APPENDIX 4D (Rule 4.2A.3)
HALF YEAR REPORT

NAME OF ENTITY	AFTERPAY TOUCH GROUP LIMITED
ACN	618 280 649
REPORTING PERIOD	FOR THE HALF YEAR ENDED 31 DECEMBER 2018
PREVIOUS PERIOD	FOR THE HALF YEAR ENDED 31 DECEMBER 2017

Results for announcement to the market

KEY INFORMATION		HALF YEAR ENDED 31 DECEMBER		2018		2017
		%		$M		$M
Total income[1]	▲	85%	to	112.3	from	60.7
Profit/(loss) before tax	▼	3171%	to	(21.5)	from	0.7
Loss after tax attributable to the ordinary equity holders of Afterpay Touch Group Limited	▲	3043%	to	(22.0)	from	(0.7)

The increase in total income of 85%, from $60.7 million to $112.3 million was primarily driven by the continued strong growth in Afterpay underlying sales, which is partially offset by the impact of first-time accounting standards adoption. The Group reports a statutory loss before tax for the half year ended 31 December 2018 of $21.5 million which is largely due to share-based payments, one-off items, first-time adoption of AASB 15 and AASB 9 and depreciation and amortisation.

	CHANGE FROM PERIOD ENDED 31 DECEMBER		
	2018	2017	CHANGE
	$M	$M	%
Total income [1]	112.3	60.7	85%
Pro forma EBITDA [2] (Ex. significant items)	17.0	14.3	19%
First-time new standards adoption [3]	(5.5)	-	N/A
EBITDA (Ex. significant items)	11.5	14.3	-20%
Share-based payments	(18.1)	(5.3)	242%
One-off items	(1.1)	(1.3)	-15%
International expansion costs	*(1.5)*	*(0.5)*	*200%*
Net gain on sale of business	*1.3*	*-*	*N/A*
Business combination and other costs	*(0.9)*	*(0.7)*	*29%*
Facility establishment costs	*-*	*(0.1)*	*-100%*
Foreign currency gains	2.3	-	N/A
Net interest expense	(4.9)	(2.2)	123%
Depreciation and amortisation	(11.2)	(4.8)	133%
(Loss)/profit before tax	(21.5)	0.7	-3171%

1. Total income consists of Afterpay income, Pay Now revenue and other income. The impact of the adoption of new accounting standards recognised in current period results, whereas as permitted by the new standards, the prior corresponding period impact was reflected in the opening retained earnings. See Note 13 of the 2019 Half Year Report for details.
2. Pro forma Earnings before Interest, Tax, Depreciation and Amortisation excludes the impact of new accounting standards.
3. Impact of the adoption of new accounting standards recognised in current period results, whereas as permitted by AASB 15 and AASB 9 the prior corresponding period impact was reflected in the opening retained earnings. See Note 13 of the 2019 Half Year Report for details.

Additional Appendix 4D disclosure requirements and commentary on significant features of the operating performance, results of segments, trends in performance and other factors affecting the results for the period are contained in the Half Year Report for the period ended 31 December 2018, Half Year Results Presentation and half year announcement accompanying this 4D.

NET TANGIBLE ASSET PER SECURITY	31 DECEMBER 2018	31 DECEMBER 2017
Total number of shares on issue	232,873,073	213,083,365
Net tangible assets per share	$1.09	$0.45

Dividends

No dividends were declared or paid for the half year ended 31 December 2018.

Basis of Preparation

This report is based on the consolidated financial statements which have been reviewed by Ernst & Young. The review report is included within the Company's Half Year Report which accompanies this Appendix 4D.

Other information required by Listing Rule 4.2A.3

Other information requiring disclosure to comply with Listing Rule 4.2A.3 is contained in the 31 December 2018 Half Year Report (which includes the Directors' Report).

Accounting Standards

This report has been compiled using Australian Accounting Standards and International Financial Reporting Standards.

afterpaytouch

2019 HALF YEAR REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

THE WORLD'S MOST LOVED WAY TO PAY

AFTERPAY TOUCH GROUP LIMITED
2019 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 Touch Group Limited's ('the Group' or 'Afterpay') most recent annual financial report is available at www.afterpaytouch.com/results-reports as part of the Group's 2018 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 Touch Group Limited ABN 618 280 649 and is current at the date of this report. It is general background information about Afterpay Touch Group's (Afterpay Touch Group Limited and its subsidiaries, the Group) 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 Half Year Report was authorised for issue by Afterpay Touch Group's Directors on 26 February 2019. The Board of Directors has the power to amend and reissue the Half Year Report.

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DIRECTORS' REPORT

The Directors of Afterpay Touch Group submit their report with the financial statements of the consolidated entity for the half year ended 31 December 2018.

Directors

As at the date of this report, the Directors of Afterpay Touch Group were:

Anthony Eisen	EXECUTIVE CHAIRMAN
David Hancock	EXECUTIVE DIRECTOR AND AFTERPAY TOUCH GROUP HEAD
Nicholas Molnar	EXECUTIVE DIRECTOR AND CEO OF AFTERPAY
Clifford Rosenberg	INDEPENDENT NON-EXECUTIVE DIRECTOR
Elana Rubin	INDEPENDENT NON-EXECUTIVE DIRECTOR
Dana Stalder	INDEPENDENT NON-EXECUTIVE DIRECTOR

The Directors listed above each held office as a Director of Afterpay Touch Group throughout the period and until the date of this report.

Principal Activities

Afterpay Touch Group is a technology-driven payments company providing payments solutions for consumers and businesses through its Afterpay and Pay Now platforms. The Group was founded in Australia and has since launched its Afterpay product in New Zealand, the United States and will shortly launch in the United Kingdom. The Group's mission is to be 'the world's most loved way to pay'.

Afterpay

Afterpay is a modern-day layby service that enables consumers to buy products on a 'buy now, receive now, pay later' basis. The Afterpay service is offered as a payment option by participating merchants either online or in-store. Customers who choose to purchase products using Afterpay receive the purchased products upfront and repay the purchase price (or order value) in four equal instalment payments (every two weeks) to Afterpay. Afterpay pays the merchant for the purchased products upfront.

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

Principal Activities (continued)

Afterpay is an alternative to traditional credit. Afterpay is a no cost service to the customer if instalment payments are made on time. In circumstances where the customer does not pay their instalment payments on time, their service is immediately suspended and late payment fees can be applied. Late payment fees are fixed, capped and do not accumulate over time.

The Afterpay product has gained significant popularity in the Australian and New Zealand markets with both customers and Afterpay's merchant partners. It is also gaining popularity in the US market following launch in May 2018.

Pay Now

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

Review of Operations

1. Group Performance

For the half year ended 31 December 2018, pro forma[1] total income for the Group was $116.1m, up 91% on the prior comparable period driven principally by strong growth in Afterpay income (income from merchant fees). The Group achieved pro forma EBITDA (excl significant items) of $17.0m and reported a statutory loss for the period of $22.2m as the business continues to invest in technology, people and marketing to scale its operations internationally and in Australia. Other expenses increased to $47.5m, up 160% due to investment in people, processes and systems particularly in the US and UK businesses.

SUMMARY FINANCIAL RESULTS	HALF YEAR ENDED 31 DECEMBER				
	2018		2017	CHANGE [2]	
A$'000 (UNLESS OTHERWISE STATED)	STATUTORY	PRO FORMA [1]		$	%
Total income	**112,342**	**116,055**	**60,709**	**55,346**	**91%**
Receivables impairment expense	(27,373)	(25,578)	(15,137)	(10,441)	69%
Cost of sales	(25,931)	(25,931)	(13,030)	(12,901)	99%
Other expenses [3]	(47,513)	(47,513)	(18,252)	(29,261)	160%
EBITDA (excl significant items) [4]	11,525	17,033	14,290	2,743	19%
Loss for the period	(22,236)	n/a	(743)	n/a	n/a

Notes:

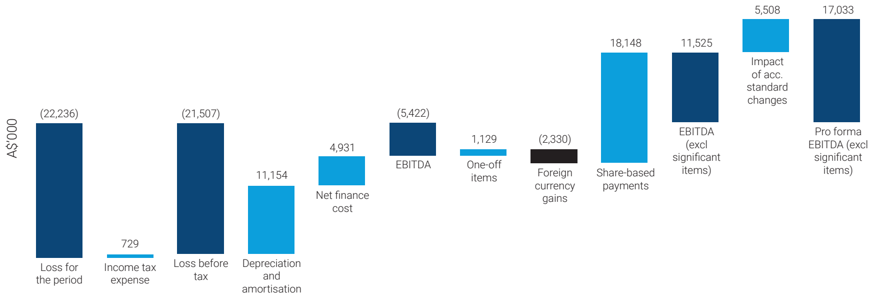
1. The statutory results for half year ended 31 December 2018 reflect the adoption of two new accounting standards; AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*. The adoption of these standards has affected the preparation of the statement of comprehensive income (profit and loss statement) and the consolidated statement of financial position (balance sheet). To enable comparison on a like-for-like basis with the prior comparable period (half year ended 31 December 2017), in this report pro forma financial results are presented which remove the impact of these accounting standard changes. As the changes in accounting standards had nil impacts on EBITDA for Pay Now, these impacts have been excluded from pro forma financial results.
2. Percentage change is calculated as the pro forma half year ended 31 December 2018 result less the half year ended 31 December 2017 result divided by the 31 December 2017 result.
3. Other expenses is made up of employment expenses and operating expenses adjusted for share-based payments, FX gains and one-off items.
4. EBITDA is a non-IFRS measure that has not been audited but is a key financial metric used by management at a Group level. EBITDA (excl significant items) is calculated by adjusting reported results for significant and non-recurring items. Pro forma EBITDA (excl significant items) is calculated by adjusting reported results for significant and non-recurring items as well as the impact of the adoption of new accounting standards.

Review of Operations (continued)

A reconciliation from loss for the period as presented in the statement of consolidated income to pro forma EBITDA (excl significant items) is set out in Figure 1 below. EBITDA is a non-IFRS measure that has not been audited but is a key financial metric used by management to operate the business at a Group level.

Figure 1: Reconciliation from loss for the period to Pro Forma EBITDA (excl significant items)

Half year ended 31 December 2018



2. Segment Performance

The Afterpay segment which includes Afterpay AU, Afterpay US, and Afterpay Other segments, was the primary growth driver and contributor to total income for the Group. For the half year ended 31 December 2018, pro forma Afterpay income (income from merchant fees) increased by 140% on the prior comparable period to $88.9m. Other income (late fees) increased to $18.2m from $10.8m in the prior comparable period with late fees as a percentage of total Afterpay income and other income declining. Pay Now revenue declined by $3.9m to $8.9m when compared to the prior period and was impacted by the sale of the European e-Services business line in October 2018.

Key drivers:

AFTERPAY INCOME [1]

HALF YEAR TO	
31 DEC 18	31 DEC 17
(% AFTERPAY UNDERLYING SALES)	
$88.9m (3.9%)	$37.1m (4.0%)

↑ 140%[2,4] On prior comparative period

Significant growth in Afterpay income driven by strong growth in Afterpay underlying sales (the total value of sales processed via the Afterpay platform) and stable pricing.

OTHER INCOME

HALF YEAR TO	
31 DEC 18	31 DEC 17
(% TOTAL AFTERPAY INCOME AND OTHER INCOME)	
$18.2m (17.6%)	$10.8m (22.5%)

Late Fees %
(% TOTAL AFTERPAY INCOME AND OTHER INCOME)

↓ 4.9%[3] On prior comparative period

Other income (late fees) increased in the period, reflecting the increased underlying sales processed through the Afterpay platform, however declined as a percentage of total Afterpay income to significantly below 20% (17.6%).

Notes:

1. Pro forma financial results for the half year ended 31 December 2018.
2. Percentage change is calculated as the pro forma half year ended 31 December 2018 result less the half year ended 31 December 2017 result divided by the 31 December 2017 result.
3. Percentage change is calculated as the half year ended 31 December 2018 result less the half year ended 31 December 2017 result.
4. Figures have not been audited or reviewed in accordance with Australian auditing standards.

Review of Operations (continued)

3. Afterpay Platform KPIs

The financial results of the Afterpay segment are driven by a number of underlying drivers or key performance indicators. Underlying sales (the total value of sales processed through the Afterpay platform) was $2.3 billion in the half year ended 31 December 2018 growing by $1.4 billion or 147% on the prior comparable period. This material growth in Afterpay underlying sales was driven by a more than doubling of active customers and active merchants, as well as increased usage of the Afterpay service by existing customers to pay for their purchases.

Key drivers:

AFTERPAY UNDERLYING SALES (GMV) [1]

HALF YEAR TO	
31 DEC 18	31 DEC 17
$2.3b	$0.9b

↑ 147% On prior comparable period

Increase in Afterpay underlying sales across all key channels (in-store and online) and regions (Australia, New Zealand and the US).

AFTERPAY ACTIVE CUSTOMERS [1,2]

HALF YEAR TO	
31 DEC 18	31 DEC 17
3.1m	1.4m

↑ 118% On prior comparable period

Strong growth in customers adopting and using the Afterpay platform.

AFTERPAY ACTIVE MERCHANTS [1,2]

HALF YEAR TO	
31 DEC 18	31 DEC 17
23.2k	11.5k

↑ 101% On prior comparable period

Increasing number of retail partners onboarded to the Afterpay platform.

Notes:
1. Figures have not been audited or reviewed in accordance with Australian auditing standards.
2. Metrics are calculated as at 31 December 2018. Afterpay active customers and active merchants are defined as those having transacted at least once in the last twelve months.

Review of Operations (continued)

4. Expenses and EBITDA

The Group's pro forma EBITDA (excl significant items) was $17.0m in the half year ended 31 December 2018 growing by 19% on the prior comparable period. Pro forma EBITDA (excl significant items) increased at a lower rate of growth than pro forma total income and other income as a result of the Group's previously announced strategy to invest in extending the Afterpay platform to the US and UK.

Key drivers:

RECEIVABLES IMPAIRMENT EXPENSE (GROSS LOSS) [1,3]

HALF YEAR TO	
31 DEC 18	31 DEC 17
(% AFTERPAY UNDERLYING SALES)	
$25.6m (1.1%)	$15.1m (1.6%)

Gross Loss %

↓ 0.5%[2]

On prior comparative period

Receivables impairment expenses of 1.1% of Afterpay underlying sales ($25.6m), down from 1.6% ($15.1m) in the comparative period reflects the Group's continued investment in risk management to reduce losses.

OTHER EXPENSES [3,4]

HALF YEAR TO	
31 DEC 18	31 DEC 17
(% AFTERPAY UNDERLYING SALES)	
$47.5m (2.1%)	$18.3m (2.0%)

↑ 0.1%[2]

On prior comparative period

Investment in people, processes and systems particularly in the US and UK businesses, as well as higher technology and marketing spend has driven an increase in total operating expenditure.

Notes:

1. Pro forma financial results for the half year ended 31 December 2018.
2. Percentage change is calculated as the half year ended 31 December 2018 result less the half year ended 31 December 2017 result as a percentage of underlying sales.
3. Figures have not been audited or reviewed in accordance with Australian auditing standards.
4. Other expenses is made up of employment expenses and operating expenses adjusted for share-based payments, FX gains and one-off items.

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

HALF YEAR TO	
31 DEC 18	31 DEC 17
$17.0m	$14.3m

↑ 19%

On prior comparative period

Increase in pro forma EBITDA (excl significant items) driven by strong growth in operating income and stable margins in the Afterpay business offset by continued investment in establishing Afterpay in the US and UK markets.

Notes:

1. Pro forma financial results for the half year ended 31 December 2018.
2. Figures have not been audited or reviewed in accordance with Australian auditing standards.

Review of Operations (continued)

5. Funding

The Group's capital management framework is designed to ensure its capability to meet its funding requirements to support current and future growth. The Group has a diverse range of funding by both source and maturity. The Group continued to develop its access to funding sources and maturity across the half year ending 31 December 2018.

As at 31 December 2018, the Group had a receivables warehouse funding facility totalling $500.0 million in Australia ($132.0 million drawn[1]), a $49.7 million[2] senior unsecured note in Australia (fully drawn) and a NZ$20 million revolving cash advance facility in New Zealand (fully undrawn) as well as $42.3 million of cash (excluding restricted cash which is classified as an *Other Financial Asset*). The Group has $387.0 million of undrawn committed facilities to fund future underlying sales growth. The Group also raised $117.0 million via an institutional placement in August 2018 and a further $25.0 million via a share purchase plan in September 2018 (before costs). The weighted average term to maturity across the Group's funding facilities is 1.9 years and the proportion of fixed rate debt to total debt is 27%. The Group has announced its intention to launch a US dollar denominated receivables warehouse funding facility to support the growth of the US business.

Notes:

1. Drawn debt of $132.0m as shown in the statement of financial position (Note 7) is adjusted for capitalised borrowing costs and accrued interest.
2. Drawn debt of $49.7m as shown in the statement of financial position (Note 7) is adjusted for capitalised borrowing costs and accrued interest.

Key Adjustments

The statutory results for half year ended 31 December 2018 reflect the adoption of two new accounting standards; AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*. The adoption of these standards has affected the preparation of various line items in the statement of comprehensive income (profit and loss statement) and the consolidated statement of financial position (balance sheet). To enable comparison on a like-for-like basis with the prior comparable period (half year ended 31 December 2017), in this report pro forma financial results are presented which remove the impact of these accounting standard changes.

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

RECONCILIATION FROM FINANCIAL RESULTS TO PRO FORMA RESULTS A$'000 (UNLESS OTHERWISE STATED)	HALF-YEAR ENDED 31 DECEMBER 2018		
	UNADJUSTED STATUTORY	ACCOUNTING STANDARD CHANGES	PRO FORMA
Impact on income:			
Afterpay income	85,165	3,713	88,878
Total income	**112,342**	**3,713**	**116,055**
Impact on expenses:			
Receivables impairment expense	**(27,373)**	**1,795**	**(25,578)**
Impact on EBITDA:			
EBITDA (excl significant items)	**11,525**	**5,508**	**17,033**

Significant changes in the state of affairs

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

Significant events subsequent to the end of the half year

The Directors are not aware of any other matter or circumstances which have arisen since 31 December 2018 that has 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.

Auditor independence

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

Rounding 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.

Anthony Eisen

Executive Chairman
Melbourne
26 February 2019

AUDITOR'S DECLARATION

Building a better working world

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

As lead auditor for the review of the half year financial report of Afterpay Touch Group Limited for the half year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

David McGregor
Partner
26 February 2019

AFTERPAY TOUCH GROUP FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTE	FOR THE HALF YEAR ENDED 31 DECEMBER 2018 $'000	31 DECEMBER 2017 $'000
Afterpay income		85,165	37,072
Pay Now revenue		8,931	12,870
Other income		18,246	10,767
Total income		**112,342**	**60,709**
Cost of sales		(25,931)	(13,030)
Gross profit		**86,411**	**47,679**
Depreciation and amortisation expenses	3	(11,154)	(4,800)
Employment expenses	3	(39,077)	(14,464)
Receivables impairment expenses	6	(27,373)	(15,137)
Operating expenses	3	(25,383)	(10,374)
Operating (loss)/profit		**(16,576)**	**2,904**
Finance income		180	175
Finance cost		(5,111)	(2,368)
(Loss)/profit before tax		**(21,507)**	**711**
Income tax expense	4	(729)	(1,454)
Loss for the period		**(22,236)**	**(743)**
Other comprehensive loss			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods (net of tax)			
Exchange differences on translation of foreign operations		(407)	-
Total comprehensive loss for the period, net of tax		**(22,643)**	**(743)**
Loss attributable to			
Owners of Afterpay Touch Group Limited		*(22,024)*	*(743)*
Non-controlling interests		*(212)*	*-*
		(22,236)	**(743)**
Earnings per share for loss attributable to the ordinary equity holders of the company	11		
Basic loss per share		*($0.10)*	*($0.00)*
Diluted loss per share		*($0.10)*	*($0.00)*

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		AS AT	
		31 DECEMBER 2018	30 JUNE 2018
	NOTE	$'000	$'000
Current assets			
Cash and cash equivalents	5	42,328	25,457
Other financial assets		2,164	23,741
Receivables	6	408,671	239,068
Other current assets		22,536	17,320
Total current assets		**475,699**	**305,586**
Non-current assets			
Property, plant and equipment		4,372	4,008
Intangible assets		86,257	72,495
Deferred tax asset		18,500	9,261
Other non-current assets		1,107	875
Total non-current assets		**110,236**	**86,639**
Total assets		**585,935**	**392,225**
Current liabilities			
Trade and other payables		50,914	42,916
Employee benefit provision		2,039	1,793
Contract liability		36	252
Interest bearing borrowings	7	53	50
Financial liabilities	10	1,946	-
Income tax payable		5,978	1,582
Total current liabilities		**60,966**	**46,593**
Non-current liabilities			
Employee benefit provision		410	157
Office lease provision		532	365
Financial liabilities	8	1,039	-
Interest bearing borrowings	7	182,158	161,555
Total non-current liabilities		**184,139**	**162,077**
Total liabilities		**245,105**	**208,670**
Net assets		**340,830**	**183,555**
Equity			
Issued capital		356,387	192,628
Accumulated losses		(49,738)	(22,195)
Reserves		31,719	13,122
Equity attributable to the owners of Afterpay Touch Group Limited		**338,368**	**183,555**
Non-controlling interest		2,462	-
Total equity		**340,830**	**183,555**

The above 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 2018

	ISSUED CAPITAL	FOREIGN CURRENCY TRANSLATION RESERVE	ACCUMULATED LOSSES	RESERVES	TOTAL	NON-CONTROLLING INTEREST	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2018	**192,628**	**(45)**	**(22,195)**	**13,167**	**183,555**	**-**	**183,555**
Change on initial application of accounting standards*	-	-	(5,519)	-	(5,519)	-	**(5,519)**
	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 (net of tax)	(4,594)	-	-	-	(4,594)	-	**(4,594)**
Issue of ordinary shares, as consideration for a business combination	17,826	-	-	-	17,826	-	**17,826**
Non-controlling interest on acquisition of subsidiary	-	-	-	(1,039)	(1,039)	1,981	**942**
Share options exercised	8,499	-	-	(2,017)	6,482	-	**6,482**
Share-based payments	-	-	-	22,060	22,060	693	**22,753**
At 31 December 2018	**356,387**	**(452)**	**(49,738)**	**32,171**	**338,368**	**2,462**	**340,830**

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	ISSUED CAPITAL	FOREIGN CURRENCY TRANSLATION RESERVE	ACCUMULATED LOSSES	RESERVES	TOTAL	NON-CONTROLLING INTEREST	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2017	**171,411**	**-**	**(13,219)**	**1,891**	**160,083**	**-**	**160,083**
Loss for the period	-	-	(743)	-	(743)	-	**(743)**
Other comprehensive income	-	-	-	-	-	-	**-**
Total comprehensive loss for the period	**-**	**-**	**(743)**	**-**	**(743)**	**-**	**(743)**
Transactions							
Share options exercised	1,882	-	-	(271)	1,611	-	**1,611**
Share-based payments	-	-	-	4,062	4,062	-	**4,062**
At 31 December 2017	**173,293**	**-**	**(13,962)**	**5,682**	**165,013**	**-**	**165,013**

* See Note 13 for details.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	NOTE	FOR THE HALF YEAR ENDED 31 DECEMBER 2018 $'000	31 DECEMBER 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		2,039,162	927,957
Payments to employees (inclusive of on-costs)		(17,951)	(8,280)
Payments to merchants and suppliers (inclusive of GST)		(2,175,646)	(1,000,852)
Income tax paid		(3,389)	-
Net cash flows used in operating activities		**(157,824)**	**(81,175)**
Cash flows from investing activities			
Interest received		311	157
Payments for recognised intangibles		(9,285)	(4,689)
Purchase of intangibles		(555)	(350)
Purchase of plant and equipment		(817)	(720)
Proceeds from sale of business		4,016	-
Net cash flows used in investing activities		**(6,330)**	**(5,602)**
Cash flows from financing activities			
Proceeds from borrowings		236,072	82,781
Repayments of borrowings		(192,576)	-
Proceeds for exercise of share options		5,479	1,605
Proceeds from issue of shares		142,028	-
Share issue cost		(4,665)	-
Interest and bank fees paid		(5,712)	(2,256)
Net cash flows from financing activities		**180,626**	**82,130**
Net increase in cash and cash equivalents		16,472	(4,647)
Effects of exchange rate changes on cash and cash equivalents		399	-
Cash and cash equivalents at beginning of the period		25,457	29,602
Cash and cash equivalents at end of the period	5	**42,328**	**24,955**

The above 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 Touch Group Limited ('Afterpay' or the 'Group') is a for-profit company incorporated and domiciled in Australia and limited by shares publicly traded on the Australian Securities Exchange (ASX). The financial report covers the half year consolidated financial statements as at and for the half year ended 31 December 2018 of Afterpay Touch Group Limited and its subsidiaries (together referred to as the Group). The financial report was authorised for issue by the Directors on 26 February 2019.

2. SEGMENT INFORMATION

The Group's reportable operating segments have been identified as the following for the period based on the financial information currently provided to the Chief Operating Decision Maker (CODM):

- **Afterpay AU:** Comprises the Afterpay Australia platform.
- **Afterpay US:** Comprises the Afterpay United States platform.
- **Afterpay Other:** Comprises the Afterpay New Zealand platform. The Group will launch an Afterpay platform in the United Kingdom after the half year ended 31 December 2018. Costs associated with the launch were recognised in one-off items in the half year ended 31 December 2018.
- **Pay Now:** Comprises Mobility, Health and e-Services.
- **Corporate:** Comprises Group's expenses which are not directly attributable or allocated to the Afterpay or Pay Now segments.

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

The number of Afterpay operating segments has increased since the 30 June 2018 Annual Report reflective of the new markets in which Afterpay has entered. The Group is in the early stages of expanding the Afterpay platform into international markets.

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 this 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.

2. SEGMENT INFORMATION (continued)

HALF YEAR ENDED 31 DECEMBER 2018	AFTERPAY AU	AFTERPAY US	AFTERPAY OTHER	PAY NOW	CORPORATE	TOTAL SEGMENTS
	$'000	$'000	$'000	$'000	$'000	$'000
Total segment income	**89,842**	**9,576**	**3,993**	**8,931**	**-**	**112,342**
Segment results						
Segment EBITDA (excluding significant items) [1]	**35,657**	**(10,396)**	**28**	**2,521**	**(16,285)**	**11,525**
Share-based payments						(18,148)
One-off items						(1,129)
Foreign currency gains						2,330
EBITDA						**(5,422)**
Depreciation and amortisation						(11,154)
EBIT						**(16,576)**
Net finance expense						(4,931)
Loss before income tax						**(21,507)**

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

HALF YEAR ENDED 31 DECEMBER 2017	AFTERPAY AU	AFTERPAY US	AFTERPAY OTHER	PAY NOW	CORPORATE	TOTAL SEGMENTS
	$'000	$'000	$'000	$'000	$'000	$'000
Total segment income	**47,396**	**-**	**443**	**12,870**	**-**	**60,709**
Segment results						
Segment EBITDA (excluding significant items) [1]	**17,028**	**-**	**(115)**	**4,533**	**(7,156)**	**14,290**
Share-based payments						(5,305)
One-off items						(1,272)
Foreign currency losses						(9)
EBITDA						**7,704**
Depreciation and amortisation						(4,800)
EBIT						**2,904**
Net finance expense						(2,193)
Profit before income tax						**711**

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

3. EXPENSES

	HALF YEAR ENDED 31 DECEMBER	
	2018	2017
	$'000	$'000
Depreciation and amortisation		
Depreciation	(874)	(933)
Amortisation	(10,280)	(3,867)
Total depreciation and amortisation	**(11,154)**	**(4,800)**
Employment expenses		
Share-based payments	(18,148)	(5,305)
Wages and salaries	(16,821)	(7,507)
Other employee on-costs	(4,108)	(1,652)
Total employment expenses	**(39,077)**	**(14,464)**
Operating expenses		
Debt recovery costs, including bank charges	(4,474)	(2,258)
Consulting and contractor costs	(8,355)	(2,644)
Marketing expense	(6,686)	(1,576)
Communication and technology	(3,166)	(998)
Operating lease expense	(1,594)	(625)
Foreign currency gains/(losses)	2,330	(9)
Net gain on sale of business [1]	1,271	-
General and administrative expenses	(4,709)	(2,264)
Total operating expenses	**(25,383)**	**(10,374)**

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

4. INCOME TAX

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the half year consolidated statement of comprehensive income are:

	HALF YEAR ENDED 31 DECEMBER	
	2018	2017
	$'000	$'000
Income tax expense		
The major components of income tax expense:		
Current income tax charge		
Current income tax expense	(9,430)	(3,822)
Deferred income tax		
Relating to origination/reversal of temporary differences	8,701	2,368
Income tax expense as reported in the income statement	**(729)**	**(1,454)**

5. CASH AND CASH EQUIVALENTS

	31 DECEMBER 2018	30 JUNE 2018
	$'000	$'000
Cash at bank	42,252	10,292
Short-term deposits	76	15,165
Total cash and cash equivalents	**42,328**	**25,457**

6. RECEIVABLES

	31 DECEMBER 2018	30 JUNE 2018
	$'000	$'000
Trade receivables – Pay Now	4,646	5,194
Consumer receivables – Face value	*440,911*	*249,017*
Consumer receivables – Recognised over time [1]	*(8,727)*	-
Net consumer receivables	432,184	249,017
Less allowance for doubtful debts		
Opening balance [2]	*(18,054)*	*(5,292)*
Provided in the year	*(27,373)*	*(32,610)*
Debts written off/collected	*17,268*	*22,759*
Total allowance for doubtful debts	(28,159)	(15,143)
Total receivables	**408,671**	**239,068**

1. Recognised over time represents the consumer transactions completed by period end but earned over the collection period of the consumer receivables.
2. See Note 13 for details of impact of AASB 9 adoption on the opening allowance for doubtful debts of $2,911.

7. INTEREST BEARING BORROWINGS

	31 DECEMBER 2018	30 JUNE 2018
	$'000	$'000
Secured interest bearing borrowings	132,023	111,593
Senior unsecured notes	49,682	49,491
Convertible notes	139	128
Finance lease liability	367	393
Total interest bearing borrowings	**182,211**	**161,605**

Secured interest bearing borrowings represent the Group's Warehouse Trust receivables funding facility with National Australia Bank (NAB) and Citi which increased from $350 million at 30 June 2018 to $500 million at 31 December 2018. The facility has been secured against Afterpay Australia's receivables with a carrying value of $344.6 million as at 31 December 2018. The loan is repayable in November 2020 (NAB) and August 2020 (Citi) and as at 31 December 2018, the facility carries a weighted average of interest of approximately 3.76% per annum (June 2018: 3.80%) and unused balance of approximately $168.0 million.

The Group made extra voluntary capital injections into the Warehouse Trust which represents the *Repayments of borrowings* of $192.6 million (half year ended 31 December 2017: $0) in the consolidated statement of cash flows for the half year ended 31 December 2018.

8. BUSINESS COMBINATIONS

On 23 August 2018, the Group acquired 90% of the issued shares in ClearPay Finance Limited (ClearPay) (an unlisted entity based in the United Kingdom, 100% owned by ThinkSmart Limited) for a total consideration of 1 million Afterpay Touch Group (APT) shares. The consideration was determined to be settled through a share issue in two instalment tranches. The first tranche of 750,000 APT shares were issued on the date of transaction completion (23 August 2018) (completion date), while the second tranche of 250,000 APT shares were issued on 25 February 2019.

The Group has a call option to acquire the remaining 10% of ClearPay which is exercisable any time after 5 years from the completion date. If the Group does not exercise its call option, ThinkSmart Limited has a put option to sell the remaining 10% of issued shares it holds in ClearPay (excluding 3.5% of issued shares that are to be allocated to an equity incentive plan to UK employees) to the Group, exercisable any time after 5.5 years from completion date. In each case the sale price will be based on agreed valuation principles. Consideration for the remaining 10% of issued shares in ClearPay can be paid by the Group in cash or APT shares. A discounted cash flow model has been used to obtain the fair value of the put option held by ThinkSmart Limited with $1.0 million recognised as a financial liability of the Group as at 31 December 2018. The measurement basis of the put option is fair value through profit and loss and is classified as a level 3 financial liability in accordance with AASB 13 *Fair Value Measurement*.

The acquisition of ClearPay meets the recognition criteria for consolidation, with the transaction treated as though the Group has effectively acquired 100% of ClearPay at the completion date. The Half Year Report therefore includes 100% of the results of ClearPay for the four-month period from the completion date.

From the completion date to 31 December 2018, ClearPay had incurred $2.1 million of loss (the majority being the amortisation of the fair value of intangible assets acquired). If the acquisition had taken place at the beginning of the half year period, total income would have been approximately $0.06 million and the loss for the period would have been approximately $2.6 million (the majority being the amortisation of the fair value of intangible assets acquired).

The Group has acquired ClearPay to accelerate and de-risk the Group's launch of the Afterpay product into the UK market and is consistent with its NZ and US expansion strategies to partner with local market participants. Goodwill is the difference between the fair value of the net assets of ClearPay and the deemed purchase consideration. Details of the provisional purchase consideration and the provisional fair values of the identifiable assets and liabilities of ClearPay as at the date of acquisition were as follows:

	FAIR VALUE RECOGNISED ON ACQUISITION $'000
Assets	
Current assets	355
Intangible assets	3,985
Total assets	**4,340**
Liabilities	
Trade and other payables	52
Deferred tax liabilities	280
Total identifiable net assets at fair value	**4,008**
Less: non-controlling interest	(1,981)
Add: Goodwill arising on acquisition	15,799
Purchase consideration transferred	**17,826**

8. BUSINESS COMBINATIONS (continued)

The purchase consideration was based on the Group's most available share price at the completion date.

Acquisition related costs of approximately $0.5 million are included in the operating expenses in the consolidated statement of comprehensive income. The Group has one year from completion date to finalise the business combination accounting which may result in an adjustment to goodwill at 30 June 2019.

The Group has chosen to recognise the non-controlling interest related to ThinkSmart's 10% shareholding in ClearPay at its proportion of fair value.

9. RELATED PARTY DISCLOSURES

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

	COUNTRY OF INCORPORATION	% EQUITY INTEREST
Afterpay Pty Ltd	Australia	100%
Afterpay Holdings Pty Limited	Australia	100%
Afterpay Warehouse Trust	Australia	100%
Afterpay Touch Group No.2 Pty Ltd	Australia	100%
Afterpay US Inc.	United States	100%
Afterpay NZ Limited	New Zealand	100%
Clearpay Finance Limited*	United Kingdom	90%
Clearpay Finance HCB Limited*	United Kingdom	90%
Touchcorp Ltd	Australia	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%
Touch Networks Payments (Malaysia) Sdn Bhd	Malaysia	100%

* These are the companies which were acquired during the period.

There are no transactions that have been entered into with non-subsidiary related parties during the six months ended 31 December 2018 and 2017, as well as balances with related parties as at 31 December 2018 and 30 June 2018.

10. SHARE-BASED PAYMENT PLANS

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using the Binomial Model. That cost is recognised in employee benefits expense, together with a corresponding increase in equity reserves, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cost of share-based payments granted to external advisors is determined based on the fair value of the services provided by them to the Group.

10. SHARE-BASED PAYMENT PLANS (continued)

The share-based payment expense of $18.1 million recognised in the half year ended 31 December 2018 (31 December 2017: $5.3 million) includes existing and new option issuances under both the APT share option and Afterpay US Inc. share option plans.

During the period, 2,699,087 share options were granted to the Group Head following the approval of shareholders at the Company's 2018 Annual General Meeting on 28 November 2018. This grant replaced the 2,000,000 Loan Shares which were proposed to be granted to the Group Head as disclosed in the Group's 30 June 2018 Annual Report. A share-based payment expense of $10.7 million was recognised in the half year ended 31 December 2018 for the options granted to the Group Head. Prior to the approval of shareholders, the share-based payment expense relating to the Group Head's share-based compensation (whether loan shares or options) was based on a fair value calculation at the prevailing APT share price at period end. An estimate of the share-based payment expense had been recognised for the Group Head's service period up to 30 June 2018 based on the closing APT share price of $9.35 at 30 June 2018. As the APT share price at grant date used to determine the final fair value increased to $12.76 on 28 November 2018 (grant date) this resulted in a $5.4 million increase in the fair value of the option grant for the period of service up to 30 June 2018. The share-based payment expense for the Group Head in the period therefore includes the additional expense for the service period up to 30 June 2018 due to this increase in fair value, as well as the expense for the current service period. As noted in Annexure 1 of the Group's Notice of the 2018 Annual General Meeting, the share-based payment expense would have been higher in the period if granted under the originally proposed Loan Share award. The total share-based payment expense for the Group Head is expected to be $14.3 million for the 12 months to 30 June 2019 presuming vesting conditions are met.

In the half year ended 31 December 2018, the Group received $1.9 million from Afterpay US option holders who elected to exercise unvested options. An early exercise mechanism is provided under the US ESOP whereby option holders may elect to exercise options and receive unvested common stock in Afterpay US Inc. before full vesting of the options occurs. Any unvested options and any such unvested common stock may be subject to, among other things, a repurchase right whereby Afterpay US Inc. can, at its election, repurchase those securities if the Board determines it to be appropriate such as if the vesting conditions are not met. If the repurchase right is exercised, the Group has the contractual obligation to return the funds to the option holder in accordance with the terms of the US ESOP. The repurchase price is set at the lower of the fair market value and the early exercise price. A financial liability of $1.9 million has been recognised as a current financial liability in the financial statements to account for this potential repurchase event.

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

It is the Group's intention to establish an equity incentive plan for UK employees, however, as of the reporting date, that plan is not finalised, and no options have been granted under the proposed UK ESOP.

The exercise price of the US ESOP options granted during the period was $0.26. The exercise price of the APT ESOP options granted during the period ranges from $2.70 to $16.96.

The fair value of options granted during the six months ended 31 December 2018 was estimated on the grant date using the following assumptions:

10. SHARE-BASED PAYMENT PLANS (continued)

	APT ESOP	US ESOP
Dividend yield (%)	0%	0%
Expected volatility (%)	50%	60%
Risk-free interest rate (%)	2.20%	2.52%
Expected life of share options (years)	4	5
Weighted average share price ($)	$13.17	$0.26

The weighted average fair value of the options granted under the APT ESOP and US ESOP during the six-month period was $8.57 and $0.22, respectively (year ended 30 June 2018: $5.05 and $0.25, respectively).

11. EARNINGS PER SHARE (EPS)

Basic EPS amounts are calculated by dividing the loss for the period attributable to ordinary equity holders of the Parent 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 the Parent 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 have been outstanding assuming the conversion of all dilutive potential ordinary shares.

The following table shows the loss and share data used in the calculation of the basic and diluted EPS:

	HALF YEAR ENDED 31 DECEMBER	
	2018	2017
	$'000	$'000
Loss attributable to ordinary equity holders of the Parent for basic earnings	(22,024)	(743)
	NUMBER	NUMBER
Weighted average number of ordinary shares for basic EPS ('000)	225,475	212,685
Effect of dilution from:		
Share options ('000)	11,947	15,670
Weighted average number of ordinary shares adjusted for the effect of dilution ('000)	237,422	228,355

The share options number above does not take into account any options or similar conversion rights issued under the US ESOP or the two convertible notes issued to Matrix Partners X L.P and Weston & Co X LLC (Matrix Notes) that have been awarded as at 31 December 2018. The potential number of APT shares that could be issued under these arrangements were excluded from the share options calculated above given the number of APT shares to be issued will be only determined on exercise and conversion which will occur at a future date and based on a future value for Afterpay US Inc. which is unable to be reliably estimated today. The number of APT shares to be issued is subject to maximum levels.

Options issued under the US ESOP are options to acquire common stock in Afterpay US Inc. The US ESOP imposes limitations on the amount of common stock in Afterpay US Inc. which may be issued to participants. In specified circumstances, the common stock in Afterpay US Inc. may convert to APT shares in accordance with the terms of the US ESOP. The maximum number of APT shares that will be issued in connection with conversion of common stock in Afterpay US Inc. cannot exceed 10% of the APT

11. EARNINGS PER SHARE (EPS) (continued)

shares issued as of the date of issuance of the Matrix Notes (being 18 January 2018). The conversion period is between 5 and 7 years from the date of issue of the notes (being 18 January 2018), with conversion occurring at the same time as conversion of the Matrix Notes, or potentially on other triggers at APT's election if the Matrix Notes have not been converted after 5 years from their date of issue.

The Matrix Notes may be converted into APT shares in certain circumstances. The conversion period is between 5 and 7 years from the date of issue of the notes (being 18 January 2018), with conversion at the noteholder's election. The number of shares in APT that may be issued is capped at 10% of APT's issued shares at 18 January 2018. Conversion of the Matrix Notes may be accelerated, at the Group's election, in the event of a change of control occurring with respect to the Group.

As discussed in Note 8, the Group has an option to acquire the remaining 10% of ClearPay Limited which can be settled either in cash or APT shares. The potential number of APT shares that could be issued to acquire the remaining 10% of ClearPay was also excluded from the dilution calculated above given the number of shares to be issued will be only determined when the Group exercises this option based on a future value for ClearPay which is unable to be reliably estimated today.

12. EVENTS OCCURRING AFTER CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATE

Other than as disclosed elsewhere in these statements, as at the date of this report the Directors are not aware of any matter or circumstance that has arisen since 31 December 2018 that has significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in the subsequent period.

13. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

13.1. Basis of preparation

This half year financial report (Half Year Report) for the half year ended 31 December 2018 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 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 (Annual Financial Report). 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 2018 and considered together with any public announcements made by the Group during the half year ended 31 December 2018.

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.

13. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

13.1. Basis of preparation (continued)

The accounting policies and methods of computation are the same as those adopted in the most recent Afterpay Touch Group Limited Annual Financial Report, except for the adoption of new and amended standards effective as of 1 July 2018 as set out below. The Group has not early adopted any other standards, interpretation or amendment that has been issued but is not yet effective.

Where necessary, comparative information has been reclassified to be consistent with current period disclosures.

13.2. New standards adopted as at 1 July 2018

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

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

Several other amendments and interpretations apply from 1 July 2018, but do not have an impact on the half year consolidated financial statement of the Group.

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

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

The following tables show the adjustments recognised for each individual line item as a result of the adoption of the above standards. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by each standard below.

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

13. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

13.2. New standards adopted as at 1 July 2018 (continued)

HALF YEAR CONSOLIDATED STATEMENT OF PROFIT OR LOSS (EXTRACT) 6 MONTHS TO 31 DECEMBER 2018	31 DECEMBER 2018 UNDER AASB 15	AASB 15 ADJUSTMENTS	31 DECEMBER 2018 UNDER AASB 118
	$'000	$'000	$'000
Afterpay income	85,165	3,713	88,878
Pay Now revenue	8,931	2,233	11,164
Other income	18,246	-	18,246
Total income	**112,342**	**5,946**	**118,288**
Cost of sales	(25,931)	(2,233)	(28,164)
Gross profit	**86,411**	**3,713**	**90,124**

AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* replaced AASB 139 *Financial Instruments: Recognition and Measurement* for the annual period beginning on or after 1 January 2018.

The adoption of AASB 9 *Financial Instruments* from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. Comparative figures have not been restated.

(a) Classification and measurement change

On 1 July 2018 (the date of initial application of AASB 9), the Group's management assessed which business models apply to the financial assets held by the Group and classified its financial instruments into the appropriate AASB 9 categories. There are no main impacts resulting from the classification. The Group's financial assets are initially recognised at fair value and subsequently measured at amortised cost and are subject to impairment.

(b) Impairment change

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

For the Group's Pay Now trade receivables, the Group applies a simplified approach in calculating the ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For the Group's Afterpay consumer receivables, the Group applies the general approach in calculating the ECLs. ECLs are based on the difference between the contractual cash flows due in accordance with the Afterpay terms and all the cash flows that the Group expects to receive. Due to the short-term nature of the Afterpay receivables, the ECLs are based on the lifetime expected credit losses.

Receivables are written off when there is no reasonable expectation of recovery of the outstanding contractual amounts in full or before taking into account any credit enhancements held by the Group. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

The loss allowances for *Consumer receivables* as at 30 June 2018 reconcile to the opening loss allowances on 1 July 2018 as follows:

	$'000
At 30 June 2018 – calculated under AASB 139	(15,143)
Amounts restated through opening retained earnings	(2,911)
Opening loss allowance as at 1 July 2018 – calculated under AASB 9	**(18,054)**

13. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES
13.2. New standards adopted as at 1 July 2018 (continued)

The adoption of the ECL requirements of AASB 9 resulted in an increase in impairment allowances of the Group's receivables, mainly attributable to the Afterpay consumer receivables. In the statement of financial position, the opening retained earnings was adjusted to reflect an increase in the impairment allowance, resulting in a decrease in *Receivables* and *Retained Earnings* amount of $2.9 million.

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

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

Other adjustments

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

Other income – Late Fees

Late fee charges are currently used by Afterpay as an incentive mechanism to encourage end-customers to pay their outstanding balances as and when they fall due. Late fees are Other Income which is recognised upon charge to end-customers at certain time points where late fees become applicable and are expected to be recovered.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 *Revenue from Contracts with Customers* supersedes AASB 118 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

In accordance with the transition provisions in AASB 15, the Group has applied the modified retrospective method. In the statement of financial position, the opening retained earnings was adjusted to reflect a decrease in the total income, resulting in a decrease in *Receivables* and *Retained Earnings* amount of $4.9 million and an increase in *Deferred Tax Assets* of $1.5 million as a result of applying the EIR method to Afterpay consumer receivables as discussed in the Afterpay income section below.

Afterpay income	Afterpay income is derived from the difference between the underlying retail list price with the merchant and the amount paid to the merchant by Afterpay referred to as *Merchant Fees*. Afterpay pays merchants upfront the net amount of the previous day orders less the merchant fees and assumes all non-payment risk from customers. There are no interest or fees charged to customers, other than late fees described below.

13. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

13.2. New standards adopted as at 1 July 2018 (continued)

Prior to the adoption of AASB 9 and AASB 15 Afterpay income was recognised as revenue at customer order date in accordance with AASB 118 *Revenue*. Due to the adoption of these new standards, *Afterpay Income* (previously disclosed as *'Revenue'*) is recognised in the consolidated statement of comprehensive income under AASB 9 using the Effective Interest Rate (EIR) method, accreting the *Merchant Fees* over the average period from initial payment to the merchant by Afterpay to the final instalment paid by the customer to Afterpay. With the current average weighted duration to recoup end-customer payment being approximately 30 days or less, the Group defers *Afterpay Income* over the average time it takes for the collection of the receivable to occur.

There is no change in the timing or amount of cash flows when an order is processed or collected.

As a result of applying the EIR method to the Afterpay *consumer receivables*, the *Afterpay Income* and *Receivables* decreased by $3.7 million for the half year ended 31 December 2018.

Rendering of services – Pay Now Revenue

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

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

Infrastructure services under AASB 15 are considered to be services performed by the Group in order to provide subsequent transactional processing services to a customer, and are not considered to be a separate performance obligation in the contract. For this reason, the fees received for infrastructure services are recognised as a contract liability and recognised as transactions are processed over the contract period. There are no contract liabilities or revenue generated from infrastructure services in the six month period to 31 December 2018.

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

13. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES
13.2. New standards adopted as at 1 July 2018 (continued)

The Pay Now business has marketing contribution agreements and some of those are with merchants and based on agreed monthly underlying sales or revenue. Prior to adoption of AASB 15, these marketing contribution agreements were recognised as part of cost of sales. In accordance with AASB 15 and specifically the requirement to distinguish and reasonably estimate the fair value of the specific services received from the customer, the Group has reduced the transaction price by the cost of these marketing contribution agreements because the customer does not provide a distinct good or service in exchange.

13.3. New standards issued but not yet applied by the entity

AASB 16 *Leases* was issued in February 2016 which will result in the recognition of almost all leases on the consolidated statement of financial position, as the distinction between operating and financing leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the Group's operating leases. The Group will be required to recognise an asset and a financial liability for the majority of its property leases. In addition, the operating lease rental associated with these leases will no longer be recognised as an operating expense in the income statement, instead being replaced by depreciation of the lease asset and interest expense on the lease liability.

This is not expected to materially change the profit after tax over the duration of most leases but will change EBITDA (which is one of the measures utilised by the Chief Operating Decision Makers to measure profitability and reward financial performance). An assessment of the impact of the change in accounting treatment is still to be performed.

To date, work has been focused on the identification of the provisions of the standard which will most impact the Group and in conducting a detailed review of existing contracts and corresponding financial reporting impacts. Some of the commitments may be covered by the exemption for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

There are a number of transition options available upon adopting the new standard – the 'retrospective approach' and the 'modified retrospective approach'. The Group has not yet determined which transition approach to apply. The Group will report under the new leasing standard for the full year ending 30 June 2020 and does not intend to adopt the standard before its effective date.

There are no other new accounting standards issued but not yet effective.

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

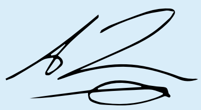
a. The financial statements and notes of the Group are in accordance with the *Corporations Act 2001*, including:

   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 2018 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



Anthony Eisen

Executive Chairman
Melbourne
26 February 2019

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

Report on the Half Year Financial Report

Conclusion

We have reviewed the accompanying half year financial report of Afterpay Touch Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2018, 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 2018 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 Standard 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 2018 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

Ernst & Young

David McGregor
Partner
Melbourne
26 February 2019

CORPORATE INFORMATION

Afterpay Touch Group Limited
ABN 618 280 649

Board of Directors

Anthony Eisen (Executive Chairman)
David Hancock (Executive Director and Afterpay Touch Group Head)
Nicholas Molnar (Executive Director and CEO of Afterpay)
Clifford Rosenberg (Independent Non-Executive Director)
Elana Rubin (Independent Non-Executive Director)
Dana Stalder (Independent Non-Executive Director)

Australian Registered Office

Level 5, 406 Collins Street
Melbourne VIC 3000 Australia

General Counsel & Company Secretary

Christopher Stevens

Solicitors

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

Auditor

Ernst & Young
Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000

Share Registry

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

Stock exchange listing

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


afterpaytouch