused on supporting our community of shoppers.

We trust in the next generation and share a vision of a more accessible and sustainable world in which people are rewarded for doing the right thing.

Afterpay's mission is to power an economy in which everyone wins.

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2020 in Review.

The Afterpay Evolution

The past five years has seen the company scale rapidly and it has had to mature quickly to keep up with the expectations of our stakeholders. As such, the business has evolved substantially over this time, which has been both challenging and rewarding.

Dear Shareholders,

At the outset, I would like to thank all of our employees for their amazing efforts while working under the often challenging conditions brought about by COVID-19. Across all our locations, all of our people adapted to the changed circumstances and remained focused and committed on providing the best service for all our stakeholders.

Afterpay continued its strong momentum in the 2020 financial year, despite the impacts being felt globally as a result of the COVID-19 pandemic. Our employees, customers, merchant partners and shareholders have all been impacted. The second half of the financial year was firmly focused on the wellbeing of our people and providing support to our stakeholders wherever possible. The true impacts of COVID-19 are yet to become clear within communities around the world. In the meantime, we will remain flexible in our management of the business day to day whilst progressing our strategic objectives.

Our performance throughout FY20 demonstrates the power of our differentiated model and our ability to adapt despite adversity in economic and social conditions. We have continued to provide a budgeting solution to our growing Gen Z and Millennial customer cohorts, which enables them to pay for goods in four instalments, without incurring interest or revolving debt.

A business model in which profitability relies on customers paying on time is extremely valuable in periods of economic uncertainty. This has been evidenced through the continued decline in credit card usage and the continued shift towards debit during the pandemic. Having a business that is heavily weighted towards e-commerce has been particularly beneficial with the ever increasing shift to online spending. This delivered more customers to our platform and attracted more retailers to our offering.

Our FY20 achievements are a testament to the amazing team at Afterpay. The commitment and passion of our employees is reflected in the successful execution of our strategy over the past five years. It is important to reflect on what has been achieved in a relatively short period of time. I thank all our talented employees for everything they have done, and continue to do, to deliver value for both our shareholders and stakeholders alike.

Our People are what makes us great

We have transitioned from a top 300 to a

top 100 company

and are one of the top 50

largest companies

in Australia by market cap

We operate in

5 countries

We have grown from <30 employees in FY16 to

>650 employees

in FY20

We have had five years of operations which has helped us better understand:

Our customers
Our merchant partners
Our regulators, and the
Expectations of our Communities

Our people are our greatest asset. The Afterpay team has expanded significantly over the past five years. With more than 650 employees, how we manage the wellbeing and retention of our highly talented teams, whilst continuing to attract new talent, is of utmost importance.

The team at Afterpay have one thing in common – they are extremely passionate about the business and the value proposition to our customers and retailers. Over the past 12 months, there has been a considerable focus on growing the capacity and capability of our teams, and ensuring we are well equipped to deliver our significant growth aspirations.

Accompanying this rapid growth of our workforce has been a number of renewed policies and processes, which ensure what we have in place is fit for purpose. There have also been a range of areas identified where we can improve our employee value proposition.

Remuneration

As disclosed in our FY19 Remuneration Report, we developed a new remuneration framework for FY20. Our global compensation framework has been designed to attract the best talent and treat people fairly. We strive to be globally consistent and market competitive while respecting local market nuances. Our framework is underpinned by the philosophy of 'Acting as Owners' and delivering strong outcomes for our customers, merchants and shareholders.

The Remuneration Report outlines our new FY20 executive remuneration framework in detail as well as remuneration outcomes for the FY20 financial year.

Diversity and Inclusion

As a company that was born of thinking differently, a diverse and inclusive culture is pivotal to our future success. Being a global business, there already exists a level of diversity in the cultural norms associated with each region. This will continue to expand as we move into new geographies.

A new Diversity and Inclusion Policy

A new Diversity and Inclusion Policy was developed which outlines our commitment to all of our employees, regardless of gender, marital or family status, sexual orientation, gender identity, age, disability, ethnicity, religious beliefs, cultural background, socio-economic background, perspective and experience.

Our focus on gender diversity in FY20 has delivered positive outcomes across the business and the Board has set gender targets for Directors and senior management of 40% male, 40% female, 20% open, by 2023.

In May 2020, events that occurred in the US saw the rise to prominence of the Black Lives Matter movement on a global scale. This movement raised awareness within our business on issues relating to racial injustice, and other under-served communities across the world. We will continue to identify ways to support these communities. In Australia we know more needs to be done to educate and raise awareness of issues impacting Indigenous people. As part of our Diversity and Inclusion strategy we will identify ways in which we can support and positively make a difference in the countries in which we operate.

Further information on our Diversity and Inclusion outcomes and strategy are included in the Do The Right Thing section of this Annual Report.

Employee health and wellbeing through COVID-19

The impacts of the COVID-19 pandemic are continuing to be felt by our employees globally. Our immediate response plan prioritised the health and wellbeing of our teams, and continues to be our focus. In mid-March all employees were asked to work from home to mitigate the risks of contracting the virus and to keep our people safe.

There have, and will continue to be, unintended consequences resulting from the various government imposed restrictions. Mental health issues are of particular concern for everyone and is something we are focused on at Afterpay. Health and wellbeing surveys have been conducted to ensure we are monitoring the mental health of our employees and listening to how they are feeling.

We will continue to monitor and identify further ways to support our employees during this challenging period.

Our inbuilt risk settings prevent customers revolving in debt and the revenue we generate from late fees as a proportion of our income continues to decline.

Continuing to Engage with Regulators

Afterpay has continued to engage with regulators in all regions in FY20. In an environment where the buy now pay later sector is growing and diverse, it is imperative that we continue to engage with regulators to explain how the Afterpay model is different and the consumer benefits we generate from our focus on responsible spending.

Our inbuilt risk settings prevent customers revolving in debt, and the revenue we generate from late fees as a proportion of our total income continues to decline.

During FY20 there were opportunities for Afterpay to participate in various Australian forums, such as the development of a Buy Now Pay Later Code of Practice which is still in progress. Afterpay remains strongly supportive of the Code.

Afterpay made submissions to both the Senate Committee Inquiry into Financial Technology and Regulatory Technology and the Reserve Bank of Australia's Issues Paper on payment system regulation. The recommendations from the Senate Committee Inquiry are due in 2020, while the outcomes from the RBA Issues Paper has been deferred to 2021.

AUSTRAC Update

The independent audit, in respect of anti-money laundering/counter terrorism financing (AML/CTF), required by AUSTRAC, was completed and a report was provided to the regulator in November 2019. The Report referred to matters of historic non-compliance by Afterpay and made recommendations in relation to Afterpay's ongoing AML/ CTF compliance. Afterpay accepted and acted on the recommendations made.

Pleasingly, the Independent Auditor confirmed that Afterpay's current program is aligned with the AML/ CTF Act and that Afterpay is a low risk business in regards to its likelihood of being used for the purposes of money laundering or terrorist financing. The Auditor also noted that Afterpay has a strong compliance culture.

AUSTRAC is still considering the Independent Auditor's report, and we continue to fully cooperate with the regulator.

Afterpay continues to proactively engage with regulators in the US and the UK to highlight its commitment to consumer protection and responsibility and compliance with applicable laws.

Committed to good Corporate Governance

As Afterpay has continued to grow rapidly, so has our focus on corporate governance. We understand that long term sustainability relies on meeting the governance expectations of our stakeholders. In FY20 there was a focus on delivering Board renewal commitments and strengthening our internal capabilities. The Board continually reviews Afterpay's governance policies and practices to ensure they are in line with corporate governance expectations and developments. Afterpay has reviewed its corporate governance framework against the 4th edition of the ASX Principles and Recommendations and will be reporting against the 4th edition for the financial year ending 30 June 2021.

Board Renewal

We were delighted to welcome three new independent non-executive Directors to the Afterpay Board in FY20. Gary Briggs (January 2020) and Sharon Rothstein (June 2020) are based in the US. Pat O'Sullivan (March 2020) is based in Australia and is the Chair of the Audit, Risk & Compliance Committee. Cliff Rosenberg retired from the Board in May 2020.

The renewed majority independent Board is a highly accomplished team that provides a diverse range of views and experience to support the management team in setting the strategic direction of the business. Having Directors with global knowledge and relationships across the core functions of our business is extremely valuable.

On behalf of the Board, I would like to take this opportunity to thank Cliff for his significant contribution to the business and the Board. Cliff has had a long association with Afterpay and remains a major supporter of our future prospects.

Fortifying the foundations to deliver long term shareholder value

In order to deliver long-term growth to shareholders, we must continue to invest in our existing regions and expedite our expansion into new markets. A balance sheet that can support this investment is key, as it underpins the funding of our rapid growth in underlying sales and provides the capacity to execute on potential merger and acquisition opportunities.

The Afterpay balance sheet was fortified in July 2020 by a fully underwritten institutional placement raising $650 million. The placement was complemented by a share purchase plan (SPP) that raised approximately $136 million from eligible Australian and New Zealand retail investors. Shares in both the placement and SPP were issued at $66.

Concurrent with the institutional placement, the co-founders each sold 2.05 million shares, which equated to 10% of their individual holdings and 1.5% of total shares outstanding in Afterpay. The founders remain Afterpay's largest shareholders.

The capital raising and sell down was overseen by a sub-committee of independent Non-Executive Directors.

Prior to the July 2020 capital raising, retail shareholders participated in another SPP that was announced on 11 June 2019. This SPP was deferred following the receipt of the notice from AUSTRAC. The SPP was completed at a price of $23 per share, which was the same price at which shares were issued in a placement to institutional and professional investors in June 2019.

The capital support from our shareholder base demonstrates their belief in the long term prospects of our business, and is further validation of our differentiated business model.

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Acknowledging all who contribute to our success

My decision to formally take on the role of Chair of Afterpay was made easy by the people who are part of our world class business. It is a privilege to take on this important role and I am excited to continue on this challenging, but very rewarding journey.

None of what we have achieved would be possible without the hard work and dedication of the Afterpay team. On behalf of the Board, I would like to thank the founders, management team and all employees for their continued focus and dedication through what has been a very challenging year. I would also like to acknowledge my fellow Board members, old and new, for the time they dedicate to our business and the passion they share with the team.

Lastly and importantly, I would like to take this opportunity to thank you, our Afterpay shareholders for your ongoing support and belief in our ability to deliver long-term value to you, and to achieve our mission to power an economy in which everyone wins.

Elana Rubin

Independent Chair
Afterpay

Our FY20 achievements are a testament to the amazing team at Afterpay. The commitment and passion of our employees is reflected in the successful execution of our strategy over the past five years.

Dear fellow shareholders

The past 12 months has seen an accelerated movement away from traditional credit and a shift to online shopping. It has also been a year of continued growth and expansion across our regions, despite the challenges we have faced with COVID-19.

Our incredible team of over 650 people, not only transitioned seamlessly to working from home during COVID-19, they continued to work passionately to help deliver the best for our customers and merchants. Our priority has been, and will continue to be, taking care of our people above all else.

During the past year, the leadership team has evaluated what long-term success looks like for our business. As we evolve with our customers, merchants and stakeholders towards a retail landscape that is increasingly driven by e-commerce, we have redefined our vision to reflect this shift.

Our next chapter will see this vision come to life.

With a focus on millennials and Gen Z, we have redefined our vision that aspires to fairness and financial freedom for all – this is the world we want to see. Our mission is to power an economy in which everyone wins – we will look to evolve in a way that delivers a "win/win" for all of our stakeholders.

Our values are reflective of the mindset we encourage our employees to have as we execute our strategy.

We have the right strategy and we're evolving our priorities in FY21. We will deliver our next chapter through:

- **Our brand**
- **Grow**
- **Innovate**
- **Perform**
- **Do the right thing**

Our Brand

Our renewed brand enables us to more accurately reflect who our customers are and why they choose Afterpay. Our brand symbolises our evolution. It's defined by our vision, our mission and our values. It represents where we came from, and where we are heading.

Our brand provides a platform that allows us to clearly articulate who we are and what we do. It captures and celebrates the value we deliver to merchants and customers. We strive to influence better behaviours by empowering people and seeking a "win/win" for everyone.

Our mission provides us with a north star and our values help us navigate our future – one in which we can continue to build a leading company, driven by the success of all our stakeholders.

Millennials at our core
With a focus on millennials and Gen Z, we have redefined our vision that aspires to fairness and financial freedom for all.

Underlying Sales
$11.1b
Up 112% on FY19

Active Customers
9.9 million
Up 116% on FY19

Active Merchants
55.4k
Up 72% on FY19

Grow

Growth has remained a key focus throughout FY20. Our global expansion has seen strong growth across all our markets and our key metrics of underlying sales, customers and merchants all performed extremely well.

Pivotal milestones have been achieved – the US celebrated 5 million active customers within two years, and our UK team reached 1 million active customers in their first full financial year.

In ANZ, new verticals were launched and key new merchants (now live or in the process of integrating), include: Qantas Frequent Flyer, eBay, Ticketek, Webjet, Chemist Warehouse and Priceline.

Notwithstanding the challenges of COVID-19, we launched in-store with selected retail stores in the US. I am proud of the team and the support we could provide our merchant partners as they gradually re-opened for their customers.

Merchant acceptance continues to be the ultimate driver of customer acquisition and, as we continue to expand into new markets, this will deepen our major enterprise merchant partnerships.

We are now live in Canada with a small number of merchants in testing and initial launch phase. We have a strong pipeline and we're building on our talented team in the US to drive growth in this new North American market. Preparations have also commenced to launch in Europe and Asia.

Innovate

Through innovation, we will leverage our pay-in-four product to expand our differentiated value proposition, which ultimately drives value for merchants and customers through product enhancement.

Innovation continues to be at the forefront of the service we offer.

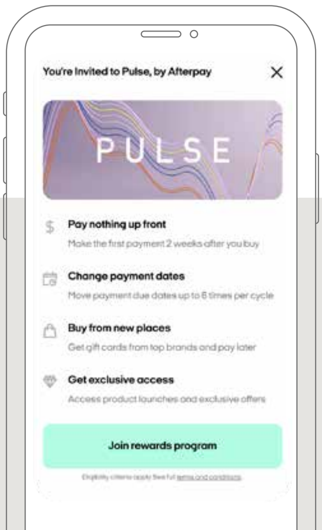
We have a strong product and innovation roadmap, reflecting feedback from our customers and merchants. Listening is how we ensure we are evolving with their expectations and needs in mind.

In July 2020, we launched in the US our one-of-a-kind loyalty program, called Pulse, rewarding our customers who use Afterpay in a responsible way. ANZ and UK launches will follow. Pulse is the only mass market program of its kind, incentivising customers to make payments on time and rewarding them for it.

We successfully launched a virtual in-store card in the US with Apple Pay and Google Pay. Apple Pay was also rolled out as a repayment method for customers globally, providing more options to purchase items in a way that suits their lifestyle.

Our team is absolutely passionate about building innovative products that align with our vision and mission, and creates value that meets the needs of our customers.

Pulse



Perform

We delivered a solid set of results in FY20 and I want to thank our incredible team – without them, we wouldn't have realised these achievements.

We achieved strong Underlying Sales and income growth was matched by strong margin performance in FY20.

Our Group Total Income of $519.2m, 97% higher than FY19, was driven by strong performance of the Afterpay business which delivered income of $502.7m, 103% higher than FY19. We sustained merchant margins at 3.9% of underlying sales, supported by a growing number of SMB's joining the platform.

We achieved historically low loss rates with Gross Loss at 0.9% of Underlying Sales. Net Transaction Loss (NTL) of 0.4% was in line with FY19, with the benefit of lower Gross Loss offsetting a decreasing contribution from Late Fees.

Afterpay Net Transaction Margin (NTM) as a percentage of Underlying Sales remained strong at 2.3% despite lower contribution from Late Fees and an increasing contribution from earlier life-cycle, initially lower-margin, international markets.

Our EBITDA (excluding Significant Items) of $44.4m, up 73% on FY19, was driven by growth in Underlying Sales, income and NTM.

While global trading and capital market conditions remain uncertain during this period, our already strong balance sheet and liquidity position was further enhanced by a successful capital raise in July 2020 which delivered net proceeds of $769.8m. Inclusive of the net proceeds of the capital raising, Afterpay has an extremely strong balance sheet position with over $1.3b of cash and over $2b of combined pro forma liquidity and growth capacity. The combined pro forma liquidity and growth capacity position can fund in excess of $30b in annualised underlying sales above the current run-rate of over $15b. This excludes additional liquidity that may be created by increasing existing or new debt warehouse facilities.

Do the right thing

Our people are focused and committed to doing the right thing – it underpins everything we do. It's the reason we exist.

It's because of our global team that we delivered another year of solid results. The level of integrity and passion with which they did this is what I am most proud of.

While a lot has changed in the five years since the company began, Afterpay's core principles and purposefully different model remain, and continue to resonate with customers around the world.

Our purposefully different approach and appeal to customers who want a budgeting tool is reflected in the fact that average outstanding balances have remained consistently low across the portfolio ($190), notwithstanding frequency has increased significantly over time and that approximately 90% of customers use a debit card on the Afterpay platform.

As we continue to grow and mature, how we contribute to society is extremely important. We are committed to leading and educating consumers about financial wellbeing as we work towards our mission to power an economy in which everyone wins.

The past 12 months we have seen our communities tested during particularly trying times. From the bushfires in Australia to the global COVID-19 pandemic, this has not only truly tested our business model but also how we support our communities during challenging circumstances.

Our team is absolutely passionate

about building innovative products that align with our vision and mission, and creates value that meets the needs of our customers.

Our team supported our small-to-medium business partners through introducing Afterpay Access – a new one-stop-shop for small businesses that offers resource tools, and expert advice on how to grow during this challenging period and beyond.

We partnered with charities in each region to help raise awareness and funds. One initiative we launched was our 'Add $1 / £1' at the checkout with the funds going directly to partner charities.

We have also continued to attract global talent across our regions. We welcomed David Katz (Chief Product Officer), Geoff Seeley (Chief Marketing Officer), Cassandra Williams (Chief Enterprise Risk Officer), Marie Festa (Executive Vice President, Investor Relations and Communications) and Lee Hatton (Executive Vice President, New Platforms).

Shaping the future

I feel so privileged to be leading the Afterpay team. There is no doubt that the success we have seen is thanks to them and the passion they bring to Afterpay every single day. On behalf of Nick Molnar and the leadership team, I would like to say thank you.

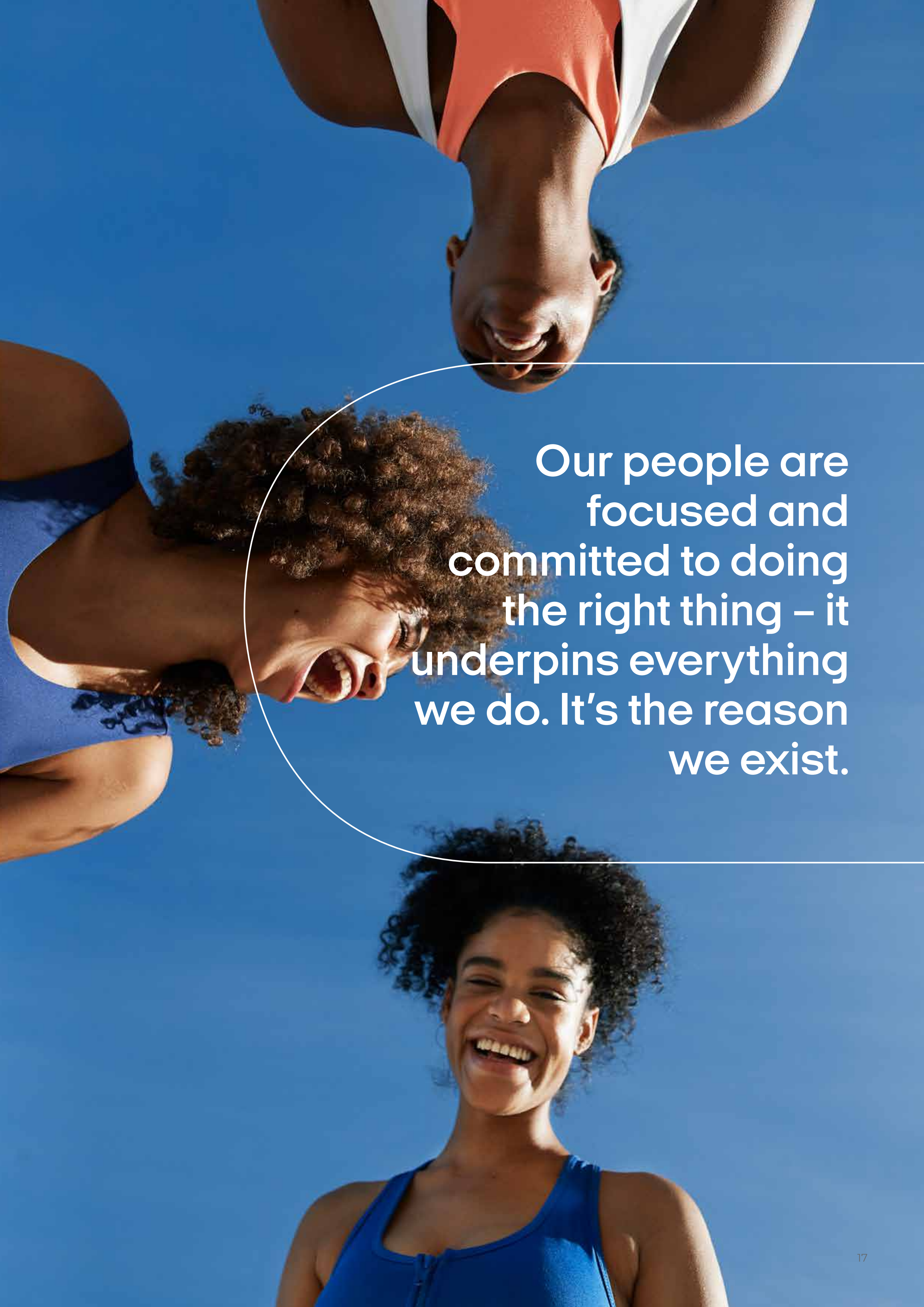
Thank you to our Board and leadership team for their support and guidance. It's invaluable as we continue to scale and grow.

I would also like to thank our customers and merchant partners, as well as our investors. You are such an integral part of our success and growth, and we are grateful for your loyalty and trust.

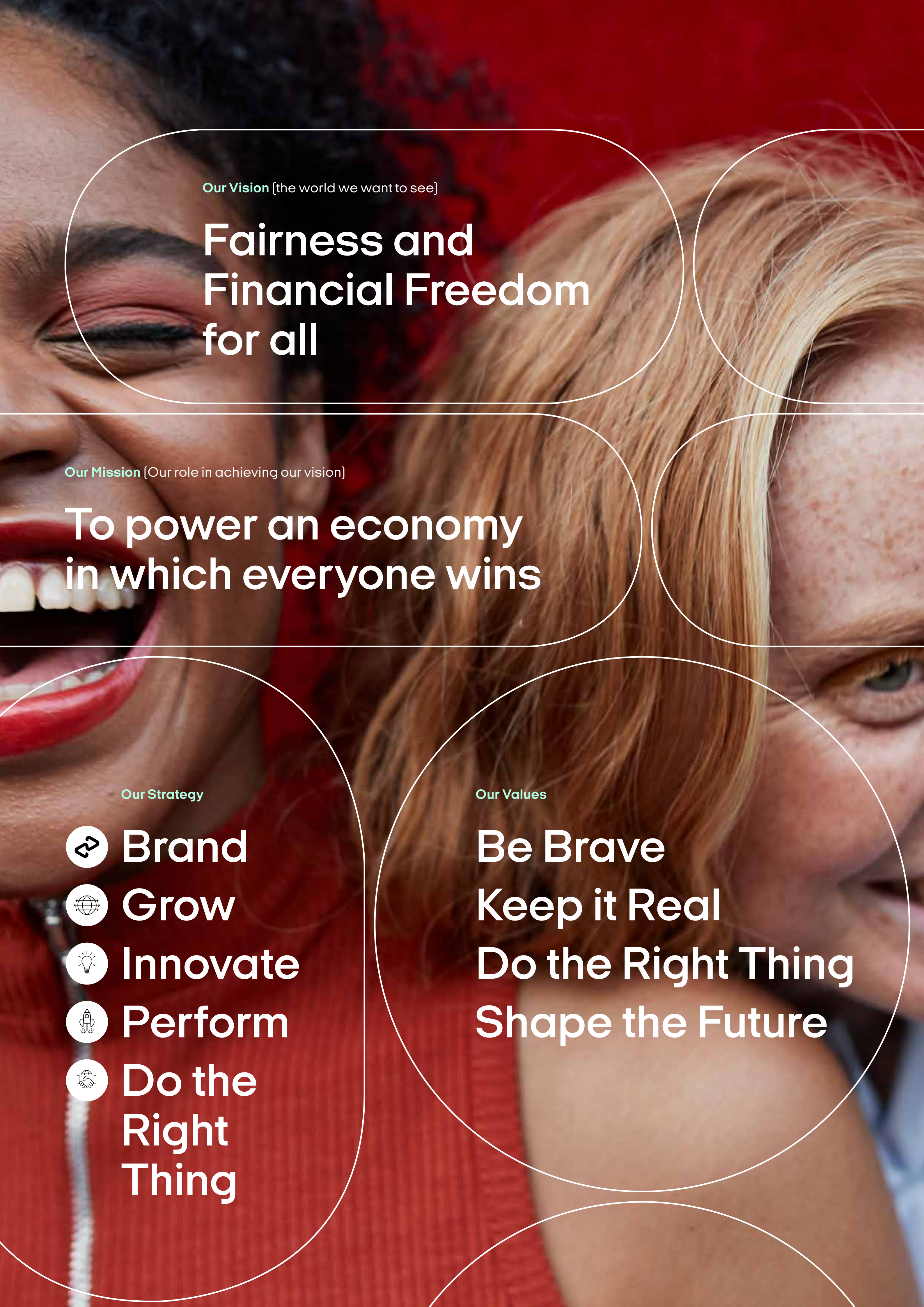
Our future is exciting. Our achievements over the past five years have set the foundation for the successes to come.

We have aspirational goals and a talented team ready to achieve them. We are committed to seeing a world of fairness and financial freedom for all. We will continue to work hard every day as we move towards our mission – to power an economy in which everyone wins.

Anthony Eisen
CEO & Managing Director
Afterpay



Our people are focused and committed to doing the right thing – it underpins everything we do. It's the reason we exist.



Our Vision (the world we want to see)

Fairness and Financial Freedom for all

Our Mission (Our role in achieving our vision)

To power an economy in which everyone wins

Our Strategy

- Brand
- Grow
- Innovate
- Perform
- Do the Right Thing

Our Values

- Be Brave
- Keep it Real
- Do the Right Thing
- Shape the Future

Looking after employees
The health and wellbeing of our team is always front of mind for our leadership team.

Do the Right Thing

Sustainability

Caring for our people

It's our team who have made us who we are and the success we have seen. Over the past 12 months we have grown from 447 to ~650 employees.

Through the challenges we faced and continue to face during COVID-19 we have, and always will take care of our people above all else. Our team transitioned seamlessly to working from home and, through a Culture Amp Survey we conducted in the first few weeks, 94% of our team told us they felt supported and informed.

The health and wellbeing of our team is always front of mind for our leadership team. Initiatives such as Mental Health First Aid training and our Employee Assistance Program have been communicated broadly to our team. We will continue to provide resources and listen to ensure our people are supported in the best way we can.

We keep our teams connected through Global All Hands, where our teams hear from our leaders and have the opportunity to ask questions that are important to them. Further building a listening culture is absolutely critical as we evolve and grow. We will always seek feedback and commit to fostering an open and transparent culture.

As we enter our next chapter, our team and the culture at Afterpay is more important than ever.

Through our new values – Be Brave, Keep it Real, Do the Right Thing and Shape the Future – we will drive the right behaviours in how we work together and the decisions we make to deliver a sustainable business.

>650 employees

8 cities

Over the past 12 months we have grown from 447 to over 650 employees

Through the challenges we faced and continue to face during COVID-19 we have, and always will take care of our people above all else.

Throughout June it was Pride Month
Even though we couldn't march in the streets like we did last year, our Pride Community at Afterpay still made sure we celebrated.

Diversity and Inclusion

Afterpay is a fast paced and dynamic organisation that knows diversity of thought and an inclusive culture are at the heart of innovation.

Building a diverse and inclusive culture is not only the right thing to do but it also makes business sense. Diversity means bringing different insights and perspectives to help drive sustainable growth.

This year we developed a new Diversity and Inclusion Policy which outlines our commitments. At the core, we are about building and fostering a safe and supportive culture, where individuals feel confident and comfortable to be who they are.

It's important that our team reflects the diversity of our customers and the communities in which we operate.

As we continue to embed diversity and inclusion into our DNA, the Afterpay leadership team is committed to the following strategy:

Grow: We will attract, retain and develop a pipeline of talent from the widest pool of people, who will bring with them diverse backgrounds, experiences, skills and perspectives

Perform: We will embed the importance of Diversity and Inclusion within our culture by encouraging a commitment to inclusion by leaders at all levels

Innovate: We will build innovation through fostering our team's diversity of thought, skills and experience

Do the right thing: We will embrace, role model and encourage our team members to balance their work and life commitments by building a holistic flexible working culture

As we shape the future our focus will be on:

- Enhancing our recruitment processes to ensure we are attracting candidates from the widest pool of people with diverse backgrounds, experiences, skills and perspectives.
- Achieving gender targets of 40,40,20 for Directors and senior management by FY23
- Understanding the baseline of our diversity across our global team and develop action plans and groups to address the areas where we need to focus
- Educating our leaders through training to ensure they are equipped and can role model the changes we want to see

Our team has made some good progress on gender diversity.

Gender balance remained a key focus across the business in FY20. This year we welcomed Lee Hatton, Cassandra Williams and Marie Festa to our Global Leadership team, which is now made up of 40% women.

Across our regions we celebrated International Women's Day by hearing stories from our team across all levels of what equality means to them. We shared our commitments and ideas on how we can drive even greater equality across our teams.

In May this year, we were horrified by the racial injustice experienced in the US and supported the rise of the Black Lives Matter movement that rightfully gained global attention. Led by our US team, Anthony Eisen and Nick Molnar had the privilege of joining a listening session with the team to not only grieve what had happened but to listen, to understand, and to learn about experiences related to racism and bias. Our team also led a social media campaign to promote and support Black-owned businesses. This movement also forced us to reflect on the injustices that occur in Australia's Indigenous communities and how we can play a part in raising greater awareness.

Throughout June it was Pride Month, and even though we couldn't march in the streets like we did last year, our Pride Community at Afterpay still made sure we celebrated. The team had a Virtual LGBT History Experience, developed a social media campaign around the theme of hopefulness and resilience, and developed a Global Pride Employee Newsletter.

We know we have more to do, but with our team, we will be a better company and support a better society through a more diverse and inclusive work environment.

Caring for our communities

FY20 was no doubt a year of challenges, including devastating bushfires in Australia and a global pandemic unlike anything we have ever experienced in our lifetime.

During the Australian Summer, Australia witnessed devastating fires across the country. We are incredibly proud that our team supported the bushfire appeal through donating $250,000, with our customers, to the Red Cross Bushfire Appeal. We also provided hardship relief for affected customers and support for impacted merchants.

COVID-19 created uncertainty for many in the community, especially our small-to-medium business partners (SMBs).

Through our merchant partners we understand that running a SMB can be fulfilling and stimulating, but also challenging, even without the disruption of COVID-19.

To help our SMB community we introduced Afterpay Access – a new one-stop-shop for small businesses that offers resource tools, and expert advice on how to grow during this challenging period and beyond.

Our team also provide support such as:

- Launching campaigns such as Afterpay Connect and Support Small, to showcase and connect small businesses with millions of Afterpay customers
- Providing a suite of offers and online 'how to guides' to help SMBs efficiently and effectively move to online transactions

In May, we partnered with five incredible charity partners in each of our regions – Thread Together in Australia, Dress for Success in New Zealand, Baby2Baby and Common Thread in the US, and NHS Charities Together in the UK.

Our aim was to help make a difference to those who needed it, especially during these challenging times.

One of the initiatives we launched was "Add $1 / £1 at the checkout", which provided our customers the option to add $1 / £1 at checkout, with the funds going directly to the charities we have partnered with.

Overall, our customers raised over $330,000 and our 'at the checkout' initiative has helped increase much needed awareness and support.

Campaigns such as Afterpay Connect and Support Small showcase and connect small businesses with millions of Afterpay customers.

COMMON THREAD

BABY2BABY

DRESS FOR SUCCESS

NHS CHARITIES TOGETHER

THREAD TOGETHER

"Thread Together is thrilled to be partnering with Afterpay. Afterpay's support will go a long way in supporting Thread Together's recent bushfire and COVID-19 relief efforts.

Future contributions from Afterpay's customers will help us even more as we continue to provide new clothing, a basic human right, to some of the most vulnerable families across the country during this very challenging time."

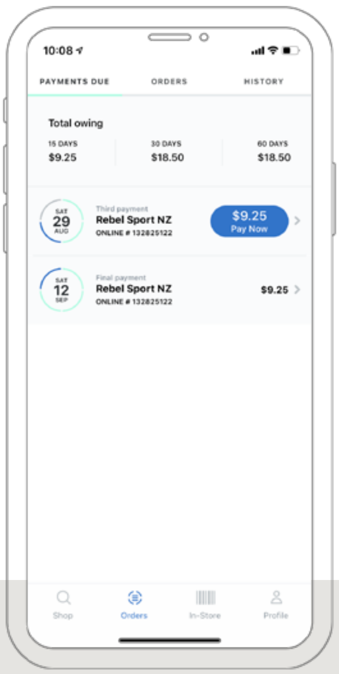
Anthony Chesler
CEO, Thread Together

Responsible spending

Enable

Afterpay has created a budgeting tool that is free for customers to use if they pay on time. Our business model is purposefully designed to benefit from positive repayment behaviours and is not about extending credit to customers over long periods. Customers can purchase an item today and pay for it in four equal instalments every two weeks.

We want our customers to spend responsibly and pay on time, so that they can use our service again for their next purchase.



Our business model
New customers with Afterpay start on low limits. Customer spending limits only increase with proven positive repayment behaviour over time.

Our business model

New customers with Afterpay start on low limits. Customer spending limits only increase with proven positive repayment behaviour over time. Afterpay never charges interest, our late fees are low and capped, and we pause our service as soon as a customer misses a payment.

Afterpay has built a successful model without the need for credit checks. Over half our customers do not have established credit histories. Our proprietary algorithm has been tested against credit bureau data and validated that credit checks would not help Afterpay make better decisions.

The traditional credit reporting system is designed to benefit lenders by helping them recover debts from customers. The threat of adverse credit listings is applied to customers that are behind in repayments.

Afterpay instead manages its credit risk by suspending customers from spending more on our platform as soon as they miss a repayment. This prevents customers spiraling in debt and means they are more likely to be able to pay us back and continue using our service. It also means we can keep our overall losses lower.

Support

Afterpay's primary focus is to prevent consumers from experiencing financial hardship. We do not approve all customers that seek to use our platform and approve individual transactions in real time.

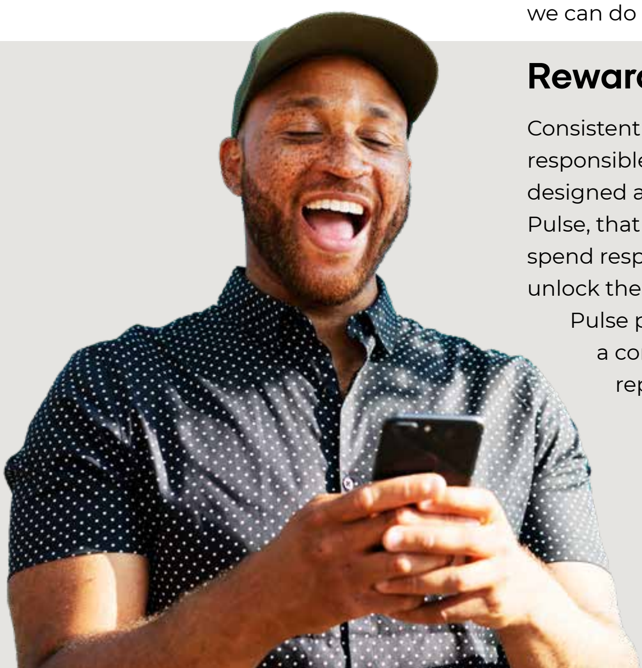
Now more than ever, we also recognise that a person's circumstances can change. Afterpay has a well-established, broad and generous hardship program, and our approach to hardship assistance goes above and beyond what is required by the law for traditional lenders.

We immediately freeze late fees for customers in hardship, and we offer a range of short-term and longer term solutions, depending on individual circumstances. Our hardship program is easily accessible and, unlike the majority of other lenders, we do not require any documentary evidence from customers to support their hardship requests.

We are committed to continual improvement and have engaged with Financial Counselling Australia (FCA) to help us further enhance our hardship program. While Afterpay received the highest rating among buy now pay later companies in the FCA's July 2020 report on hardship[1], we know we can do even better.

Reward

Consistent with our commitment to responsible spending, Afterpay has designed a rewards program called Pulse, that recognises customers who spend responsibly. Customers can unlock the rewards available under our Pulse program by demonstrating a continued series of on-time repayments.



1. https://www.financialcounsellingaustralia.org.au/docs/rank-the-banks-and-other-creditors-2019/

Environment

Afterpay is achieving carbon neutrality

Afterpay is committed to environmental sustainability and recognises the direct impact that our business has on the environment.

Afterpay's direct impact on the environment is driven primarily by the physical offices we occupy around the world, the use of data centres to power our platform, and business travel. In 2020, we independently calculated our carbon footprint across our global operations. To achieve carbon neutrality, Afterpay is purchasing the necessary carbon credits to offset our emissions. We are currently working towards achieving certification from Climate Active.

The Afterpay shop directory, which sends

14.5 million

referrals to retailers every month[1], has a Shop Sustainably category that will soon be powered

by Good On You

1. Based on Q4 FY20

Afterpay recognises its broader impact

Afterpay is a platform that connects consumers with merchants. We recognise the important role we have in understanding and influencing the indirect environmental impacts generated by our suppliers and retail supply chains.

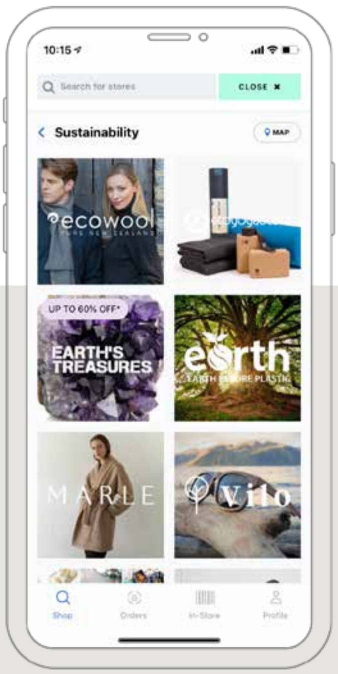
Afterpay has started to take steps to encourage greater awareness of ethical and sustainable fashion.

We have started to empower our customers to make informed choices about fashion through a new partnership with Good On You, the world's leading source for sustainable fashion brand ratings. Good On You uses expert analysis and proprietary technology to give each fashion brand an easy-to-understand score based on ethical and sustainable criteria. Afterpay's Shop Directory, which sends around 14.5 million referrals to retailers every month, has a Shop Sustainably category that will be powered by Good On You. To help grow this category, and increase the number of merchants that have a Good On You rating, Afterpay has committed to providing Good On You with funding to review and rate additional labels.

Through our partnership with Thread Together we are committed to helping vulnerable people who need clothing by addressing the problem of excess new fashion ending up as landfill. In 2020, Afterpay became Thread Together's principal partner, and is committed to ensuring that Thread Together receives at least $200,000 per year.

Like Afterpay, Thread Together is an Australian start-up with strong roots in fashion and is the only charity organisation in Australia whose mission and focus is to source new clothing from fashion retailers and redistribute items to those in our communities that need it most.

Hundreds of Australian fashion retailers donate excess stock to Thread Together, including brands and partners of Afterpay, such as THE ICONIC, Bec + Bridge, P.E. Nation, Under Armour, Calvin Klein, Tommy Hilfiger, Bendon Lingerie and Retail Apparel Group. This has resulted in tonnes of new clothing being diverted from landfill to date and cemented Thread Together's role as the highest ethical response to the textile waste problem in Australia.



Sustainable fashion
Afterpay has started to take steps to encourage greater awareness of ethical and sustainable fashion.

Directors' Report.

Afterpay has built a successful model without the need for credit checks. Over half our customers do not have established credit histories.

Directors' Report

The Directors submit their report on the consolidated entity consisting of Afterpay Limited (Company) and the entities it controlled (Group) at the end of, or during, the year ended 30 June 2020.

Directors

As at the date of this report, the Directors of Afterpay Limited are:

Elana Rubin	Chair, Independent Non-Executive Director
Anthony Eisen	Chief Executive Officer and Managing Director
Nick Molnar	Global Chief Revenue Officer and Executive Director
Gary Briggs	Independent Non-Executive Director
Pat O'Sullivan	Independent Non-Executive Director
Sharon Rothstein	Independent Non-Executive Director
Dana Stalder	Independent Non-Executive Director

The Directors listed above each held office as a Director of Afterpay Limited throughout the period and until the date of this report, other than:

- Gary Briggs, who was appointed as a Director on 1 January 2020;
- Pat O'Sullivan, who was appointed as a Director on 1 March 2020; and
- Sharon Rothstein, who was appointed as a Director on 1 June 2020.

The following individuals were a Director of Afterpay Limited for a portion of the year:

- David Hancock, who ceased to be a Director on 8 October 2019; and
- Clifford Rosenberg, who ceased to be a Director on 24 May 2020.

Principal Activities

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

Financial Result

The Group reported a Statutory Loss After Tax of $22.9 million for the year ended 30 June 2020 (2019: $43.8 million).

Operating & Financial Review

The year ended 30 June 2020 was a period of continued financial growth and international expansion for the Group. Overall, in the year ended 30 June 2020, Afterpay:

- doubled **Underlying Sales** to $11.1 billion with increases achieved across all regions
- increased **Afterpay Income Margin** to 3.9% of Underlying Sales, with a broadened merchant portfolio
- recorded **historically low losses** with Receivables Impairment Expense (Gross Loss) at 0.9% of Underlying Sales, through proactive risk management during a period of increased economic uncertainty
- sustained **Net Transaction Margin** at over 2% of Underlying Sales, despite increasing contribution from newer markets which are initially lower margin
- **accelerated investment** in line with a publicly stated ambition to exceed $20 billion in Underlying Sales by the end of FY22
- strengthened an already **strong balance sheet position,** with the ability to fund over $30 billion in incremental Underlying Sales over the current Underlying Sales run rate of $15 billion (Q4 annualised).

The final months of the year were overshadowed by the effects of the COVID-19 pandemic on the economies in which Afterpay operates. Underlying Sales, Total Income, and Net Transaction Margin continued to grow notwithstanding the broader economic consequences of COVID-19, with the platform benefiting from a shift from in-store to online spending and from cash payments to digital payments.

Strong growth matched by strong margin performance, notwithstanding:

- increased contribution from less-mature markets which are initially lower margin;
- materially lower late fees as a percentage of Afterpay Total Income

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1. Group Summary

Total Income was $519.2 million for the year ended 30 June 2020, up 97% on the prior year driven by growth in Underlying Sales and an expanding merchant margin.

Net Transaction Margin (NTM) for Afterpay was $250.2 million, up 110% on the prior year, increasing broadly in line with Underlying Sales due to an expanding merchant margin and stable variable cost margins.

The Group achieved EBITDA (excluding Significant Items) of $44.4 million for the year ended 30 June 2020, up $18.7 million on the prior year, driven by growth in NTM which more than offset planned increased investment in Employment and Operating Expenses to support Afterpay's continued expansion.

Table 1 Summary Financial Results

For the year ended 30 June	2020 $m	2019 $m	Change $m	Change %
Total Income	519.2	264.1	255.0	97%
Cost of Sales	(134.3)	(59.6)	(74.7)	(125%)
Receivables Impairment Expenses	(94.5)	(58.7)	(35.8)	(61%)
Employment Expenses	(86.1)	(51.4)	(34.7)	(67%)
Operating Expenses[1,2]	(146.3)	(73.2)	(73.1)	(100%)
Afterpay Net Transaction Margin[3]	**250.2**	**119.3**	**130.8**	**110%**
EBITDA (excl. Significant Items)[2,4]	**44.4**	**25.7**	**18.7**	**73%**
Loss before tax	**(26.8)**	**(42.8)**	**16.0**	**37%**
Loss for the year	**(22.9)**	**(43.8)**	**20.9**	**48%**

1. Operating Expenses include one-off items of $6.4 million (2019: $7.5 million) and foreign currency (FX) gain of $19.9 million (2019: $3.0 million) which are not included in the calculation of EBITDA (excluding Significant Items). One-off items relate to international expansion costs, business combination, AUSTRAC-related costs, and other one-off gains or costs.
2. The Group adopted AASB 16 *Leases* from 1 July 2019 using the modified retrospective method and has not restated comparatives for the prior year, as per the specific transitional provisions. EBITDA in the year ended 30 June 2020 is $5.6 million higher due to the adoption of AASB 16 than it would have been under the previous accounting standard, AASB 117 *Leases*.
3. Net Transaction Margin is a non-IFRS measure that is not audited but is a key financial metric used by management.
4. EBITDA is a non-IFRS measure that is not audited but is a key financial metric used by management at a Group level. EBITDA (excluding Significant Items) excludes foreign currency gains, share-based payment expenses, net loss on financial liabilities at fair value, share of loss of associate and one-off items.

2. Afterpay Platform Key Drivers

The financial results of Afterpay are supported by a number of underlying drivers including Underlying Sales, Active Customers, and Active Merchants. Afterpay tracks, and periodically reports, on these drivers in its half year and full year results announcements.

Table 2 Summary Platform Drivers

For the year ended 30 June	2020	2019	Change	Change %
Underlying Sales ($m)	11,114	5,247	5,867	112%
Active Customers (millions)[1]	9.9	4.6	5.3	116%
Active Merchants ('000s)[1]	55.4	32.3	23.1	72%

1. Active is defined as having transacted at least once in the last 12 months.

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2.1 Underlying Sales

Underlying Sales were $11.1 billion in the year ended 30 June 2020, more than doubling the prior year driven by strong growth across all regions.

Table 3 Underlying Sales

For the year ended 30 June	2020	2019	Change %
ANZ	6,566.9	4,314.1	52%
US	3,990.4	927.5	330%
UK	557.0	5.6	na
Underlying Sales ($m)	**11,114.2**	**5,247.2**	**112%**

Underlying Sales growth increased during the COVID-19 affected months of the year ended 30 June 2020. In the nine months to 31 March 2020, Underlying Sales were up 105% on the prior year. From 1 April to 30 June 2020, during which time the impacts of COVID-19 were in full effect, Afterpay achieved its highest Underlying Sales quarter on record at $3.8 billion, an increase of 127% on Q4 of the prior year.

2.2 Active Customers

Afterpay ended the year with almost 10 million Active Customers[1], an increase of 116% on the prior year. The average number of orders per Active Customer in the period (otherwise referred to as customer frequency) also increased across all regions.

Table 4 Active Customers

For the year ended 30 June	2020	2019	Change %
ANZ	3.3	2.8	18%
US	5.6	1.8	219%
UK	1.0	0.0	na
Active Customers (millions)	**9.9**	**4.6**	**116%**

1. Active is defined as having transacted at least once in the last 12 months.

2.3 Active Merchants

Afterpay had more than 55,000 Active Merchants[1] by the end of the year, an increase of more than 23,000, or 72%, on the prior year.

A broadening of the merchant portfolio to add more SMBs continued to be a focus for Afterpay in the period. Enterprise merchants contributed 61% to Underlying Sales in FY20, down from 63% in the prior year.

Table 5 Active Merchants

For the year ended 30 June	2020	2019	Change %
ANZ	42.8	28.4	51%
US	11.5	3.8	202%
UK	1.1	0.0	na
Active Merchants ('000s)	**55.4**	**32.3**	**72%**

1. Active is defined as having transacted at least once in the last 12 months.

3. Total Income by Service

Total Income for the Group was $519.2 million for the year ended 30 June 2020, an increase of 97% on the prior year. Afterpay generates income from its Afterpay service together with a smaller contribution from the Pay Now business, each of which are discussed separately below.

3.1 Afterpay

Afterpay Total Income is comprised of Afterpay Income (income from merchants) and Other Income.

In the year ended 30 June 2020, Afterpay Income increased by 116% on the prior year to $433.8 million. Afterpay Income as a percentage of Afterpay Underlying Sales was 3.9% in the year, an increase of 0.1 percentage points on the prior year.

Other Income (Late Fees) increased to $68.8 million from $46.1 million in the prior year. Late Fees grew at a far slower rate than the increase in Underlying Sales and are now less than 14% of Afterpay Total Income.

Table 6 Afterpay Total Income

For the year ended 30 June	2020	2019	Change %
Afterpay Income ($m)	**433.8**	**200.9**	**116%**
% of Afterpay Underlying Sales	3.9%	3.8%	0.1pp
Other Income ($m)	**68.8**	**46.1**	**49%**
% of Afterpay Total Income	13.7%	18.7%	-5.0pp
Afterpay Total Income ($m)	**502.7**	**247.0**	**103%**

3.2 Pay Now

Pay Now Revenue declined by $0.6 million to $16.5 million for the year ended 30 June 2020. Pay Now Revenue in the prior year included $0.9 million of revenue associated with the European e-Services business unit, which was divested in the prior year. Pay Now Revenue would have increased year-on-year, after adjusting to exclude the contribution of the European e-Services business unit in the prior year.

4. Expenses

Expenses increased in the year ended 30 June 2020 as the Group invested in operational expansion to support its publicly stated ambition to exceed $20 billion of Underlying Sales by the end of FY22. In particular, the year ended 30 June 2020 represented the first full year period of investment to successfully grow Afterpay's UK operations, as well as investment to maximise growth in Afterpay's largest market opportunity, the US, in its second full year of trading.

Afterpay quickly implemented a response plan that included a focus on limiting losses during the uncertain COVID-19 period, which contributed to Gross Loss improving during the COVID-19 period. The Group has continued to execute upon its mid-term plan while managing risks; and did not receive any government grants or other COVID-19-related benefits in the year.

The Group is well positioned to continue accelerating investment for growth in line with a publicly stated ambition to exceed $20 billion in Underlying Sales by the end of FY22.

4.1 Cost of Sales

Cost of Sales for the year ended 30 June 2020 was $134.3 million, up 125% on the prior year, largely due to increased processing and other variable costs associated with higher Underlying Sales.

Cost of Sales represented 1.2% of Underlying Sales, an increase of 0.1 percentage points on the prior year due to an increased contribution of Underlying Sales from the US and UK regions which have higher processing costs relative to ANZ. Specifically, US and UK contribution to total Underlying Sales grew from 18% in the year ended 30 June 2019 to 41% in the current year.

Afterpay contributed $128.9 million to Cost of Sales in the period relative to $5.4 million for Pay Now.

Table 7 Cost of Sales

For the year ended 30 June	2020	2019	Change %
Cost of Sales ($m)	**134.3**	**59.6**	**125%**
% of Afterpay Underlying Sales	1.2%	1.1%	0.1pp

4.2 Losses

4.2.1 Receivables Impairment Expense (Gross Loss)

Gross Loss was $94.5 million for the year ended 30 June 2020, representing 0.9% of Underlying Sales and improving by 0.3 percentage points on the prior year. Gross Loss improved notwithstanding the impact of the COVID-19 pandemic and increased Underlying Sales contribution from the newer US and UK markets which have higher losses relative to ANZ, due to their earlier growth phase.

Improvements in risk management practices and a higher proportion of returning customers (who are less risky) were key drivers of the improvement in Gross Loss performance through the year. Notably, collections of instalment payments and Gross Loss improved during the COVID-19 period.

Table 8 Gross Loss

For the year ended 30 June	2020	2019	Change %
Gross Loss ($m)	**94.5**	**58.7**	**61%**
% of Afterpay Underlying Sales	0.9%	1.1%	-0.3pp

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4.2.2 Net Transaction Loss

Gross Loss is a key input into Afterpay's Net Transaction Loss (NTL), a management metric comprised of the sum of Gross Loss, Chargebacks, Debt Recovery Costs, less Afterpay Other Income (Late Fees). Chargebacks and Debt Recovery Costs are reported within Other Operating Expenses.

NTL for the year ended 30 June 2020 was $42.8 million, or 0.4% of Underlying Sales. NTL as a percentage of Underlying Sales was in line with the prior period with a reduction in Gross Loss offsetting a reduction in Other Income (Late Fees).

Table 9 NTL

For the year ended 30 June	2020	2019	Change %
NTL ($m)	**42.8**	**22.2**	**93%**
% of Afterpay Underlying Sales	0.4%	0.4%	0.0pp

4.3 Employment Expenses

Employment Expenses were $86.1 million for the year ended 30 June 2020, up 67% on the prior year but declining as a percentage of Underlying Sales by 0.2 percentage points.

The growth in Employment Expenses in dollar terms reflected the Group's continued investment in talent, particularly across the sales, technology and product functions, to support Afterpay's mid-term plan. Headcount was added in all regions with the Group closing the year with 665 employees globally, up from 447 employees at 30 June 2019.

Afterpay plans to continue to invest in talent to accelerate market penetration and global expansion in line with mid-term plans.

Table 10 Employment Expenses

For the year ended 30 June	2020	2019	Change %
Employment Expenses ($m)	**86.1**	**51.4**	**67%**
% of Afterpay Underlying Sales	0.8%	1.0%	-0.2pp

4.4 Operating Expenses

Operating Expenses, which comprise Marketing and Other Operating Expenses, were $146.3 million for the year ended 30 June 2020, up 100% on the prior year. Operating Expenses represented 1.3% of Underlying Sales and were 0.1 percentage points lower than the prior year.

Table 11 Operating Expenses

For the year ended 30 June	2020	2019	Change %
Operating Expenses ($m)	**146.3**	**73.2**	**100%**
% of Afterpay Underlying Sales	1.3%	1.4%	-0.1pp
Operating Expenses (excl. Significant Items) ($m)	**159.8**	**68.7**	**133%**
% of Afterpay Underlying Sales	1.4%	1.3%	0.1pp

4.4.1 Marketing Expenses

Marketing Expenses were $70.5 million in the year ended 30 June 2020, up by 208% and 0.2 percentage points of Underlying Sales compared to the prior year. Marketing Expenses include both co-marketing initiatives with major brand merchant partners and other marketing spend such as digital paid media and visual merchandising.

The increase in Marketing Expenses was in line with the Group's statements at the half year to increase marketing spend and partner with major brand merchants to accelerate growth in Underlying Sales. Marketing Expenses in the year also supported increased investment in brand, including the recent global Afterpay re-brand. Further investment in marketing will continue next year in line with mid-term plans.

Table 12 Marketing expenses

For the year ended 30 June	2020	2019	Change %
Marketing Expenses ($m)	**70.5**	**22.9**	**208%**
% of Afterpay Underlying Sales	0.6%	0.4%	0.2pp

4.4.2 Other Operating Expenses

Other Operating Expenses comprise technology costs which support the global Afterpay service, costs for outsourced customer services teams, and corporate costs such as legal, compliance, finance, and other general and administrative costs.

Other Operating Expenses were $75.8 million in the year ended 30 June 2020, up 51% on the prior year but improving as a percentage of Underlying Sales due to operational leverage. Increased investment in Other Operating Expenses was made to support Underlying Sales growth and global expansion, in line with the Group's mid-term plan, and will continue to be an area of investment.

Other Operating Expenses included $6.4 million of one-off items (2019: $7.5 million) and $19.9 million of foreign currency gains (2019: $3.0 million gain). Other Operating Expenses excluding the net impact of these items would have been $89.3 million, representing 0.8% of Afterpay Underlying Sales, 0.1 percentage points better than the prior year.

Table 13 Other Operating Expenses

For the year ended 30 June	2020	2019	Change %
Other Operating Expenses ($m)	**75.8**	**50.3**	**51%**
% of Afterpay Underlying Sales	0.7%	1.0%	-0.3pp
Other Operating Expenses (excl. Significant Items) ($m)	**89.3**	**45.8**	**95%**
% of Afterpay Underlying Sales	0.8%	0.9%	-0.1pp

5. Margin & EBITDA

5.1 Net Transaction Margin – Afterpay

Net Transaction Margin (NTM) is a non-IFRS measure that is not audited but is a key financial metric used by management to track Afterpay's gross profit inclusive of losses and funding costs. Afterpay NTM is comprised of Afterpay Income less Afterpay variable costs, including Cost of Sales, NTL, and direct Receivables funding costs.

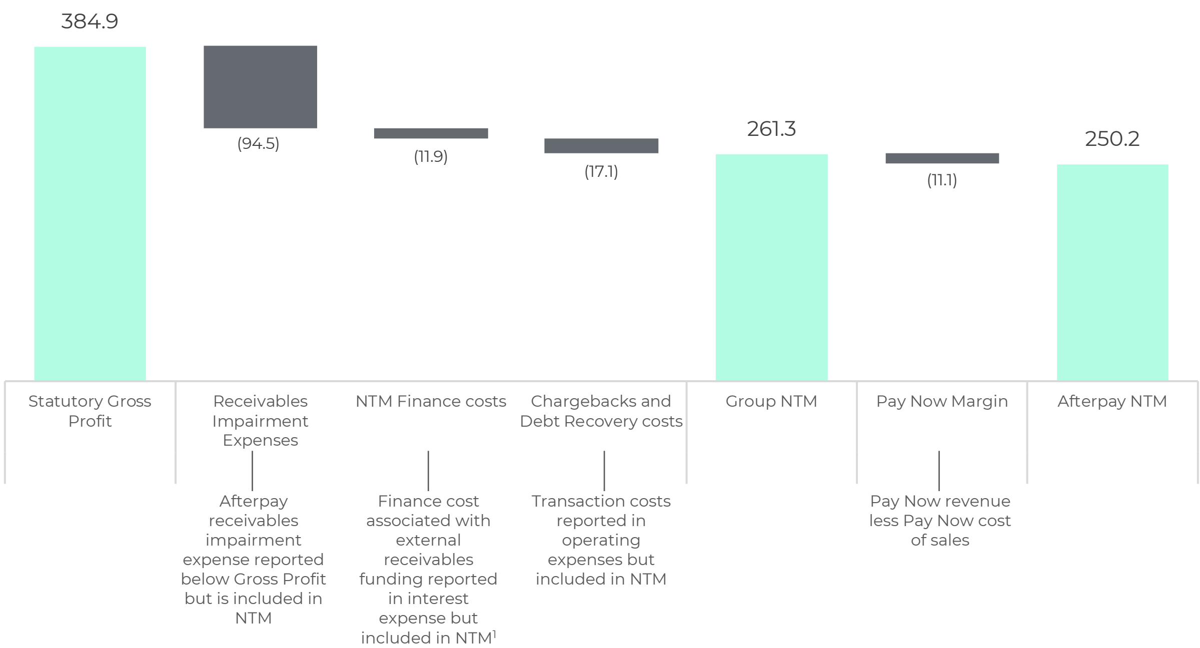
Afterpay NTM was $250.2 million in the year ended 30 June 2020, up 110% on the prior year. Afterpay NTM as a percentage of Underlying Sales was stable at 2.3%, reflecting a stable NTL percentage and higher merchant margin offsetting a higher Cost of Sales percentage.

Table 14 NTM – Afterpay

For the year ended 30 June	2020	2019	Change %
NTM – Afterpay ($m)	**250.2**	**119.3**	**110%**
% of Afterpay Underlying Sales	2.3%	2.3%	-0.0pp

A reconciliation of Statutory Gross Profit as presented in the Consolidated Statement of Comprehensive Income to NTM is set out in Figure 1.

Figure 1 Gross Profit bridge to NTM – Afterpay ($ millions)



Note:
1. Finance cost associated with external receivables funding: reported in finance costs but included in NTM. Excludes amortisation of capitalised borrowing costs, corporate bond interest, lease expense and interest income. Methodology consistent with prior periods.

5.2 EBITDA (excluding Significant Items)

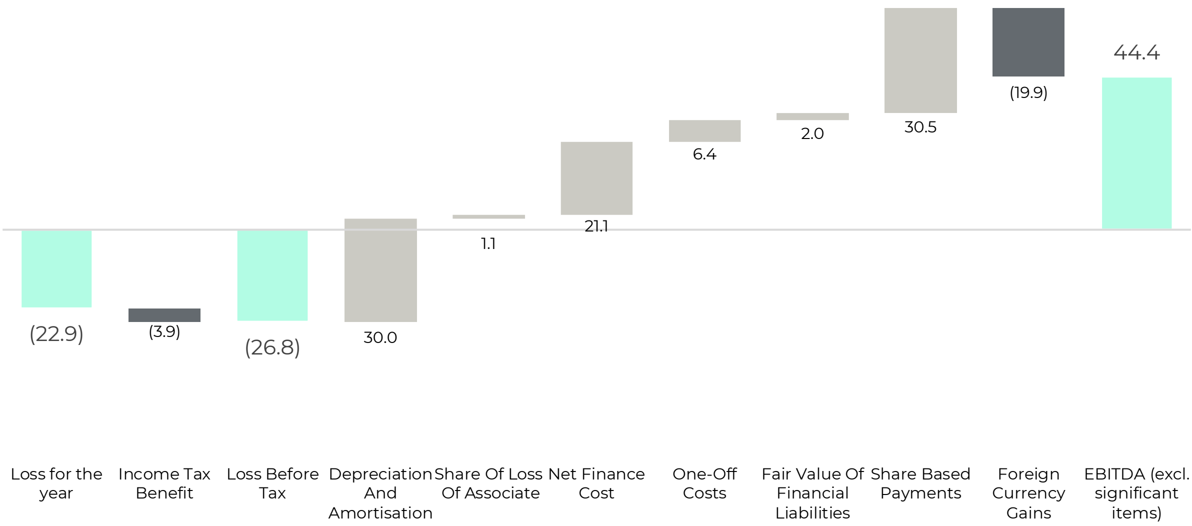
The Group's EBITDA (excluding Significant Items) was $44.4 million in the year ended 30 June 2020, up 73% on the prior year. The increase in EBITDA (excluding Significant Items) was driven by growth in Underlying Sales, Afterpay Income, and Net Transaction Margin in the Afterpay business, partially offset by increased Employment and Operating Expenses to support strong Underlying Sales growth.

Table 15 EBITDA (excluding Significant Items)

For the year ended 30 June	2020	2019	Change %
EBITDA (excl. Significant Items) ($m)	**44.4**	**25.7**	**73%**

A reconciliation from Loss for the year as presented in the Consolidated Statement of Comprehensive Income to EBITDA (excluding Significant Items) is set out in Figure 2 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 2 Reconciliation from Loss for the year to EBITDA (excluding Significant Items) ($ millions)



6. Constant Currency

Afterpay's reported results are impacted by movements in foreign exchange rates given the extent of the Group's global operations and the growth in contribution from international markets outside of Australia.

Constant currency (CC) is provided to facilitate comparability of Afterpay's operational performance, excluding the impact of foreign currency fluctuations. Constant currency is a non-IFRS measure and has been calculated by translating the results for the year ended 30 June 2020 at the effective exchange rates for the prior year ended 30 June 2019 for each of Underlying Sales and Afterpay Income.

Table 16 Constant Currency

For the year ended 30 June	2020 (CC)	2020	2019	Change in CC %	Reported change %
Underlying Sales ($m)	10,851.8	11,114.2	5,247.2	107%	112%
Afterpay Income ($m)	423.8	433.8	200.9	111%	116%

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7. Financial Position

The Group's financial position has increased to Net Assets of $946.4 million as at 30 June 2020, up from $648.5 million at 30 June 2019.

Total Assets were $1,608.5 million, an increase of $788.1 million, which is primarily due to growth in Cash and Cash Equivalents (up $374.6 million) and Receivables (up $329.2 million). The increase in Receivables to $781.9 million at 30 June 2020 was due to the continued growth in Underlying Sales.

Total Liabilities were $662.2 million, an increase of $490.2 million from 30 June 2019 primarily due to growth in Interest Bearing Loans and Borrowings (up $418.8 million) and Trade and Other Payables (up $70.7 million). The increase in total Interest Bearing Loans and Borrowings to $469.0 million at 30 June 2020 was due to increased use of debt to fund the growth in Receivables.

8. Capital Management

The Group is focused on capital management to ensure that it has sufficient cash and available facilities to meet current and future funding requirements and growth aspirations. As at 30 June 2020, the Group's Balance Sheet and Liquidity position remained strong with the launch of new, and extension of existing, warehouse funding facilities during the period. The Group's Balance Sheet and Liquidity position was further enhanced following an equity capital raising in July 2020.

8.1 Net Cash / Debt

As at 30 June 2020, reported Net Cash was $138.5 million, comprising Total Cash of $607.6 million less Interest Bearing Loans and Borrowings of $469.0 million.

Reported Net Cash was $44.7 million lower than prior year due primarily to funding of growth in Receivables which have increased by $329.2 million from the prior year, partially offset by capital raisings during the year, which included the $200.0 million Coatue capital raising completed in the first half of the financial year.

Table 17 Net Cash / (Debt)

As at 30 June	2020 $m	2019 $m	Change $m
Cash and Cash Equivalents	606.0	231.5	374.6
Restricted Cash[1]	1.5	2.0	(0.5)
Total Cash	**607.6**	**233.5**	**374.1**
Interest Bearing Loans and Borrowings	(469.0)	(50.2)	(418.8)
Net Cash	**138.5**	**183.3**	**(44.7)**

1. Restricted Cash relates to cash assets held with banks as collateral for daily cash settlements with merchants and payments to funding providers. Included within Other Financial Assets in the Financial Statements.

The Group completed a capital raising in July 2020, post the conclusion of the financial year. After allowing for net proceeds from the July 2020 capital raising, Afterpay has pro forma Total Cash of $1,377.3 million and pro forma net cash of $908.3 million.

Table 18 Pro Forma Net Cash / (Debt)

As at 30 June	2020 $m	2019 $m	Change $m
Net Capital Raising Proceeds[1]	769.8	-	769.8
Pro Forma Total Cash	**1,377.3**	**233.5**	**1,143.9**
Pro Forma Net Cash	**908.3**	**183.3**	**725.0**

1. Relates to the $786.2 million capital raising in July 2020, net of capital raising fees.

8.2 Debt Funding

The Group's debt funding is diversified by both source and maturity. During the year ended 30 June 2020 and through to the date of this report, Afterpay:

> Established a US$200 million US receivables warehouse funding facility with Goldman Sachs to mature in December 2021;

> Extended the US$200 million US receivables warehouse funding facility with Citi to May 2022. The US facility with Citi was also reduced from US$300 million to US$200 million, concurrent to the establishment of the Goldman Sachs facility;

> Established a NZ$20 million New Zealand receivables warehouse funding facility with Bank of New Zealand and subsequently increased the commitment to NZ$50 million and extended the facility to March 2022;

> Extended the $300 million Australian receivables warehouse funding facility with NAB to December 2022;

> Extended the $200 million Australian receivables warehouse funding facility with Citi to December 2022; and

> Repaid $50 million unsecured retail notes in Australia.

Afterpay has no debt maturity within the next 12 months (earliest maturity in December 2021), with an average debt facility maturity of ~2.0 years as at the date of this report.

The table below sets out the Group's debt funding sources as at the date of this report.

Table 19 Debt funding sources

Facility	Region	Provider	Facility Size	Drawn	Maturity
Receivables Warehouse Funding	AU	Citi	$200m	A$75.0m	Dec-22
Receivables Warehouse Funding	AU	NAB	$300m	A$80.0m	Dec-22
Receivables Warehouse Funding	NZ	BNZ	NZ$50m	NZ$25.0m	Mar-22
Receivables Warehouse Funding	US	GS	US$200m	US$193.0m	Dec-21
Receivables Warehouse Funding	US	Citi	US$200m	US$4.0m	May-22

8.3 Liquidity & Growth Capacity

The Group maintains a strong liquidity position and capacity to fund future growth.

Liquidity for Afterpay is calculated as:

> the Cash and Cash Equivalents balance; plus

> undrawn capacity under receivables warehouse facilities.

Afterpay had Liquidity of $728.4 million at 30 June 2020.

The nature of Afterpay's warehouse facilities is that funds become available in line with the growth in Receivables. Growth Capacity for Afterpay reflects:

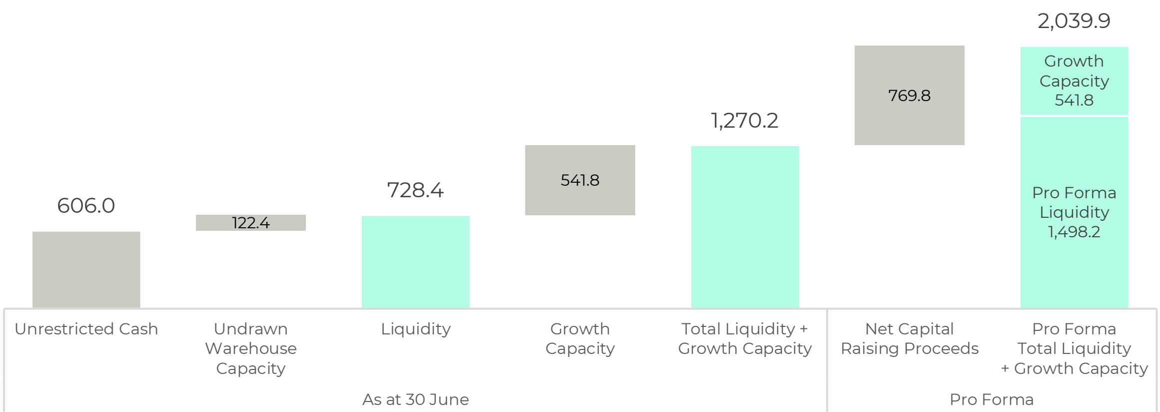
> the facility limit; less
> drawn debt; less
> the undrawn capacity under available receivables warehouse facilities.

Afterpay had Growth Capacity of $541.8 million at 30 June 2020.

The combination of Liquidity and Growth Capacity at 30 June 2020 was $1,270.2 million.

Inclusive of the net proceeds from the capital raising in July 2020, Afterpay has Pro Forma Liquidity of $1,498.2 million. Combined Pro Forma Liquidity and Growth Capacity is $2,039.9 million, which together provide the ability to fund in excess of $30 billion in annualised Underlying Sales above the current annualised Underlying Sales run-rate of $15 billion (Q4).

Figure 3 Afterpay Liquidity and Growth Capacity ($ millions).



9. Outlook for FY21

Afterpay will further accelerate investment for growth in FY21. With new markets tracking in line with ANZ blueprint, and additional markets coming online in FY21, we will further accelerate our investment to:

- Enhance our platform and continue to grow our people resources
- Pursue co-marketing opportunities and invest in our retail partners
- Consolidate our market-leading position in existing markets
- Establish a footprint and first/early-mover advantage in new markets

10. Other

This Operating and Financial Review should be read in conjunction with the *2020 in Review* described earlier in this Annual Report.

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.

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Key Risks & Business Challenges

The Group continues to establish its presence in the Australian, New Zealand, US and the UK markets. The principal risks and business challenges for the Group are:

Key Risks
Loss of, or failure to attract, key management personnel
Ability to continue driving customer and merchant growth
• Ability to retain and grow Afterpay's retail merchant client base; • Ability to retain and grow Afterpay customers in all markets; • Ability to increase transaction volumes, merchant and end customer numbers; • Increased competition and new market entrants; • Ability of the Group's technology to integrate with third party platforms, particularly websites, point of sale systems, and other merchant systems; • Risks associated with the emergence of new technologies and customer requirements; and • Risks associated with macroeconomic factors, including a slowdown in merchant and customer growth resulting from the COVID-19 pandemic.
Risks related to technology infrastructure, performance and intellectual property
• Failures or disruption to technology systems and communication networks; • Banking and payment processing performance; • Exposure to potential security breaches and data protection issues; • Protection and ownership of technology and intellectual property; • Capacity constraints on platform and network infrastructure; and • Risks that the Group's technology may be superseded by other technology or changes in business practice.
Credit, fraud and other related risks
• Risk of Afterpay end customers not repaying; and • Risk of fraud.
Access to funding to support the growth in instalment payments receivables
• Access to equity funding sources; and • Access to debt funding sources.
Risks associated with compliance and changes to the regulatory environment that may impact the Group's products, product delivery, brand and/or financial returns (due to potential higher compliance costs). Some of these risks may include:
• Financial product regulation • Payment system regulation • Regulatory interpretation • AML / CTF laws • Privacy laws

A particular area of focus for the Group in the year ended 30 June 2020 has been to build and expand its enterprise risk management focus and capability, including the appointment of a Chief Enterprise Risk Officer, to proactively identify and mitigate risks. The Group's continued engagement with local regulatory and other stakeholder groups on its product and service offering in all operating regions has also been a focus.

The Group also continues to strengthen and invest in its business development resources and processes in sales and marketing as well as in its customer risk, product and technology / engineering talent and capability with the aim of improving the Afterpay platform and supporting continued growth.

Information on Directors

Elana Rubin

Chair, Independent Non-Executive Director

Chair since 25 May 2020.
Independent Non-Executive Director since 30 March 2017.

Background and Experience: Elana previously served as an Interim Chair from 1 July 2019 and has been an Independent Non-Executive Director of Afterpay since 2017. 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 Telstra Corporation 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 Mirvac Limited. She 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[1]:

- 64,847 ordinary shares in Afterpay Limited

Anthony Eisen

Chief Executive Officer and Managing Director

Chief Executive Officer and Managing Director since 1 July 2019.
Executive Chairman from 5 July 2017 to 30 June 2019.

Background and Experience: Prior to his current role, Anthony served as Executive Chairman of Afterpay 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 also a Director of Stone & Chalk Pty Ltd.

Interests in Shares and Options[1]:

- 20,450,659 ordinary shares in Afterpay Limited
- 1,500,000 unlisted options relating to equity awards under the Group's legacy remuneration framework, with an exercise price of $1.00 per option and an expiry date of 31 December 2020
- 125,000 unlisted options, with an exercise price of $37.31 per option and an expiry date of 1 July 2024

1. As at 30 June 2020.

Nick Molnar

Global Chief Revenue Officer & Executive Director

Global Chief Revenue Officer & Executive Director since 1 July 2019.
Executive Director 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[1]:

- 20,450,659 ordinary shares in Afterpay Limited
- 1,500,000 unlisted options relating to equity awards under the Group's legacy remuneration framework, with an exercise price of $1.00 per option and an expiry date of 31 December 2020
- 125,000 unlisted options, with an exercise price of $37.31 per option and an expiry date of 1 July 2024

Gary Briggs

Independent Non-Executive Director

Independent Non-Executive Director since 1 January 2020.

Background and Experience: Gary is currently the Chairman of Hawkfish, a digital agency focused on Democratic causes and initiatives. From 2013-2018, Gary was the Chief Marketing Officer of Facebook, responsible for the Company's brand, consumer, and product marketing. He was Facebook's first CMO. From 2010-13, Gary was at Google, where he led marketing efforts for search, maps, commerce, Chrome, Google+, Google.org, and the Google brand overall. He also led marketing for Motorola Mobility, upon its acquisition by Google. Before Google, Gary was CEO at Plastic Jungle, a gift card startup, where he joined from their Board of Directors. Before that, Gary worked at eBay from 2002-08 in roles as Vice President of Consumer Marketing, General Manager of eBay Canada, Global Marketing Head of PayPal, and CMO of eBay North America. Earlier in his career, Gary worked for six years at Pepsi, where he launched Aquafina, Pepsi's joint venture with Starbucks and was Director of Brand Pepsi. He also spent two years at IBM running worldwide brand strategy and was an engagement manager at McKinsey. He earned a Bachelor of Arts degree in 1984 from Brown University and a Masters in Management in 1989 from the Kellogg School of Management, Northwestern University.

Other Roles: Gary also serves on the Boards of Etsy, Inc (NASDAQ: Etsy) and Petco, and is an advisor to several early stage companies.

Interests in Shares and Options[1]:

Nil holdings in Afterpay Limited

1. As at 30 June 2020.

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Pat O'Sullivan

Independent Non-Executive Director

Independent Non-Executive Director since 1 March 2020.

Background and Experience: Pat is currently a director of several companies and previously worked for 30 years in various senior financial and operational roles in Ireland, the US, Australia and New Zealand across a number of industries including traditional and online media, telecommunications, fast moving consumer goods and professional accounting. He was the Chief Financial Officer of Optus from 2001 to 2006 and was the Chief Operating Officer and Finance Director of Nine Entertainment Co Pty Limited (formerly PBL Media Pty Ltd) from 2006 until 2012. Pat is a member of The Institute of Chartered Accountants in Ireland and Australia. He is a graduate of the Harvard Business School's Advanced Management Program.

Other Roles: Pat is currently Chairman of carsales.com Limited (ASX:CAR), and Deputy Chair of Calvary Health. Pat was previously an Independent Non-Executive Director of the following ASX listed companies; APN Outdoor (ASX: APO), iSentia (ASX:ISD), Marley Spoon (ASX:MMM), iSelect (ASX:ISU) and iiNet (ASX: IIN) and was previously Chairman of HealthEngine. He is also Chairman of dreams2live4 an Australian charity that grants dreams to people with metastatic cancer.

Interests in Shares and Options[1]:

- 7,169 ordinary shares in Afterpay Limited

Sharon Rothstein

Independent Non-Executive Director

Independent Non-Executive Director since 1 June 2020.

Background and Experience: Sharon currently serves as an Operating Partner at growth equity firm, Stripes Group, and is also a listed company director. Prior to her current roles, Sharon was the Executive Vice President, Global Chief Marketing Officer of Starbucks Corporation for five years, following her position as Senior Vice President of Marketing at Sephora. Sharon has held senior marketing and brand management positions with Godiva, Starwood Hotels and Resorts, Nabisco Biscuit Company and Procter & Gamble. Sharon holds a Bachelor of Commerce from the University of British Columbia and an M.B.A. from the University of California, Los Angeles.

Other Roles: Sharon is currently a Director of Yelp Inc (NYSE: YELP), and Non-Executive Director of InterContinental Hotels Group (LON: IHG).

Interests in Shares and Options[1]:

- Nil holdings in Afterpay Limited

1. As at 30 June 2020.

Dana Stalder

Independent Non-Executive Director

Independent Non-Executive Director since 24 January 2018.

Background and Experience: Dana brings over 20 years of experience as a technology company operator and investor. His experience spans multiple disciplines including sales, marketing, finance, technology and product management at companies such as eBay, Netscape and PayPal. Dana is an expert in FinTech and an active FinTech and consumer internet investor in Silicon Valley. Dana holds a Bachelor of Science in Commerce from Santa Clara University, and began his career at Ernst & Young advising technology companies. His executive experience extends to positions held at Netscape Communications, AOL, Respond.com, eBay and PayPal before joining Matrix Partners in 2008 as a General Partner. His investments focus primarily on FinTech, Consumer Marketplaces, and Enterprise Software.

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

Interests in Shares and Options[1]:

- 19,300 ordinary shares in Afterpay Limited
- 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

1. As at 30 June 2020.

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Former Directors

Clifford Rosenberg

Former Independent Non-Executive Director

Independent Non-Executive Director from 30 March 2017 to 24 May 2020.

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, a member of the Technology Committee of AustralianSuper, and a Board member of BidCorp (JSE). Clifford has previously been a Director of ASX listed companies IXUP Limited and Pureprofile Ltd.

Interests in Shares and Options[1]:

- 1,450,659 ordinary shares in Afterpay Limited

David Hancock

Former Executive Director

Executive Director from 5 July 2017 to 8 October 2019.

Group Head from 5 July 2017 to 30 June 2019. Independent Non-Executive Director from 30 March 2017 to 4 July 2017.

Background and Experience: David has over 30 years of broad experience in financial services. This experience includes being CEO 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[1]:

- 950,000 ordinary shares in Afterpay Limited
- 200,000 unlisted options relating to equity awards under the Group's legacy remuneration framework 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 with an exercise price of $2.70 per option and an expiry date of 1 September 2022

1. As at the date of cessation of being a Director of Afterpay Limited.

Company Secretary

Amanda Street

Company Secretary

Company Secretary since 18 August 2020.

Background and Experience: Amanda was formerly with Transurban Group, having been Company Secretary since February 2011. Before joining Transurban, Amanda was Assistant Company Secretary at AusNet Services, and Senior Corporate Counsel at National Australia Bank. She has over 20 years of legal, governance, company secretariat, and other relevant experience. Prior to her in-house work, Amanda was a solicitor specialising in M&A work with Australian law firm, King & Wood Mallesons. Amanda has a Bachelor of Law (Honours) and Bachelor of Commerce from the University of Melbourne.

Nat McKaig

Deputy Company Secretary

Company Secretary since 15 May 2020.

Background and Experience: Nat has over 15 years of legal and company secretariat experience. Before joining Afterpay, Nat held governance / company secretariat roles at various listed entities, including BHP Limited, National Australia Bank Limited and Treasury Wine Estates Limited. Prior to that, Nat was a solicitor specialising in commercial and corporate law. Nat has a Bachelor of Laws, Graduate Diploma in Company Secretarial Practice and is a Fellow of the Governance Institute of Australia.

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Meetings of Directors

During the year ended 30 June 2020, Afterpay Limited held 19 meetings of the Board of Directors, of which 10 were standard scheduled Board meetings and nine were held to discuss additional business. Attendance of the Directors at meetings of the Board during the year is set out below:

Table 20 Board Meetings

	Scheduled		Additional	
	Eligible[1]	Attended	Eligible[1]	Attended
Elana Rubin	10	10	9	8
Anthony Eisen	10	10	9	9
Nick Molnar	10	9	9	8
Gary Briggs	5	5	2	2
Pat O'Sullivan	4	4	1	1
Sharon Rothstein	1	1	–	–
Dana Stalder	10	10	9	5
David Hancock	2	0	4	4
Clifford Rosenberg	9	8	9	6

Notes:
1. The number of meetings held during the time the Director was a member of the Board.

The Group as at 30 June 2020 had an:

- Audit, Risk & Compliance Committee (ARCC);
- People, Remuneration & Nomination Committee (PRNC); and
- AML/CTF Review Sub-Committee.

The current members of each committee are as follows:

Audit, Risk & Compliance Committee (ARCC)	People, Remuneration & Nomination Committee (PRNC)	AML/CTF Review Sub-Committee
Pat O'Sullivan (Chair[1])	Elana Rubin (Interim Chair[2])	Elana Rubin (Chair)
Elana Rubin	Pat O'Sullivan	Anthony Eisen
Dana Stalder	Sharon Rothstein	Damian Kassabgi
		Cassandra Williams
		Leon Zwier[3]

Notes:
1. Pat O'Sullivan became Chair of the ARCC on 1 March 2020. Dana Stalder was Chair of the ARCC from 1 July 2019 to 29 February 2020.
2. Elana Rubin became Interim Chair of the PRNC on 1 June 2020. Clifford Rosenberg was Chair of the PRNC from 1 July 2019 to 24 May 2020.
3. Leon Zwier commenced a leave of absence from the AML/CTF Review Sub-Committee on 17 April 2020.

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Attendance of the Directors at meetings of committees of the Board during the year is set out below:

Table 21 Board Committee Meetings

	Audit, Risk & Compliance		People, Remuneration & Nomination		AML/CTF Review Sub-Committee[4]	
	Eligible[1]	Attended	Eligible[1]	Attended	Eligible[1]	Attended
Elana Rubin	6	6	7	7	34	33
Anthony Eisen	–	5 [2]	–	7 [2]	34	34 [5]
Nick Molnar	–	6 [2]	–	6 [2]	–	–
Gary Briggs	–	1 [2]	–	2 [2]	–	–
Pat O'Sullivan	1	1	1	2 [3]	–	–
Sharon Rothstein	–	–	1	1	–	–
Dana Stalder	6	6	–	3 [2]	–	–
David Hancock	2	2	–	1 [2]	19	9
Clifford Rosenberg	6	4	6	6	–	–

Notes:
1. The number of meetings held during the time the Director was a member of the Board.
2. Denotes the Director is not a member of the relevant committee.
3. Pat O'Sullivan attended one meeting as an invitee and one meeting as a member of the relevant committee.
4. The AML/CTF Review Sub-Committee was established on 19 June 2019.
5. The meetings were attended by Anthony Eisen or his delegate.

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 Group completed a $786.2 million capital raising subsequent to 30 June 2020, which comprised a $650.0 million Institutional Placement and a $136.2 million Share Purchase Plan (SPP).

On 21 August 2020, a wholly owned subsidiary of the Group entered into a Share Purchase Agreement (SPA) with NBQ Corporate SLU (NBQ) to acquire 100% of the shares outstanding in Pagantis SAU and PMT Technology SLU (collectively, Pagantis). Pagantis currently provides a range of buy now, pay later and traditional credit services across Spain, France and Italy with regulatory approval to also operate in Portugal and a pending application to passport its payment institution licence into Germany. Further details are set out in Note 23 of the Financial Statements.

On 26 August 2020, a wholly owned subsidiary of the Group entered into a Share Purchase Agreement (SPA) with PT Empat Kali Indonesia (EmpatKali). EmpatKali is a small, Singapore-based, buy now, pay later company operating in Indonesia. Further details are set out in Note 23 of the Financial Statements.

The Directors are not aware of any other matters or circumstances that have arisen since 30 June 2020 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 declared or paid to shareholders during the year.

Share-based Payment Plans

Details of share-based payment plans are set out in Note 20 of the Financial Statements.

Sustainability

Afterpay understands the importance of considering the impact of environmental and social factors on the sustainability of its businesses. Pages 19 to 23 disclose climate change information and sustainability initiatives that are in place across the Group.

The Group 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 or in any of the other jurisdictions that Afterpay currently, or is soon to, have a presence in.

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 Limited 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 in line 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 https://www.afterpay.com/en-AU/corporate-governance/.

Remuneration Report

The Remuneration Report set out on pages 52 to 83 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

There are no proceedings brought or intervened in, or applications to bring or intervene in proceedings, on behalf of the company by a member or other person entitled to do so under section 237 of the Corporations Act 2001 (Cth).

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 & 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 & 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 24.

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

Chair, Independent Non-Executive Director
Melbourne
27 August 2020

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Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
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Building a better working world

Auditor's Independence Declaration to the Directors of Afterpay Limited

As lead auditor for the audit of the financial report of Afterpay Limited for the financial year ended 30 June 2020, 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 Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

David McGregor
Partner
27 August 2020

Remuneration Report.

Through our new values – Be Brave, Keep it Real, Do the Right Thing and Shape the Future – we will drive the right behaviours in how we work together and the decisions we make to deliver a sustainable business.

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Remuneration Report

1. Executive Summary

On behalf of the Board of Directors of Afterpay Limited (**Afterpay** or **the Group**), we are pleased to present the FY20 Remuneration Report (**Report**).

At Afterpay, 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. We recognise that remuneration is only one of a number of reasons why our people come to work for us every day. Further detail on people and culture at Afterpay is set out in the "Do the Right Thing" section of this Annual Report.

1.1 FY20 – Strength in an uncertain environment

FY20 has presented a number of challenges for businesses globally. Most notably, the emergence of COVID-19 has created wide ranging social and economic uncertainty.

During FY20, Afterpay acted quickly to implement its COVID-19 response plan to manage the business through the current climate. Our response centred upon taking care of our people, preserving our strong relationships with customers and merchants, limiting losses, preserving margins and maintaining our strong balance sheet and capital position.

Despite challenging market conditions, our response plan and business delivered strong financial performance in FY20 and we continued to achieve a number of significant operational milestones. Afterpay's share price increased 143% during FY20, the highest share price return in the benchmark S&P/ASX 200 Index; the Group processed more than $11.1 billion of Underlying Sales on its platform, growing 112% on the prior year; Afterpay expanded its market leading position in its home market of Australia (with 3.3 million Active Customers at 30 June 2020); the US platform continued to grow above expectations (with 5.6 million Active Customers reached in that market); the UK reached 1.0 million Active Customers in its first full year of operations; and significant progress was made in preparing for further international expansion.

At Afterpay, one of our core strategic pillars is "Do the Right Thing". We are focused on never losing sight of our key stakeholders (including our customers, merchants, shareholders and other external parties) and recognise that the impacts of COVID-19 have been widely felt across the community.

In this context, in April 2020 at the height of the uncertainty of the impact of COVID-19, and despite the Group's strong performance, the Group's co-founders Anthony Eisen and Nick Molnar (**the Co-Founders**) elected to take a 20% reduction in base salaries for three months from May 2020 and the Non-Executive Directors (**NEDs**) elected to take a 20% reduction in their Board base member and Committee fees for the same period.

Separate to the response to COVID-19, the Co-Founders also volunteered to forego the short-term incentive and restricted stock unit components of the new FY20 executive remuneration framework, having regard to their existing shareholdings which encourage a focus on long-term sustainable decision making.

Further detail in respect of the Group's FY20 performance and remuneration outcomes for Executive Key Management Personnel (**Executive KMP**) is outlined in sections 2 and 5.

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1.2 Our new FY20 executive remuneration framework implemented

Competing for talent in the global technology talent pool

Afterpay is one of only a small group of ASX listed companies operating in the global technology sector. The global market for technology talent is highly competitive, particularly in regions like the US. The remuneration packages offered to top-tier talent within these markets are typically more leveraged to the long-term than in the Australian market, and often place greater emphasis on equity grants which are subject to continued employment only (rather than long-term performance hurdles). The weighting to equity grants is also often a reflection of cash-conservation in an early start-up phase to re-invest in growth.

The Group's legacy executive remuneration arrangements (which have previously comprised low cash base salary, low cash short-term incentives and one-off equity awards subject to continued service and KPIs in some cases (refer section 5.6)) were reflective of the Group's need to attract top talent from this global technology talent pool in a cash-constrained early growth phase.

These service-based equity arrangements were successful in attracting and securing key talent that the Group would not have otherwise been able to attract as a smaller company. However, in line with the Group's growth, and as disclosed in the FY19 Remuneration Report, the Board spent considerable time and effort listening to and addressing stakeholder feedback and developing a new FY20 Executive KMP remuneration framework to meet the expectations of our stakeholders as a top S&P/ASX 100 company.

Key features of our new framework

An overview of our FY20 remuneration framework is provided in section 4 and the framework is outlined in detail in section 5. Key features of the new Executive KMP remuneration framework include:

- **delivery of Executive KMP remuneration packages in four elements (subject to transitionary arrangements).** Packages comprise a "fixed remuneration" component which is made up of two elements, being fixed cash remuneration (base salary and superannuation), set below market, and an annual fixed grant of restricted stock units (**RSUs**), which vest in equal parts annually over three years (subject to service). The "variable remuneration" component of packages is also comprised of two elements being a moderate cash short-term incentive (**STI**), and a formal long-term incentive program (**LTI**) comprising annual grants of options, which are subject to formal long-term performance hurdles tested over three years. Our moderate STI and formal LTI programs are aligned to Australian listed market expectations;
- **remuneration packages that are highly leveraged to the long-term and equity (as opposed to the short-term and cash, respectively) 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 mechanism, creates shareholder alignment and supports in the attraction of key talent from global technology markets where service-based equity is common practice). The combination of these two elements (i.e. the "fixed remuneration" component) is positioned at or around the median of total fixed remuneration of peer companies. Our cash STI program is also positioned conservatively relative to peer companies, with the LTI component making up the majority of Executive KMP total remuneration;
- **a new balanced scorecard approach for the FY20 STI, reflecting key financial and non-financial value drivers for the business.** Performance measures and targets are set at challenging levels in line with the Group's mid-term plan;
- **introduction of a formal performance-tested LTI.** Annual LTI grants are 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. These measures represent core tenets of the Group's growth strategy and are key metrics used by the market to assess the Group's performance. Delivery of the LTI in options also encourages a focus on the Group's share price performance as the LTI will only deliver value to Executive KMP if both the share price increases above the exercise price and the performance measures are met; and

- **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 apply to all elements of the framework. In addition to overarching Board discretion, the STI is subject to a Board discretion modifier for "doing the right thing".

  All new employees joining at the Executive KMP level from FY20 will commence on the framework and be eligible to receive all four elements (outlined above). The former Global Chief Operating Officer's employment package was in line with the new framework when he commenced employment in FY20.

  In respect of existing Executive KMP:

- **The Co-Founders elected to forego any STI or RSU component under the FY20 framework** having regard to their existing shareholdings which already encourage a focus on long-term sustainable decision making.
- It is intended that the Global Chief Financial Officer (**Global CFO**) will transition onto the equity components of the new framework (i.e. the LTI and RSUs), having regard to the vesting dates of his legacy option grants (which are not yet fully vested). The transitionary arrangements for the Global CFO will be disclosed in the FY21 Remuneration Report.

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2. FY20 Performance & Remuneration—Snapshot

We set out below a snapshot of the Group's FY20 performance highlights and how these have been reflected in FY20 remuneration outcomes.

FY20 Group Performance

Group performance highlights (SECTION 5.1)	• The Group achieved exceptional growth across all key platform metrics including Underlying Sales of $11.1b (up 112% on FY19), Active Customers of 9.9m (up 116% on FY19) and Active Merchants of 55.4k (up 72% on FY19). • At the same time, the Group has delivered strong risk management outcomes with Net Transaction Loss (NTL) maintained at 0.4% of Underlying Sales notwithstanding the increasing contributions from newer, initially higher loss markets. • Afterpay NTM of 2.3% remains above the Group's mid-term target of approximately 2% by FY22. • EBITDA (excluding Significant Items) of $44.4m was up 73% on FY19 and a strong result considering the investment for growth as planned.

FY20 Executive KMP Remuneration Outcomes

Fixed remuneration (SECTION 5.2)	• FY20 fixed remuneration comprises a cash component (base salary and superannuation) and RSUs (which vest over 3 years). • The Co-Founders elected to forego the RSU component for FY20 and no RSUs were granted to the Global CFO in recognition of his legacy one-off awards which are not yet fully vested. • The Co-Founders' fixed cash remuneration during FY20 was $450,000 (inclusive of superannuation), on an annualised basis, which is positioned well below market. The Co-Founders elected to take a 20% reduction in base salaries for three months from May 2020 in recognition of the impact of COVID-19 across the community.
FY20 STI outcomes (SECTION 5.3)	• Despite the Group's strong performance in FY20, the Global CFO was the only Executive KMP who received an STI, for which vesting was 86% of the maximum. • In respect of other Executive KMP, the Co-Founders elected to forego an STI under the new FY20 framework and the former Global Chief Operating Officer and Group Head were not eligible for an STI (refer section 3).
FY20 LTI grants (SECTION 5.4)	• FY20 LTI grants were made to the Co-Founders (as approved by shareholders at the 2019 AGM) and the former Global Chief Operating Officer. In addition to being performance tested, the exercise price on the Co-Founders' option grants was set at a 20% premium to market. • No LTI grant was made to the Global CFO in recognition of his legacy one-off equity awards.
Legacy one-off equity grants (SECTION 5.6)	• No new one-off equity grants were made to Executive KMP during FY20 as the Group transitioned to its new FY20 executive remuneration framework. The second tranche of the Global CFO's legacy one-off equity awards, which was due to vest in June 2020, has fully vested. The third and final tranche of the Global CFO's legacy one-off equity awards is due to vest in June 2021.

Non-Executive Director Remuneration

- At the 2019 AGM, the Group's shareholders approved a Non-Executive Director fee pool of $1,800,000.
- The Group's new FY20 Non-Executive Director fee schedule (as disclosed in FY19) became effective during the Reporting Period, accompanied by a new minimum shareholding requirement to further align the interests of Non-Executive Directors with our shareholders.
- In April 2020, the Group's Non-Executive Directors elected to take a 20% reduction in their Board base member and Committee fees for three months from May 2020, reflecting the uncertainty about the impact of COVID-19 on key stakeholders and the community at that time.

Other Changes

- As previously disclosed, during FY19, Executive KMP volunteered for their FY19 STI awards to be withheld until the outcomes of the final report from the independent external auditor of the AUSTRAC audit were known (with the Board reserving discretion to make adjustments to final outcomes). FY19 STI awards and a portion of the former Group Head's options will continue to be withheld until the final determination of the AUSTRAC audit.
- The Group's Remuneration & Nomination Committee was also expanded to a People, Remuneration & Nomination Committee with greater oversight over people-related policies.

Underlying Sales
112% on FY19

Active Customers
116% on FY19

Active Merchants
72% on FY19

Net Transaction Margin
2.3% of underlying sales

Net Transaction Loss
0.4% of underlying sales

3. Who is covered by this Report

This Report outlines the remuneration arrangements in place for KMP of the Group in FY20, which comprises all Non-Executive Directors and senior executives who have authority and responsibility for planning, directing and controlling the activities of the Group. Table 1 below sets out the Group's KMP during FY20.

Afterpay seeks to maintain a global organisational structure that enables and empowers our teams to deliver on our strategic objectives. In FY20, we transitioned to a simpler leadership structure, with more focused roles, to enable our leaders to better execute on a global scale and enhance our ability to respond quickly in a rapidly changing business environment.

As part of these changes, it was determined that the broad accountabilities of the former Global Chief Operating Officer (Frerk-Malte (Malte) Feller), including product and technology, would be allocated to dedicated executive roles. The former Global Chief Operating Officer ceased as an Executive KMP on 12 June 2020 and, from this date, will work out a mutually agreed notice period until 25 November 2020 to facilitate the transition of his role (as required), at which time he will cease formal employment with the Group. Refer section 5.5 for further detail on the treatment of the former Global Chief Operating Officer's equity arrangements upon cessation of employment.

As part of our commitment to increasing the representation of independent Non-Executive Directors, and a continuous focus on expanding our Board's skillset, the Board also undertook an extensive global search during FY20 for new talent. The Group announced the appointment of three highly experienced Non-Executive Directors to the Board: Gary Briggs, Pat O'Sullivan and Sharon Rothstein. The Group was also pleased to announce the appointment of Elana Rubin as Independent Chair of the Board in May 2020. Refer section 6 for further detail on these changes.

Table 1 Overview of FY20 KMP

KMP	Position	Term as KMP
Executive KMP		
Anthony Eisen[1]	Chief Executive Officer and Managing Director	Full Year
Nick Molnar[2]	Global Chief Revenue Officer and Executive Director	Full Year
Luke Bortoli	Global Chief Financial Officer	Full Year
Frerk-Malte Feller[3]	Global Chief Operating Officer	Ceased as KMP on 12 June 2020
David Hancock[4]	Group Head and Executive Director	Ceased as KMP on 8 October 2019
Non-Executive Directors		
Elana Rubin[5]	Independent Chair	Full Year
Dana Stalder	Non-Executive Director	Full Year
Clifford Rosenberg[6]	Non-Executive Director	Ceased as KMP on 24 May 2020
Gary Briggs[7]	Non-Executive Director	Effective 1 January 2020
Pat O'Sullivan[8]	Non-Executive Director	Effective 1 March 2020
Sharon Rothstein[9]	Non-Executive Director	Effective 1 June 2020

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. 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.
3. Frerk-Malte Feller held the position of Global Chief Operating Officer during the 2020 financial year effective from 1 July 2019. Malte ceased as KMP on 12 June 2020 and will cease formal employment with the Group on 25 November 2020.
4. David Hancock held the position of Group Head and Executive Director during the 2019 financial year, i.e. until 30 June 2019. David transitioned his role to the Chief Executive Officer and Managing Director at the conclusion of FY19 and ceased as an Executive KMP on 8 October 2019 when he ceased as a Director of Afterpay Limited.
5. Elana Rubin was appointed as Independent Interim Chair, effective 1 July 2019, and transitioned into the permanent role of Independent Chair effective 25 May 2020.
6. Clifford Rosenberg ceased as a Non-Executive Director, effective 24 May 2020.
7. Gary Briggs was appointed as a Non-Executive Director, effective 1 January 2020.
8. Pat O'Sullivan was appointed as a Non-Executive Director, effective 1 March 2020.
9. Sharon Rothstein was appointed as a Non-Executive Director, effective 1 June 2020.

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4. FY20 Executive Remuneration Framework

4.1 Snapshot

1. Our Strategic Priorities

Brand

It's not pay in four, or BNPL, it's Afterpay.

We are the verb and our own category.

New visual identity to enhance alignment with our global customer base and differentiation.

Grow

Expand globally to deepen retailer partnerships.

Increased focus on SMB acceptance in newer markets.

Utilise brand and innovation to drive customer acceptance and retention.

Innovate

Drive greater ecosystem value to customers and merchants.

Customer-led differentiation via platform enhancements.

Merchant insights, tools and value-added outcomes.

Perform

Maintain focus in every aspect of our performance.

Accelerate investment in the global addressable market opportunity.

Do the Right Thing

Maintain focus on our people, protecting the business, caring for communities and good corporate governance.

2. Remuneration Policy & Principles

Acting like owners and pay for performance

Strong alignment between executive reward and shareholder outcomes

Drive an "ownership mindset" and encourage a focus on long-term sustainable decision making in the interests of all of 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

Attract, motivate and retain world's best talent

Market competitive remuneration to attract and retain world-class talent from the global technology talent pool, with the skills and experience to drive our global expansion and shareholder returns

Doing the right thing

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

3. Our Executive KMP Remuneration Framework – Visualised

Fixed Cash Base Salary + Super

1 year

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

Fixed Annual RSU Grant

1 to 3 years

Annual RSU grants as part of fixed remuneration to reflect the **higher focus on equity** under the framework

Vesting in **equal annual tranches over 3 years** (subject to service)

Subject to **malus and clawback**

Fixed Remuneration

Aggregate of cash base salary and super, and RSUs, is positioned at or around the median of total fixed remuneration of peer companies

Short-Term Incentive

1 year

Positioned **below the median** of peers

Paid in cash at end of financial year

Subject to **clawback and a Board discretion modifier** for "doing the right thing"

LTI Performance Tested Options

3 years

Annual LTI grants subject to **formal performance testing**

Positioned **above the median of peers** and subject to **malus and clawback**

Variable Remuneration

Heavy weighting in variable remuneration towards LTI (as against STI) to support long-term sustainable decision making

4. A Pay Mix for Performance

Heavy weighting towards equity and the long-term to support alignment with shareholder interests

	Fixed (cash base salary + super)	Fixed (RSUs)	Short-term incentive	Long-term incentive
Co-Founders[1]	23%			77%
Other Executive KMP[2]	14%	19%	14%	52%

1. The Co-Founders volunteered not to receive an STI or RSUs for FY20. Total fixed remuneration for the Co-Founders is shown on an annualised basis and does not take into account the voluntary 20% reduction in base salaries for May and June 2020.
2. This pay mix reflects the annual FY20 package of the former Global Chief Operating Officer (Frerk-Malte Feller). It is intended that the Global CFO (Luke Bortoli) will transition onto the equity components of the FY20 framework having regard to the vesting dates of his legacy option grant.

4.2 More Detail

We set out below a more detailed description of each element of the FY20 executive remuneration framework and the rationale and positioning relative to peer companies.

Table 2 Detailed Overview of FY20 Executive Remuneration Framework

Element	Description	Positioning against peers and rationale
Fixed Remuneration		
Fixed cash remuneration (SECTION 5.2)	• Comprises base salary and superannuation • **Set conservatively** having regard to the individual's role, responsibilities, skills, experience and performance, and remuneration levels offered by comparable companies with whom the Group competes for talent	• **Positioned below median of peer companies** in recognition of the annual RSU grant which is also part of fixed compensation • Reviewed periodically with adjustments only for change in role or promotion, internal relativities and significant market changes, including material market relativity changes (not CPI / wage growth increases)
Annual RSU grant (SECTION 5.2)	• **Instrument:** RSUs (i.e. a right to a share upon satisfaction of vesting conditions) granted annually • **Allocation methodology:** Annual grants at market price (i.e. face value allocation methodology) • **Vesting period / conditions:** three equal tranches vesting annually over three years (subject to continued employment at vesting dates) • Subject to **malus / clawback** and no dividend or voting rights over vesting period	• **Compensates for conservative positioning of fixed cash remuneration** and is awarded as part of fixed remuneration to reflect the higher focus on equity • Restricted equity component generates strong alignment between executives and shareholders and provides a retention mechanism for key talent (as vesting is subject to continued employment at the respective vesting dates)
Fixed cash remuneration is positioned low relative to peers in recognition of the annual RSU grant. The sum of these two elements represents "total fixed remuneration" and is positioned at or around the median of peer companies (having regard to market capitalisation and comparable companies in relevant industries), with a higher weighting to equity than cash to encourage alignment with shareholders		
Variable Remuneration		
Short-term incentive (SECTION 5.3)	• **Instrument**: cash • **Performance period**: financial year • **Vesting conditions**: balanced scorecard comprising financial (50%), customer (20%), merchants (10%), innovation (10%), and people (10%) measures • Subject to **clawback** and **Board discretion modifier for "doing the right thing"** (i.e. downward adjustments for conduct, risk, regulatory and reputational issues, and quality of results)	• **Positioned below the median of peer companies** in favour of heavy weighting towards LTI to provide for a stronger alignment to shareholder interests and to support long-term decision making • To reward the achievement of challenging annual goals set in line with the Group's mid-term plan and to reflect the key value drivers of the business to deliver returns for shareholders
Long-term incentive (SECTION 5.4)	• **Instrument / allocation methodology:** options granted annually using a Binomial Model • **Exercise price**: set based on volume weighted average price (VWAP) of Afterpay Limited shares based on the 10 day VWAP post release of full year results (with a 20% premium for the Co-Founders for FY20) • **Performance period**: three years • **Performance conditions**: GMV (i.e. Underlying Sales) (50%) and NTM (50%) • Subject to **malus and clawback**	• LTI opportunity is **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 (with a premium for the Co-Founders for FY20) also encourage a focus on growing the share price and shareholder return
Cash STI levels are conservative relative to peers, with packages highly leveraged to the LTI to support long-term sustainable decision making and alignment with shareholders		
FY20 Transitional Approach – New and Existing Executive KMP		
• All new employees joining Afterpay at the Executive KMP level from FY20 will commence on the new framework and **be eligible to receive all four elements** • Reflecting this, the FY20 remuneration package for the former Global Chief Operating Officer (who commenced on 1 July 2019) was aligned with the new FY20 framework	• As previously disclosed, the Co-Founders volunteered to forego the STI and RSU components of the new framework for FY20, having regard to their existing shareholdings which encourage a focus on long-term sustainable decision making • The Co-Founders' **total remuneration for FY20 was positioned very conservatively** relative to market with a modest cash base salary and a heavy weighting towards their LTI (which was approved by shareholders at the 2019 AGM) • The exercise price on the Co-Founders' LTI options was also set at a 20% premium	• The Global CFO **only received fixed remuneration and an STI for FY20** (i.e. he was not granted RSUs or an LTI in FY20), in recognition of his legacy option grant (refer section 5.6) • It is intended that the Global CFO will transition onto the equity components of the new framework (i.e. the LTI and RSUs) having regard to the vesting dates of his legacy one-off option grant (refer section 5.5). The transitional arrangements for the Global CFO will be disclosed in the FY21 Remuneration Report

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5. FY20 Executive Remuneration Outcomes

5.1 Overview of Group performance

The Group is committed to ensuring strong alignment between the Group's performance and shareholder experience, and what is paid to its executives in remuneration. During FY20, the Group achieved strong growth in respect of key financial and non-financial indicators set out in Table 3 below. Group performance is only shown from FY18 as the Group was only formed in June 2017.

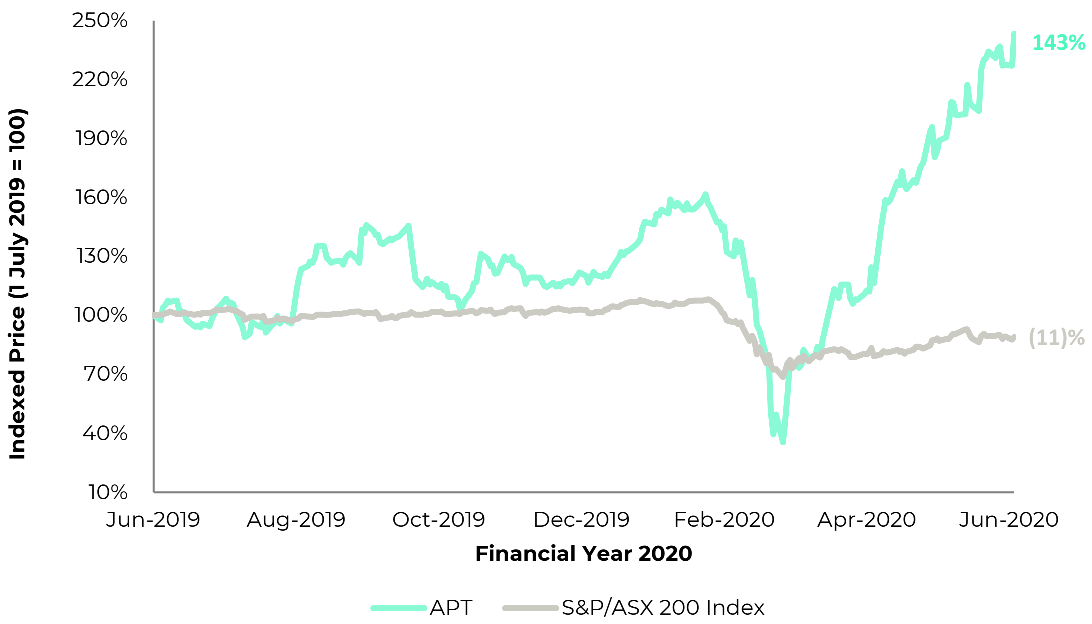
Table 3 FY20 Group performance relative to FY19 and FY18

$m (unless otherwise stated)	Change[1] %	FY20	FY19	FY18
Share price performance as at y/e ($/sh)	143%	60.99	25.07	9.35
Total dividends paid	-%	-	-	-
GMV (i.e. Underlying Sales)	112%	11,114.2	5,247.2	2,184.6
Active Customers (m)	116%	9.9	4.6	2.0
Active Merchants ('000s)	72%	55.4	32.3	16.0
Total Income[2]	97%	519.2	264.1	142.3
Net Transaction Loss[3]	93%	(42.8)	(22.2)	(9.3)
Afterpay Net Transaction Margin[4]	110%	250.2	119.3	55.7
EBITDA (excluding Significant Items)[5,6]	73%	44.4	25.7	33.8

1. Change percentage based on FY20 compared to FY19.
2. Total income comprises Afterpay income, Pay Now revenue and Other income.
3. NTL is comprised of receivables impairment expense (gross loss), chargebacks, debt recovery costs less Other income.
4. Afterpay NTM is a key financial metric used by management and reflects Afterpay income less variable costs, which includes cost of sales, NTL, and direct receivables funding costs. A reconciliation of statutory gross profit to Afterpay net transaction margin is included in the Operating and Financial Review of the 2020 Annual Report.
5. FY20 EBITDA (excluding Significant Items) excludes a favourable $19.9 million FX gain; FY19 has been restated to exclude a favourable $3.0 million FX gain; and FY18 has been restated to exclude a favourable $1.4 million FX gain.
6. FY20 EBITDA (excluding Significant Items) includes a $5.6 million benefit from the adoption of AASB 16 *Leases*. FY19 and FY18 EBITDA (excluding Significant Items) have not been restated for the adoption of AASB 16 *Leases*, as per the specific transitional provisions.

Delivery of strong operational and financial performance in the Reporting Period translated to strong returns for Afterpay's shareholders. The Group's share price increased by 143% from a closing share price of $25.07 at 28 June 2019 (the last trading day of FY19) to $60.99 on 30 June 2020, representing the highest share price return of all companies in the S&P/ASX 200 Index at period end. By comparison, the S&P/ASX 200 Index declined by 11% from 6618.77 points to 5897.88 points. Moreover, total shareholder return when assessed over the last two financial years is higher, with the Group's share price increasing from $9.35 at 29 June 2018 (the last trading day of FY18) to $60.99 on 30 June 2020, representing a total return of 552%.

Figure 1 FY20 APT share price performance compared to the S&P/ASX 200 Index



Source: Bloomberg

5.2 Total fixed remuneration

5.2.1 Overview of FY20 total fixed remuneration levels

As outlined in section 4, under the FY20 remuneration framework, the fixed remuneration component for Executive KMP comprises two elements being (1) fixed cash remuneration which includes cash base salary and superannuation; and (2) fixed annual grant of RSUs which vests in equal tranches annually over 3 years (subject to service at the respective vesting dates).

Table 4 below outlines Executive KMP's contractual fixed remuneration on an annualised basis. As noted above, in addition to electing to forego an RSU component for FY20 under the new framework, in April 2020 the Co-Founders elected to take a 20% reduction in their cash base salaries for three months from May 2020, reflecting the uncertainty of the impact of COVID-19 on the community. The Global CFO did not receive an RSU grant during FY20 having regard to his legacy one-off equity grant which is not yet fully vested.

Table 4 FY20 fixed remuneration levels for Executive KMP (contract values)

Total Fixed Remuneration (FY20)				
Executive KMP	**Fixed cash remuneration**[1]	**Face value of RSUs**	**Face value of RSUs** (% of fixed cash remuneration)	**Total fixed remuneration**[2]
Anthony Eisen[3]	$450,000	N/A	N/A	$450,000[3]
Nick Molnar[3]	$450,000	N/A	N/A	$450,000[3]
Luke Bortoli	$300,000	N/A	N/A	$300,000
Frerk-Malte Feller (part year)[4]	$300,000	$400,000	133%	$700,000

1. Fixed cash remuneration represents the contract value and includes cash base salary and superannuation.
2. Total fixed remuneration represents the sum of fixed cash remuneration and the face value of RSUs (as applicable).
3. Total fixed remuneration for the Co-Founders is shown on an annualised basis and excludes the voluntary 20% reduction in salaries for May and June 2020.
4. Total fixed remuneration for the former Global Chief Operating Officer is shown on an annualised basis. Refer section 5.5 for further detail regarding the treatment of the former Global Chief Operating Officer's RSUs which will apply on cessation of employment.

5.2.2 FY20 RSUs key terms – further detail

Table 5 below sets out the key terms which apply to the RSUs granted as part of total fixed remuneration during FY20. The former Global Chief Operating Officer was the only Executive KMP to receive RSU grants during the period.

Table 5 RSUs – key terms

Restricted Stock Units (RSUs) – Key Terms	
Term	**Further Detail**
Allocation methodology	RSUs were granted on a face value basis by dividing the participant's RSU dollar value opportunity in Australian dollars for FY20 by the 10-day VWAP of Afterpay Limited shares traded in the period immediately following the release of the 2019 full year results.
Entitlement	Upon satisfaction of the vesting conditions, each RSU entitles the participant to one fully paid ordinary share in Afterpay Limited (or a cash equivalent payment in lieu of a share at the discretion of the Board). Participants are not required to pay any amount (e.g. an exercise price) upon vesting of the RSUs.
Vesting conditions and schedule	The RSUs will vest subject to the participant remaining employed by, or continuing to provide services to, the Group at each vesting date. The vesting schedule in respect of the RSUs granted during FY20 is set out below: **Tranche** / **Vesting Date** / **Percentage of FY20 RSUs** 1 / 1 July 2020 / One-third 2 / 1 July 2021 / One-third 3 / 1 July 2022 / One-third
Treatment on cessation of employment	If the participant ceases to be employed, any unvested RSUs will immediately lapse. However, the Board may, in its absolute discretion and subject to any requirement for shareholder approval, determine to treat any of the unvested RSUs in a different manner (e.g. in the case of a "good leaver"). A "good leaver" may include, for example, an employee who leaves the company 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". Refer to section 5.5 for further detail regarding treatment of the former Global Chief Operating Officer's FY20 RSUs upon cessation of his employment.
Malus and clawback	Amongst other things, the Board may elect to forfeit any unvested awards (i.e. malus) or recoup any vested and paid awards (i.e. clawback) in the following circumstances: • a participant has engaged in serious misconduct (including but not limited to fraud, dishonesty, gross negligence or a breach of employment conditions); • a material misstatement in, or omission from the Group's financial statements or a misstatement of an applicable vesting condition; • a participant has acted or failed to act in a way that has contributed to material reputational damage to the Group; or • in the opinion of the Board, acting in good faith, all or part of the initial RSU award is no longer justified having regard to the circumstances or information which has subsequently come to light after a grant was made.
Change of control	Where a transaction or event is proposed that, in the opinion of the Board, may result in a person becoming entitled to control of Afterpay Limited, the Board retains the discretion (to be exercised consistently with the ASX Listing Rules) to determine that a particular treatment will apply to unvested RSUs. Where this discretion is not exercised and a change of control event (as defined) occurs, any unvested RSUs will vest on a pro-rata basis to time, based on the portion of the vesting period that has passed at the time of the change of control event (unless the Board determines otherwise).
Voting and dividends	RSUs do not carry any dividend or voting rights.
Hedging	Participants are not permitted to enter into any arrangement for the purpose of hedging, borrowing or otherwise affecting their economic exposure to RSUs.

5.3 FY20 short-term incentive outcomes

5.3.1 Overview of FY20 STI outcomes

The maximum STI awards that Executive KMP were eligible to receive in respect of FY20 are set out in Table 6 below.

As noted above, the Co-Founders elected not to be eligible for an STI award under the new FY20 Executive KMP framework. The maximum FY20 STI opportunity levels for the remaining Executive KMP are positioned conservatively relative to market.

FY20 STI awards were assessed against a balanced scorecard of annual objectives that are aligned with the Group's value drivers, achievement of our challenging mid-term plan 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). The FY20 STI scorecard is set out at section 5.3.2 below.

Despite the Group's strong performance, the Global CFO was the only Executive KMP to receive an STI in FY20. In respect of other Executive KMP: the Co-Founders elected not to be eligible for an STI award under the new framework; the Board determined that the former Global Chief Operating Officer will not receive an STI; and the former Group Head was not eligible.

The final vesting outcome against the FY20 STI scorecard (for the Global CFO's STI) is outlined in section 5.3.2. The final outcome reflects the Group's strong performance including exceptional growth across all key platform metrics, strong risk management outcomes, and a strong EBITDA result notwithstanding the accelerated investment in global expansion.

The Board is comfortable that the FY20 STI outcomes strike an appropriate balance between the Group's strong FY20 performance as well as recognising the broader implications of COVID-19 on the community.

Table 6 FY20 STI opportunities and outcomes

FY20 STI Opportunities and Outcomes					
Executive KMP	**Maximum STI opportunity**[1] ($)	**Maximum STI opportunity** (% of fixed remuneration[2])	**STI awarded**	**% of maximum FY20 STI awarded**	**% of maximum FY20 STI award forfeited**
Anthony Eisen[3]	N/A	N/A	N/A	N/A	N/A
Nick Molnar[3]	N/A	N/A	N/A	N/A	N/A
Luke Bortoli	$400,000	133%	$344,000	86%	14%
Frerk-Malte Feller (part year)[4]	$300,000	43%	-	-	100%

1. These figures represent the maximum STI that can be earned by Executive KMP when performance targets are met.
2. Total fixed remuneration is based on the figures disclosed in section 5.2. For the Global CFO, this represents total fixed cash remuneration. For the former Global Chief Operating Officer, this represents the sum of fixed cash remuneration and the face value of RSUs.
3. As noted above, the Co-Founders volunteered not to be eligible for an STI award under the FY20 framework.
4. The Board determined that the former Global Chief Operating Officer will not receive an STI award for FY20.

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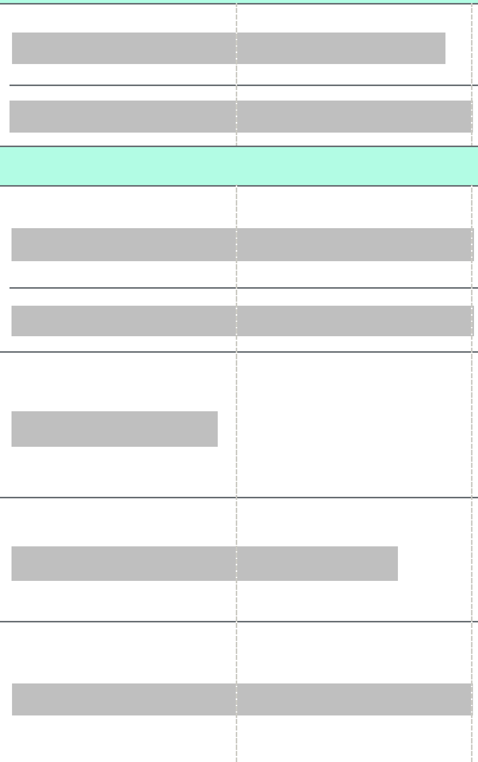
5.3.2 Performance against the FY20 STI scorecard

Performance against the FY20 STI scorecard is set out below. Targets are set at challenging levels to ensure Executive KMP are rewarded for exceptional performance. For each measure, 50% vesting occurs at threshold with up to 100% vesting at target (with straight line vesting in between). No vesting occurs below threshold. Threshold performance is generally set at 90% of target. Final STI outcomes are subject to a **Board discretion modifier for "doing the right thing"** and **assessment of the quality of results.**

Figure 2 FY20 STI scorecard and performance

Measure		Weight	Strategic Link	Vesting Outcome[1]	Outcome Commentary
Financial measures (50%)				Threshold (50% vesting) / Target (100% vesting)	
	GMV (i.e. Underlying Sales)	25%	Strong financial performance, including EBITDA (excluding Significant Items) and GMV (i.e. Underlying Sales), is critical to delivering long-term shareholder value.		While GMV of $11.1bn was marginally below the FY20 target, it was more than double FY19 (up 112%). The doubling of GMV was driven by growth across all regions both before and after the impact of COVID-19 began to be felt across the regions in which the Group operates.
	EBITDA	25%			EBITDA (excluding Significant Items) of $44.4m was above target and up 73% on FY19, notwithstanding the significant planned investment in global expansion.
Non-financial measures (50%)					
Customers (20%)	Active Customers	10%	At Afterpay, we are committed to putting our customers first and achieving our mission to power an economy in which everyone wins. Execution of our mid-term plan is underpinned by strong customer expansion annually. STI measures reflect both the number of active customers and customer defaults.		Active Customers of 9.9m exceeded the FY20 target. Key Active Customer milestones were achieved in both the US and UK, with the US reaching 5.6m and the UK 1.0m. Customer growth and engagement was also strong in ANZ, our most mature market, which reached 3.3m active customers.
	Net Transaction Loss (NTL)	10%			NTL of 0.4% exceeded the FY20 target, as a result of the increasing sophistication in risk management and a higher proportion of returning customers.
Merchants (10%)	Active Merchants	10%	Expansion of our global merchant base and supporting more leading retailers is core to our long-term success.		During FY20, the merchant acquisition strategy shifted to actively prioritising the onboarding of Enterprise merchants to drive GMV and customer growth. This strategy was successful and Afterpay onboarded significant marquee Enterprise brands including eBay, American Eagle, Finish Line, ASOS and Marks & Spencer amongst others. Globally, SMB merchants are larger in number than Enterprise and the target was not adjusted for the change in priority to the lower volume Enterprise category. Overall active merchants grew by 72% on FY19, to 55.4k.
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.		Achieved delivery of key product plan milestones including: preparing for Canada expansion in Q1 FY21; US in-store launch; international rollout of cross-border trade; variable first payment; streamlining merchant integration via virtual card; risk innovations; limit transparency; and a loyalty program that rewards customers for using the service responsibly.
People (10%)	Employee Net Promoter Score (eNPS)	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.		Achieved positive results in employee engagement surveys assessed using the CultureAMP methodology and continued to prioritize the health and wellbeing of employees through COVID-19 including providing robust working from home arrangements.
				FY20 STI outcome 86%	



1. Vesting bar chart is a guide only and not to scale.

5.3.3 FY20 STI terms - further detail

The table below outlines the key terms and conditions applying to the STI arrangements for Executive KMP during FY20.

Table 7 Description of key terms of FY20 Executive KMP STI

FY20 STI – Key Terms	
Term	**Further Detail**
Performance period	STI awards are assessed over the 12-month financial year. Any STI award payments are made after performance is tested at the end of the performance period.
Assessment of performance measures	Performance against the scorecard measures is assessed annually by the Board based on recommendations from the People, Remuneration & Nomination Committee (with input from the Chief Executive Officer and Managing Director) after the end of the performance period, as part of the broader performance review process for each Executive KMP. Financial and non-financial measures are assessed quantitatively against predetermined benchmarks where applicable. When testing financial measures, financial results are extracted from 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. 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**)).
Board discretion modifier for "doing the right thing"	The Board retains absolute discretion in respect of STI awards and final vesting outcomes. As part of its overarching discretion, the Board may reduce final STI outcomes having regard to affordability considerations and the Group's financial performance over the period. In addition to this overarching discretion, final STI outcomes will be subject to a Board discretion modifier for "doing the right thing" 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.
Treatment on cessation of employment	Subject to Board discretion, if an Executive KMP ceases to be employed: • in "bad leaver" circumstances (e.g. termination for cause) during the performance period, the Executive KMP will not be eligible for an STI award (unless the Board determines otherwise); or • in "good leaver" circumstances (i.e. other than as a bad leaver), the treatment of their unvested STI awards will be at the absolute discretion of the Board.
Malus and clawback	The Board may elect to forfeit an Executive KMP's FY20 STI award (i.e. malus) or recoup any vested and paid awards (i.e. clawback) in the circumstances specified in respect of the FY20 RSUs at section 5.2.2.
Change of control	Where a transaction or event is proposed that, in the opinion of the Board, may result in a person becoming entitled to control of Afterpay Limited during the performance period, the Board retains the discretion (to be exercised consistently with the ASX Listing Rules) to determine that a particular treatment will apply to STI awards. Where this discretion is not exercised and a change of control event (as defined) occurs during the performance period, any unvested STI awards will vest on a pro-rata basis to time, based on the portion of the vesting period that has passed at the time of the change of control event (unless the Board determines otherwise).

5.3.4 Withheld FY19 STI awards

As disclosed in the FY19 Remuneration Report, while the Board assessed performance of the FY19 STI awards, the Executive KMP volunteered for their STI awards to be withheld until the outcomes of the final report of the external AUSTRAC audit were known. The Board reserved the discretion to make any adjustments to final STI outcomes (as appropriate), having regard to the outcomes of the AUSTRAC audit. FY19 STI awards will continue to be withheld until the outcome of the final AUSTRAC determination is known.

5.4 FY20 long-term incentive awards

5.4.1 Overview

In response to feedback from stakeholders, under the new FY20 executive remuneration framework the Group has adopted a formal performance-tested LTI plan which is more aligned with Australian market practice.

Key features of the new LTI program are as follows:

- **adoption of formal performance hurdles.** The LTI component of the Group's FY20 remuneration framework will be tested against two equally weighted measures, being the Group's GMV (i.e. Underlying Sales) and NTM over the three-year performance period. These measures were selected as they align with the Group's mid-term plan, 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;
- **delivery of LTI awards in market price options (as against performance rights) for the Executive KMP (other than the Co-Founders where the exercise price on their FY20 LTI awards was set at a 20% premium to market) so that the LTI awards only deliver value to executives where the share price increases**. While a number of ASX listed companies have some form of share price measure in their LTI (e.g. relative total shareholder return), the use of market value options under the LTI (with an exercise price based on Afterpay's share price at 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 exercise will need to exceed the exercise price for the options to deliver any value to executives (in addition to performance hurdles being met); and
- **remuneration packages are also highly leveraged to the performance-tested LTI** to encourage long-term, sustainable decision making in the interests of our shareholders.

The quantum and terms of the LTI awards granted in FY20 are set out in section 5.4.2 and 5.4.3 respectively.

5.4.2 FY20 LTI awards

Table 8 below outlines the face value of LTI awards granted to Executive KMP during FY20. The maximum LTI opportunity level as a percentage of total fixed remuneration reflects the heavy weighting of Executive KMP packages towards the LTI, as well as the modest positioning of total fixed remuneration relative to market.

Table 8 FY20 LTI awards to Executive KMP

Executive KMP	Maximum LTI Opportunity	Maximum LTI opportunity (% of total fixed remuneration)[1]
Anthony Eisen[2]	$1,500,000	333%
Nick Molnar[2]	$1,500,000	333%
Luke Bortoli[3]	N/A	N/A
Frerk-Malte Feller[4] (part year)	$1,100,000	157%

1. Total fixed remuneration is based on the figures disclosed in section 5.2. For the Co-Founders, this represents total fixed cash remuneration. For the former Global Chief Operating Officer, this represents the sum of fixed cash remuneration and the face value of RSUs.
2. The exercise price of the performance-tested LTI options granted to the Co-Founders was set at a 20% premium to the market value of Afterpay Limited shares, equal to the 10-day VWAP of Afterpay Limited shares immediately following the release of 2019 full year results.
3. The Global CFO did not participate in the FY20 LTI award, in recognition of his legacy one-off option award which is not fully vested.
4. The exercise price of the former Global Chief Operating Officer's performance-tested LTI options was based on the market value of Afterpay Limited shares equal to the 10-day VWAP of Afterpay Limited shares immediately following the release of 2019 full year results. Refer section 5.5 for detail of the treatment of the former Global Chief Operating Officer's FY21 LTI grant which will apply upon cessation of employment.

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5.4.3 FY20 LTI key terms – further detail

The table below outlines the key terms of the LTI awards granted to Executive KMP during FY20.

Table 9 Key terms of FY20 LTI awards granted to Executive KMP

Long-Term Incentive (FY20) – Key Terms	
Term	**Further Detail**
Entitlement	Subject to the satisfaction of the performance conditions and payment of the exercise price, each LTI option entitles the holder to one fully paid ordinary share in Afterpay Limited (or a cash equivalent payment at the discretion of the Board).
Allocation methodology	The number of LTI options granted was calculated by dividing the participant's dollar value LTI opportunity for FY20 (as outlined in section 5.4.2 above) by the market value of the options. The market value of options was calculated by using a Binomial Model, based on the 10-day VWAP of Afterpay Limited shares in the period immediately following the release of full year results and the exercise price of the options outlined below. The market value of options is not reduced for the likelihood of performance hurdles being met.
Exercise price	Participants are required to pay an exercise price to exercise their LTI options upon vesting. In respect of the FY20 LTI awards, the exercise price for the: • Co-Founders is $37.31. This was set at a 20% premium to the market value of Afterpay Limited shares, equal to the 10-day VWAP of Afterpay Limited shares in the period immediately following the release of 2019 full year results; and • Global Chief Operating Officer is $31.09. This was set at the market value of Afterpay Limited shares, being equal to the 10-day VWAP of Afterpay Limited shares in the period immediately following the release of 2019 full year results.
Expiry date	The FY20 LTI options will expire on 1 July 2024.
Performance period	The performance period is 3 years, commencing on 1 July 2019 to 30 June 2022.
Performance conditions and vesting schedule	The options are subject to performance testing against the following performance conditions over the performance period: • **GMV (i.e. Underlying Sales) – 50%.** GMV is a measure of the total order value processed on the Afterpay platform; and • **Afterpay NTM – 50%.** Afterpay NTM reflects Afterpay income less variable costs, which includes cost of sales, NTL, and direct receivables funding costs. A reconciliation of statutory gross profit to Afterpay NTM is included in the Operating and Financial Review of this Annual Report. **GMV performance condition** The vesting schedule in respect of the GMV performance condition is set out below. Vesting will occur on a straight-line basis between target and maximum levels of performance. No vesting occurs if target performance is not achieved. **Level of performance** / **Vesting of GMV-target related measure (%)** / **GMV (targets)** **Target** / 50% / $15b in final year of performance period. **Maximum** / 100% / $25b in final year of performance period. **Afterpay NTM performance condition** The vesting schedule in respect of the Afterpay NTM performance condition is set out below. Vesting will occur on a straight-line basis between target and maximum levels of performance. No vesting occurs if target performance is not achieved. Specific targets in respect of Afterpay NTM will be disclosed at the end of the performance period due to commercial sensitivity. A transparent disclosure of the calculation of Afterpay NTM (that reconciles to the statutory accounts) will also be provided at the end of the performance period. **Level of performance** / **Vesting of NTM-target related measure (%)** / **Afterpay NTM (targets)** **Target** / 50% / Targets to be disclosed at the end of the performance period due to commercial sensitivity. **Maximum** / 100% / Targets to be disclosed at the end of the performance period due to commercial sensitivity.
Treatment on cessation of employment	Subject to Board discretion, if an Executive KMP ceases to be employed: • **in "bad leaver" circumstances (e.g. termination for cause) during the performance period,** all of the unvested LTI options will lapse (unless the Board determines otherwise); and • **in "good leaver" circumstances (i.e. other than as a bad leaver)**, the treatment of unvested LTI options will be at the discretion of the Board (subject to applicable law). The Board's intention is that the LTI options would be pro-rated to time served in employment and left on foot to be tested and vest in the ordinary course.
Malus and clawback	The Board may elect to forfeit any unvested LTI awards (i.e. malus) or recoup any vested and paid LTI awards (i.e. clawback) in the circumstances specified in respect of the FY20 RSUs at section 5.2.2.
Change of control	Where a transaction or event is proposed that, in the opinion of the Board, may result in a person becoming entitled to control of Afterpay Limited, the Board retains the discretion (to be exercised consistently with the ASX Listing Rules) to determine that a particular treatment will apply to unvested LTI awards. Where this discretion is not exercised and a change of control event (as defined) occurs, any unvested LTI awards will vest on a pro-rata basis to time served in employment, based on the portion of the vesting period that has passed at the time of the change of control event (unless the Board determines otherwise).
Voting and dividend rights	LTI awards do not carry any dividend or voting rights over the performance period.
Hedging	Participants are not permitted to enter into any arrangement for the purpose of hedging, borrowing or otherwise affecting their economic exposure to LTI options.

5.5 Treatment of equity arrangements for the former Global Chief Operating Officer

As noted in section 3, the former Global Chief Operating Officer, Frerk-Malte (Malte) Feller, ceased as an Executive KMP on 12 June 2020 and will cease as an employee of the Group on 25 November 2020.

The Board determined that Malte will be considered a "good leaver" upon cessation of employment and his equity arrangements would be treated as set out in Table 10 below.

Table 10 Treatment of equity arrangements (the former Global Chief Operating Officer)

Equity Awards	Treatment on cessation of employment
FY20 RSUs (refer section 5.2)	In accordance with the terms of the awards, the first tranche of service-based RSUs vested in the ordinary course on 1 July 2020. The remaining two tranches of the RSUs will lapse on cessation of employment in November 2020.
FY20 LTI (refer section 5.4)	The Board exercised its discretion to pro-rata the LTI options to time served, and will leave one-third on foot to be tested against the original performance hurdles and vest in the ordinary course at the end of the original three year performance period (being 30 June 2022). The remaining two-thirds will lapse on cessation of employment in November 2020.
Buy-out Payment	During FY20 and as previously disclosed to the market, the former Global Chief Operating Officer was granted a "buy-out payment" (**Buy-out Payment**) in the form of RSUs with a total face value of $900,000. The Buy-out Payment was granted to compensate Malte for equity foregone at his former employer (for which all hurdles other than employment had been satisfied) and to align his interests with the interests of the Group and its shareholders. The Buy-out Payment was considered necessary to attract an executive of Malte's calibre and wealth of experience at fast-growing, globally expanding technology enterprises including Facebook, eBay and PayPal, to the Group. Consistent with market practice, the number of RSUs granted was determined by dividing the face value of the award by the 10-day VWAP of Afterpay Limited shares up to (and excluding) Malte's commencement date of 1 July 2019. All of the other terms of the Buy-out Payment (including the vesting schedule) were consistent with the FY20 RSUs (as outlined in section 5.2.2). In accordance with the terms of the award, the first tranche of the "Buy-out Payment" vested at the original vesting date of 1 July 2020. Given the purpose of the award of RSUs was to compensate for equity foregone by Malte at his former employer (for which all hurdles other than employment had been satisfied) and that Malte was leaving in "good leaver" circumstances, the Board exercised its discretion to allow the remaining two tranches of his "Buy-out Payment" to remain on foot to vest at the original vesting dates of 1 July 2021 and 1 July 2022.

5.6 Legacy one-off equity awards

5.6.1 Overview of legacy one-off equity awards

As part of the Group's legacy executive remuneration arrangements, Executive KMP received one-off grants of equity (in the form of options, loans shares or rights) at the time they commenced employment with the Group, which were subject to continued employment and the achievement, in some cases, of KPIs.

The Group's legacy one-off equity awards reflected the need to compete for talent (as a small company with limited financial resources) in the global technology sector where these arrangements are commonly used and provided a strong retention mechanism for key talent during the start-up phase by requiring Executive KMP to remain employed until the end of the vesting period to realise the incentive.

However, as noted above, the Group has transitioned to a formal performance-tested LTI program under the new FY20 remuneration framework (refer section 5.4) and no new one-off equity awards were granted to Executive KMP during FY20.

5.6.2 Legacy one-off equity awards vesting in FY20

Group Head (Former)

The Group's shareholders approved a grant of options to the former Group Head (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 expertise and experience to oversee the merger of Afterpay and Touchcorp.

The second (and final) tranche of these options (1,492,555 options with an exercise price of $2.70 and expiry date of 1 September 2022) were subject to the achievement of KPIs and David's continued employment with the Group. David's KPIs included financial KPIs relating to EBITDA and revenue, and non-financial KPIs in respect of customer NPS, merchant NPS and employee NPS.

The second (and final) tranche of options vested on the vesting date at 1 September 2019. However, as a consequence of the AUSTRAC audit in 2019, 200,000 of these options were withheld pending the outcomes of the final report of the external audit and AUSTRAC's final determination. The Board reserves discretion to lapse any of these options. These options will continue to be withheld until the outcome of the final AUSTRAC determination is known.

Global CFO

In June 2018, Global CFO 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 options were eligible to vest in equal tranches over three years.

The options 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 second tranche of Luke's options vested in full on 1 June 2020, reflecting that the service conditions were met and certain individual KPIs were achieved, including managing financing costs to below budget targets, overseeing various capital management initiatives to strengthen the Group's balance sheet, as well as continuing to build a scalable global Finance function to support the Group's global growth aspirations. Luke's final tranche is eligible to vest on 1 June 2021.

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5.6.3 Legacy one-off equity awards terms – further detail

Table 11 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 FY20 to Executive KMP (as the Group has transitioned onto its new FY20 remuneration framework).

Table 11 Key terms of legacy one-off equity awards for Executive KMP

Legacy one-off equity awards – Key terms	
Element	**Description**
Overview	Under the Group's legacy arrangements, Executive KMP were eligible to receive one-off equity awards (in the form of options, loan shares or rights) in Afterpay Limited equity at the time they commenced employment.
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. Options are granted for nil consideration.
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).
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 People, Remuneration & Nomination Committee and the Chief Executive Officer (where appropriate).
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 • has ceased employment as a "good leaver" and the Board exercises discretion to allow the options to vest.
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.

5.7 Executive KMP remuneration statutory table

Table 12 below sets out Executive KMP remuneration for FY20 (and FY19 for comparative purposes) in accordance with the requirements of the Accounting Standards and *Corporations Act 2001 (Cth)*. The table reflects the accounting value of Executive KMP remuneration, derived from the various components of their remuneration.

Table 12 Statutory remuneration table

Afterpay Remuneration ($) For the years ending 30 June 2020 and 30 June 2019	Short-Term					Long-Term			Share-Based Payments		Total
	Financial Year	Salary and Fees	Cash Bonus	Other Monetary Benefits	Non-Monetary Benefits[1]	Super-annuation	Long-Service Leave	Termination	Options	Loan Shares	Total
Anthony Eisen	2020	470,897	-	-	-	25,000	9,360	-	233,668	-	**738,925**
	2019	323,140	300,000	-	-	25,000	2,836	-	379	-	**651,355**
Nick Molnar	2020	464,353	-	-	79,861	25,000	13,932	-	233,668	-	**816,814**
	2019	323,141	300,000	-	78,449	25,000	5,109	-	379	-	**732,078**
Luke Bortoli	2020	300,079	344,000	-	9,797	21,120	1,504	-	1,228,136	-	**1,904,636**
	2019[2]	294,212	420,000	-	34,104	21,905	591	-	2,714,828	-	**3,485,640**
Frerk-Malte Feller (part year)	2020[3]	279,176	-	100,000	71,056	21,444	-	-	1,383,170	-	**1,854,846**
David Hancock (part year)	2020[4]	75,002	-	-	-	7,334	-	-	1,190,600	-	**1,272,936**
	2019	320,050	300,000	-	-	25,000	1,721	-	14,812,642	-	**15,459,413**
Total	**2020**	**1,589,507**	**344,000**	**100,000**	**160,714**	**99,898**	**24,796**	**-**	**4,269,242**	**-**	**6,588,157**
	2019	1,260,543	1,320,000	-	112,553	96,905	10,257	-	17,528,228	-	**20,328,486**

1. Non-monetary benefits include benefits such as insurance, rent and relocation expenses.
2. Luke Bortoli's 2019 cash bonus of $420,000 comprised $400,000 relating to STI for FY19 performance (which was withheld) and $20,000 relating to performance for a partial year in FY18 that was determined following the release of the FY18 Annual Report.
3. Frerk-Malte Feller ceased as KMP on 12 June 2020. Malte's other monetary benefits relate to a $100,000 one-off cash payment received at the commencement of his employment for his relocation from San Francisco to Sydney. Malte was not entitled to an FY20 STI cash bonus.
4. David Hancock ceased as KMP on 8 October 2019.

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5.8 Actual remuneration snapshot

Table 13 below provides a summary of the actual take-home pay received by Executive KMP during the Reporting Period. Unlike the statutory remuneration tables in section 5.7, 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.

The options vested and exercised in FY20 by the Global CFO represent the legacy one-off equity arrangements outlined in section 5.6.2. The value delivered from these options is aligned with the value delivered to shareholders over the vesting period. As noted previously, the Group has now moved to a formal annual LTI program (subject to formal performance hurdles assessed over a 3 year period).

Table 13 FY20—Actual Remuneration—Executive KMP

	Actual Remuneration					
KMP	Fixed remuneration[1] (1)	Other monetary benefits (2)	Non-monetary benefits[2] (3)	Cash Bonus (4)	Options vested and exercised in FY20[3] (5)	Total actual remuneration (1) + (2) + (3) + (4) + (5)
Anthony Eisen	495,897	-	-	-	-	495,897
Nick Molnar	489,353	-	79,861	-	-	569,214
Luke Bortoli	321,199	-	9,797	-	31,293,000	31,623,996
Frerk-Malte Feller (part year)[4]	300,620	100,000	71,056	-	-	471,676
David Hancock (part year)[5]	82,336	-	-	-	-	82,336

1. Fixed remuneration includes base salary and superannuation. This figure excludes the tranches of Malte's FY20 RSUs and Buy-out Payment which vested on 1 July 2020, as vesting occurred during FY21.
2. Non-monetary benefits represent benefits such as insurance, rent and relocation expenses.
3. Options vested and exercised is calculated as the difference between the share price at the date of exercise less the exercise price, and includes options vested in prior years that were exercised in FY20.
4. Frerk-Malte Feller ceased as KMP on 12 June 2020. Malte's other monetary benefits relate to a $100,000 one-off cash payment received at the commencement of his employment for his relocation from San Francisco to Sydney. Malte was not entitled to an FY20 STI cash bonus.
5. David Hancock ceased as KMP on 8 October 2019.

6. Non-Executive Director Remuneration

6.1 Overview of FY20

6.1.1 COVID-19 response

One of our core strategic pillars is "Doing the Right Thing". We are focussed on never losing sight of our key stakeholders (including our customers, merchants, shareholders and other external parties). In this context, in April 2020 the Non-Executive Directors (**NEDs**) elected to forego 20% of their Board base member and Committee fees for three months from May 2020, reflecting the uncertain impact of COVID-19 on key stakeholders and the community at that time.

6.1.2 Evolving composition of the Group's Board

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.

As part of this commitment, the Group took a number of steps during FY20 towards its objective of having a majority independent Board with an independent Chair.

Effective from 1 July 2019, Elana Rubin was appointed as Independent Interim Chair (with Anthony Eisen transitioning from Executive Chairman to the role of Chief Executive Officer and Managing Director). On 25 May 2020, Elana was appointed permanently to the position of Independent Chair following her strong performance as Interim Independent Chair and significant contribution to Afterpay as a Director since March 2017.

The Group also undertook a global search for additional Non-Executive Directors and was pleased to announce the appointment of three independent Non-Executive Directors onto the Group's Board: Gary Briggs, Pat O'Sullivan and Sharon Rothstein, to complement and further strengthen the skillsets of the Board's existing high-calibre Directors.

Gary Briggs brings extensive marketing knowledge and expertise to the Group's Board in the digital and technology sectors. Gary has worked in a number of senior executive positions including, most recently, Chief Marketing Officer at Facebook, as well as other marketing roles at industry leading technology companies including Motorola Mobility, Google, eBay and PayPal. He also brings board experience as Chairman of Hawkfish, and as a board member of Etsy and Petco.

Pat O'Sullivan also brings a wide range of experience to complement the current Afterpay Board, having worked in various financial and operational roles in Ireland, the US, Australia and New Zealand for over 30 years across a number of sectors. Pat is also a seasoned Non-Executive Director, as Chairman of carsales.com and previously a board member of a number of ASX-listed companies including APN Outdoor, iSentia, Marley Spoon, iSelect and iiNet and was previously Chairman of HealthEngine.

Sharon Rothstein brings deep expertise and experience across leading consumer brands and her background will provide the Board and management with key retailer insights and assist in the development of new relationships and networks globally. Sharon is currently serving as Operating Partner at growth equity firm Stripes Group, and previously held senior marketing positions at market leaders Starbucks and Sephora. Sharon is currently a member of the Board of Yelp and InterContinental Hotels Group.

The composition of the Board has been significantly strengthened over FY20 and its composition will be continually monitored going forward to ensure that the Board has the right mix of skills, expertise, experience and values to support the Group's continued growth, global expansion and long-term success (refer section 2 of the Group's FY20 Corporate Governance Statement for further detail).

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6.2 Remuneration policy and arrangements

The Board sets the fees for its Non-Executive Directors in line with the key objectives of the Group's Non-Executive Director remuneration policy set out below. The People, Remuneration & Nomination Committee makes recommendations to the Board regarding remuneration for Non-Executive Directors (refer section 7.1 for further detail regarding "Remuneration Governance").

As in previous years, the Group's Executive Directors (Anthony Eisen and Nick Molnar) are not entitled to be paid Directors' fees.

The Group does not make sign-on payments to new Non-Executive Directors nor provide for retirement allowances / benefits for Non-Executive Directors (other than superannuation for Australian based Directors).

Figure 3 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 by comparable companies; • the size, complexity and international spread of the Group's operations; and • the workload and time commitment of Non-Executive Directors.	Director remuneration consists of base fees, and additional fees for the Chair and members of any Board Committee (with the exception of the role of independent Chair who receives an all-inclusive fee). 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. A formal minimum shareholding policy for Non-Executive Directors became effective in FY20 to further strengthen this alignment (refer section 6.4).

1. 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 the Afterpay and Touchcorp businesses. These relate to legacy one-off arrangements and have now fully vested.

6.3 Fees and other benefits

6.3.1 Board and Committee fees

The table below sets out the fees (inclusive of superannuation) payable to the Non-Executive Directors of the Group in respect of FY20 (i.e. effective 1 July 2019). Committee fees are paid in addition to the Non-Executive Director base fee, with the exception of fees payable to the Independent Chair who receives an "all-inclusive fee" (i.e. is not eligible for additional Committee fees).

As outlined in the FY19 Remuneration Report, the Board undertook a review of Non-Executive Directors' fees during FY19, having regard to market data provided by independent remuneration consultants. The Board and Committee fees for FY20 were set having regard to the following considerations:

- **the need to be market competitive for world-class Non-Executive Director talent.** It is critical that the Group's Non-Executive Director fees are set at competitive levels (having regard to the Group's current market capitalisation, complexity, geographic spread and the global technology sector within which it operates) in order to support the attraction and retention of high calibre Non-Executive Directors, such as the Group's new Non-Executive Director appointments of Gary Briggs, Pat O'Sullivan and Sharon Rothstein; and
- **the significant workload of directors** in light of the international expansion of the Group into new markets (including the UK, Canada and further proposed new markets) and the increasing complexity of the regulatory environment in which the Group operates.

As shown in the table below, the Group's fees are positioned conservatively relative to market and their appropriateness will continue to be reviewed going forward. In addition, to support the attraction and retention of overseas directors (particularly out of the US where director fee levels are significantly higher than Australian fees), the Board retains 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 was provided to Gary Briggs and Sharon Rothstein as new US-based director appointments in FY20.

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Table 14 FY20 Non-Executive Director fees

Board and Committee fees (per annum)	FY20 (effective 1 July 2019)[1]	Median fee ($) in comparator group[2]
Chair of the Board – base fee	$350,000 (all inclusive)[3]	$495,000
Non-Executive Director – base fee	$150,000[4]	$170,000
Committee Chair (Audit, Risk & Compliance)	$30,000	$41,500
Committee Chair (People, Remuneration & Nomination)	$25,000	$36,000
Committee Member (Audit, Risk & Compliance)	$15,000	$20,300
Committee Member (People, Remuneration & Nomination)	$12,500	$19,500

1. These fees are on an annualised basis and do not include the temporary reduction in Board base member and Committee fees as noted in section 6.1.1.
2. These figures represent the median fee (i.e. 50th percentile) of a comparator group comprising companies with a market capitalisation ranging from $4.3b to $15.9b based on a 12 month rolling average market capitalisation up to 1 June 2020. The comparator group was selected based on 50% to 200% of APT's market capitalisation of $8.3b on a 12 month rolling average up to and excluding 1 June 2020. The Group's spot market capitalisation at the end of FY20 (based on the Group's closing share price of $60.99 on 30 June 2020) of $16.3b was significantly higher than $8.3b. Any temporary reductions in NED fees within the comparator group as a consequence of COVID-19 have been excluded from the market data.
3. Elana Rubin assumed the role of Independent Interim Chair effective 1 July 2019 and was appointed as Independent Chair effective 25 May 2020. Elana's fee is all-inclusive, i.e. she will not receive additional Committee fees for permanent Committees.
4. 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.

6.3.2 Aggregate fee pool

The FY20 aggregate fee pool for Non-Executive Directors' fees (including Committee fees) is $1,800,000 and was approved by the Group's shareholders at the 2019 AGM. Afterpay's aggregate fee pool is positioned conservatively relative to market, with the median fee pool of companies within the market capitalisation comparator group (noted above) being $2,400,000.

6.3.3 Further information

In late FY19, the Group's subsidiary (Afterpay Pty Ltd) received a notice requiring it to appoint an external auditor to carry out an audit in respect of its AML / CTF Compliance. The Group takes its regulatory responsibilities very seriously and established a dedicated AML / CTF Review Sub-Committee, charged with assisting the Board with the oversight and management of the associated external audit program.

Elana Rubin was charged with leading the dedicated Sub-Committee. In recognition of the additional duties, responsibilities and workload associated with this role, Elana received a special exertion allowance of $10,000 per month (inclusive of superannuation) for a period of 5 months only from July 2019 to November 2019. However, as noted above, Elana does not receive additional fees for permanent Committees.

6.4 Minimum shareholding requirements

As outlined in the FY19 Remuneration Report, the Group's Board resolved to introduce a minimum shareholding requirement (which became effective during FY20). The purpose of this requirement was to facilitate share ownership and further strengthen the alignment between Directors and Group's shareholders. The table below sets out key information regarding this policy.

Table 15 Overview of minimum shareholding requirements

Minimum shareholding requirement	
Quantum	**Timeframe**
1 x base member fee[1]	Non-Executive Directors are required to build a shareholding with a monetary value equal to 1 x base member fee within a three-year timeframe, being the later of: • three years from the effective date of the policy of 16 October 2019; and • three years from date of commencement as a Non-Executive Director for those appointed after 16 October 2019

1. As noted above, the Group's base member fee is currently AUD$150,000. In the final Policy adopted by the Board, the base member fee is calculated as gross of income tax (rather than net of income tax) to facilitate greater share ownership amongst Non-Executive Directors

The shareholdings of the Group's Non-Executive Directors at the end of the Reporting Period are outlined in detail in section 7.4 of this Report. Elana Rubin, Dana Stalder and Pat O'Sullivan have shareholdings well in excess of the minimum shareholding requirement (being 1 x base member fee of AUD$150,000). Gary Briggs and Sharon Rothstein, who were appointed as Non-Executive Directors on 1 January 2020 and 1 June 2020 respectively, have not yet met this requirement.

6.5 Non-Executive Directors – statutory remuneration

The fees paid or payable to the Non-Executive Directors of the Group in respect of FY20 are set out in the table below. These fees include the temporary reduction in Board base member and Committee fees as noted in section 6.1.1 above.

Table 16 Non-Executive Directors – statutory remuneration

Afterpay remuneration ($) for the years ending 30 June 2020 and 30 June 2019	Financial year	Short-term Benefits	Long-term Benefits	Share-based payments	
		Salary & Fees	Superannuation	Options	Total
Elana Rubin	2020	377,832	10,501	-	**388,333**
	2019	109,589	10,411	-	**120,000**
Dana Stalder	2020	169,500	-	-	**169,500**
	2019[1]	90,000	-	-	**90,000**
Clifford Rosenberg (part year)	2020[2]	170,996	-	-	**170,996**
	2019	105,000	-	1,790[3]	**106,790**
Gary Briggs (part year)	2020[4]	105,000	-	-	**105,000**
Pat O'Sullivan (part year)	2020[5]	50,266	4,775	-	**55,041**
Sharon Rothstein (part year)	2020[6]	15,833	-	-	**15,833**
Total	**2020**	**889,427**	**15,276**	**-**	**904,703**
	2019	304,589	10,411	1,790	**316,790**

1. Dana Stalder was appointed as a Non-Executive Director on 24 January 2018.
2. Clifford Rosenberg ceased as a Non-Executive Director effective 24 May 2020.
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 the Afterpay and Touchcorp businesses. These relate to legacy one-off arrangements and have now fully vested.
4. Gary Briggs was appointed as a Non-Executive Director on 1 January 2020. As a newly appointed overseas based director, the base member fee payable to Gary Briggs included an uplift of 50% to the Board member fee payable to Australia based directors.
5. Pat O'Sullivan was appointed as a Non-Executive Director on 1 March 2020.
6. Sharon Rothstein was appointed as a Non-Executive Director on 1 June 2020. As a newly appointed overseas based director, the base member fee payable to Sharon Rothstein included an uplift of 50% to the Board member fee payable to Australian based directors.

7. Remuneration Governance

7.1 Responsibility for setting remuneration

In recognition of the value we place on our people at Afterpay, during FY20, the Board resolved to expand the Remuneration & Nomination Committee to the People, Remuneration & Nomination Committee, with additional oversight and responsibilities in respect of monitoring corporate culture, employee engagement, and other people-related policies (including talent identification, training and development, and diversity). These expanded responsibilities were reflected in the People, Remuneration & Nomination Charter.

The People, Remuneration & Nomination Committee represents one element of the Group's robust remuneration governance framework (summarised below), which aims to ensure that the Group's remuneration practices are fair, reasonable, aligned with best practice and consistent with the Group's remuneration principles outlined in section 4.1.

In addition to maintaining a robust remuneration governance framework, Afterpay meets with shareholders and proxy advisors regularly in relation to feedback on remuneration practices and outcomes.

Figure 4 Overview of the Group's remuneration governance framework

Afterpay 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).

People, Remuneration & Nomination Committee

Role and Responsibilities

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

The People, Remuneration & Nomination Committee Charter sets out the Committee's role and responsibilities, composition, structure and membership requirements. As noted above, the People, Remuneration & Nomination Committee's responsibilities were expanded during FY20, which was reflected in the Committee's Charter.

Composition

It is critical that the People, Remuneration & Nomination Committee is independent of management when making decisions affecting employee remuneration. Accordingly, the People, Remuneration & Nomination Committee consists entirely of Non-Executive Directors, all of whom are independent. Where appropriate, the Group's two Executive Directors (Anthony Eisen and Nick Molnar), Global Human Resources Director, Global Head of Remuneration and Benefits, and Global CFO attend Committee meetings. However, they do not participate in formal decision-making or in discussions relating to their own remuneration.

The People, Remuneration & Nomination Committee also has appropriate access to the Chief Enterprise Risk Officer and Audit, Risk & Compliance Committee to ensure that risk considerations (both financial and non-financial) are reflected in final remuneration outcomes for Executive KMP.

Management

Proposals on executive remuneration outcomes and 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 People, Remuneration & Nomination Committee (including a copy of the Committee's Charter), please refer to the Corporate Governance section on our website (https://www.afterpay.com/en-AU/corporate-governance/).

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7.2 Use of remuneration consultants

The People, 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 to discharge its duties. Any advice from consultants is used as a reference point by the Committee and the Board and does not serve as a substitute for thorough consideration by the Non-Executive Directors.

During the Reporting Period, KPMG was engaged by the People, Remuneration & Nomination Committee to provide independent advice on a range of matters. In FY20, KPMG provided remuneration recommendations as defined in section 9B of the *Corporations Act 2001* in relation to the structure and quantum of Executive KMP remuneration, as well as advice in respect of remuneration arrangements of Executive KMP on termination of employment. KPMG was paid $95,000, excluding GST, for these services.

The Board is satisfied that the recommendations were made free from undue influence by the member or members of Executive KMP to whom the recommendations relate. In addition to adhering to Board-approved protocols, KPMG provided a formal declaration in this regard to the Chair of the People, Remuneration & Nomination Committee.

KPMG as a firm also provided other advice relating to the provision of data and market practice as well as legal, tax, accounting, governance, external communications and engagement, and sustainability services during FY20. KPMG was paid a total of $844,368, excluding GST, and disbursements for services provided to the Group during FY20.

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.

As previously disclosed, updates to the terms of the Executive Service Agreements of the Co-Founders were made following the 2019 AGM to reflect best practice and to be in line with their new roles from 1 July 2019.

Table 17 Key terms of Executive KMP contracts in FY20

Executive service agreements	
Element	**Further detail**
Duration	Ongoing term
Periods of notice required to terminate	Either party may terminate the contract by giving: • **six months' written notice** for Anthony Eisen and Nick Molnar; and • **three months' written notice** for Luke Bortoli and Frerk-Malte Feller. For all Executive KMP, the Group may terminate the service agreement immediately without notice in certain circumstances, including (but not limited to) where the relevant Executive KMP engages in a serious breach of agreement or serious misconduct.
Termination payments	Members of the Executive KMP are not entitled to any termination payments. A payment may be made in lieu of notice at the discretion of the Board where termination occurs other than for cause.

1. As noted in sections 3 and 5.5, by mutual agreement, it was agreed that Frerk-Malte Feller would work out an extended notice period on a passive basis from 12 June 2020 to 25 November 2020 to facilitate the transition of his role (as required). He will cease employment with the Group on 25 November 2020.

As noted in section 3, Afterpay's former Group Head and Executive Director (David Hancock) ceased as a Director and KMP of Afterpay Limited on 8 October 2019.

In order to facilitate the transition of his role to the Chief Executive Officer and Managing Director, and other members of the leadership team, a variation was made to David's executive service agreement (effective 1 July 2019) where he was employed in the role of Senior Group Advisor reporting to the Chief Executive Officer and, if requested, the Board.

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In accordance with his varied service agreement:

- the term of David's employment in this role was for a period of 6 months (i.e. until 31 December 2019) or until terminated by either party, with an option to extend the term of his employment for an additional period of time, as agreed in writing by both parties; and
- during this 6 month term, David's employment could be terminated by the Group by providing a payment in lieu of notice in respect of the remaining balance of the 6 month term. With the exception of a payment in lieu of notice, David was not entitled to any other termination payments (e.g. redundancy payments or other compensation).

By mutual agreement, David's employment ceased with the Group on 8 October 2019 and he received fixed remuneration and statutory entitlements up to that date and no other compensation.

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).

As disclosed to the market in July 2020, concurrent with the Group's Share Purchase Plan, the Co-Founders each agreed to sell 2.05 million shares, representing 10% of their respective holdings in the Group. Anthony and Nick remain fully committed to Afterpay and remain the two largest shareholders in the Group.

Table 18. Movements in shareholdings not held under an employee share plan

	Opening balance 1-Jul-19	Purchase of shares	Disposal of shares	Balance 30-Jun-20
Non-Executive Directors				
Elana Rubin	57,141	7,706	-	64,847
Dana Stalder	-	19,300	-	19,300
Clifford Rosenberg (part year)	650,574	900,085	(100,000)	1,450,659[1]
Gary Briggs (part year)	-[2]	-	-	-
Pat O'Sullivan (part year)	-[3]	7,169	-	7,169
Sharon Rothstein (part year)	-[4]	-	-	-
Executive KMP				
Anthony Eisen	20,450,574	85	-	20,450,659
Nick Molnar	20,450,574	85	-	20,450,659
Luke Bortoli	-	900,000	(900,000)	-
Frerk-Malte Feller (part year)	-	-	-	-
David Hancock (part year)	950,000	-	-	950,000[5]

1. Ending balance at 24 May 2020, being the date that Clifford Rosenberg ceased as a Non-Executive Director.
2. Opening balance at 1 January 2020, being the date that Gary Briggs was appointed as a Non-Executive Director.
3. Opening balance at 1 March 2020, being the date that Pat O'Sullivan was appointed as a Non-Executive Director.
4. Opening balance at 1 June 2020, being the date that Sharon Rothstein was appointed as a Non-Executive Director.
5. Ending balance at 8 October 2019, being the date that David Hancock ceased as a KMP and Director.

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Table 19 Movements in shareholdings held under an employee share plan

	Instrument	Opening balance 1-Jul-19	Granted	Exercised	Lapsed / cancelled	Balance 30-Jun-20	Exercisable 30-Jun-20
Non-Executive Directors							
Elana Rubin	-	-	-	-	-	-	-
Dana Stalder	-	-	-	-	-	-	-
Clifford Rosenberg (part year)	Options[1]	900,000	-	(900,000)	-	-	-
Gary Briggs (part year)	-	-	-	-	-	-	-
Pat O'Sullivan (part year)	-	-	-	-	-	-	-
Sharon Rothstein (part year)	-	-	-	-	-	-	-
Executive KMP							
Anthony Eisen	Options	1,500,000	125,000	-	-	1,625,000	1,500,000
Nick Molnar	Options	1,500,000	125,000	-	-	1,625,000	1,500,000
Luke Bortoli	Options	1,350,000	-	(900,000)	-	450,000	-
Frerk-Malte Feller (part year)	Options	-	80,704	-	-	80,704[2]	-
	RSUs	-	50,240	-	-	50,240[3]	-
David Hancock (part year)	Options	2,899,087	-	-	-	2,899,087[4]	-

1. 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 the Afterpay and Touchcorp businesses. These relate to legacy one-off arrangements and have now fully vested. Ending balance at 24 May 2020, being the date that Clifford Rosenberg ceased as a Non-Executive Director.
2. Ending balance is shown at 12 June 2020, being the date that Frerk-Malte Feller ceased as KMP. As described in section 5.5, the Board exercised its discretion to pro-rate the LTI options to time served, and have determined to leave one-third on foot to be tested against the original performance hurdles and vest (as applicable) in the ordinary course at 30 June 2022. The remaining LTI options will lapse on cessation of Malte's employment in November 2020.
3. Ending balance is shown at 12 June 2020, being the date that Frerk-Malte Feller ceased as a KMP. As described in section 5.5, the first tranche of Malte's FY20 service-based RSUs (4,289 RSUs) and Buy-out Payment (12,459 RSUs) vested in the ordinary course on 1 July 2020. The remaining 8,576 FY20 service-based RSUs will lapse on cessation of his employment in November 2020 and the remaining 24,916 Buy-out Payment RSUs will remain on foot to vest at the original vesting dates of 1 July 2021 and 1 July 2022.
4. Ending balance is shown at 8 October 2019, being the date that David Hancock ceased as a KMP and Director. As noted in section 5.6.2, as a consequence of the AUSTRAC audit in 2019, 200,000 options were withheld pending the outcomes of the final report of the external audit and AUSTRAC's final determination. The Board reserves discretion to lapse any of these options. These options will continue to be withheld until the outcome of the final AUSTRAC determination is known.

8. Further Information

8.1 US ESOP

The Afterpay US, Inc. 2018 Equity Incentive Plan (**US ESOP**) is a share option plan established in 2018 under which the Group may issue options to eligible participants to acquire shares in Afterpay US, Inc., the Group's US based subsidiary. The Group has limited the total US ESOP pool to options over a maximum of 10% of Afterpay US, Inc. fully diluted shares on issue and the Group has confirmed that there is no intention to expand this pool. The Group has previously confirmed that the US ESOP is currently at or near the maximum 10% issuance.

The US ESOP was established to facilitate the attraction and retention of top-tier talent in the US, who have been critical to delivering the Group's US growth aspirations. While successful in achieving these aims, as previously announced, the **US ESOP is closed to new offers and new incentive awards made to US employees are being provided by way of awards over APT equity to ensure a globally aligned and consistent approach going forward and to provide greater transparency for our stakeholders.** All existing US ESOP grants will remain on foot to be tested (as appropriate) and vest in the ordinary course. No Executive KMP participated in the US ESOP.

In order to provide eligible participants with a mechanism to liquidate their exercised shares, the exercised shares in Afterpay US, Inc. may be exchanged for fully paid ordinary APT shares in specified circumstances (subject to a cap). Further detail in respect of the US ESOP, including the exchange mechanism and maximum dilution impact, is outlined in detail in Notes 5 and 20 of the Notes to the Financial Statements.

8.2 UK ESOP

The Group has previously confirmed that it would establish an equity incentive plan comprising equity options in Afterpay's UK based subsidiary ClearPay Finance Limited (**Clearpay**) (**UK ESOP**), in accordance with the terms of the acquisition of Clearpay from ThinkSmart. As part of these terms, ThinkSmart agreed to provide for an equity pool of 3.5% Clearpay shares on issue (out of its remaining 10% shareholding in Clearpay) that could be used for the purposes of a UK ESOP in the form of options over the 3.5% of Clearpay shares. In this way, the UK ESOP will not dilute Afterpay's 90% shareholding in Clearpay.

The terms of the UK ESOP have now been finalised and the Board of Afterpay and Clearpay have adopted the UK ESOP Rules. The Group is currently in the process of allocating the 3.5% pool noted above. **As previously disclosed, after the UK ESOP pool has been fully allocated to UK employees, new incentive awards made to UK employees will be provided by way of awards over APT equity to ensure consistency with market practice and transparency for our shareholders going forward.** No Executive KMP will participate in the UK ESOP.

As previously disclosed, on exercise of the UK ESOP options, eligible participants will be allocated shares in Clearpay (exercised shares). In order to provide eligible participants with a mechanism to liquidate their exercised shares, the exercised shares may be exchanged for fully paid ordinary APT shares or cash (at the Group's election) in specific circumstances (subject to a cap on the number of APT shares that may be exchanged). Further detail in respect of the UK ESOP, including the exchange mechanism and maximum dilution impact, is outlined in detail in Notes 5 and 20 of the Notes to the Financial Statements.

8.3

Movement of securities

The table below discloses the number of options or RSUs granted, vested or lapsed during FY20 for Executive KMP.

Table 20 Options or RSUs awarded, vested and lapsed during the reporting period for Executive KMP

Key Management Personnel	Financial year	Instrument	Awarded during the reporting period	Award date	Fair value at award date[1] $	Vesting date[2]	Exercise price $	Expiry date	No. vested during the reporting period	No. lapsed during the reporting period	Value granted during the reporting period $	Value of options exercised during the reporting period $[3]
Executive KMP												
Anthony Eisen	2020	Options	125,000	13/11/2019	10.37	30/06/2022	37.31	01/07/2024	-	-	972,373	-
Nick Molnar	2020	Options	125,000	13/11/2019	10.37	30/06/2022	37.31	01/07/2024	-	-	972,373	-
Luke Bortoli[4]	2020	Options	-	-	-	-	-	-	450,000	-	-	31,293,000
Frerk-Malte Feller[5] (part year)	2020	Options	80,704	1/7/2019	13.63	30/06/2022	31.09	01/07/2024	-	-	1,099,753	-
		RSUs	50,240	1/7/2019	24.40	01/09/2022	-	31/12/2022	-	-	1,225,856	-
David Hancock[6] (part year)	2020	Options	-	-	-	-	-	-	1,492,555	-	-	-

1. The fair value of options are calculated using the Binomial Model.
2. Vesting date is the earliest date the vested options can be exercised.
3. Options vested and exercised is calculated as the difference between the share price at the date of exercise less the exercise price, and includes options vested in prior years that were exercised in FY20.
4. The second tranche of Luke Bortoli's options vested on 1 June 2020 (i.e. 450,000 options), with the third and final tranche (i.e. 450,000 options) to be tested against vesting conditions on 1 June 2021.
5. Frerk-Malte Feller ceased as KMP on 12 June 2020.
6. David Hancock had 1,492,555 options tested for vesting conditions at 1 September 2019. As a consequence of the AUSTRAC audit in 2019, 200,000 options were withheld pending the outcomes of the final report of the external audit and AUSTRAC's final determination. The Board reserves discretion to lapse any of these options. These options will continue to be withheld until the outcome of the final AUSTRAC determination is known.

8.4 Other transactions and balances with Executive KMP

8.4.1 Loans to Executive KMP

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

8.4.2 Other Executive KMP transactions

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

FY20 Financial Statements.

Growth momentum continues in all markets with FY20 global underlying sales increasing 112% to $11.1b, with annualised run rate now over $15b.

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Consolidated statement of comprehensive income

For the year ended 30 June 2020	Note	2020 $'000	2019 $'000
Afterpay income	2	433,815	200,868
Pay Now revenue	2	16,493	17,095
Other income	2	68,843	46,149
Total income		**519,151**	**264,112**
Cost of sales		(134,295)	(59,562)
Gross profit		**384,856**	**204,550**
Depreciation and amortisation expenses[1]	3	(30,035)	(22,371)
Employment expenses	3	(86,129)	(51,445)
Share-based payment expenses		(30,454)	(30,545)
Receivables impairment expenses	7	(94,493)	(58,675)
Net loss on financial liabilities at fair value	14	(1,999)	-
Operating expenses	3	(146,305)	(73,210)
Operating loss		**(4,559)**	**(31,696)**
Share of loss of associate		(1,101)	-
Finance income		1,408	563
Finance costs[1]		(22,530)	(11,653)
Loss before tax		**(26,782)**	**(42,786)**
Income tax benefit/(expense)	4	3,925	(1,013)
Loss for the year		**(22,857)**	**(43,799)**
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		(17,904)	(776)
Total comprehensive loss for the year, net of tax		**(40,761)**	**(44,575)**
Loss attributable to			
Owners of Afterpay Limited		(19,780)	(42,861)
Non-controlling interests		(3,077)	(938)
Earnings per share for loss attributable to the ordinary equity holders of the company	5	$	$
Basic loss per share		(0.08)	(0.18)
Diluted loss per share		(0.08)	(0.18)

1. The Group adopted AASB 16 *Leases* using the modified retrospective method and has not restated comparatives for 2019. The 2019 comparatives are not comparable to 2020 for recognition and measurement, as disclosed further in Note 25.

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

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Consolidated statement of financial position

As at 30 June 2020	Note	2020 $'000	2019 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	6	606,041	231,456
Receivables	7	781,895	452,699
Other financial assets	8	10,660	3,003
Other assets		6,695	9,130
Total Current Assets		**1,405,291**	**696,288**
Non-Current Assets			
Property, plant and equipment	9	5,127	4,213
Right-of-use assets[1]	10	6,999	-
Intangible assets	11	106,589	89,072
Deferred tax assets	4	78,291	27,280
Investment in associate		5,166	-
Other financial assets	8	893	3,035
Other assets		170	580
Total Non-Current Assets		**203,235**	**124,180**
TOTAL ASSETS		**1,608,526**	**820,468**
LIABILITIES			
Current Liabilities			
Trade and other payables		180,730	109,981
Employee benefit provision		5,279	2,585
Contract liability		224	100
Interest bearing loans and borrowings[1]	13	4,278	597
Other financial liabilities	14	1,883	1,772
Income tax payable	4	1,158	5,370
Total Current Liabilities		**193,552**	**120,405**
Non-Current Liabilities			
Employee benefit provision		513	317
Other provisions		305	565
Other financial liabilities	14	3,038	1,039
Interest bearing loans and borrowings[1]	13	464,767	49,626
Total Non-Current Liabilities		**468,623**	**51,547**
TOTAL LIABILITIES		**662,175**	**171,952**
NET ASSETS		**946,351**	**648,516**
EQUITY			
Issued capital	12	975,317	674,769
Accumulated losses		(90,355)	(70,575)
Reserves		58,711	41,365
Equity attributable to the owners of Afterpay Limited		**943,673**	**645,559**
Non-controlling interest		2,678	2,957
TOTAL EQUITY		**946,351**	**648,516**

1. The Group adopted AASB 16 *Leases* using the modified retrospective method and has not restated comparatives for 2019. The 2019 comparatives are not comparable to 2020 for recognition and measurement, as disclosed further in Note 25.

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 2020	Issued Capital $'000	Accumulated Losses $'000	Foreign Currency Translation Reserve $'000	Other Reserves $'000	Total $'000	Non-Controlling Interest $'000	Total $'000
At 1 July 2019	**674,769**	**(70,575)**	**(821)**	**42,186**	**645,559**	**2,957**	**648,516**
Loss for the year	-	(19,780)	-	-	(19,780)	(3,077)	(22,857)
Other comprehensive loss	-	-	(17,904)	-	(17,904)	-	(17,904)
Total comprehensive loss for the year	**-**	**(19,780)**	**(17,904)**	**-**	**(37,684)**	**(3,077)**	**(40,761)**
Transactions							
Issue of share capital	233,012	-	-	-	233,012	-	233,012
Share issue expenses (net of tax)	(1,782)	-	-	-	(1,782)	-	(1,782)
Share options exercised (net of tax)	69,318	-	-	6,637	75,955	957	76,912
Share-based payments	-	-	-	28,613	28,613	1,841	30,454
At 30 June 2020	**975,317**	**(90,355)**	**(18,725)**	**77,436**	**943,673**	**2,678**	**946,351**

For the year ended 30 June 2019	Issued Capital $'000	Accumulated Losses $'000	Foreign Currency Translation Reserve $'000	Other Reserves $'000	Total $'000	Non-Controlling Interest $'000	Total $'000
At 1 July 2018	**192,628**	**(22,195)**	**(45)**	**13,167**	**183,555**	**-**	**183,555**
Initial application of AASB 9 and AASB 15	-	(5,519)	-	-	(5,519)	-	(5,519)
Restated balance at 1 July 2018	**192,628**	**(27,714)**	**(45)**	**13,167**	**178,036**	**-**	**178,036**
Loss for the year	-	(42,861)	-	-	(42,861)	(938)	(43,799)
Other comprehensive loss	**-**	-	(776)	-	(776)	-	(776)
Total comprehensive loss for the year	**-**	**(42,861)**	**(776)**	**-**	**(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, net of transaction costs and tax	17,826	-	-	-	17,826	-	17,826
Non-controlling interest on acquisition of subsidiary	-	-	-	(1,039)	(1,039)	1,981	942
Share options exercised (net of tax)	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**	**(70,575)**	**(821)**	**42,186**	**645,559**	**2,957**	**648,516**

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

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Consolidated statement of cash flows

For the year ended 30 June 2020	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		9,954,963	4,823,012
Payments to employees		(80,895)	(39,827)
Payments to merchants and suppliers (inclusive of GST)		(10,103,761)	(4,916,304)
Income taxes paid		(4,260)	(9,073)
Net cash outflow from operating activities	6	**(233,953)**	**(142,192)**
Cash flows from investing activities			
Interest received		1,476	686
Decrease/(Increase) in term deposits		560	(866)
Payments for development of intangible assets		(40,754)	(21,055)
Purchase of intangibles		(1,452)	(485)
Purchase of plant and equipment		(3,389)	(2,070)
Proceeds from sale of business		-	7,500
Contributions to associates		(5,088)	-
Net cash outflow from investing activities		**(48,647)**	**(16,290)**
Cash flows from financing activities			
Proceeds from borrowings		1,386,247	414,988
Repayment of borrowings		(970,826)	(526,493)
Decrease in restricted cash		494	21,711
Proceeds from exercise of share options		30,550	13,631
Proceeds from issue of shares, net		233,012	459,269
Capital raising expenses		(5,208)	(11,424)
Payment of lease liabilities[1]		(5,307)	-
Interest and bank fees paid[1]		(19,514)	(14,549)
Net cash inflow from financing activities		**649,448**	**357,133**
Net increase in cash and cash equivalents		366,848	198,651
Foreign exchange on cash balance		7,737	246
Cash and cash equivalents at beginning of the year		231,456	32,559
Cash and cash equivalents at end of the year	6	**606,041**	**231,456**

1. The Group adopted AASB 16 *Leases* using the modified retrospective method and has not restated comparatives for 2019. The 2019 comparatives are not comparable to 2020 for recognition and measurement, as disclosed further in Note 25.

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

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Notes to the financial statements

1. Basis of preparation

Afterpay Limited (formerly known as Afterpay Touch Group Limited) is a for-profit company incorporated on 30 March 2017 and domiciled in Australia. The securities of Afterpay Limited (the Company) are listed on the Australian Securities Exchange (ASX). Afterpay Limited's ASX code is 'APT'. The activities of Afterpay Limited and its subsidiaries (together referred to as 'the Group') are described in the Directors' Report. The Group's principal place of business is 406 Collins Street, Melbourne, Victoria, Australia.

The Consolidated Financial Statements of Afterpay Limited as at and for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 27 August 2020.

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, except for the revaluation of certain financial instruments that are measured at fair value;
- are presented in Australian dollars. 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 judgements, estimates and assumptions

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.

The impact of the COVID-19 pandemic remains uncertain. To the extent necessary, the Group has used judgements, estimates and assumptions that reflect this uncertainty.

Further details of significant judgements, estimates and assumptions may be found in the following notes to the financial statements:

- Note 4 Taxation;
- Note 7 Receivables;
- Note 11 Intangible assets; and
- Note 20 Share-based payment plans.

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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 Makers (CODMs). The CODMs, who are responsible for allocating resources and assessing performance of the operating segments, have 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 ANZ:** Comprises the Afterpay Australia and New Zealand platforms;
- **Afterpay US:** Comprises the Afterpay United States platform;
- **Clearpay:** Comprises the Clearpay United Kingdom platform;
- **Pay Now:** Comprises Mobility, Health and e-Services; and
- **Corporate:** Comprises Group expenses that are not directly attributable or allocated to the Afterpay, Clearpay or Pay Now segments.

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

The number of operating segments has increased from the 30 June 2019 financial statements as a reflection of the growth of the Clearpay business (previously included within Afterpay Other) and changes to reporting reviewed by the CODMs (Afterpay New Zealand was previously included within Afterpay Other but is now managed within Afterpay ANZ). The 2019 comparatives have been restated in line with the current year presentation.

The Group continuously reviews its global operating model, financial reporting systems and relevant financial measures reviewed by the CODMs for decision making purposes in light of its expansion into markets outside of Australia. 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.

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Year ended 30 June 2020	Afterpay ANZ $'000	Afterpay US $'000	Clearpay $'000	Pay Now $'000	Corporate $'000	Total Segments $'000
Total segment income[1]	**313,687**	**162,724**	**26,247**	**16,493**	**-**	**519,151**
Segment results						
Segment EBITDA (excl. significant items)[2,3]	**142,177**	**(47,000)**	**(12,922)**	**6,532**	**(44,387)**	**44,400**
Foreign currency gains						19,948
Share-based payment expenses						(30,454)
Net loss on financial liabilities at fair value						(1,999)
Share of loss of associate						(1,101)
One-off items						(6,419)
EBITDA						**24,375**
Depreciation and amortisation						(30,035)
Net finance cost						(21,122)
Loss before income tax						**(26,782)**
Income tax benefit						3,925
Loss for the year						**(22,857)**

Year ended 30 June 2019[4]	Afterpay ANZ $'000	Afterpay US $'000	Clearpay $'000	Pay Now $'000	Corporate $'000	Total Segments $'000
Total segment income[1]	**207,870**	**39,002**	**145**	**17,095**	**-**	**264,112**
Segment results						
Segment EBITDA (excl. significant items)[2,3]	**87,860**	**(24,554)**	**(4,402)**	**4,930**	**(38,119)**	**25,715**
Foreign currency gains						2,961
Share-based payment expenses						(30,545)
One-off items						(7,456)
EBITDA						**(9,325)**
Depreciation and amortisation						(22,371)
Net finance cost						(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. Segment EBITDA (excluding significant items) excludes the impact of share-based payment expenses, foreign currency gains, net loss on financial liabilities at fair value, share of loss of associate and one-off items. No government grants or other COVID-19-related benefits have been recognised in the year (2019: nil).
3. EBITDA in the year ended 30 June 2019 has not been restated for the adoption of AASB 16 *Leases*. EBITDA in the year ended 30 June 2020 includes a $5.6 million benefit from the adoption of AASB 16. The Group adopted AASB 16 using the modified retrospective method and has not restated comparatives for the prior year, as per the specific transitional provisions.
4. The prior year comparative has been restated to be comparable with the current year segment classifications.

Significant accounting policies

Afterpay income

Afterpay income is derived from the difference between the consumer's underlying order value processed on the Afterpay platform and the amount paid to the merchant by Afterpay, referred to as Merchant fees. Afterpay generally pays merchants the net amount of the order value less the Merchant fees, which consists of fixed and variable rates, and Afterpay then assumes all non-repayment risk from the consumer. There are no interest or fees charged by Afterpay, 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 consumer 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-consumer payments being approximately 25 days or less (2019: 30 days or less). This deferred income is recorded as a reduction in the consumer receivables balance in Note 7.

Pay Now Revenue

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, as required by AASB 15 *Revenue from Contracts with Customers*. 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.

Contract liabilities are recorded in the Consolidated Statement of Financial Position in respect of any unsatisfied performance obligations. 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 goods 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.

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.

3. Expenses

	2020 $'000	2019 $'000
Depreciation and amortisation expenses		
Depreciation	(7,607)	(1,978)
Amortisation	(22,428)	(20,393)
Total depreciation and amortisation expenses	**(30,035)**	**(22,371)**
Employment expenses		
Wages and salaries	(74,113)	(42,429)
Employee on-costs	(12,016)	(9,016)
Total employment expenses	**(86,129)**	**(51,445)**
Operating expenses		
Debt recovery costs, including chargebacks	(17,135)	(9,721)
Consulting and contractor costs	(32,896)	(17,177)
Marketing expenses	(70,520)	(22,877)
Communication and technology	(18,536)	(8,202)
Operating lease expenses[1]	(1,159)	(4,122)
Foreign currency gains	19,948	2,961
Net gain on sale of business[2]	-	1,271
AUSTRAC related costs	(3,723)	(1,079)
General and administrative expenses	(22,284)	(14,264)
Total operating expenses	**(146,305)**	**(73,210)**

1. Includes expenses relating to short-term leases and leases of low value assets. The 2019 comparatives relate to operating lease expenses recognised under AASB 117 *Leases*. AASB 117 was replaced with AASB 16 *Leases* from 1 July 2019. These expenses are not comparable year on year as disclosed further in Note 25.
2. Represents the net gain on sale of the European e-Services business, which was completed on 1 November 2018. The European e-Services business did not represent a separate major line of business or geographical area of operations.

Significant accounting policies

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 Company's functional and presentation currency. Exchange differences arising on translation of the foreign controlled entities are recognised in other comprehensive income and accumulated in the Foreign currency translation reserve within equity. The cumulative amount is reclassified to the Consolidated Statement of Comprehensive Income upon disposal of any net investment in foreign controlled entities.

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 are presented in the Consolidated Statement of Comprehensive Income on a net basis within operating expenses.

4. Taxation

Income tax expense

	2020 $'000	2019 $'000
The major components of Income tax expense:		
Current income tax charge		
Current Income tax expense	(21,945)	(15,263)
Adjustments in respect of current income tax of previous years	734	55
Deferred income tax		
Relating to origination/reversal of temporary differences	25,619	14,082
Adjustment in relation to deferred income tax of previous years	(483)	113
Income tax benefit/(expense) as reported in the income statement	**3,925**	**(1,013)**

Statement of changes in equity

	2020 $'000	2019 $'000
Current income tax related to share-based payments	(46,420)	-
Deferred income tax related to opening retained earnings	-	(2,362)
Deferred income tax related to capital raising costs	(764)	(4,293)
Total income tax related to items credited directly to equity	**(47,184)**	**(6,655)**

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Numerical reconciliation between aggregate Income tax expense recognised in the Consolidated Statement of Comprehensive Income and Income 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:

	2020 $'000	2019 $'000
Accounting loss before tax	**(26,782)**	**(42,786)**
At the Group's statutory rate of 30% (2019: 30%)	8,035	12,836
Expenditure not allowed for income tax purposes	(2,199)	(12,150)
Foreign tax rate differential	(1,339)	(1,911)
Amount under provided in prior years	252	168
Non-recoverable foreign taxes	(824)	-
Utilisation of tax losses not previously recognised	-	44
Income tax benefit/(expense)	**3,925**	**(1,013)**

Deferred income tax

	2020 $'000	2019 $'000
Deferred income tax at 30 June relates to the following:		
Deferred tax liabilities		
Capitalisation of development expenditure	-	47
Prepayments	112	262
Customer contracts	1,530	1,805
Unrealised foreign exchange	1,331	758
Property, plant and equipment	-	159
Deferred receivables	5,772	1,449
Other	2,200	796
Gross deferred tax liabilities	**10,945**	**5,276**
Deferred tax assets		
Capitalisation of development expenditure	708	-
Employee benefits	5,768	3,754
Other provisions	580	1,429
Capital raising costs	3,314	3,790
Research and development tax offsets	1,000	-
Property, plant and equipment	640	-
Provision for expected credit losses	10,028	8,328
Deferred receivables	2,583	2,305
Losses	63,434	11,774
Other	1,181	1,176
Gross deferred tax assets	**89,236**	**32,556**
Net deferred tax assets	**78,291**	**27,280**

Significant accounting judgements, estimates and assumptions

Timing of recognition of deferred tax balances

The value of the net deferred tax recognised requires judgement regarding the assessment of probable future profits. Differences between the future profits of the Group (and the timing of these profits) and the tax positions in the financial report could necessitate future adjustments to deferred tax balances 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 Limited and its wholly-owned Australian controlled subsidiaries formed a tax consolidated group effective from 15 August 2017. Afterpay 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 Limited, as the head entity, 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.

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5. Earnings per share (EPS)

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

	2020 $'000	2019 $'000
Loss attributable to owners of Afterpay Limited for basic earnings	**(19,780)**	**(42,861)**
	No.'000	No.'000
Weighted average number of ordinary shares for basic EPS	259,147	231,919
Adjustment for calculation of diluted EPS[1]	6,839	11,827
Weighted average number of ordinary shares adjusted for the effect of dilution	**265,986**	**243,746**

1. Includes the effect of dilution from share options, loan shares and rights (e.g. restricted stock units and performance rights).

Basic EPS amounts are calculated by dividing the loss for the period attributable to ordinary equity holders of Afterpay Limited by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS amounts are calculated by dividing the loss attributable to ordinary equity holders of Afterpay Limited by the sum of the weighted average number of ordinary shares outstanding during the period and the weighted average number of ordinary shares that would be issued if all securities which have the potential to cause dilution are converted into ordinary shares.

The adjustment for the calculation of diluted EPS in the table above does not take into account any options or similar conversion or exchange rights issued under the two convertible notes issued to Matrix Partners X L.P and Weston & Co X LLC (Matrix Convertible Notes), options granted under the Afterpay US, Inc. 2018 Equity Incentive Plan (US ESOP), the put and call option to acquire the remaining shares in ClearPay Finance Limited (Clearpay Put and Call Option) or the equity incentive plan comprising options over equity in ClearPay Finance Limited (UK ESOP).

The potential number of APT shares that could be issued under these arrangements were excluded from the adjustment for the calculation of diluted EPS in the table above given the number of APT shares to be issued will only be determined on exercise and conversion or exchange (as applicable) 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 or exchange is subject to maximum levels.

Matrix Convertible Notes

On 19 January 2018, Afterpay US, Inc. issued two convertible notes to Matrix Partners X L.P and Weston & Co X LLC (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. Conversion of the Matrix Convertible Notes may also be accelerated, at the Group's election, in the event of a change in control of APT.

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 ('VWAP') 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 on conversion of the Matrix Convertible Notes is capped at 21,777,661 being 10% of the number of APT shares on issue at the date the Matrix Convertible Notes were issued. This now equates to less than 8% of current APT shares on issue due to subsequent share issues since the Matrix Convertible Notes were issued. The Group considers it unlikely that the maximum number of APT shares would be issued on conversion because for this to happen it would 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.

US ESOP

The Afterpay US, Inc. 2018 Equity Incentive Plan (US ESOP) is a share option plan established in 2018 under which the Group may issue options to eligible participants to acquire shares in Afterpay US, Inc., the Group's US based subsidiary. On vesting and exercise of US ESOP options, eligible participants are allocated shares in Afterpay US, Inc. (exercised shares). In order to provide eligible participants with a mechanism to liquidate their exercised shares, the exercised shares may be exchanged for fully paid ordinary APT shares in specific circumstances.

The number of APT shares which are issued in exchange for exercised shares in Afterpay US, Inc. 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, or based on an independent valuation in the case of exchange occurring at the discretion of the APT Board, as applicable).

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. This now equates to less than 8% of current APT shares on issue due to subsequent share issues since the Matrix Convertible Notes were issued. For the reasons set out above in respect of the Matrix Convertible Notes, the Group considers it unlikely that the maximum number of APT shares would be issued upon exchange.

Further detail in respect of the US ESOP, including the exchange mechanism, is outlined in Note 20.

Clearpay Put and Call Option

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 of the acquisition of 90% of Clearpay (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 the abovementioned date of completion.

APT has the right to exercise the call option earlier than 5 years from the abovementioned date of completion 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.

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 that may be issued and exchanged as consideration for the remaining Clearpay shares will be based on the value of the remaining Clearpay shares divided by the volume weighted average price (VWAP) of APT shares over the 5 trading days up to the date of option exercise. The maximum number of APT shares that may be issued or exchanged for the remaining 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

The Group had previously confirmed that it would establish an equity incentive plan comprising options over equity in Afterpay's UK based subsidiary ClearPay Finance Limited (Clearpay) (UK ESOP), in accordance with the terms of the acquisition of Clearpay from ThinkSmart. As part of these terms, ThinkSmart agreed to provide for an equity pool of 3.5% Clearpay shares on issue (out of its remaining 10% shareholding in Clearpay) that could be used for the purposes of a UK ESOP in the form of options over the 3.5% of Clearpay shares. In this way, the UK ESOP will not dilute Afterpay's 90% shareholding in Clearpay. The terms of the UK ESOP have now been finalised and the Board of Afterpay and Clearpay adopted the UK ESOP Rules on 24 June 2020. The Group is currently in the process of allocating the 3.5% pool noted above.

On exercise of UK ESOP options, eligible participants will be allocated shares in Clearpay (exercised shares). In order to provide eligible participants with a mechanism to liquidate their exercised shares, it is intended that exercised shares may be exchanged for fully paid ordinary APT shares or cash (at the Group's election) in specified circumstances. It is intended that exercised shares in Clearpay will be exchanged into APT shares or cash at the same valuation of Clearpay shares as the Clearpay Put and Call Option (as applicable) outlined above.

The maximum number of APT shares that can be issued in exchange for exercised Clearpay shares under the UK ESOP is subject to a cap of 3% of APT shares on issue at the date of adoption of the UK ESOP Rules, being 267,967,466 shares on 24 June 2020. The Group considers it unlikely that the maximum number of APT shares of 8% across the Clearpay Put and Call Option (with a cap of 5% as outlined above) and the UK ESOP (with a cap of 3% as outlined in this section) would 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 at the time of exchange.

Further detail in respect of the UK ESOP, including the exchange mechanism, is outlined in Note 20.

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Assets and liabilities

6. Cash and cash equivalents

	2020 $'000	2019 $'000
Cash at bank	512,984	121,365
Short-term deposits	93,057	110,091
Total cash and cash equivalents	**606,041**	**231,456**

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

	2020 $'000	2019 $'000
Loss before tax	**(26,782)**	**(42,786)**
Adjustments for:		
Depreciation and amortisation expenses	30,035	22,371
Share-based payment expenses	30,454	30,545
Net loss on financial liabilities at fair value	1,999	-
Share of loss of associate	1,101	-
Finance costs	22,530	11,653
Finance income	(1,408)	(563)
Gain on sale of European e-Services business	-	(1,271)
Foreign currency gains	(19,948)	(2,535)
Changes in assets and liabilities:		
Increase in total receivables	(329,196)	(213,631)
Impact of accounting standard changes on receivables	-	(7,847)
(Increase)/Decrease in other financial assets and other assets	(11,981)	2,861
Increase in trade and other payables, contract liabilities and provisions	73,503	68,084
Tax paid	(4,260)	(9,073)
Net cash outflow from operating activities	**(233,953)**	**(142,192)**

Significant accounting policies

Cash and cash equivalents in the Consolidated Statement of Financial Position comprises cash at bank and in hand, cash in transit and cash in escrow for daily receipts and settlements that is settled within one to seven days. Cash and cash equivalents also comprise 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.

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7. Receivables

	2020 $'000	2019 $'000
Consumer receivables - face value	816,812	482,123
Consumer receivables - recognised over time[1]	(16,678)	(9,647)
Consumer receivables	**800,134**	**472,476**
Trade and other receivables	15,712	7,983
Total receivables before provision for expected credit losses	**815,846**	**480,459**
Provision for expected credit losses		
Opening balance	(27,760)	(18,054)
Provided in the year	(94,493)	(58,675)
Debts written off/collected	88,302	48,969
Total provision for expected credit losses	**(33,951)**	**(27,760)**
Total receivables	**781,895**	**452,699**

1. Recognised over time represents the consumer transactions completed by period end but earned over the collection period of the consumer receivables. Refer to Note 2 for further details.

Significant accounting judgements, estimates and assumptions

Judgement is applied in measuring the Provision for expected credit losses and determining 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 expected credit loss (ECL) calculations. The inclusion of forward-looking information increases the degree of judgement required to assess effects on the Group's ECLs. The impact of the COVID-19 pandemic remains uncertain and represents a material downside risk to the economy. However, the Group's collections subsequent to year end have not deteriorated relative to past experience. While the methodologies applied to the ECL calculations remained unchanged from those applied in 2019, the Group has incorporated judgements, estimates and assumptions specific to the impact of COVID-19, where relevant, in the measurement of ECL.

The assumptions and methodologies applied are reviewed regularly.

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Significant accounting policies

Trade and other receivables

Trade and other receivables are primarily amounts due from merchants as a result of transactions with consumers. 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). The Group's business model is to hold the receivables with the objective to collect the contractual cash flows. Trade and other receivables are measured at amortised cost and generally have 1 - 30 day payment terms. There are no contract assets at 30 June 2020 (2019: nil).

Collectability of trade and other receivables is reviewed on an ongoing basis. Individual debts that are known to be non-collectable are written off when identified. 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.

The Group applies a simplified approach in calculating the ECLs for trade receivables based on lifetime expected credit losses.

Consumer receivables

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 Effective Interest Rate (EIR) method. They are generally due within 14 – 56 days.

Provision for expected credit losses (ECLs)

The Group applies the general provision approach permitted under AASB 9 *Financial Instruments* 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 Consumer 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). For consumers on hardship cases, payment terms may be extended which is determined on a per case basis.

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.

The Group also applies the general provision approach permitted under AASB 9 *Financial Instruments* to account for ECLs on other receivables measured at amortised cost. Due to the short-term nature of the other receivables (due on invoice) and the Group's historical credit experience, the other receivables are written off once overdue and there is no reasonable expectation of recovery.

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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	Ageing	Measurement basis
Stage 1	Not yet due	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.
Stage 2	1 to 61 days past due	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.
Stage 3	Greater than 61 days past due	When the Consumer receivable is greater than 61 days past due, there is considered to be objective evidence of impairment. Ageing greater than 61 days is considered to have an adverse impact on the estimated future cash flows of the Consumer receivable.

Receivables are written off when the Group has no reasonable expectation of recovery. Prior period receivable balances are either fully written off or collected during the current financial year. 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.

2020[1]	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Consumer receivables - face value[2]	783,679	25,007	8,126	816,812
Provision for expected credit losses	(11,473)	(14,910)	(7,568)	(33,951)
Net consumer receivables	**772,206**	**10,097**	**558**	**782,861**
2019[1]				
Consumer receivables - face value[2]	453,266	21,880	6,977	482,123
Provision for expected credit losses	(6,434)	(14,440)	(6,886)	(27,760)
Net consumer receivables	**446,832**	**7,440**	**91**	**454,363**

1. The simplified approach prescribed in AASB 9 is used for Trade receivables, therefore the related provision for expected credit losses is excluded from the ECL staging table for both 2020 and 2019. While the general approach is used for other receivables, staging has not been provided as all balances that are at risk of non-recovery have been written off. The provision for expected credit losses related to Trade and other receivables was nil (2019: nil).
2. ECL for Consumer receivables is calculated on the Consumer receivables – face value.

As the Group's receivables are short-term in nature, the staging transfer disclosures have not been provided.

8. Other financial assets

	2020 $'000	2019 $'000
Restricted cash	1,536	2,030
Short-term deposits	3,448	4,008
Other	6,569	-
Total other financial assets	**11,553**	**6,038**
Total Current	10,660	3,003
Total Non-Current	893	3,035
Total other financial assets	**11,553**	**6,038**

Restricted cash are cash assets held with AA-/BBB+ banks as collateral for daily cash settlements with merchants and payments to funding providers. Refer to Note 13 for further information on the Group's receivables warehouse facilities. Short-term deposits are cash assets held with AA-/BBB+ banks as collateral for bank guarantees (see Note 22) and as part of the Group's normal business operations.

9. Property, plant and equipment

The net book value of property, plant and equipment of $5.1 million (2019: $4.2 million) primarily includes computer equipment, furniture fittings and leasehold improvements. During the period, the Group purchased property, plant and equipment of $3.4 million (2019: $2.4 million), reclassified $0.3 million to Right-of-use assets (see Note 25), disposed $nil million (2019: $0.2 million) and recognised depreciation of $2.2 million (2019: $2.0 million) in the Consolidated Statement of Comprehensive Income.

Significant accounting policies

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

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

10. Right-of-use assets

	Commercial property leases	2020 $'000
Cost		
At 1 July (Note 25)	8,614	8,614
Additions	4,480	4,480
Modifications	(749)	(749)
Terminations	(1,255)	(1,255)
At 30 June	**11,090**	**11,090**
Accumulated depreciation		
At 1 July	-	-
Depreciation	(5,338)	(5,338)
Terminations	1,247	1,247
At 30 June	**(4,091)**	**(4,091)**
Net book value		
At 30 June 2020	**6,999**	**6,999**

Significant accounting policies

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.

Leases are recognised as a right-of-use asset and a corresponding liability in the Consolidated Statement of Financial Position at the date at which the leased asset is available for use by the Group.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability (see Note 13);
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

Depreciation is calculated on the straight-line basis over the shorter of the asset's useful life and the lease term. Rental contracts are typically made for fixed periods between 12 months and 4 years but may include extension options.

11. Intangible assets

	Core Technology $'000	Customer Contracts $'000	Other Intangibles $'000	Goodwill $'000	Total $'000
Cost					
At 1 July 2018	53,803	15,352	140	23,575	92,870
Additions - internally generated	21,538	-	-	-	21,538
Other additions	-	-	689	-	689
Acquisition of a subsidiary	-	-	3,985	16,232	20,217
Disposals	(6,473)	(1,248)	-	-	(7,721)
At 30 June 2019	**68,868**	**14,104**	**4,814**	**39,807**	**127,593**
Additions - internally generated	38,884	-	228	-	39,112
Other additions	-	-	834	-	834
Disposals	-	-	-	-	-
At 30 June 2020	**107,752**	**14,104**	**5,876**	**39,807**	**167,539**
Accumulated Amortisation					
At 1 July 2018	(15,473)	(4,882)	(20)	-	(20,375)
Amortisation	(13,369)	(4,605)	(2,419)	-	(20,393)
Disposals	1,692	555	-	-	2,247
At 30 June 2019	**(27,150)**	**(8,932)**	**(2,439)**	**-**	**(38,521)**
Amortisation	(19,029)	(2,591)	(809)	-	(22,429)
Disposals	-	-	-	-	-
At 30 June 2020	**(46,179)**	**(11,523)**	**(3,248)**	**-**	**(60,950)**
Net book value					
At 30 June 2019	**41,718**	**5,172**	**2,375**	**39,807**	**89,072**
At 30 June 2020	**61,573**	**2,581**	**2,628**	**39,807**	**106,589**

Significant accounting judgements, estimates and assumptions

Goodwill is tested for impairment at least annually. The impairment assessment requires management judgement with respect to an estimate of the recoverable amount of the cash generating unit (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 and equity.

Significant accounting policies

Goodwill

On acquisition, goodwill is initially measured as 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 has an indefinite useful life and is not amortised but is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually.

Intangible assets (excluding goodwill)

Intangible assets, including Core technology, Customer contracts and Other intangible assets 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 accumulated amortisation and any 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.

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 accumulated amortisation and any 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.

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

	Core technology	Customer contracts	Other intangibles
Internally Generated/ Acquired	Internally generated and acquired	Acquired	Acquired
Useful Lives	Finite: 3 - 5 years	Finite: 3 - 5 years	Finite: 2 - 7 years
Amortisation Method Used	Straight-line	Straight-line	Straight-line
Impairment	Amortisation method is reviewed at every reporting period. Reviewed annually for indicators of impairment.		

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.

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.

The Group performed a detailed impairment review of goodwill and concluded that there was no impairment for the financial year ended 30 June 2020. At 30 June 2020, the market capitalisation of the Group was significantly greater than the Group's equity book value, further supporting no impairment of goodwill or other assets of the CGUs.

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

	Afterpay AU $'000	Clearpay $'000	Pay Now $'000	TOTAL $'000
Goodwill allocation	**21,220**	**16,232**	**2,355**	**39,807**
Risk-weighted pre-tax discount rate	17.6%	34.8%	13.6%	N/A
Risk adjusted growth rate beyond 5 years	2%	N/A	(1%)	N/A
Revenue multiple beyond 2 years	N/A	1.4x	N/A	N/A

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 for Pay Now would need to increase by approximately 20 basis points, or the terminal value growth rate would need to decrease by approximately 30 basis points, before the recoverable amount would equal its carrying value.

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.

Clearpay

The recoverable amount 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.

Capital structure, financing & risk management

12. Equity

	2020 $'000	2019 $'000
Issued and fully paid	**975,317**	**674,769**

Movement in ordinary shares on issue

	No.'000	$'000
At 1 July 2018	216,204	192,628
Shares issued	22,131	459,269
Share options and loan shares 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**
Shares issued	8,453	233,012
Share options and loan shares exercised	7,680	69,318
Capital raising costs (net of tax)	-	(1,782)
At 30 June 2020[1]	**267,625**	**975,317**

1. The total number of ordinary shares on issue excludes 0.4m loan shares.

For the financial year ended 30 June 2020, Afterpay Limited raised capital totalling $233.0 million. This comprised:

- $200.0 million Institutional Placement completed on 27 November 2019; and
- $33.0 million Share Purchase Plan (SPP) completed on 10 February 2020.

Subsequent to 30 June 2020 the Group completed a $786.2 million capital raising, which comprised a $650.0 million Institutional Placement and a $136.2 million Share Purchase Plan (SPP). See Note 23.

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

- $117.0 million Institutional Placement and $25.0 million SPP, completed by September 2018; and $317.3 million Institutional Placement completed in June 2019.

Significant accounting policies

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.

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 20.

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13. Interest bearing loans and borrowings

	2020 $'000	2019 $'000
Secured interest bearing borrowings	461,444	-
Senior unsecured notes	-	49,737
Matrix convertible notes	156	144
Total interest bearing borrowings	**461,600**	**49,881**
Lease liabilities	7,445	342
Total interest bearing loans and borrowings	**469,045**	**50,223**
Total Current	4,278	597
Total Non-Current	464,767	49,626
Total interest bearing loans and borrowings	**469,045**	**50,223**

Secured interest bearing borrowings

The Group's Australian receivables warehouse funding facility totalling $500.0 million (2019: $500.0 million) is provided by National Australia Bank (NAB) ($300.0 million) and Citi ($200.0 million) and is secured against Afterpay AU receivables, which are transferred into the facility. As at 30 June 2020, the carrying value of Afterpay AU consumer receivables is $368.0 million (2019: $339.7 million) and the facilities have $155.0 million drawn (2019: undrawn). For the year ended 30 June 2020, drawings under these facilities incurred a weighted average interest rate of 2.2% p.a. (2019: 3.6%). Both facilities mature in December 2022.

The Group's US receivables warehouse funding facilities totalling US$400 million ($582.8 million) are provided by Citi (US$200 million) and Goldman Sachs (US$200 million). The facilities are secured against Afterpay US receivables, which are transferred into the facility. As at 30 June 2020, the carrying value of Afterpay US consumer receivables is US$226.4 million ($329.9 million) (2019: $84.0 million). As at 30 June 2020 the Citi facility has US$4.0 million ($5.9 million) drawn (2019: undrawn), and the Goldman Sachs facility has US$193.0 million ($281.2 million) drawn. For the year ended 30 June 2020, drawings under these facilities incurred a weighted average interest rate of 3.2% p.a. (2019: nil). The Citi facility matures in May 2022 and the Goldman Sachs facility matures in December 2021.

The Group increased its receivables warehouse facility with Bank of New Zealand (BNZ) by NZ$30 million to NZ$50.0 million ($46.7 million) in June 2020. The facility is secured against Afterpay NZ receivables, which are transferred into the facility. As at 30 June 2020, the carrying value of Afterpay NZ consumer receivables is NZ$37.9 million ($35.4 million), and the facility has NZ$25.0 million ($23.4 million) drawn (2019: undrawn). For the year ended 30 June 2020, drawings under this facility incurred a weighted average interest rate of 1.65% p.a. (2019: nil). The facility matures in March 2022.

The Group has capitalised $4.9 million of borrowing costs at 30 June 2020 (2019: $4.6 million). The effective interest rates used to determine the amount of borrowing costs eligible for capitalisation is specific to the individual facilities.

Borrowings are classified as non-current when there is no obligation or expectation that the liability will be settled within the next 12 months at the reporting date.

Senior unsecured notes

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 term (interest payable semi-annually). The notes were redeemed on 27 April 2020.

Matrix convertible notes

On 19 January 2018, Afterpay US, Inc. issued two convertible notes to Matrix Partners X L.P and Weston & Co X LLC (Matrix Convertible Notes). The Matrix Convertible Notes have a carrying value of US$0.1 million, carry a fixed interest rate of 6.0% for a 7-year maximum term and may be converted into APT shares in certain circumstances (subject to a cap) between 5 and 7 years from the date of issue of the notes (being 19 January 2018), with conversion at the noteholder's election. Further detail in respect of the Matrix Convertible Notes, including the conversion mechanism and maximum dilution impact, is outlined in Note 5.

Lease liabilities

The Group leases various offices across Australia, New Zealand, the United States and the United Kingdom. Rental contracts are typically made for fixed periods of more than 12 months to 4 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Prior to 1 July 2019, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. See Note 25 for impact of the adoption of AASB 16 *Leases* on 1 July 2019.

From 1 July 2019, at the inception of a contract, the Group assesses whether a contract is, or contains, a lease.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the lease component of contracts that include non-lease components and other services, within the lease liability;
- the extension option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Refer to Note 15(d) for maturity of future lease payments.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases, leases of low-value assets and variable leases are recognised as operating expenses as incurred. Short-term leases are leases with a lease term of less than 12 months. Low-value assets comprise point of sale equipment (terminals) and small items of office furniture.

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14. Other financial liabilities

	Note	2020 $'000	2019 $'000
Exercised options not yet settled	20	1,672	1,772
Clearpay put option		3,038	1,039
Other		211	-
Total other financial liabilities		**4,921**	**2,811**
Total Current		1,883	1,772
Total Non-Current		3,038	1,039
Total other financial liabilities		**4,921**	**2,811**

Clearpay put option

As outlined in Note 5, the Group has a call option to acquire the remaining Clearpay Finance Limited (Clearpay) shares held by ThinkSmart Limited (ThinkSmart), which is exercisable any time after 5 years from the date of completion of the acquisition of 90% of Clearpay (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 shares it holds in Clearpay to the Group, exercisable any time after 5.5 years from the abovementioned date of completion.

A discounted cash flow model has been used to obtain the fair value of the put option held by ThinkSmart at 30 June 2020. Significant inputs to the valuation are consistent with those used in the Clearpay goodwill impairment assessment included in Note 11.

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*. Gains or losses are recorded in the Consolidated Statement of Comprehensive Income.

Further detail in respect of the Clearpay put option is outlined in Note 5.

Reconciliation of liabilities arising from financing activities

		Cash movements	Non-cash movements			
2020	Opening balance $'000	Cash flows[2] $'000	Amortisation $'000	Other[1] $'000	Fair value loss $'000	Closing balance $'000
Secured interest bearing borrowings	-	449,638	5,567	6,239	-	461,444
Senior unsecured notes	49,737	(50,000)	263	-	-	-
Matrix convertible notes	144	-	-	12	-	156
Lease liabilities	342	(4,867)	-	11,970	-	7,445
Total interest bearing loans and borrowings	**50,223**	**394,771**	**5,830**	**18,221**	**-**	**469,045**
Other financial liabilities	2,811	939	-	(828)	1,999	4,921
Total liabilities arising from financing activities	**53,034**	**395,710**	**5,830**	**17,393**	**1,999**	**473,966**

1. Includes foreign exchange movement and impact of adoption of AASB 16 Leases. Refer to Note 25 for further details.
2. Movements include the net cash inflows (e.g. drawdowns) and outflows (e.g. repayments and interest payments)

2019	Opening balance $'000	Cash movements Cash flows[2] $'000	Non-cash movements Amortisation $'000	Other[1] $'000	Clearpay put option $'000	Closing balance $'000
Secured interest bearing borrowings	111,593	(111,593)	-	-	-	-
Senior unsecured notes	49,491	-	294	(48)	-	49,737
Matrix convertible notes	128	-	-	16	-	144
Lease liabilities	393	(94)	-	43	-	342
Total interest bearing loans and borrowings	**161,605**	**(111,687)**	**294**	**11**	**-**	**50,223**
Other financial liabilities	-	2,164	-	(392)	1,039	2,811
Total liabilities arising from financing activities	**161,605**	**(109,523)**	**294**	**(381)**	**1,039**	**53,034**

1. Includes foreign exchange movements and other non-cash movements.
2. Movements include the net cash inflows (e.g. drawdowns) and outflows (e.g. repayments and interest payments)

15. Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and cash equivalents, receivables, other financial assets, trade and other payables, other financial liabilities and interest bearing loans and borrowings.

The Group manages its exposure to key financial risks, including interest rate, foreign currency, credit and liquidity 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.

(a) **Interest rate risk**

The Group's exposure to market interest rates relate primarily to the Group's Cash and cash equivalents, Other financial assets (Restricted cash and Short-term deposits) and Secured interest bearing borrowings. At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk:

	2020 $'000	2019 $'000
Financial Assets		
Cash and cash equivalents	606,041	231,456
Other financial assets	4,984	6,038
Total financial assets	**611,025**	**237,494**
Financial Liabilities		
Secured interest bearing borrowings	(461,444)	-
Total financial liabilities	**(461,444)**	**-**
Net Exposure	**149,581**	**237,494**

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

At 30 June 2020, if interest rates had moved, as illustrated in the table below, with all other variables held constant, loss for the year and equity would have been affected as follows:

	Loss for the year (Higher)/Lower		Equity (Higher)/Lower	
Judgements of reasonably possible movements:	2020 $'000	2019 $'000	2020 $'000	2019 $'000
-0.25% (25 basis points)	(262)	(416)	262	416
+1.00% (100 basis points)	1,047	1,662	(1,047)	(1,662)

The Matrix Convertible Notes are on a fixed interest rate basis. The Group's receivables warehouse funding facilities are on a variable rate (30 day) basis. This aligns closely to the weighted average life of the Afterpay consumer receivables they finance.

The financial liabilities as disclosed in Note 14 comprise the put option held by ThinkSmart and early exercised unvested options, which are not exposed to interest rate risks.

There are no other financial liabilities subject to interest rate risk as at 30 June 2020. The Group has not hedged any interest rate risk during the year or at 30 June 2020.

(b) **Foreign currency risk**

Fluctuations in foreign exchange rates may impact the Group's results. The Group's Consolidated Statement of Financial Position can be affected by movements in the US Dollar, New Zealand Dollar, and Great British Pound.

The Group has not hedged any foreign currency risk during the year or at 30 June 2020.

At 30 June 2020, the Group has the following exposure to foreign currency that is not designated in cash flow hedges:

	2020 $'000	2019 $'000
Financial Assets		
Cash and cash equivalents		
NZD	15,582	4,173
USD	193,062	31,379
GBP	33,383	4,512
Other	-	2
Receivables and other financial assets		
NZD	34,616	17,846
USD	331,594	84,597
GBP	52,275	3,296
	660,512	**145,805**
Financial Liabilities		
Trade and other payables		
NZD	3,541	2,950
USD	94,320	37,559
GBP	20,866	3,683
Other	235	-
Financial liabilities		
NZD	23,214	-
USD	284,547	1,916
GBP	3,038	1,039
	429,761	**47,147**
Net exposure	**230,751**	**98,658**

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

At 30 June 2020, if exchange rates had moved, as illustrated in the table below, with all other variables held constant, loss for the year and equity would have been affected as follows:

	Loss for the year (Higher)/Lower		Equity (Higher)/Lower	
	2020	2019	2020	2019
Judgements of reasonably possible movements:	$'000	$'000	$'000	$'000
AUD/NZD +10%	(1,492)	(1,213)	1,492	1,213
AUD/NZD -5%	864	703	(864)	(703)
AUD/USD +10%	(9,277)	(4,868)	9,277	4,868
AUD/USD -5%	5,371	2,818	(5,371)	(2,818)
AUD/GBP+10%	(3,930)	(196)	3,930	196
AUD/GBP -5%	2,275	114	(2,275)	(114)
AUD/Other +10%	15	-	(15)	-
AUD/Other -5%	(9)	-	9	-

(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 Consumer receivables, 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 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 7.

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.

(d) 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.

The Group's receivables warehouse funding facilities all have maturity dates greater than 12 months after balance date as per below.

Maturity analysis of financial assets and liabilities

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 2020	< 1 year $'000	1-2 years $'000	2-3 years $'000	> 3 years $'000	Total $'000
Financial assets					
Cash and cash equivalents	606,041	-	-	-	**606,041**
Receivables	781,895	-	-	-	**781,895**
Other financial assets	10,660	893	-	-	**11,553**
Total financial assets	**1,398,596**	**893**	**-**	**-**	**1,399,489**
Financial liabilities					
Trade and other payables	180,730	-	-	-	**180,730**
Secured interest bearing borrowings	6,499	316,947	157,705	-	**481,151**
Matrix convertible notes	-	-	-	207	**207**
Financial liabilities	1,883	-	-	3,038	**4,921**
Lease liabilities	4,517	1,774	1,003	573	**7,867**
Total financial liabilities	**193,629**	**318,721**	**158,708**	**3,818**	**674,876**
Net maturity	**1,204,967**	**(317,828)**	**(158,708)**	**(3,818)**	**724,613**

Year ended 30 June 2019	< 1 year $'000	1-2 years $'000	2-3 years $'000	> 3 years $'000	Total $'000
Financial assets					
Cash and 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 and other payables	109,981	-	-	-	**109,981**
Senior unsecured notes	3,625	3,625	53,625	-	**60,875**
Matrix convertible notes	-	-	-	199	**199**
Financial liabilities	1,772	-	-	1,039	**2,811**
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**

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 12, the Group raised $233.0 million in the year (2019: $459.3 million) for the purpose of funding medium-term underlying sales and other working capital. As detailed in Note 23, a further $786.2 million was raised subsequent to 30 June 2020.

As detailed in Note 13, the Group has receivable warehouse funding facilities. The receivables warehouse funding facilities contain portfolio parameters. The Group satisfied the portfolio parameters during the financial year ended and at 30 June 2020.

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

	2020 $'000	2019 $'000
Cash and cash equivalents	606,041	231,456
Restricted cash	1,536	2,030
Interest bearing loans and borrowings	(469,045)	(50,223)
Net cash/(debt) position	**138,534**	**183,263**

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 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Clearpay put option (Note 14)	-	-	3,038	**3,038**
Total financial liabilities	**-**	**-**	**3,038**	**3,038**

Year ended 30 June 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Clearpay put option (Note 14)	-	-	1,039	**1,039**
Total financial liabilities	**-**	**-**	**1,039**	**1,039**

If the discount rate increased/decreased by 250 basis points, the valuation of the liability would decrease/increase by $0.3 million. If the revenue multiple increased/decreased by 0.1x, the valuation of the liability would increase/decrease by $0.7 million.

Group structure

16. Business combinations

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

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 acquired Clearpay to accelerate and de-risk the Group's launch of the Afterpay product into the UK market, which 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. 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 were included in operating expenses in the Consolidated Statement of Comprehensive Income for the year ended 30 June 2019.

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.

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17. Related party disclosure

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

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

		% Equity interest	
Name	Country of incorporation	2020	2019
Afterpay Australia Pty Ltd (formerly known as Afterpay Pty Ltd) [1]	Australia	100%	100%
Afterpay Holdings Pty Ltd [1]	Australia	100%	100%
Afterpay Warehouse Trust	Australia	100%	100%
Afterpay Touch Group Employee Share Plan Trust	Australia	100%	100%
Afterpay Touch Group No.2 Pty Ltd [1]	Australia	100%	100%
Afterpay US, Inc. [4]	United States	96%	99%
Afterpay Receivables Warehouse-C LLC [2]	United States	96%	99%
Afterpay Receivables Warehouse-GS LLC [2,5]	United States	96%	-
Afterpay US Services, LLC [2]	United States	96%	99%
Afterpay NZ Limited	New Zealand	100%	100%
Afterpay NZ Warehouse Trust [5]	New Zealand	100%	-
ClearPay Finance Limited	United Kingdom	90%	90%
ClearPay Finance HCB Limited [3]	United Kingdom	90%	90%
Afterpay Canada Limited [5]	Canada	100%	-
Touchcorp Limited [1]	Bermuda	100%	100%
Afterpay China Holdings Pty Ltd [5]	Australia	100%	-
Afterpay Information Technology Service (Shanghai) Co., Ltd [5]	China	100%	-
Touch Holdings Pty Ltd [1]	Australia	100%	100%
Touch Networks Australia Pty Ltd [1]	Australia	100%	100%
Touch Australia Pty Ltd [1]	Australia	100%	100%
Touch Networks Pty Ltd [1]	Australia	100%	100%
Touchcorp Singapore Pte Ltd	Singapore	100%	100%
Touch Networks Payments (Malaysia) Sdn Bhd [6]	Malaysia	-	100%

1. Refer to Note 19 for further information on the parties subject to a deed of cross guarantee.
2. Wholly owned subsidiaries of Afterpay US, Inc.
3. Wholly owned subsidiary of Clearpay Finance Limited.
4. The Group's equity interest in Afterpay US, Inc is approximately 96% due to vested and exercised options under the US ESOP. Refer to Note 20 for further information.
5. New legal entity established during the year.
6. Legal entity wound-up during the year.

The following table provides the total amount of transactions that have been entered into with related parties for the year ended 30 June 2020. There were no similar transactions or balances for the year ended 30 June 2019.

	Statement of Comprehensive Income			Statement of Financial Position		
	Sales to related parties	Purchases from related parties	Share of loss of associate	Amounts owed by related parties	Amounts owed to related parties	Contributions made to associate
Year ended 30 June 2020	$'000	$'000	$'000	$'000	$'000	$'000
Associate						
AP Ventures Limited [1] ('APV')	1,180	-	(1,101)	-	-	6,587

1. Afterpay owns 43.9% of the common shares of APV (2019: 4.6%), is entitled to 24.2% of the voting rights (2019: 4.6%), has no representation on the Board and has no involvement in the management of APV through contractual arrangements.

18. Information relating to Afterpay Limited (formerly known as Afterpay Touch Group Limited) (The Parent)

	2020 $'000	2019 $'000
Current Assets	57,486	12,085
Non-Current Assets	971,893	720,087
Total Assets	**1,029,379**	**732,172**
Current Liabilities	6,754	12,008
Non-Current Liabilities	-	49,140
Total Liabilities	**6,754**	**61,148**
Net Assets	**1,022,625**	**671,024**
Issued Capital	957,932	641,949
Reserves	82,409	45,193
Accumulated Losses	(17,716)	(16,118)
Total Equity	**1,022,625**	**671,024**
Loss of the Parent entity	(1,598)	(14,943)
Total comprehensive loss of the Parent entity	**(1,598)**	**(14,943)**

19. Deed of cross guarantee

The subsidiaries identified in Note 17 '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 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 Closed Group is as follows:

As at 30 June	2020 $'000	2019 $'000
ASSETS		
Current Assets		
Cash and cash equivalents	185,154	171,842
Receivables	369,518	347,660
Other financial assets	3,015	857
Other assets	5,314	5,106
Total Current Assets	**563,001**	**525,465**
Non-Current Assets		
Investments in associates	5,166	-
Investments in subsidiaries	570,527	17,826
Property, plant and equipment	4,164	3,627
Rights-of-use assets	5,318	-
Intangible assets	73,280	67,151
Deferred tax asset	43,144	15,446
Other financial assets	893	2,450
Other assets	170	580
Related party receivables	-	180,798
Total Non-Current Assets	**702,662**	**287,878**
TOTAL ASSETS	**1,265,663**	**813,343**
LIABILITIES		
Current Liabilities		
Trade and other payables	61,700	70,447
Provisions	5,131	2,511
Contract liabilities	226	100
Interest bearing loans and borrowings	3,159	597
Income tax payable	917	5,122
Total Current Liabilities	**71,133**	**78,777**
Non-Current Liabilities		
Provisions	513	882
Interest bearing loans and borrowings	3,167	49,480
Related party payables	121,474	-
Financial liabilities	3,038	1,039
Total Non-Current Liabilities	**128,192**	**51,401**
TOTAL LIABILITIES	**199,325**	**130,178**
NET ASSETS	**1,066,338**	**683,165**
EQUITY		
Contributed equity	975,317	674,769
Retained earnings/(losses)	17,266	(29,759)
Reserves	73,755	38,155
TOTAL EQUITY	**1,066,338**	**683,165**

The Consolidated Statement of Comprehensive Income of the subsidiaries that are members of the Closed Group is as follows:

For the year ended 30 June	2020 $'000	2019 $'000
Profit before income tax	65,991	1,855
Income tax expense	(19,805)	(11,969)
Total comprehensive income/(loss) for the year, net of tax	**46,186**	**(10,114)**

Employee remuneration

20. Share-based payment plans

Overview of plans

(a) **Purpose of incentive plans**

Employees of the Group may receive remuneration in the form of share-based payments under the Group's equity incentive plans, whereby employees render services as consideration for equity instruments (i.e. equity-settled transactions).

The purpose of these plans is to:

- Attract, retain and motivate world-class talent from the global technology talent pool to deliver on the Group's growth aspirations;
- Align the interests of employees with the Group's shareholders; and
- Encourage long-term decision making and drive sustainable performance in the interests of the Group's shareholders, customers and other stakeholders.

(b) **Plans operated during the year**

During the year ended 30 June 2020, the Group operated share-based payment plans across the following instruments:

- Awards over APT equity comprising of options and restricted stock units (RSUs) under the Group's new Afterpay Equity Incentive Plan (approved at the 2019 AGM on 13 November 2019). The new plan reflects best practice and was developed and adopted to operationalise the new FY20 Remuneration Framework outlined in the Remuneration Report;
- Awards over APT equity comprising of options, loan shares and performance rights under the Group's legacy remuneration plan, the Afterpay Employee Incentive Plan (which was adopted prior to listing in July 2017); and
- Equity in Afterpay US, Inc. (a subsidiary of Afterpay Limited) under the Afterpay US, Inc. 2018 Equity Incentive Plan (US ESOP).

The Group had previously confirmed that it would establish an equity incentive plan comprising options over equity in Afterpay's UK based subsidiary ClearPay Finance Limited (Clearpay) (UK ESOP), in accordance with the terms of the acquisition of Clearpay from ThinkSmart. As part of these terms (and as set out in the "UK ESOP" section of this Note below), ThinkSmart agreed to provide for an equity pool of 3.5% of Clearpay shares on issue (out of its remaining 10% shareholding) that could be used for the purposes of a UK ESOP in the form of options over the 3.5% of Clearpay shares. The terms of the UK ESOP have now been finalised and the Board of Afterpay and Clearpay adopted the UK ESOP Rules on 24 June 2020. No options had been granted under the UK ESOP as at 30 June 2020; the Group is currently in the process of allocating the 3.5% pool noted above.

(c) **Approach to subsidiary plans going forward**

The Group is committed to providing greater transparency in respect of its employee incentive plans for its stakeholders. To this end, the Group has committed to providing new awards to employees globally in the form of awards over APT equity. This creates alignment of future equity incentive awards in all Afterpay's markets and provides a path towards greater visibility of the impact of incentive plans on APT issued share capital.

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In particular, the US ESOP is now closed to new offers and new incentive awards made to US employees are being made in the form of APT equity. In respect of the UK, once the UK ESOP equity pool noted above has been allocated, new awards to UK employees will also be provided in the form of APT equity. Refer to the sections "US ESOP" and "UK ESOP" of this Note for further detail.

Significant accounting judgements, estimates and assumptions

The fair value of options is determined in accordance with the fair market value of the shares available at the grant date. The fair value of the options has been calculated using the ten-day VWAP of the five trading days immediately preceding the 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 6.5% of Clearpay owned by ThinkSmart. These fair values are determined by valuations conducted by independent valuers.

Some inputs to the Binomial Model require the application of judgement. The fair value of options granted during year were estimated on the grant date using the assumptions set out below:

	FY20	FY19	FY20	FY19
	APT		US ESOP	
Expected volatility	50-80%	50%	60%	60%
Risk-free interest rate	1.00%	2.20%	1.39%	2.51%
Expected life of share options (years)	4	4	5	5
Dividend yield	0%	0%	0%	0%

The expected volatility and life of share options are based on historical data and current expectations and are not necessarily indicative of actual outcomes.

The weighted average fair value of the awards granted under the APT ESOP and US ESOP during the year was $32.85 and $2.64, respectively (2019: $10.31 and $0.27, respectively).

Significant accounting policies

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 the estimate. Revisions to the prior period estimate are recognised in the Consolidated Statement of Comprehensive Income.

Awards over APT equity

(a) **Overview**

As noted above, the new Afterpay Equity Incentive Plan was approved by the Group's shareholders at the 2019 AGM. Under this plan, eligible employees may be granted equity awards in the listed company (including options, rights (e.g. RSUs) and restricted shares), which are subject to vesting conditions. The Group also has a legacy Afterpay Employee Incentive Plan (adopted prior to listing).

(b) **Detail of APT equity awards during the period**

Set out below is an overview of the APT equity awards for the year ended 30 June 2020.

Options

During the year, 1,341,092 options were granted to employees, comprising:

- 330,704 LTI options granted to Key Management Personnel (KMP) under the new Afterpay Equity Incentive Plan approved at the 2019 AGM and in accordance with the FY20 Executive KMP Remuneration Framework (as detailed in the Remuneration Report); and
- 1,010,388 LTI options granted to other eligible employees, comprising 401,326 options granted under the new Afterpay Equity Incentive Plan (approved partway through the period at the 2019 AGM) and 609,062 LTI options granted under the legacy Afterpay Employee Incentive Plan (adopted prior to listing).

Restricted Stock Units (RSUs)

During the year, 1,005,767 RSUs were granted under the new Afterpay Equity Incentive Plan approved at the 2019 AGM, comprising:

- 50,240 RSUs granted to KMP in accordance with the FY20 Executive KMP Remuneration Framework (as detailed in the Remuneration Report);
- 135,532 RSUs granted as part of a once-off Global Award to existing Afterpay employees who had not received share-based awards previously (under any of Afterpay's equity incentive plans). These once-off awards are aligned with Afterpay's "ownership culture" and create even greater alignment with Afterpay's shareholders, customers and other stakeholders; and
- 819,995 RSUs granted to other eligible employees.

Legacy arrangements—loan shares and performance rights

Historically, and as part of Afterpay's legacy remuneration arrangements, Afterpay has issued performance rights to certain employees under the legacy Afterpay Employee Incentive Plan (adopted prior to listing) 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 vest over a one to four-year 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. No new loan shares or performance rights were granted during the period.

Detailed breakdown of APT equity awards

The following table provides a detailed breakdown of the movement in APT equity awards during the period.

	2020		2019		2020		2019		2020	2019
	Share options				Loan Shares				Rights[1] & RSUs	
	No. '000	WAEP $	No. '000	WAEP $	No. '000	WAEP $	No. '000	WAEP $	No. '000	No. '000
Outstanding at the beginning of the year	14,907	5.49	21,005	1.66	1,143	3.91	1,910	3.62	-	35
Granted during the year	1,341	32.85	5,444	10.31	-	-	-	-	1,006	-
Forfeited during the year	(63)	21.61	(187)	1.08	-	-	-	-	(8)	-
Exercised during the year	(6,794)	4.12	(11,355)	0.80	(724)	3.56	(767)	3.18	-	(35)
Outstanding at the end of the year[2]	**9,391**	**10.28**	**14,907**	**5.49**	**419**	**4.50**	**1,143**	**3.91**	**998**	**-**
Exercisable at the end of the year[2]	**5,668**	**3.65**	**7,589**	**1.93**	**264**	**3.69**	**813**	**3.46**	**-**	**-**

1. Performance rights relating to legacy remuneration arrangements were fully exercised in the prior comparable period and no further awards have been granted.
2. The outstanding and exercisable share options at the end of the year includes 4,506,000 options which have an exercise price of between $1.00 and $2.77.

US ESOP

(a) Overview

The Afterpay US, Inc. 2018 Equity Incentive Plan (US ESOP) is a share option plan established in 2018 under which the Group may issue options to eligible participants to acquire shares in Afterpay US, Inc., the Group's US based subsidiary. The Group has limited the total US ESOP pool to options over a maximum of 10% of Afterpay US, Inc. fully diluted shares on issue.

US ESOP options typically vest over a four-year period and are subject to vesting conditions. On vesting and exercise of US ESOP options, eligible participants are allocated shares in Afterpay US, Inc. (exercised shares). In order to provide eligible participants with a mechanism to liquidate their exercised shares, the exercised shares may be exchanged for fully paid ordinary APT shares in specified circumstances. Specifically, the exercised shares in Afterpay US, Inc. will be automatically exchanged for APT shares 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) (the Matrix Convertible Note conversion mechanism is outlined in Note 5).

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 in exchange for exercised shares in Afterpay US, Inc. 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, or based on an independent valuation in the case of exchange occurring at the discretion of the APT Board, as applicable) compared to the 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).

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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. This now equates to less than 8% of current APT shares on issue due to subsequent share issues since the Matrix Convertible Notes were issued. The Group considers it unlikely that the maximum number of APT shares would be issued on exchange 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.

As outlined above, the total US ESOP pool is limited to options over a maximum of 10% of Afterpay US, Inc. fully diluted shares on issue and the Group has confirmed that there is no intention to expand this pool. In light of this limit, the Group's ownership interest in Afterpay US, Inc. will not decline below 90% due to the exercise of options on Afterpay US, Inc. shares under the US ESOP and will increase back to 100% following the exchange of exercised shares for APT shares (assuming no other issues of shares in Afterpay US, Inc. in the intervening period). The Group has previously confirmed that the US ESOP is currently at or near the maximum 10% issuance.

The US ESOP was established in 2018 to facilitate the attraction and retention of top-tier talent in the US, who have been critical to delivering the Group's US growth aspirations. While successful in achieving these aims, as noted above, the US ESOP is now closed to new offers and new incentive awards made to US employees are being provided by way of awards over APT equity to ensure a globally aligned and consistent approach going forward.

(b) **Detail of US ESOP awards during the period**

The table below provides a breakdown of the movement in US ESOP share options during the period.

	2020		2019	
	Share options			
	No. '000	WAEP $	No. '000	WAEP $
Outstanding at the beginning of the year	8,998	0.27	6,992	0.25
Granted during the year	392	2.64[1]	4,078	0.27
Forfeited during the year	(756)	0.30	(428)	-
Exercised during the year	(2,870)	0.30	(1,644)	0.27
Outstanding at the end of the year[2]	**5,764**	**0.42**	**8,998**	**0.27**
Exercisable at the end of the year	**1,136**	**0.43**	**382**	**0.27**

1. The weighted average exercise price (WAEP) of the options granted during the year was $2.64 or US$1.81 per share (2019: $0.27 or US$0.18). The exercise price is set on a periodic basis by reference to a third-party valuation of Afterpay US, Inc. which is conducted for US tax purposes.
2. This number includes options that have been exercised early but remain subject to vesting and a re-purchase right by Afterpay US, Inc.

During the year, the Group received $0.1 million (2019: $2.2 million) from US ESOP option holders who elected to early exercise unvested options. An early exercise mechanism is provided under the US ESOP whereby option holders may elect to exercise options and receive unvested shares in Afterpay US, Inc. before full vesting of the options occurs. Any unvested options and any such unvested shares 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 (e.g. if the vesting conditions are not met).

If Afterpay US, Inc. elects to exercise the repurchase right, it 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 $1.1 million (30 June 2019: $1.8 million) has been recognised as a current financial liability in the financial statements to account for this potential repurchase event.

The US ESOP provides for options on non-voting shares 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*.

UK ESOP

(a) **Overview**

The Group had previously confirmed that it would establish an equity incentive plan comprising options over equity in Afterpay's UK based subsidiary ClearPay Finance Limited (Clearpay) (UK ESOP), in accordance with the terms of the acquisition of Clearpay from ThinkSmart. As part of these terms, ThinkSmart agreed to provide for an equity pool of 3.5% Clearpay shares on issue (out of its remaining 10% shareholding in Clearpay) that could be used for the purposes of a UK ESOP in the form of options over the 3.5% of Clearpay shares.

The terms of the UK ESOP have now been finalised and the Board of Afterpay and Clearpay adopted the UK ESOP Rules on 24 June 2020. The UK ESOP options have both continued service and performance-based vesting conditions. On exercise of UK ESOP options, eligible participants will be allocated shares in Clearpay (exercised shares). In order to provide eligible participants with a mechanism to liquidate their exercised shares, it is intended that exercised shares may be exchanged for fully paid ordinary APT shares or cash (at the Group's election) in specified circumstances. Specifically, the exercised shares in Clearpay may only be exchanged for APT shares or cash at the same time as the exercise of the Clearpay Put and Call Option by APT or ThinkSmart, as applicable (the Clearpay Put and Call Option mechanism is outlined in Note 5). If UK ESOP options are not exercised and exchanged with such event, the UK ESOP options will lapse. This mechanism is intended to ensure that there are no outstanding UK ESOP options once APT moves to a 100% shareholding in Clearpay via exercise of the Clearpay Put and Call Option.

Further, it is intended that exercised shares in Clearpay will be exchanged into APT shares or cash at the same valuation of Clearpay shares as the Clearpay Put and Call Option (as applicable). Consistent with the Clearpay Put and Call Option, the number of APT shares that may be issued and exchanged as consideration for the exercised shares in Clearpay will be based on the value of the exercised shares in Clearpay divided by the volume weighted average price (VWAP) of APT shares over the 5 trading days up to the date of option exercise.

As noted above, consideration for exercised shares may be paid by the Group in cash or APT shares (at the Group's election). The maximum number of APT shares that can be issued in exchange for exercised Clearpay shares under the proposed UK ESOP will be subject to a cap of 3% of APT shares on issue at the date of first adoption of the UK ESOP Rules on 24 June 2020, being 267,967,466 shares. Separately, and as outlined in Note 5, 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. The Group considers it unlikely that the maximum number of APT shares of 8% across the Clearpay Put and Call Option and the 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.

The UK ESOP was contemplated in the terms of the acquisition of Clearpay to facilitate the attraction and retention of top-tier talent in the UK, who will be critical to delivering

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the Group's UK growth aspirations. As noted above, after the UK ESOP pool has been fully allocated to UK employees, new incentive awards made to UK employees will be provided by way of awards over APT equity to ensure a globally aligned and consistent approach going forward.

(b) **Detail of UK ESOP awards during the period**

As noted above, the Board of Afterpay and Clearpay adopted the UK ESOP Rules on 24 June 2020. No options had been granted under the UK ESOP as at 30 June 2020; the Group is currently in the process of allocating the 3.5% pool noted above.

Matrix Convertible Notes

The Group determined the US$0.1 million Matrix Convertible Notes included a share-based payment component, for services to be delivered by Matrix. The fair value of the Matrix 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 payment*.

The fair value of the Convertible Notes was determined by using a multi-stage process, including 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.

The Matrix Convertible Notes are outlined in Note 5.

21. Key management personnel

Compensation of Key Management Personnel	2020 $	2019 $
Short-term employee benefits	3,083,648	2,997,685
Post-employment benefits	115,174	107,316
Other long-term benefits	24,796	10,257
Share-based payments	4,269,242	17,530,018
Total compensation	**7,492,860**	**20,645,276**

Compensation of Key Management Personnel (KMP) includes Executive KMP and Non-Executive Directors. Compensation details for KMP are included in Sections 5.7 and 6.5 of the Remuneration Report.

Items not recognised in the financial statements

22. 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 'Notice'.

Mr Neil Jeans of AML/CTF firm 'Initialism' was appointed as the auditor on 29 July 2019. The Final Audit Report (Final Report) was provided to AUSTRAC on 22 November 2019. The Final Report refers to matters of historic non-compliance by Afterpay and makes recommendations in relation to Afterpay's ongoing AML/CTF compliance. The Final Report states that the majority of these matters have been addressed.

Subsequent to receipt of the Final Report, AUSTRAC requested clarification of a number of matters included in the Final Report. AUSTRAC is considering the Final Report, together with the Group's subsequent responses, and will determine whether it will take further action. In cases of non-compliance with the AML/CTF Act, the AUSTRAC Chief Executive Officer may apply for civil penalty orders under s176 of the AML/CTF Act. If the Federal Court is satisfied that a reporting entity has contravened a civil penalty provision, then the Federal Court may order a pecuniary penalty to be paid to the Commonwealth.

Currently, it is not possible to determine the extent or timing of any potential financial impact to the Group that might result from the AML/CTF compliance audit. Consequently, no amounts have been included as contingent liabilities at the reporting date.

(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 2020 or 30 June 2019 which required recognition of a provision or contingent liability.

(c) **Bank guarantees**

The Group had entered into bank guarantee arrangements totalling $2.9 million 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.

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23. Events occurring after the reporting period

With the exception of the items listed below, no other matters or circumstances have occurred subsequent to 30 June 2020 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.

(a) Capital raising

Subsequent to 30 June 2020, the Group completed a $786.2 million capital raising, which comprised a $650.0 million Institutional Placement and a $136.2 million Share Purchase Plan (SPP).

(b) Pagantis Acquisition

On 21 August 2020, a wholly owned subsidiary of the Group entered into a Share Purchase Agreement (SPA) with NBQ Corporate SLU (NBQ) to acquire 100% of the shares outstanding in Pagantis SAU and PMT Technology SLU (collectively, Pagantis). Pagantis currently provides a range of buy now, pay later and traditional credit services across Spain, France and Italy with regulatory approval to also operate in Portugal and a pending application to passport its payment institution licence into Germany.

Afterpay is acquiring the Pagantis corporate entities, regulatory licences, multilingual technology stack and platform, intellectual property, contracts with relevant service providers, and an experienced, fully staffed team (69 FTEs) with local knowledge of the EU market and regulatory landscape. Pagantis is authorised and supervised by the Bank of Spain and has a Payment Institution licence (Licence). This Licence is eligible for "passporting" to other EU member states and will provide Afterpay with the regulatory structure that is required to operate across all EU member states (subject to regulatory approval from the Bank of Spain to the proposed change of control).

Pagantis' existing consumer fee instalment and credit card offerings will be discontinued post completion of the acquisition.

As part of the SPA, NBQ will receive a minimum €50m in consideration (subject to customary adjustments), payable as follows:

- Upfront Consideration - €5 million in cash payable at completion; and
- Deferred Consideration in the form of a Convertible Note - €45 million in cash, payable 3 years post completion. Deferred Consideration can exceed €45 million, with any excess being payable in cash or shares in Afterpay Limited (at Afterpay's election), provided the equity value of Pagantis exceeds €45 million, 3 years post completion.

Deferred Consideration received by NBQ will be determined by reference to the equity value (Equity Value) of Pagantis, 3 years post completion.

If the Equity Value of Pagantis:

- Is less than or equal to €45m; NBQ will receive €45m in Deferred Consideration payable in cash; or
- Exceeds €45m; NBQ will receive €45 million, payable in cash, plus:
  - > 50% of any Equity Value above €45 million, up to €100 million; plus
  - > 40% of any Equity Value above €100 million, up to €150 million; plus
  - > 10% of any Equity Value above €150 million in Deferred Consideration.

Any Deferred Consideration above the €45 million minimum is payable in cash or Afterpay scrip, at Afterpay's election. The maximum Deferred Consideration payable (whether in cash or Afterpay shares) will be capped at 3% of the total Afterpay shares on issue at completion, multiplied by the 5-day volume weighted average price, 3 years post completion.

The Equity Value will be determined by agreement between Afterpay and NBQ or, failing that, independent experts with reference to agreed valuation principles.

Payment of Deferred Consideration may be accelerated if Afterpay is subject to a change of control.

The acquisition will accelerate the planned launch into Europe and continues the preferred model of partnering with a local market presence to de-risk global expansion (consistent with the Company's successful UK expansion strategy). Pagantis currently provides a range of buy now, pay later and traditional credit services across Spain, France and Italy, with regulatory approval to also operate in Portugal and a pending application to passport its payment institution licence into Germany.

The financial effects of this transaction have not been recognised at 30 June 2020. The operating results and assets and liabilities of Pagantis will be consolidated following completion of the transaction.

Completion of the acquisition is expected to occur in or before December 2020, and is subject to certain conditions being satisfied, principally regulatory approval for the acquisition being granted by the Bank of Spain.

(c) **EmpatKali Acquisition**

On 26 August 2020, a wholly owned subsidiary of the Group entered into a Share Purchase Agreement (SPA) to acquire 100% of the shares outstanding from the founders (Founders) of PT Empat Kali Indonesia (EmpatKali). EmpatKali is a small, Singapore-based, buy now, pay later company operating in Indonesia.

As part of the SPA, the Founders will receive a total of US$2m in consideration (subject to customary adjustments) payable in Afterpay Limited (APT) shares.

The financial effects of this transaction have not been recognised at 30 June 2020. The operating results and assets and liabilities of EmpatKali will be consolidated following completion of the transaction. Completion of the acquisition is expected to occur before December 2020.

Other information

24. Auditor's remuneration

	2020 $	2019 $
Amounts received or due and receivable by EY (Australia) for:		
Total audit or review of the financial report of the entity and any other entity in the consolidated Group	1,383,886	997,061
Support of new accounting standards implementation	-	206,760
Other assurance services	81,920	73,840
Other non-audit services	-	-
Total auditor's remuneration	**1,465,806**	**1,277,661**

25. Other significant accounting policies

New and amended standards adopted by the Group

The following new accounting standards and interpretations became applicable and were adopted during the current reporting period:

- AASB 16 *Leases*; and
- AASB Interpretation 23 Uncertainty over Income Tax Treatments.

The Group has also chosen to early adopt the following amendment:

- Amendments to AASB 101 and AASB 108 *Definition of material*

The impact of the adoption of AASB 16 is disclosed below. The adoption of AASB Interpretation 23 and the amendments to AASB 101 and AASB 108 did not have a material impact on the Group's accounting policies and do not require retrospective adjustments.

A number of other amendments also became effective during the period, but did not have a material impact on the Group's accounting policies.

AASB 16 Leases

The Group adopted AASB 16 using the modified retrospective method with the date of initial application of 1 July 2019 and, as required under the specific transitional provisions in the standard, the Group has not restated comparatives for the 2019 reporting period. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019.

The Group recognised a right-of-use asset at the date of initial application at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

For leases previously classified as finance leases in accordance with AASB 117, the carrying amount of the right-of-use asset and the lease liability at the date of initial application was the carrying amount of the lease asset and lease liability immediately before that date measured applying AASB 117.

The table below presents a reconciliation of the operating lease commitments as disclosed in the Group's 30 June 2019 financial statements, to the lease liabilities recognised on the transition date:

Reconciliation of operating lease commitments	$'000
Operating lease commitments disclosed as at 30 June 2019	**7,119**
(Less): discounting using the lessee's incremental borrowing rate at the date of initial application of 4.70% (weighted average incremental borrowing rate)	(261)
Add: finance lease liabilities recognised as at 30 June 2019	342
Add: adjustments as a result of a different treatment of extension options	1,382
(Less): contracts reassessed as low value assets	(115)
Lease liabilities recognised as at 1 July 2019	**8,467**
Of which are:	
Current lease liabilities	4,427
Non-current lease liabilities	4,040

The change in accounting policy affected the following items in the Consolidated Statement of Financial Position on 1 July 2019:

- Right-of-use assets – increase by $8.6 million
- Property, plant and equipment – decrease by $0.3 million
- Prepayments (included in Other assets) – decrease by $0.4 million
- Lease liabilities (included in Interest bearing loans and borrowings) – increase by $8.1 million
- Other provisions – decrease by $0.2 million
- Net impact on retained earnings on 1 July 2019 was $nil.

In applying AASB 16 for the first time, the Group has used the following practical expedients required by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

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Directors' declaration

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

In the opinion of the Directors:

(a) The financial statements and notes of Afterpay Limited for the year ended 30 June 2020 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of its financial position as at 30 June 2020 and of the Group's performance for the 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

Chair, Independent Non-Executive Director
Melbourne
27 August 2020

Auditor’s Report.

Ernst & Young
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Independent Auditor's Report to the Members of Afterpay Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Afterpay Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, 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 2020 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 (including Independence Standards)* (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.

Capitalisation of internally generated intangible assets

Why significant	How our audit addressed the key audit matter
The Group's income is generated through the processing of transactions with its customers through its internally developed software platforms disclosed as Core Technology in Note 11 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 $38.9 million and the net book value of Core Technology amounted to $61.6 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 for projects.	Our audit procedures included the following: ‣ We selected a sample of projects to determine the nature and status of the project and assessed whether the project met the capitalisation requirements of the Australian Accounting Standards. ‣ For a sample of capitalised employee and sub-contractor costs we agreed the pay rates to employment contracts, supplier invoices and obtained evidence to support the time charged to development projects. ‣ 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 Group in comparison to prior reporting periods. ‣ We assessed the adequacy of the related disclosures in the financial report in respect of the capitalised costs.

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Provision for expected credit losses on 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. Under AASB 9 *Financial Instruments*, the Group has applied the forward-looking expected credit loss (ECL) model. With the Coronavirus outbreak being declared a pandemic by the World Health Organization in March 2020, the Group has assessed the impact to trading over the last three months of the financial year and has incorporated any changes in loss rates along with forward-looking factors in the measurement of the ECL. A provision of $34.0 million has been recognised at 30 June 2020. This was a key audit matter as significant judgement is involved in determining the provision for expected credit losses based on the estimated loss rates on outstanding receivables. The Group's disclosure for the receivables impairment on consumer receivables is disclosed in Note 7 of the financial report.	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. ▸ 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 impact of the Coronavirus outbreak on the loss rates along with forward-looking factors in the measurement of the ECL. ▸ 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 2020 Annual Report, 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.

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, actions taken to eliminate threats or safeguards applied.

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 53 to 83 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Afterpay Limited for the year ended 30 June 2020, 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
27 August 2020

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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 21 August 2020.

Corporate Governance Statement

The Company's Directors and management are committed to conducting the Group's business in an ethical manner and in accordance with high standards of corporate governance. The Board continually reviews the Company's governance policies and practices to ensure that they remain appropriate in light of changes in corporate governance expectations and developments. The Company has reviewed its corporate governance framework against the 4th edition of the ASX Principles and Recommendations and will be reporting against the 4th edition for the financial year ending 30 June 2021. The Company's corporate governance policies and charters are all available at https://www.afterpay.com/en-AU/corporate-governance/.

For the year ended 30 June 2020, the Company's governance practices were consistent with the 3rd edition of the ASX Corporate Governance Principles and Recommendations (**ASX Principles and Recommendations**) unless otherwise indicated in the Corporate Governance Statement. Further details of the Company's corporate governance framework and practices are described in the Company's Corporate Governance Statement.

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

Substantial holders

As at 21 August 2020, 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	Number of Equity Securities held	% of total issued securities capital in relevant class
Anthony Eisen	18,405,963	6.62
Nicholas Molnar	18,405,963	6.62
Vanguard Group	15,714,991	5.61
Mitsubishi UFK Financial Group, Inc	13,928,673	5.01
Tencent Holdings Limited and Tencent Mobility Limited	13,355,399	5.00

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Number of holders

As at 21 August 2020, the number of holders in each class of equity securities is as follows:

Class of Equity Securities	Number of holders
Fully paid ordinary shares	57,208
Options to acquire ordinary shares	75
Convertible Note	2
Restricted Stock Units	428

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 21 August 2020 is as follows:

Total Shares	UMP Shares	UMP Holders	% of issued shares held by UMP holders
280,107,063	7	459	0.0003

Voting rights of equity securities

The only class of equity securities on issue in the Company which carries voting rights is fully paid ordinary shares. As at 21 August 2020, there were 57,208 holders of a total of 280,107,063 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 which 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 21 August 2020 is as follows:

Distribution of ordinary shareholders			
Holdings Ranges	Holders	Total Units	%
1 – 1,000	50,461	9,942,865	3.55
1,001 – 5,000	5,664	11,682,874	4.17
5,001 – 10,000	590	4,121,274	1.47
10,001 – 100,000	442	10,077,863	3.60
100,001 – 999,999,999	51	244,282,187	87.21
Totals	**57,208**	**280,107,063**	**100**

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Distribution of option holders			
Holdings Ranges	Holders	Total Units	%
1 – 1,000	-	-	-
1,001 – 5,000	4	20,000	0.22
5,001 – 10,000	4	27,666	0.30
10,001 – 100,000	51	2,222,655	24.16
100,001 – 999,999,999	16	6,929,667	75.32
Totals	**75**	**9,199,988**	**100**

Distribution of Restricted Stock Unit (RSU) holders			
Holdings Ranges	Holders	Total Units	%
1 – 1,000	334	132,235	13.48
1,001 – 5,000	52	150,259	15.32
5,001 – 10,000	27	201,889	20.58
10,001 – 100,000	14	361,776	36.88
100,001 – 999,999,999	1	134,819	13.74
Totals	**428**	**980,978**	**100**

Distribution of convertible note holders

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

Escrow

Class of restricted securities	Type of restriction	Number of securities	End date of escrow period
Ordinary shares	Voluntary escrow	7,017,544	29 November 2020
Ordinary shares	Voluntary escrow	1,440,213	16 January 2021
Ordinary shares	Voluntary escrow	1,440,213	16 January 2025
Ordinary shares	Voluntary escrow	418,926	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
Convertible Note	2	2
Options to acquire ordinary shares	9,199,988	75
Restricted Stock Units	980,978	428

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

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 at 21 August 2020	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	60,547,145	21.62
2	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	39,815,164	14.21
3	CITICORP NOMINEES PTY LIMITED	24,643,428	8.80
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	18,485,366	6.60
5	ANTHONY MATHEW EISEN	18,405,963	6.57
5	NICHOLAS MOLNAR PTY LTD <NICHOLAS DAVID FAMILY A/C>	18,405,963	6.57
7	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED <MLPRO A/C>	11,794,306	4.21
8	COATUE FLAGSHIP AUSTRALIA I LP	7,017,544	2.51
9	CLEEVECORP PTY LTD	6,642,000	2.37
10	NATIONAL NOMINEES LIMITED	6,225,124	2.22
11	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	3,869,784	1.38
12	ATC CAPITAL PTY LTD	3,392,304	1.21
13	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	3,265,122	1.17
14	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	3,126,719	1.12
15	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	2,801,803	1.00
16	MATRIX PARTNERS X L P	2,717,394	0.97
17	BNP PARIBAS NOMS PTY LTD <DRP>	2,369,875	0.85
18	ESTATE LATE ADRIAN CLEEVE	1,820,260	0.65
19	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	1,131,801	0.40
20	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	905,331	0.32
	Total number of shares of Top 20 Holders	**237,382,396**	**84.75**
	Total Remaining Holders Balance	**42,724,667**	**15.25**

Corporate information.

Afterpay Limited ACN 618 280 649

Board of Directors

Elana Rubin (Chair, Independent Non-Executive Director)

Anthony Eisen (Chief Executive Officer and Managing Director)

Nick Molnar (Global Chief Revenue Officer and Executive Director)

Gary Briggs (Independent Non-Executive Director)

Pat O'Sullivan (Independent Non-Executive Director)

Sharon Rothstein (Independent Non-Executive Director)

Dana Stalder (Independent Non-Executive Director)

Australian Registered Office

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Company Secretaries

Amanda Street
Nat McKaig

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

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 which 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.

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