APPENDIX 4D
2020 HALF YEAR REPORT

UNDER ASX LISTING RULE 4.2A

Company details

NAME OF ENTITY:	AFTERPAY LIMITED (FORMERLY KNOWN AS AFTERPAY TOUCH GROUP LIMITED)
ACN:	618 280 649
REPORTING PERIOD:	FOR THE HALF YEAR ENDED 31 DECEMBER 2019
PREVIOUS PERIOD:	FOR THE HALF YEAR ENDED 31 DECEMBER 2018

Results for announcement to the market

STATUTORY RESULTS SUMMARY

KEY INFORMATION		CHANGE FROM PERIOD ENDED 31 DECEMBER				
				2019		2018
		%		$M		$M
Total income [1]	▲	96%	to	220.3	from	112.3
Loss before tax	▼	66%	to	(35.8)	from	(21.5)
Loss after tax	▼	42%	to	(31.6)	from	(22.2)
Loss after tax attributable to the ordinary equity holders of Afterpay Limited (before non-controlling interests)	▼	31%	to	(28.9)	from	(22.0)

Total income increased by 96% to $220.3 million for the half year ended 31 December 2019 from $112.3 million for the half year ended 31 December 2018 (the prior comparable period). Growth in total income was driven by continued growth in the Afterpay Australia, New Zealand and US businesses and a full half year contribution from the Afterpay UK business which launched in May 2019. Afterpay business growth was achieved via an increase in the value of sales processed through the Afterpay platform (underlying sales) which was in turn driven by continued customer and merchant adoption of the Afterpay service.

Earnings before interest, tax, depreciation and amortisation (EBITDA (excluding significant items)) was $6.8 million for the half year ended 31 December 2019, relative to $13.9 million[2,3] for the prior comparable period. EBITDA (excluding significant items) in the half year ended 31 December 2019 reflected increases in employment, marketing, and other operating expenses. This investment supported the growth in total income achieved in the current period, is aligned to the Group's previously announced mid-term plan, and is targeted to support future growth in existing and new markets.

Consistent with the above investment, the Group recorded a statutory loss before tax of $35.8 million for the period and statutory loss after tax of $31.6 million, relative to $21.5 million and $22.2 million respectively in the prior comparable period.

1. Total income consists of Afterpay income, Pay Now revenue and Other income (late fees).
2. H1 FY19 EBITDA (excluding significant items) has been restated to include a favourable $2.3 million FX gain to be like-for-like with H1 FY20 EBITDA (excluding significant items) which includes an unfavourable $1.0 million FX loss.
3. H1 FY19 EBITDA (excluding significant items) has not been restated for the adoption of AASB 16 *Leases*. H1 FY20 EBITDA (excluding significant items) includes a $2.7 million benefit from the adoption of AASB 16. The Group adopted AASB 16 using the modified retrospective method and has not restated comparatives for H1 FY19 as per the specific transitional provisions.

FINANCIAL SUMMARY

KEY INFORMATION	FOR THE HALF YEAR ENDED 31 DECEMBER 2019 $'000	2018 $'000	MOVEMENT %
Total income[1]	220,275	112,342	96%
EBITDA (excl. significant items)[2,3]	**6,751**	**13,855**	**(51%)**
Share-based payments (non-cash)	(13,647)	(18,148)	(25%)
Net loss on financial liabilities at fair value (non-cash)	(912)	-	N/A
One-off items	(6,321)	(1,129)	460%
International expansion costs	(2,909)	(1,492)	95%
Net gain on sale of business	-	1,271	N/A
Business combination and other costs	(386)	(908)	(57%)
AUSTRAC-related costs	(3,026)	-	N/A
EBITDA	**(14,129)**	**(5,422)**	**161%**
Net finance cost	(7,875)	(4,931)	60%
Depreciation and amortisation	(13,788)	(11,154)	24%
Loss before tax	**(35,792)**	**(21,507)**	**66%**
Income tax benefit/(expense)	4,226	(729)	(680%)
Loss after tax	**(31,566)**	**(22,236)**	**42%**

Net tangible assets per ordinary share

	31 DECEMBER 2019	31 DECEMBER 2018
Net tangible assets per ordinary share	$2.82	$1.09

Dividends

No dividends were declared or paid for the half year ended 31 December 2019.

Basis of preparation

This report is based on the Consolidated Financial Statements of Afterpay Limited which have been reviewed by Ernst & Young. Ernst & Young's review report is included within the Group's Half Year Report which accompanies this Appendix 4D.

Other information required by Listing Rule 4.2A

Other information requiring disclosure to comply with Listing Rule 4.2A is contained in the 2020 Half Year Report (which includes the Directors' Report).

Accounting standards

This report has been compiled using Australian Accounting Standards and International Financial Reporting Standards, and has been reviewed by Ernst & Young.

1. Total income consists of Afterpay income, Pay Now revenue and Other income (late fees).
2. H1 FY19 EBITDA (excluding significant items) has been restated to include a favourable $2.3 million FX gain to be like-for-like with H1 FY20 EBITDA (excluding significant items) which includes an unfavourable $1.0 million FX loss.
3. H1 FY19 EBITDA (excluding significant items) has not been restated for the adoption of AASB 16 *Leases*. H1 FY20 EBITDA (excluding significant items) includes a $2.7 million benefit from the adoption of AASB 16. The Group adopted AASB 16 using the modified retrospective method and has not restated comparatives for H1 FY19 as per the specific transitional provisions.

afterpay

MOMENTUM

2020 HALF YEAR REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2019

AFTERPAY LIMITED
2020 HALF YEAR REPORT

This Interim Financial Report (Half Year Report) has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001 (Cth)* and does not include all the notes of the type normally included in an annual financial report. Afterpay Limited's ('the Group' or 'Afterpay') most recent annual financial report is available at https://www.afterpaytouch.com/results-reports as part of the Group's 2019 Annual Report.

The Group has also released information to the Australian Securities Exchange operated by ASX Limited ('ASX') in compliance with the continuous disclosure requirements of the ASX Listing Rules. Announcements made by the Group under such rules are available on ASX's internet site www.asx.com.au (the Group's ASX code is 'APT').

The material in this report has been prepared by Afterpay Limited ACN 618 280 649 and is current at the date of this report. It is general background information about Afterpay's activities, is given in summary form in terms of the requirements of AASB 134 *Interim Financial Reporting,* and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

The 2020 Half Year Report was authorised for issue by Afterpay's Directors on 27 February 2020. The Board of Directors has the power to amend and reissue the Half Year Report.

CONTENTS

DIRECTORS' REPORT

The Directors submit their report on the consolidated entity consisting of Afterpay Limited and the entities it controlled (Group) at the end of, or during the half year ended, 31 December 2019.

Directors

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

ELANA RUBIN	INTERIM CHAIR, INDEPENDENT NON-EXECUTIVE DIRECTOR
ANTHONY EISEN	CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR
NICK MOLNAR	GLOBAL CHIEF REVENUE OFFICER AND EXECUTIVE DIRECTOR
CLIFFORD ROSENBERG	INDEPENDENT NON-EXECUTIVE DIRECTOR
DANA STALDER	INDEPENDENT NON-EXECUTIVE DIRECTOR
GARY BRIGGS	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; and
- David Hancock, who resigned as a Director on 8 October 2019.

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.

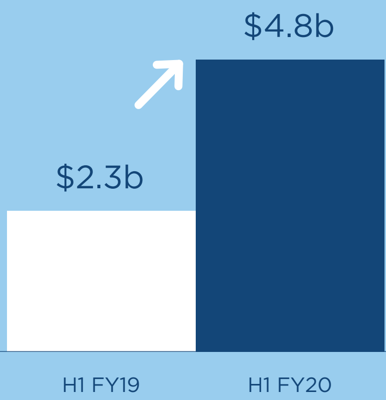
Financial Result

The Group reported a statutory loss after tax of $31.6 million for the half year ended 31 December 2019 (H1 FY19: loss after tax of $22.2 million).

2020 HALF YEAR REPORT
PERFORMANCE HIGHLIGHTS

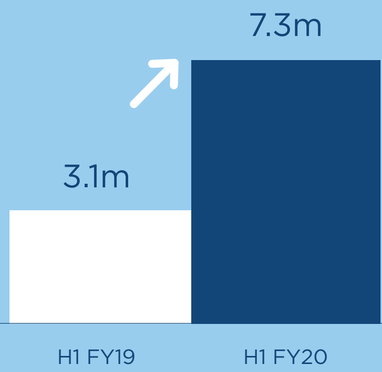
Key Operating Metrics – H1 FY20

AFTERPAY
UNDERLYING SALES[1]



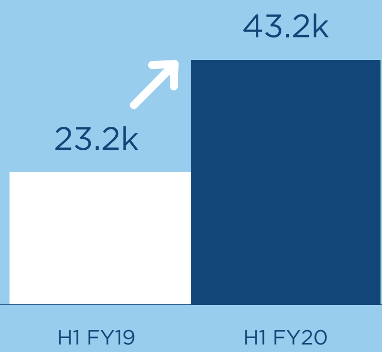
UP
109%

AFTERPAY
ACTIVE CUSTOMERS[1]



UP
134%

AFTERPAY
ACTIVE MERCHANTS[1]



UP
86%

Change calculations may not equate due to rounding.

1. Unaudited information. Active is defined as having transacted at least once in the last 12 months, as at 31 December.

2020 HALF YEAR REPORT

PERFORMANCE HIGHLIGHTS (CONTINUED)

Key Financial Metrics – H1 FY20

TOTAL INCOME – GROUP

$220.3 MILLION

↑ 96% ON PRIOR COMPARABLE PERIOD

TOTAL INCOME[1] – AFTERPAY

$212.2 MILLION

↑ 105% ON PRIOR COMPARABLE PERIOD

NET TRANSACTION MARGIN[2] – GROUP

$107.0 MILLION

↑ 108% ON PRIOR COMPARABLE PERIOD

NET TRANSACTION MARGIN – AFTERPAY

$102.0 MILLION (2.1%[3])

↑ 118% ON PRIOR COMPARABLE PERIOD

EBITDA (EXCLUDING SIGNIFICANT ITEMS) – GROUP

$6.8 MILLION

↓ 51% ON PRIOR COMPARABLE PERIOD

Change calculations may not equate due to rounding.

1. Afterpay total income includes Afterpay income and Other income (late fees), excludes Pay Now revenue.
2. 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.

OPERATING AND FINANCIAL REVIEW

Afterpay has continued to deliver growth in all regions with total income and net transaction margin doubling in H1 FY20 compared to the prior comparable period. Investment continued to be made in key business areas, including people, marketing and other operating expenses, to support the Group's mid-term growth strategy.

Group Financial Performance

Total income for the half year ended 31 December 2019 was $220.3 million, up 96% on the prior comparable period, driven by strong growth in Afterpay income (income from merchant fees). Growth in Afterpay income was driven by growth in underlying sales (the total value of sales processed through the Afterpay platform) across all regions and a broadly stable Afterpay merchant income margin (Afterpay income as a % of Afterpay underlying sales).

Cost of sales increased to $55.4 million, up 114% due to the growth in underlying sales across all regions. Employment expenses increased to $36.0 million while operating expenses increased to $80.6 million, from $20.9 million and $25.4 million respectively in the prior comparable period. The investment in employment and operating expenses related to expansion of the Afterpay global platform, delivery of new product features, marketing costs to support customer and merchant adoption, and general business growth. This investment supported the growth in total income achieved in the current period, is aligned to the Group's previously announced mid-term plan, and is targeted to support future growth in existing and new markets.

The Group delivered EBITDA (excluding significant items) of $6.8 million for the half year ended 31 December 2019 compared to $13.9 million for the prior comparable period. Statutory loss before tax was $35.8 million, while statutory loss after tax was $31.6 million for the period.

SUMMARY FINANCIAL RESULTS

	FOR THE HALF YEAR ENDED			
	31 DECEMBER 2019	31 DECEMBER 2018	CHANGE	CHANGE
A$'000 (UNLESS OTHERWISE STATED)	STATUTORY	STATUTORY	$	%
Total income	220,275	112,342	107,933	96%
Cost of sales	(55,416)	(25,931)	(29,485)	114%
Receivables impairment expense	(47,803)	(27,373)	(20,430)	75%
Employment expenses	(36,020)	(20,929)	(15,091)	72%
Operating expenses[1,2,3]	(80,606)	(25,383)	(55,223)	218%
Net transaction margin—Afterpay[4]	101,973	46,705	55,268	118%
EBITDA (excl. significant items)[2,3,5]	**6,751**	**13,855**	**(7,104)**	**(51%)**
Loss before tax	**(35,792)**	**(21,507)**	**(14,285)**	**66%**
Loss after tax	**(31,566)**	**(22,236)**	**(9,330)**	**42%**

1. Operating expenses include one-off items of $6.3 million (H1 FY19: $1.1 million) which are not included in the calculation of EBITDA (excluding significant items). One-off items relate to international expansion costs, business combination and other costs, and AUSTRAC-related costs.
2. H1 FY19 operating expenses and EBITDA (excluding significant items) have been restated to include a favourable $2.3 million FX gain to be like-for-like with H1 FY20 EBITDA (excluding significant items) which includes an unfavourable $1.0 million FX loss.
3. H1 FY19 operating expenses and H1 FY19 EBITDA (excluding significant items) have not been restated for the adoption of AASB 16 *Leases*. H1 FY20 EBITDA (excluding significant items) includes a $2.7 million benefit from the adoption of AASB 16. The Group adopted AASB 16 using the modified retrospective method and has not restated comparatives for H1 FY19 as per the specific transitional provisions.
4. Net transaction margin is a non-IFRS measure that is not audited but is a key financial metric used by management at a Group level.
5. EBITDA is a non-IFRS measure that is not audited, but is a key financial metric used by management to operate the business at a Group level. EBITDA (excluding significant items) excludes the impact of share-based payments, net loss on financial liabilities at fair value, and one-off items.

Afterpay Platform KPIs

The Afterpay business continues to be the primary growth driver and contributor to total income and net transaction margin for the Group. Underlying sales was $4.8 billion for the half year ended 31 December 2019, more than double the prior comparable period. Active customers grew to 7.3 million, up 134% on 31 December 2018, while active merchants grew to 43.2 thousand, up 86% on 31 December 2018.

AFTERPAY UNDERLYING SALES[1]

FOR THE HALF YEAR ENDED	
31 DEC 19	31 DEC 18
$4.8B	$2.3B

Afterpay Underlying Sales ↑ 109% on prior comparable period

Underlying sales growth seen across all regions, with continued growth in Australia and New Zealand in both online and In-store channels, and with accelerated growth in the US as customer and merchant adoption grew. The UK launched in May 2019 and contributed its first full half year period.

AFTERPAY CUSTOMERS[1,2]

AS AT	
31 DEC 19	31 DEC 18
7.3M	3.1M

Active Customers ↑ 134% on prior comparable period

The strong growth in customers using the Afterpay service was driven by an acceleration in US active customers to 3.6 million at 31 December 2019, compared to 0.7 million at 31 December 2018. The Australia and New Zealand businesses continued to attract more customers, increasing by 0.6 million active customers. Australia and New Zealand contribute the greatest proportion of underlying sales, despite a smaller active customer base, with greater frequency driven by longer tenure customers. The UK business acquired 0.6 million customers at the end of its first full half year period.

AFTERPAY MERCHANTS[1,2]

AS AT	
31 DEC 19	31 DEC 18
43.2k	23.2k

Active Merchants ↑ 86% on prior comparable period

Afterpay continues to onboard new merchants. The increase in active merchants comprised +13.7 thousand active merchants in Australia and New Zealand, +6.0 thousand in the US and +0.4 thousand in the UK. The US and the UK businesses continue to grow brand visibility and customer adoption by partnering with new major merchants. Afterpay's proposition as a channel to the world's best and hardest to reach customers is also resonating with a growing number of small-to-medium sized merchants joining the platform.

1. Unaudited information.
2. Active is defined as having transacted at least once in the last 12 months, as at 31 December.

Total Income by Business Service

Afterpay

In the half year ended 31 December 2019, Afterpay income increased by 111% on the prior comparable period to $179.6 million. Other income (late fees) increased to $32.6 million from $18.2 million in the prior comparable period and declined as a percentage of total Afterpay income and other income by 230 BPS.

AFTERPAY INCOME

FOR THE HALF YEAR ENDED		
31 DEC 19	31 DEC 18	Afterpay Income
$179.6M	**$85.2M**	↑ **111%**
3.8% of Afterpay Underlying Sales	**3.7%** of Afterpay Underlying Sales	on prior comparable period

There was a significant increase in Afterpay income due to sustained growth in underlying sales in Australia and New Zealand, an acceleration of growth in the US region, and a first full half year contribution from the UK.

Afterpay income at 3.8% of underlying sales was broadly in line with the prior comparable period, notwithstanding higher In-store contribution in Australia and New Zealand, and a growing contribution from the UK; both of which have a higher proportion of enterprise merchants in their early growth phase.

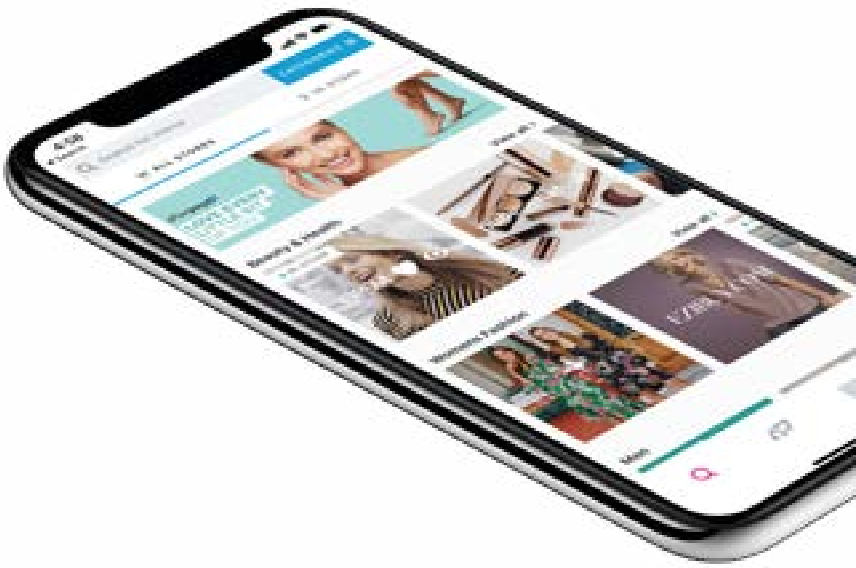
OTHER INCOME (LATE FEES)

FOR THE HALF YEAR ENDED		
31 DEC 19	31 DEC 18	Late Fees as % of Total Afterpay Income and Other Income
$32.6M	**$18.2M**	↓ **230 BPS**
15.3% of Total Afterpay Income and Other Income	**17.6%** of Total Afterpay Income and Other Income	on prior comparable period

Other income increased in dollar value primarily due to the growth in underlying sales for the Group in all regions. Other income as a % of total Afterpay income and other income for the period declined in the period consistent with the Group's deliberate approach to managing late fees downwards and inbuilt customer protections in the Afterpay service.

Pay Now

Pay Now revenue declined by 9% from $8.9m to $8.1m for the half year ended 31 December 2019 compared to the half year ended 31 December 2018. The decline in Pay Now revenue was partly related to the sale of the e-Services EU business line in October 2018.



Expenses

Cost of Sales and Receivables Impairment Expense grew with Afterpay underlying sales. Investment in employment, marketing and other operating expenses supported the growth in total income achieved in the current period, is aligned to the Group's previously announced mid-term plan, and is targeted to support future growth in existing and new markets.

COST OF SALES

FOR THE HALF YEAR ENDED		
31 DEC 19	31 DEC 18	Cost of Sales as % of Afterpay Underlying Sales
$55.4M	**$25.9M**	↑ **10 BPS** on prior comparable period
1.2% of Afterpay Underlying Sales	**1.1%** of Afterpay Underlying Sales	

The growth in cost of sales was largely due to growth in Afterpay underlying sales. Cost of sales as a percentage of Afterpay underlying sales was 1.2%, relative to 1.1% in H1 FY19. The slight increase is due primarily to a greater contribution from processing costs in the US, which are higher than in Australia. Cost of sales includes $3.1 million (H1 FY19: $4.1 million) related to Pay Now.

RECEIVABLES IMPAIRMENT EXPENSE (GROSS LOSS)

FOR THE HALF YEAR ENDED		
31 DEC 19	31 DEC 18	Gross Loss as % of Afterpay Underlying Sales
$47.8M	**$27.4M**	↓ **20 BPS** on prior comparable period
1.0% of Afterpay Underlying Sales	**1.2%** of Afterpay Underlying Sales	

Receivables impairment expense (gross loss) declined to 1.0% of Afterpay underlying sales, from 1.2% in the prior comparable period, despite higher contribution of new markets with higher losses (due to early life-cycle). The Group continues to become more sophisticated in managing customer repayment risks through machine learning models and other strategies.

EMPLOYMENT EXPENSES

FOR THE HALF YEAR ENDED		
31 DEC 19	31 DEC 18	Employment Expenses as % of Afterpay Underlying Sales
$36.0M	**$20.9M**	↓ **10 BPS** on prior comparable period
0.8% of Afterpay Underlying Sales	**0.9%** of Afterpay Underlying Sales	

Employment expenses were largely stable as a percentage of Afterpay underlying sales and grew in dollar terms due to investments in people in all regions, including the UK which launched in May 2019. Globally, headcount has grown in sales, marketing, technology and product to support the expansion of the Afterpay global platform and deliver new product features. Headcount was also increased in risk, compliance and various corporate functions to support overall business growth.

OPERATING EXPENSES: MARKETING

FOR THE HALF YEAR ENDED		Marketing Expense as % of Afterpay Underlying Sales
31 DEC 19	31 DEC 18	
$32.0M	**$6.7M**	↑ **40 BPS**
0.7% of Afterpay Underlying Sales	**0.3%** of Afterpay Underlying Sales	on prior comparable period

The increase in marketing expense has supported increased merchant and customer adoption for Afterpay which is a driver for growth in underlying sales and total income. Specifically, marketing investment has been focused on supporting an accelerating pipeline of new merchants, particularly in the US and the UK, as well as direct marketing investment to support Afterpay growth objectives and activity in all regions.

OPERATING EXPENSES: OTHER

FOR THE HALF YEAR ENDED		Other Operating Expenses as % of Afterpay Underlying Sales
31 DEC 19	31 DEC 18	
$48.6M	**$18.7M**	↑ **20 BPS**
1.0% of Afterpay Underlying Sales	**0.8%** of Afterpay Underlying Sales	on prior comparable period

Other operating expenses increased due to growth in technology costs to support the expansion of the Afterpay global platform and capabilities, in customer service costs to support growth in Afterpay underlying sales, and in legal, compliance and general costs to support business growth.

$3.3 million of the increase in other operating expenses was driven by movements in FX gains/losses on foreign denominated balances. Other operating expenses in H1 FY20 also included one-off costs of $6.3 million (H1 FY19: $1.1 million) relating to international expansion ($2.9 million), business combination and other ($0.4 million), and AUSTRAC-related costs ($3.0 million).

Net Transaction Margin and EBITDA

Net transaction margin has grown in line with underlying sales but was offset by an increase in employment and operating costs, which resulted in EBITDA (excluding significant items) of $6.8 million in the six months ended 31 December 2019, compared to $13.9 million in the prior comparable period.

NET TRANSACTION MARGIN—AFTERPAY (NTM)

FOR THE HALF YEAR ENDED		NTM as % of Afterpay Underlying Sales
31 DEC 19	31 DEC 18	
$102.0M	**$46.7M**	**FLAT**
2.1% of Afterpay Underlying Sales	**2.1%** of Afterpay Underlying Sales	on prior comparable period

Afterpay net transaction margin more than doubled in the half year to 31 December 2019, reaching $102.0 million. Net transaction margin remained stable at 2.1% of Afterpay underlying sales, notwithstanding growth in new markets, which typically have higher early-stage losses.

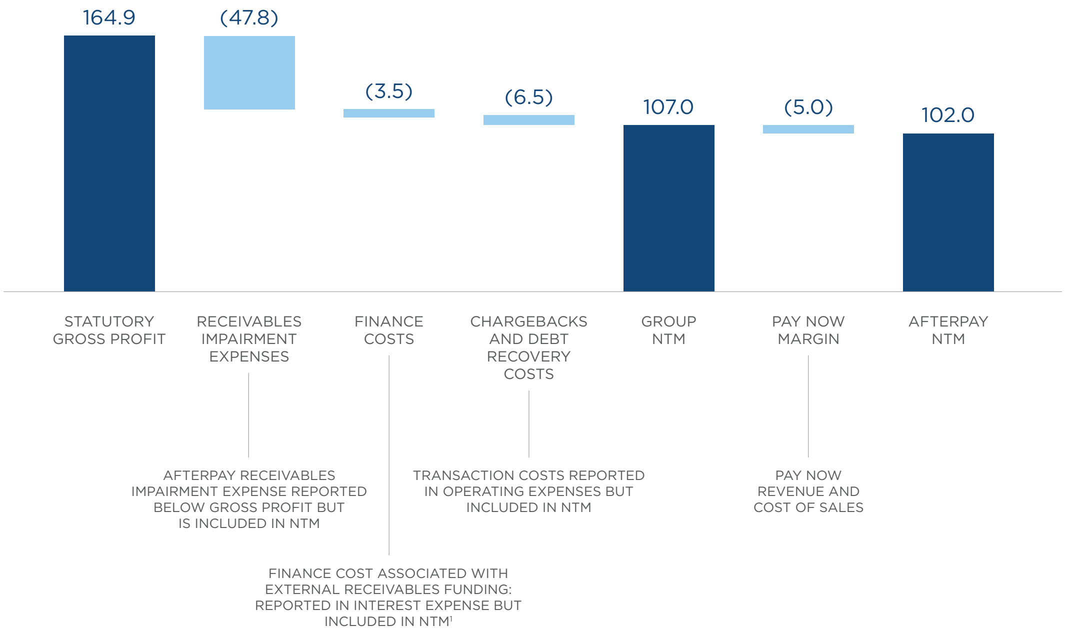
EBITDA (EXCL. SIGNIFICANT ITEMS)

FOR THE HALF YEAR ENDED		EBITDA (excl. significant items)
31 DEC 19	31 DEC 18	
$6.8M	**$13.9M**	↓ **51%** on prior comparable period

EBITDA was $6.8 million in the six months to 31 December 2019, compared to $13.9 million in the prior comparable period due to increases in employment, marketing, and other operating expenses as described earlier.

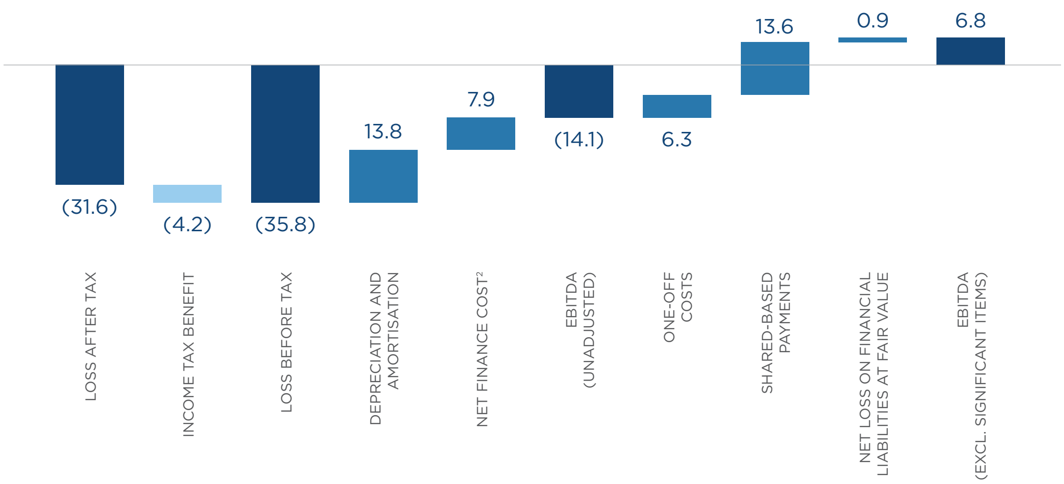
A reconciliation of statutory gross profit as presented in the Consolidated Statement of Comprehensive Income to Afterpay net transaction margin is set out in Figure 1. Afterpay net transaction margin is a non-IFRS measure that is not audited, but is a key financial metric used by management to operate the business at a Group level.

FIGURE 1: RECONCILIATION FROM GROSS PROFIT FOR THE PERIOD TO AFTERPAY NET TRANSACTION MARGIN. HALF YEAR ENDED 31 DECEMBER 2019. (IN MILLIONS)



A reconciliation of loss after tax as presented in the Consolidated Statement of Comprehensive Income to EBITDA (excluding significant items) is set out in Figure 2. EBITDA is a non-IFRS measure that is not audited, but is a key financial metric used by management to operate the business at a Group level.

FIGURE 2: RECONCILIATION FROM LOSS AFTER TAX FOR THE PERIOD TO EBITDA (EXCLUDING SIGNIFICANT ITEMS). HALF YEAR ENDED 31 DECEMBER 2019. (IN MILLIONS)



1. Excludes amortisation of capitalised borrowing costs, corporate bond interest, leases and interest income. Methodology consistent with prior periods.
2. Net Finance Cost comprises Finance Income less Finance Cost as reported in the Consolidated Statement of Comprehensive Income. A component of Net Finance Cost is Finance Cost associated specifically with external receivables funding, which is included within net transaction margin. The balance of Net Finance Cost relates to amortisation of capitalised borrowing costs, corporate bond interest, leases and interest income.

Financial Position

The Group's net asset position increased to $840.6 million as at 31 December 2019, up from $648.5 million at 30 June 2019. Total assets were $1,364.0 million, an increase of $543.5 million from 30 June 2019, primarily due to growth in total cash[1] of $192.1 million and receivables of $308.3 million. The increase in receivables is due to the continued growth in Afterpay underlying sales. Total liabilities as at 31 December 2019 were $523.4 million, an increase of $351.4 million from 30 June 2019 due primarily to the increase in debt funding.

Net Cash/Debt

Total debt increased to $416.9 million at 31 December 2019 from $50.2 million at 30 June 2019 as the Group drew down upon its warehouse receivables facilities to fund underlying sales growth.

The Group had a net cash position[2] of $8.7 million at 31 December 2019, compared to a net cash position of $183.3 million at 30 June 2019. Net cash reduced primarily due to growth in receivables, timing of merchant settlement payments[3], and an increase in other operating and investing cash flows to drive growth and scale the business aligned to the Group's previously announced mid-term plan. The reduction was partially offset by the $200 million equity capital raising from Coatue Management completed during the period.

Capital Management

The Group's capital management framework is designed to ensure it can meet its funding requirements to support current and future growth. The Group's funding is diversified by both source and maturity.

During the half year ended 31 December 2019 and through to the date of this report, Afterpay:

- raised $200 million in equity capital from Coatue Management;
- extended the $200 million Australian receivables warehouse facility with Citi to December 2022;
- raised a NZ$20 million NZ receivables warehouse facility with Bank of New Zealand to mature 18 March 2021, and concurrently terminated its existing NZ$20 million NZ cash advance facility with ASB Bank;
- raised a new US$200 million US receivables warehouse facility with Goldman Sachs to mature 23 December 2021, and concurrently reduced its existing US receivables warehouse facility with Citi by US$100 million to US$200 million;
- extended the $300 million Australian receivables warehouse facility with National Australia Bank from 30 November 2020 to 1 December 2022.

1. Including Cash and Cash Equivalents and Restricted Cash. Restricted Cash is reported within Other Financial Assets in the Consolidated Statement of Financial Position (refer Note 8).
2. Net cash/debt is defined as cash and cash equivalents and restricted cash less total interest-bearing loans and borrowings as reported in the Consolidated Statement of Financial Position and Notes 7 and 8 of the Notes to the Financial Statements.
3. Operating Cash Flow was impacted by two additional days of merchant payments falling into H1 FY20 from sales recorded in FY19, as 30 June 2019 was a Sunday.

The weighted average maturity of the Group's debt funding sources as at the date of this report was 2.1 years.

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

FACILITY	REGION	FACILITY SIZE	DRAWN	MATURITY
Receivables Warehouse Funding Facility	Australia	A$200.0m	A$38.6m	Dec-22
Receivables Warehouse Funding Facility	Australia	A$300.0m	A$124.1m	Dec-22
Receivables Warehouse Funding Facility	NZ	NZ$20.0m	-	Mar-21
Receivables Warehouse Funding Facility	US	US$200.0m	US$140.0m	May-21
Receivables Warehouse Funding Facility	US	US$200.0m	-	Dec-21
Corporate Bond	–	A$50.0m	A$50.0m	Apr-22

The Group also has $402.5 million of cash and cash equivalents and restricted cash holdings of $23.1 million (reported within Other Financial Assets) as at 31 December 2019.

The combination of the Group's debt and cash funding sources means that Afterpay has liquidity[1] of $672.1 million and growth funding capacity[2] of $458.0 million.

1. Total liquidity reflects the existing cash balance plus the undrawn warehouse capacity under the receivables warehouse facilities.
2. Growth capacity reflects the difference between the facility limit and the undrawn warehouse capacity of each facility. The nature of Afterpay's warehouse facilities is that funds become available in line with the growth in receivables.

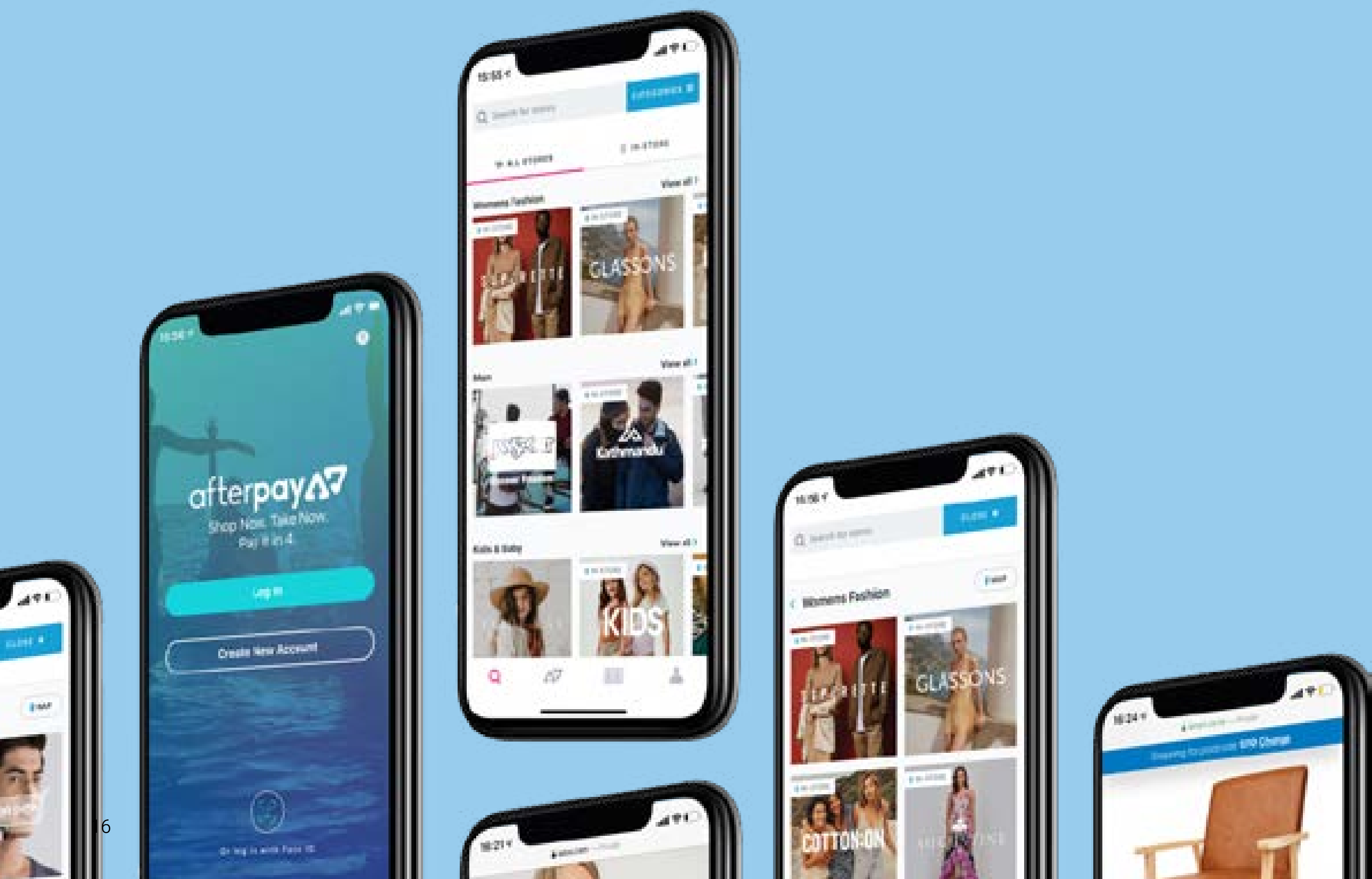
OUR BUSINESS AND STRATEGY

Our mission at Afterpay is to be the 'world's most loved way to pay'. We put trust in our customers and encourage good behaviour and they love us in return. We are unlocking a generational movement away from traditional credit products by focusing on customers who want to spend their own money. We provide retailers with a channel to the world's best and hardest to reach customers and work with a mind-set that prioritises millennials and technology.

Our business model is purposefully different to traditional credit and other buy now pay later providers. The majority of our income is earned from merchants and we do not charge interest or hidden fees to customers. We provide incremental value to our merchants via our global platform while delivering shared value to retailers and customers alike.

We currently operate in Australia, New Zealand, the United States and the United Kingdom. The addressable market for sales across our existing markets represents over $6 trillion. This opportunity underpins our mid-term strategy and supports our accelerated investment to expand our business globally.

Our strategy is founded on four strategic pillars: grow, innovate, perform and do the right thing. Our mid-term objectives are to accelerate growth in our underlying sales, invest in building key retailer relationships and scale our cohort of small-to-medium business retailers. We are focused on broadening our international capability and investing further in platform innovation.



Significant Changes in the State of Affairs

It is the opinion of the Directors that 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 Period

The Directors are not aware of any matters or circumstances that have arisen since 31 December 2019 that have significantly affected or may significantly affect the operations of the consolidated entity in subsequent financial years, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Dividends

No dividends were declared or paid to shareholders during the period.

Indemnification of Auditors

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

Proceedings on Behalf of the Group

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

Auditor Independence

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

Rounding Off of Amounts

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

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

Elana Rubin
Independent Interim Chair
Melbourne

27 February 2020

AUDITOR'S DECLARATION

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Building a better working world

Auditor's Independence Declaration to the Directors of Afterpay Limited

As lead auditor for the review of the half year financial report of Afterpay Limited for the half year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

David McGregor
Partner
27 February 2020

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		FOR THE HALF YEAR ENDED	
		31 DECEMBER 2019	31 DECEMBER 2018
	NOTE	$'000	$'000
Afterpay income		179,618	85,165
Pay Now revenue		8,090	8,931
Other income		32,567	18,246
Total income		**220,275**	**112,342**
Cost of sales		(55,416)	(25,931)
Gross profit		**164,859**	**86,411**
Depreciation and amortisation expenses	3	(13,788)	(11,154)
Employment expenses	3	(36,020)	(20,929)
Share-based payment expenses		(13,647)	(18,148)
Receivables impairment expenses	6	(47,803)	(27,373)
Net loss on financial liabilities at fair value	8	(912)	-
Operating expenses	3	(80,606)	(25,383)
Operating loss		**(27,917)**	**(16,576)**
Finance income		713	180
Finance cost		(8,588)	(5,111)
Loss before tax		**(35,792)**	**(21,507)**
Income tax benefit/(expense)	4	4,226	(729)
Loss for the period		**(31,566)**	**(22,236)**
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		493	(407)
Total comprehensive loss for the period, net of tax		**(31,073)**	**(22,643)**
Loss attributable to			
Owners of Afterpay Limited		*(28,906)*	*(22,024)*
Non-controlling interest		*(2,660)*	*(212)*
		(31,566)	**(22,236)**
Earnings per share for loss attributable to the ordinary equity holders of Afterpay Limited	5	$	$
Basic loss per share		*(0.11)*	*(0.10)*
Diluted loss per share		*(0.11)*	*(0.10)*

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	31 DECEMBER 2019 $'000	30 JUNE 2019 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		402,492	231,456
Other financial assets	8	25,990	3,003
Receivables	6	761,014	452,699
Other current assets		15,335	9,130
Total Current Assets		**1,204,831**	**696,288**
Non-current Assets			
Property, plant and equipment		4,790	4,213
Rights-of-use assets	14	8,649	-
Intangible assets		97,999	89,072
Deferred tax asset		43,837	27,280
Other non-current financial assets	8	3,732	3,035
Other non-current assets		125	580
Total Non-current Assets		**159,132**	**124,180**
TOTAL ASSETS		**1,363,963**	**820,468**
LIABILITIES			
Current Liabilities			
Trade and other payables		93,826	109,981
Employee benefit provision		2,800	2,585
Contract liability		36	100
Interest bearing loans and borrowings	7	5,686	597
Financial liability	8	1,108	1,772
Income tax payable		5,781	5,370
Total Current Liabilities		**109,237**	**120,405**
Non-current Liabilities			
Employee benefit provision		688	317
Other provisions		249	565
Financial liability	8	1,951	1,039
Interest bearing loans and borrowings	7	411,247	49,626
Total Non-current Liabilities		**414,135**	**51,547**
TOTAL LIABILITIES		**523,372**	**171,952**
NET ASSETS		**840,591**	**648,516**
EQUITY			
Issued capital		878,862	674,769
Accumulated losses		(99,481)	(70,575)
Reserves		58,987	41,365
Equity attributable to the owners of Afterpay Limited		**838,368**	**645,559**
Non-controlling interest		2,223	2,957
TOTAL EQUITY		**840,591**	**648,516**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2019	ISSUED CAPITAL $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	ACCUMULATED LOSSES $'000	RESERVES $'000	**TOTAL $'000**	NON-CONTROLLING INTEREST $'000	**TOTAL $'000**
At 1 JULY 2019	**674,769**	**(821)**	**(70,575)**	**42,186**	**645,559**	**2,957**	**648,516**
Loss for the period	-	-	(28,906)	-	**(28,906)**	(2,660)	**(31,566)**
Other comprehensive loss	-	493	-	-	**493**	-	**493**
Total comprehensive loss for the period	**-**	**493**	**(28,906)**	**-**	**(28,413)**	**(2,660)**	**(31,073)**
Transactions							
Issue of share capital	200,000	-	-	-	**200,000**	-	**200,000**
Share issue expenses (net of tax)	(1,843)	-	-	-	**(1,843)**	-	**(1,843)**
Share options exercised (net of tax)	5,936	-	-	4,454	**10,390**	954	**11,344**
Share-based payment reserve	-	-	-	12,675	**12,675**	972	**13,647**
At 31 DECEMBER 2019	**878,862**	**(328)**	**(99,481)**	**59,315**	**838,368**	**2,223**	**840,591**

FOR THE HALF YEAR ENDED 31 DECEMBER 2018	ISSUED CAPITAL $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	ACCUMULATED LOSSES $'000	RESERVES $'000	**TOTAL $'000**	NON-CONTROLLING INTEREST $'000	**TOTAL $'000**
At 1 JULY 2018	**192,628**	**(45)**	**(22,195)**	**13,167**	**183,555**	**-**	**183,555**
Change on initial application of AASB 9	-	-	(5,519)	-	**(5,519)**	-	**(5,519)**
Restated balance as at 1 July 2018	**192,628**	**(45)**	**(27,714)**	**13,167**	**178,036**	**-**	**178,036**
Loss for the period	-	-	(22,024)	-	**(22,024)**	(212)	**(22,236)**
Other comprehensive income	-	(407)	-	-	**(407)**	-	**(407)**
Total comprehensive loss for the period	**-**	**(407)**	**(22,024)**	**-**	**(22,431)**	**(212)**	**(22,643)**
Transactions							
Issue of share capital	142,028	-	-	-	**142,028**	-	**142,028**
Share issue expenses	(4,594)	-	-	-	**(4,594)**	-	**(4,594)**
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	8,499	-	-	(2,017)	**6,482**	-	**6,482**
Share-based payment reserve	-	-	-	22,060	**22,060**	693	**22,753**
At 31 DECEMBER 2018	**356,387**	**(452)**	**(49,738)**	**32,171**	**338,368**	**2,462**	**340,830**

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

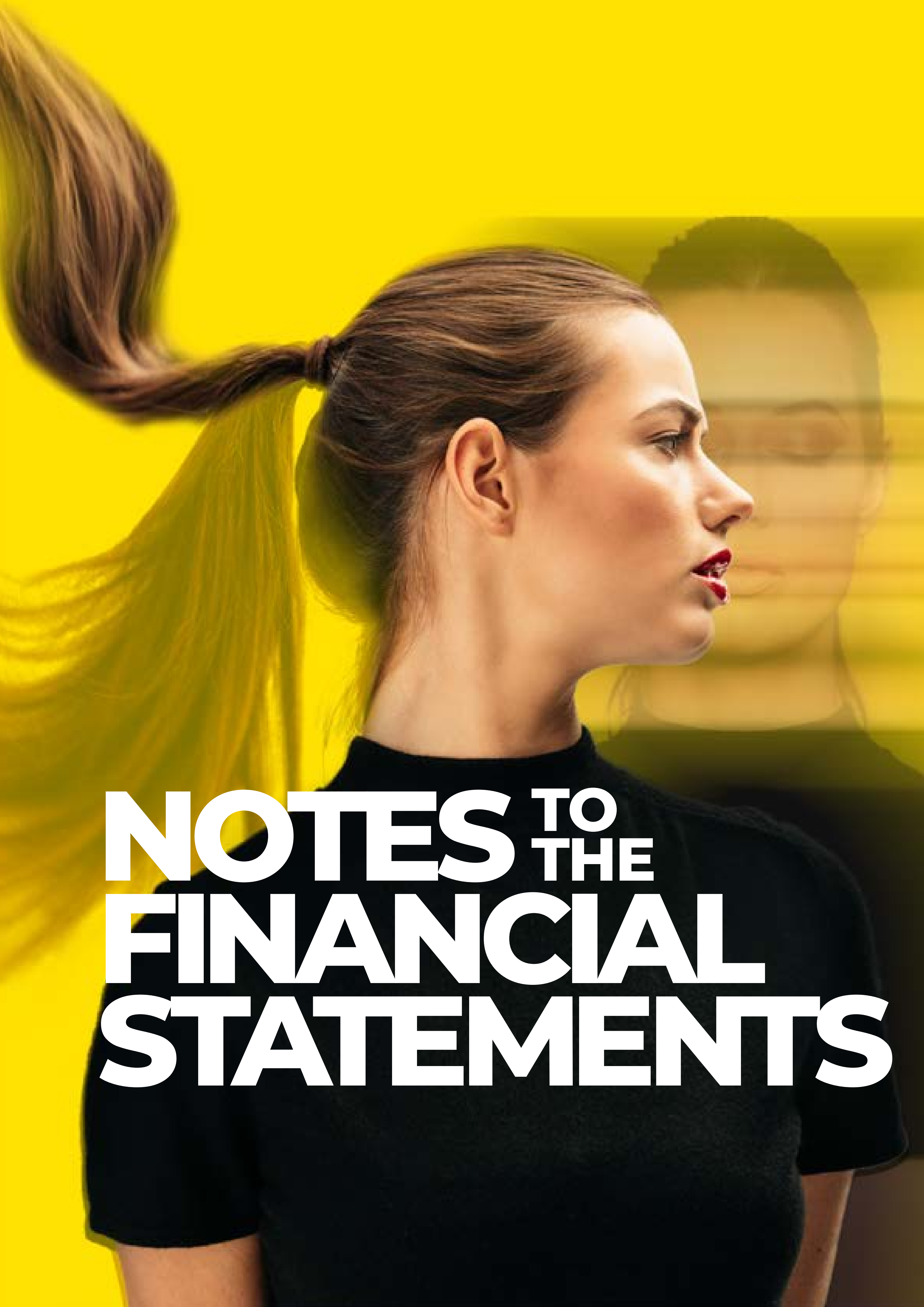
CONSOLIDATED STATEMENT OF CASH FLOWS

	FOR THE HALF YEAR ENDED	
	31 DECEMBER 2019	31 DECEMBER 2018[1]
	$'000	$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	4,117,506	2,037,040
Payments to employees	(40,021)	(17,951)
Payments to merchants and suppliers (inclusive of GST)	(4,415,311)	(2,175,646)
Income tax paid	(4,260)	(3,389)
Net cash (outflow) from operating activities	**(342,086)**	**(159,946)**
Cash flows from investing activities		
Interest received	748	311
Payments for recognised intangibles	(18,368)	(9,285)
Purchase of intangibles	(161)	(555)
Purchase of plant and equipment	(808)	(817)
Proceeds from sale of business	-	4,016
Net cash (outflow) from investing activities	**(18,589)**	**(6,330)**
Cash flows from financing activities		
Proceeds from borrowings	704,652	236,072
Repayment of borrowings	(342,097)	(192,576)
Proceeds for exercise of share options	4,385	5,479
Proceeds from issue of shares, net	200,000	142,028
Capital raising expenses	(4,575)	(4,665)
Payment of lease liabilities	(2,372)	-
Increase in other financial assets	(22,644)	-
Interest and bank fees paid	(7,575)	(5,712)
Net cash inflow from financing activities	**529,774**	**180,626**
Net increase in cash and cash equivalents	**169,099**	**14,350**
Effects of exchange rate changes on cash and cash equivalents	1,937	399
Cash and cash equivalents at beginning of the period	231,456	32,559
Cash and cash equivalents at end of the period	**402,492**	**47,308**

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

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

NOTES TO THE FINANCIAL STATEMENTS



NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Afterpay Limited (formerly known as Afterpay Touch Group Limited) is a for-profit company incorporated and domiciled in Australia and limited by shares publicly traded on the Australian Securities Exchange (ASX). Afterpay Limited's ASX code is 'APT'. The financial report covers the half year consolidated financial statements as at and for the half year ended 31 December 2019 of Afterpay Limited and its subsidiaries (together referred to as the Group). The financial report was authorised for issue by the Directors on 27 February 2020.

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 (CODM). The CODM, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer and Managing Director, Global Chief Revenue Officer and Executive Director and Global Chief Financial Officer. The business operates under the following segments:

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

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

The Group is in the early stages of expanding the Afterpay platform into markets outside of Australia. The Group is reviewing its global operating model, financial reporting systems and relevant financial measures reviewed by the CODM for decision making purposes in light of its expansion. The Group's reportable operating segments may change in the future in line with this expansion and review.

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

HALF YEAR ENDED 31 DECEMBER 2019	AFTERPAY AU $'000	AFTERPAY US $'000	AFTERPAY OTHER $'000	PAY NOW $'000	CORPORATE $'000	TOTAL SEGMENTS $'000
Total segment income[1]	**135,192**	**56,592**	**20,401**	**8,090**	**-**	**220,275**
Segment results						
Segment EBITDA (excl. significant items)[2]	**63,648**	**(30,661)**	**(7,730)**	**2,736**	**(21,242)**	**6,751**
Share-based payments						(13,647)
Net loss on financial liabilities at fair value						(912)
One-off items						(6,321)
EBITDA						**(14,129)**
Depreciation and amortisation						(13,788)
EBIT						**(27,917)**
Net finance cost						(7,875)
Loss before tax						**(35,792)**
Income tax benefit						4,226
Loss for the period						**(31,566)**

HALF YEAR ENDED 31 DECEMBER 2018[3]	AFTERPAY AU $'000	AFTERPAY US $'000	AFTERPAY OTHER $'000	PAY NOW $'000	CORPORATE $'000	TOTAL SEGMENTS $'000
Total segment income[1]	**89,842**	**9,576**	**3,993**	**8,931**	**-**	**112,342**
Segment results						
Segment EBITDA (excl. significant items)[2]	**37,589**	**(14,161)**	**28**	**2,624**	**(12,225)**	**13,855**
Share-based payments						(18,148)
Net loss on financial liabilities at fair value						-
One-off items						(1,129)
EBITDA						**(5,422)**
Depreciation and amortisation						(11,154)
EBIT						**(16,576)**
Net finance cost						(4,931)
Loss before tax						**(21,507)**
Income tax expense						(729)
Loss for the period						**(22,236)**

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 payments, net loss on financial liabilities at fair value, and one-off items.
3. The prior year comparative has been restated to be comparable with the current year segment information. 31 December 2018 Segment EBITDA (excluding significant items) has been restated to include a favourable $2.3 million FX gain to be like-for-like with the half year ended 31 December 2019 EBITDA (excluding significant items) which includes an unfavourable $1.0 million FX loss.

3. EXPENSES

	FOR THE HALF YEAR ENDED	
	31 DECEMBER 2019	31 DECEMBER 2018
	$'000	$'000
Depreciation and amortisation expenses		
Depreciation	(1,070)	(874)
Amortisation	(12,718)	(10,280)
Total depreciation and amortisation expenses	**(13,788)**	**(11,154)**
Employment expenses		
Wages and salaries	(30,690)	(16,821)
Other employee on-costs	(5,330)	(4,108)
Total employment expenses	**(36,020)**	**(20,929)**
Operating expenses		
Debt recovery costs, including chargebacks	(6,548)	(4,474)
Consulting and contractor costs	(17,220)	(8,355)
Marketing expense	(31,973)	(6,686)
Communication and technology	(7,883)	(3,166)
Lease expense[1]	(361)	(1,594)
Foreign currency (losses)/gains	(958)	2,330
Net gain on sale of business	-	1,271
AUSTRAC-related costs	(3,026)	-
General and administrative expenses	(12,637)	(4,709)
Total operating expenses	**(80,606)**	**(25,383)**

1. The prior year comparitive relates to operating lease expenses accounted for under AASB 117 *Leases*. The current period represents short-term leases and low value assets. Refer to Note 14 for further information on the impact of AASB 16 *Leases*.

4. INCOME TAX

Income tax benefit/(expense)

	FOR THE HALF YEAR ENDED	
	31 DECEMBER 2019	31 DECEMBER 2018
	$'000	$'000
The major components of income tax expense:		
Current income tax charge		
Current income tax expense	(12,210)	(9,430)
Deferred income tax		
Relating to origination / reversal of temporary differences	16,436	8,701
Income tax benefit/(expense)	**4,226**	**(729)**

Statement of changes in equity

	FOR THE HALF YEAR ENDED	
	31 DECEMBER 2019	31 DECEMBER 2018
	$'000	$'000
Current income tax related to items credited directly to equity, share-based payments	(6,887)	-
Deferred income tax related to items credited directly to equity, opening retained earnings	-	(2,328)
Deferred income tax related to items credited directly to equity, capital raising costs	(709)	-
Total current and deferred income tax related to items credited directly to equity	**(7,596)**	**(2,328)**

5. EARNINGS PER SHARE (EPS)

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

	FOR THE HALF YEAR ENDED	
	31 DECEMBER 2019	31 DECEMBER 2018
	$'000	$'000
Loss attributable to owners of Afterpay Limited for basic earnings	**(28,906)**	**(22,024)**
	No. ('000)	No. ('000)
Weighted average number of ordinary shares for basic EPS	**253,307**	**225,475**
Adjustment for calculation of diluted EPS[1]	11,806	11,947
Weighted average number of ordinary shares adjusted for the effect of dilution	**265,113**	**237,422**

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 10% of ClearPay Finance Limited (Clearpay Put and Call Option) (all of which were on issue as at 31 December 2019) or the proposed equity incentive plan for UK employees (UK ESOP).

The potential number of APT shares that could be issued under these arrangements were excluded from the 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 which are outlined below.

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 between 5 and 7 years from the date of issue of the notes 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 of control of APT.

The number of APT shares which may be issued on conversion is determined by a conversion mechanism 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 APT shares that can 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 9% 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 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.

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 above, or based on an independent valuation in the case of exchange occurring at the discretion of the APT Board, as applicable). Refer to Note 10 for further detail regarding the exchange mechanism.

The maximum number of APT shares that can be issued under the US ESOP in exchange for exercised shares in Afterpay US, Inc. 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 9% 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.

The US ESOP is outlined in detail in Note 10.

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 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 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 and 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 has previously confirmed that it is in the process of establishing an equity incentive plan for UK employees comprising options over equity in 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% of 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.

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 specific 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. Refer to Note 10 for further detail regarding the exchange mechanism.

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. 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.

The proposed UK ESOP is outlined in detail in Note 10.

6. RECEIVABLES

	31 DECEMBER 2019 $'000	30 JUNE 2019 $'000
Trade receivables - Pay Now	**6,686**	**7,983**
Consumer receivables		
Consumer receivables - face value	816,043	482,123
Consumer receivables - recognised over time[1]	(15,881)	(9,647)
Net consumer receivables before provision for doubtful debts	**800,162**	**472,476**
Less provision for doubtful debts		
Opening balance	(27,760)	(18,054)
Provided in the year	(47,803)	(58,675)
Debts written off/collected	29,729	48,969
Total provision for doubtful debts	**(45,834)**	**(27,760)**
Net consumer receivables balance	754,328	444,716
Total receivables	**761,014**	**452,699**

1. Recognised over time represents the consumer transactions completed by period end but earned over the collection period of the consumer receivables.

7. INTEREST BEARING LOANS AND BORROWINGS

	31 DECEMBER 2019 $'000	30 JUNE 2019 $'000
Secured interest bearing borrowings	357,651	-
Senior unsecured notes	49,817	49,737
Convertible notes	148	144
Total interest bearing borrowings	**407,616**	**49,881**
Lease liability	9,317	342
Total interest bearing loans and borrowings	**416,933**	**50,223**

Secured interest bearing borrowings

(i) The Group's Australian receivables warehouse funding facility totaling $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 31 December 2019, the carrying value of Afterpay AU consumer receivables is $502.4 million and the facility has $162.7 million drawn. For the period ended 31 December 2019, drawings under this facility incurred a weighted average interest rate of 2.5% p.a. (2019: 3.6%). The NAB facility matures in December 2022 and the Citi facility was extended to December 2022, subsequent to 31 December 2019.

(ii) The Group's US receivables warehouse funding facility with Citi was reduced from US$300.0 million to US$200.0 million ($285.5 million) in December 2019 upon Afterpay US, Inc. entering into a US receivables warehouse facility with Goldman Sachs (refer item (iii) below). The facility is secured against Afterpay US receivables, which are transferred into the facility. As at 31 December 2019, the carrying value of Afterpay US consumer receivables is US$169.3 million ($241.7 million) and the Citi facility has US$140.0 million ($199.8 million) drawn. For the period ended 31 December 2019, drawings under this facility incurred a weighted average interest rate of 3.7% p.a. (2019: nil). The facility matures in May 2021.

(iii) On 23 December 2019, Afterpay US, Inc. signed a US$200.0 million ($285.5 million) receivables warehouse funding facility with Goldman Sachs. As at 31 December 2019, the facility is undrawn. The facility is secured against Afterpay US receivables, which are transferred into the facility. The facility matures in December 2021.

(iv) The Group also holds a NZ$20.0 million ($19.2 million) receivables warehouse facility with Bank of New Zealand (BNZ) to assist with funding the Group's New Zealand operations. The facility is secured against Afterpay NZ receivables, which are transferred into the facility. As at 31 December 2019, the carrying value of Afterpay NZ consumer receivables is NZ$31.5 million ($30.2 million), and the facility is undrawn. The facility matures in March 2021.

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 to mature in April 2022. Interest is payable semi-annually.

Convertible notes

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

8. FINANCIAL ASSETS AND LIABILITIES

	31 DECEMBER 2019 $'000	30 JUNE 2019 $'000
Other financial assets		
Restricted cash	23,130	2,030
Short- term deposits	6,592	4,008
Total other financial assets	**29,722**	**6,038**
Financial liabilities		
Liability to US ESOP option participants	1,108	1,772
Put option on remaining Clearpay shares	1,951	1,039
Total financial liabilities	**3,059**	**2,811**

Other financial assets

Other financial assets include restricted cash and short-term deposits of $29.7 million (June 2019: $6.0 million). Restricted cash are cash assets held with AA-/BBB+ banks as collateral for daily cash settlements with merchants and payments to funding providers. Short-term deposits are cash assets held with AA-/BBB+ banks as collateral for bank guarantees and as part of the Group's normal business operations.

Financial liabilities

The liability to US ESOP option participants represents early exercised and unvested options under the US ESOP as detailed in Note 10.

The put option on remaining Clearpay shares represents ThinkSmart's put option to sell the remaining 6.5% of issued shares it holds in Clearpay (10% less 3.5% to be allocated to Clearpay employees under the proposed UK ESOP following its implementation) as disclosed in Note 5. The fair value of the put option was reassessed as at 31 December 2019 and an adjustment of $0.9 million (2019: nil) was made to the put option financial liability.

Fair value hierarchy

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 measurements as a whole:

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

There were no changes in the Group's valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the period. There were no transfers into or out of Level 3 fair value measurements during the six months ended 31 December 2019.

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

	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Period ended 31 December 2019				
Financial liability	-	-	1,951	1,951
Total financial liability	**-**	**-**	**1,951**	**1,951**
Period ended 30 June 2019				
Financial liability	-	-	1,039	1,039
Total financial liability	**-**	**-**	**1,039**	**1,039**

9. CONTROLLED ENTITIES

Ultimate controlling entity

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

Subsidiaries

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

NAME	COUNTRY OF INCORPORATION	% EQUITY INTEREST 31 DECEMBER 2019
Afterpay Australia Pty Ltd (formerly known as Afterpay Pty Ltd)	Australia	100%
Afterpay China Holdings Pty Ltd[1]	Australia	100%
Afterpay Holdings Pty Ltd	Australia	100%
Afterpay Warehouse Trust	Australia	100%
Afterpay Touch Group Employee Share Plan Trust	Australia	100%
Afterpay Touch Group No.2 Pty Ltd	Australia	100%
Afterpay US, Inc.	United States	97%
Afterpay Receivables Warehouse-C LLC[2]	United States	100%
Afterpay Receivables Warehouse-GS LLC[1,2]	United States	100%
Afterpay US Services, LLC[2]	United States	100%
Afterpay NZ Limited	New Zealand	100%
Afterpay NZ Warehouse Trust[1]	New Zealand	100%
ClearPay Finance Limited	United Kingdom	90%
ClearPay Finance HCB Limited	United Kingdom	90%
Touchcorp Limited	Bermuda	100%
Touch Holdings Pty Ltd	Australia	100%
Touch Networks Australia Pty Ltd	Australia	100%
Touch Australia Pty Ltd	Australia	100%
Touch Networks Pty Ltd	Australia	100%
Touchcorp Singapore Pte Ltd	Singapore	100%

1. New legal entities created during the period.
2. Wholly owned subsidiaries of Afterpay US, Inc.

10. 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 period

During the period ended 31 December 2019, 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 FY19 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 has previously confirmed that it is also in the process of establishing an equity incentive plan for UK employees 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. Detail concerning each of the above share-based payment plans was outlined in the FY19 Remuneration Report.

In this context, this Note provides an overview of the Group's share-based payments plans for the period ended 31 December 2019. As at 31 December 2019:

- The aggregate number of awards over APT equity outstanding is 16.0 million (30 June 2019: 16.0 million), including share options (15.0 million), RSUs (0.3 million), and loan shares (0.7 million); and
- The aggregate number of US ESOP options outstanding is 7.7 million (30 June 2019: 9.0 million).

No options have yet been granted under the UK ESOP.

(c) Approach to subsidiary plans going forward

As previously confirmed by the Group in the FY19 Remuneration Report, 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.

In particular, the US ESOP is now closed to new offers and future awards will be made in the form of APT equity. In respect of the UK, once the UK ESOP has been finalised and the equity pool noted above has been allocated (which is expected to occur within 6 months of implementing the plan), 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.

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 period ended 31 December 2019.

Options

During the period, 939,766 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 Group's FY19 Remuneration Report); and
- 609,062 LTI options granted to other eligible employees under the legacy Afterpay Employee Incentive Plan (adopted prior to listing).

Restricted Stock Units (RSUs)

During the period, 322,600 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 Group's FY19 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
- 136,828 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 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.

	H1 FY20		FY19		H1 FY20		FY19		H1 FY20	FY19
	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 period	14,907	5.49	21,005	1.66	1,143	3.91	1,910	3.62	-	35
Granted during the period	940	33.58	5,444	10.31	-	-	-	-	323	-
Forfeited during the period	-	-	(187)	1.08	-	-	-	-	-	-
Exercised during the period	(886)	3.68	(11,355)	0.80	(405)	2.77	(767)	3.18	-	(35)
Outstanding at the end of the period	**14,961**	**7.33**	**14,907**	**5.49**	**738**	**4.53**	**1,143**	**3.91**	**323**	**-**
Exercisable at the end of the period	**10,219**	**2.77**	**7,589**	**1.93**	**618**	**4.26**	**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.

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).

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 9% 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 announced on 16 December 2019 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 future awards made to US employees will be 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.

	H1 FY20		FY19	
	SHARE OPTIONS			
	NO. '000	WAEP $	NO. '000	WAEP $
Outstanding at the beginning of the period	8,998	0.27	6,992	0.25
Granted during the period	392	2.64[2]	4,078	0.27
Forfeited during the period	(60)	-	(428)	-
Exercised during the period	(1,583)	0.27	(1,644)	0.27
Outstanding at the end of the period	**7,747[1]**	**0.39**	**8,998**	**0.27**
Exercisable at the end of the period	**730**	**0.28**	**382**	**0.27**

1. The difference between the 7,746,659 options outstanding at the end of the period in the table above and the 7,788,243 options outstanding that was disclosed in the Group's ASX release on 16 December 2019 relates to options that were forfeited and options which were vested and exercised in the intervening period to 31 December 2019.
2. The weighted average exercise price (WAEP) of the options granted during the period was $2.64 or US$1.81 per share. 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.

A total of 7,746,659 options are outstanding at the end of the period. 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 period, the Group received $0.1 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 holders 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 has previously confirmed that it is in the process of establishing an equity incentive plan for UK employees 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.

As of the reporting date, the terms of the UK ESOP are not finalised and no options have been granted under the plan. However, it is intended that the UK ESOP options will 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. 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 proposed 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 the Group's UK growth aspirations. As noted above, after the UK ESOP pool has been 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 UK ESOP is not finalised, and no options have been granted under the proposed UK ESOP.

Matrix Convertible Notes

The Group determined that 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 payments*.

The fair value of the Matrix 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.

Estimation of fair value

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 share-based payment expenses 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).

Some inputs to the Binomial Model require the application of judgement. The fair value of options granted during the half year ended 31 December 2019 and year ended 30 June 2019 were estimated on the grant date using the assumptions set out below.

	H1 FY20	FY19	H1 FY20	FY19
	APT		US ESOP	
Expected volatility (%)	50%	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%

11. EVENTS OCCURRING AFTER THE REPORTING PERIOD

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

12. 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 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 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 as at the date of this report.

(b) Legal commitments and claims

Claims can be raised by customers and suppliers against the Group in the ordinary course of business. There were no outstanding claims at 31 December 2019 and 30 June 2019 which required recognition of a provision or contingent liability.

(c) Bank guarantees

The Group has entered into bank guarantee arrangements totaling $2.9 million of which $2.0 million has been cross guaranteed as part of a consolidated sub-agency agreement. The remaining guarantees are part of the Group's normal business operations.

13. BASIS OF PREPARATION OF HALF YEAR REPORT

This Interim Financial Report (Half Year Report) for the half year ended 31 December 2019 has been prepared in accordance with AASB 134 *Interim Financial Reporting*. The Half Year Report does not include all notes of the type normally included within the Annual Financial Report (Annual Financial Report) and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the annual consolidated financial statements. It is recommended that the Half Year Report be read in conjunction with the Group's Annual Financial Report for the year ended 30 June 2019 and considered together with any public announcements made by the Group during the half year ended 31 December 2019.

The Half Year Report is presented in Australian dollars which is the Group's functional currency. In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instruments 2016/191, amounts in the Directors' Report and the Half Year Report have been rounded to the nearest thousand Australian dollars ($'000) unless otherwise indicated.

New and amended standards adopted by the Group

The following new accounting standards and interpretations became applicable for the current reporting period:

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

The impact of the adoption of AASB 16 and the new accounting policies are disclosed in Note 14 below. The impact of IFRIC 23 did not have a material impact on the Group's accounting policies and does not require retrospective adjustments. A number of amendments also became effective from 1 July 2019, but they did not have a material impact on the Group's accounting policies.

14. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of AASB 16 *Leases* on the Group's financial statements and discloses the new accounting policies that have been applied from 1 July 2019.

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.

Adjustments recognised on adoption of AASB 16

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 from different treatment of extension options	1,782
(Less): contracts reassessed as low value assets	(115)
Lease liabilities recognised as at 1 July 2019	**8,867**
Of which are:	
Current lease liabilities	4,265
Non-current lease liabilities	4,602

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 $8.9 million
- Prepayments – decrease by $0.4 million
- Lease liabilities – increase by $8.5 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
- 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*.

Amendment to accounting policy following the adoption of AASB 16 on 1 July 2019

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 as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2019 financial year, 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.

From 1 July 2019, at the inception of a contract, the Group assesses whether a contract is, or contains, a lease. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. 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. The right-of-use asset is amortised over the shorter of the asset's useful life and the lease term on a straight-line basis.

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 payments 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.

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

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

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

The Group presents right-of-use assets in the Non-current assets 'rights-of-use assets' and lease liabilities in the Current and Non-current Interest-bearing loans and borrowings in the Consolidated Statement of Financial Position.

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 the Group are in accordance with the *Corporations Act 2001*, including:

  i. complying with Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

  ii. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half year ended on that date.

(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.

On behalf of the Board

Elana Rubin
Independent Interim Chair
Melbourne

27 February 2020

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Independent Auditor's Review Report to the Members of Afterpay Limited

Report on the Half Year Financial Report

Conclusion

We have reviewed the accompanying half year financial report of Afterpay Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of the Group is not 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 31 December 2019 and of its consolidated financial performance for the half year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half Year Financial Report

The directors of the Company are responsible for the preparation of the half year 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 half year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standards on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

David McGregor
Partner
Melbourne
27 February 2020

CORPORATE INFORMATION

Afterpay Limited ACN 618 280 649

Board of Directors

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

Australian Registered Office

Level 5
406 Collins Street
Melbourne VIC 3000

General Counsel & Company Secretary

Christopher Stevens

Solicitors

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

Auditor

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

Share Registry

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

Stock Exchange Listing

Afterpay Limited shares are listed on the Australian Securities Exchange