Afterpay Limited ASX: APT

ASX Announcement

25 August 2021

Appendix 4E and FY21 Annual Report

Afterpay Limited attaches its Appendix 4E and Annual Report for the year ended 30 June 2021.

Authorised by:
Anthony Eisen
Co-CEO & Managing Director

ENDS

For further information contact

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Afterpay Limited ASX: APT

Appendix 4E

Preliminary final report

Under ASX listing rule 4.3A

Company Details

Name of Entity: Afterpay Limited

ACN: 618 280 649

Reporting Period: For the year ended 30 June 2021

Previous Period: For the year ended 30 June 2020

Results for announcement to the market

Statistical Results Summary

	Change from year ended 30 June:					
		%		2021 $m		2020 $m
Total income[1]	▲	78%	to	924.7	From	519.2
Loss after tax	▼	597%	to	(159.4)	From	(22.9)
Loss after tax attributable to the ordinary shareholders of Afterpay Limited	▼	689%	to	(156.3)	From	(19.8)

The Group achieved Total income of $924.7 million for the year ended 30 June 2021, up 78% on the prior year. Total income growth was driven by an increase in the value of customer orders processed through the Afterpay platform (referred to as Underlying Sales[2]) as customer and merchant demand for the Afterpay service continues to grow across all of Afterpay's operating regions, particularly in North America and the UK. The Group acquired Pagantis SAU and PMT Technology SLA (collectively, Pagantis or Clearpay Europe) on 9 March 2021 and launched its Clearpay services in Europe. Clearpay Europe has made a minor contribution to the Group's results during the period.

The Group recorded a Loss after tax of $159.4 million for the year ended 30 June 2021 (2020: $22.9 million loss). The increase in the Loss after tax from the prior year was primarily driven by the net loss on financial liabilities at fair value of $96.8 million (2020: $2.0 million) and share-based payment expenses of $59.0 million (2020: $30.5 million). The non-cash loss on the financial liabilities at fair value relates to an increase in the valuation of the Clearpay Put Option liability for the remaining shares in Clearpay Finance Limited (Afterpay's UK operations or Clearpay UK) held by ThinkSmart Limited. The increase in the valuation reflects better than expected results for Clearpay UK for the year, improvements to Clearpay UK's forecast future cash flows, and increases in broader market valuations for similar businesses. The increase in share-based payments expense is due to the increase in Afterpay's share price and growth in employee numbers during the year.

1. Total income consists of Afterpay income, Pay Now revenue and Other income. Total income represents Afterpay's revenue from ordinary activities.
2. Underlying Sales and EBITDA (excluding significant items) are non-IFRS measures that are not audited but are a key financial metric used by management at a Group level. EBITDA (excluding significant items) excludes foreign currency gains, share-based payment expenses, net loss on financial liabilities at fair value, share of loss of associate, gain on dilution of shareholding in associate and one-off items. Underlying Sales does not have a comparable IFRS measure. EBITDA (excluding significant items) has been reconciled to Loss after tax in the Financial Summary on the following page.

Loss after tax also includes foreign currency gains, share of loss of associate, gain on dilution of shareholding in associate and one-off items which totalled $4.8 million for the year (2020: benefit of $12.4 million). These items are also not included in earnings before interest, tax, depreciation and amortisation (EBITDA) (excluding significant items)[2].

The Group delivered EBITDA (excluding significant items)[2] of $38.7 million for the year ended 30 June 2021, down $5.7 million or 13% on the prior year. Lower EBITDA (excluding significant items)[2] was driven by increased investment in employment, marketing and operating expenses. Investment continues to be made to scale Afterpay's global operations and grow Underlying Sales[2].

Financial Summary

	2021 $'000	2020 $'000	Change %
Total income[1]	924,670	519,151	78%
EBITDA (excluding significant items)[2]	**38,729**	**44,400**	**(13)%**
Foreign currency gains	9,865	19,948	(51)%
Share-based payment expenses	(59,003)	(30,454)	(94)%
Net loss on financial liabilities at fair value	(96,835)	(1,999)	(4,744)%
Share of loss of associate	(2,271)	(1,101)	(106)%
Gain on dilution of shareholding in associate	5,683	-	N/A
One-off items	(18,051)	(6,419)	(181)%
International expansion costs	(8,377)	(3,520)	(138)%
Impairment	(4,698)	-	N/A
Business combination and other costs	(4,976)	824	(704)%
AUSTRAC-related costs	-	(3,723)	100%
EBITDA	**(121,883)**	**24,375**	**(600)%**
Net finance expense	(33,342)	(21,122)	(58)%
Depreciation and amortisation	(38,989)	(30,035)	(30)%
Loss before tax	**(194,214)**	**(26,782)**	**(625)%**
Income tax benefit	34,819	3,925	787%
Loss after tax	**(159,395)**	**(22,857)**	**(597)%**

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Net tangible assets per ordinary share

At 30 June	2021 $	2020 $
Net tangible assets per ordinary share[1]	3.73	3.14

1. Includes Right-of-use assets accounted for under AASB 16 *Leases*.

Dividends

No dividends were declared or paid for the year ended 30 June 2021.

Basis of preparation

This Preliminary Final Report is based on the Consolidated Financial Statements of Afterpay Limited for the year ended 30 June 2021 which have been audited by Ernst & Young.

Other information required by Listing Rule 4.3A

Additional Appendix 4E disclosure requirements and commentary on significant features of the operating performance, results of segments, trends in performance and other factors affecting the results of the year are contained in the Consolidated Financial Statements for the year ended 30 June 2021 and in the Directors' Report for the year ended 30 June 2021.

This document should be read in conjunction with the Group's 2021 Annual Report and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth) and the ASX Listing Rules.

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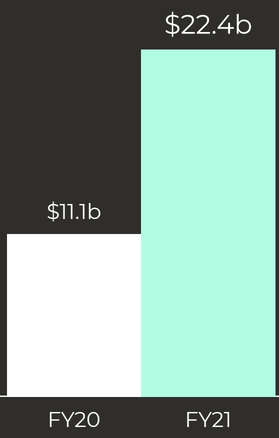
Unlock.

Afterpay Limited FY21 Annual Report

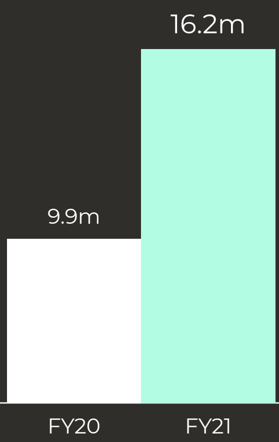
Performance Highlights.

Afterpay Underlying Sales[1]



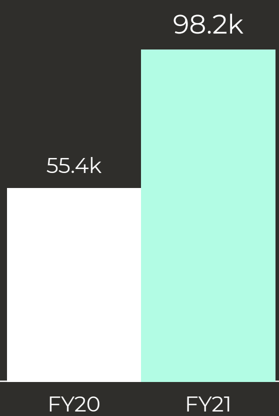
Up 102% constant currency[3]

Afterpay Active Customers[1,2]



Up 63%

Afterpay Active Merchants[1,2]



Up 77%

Afterpay Underlying Sales[1]

$21.1billion Underlying Sales – up 90%

Exceeded objective to reach $20 billion - 12 months early

Afterpay Income Margin[1,4]

Sustained

3.9% **of Underlying Sales**

Afterpay Net Margin[1,5]

Maintained

+2% **of Underlying Sales**

Gross Losses

Below

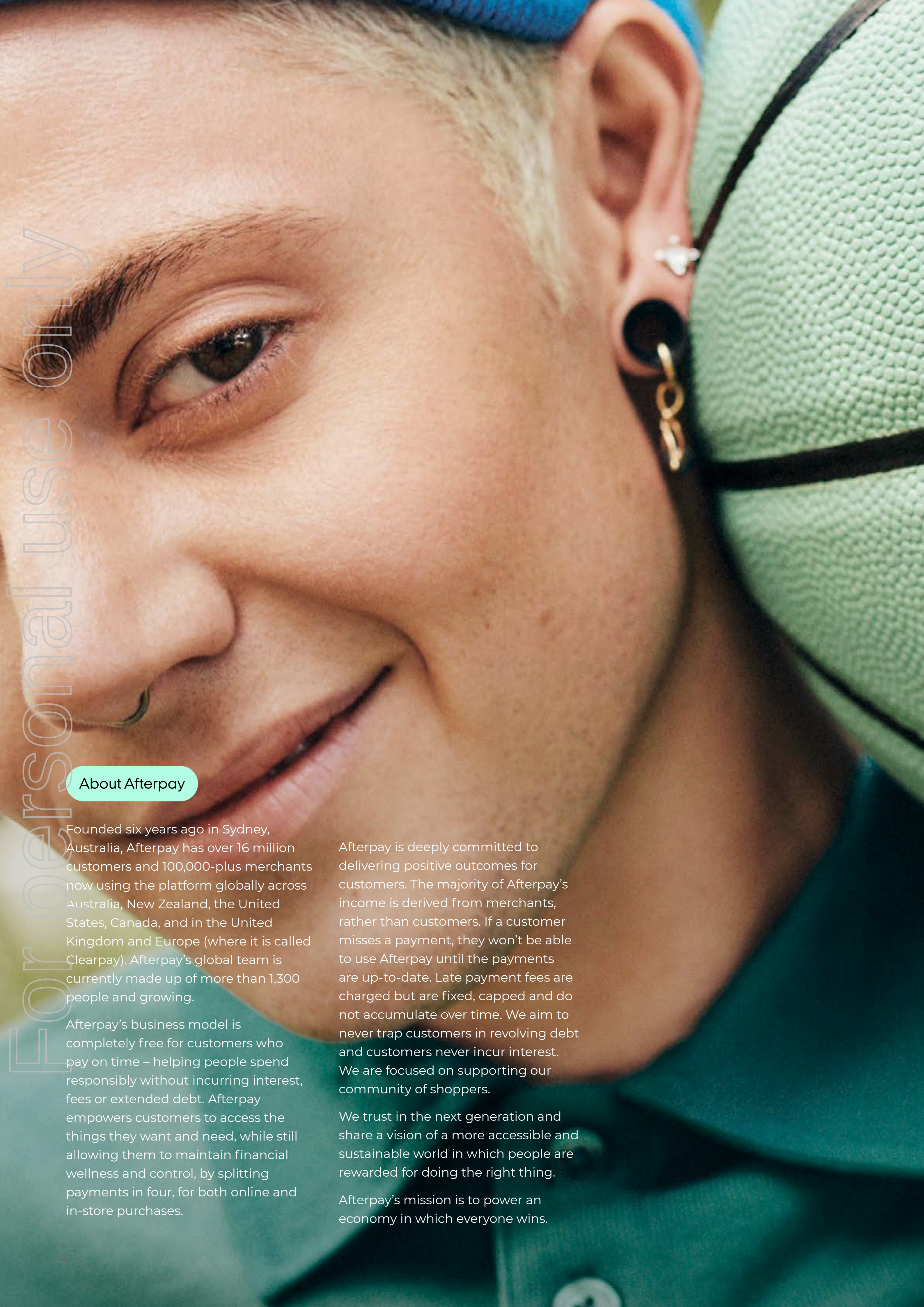
1% **of Underlying Sales**

EBITDA[1] (excluding Significant items)

$38.7 million

Down 13% on prior year

Notes: Change calculations may not equate due to rounding. 1. Unaudited information. 2. Active is defined as having transacted at least once in the last 12 months. 3. Constant currency is a non-IFRS measure and has been calculated by translating the results for the full year ended 30 June 2021 at the effective exchange rates for the prior comparative period ended 30 June 2020. 4. Afterpay income margin is Afterpay Income as a percentage of Underlying Sales. 5. Afterpay Net Margin reflects merchant transaction margin earned directly from Underlying Sales, plus other revenue and margin items associated with the Afterpay platform (such as Money by Afterpay).



About Afterpay

Founded six years ago in Sydney, Australia, Afterpay has over 16 million customers and 100,000-plus merchants now using the platform globally across Australia, New Zealand, the United States, Canada, and in the United Kingdom and Europe (where it is called Clearpay). Afterpay's global team is currently made up of more than 1,300 people and growing.

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

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

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

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

Contents.

FY21 in Review.

Millennials and Gen Z are less likely than their parents to use a credit card, and more likely to want to engage with organisations and brands that they trust.

Dear Shareholders,

It seems incredible that at this time last year, we were acknowledging the global impacts of COVID-19 and the resilience of our teams around the world.

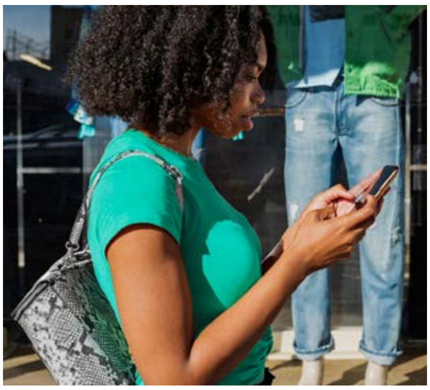
Twelve months later, much progress has been made in terms of vaccine advancement and medical improvement worldwide. Yet in each of the regions in which we operate, the pandemic continues to have deep economic, social, and community impacts.

In light of these ongoing and challenging circumstances, and on behalf of all the Directors, I would like to thank all our teams who have worked tirelessly through another year of disruption and dislocation. While our merchants, customers, employees, and shareholders have all been affected, we are reminded of the resilience and tenacity of the human spirit, and the power of supporting each other. We remain focused on our commitment to creating financial fairness and freedom for all.

Global research continues to indicate that credit cards and credit-based products are in decline, while BNPL continues to expand as a preferred way to pay. Millennials and Gen Z are less likely than their parents to use a credit card, and more likely to engage with organisations and brands that they trust. These factors underpin the important role that Afterpay now plays in social and economic empowerment.

The forthcoming launch of the Money by Afterpay product is a great example. This is a testament to the skill and innovation of the team in bringing a new and inclusive financial product to life. It also signals our commitment to supporting and enhancing financial inclusion, particularly for younger women. Data shows that female engagement with financial services is comparatively low, but they are seeing that this issue is theirs to solve. This demographic has seen several societal shifts during the past 20 years, and yet less than a third of women[1] have been taught about investing, and the wage and superannuation gaps remain.

These same women make up the majority of the Afterpay consumer base. They want a sensible way to afford discretionary items, using their own money, and greater financial empowerment. Money by Afterpay will make money management simple and frictionless for these consumers, as they improve their financial literacy, grow their wealth, and ultimately secure future life goals by saving alongside responsible spending.



1 Money by Afterpay Research 2021

We have transitioned from a top 100 company to a **top 20 company in Australia**

We operate in **9 countries**

We have grown from <30 employees in FY16 to **~1,300 employees** in FY21

Actionable measures and initiatives that demonstrate **our commitment to diversity and fostering an inclusive culture** which supports, values and celebrates our differences

Diversity and Inclusion

We are also working to build out our organisational response to creating a diverse and inclusive workplace for our people. During FY21, we launched refreshed principles to guide our diversity and inclusion (D&I) goals and initiatives into the future. In addition, the Board approved D&I measurable objectives for the financial year which are detailed within the Corporate Governance statement, which is available on our corporate website. These are actionable measures that demonstrate our commitment to diversity and fostering an inclusive culture which supports, values and celebrates our differences. There is further information in the *do the right thing* section of this annual report, which details the important initiatives implemented by our team.

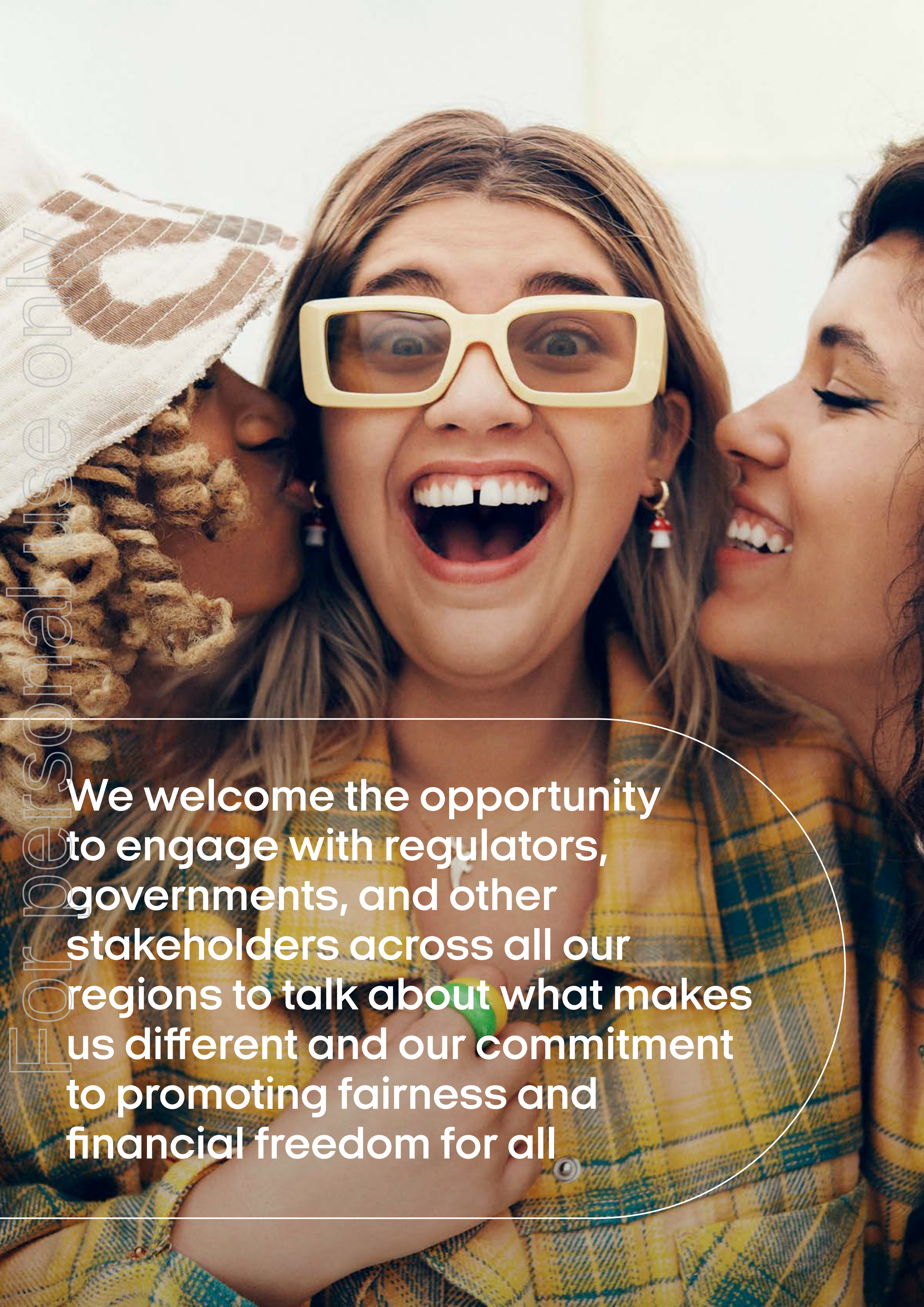
Sustainability

As a business built on trust and transparency, Afterpay has worked alongside consumers, merchants and stakeholders to understand and engage on the issues that matter most to them. We know that Millennial and Gen Z consumers are placing increased focus on brands that minimise environmental impact and improving outcomes for people employed in those industries.

In recognition, we partnered with Good On You, the world's leading source for sustainable fashion brand ratings, using expert analysis and proprietary technology. The Good On You team provides information on fashion brands, producing an easy-to-understand score based on ethical and sustainable criteria. These ratings form the basis for our Shop Directory category, which is powered by Good On You.

As part of our broader commitment to environmental sustainability, we have commenced the process to join the Race to Zero via The Climate Pledge, a UN-backed global campaign that is bringing together hundreds of cities, thousands of businesses, and global investors to raise awareness and focus efforts on achieving net-zero carbon emissions by 2040 at the latest.

Afterpay is also working towards achieving carbon-neutral certification from Climate Active and has independently calculated our carbon footprint across global operations. We continued to enhance our partnerships throughout FY21 and are consistent with our commitment to do the right thing, which can be found on page 22 of this report.



We welcome the opportunity to engage with regulators, governments, and other stakeholders across all our regions to talk about what makes us different and our commitment to promoting fairness and financial freedom for all

Governance

We think of good governance as part of doing the right thing. It's one of our key values and strategic pillars, and during FY21 we continued to strengthen Afterpay's governance framework. Our framework is detailed in our Corporate Governance Statement, which is available on our corporate website together with our key governance policies and charters.

FY21 was another very busy year for the Board who continue to be well supported by its Audit, Risk and Compliance Committee (ARCC) and its People, Remuneration and Nomination Committee (PRNC). During FY21, Gary Briggs replaced me as appointed Chair of the PRNC, and his global experience has enhanced our remuneration practices across our operating geographies.

The Board also established special-purpose Sub-Committees to provide oversight of significant projects. These include the transaction to increase our underlying interest in the Afterpay US business, completed in April 2021, and the proposed acquisition by Square, Inc of Afterpay announced in August 2021 (see further below).

Remuneration

Our global compensation and remuneration framework has been designed to attract and retain leading talent and to appropriately link Group performance with remuneration outcomes. The framework seeks to ensure fair and consistent outcomes for all team members globally while reflecting regional practices. The Remuneration Report outlines the FY21 remuneration outcomes for key management personnel in detail.

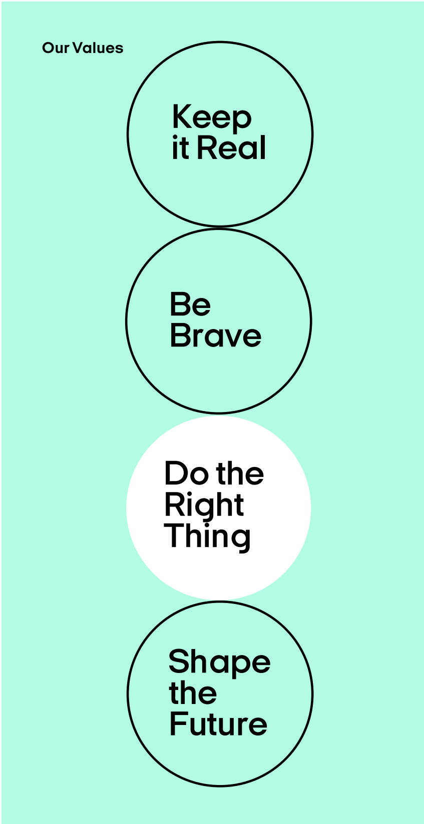
Regulatory engagement and participation

During the year, Afterpay continued to proactively engage with regulators, governments, and stakeholders across all regions in which it operates. This included engagement in the establishment of the landmark Buy Now Pay Later (BNPL) Code of Conduct in Australia, which recognises the diversity of our industry, incorporating scalable standards and protections to ensure the industry continues to deliver strong consumer outcomes.

More recently, Afterpay engaged with ASIC on the forthcoming Design and Distribution Obligations (DDO). We are on track to implement these requirements before the DDO's commencement in October 2021. Elsewhere we continue to engage with HM Treasury and the UK Government regarding the proportionate regulatory framework for BNPL in the UK and the review of the EU Consumer Credit Directive, which has not been adjusted for more than 10 years and precedes the emergence of BNPL as an alternative to credit products in that region.

As always, we welcome the opportunity to engage with regulators, government, and other stakeholders across all our regions to talk about what makes us different and our commitment to promoting fairness and financial freedom for all.

> We think of good governance as part of doing the right thing, one of our key values and strategic pillars, and during FY21 we continued to strengthen Afterpay's governance framework.



Unlocking Shareholder value

In the six years since Afterpay began, as a forthright and tenacious advocate for a better way to pay, the Company has evolved to become a much loved and trusted consumer brand globally.

Our growth and commitment to improving financial wellbeing echoes and aligns us well with Square, Inc. (NYSE: SQ) with whom we have since entered into a Scheme Implementation Deed for Square to acquire all issued shares in Afterpay by way of a recommended court-approved Scheme of Arrangement (Transaction) for an implied value of approximately US$29 billion (A$39 billion)[2].

Square and Afterpay share an aligned purpose to improve consumer outcomes, to make the financial system fairer and more inclusive. The complementary nature of the two businesses presents an opportunity to grow both organisations via strategic synergy and deepen the relationships between merchants and consumers across these two well-established ecosystems. Likewise, it will bring added value and differentiation to Afterpay, enabling the business to further grow to more than 70 million annual active Cash App customers and millions of sellers. Afterpay consumers will also be able to use the benefits of Cash App's financial tools, including money transfer, Stock, and Bitcoin purchases.

It is for these reasons that your Directors unanimously recommend that shareholders vote in favour of the Transaction. The Transaction is contingent upon certain customary shareholder and regulatory approvals and conditions and is expected to close in the first quarter of CY22. Shareholders can expect to receive the Scheme Booklet during November.

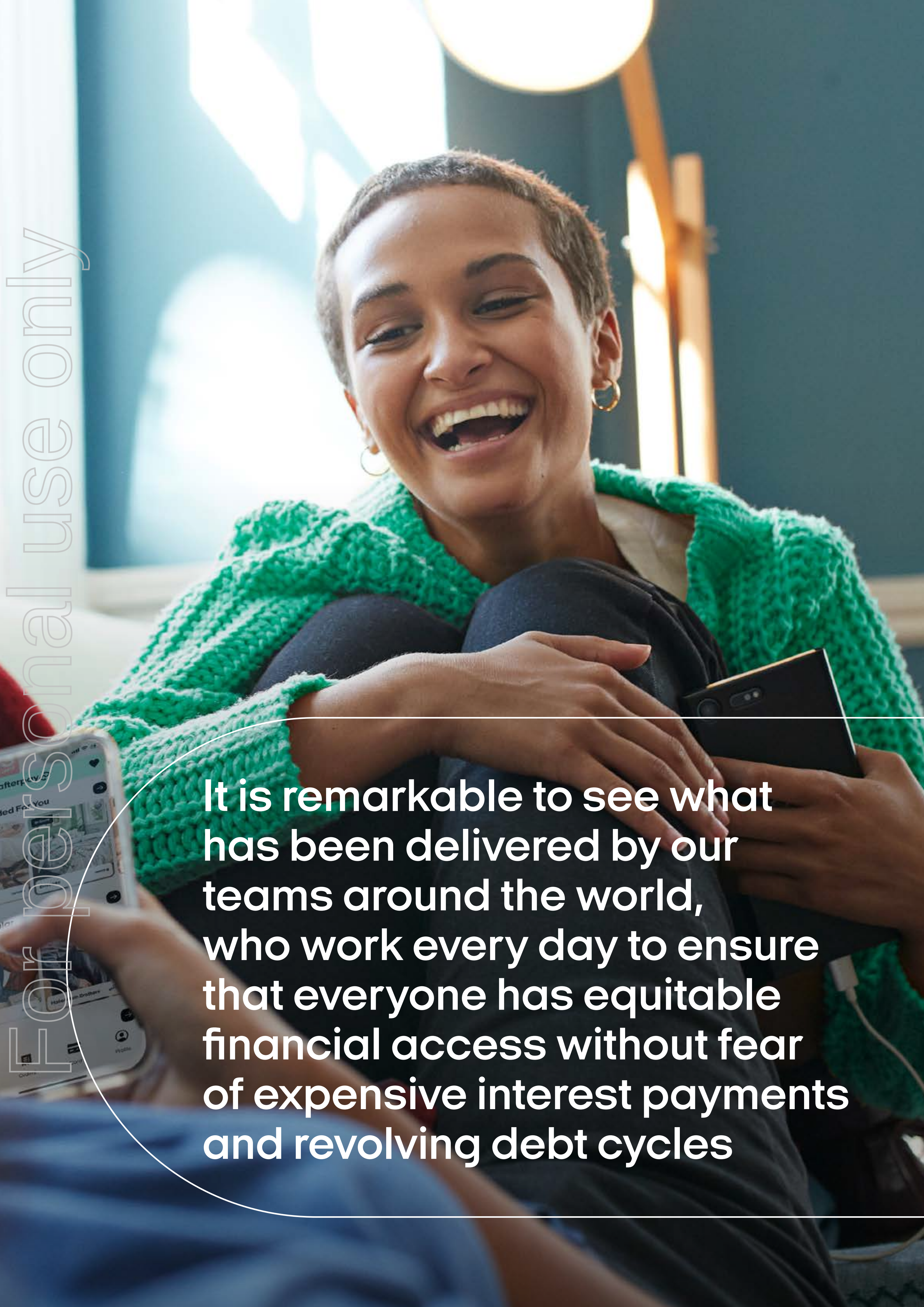
As Chair of Afterpay, I could not be prouder of what this incredible company has achieved in its short but impactful history. From our original launching point, as a Sydney-based start-up six years ago, it is remarkable to see what has been delivered by our teams around the world, who work every day to ensure that everyone has equitable financial access without fear of expensive interest payments and revolving debt cycles. For our merchants with whom we have partnered to date, the incremental value that Afterpay has driven we believe will grow further on successful completion of the Transaction.

On behalf of the Board of Directors, I thank the founders, management teams, and our global teams. Each of you has worked tirelessly through another difficult year, and your commitment and passion for our vision have never waived. As we look ahead with excitement at the opportunity that FY22 presents, I thank all shareholders for your support of this business as it unlocks the next phase of growth.

Elana Rubin AM

Independent Chair
Afterpay

2 As at the close of trade on 30 July 2021



It is remarkable to see what has been delivered by our teams around the world, who work every day to ensure that everyone has equitable financial access without fear of expensive interest payments and revolving debt cycles

Dear fellow shareholders

The complex and ever-changing COVID-19 environment has continued to present challenges during the past 12 months. We would like to thank our incredible teams around the world for working so passionately to ensure our customers and merchants were at the centre of everything we did during these difficult times.

Taking care of our people has always been our primary focus. Seeing how our growing teams supported each other during the past year has been very special, and we're extremely grateful to lead such an incredible group of people.

The long-lasting impacts of COVID-19 will further accelerate the shift from traditional credit to debit products. This ongoing shift in consumer behaviour is the reason why Afterpay was founded six years ago. We wanted to flip the traditional credit model on its head and empower the next generation to spend responsibly.

Our leadership team has worked with teams around the world to execute Afterpay's strategy, with a focus on driving our vision of 'fairness and financial freedom for all', and our mission 'to power an economy in which everyone wins'. Our actions are underpinned by our strategic focus on being led by the needs of our customers and merchants, while ensuring that we put our people first.

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

Our Vision

Fairness and financial freedom for all

Our Mission

To power an economy in which everyone wins

Connecting the world's most-loved brands with next-generation consumers

We have built a global platform that Millennial and Gen Z consumers trust, because they can shop responsibly with brands they love. More and more customers choose Afterpay to avoid getting trapped in a revolving cycle of debt. They trust us to create a seamless experience across online and offline shopping that provides greater control, flexibility and transparency over their finances. Our shop directory has generated ~1 million customer referrals to our retail partners every day during H2 FY21, creating additional value and connection.

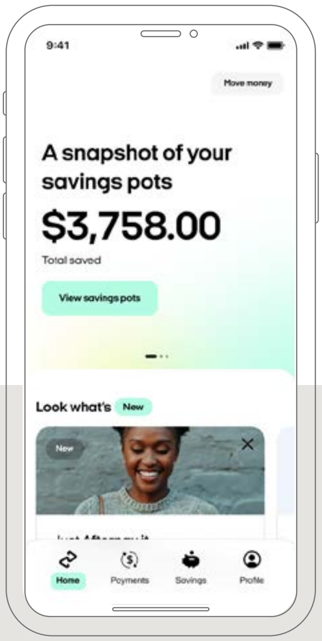
Our teams never stop listening to our customers and merchants because they are passionate about driving value that meets their evolving needs. We have focused on delivering value for both our customers and merchants through unlocking innovation to scale and grow.

We've enhanced our loyalty program, Pulse Rewards, which sees our customers earn points for responsible spending behaviour. Customers move through tiers to unlock new benefits including exclusive offers from much-loved brands, flexible payment dates, and early access to sales.

We successfully launched a one-time-use card to select US app customers, enabling them to shop their favourite brands with retailers who aren't yet integrated onto our platform, and we are looking forward to expanding this over the coming months. The addition of our Favourites feature gives our customers the ability to save their favourite retailers and popular items for a time that suits them to shop.

It was an exciting time as we announced the launch of Money by Afterpay. Our new Money app has been designed to help customers build financial confidence by equipping them with a money management experience better suited to their lives. We're thrilled that our Australian team members have already started to trial the app ahead of the full-scale launch.

Money by Afterpay



We have seen continued success and momentum with our in-store offering in Australia, New Zealand and the US. It was fantastic that we could support our merchants during FY21 as they started to reopen their physical stores. We were able to enhance the experience for our customers by launching in-store card across these three regions, and following the successful launch of the ANZ Afterpay Card, more than 1.4 million customers have added the Afterpay Card to their digital wallets. Our UK team will also launch in-store in Q2 FY22.

Our obsession with delivering merchant value has amplified during the past year. We continued to support our merchants with improvements to the online experience.

During FY21 we launched Express Checkout across more than four thousand merchants who have seen an increase in sales conversions as a result of integrating this feature. We continued to grow our cross-border trade (XBT) offering during FY21, with consumers now able to shop from merchants across all regions. And, we're excited about launching Afterpay iQ to our merchant partners, who will be able to access leading consumer marketing insights to help grow their business and optimise their marketing investment.

Becoming a truly global brand

We expanded our presence into Europe by welcoming Pagantis into our Clearpay family and successfully launching in Spain, France and Italy. We are thrilled to be working with these talented employees, who have more than 450 merchants live, integrating or signed.

To further build on the love and trust of our customers, we launched our first ever global marketing campaign - Pay Better - we shared engaging messages that reminded people that there is a better way to pay without interest, fees or debt. Our brilliant marketing team did a fantastic job of educating the next generation through humorous, simple and engaging messages across all our key regions.

When the retail and fashion industry most needed support, we were absolutely honoured to partner with three of the world's biggest fashion-week events in Australia, London and New York. The opportunity to support the sustainable success of the industry in which we grew up was a really proud moment for us and our teams. Bringing the themes of diversity and inclusion, sustainability and accessibility to the forefront of our conversations through these partnerships was important and rewarding.

We delivered solid results in FY21

The hard work and passion of our teams around the world has helped deliver a solid set of results in FY21. We continued on our global growth trajectory, with strong operating performance achieved across all regions.

The Group delivered a 90% increase in FY21 Underlying Sales ($21.1 billion) on pcp or 102% on a constant currency basis ($22.4 billion) and our Group Total Income of $924.7 million, 78% higher than FY20, was driven by the strong performance of the Afterpay business growing from a much larger base.

Our active customers during FY21 grew to 16.2 million, an increase of 63% compared to the same time last year, with approximately 25k new customers joined the platform globally per day during FY21. Our global integrated active merchant network now exceeds 100k, following an increase of 77% in FY21 (98.2K as at 30 June 2021).

Underlying Sales

$22.4b[1]

Up 102% on FY20

Active Customers

16.2 million

Up 63% on FY20

Active Merchants

98.2k

Up 77% on FY20

1. Constant currency

Doing the right thing

We have a continual focus on the health and wellbeing of our people. Creating an environment where everyone feels able to be their authentic self is our top priority.

The appointment of our first Diversity and Inclusion Director was a critical step on our journey to fostering an inclusive culture and embracing diversity of thought and inclusive behaviours across our business. Through our D&I strategy and principles, we launched initiatives to raise awareness within our business and across our external communities, as well as celebrating important moments around the world.

The blurring of personal and professional life, and the lack of social connectedness, presented challenges during the past year. We responded by appointing a Director of Wellbeing and staying close to our teams through regular Q&A sessions and wellbeing surveys. This ensured we were listening to and acting on the concerns of our people. The initiatives we introduced include quarterly Wellness Days and a dedicated Wellbeing Hour each week. These give our teams a chance to disconnect and focus on their mental and physical health in a way that best suits them.

Our team further built on the support we provided our merchants, particularly our small to medium-sized business (SMB) partners during the continued challenges of FY21. Our 'Support Small' campaign enabled us to spotlight some of the incredible partners we have and connect them to millions of customers worldwide.

The passion our team continued to show for our community partners has been inspiring. We have had teams volunteering with Thread Together and Global Sisters, and it was an absolute privilege to help raise awareness and, together with our customers, funds for both these amazing not-for-profit organisations.

Shaping the future together

We are excited about the opportunity to bring two of the fastest-growing fintechs together through our announcement with Square. Our shared purpose of economic and financial inclusion will offer an even more attractive platform, with compelling financial products and services that expand access to more consumers and merchants across geographies, categories and segments.

We are so proud of what we have achieved as a team during the past six years. Leading such a talented group of ~1,300 employees, who are so committed to delivering on our mission of powering an economy in which everyone wins, is an absolute privilege. Thank you is never enough. What each and every one of you brings to Afterpay is invaluable and we couldn't have achieved what we have without you.

To our Board and leadership team, we could not have wished for a better group of people to work with. Your experience and insights have enabled us to scale and evolve like we never imagined.

We would also like to thank our customers and merchants for your continued loyalty and trust. We look forward to writing our next chapter with you, creating even more value and opportunities.

To our shareholders, thank you for your support and coming on this journey with us. You have enabled us to grow beyond our wildest dreams and for that we will be forever grateful.

We are energised for the future and remain fully committed to our aspirational vision of a world with fairness and financial freedom for all. We will continue to work with our awesome team to power an economy in which everyone wins.

Anthony Eisen

Co-CEO and Co-Founder
Afterpay

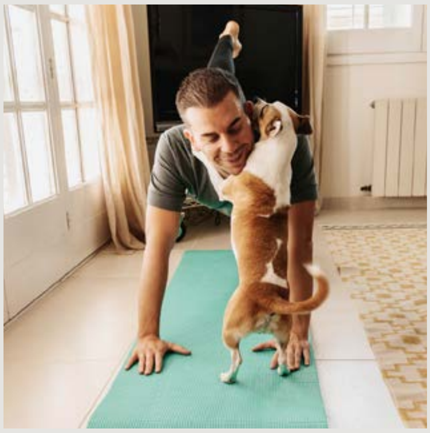
Nick Molnar

Co-CEO and Co-Founder
Afterpay

Mental health is a particularly important aspect of our wellbeing culture, and we continue to create conversation around this subject

Sustainability

Do the Right Thing.



Putting our people first

Over the past 12 months we have grown from ~650 to ~1,300 incredible people and our commitment continues to be creating a holistic wellbeing culture and an environment where our team feel safe to be their authentic self.

We appointed a dedicated Director of Wellbeing in FY21 to ensure we had the right focus. Our people and their wellbeing continues to be one of our top priorities.

Our Employee Assistance Program is available to all team members and their loved ones. We have implemented quarterly Wellness Days, where all global employees are encouraged to take the day to rest, relax, and reset. We recently piloted a dedicated Wellness Hour, where our teams are encouraged to step away from their screens and do something to support their wellbeing.

Mental health is a particularly important aspect of our wellbeing culture, and we continue to create conversation around this subject. We held a series of fireside chats with Afterpay leaders anchored around RUOK Day, and leaders regularly share how they are looking after their mental health.

We offer the Headspace app to all employees as well as their friends and family. The majority of our workforce has taken this up, so we feature programs and resources regularly in our employee communications to drive awareness and engagement.

We continue to listen to our employees through anonymous surveys, gathering feedback to implement programs based on these insights. We keep our global teams connected through monthly All Hands, giving everyone an opportunity to ask questions of our leaders. Our teams live our values – Be Brave, Keep it Real, Do the Right Thing and Shape the Future – to ensure the continued success of the business.

Building a diverse and inclusive culture, together

Afterpay is a dynamic global organisation. We understand that diversity and inclusion is at the heart of our success. We appointed a Director of Diversity and Inclusion in FY21 and strengthened our focus on this integral aspect of our culture.

Our new set of principles provides a framework for our D&I goals and initiatives. We created a range of internal team and communications initiatives to start to bring our principles to life. These were focused on education, resources, events and initiatives anchored to diversity and inclusion moments.

Our learning journey began by providing opportunities for our people to learn about diversity and inclusion, bias awareness, and inclusive leadership. An ally skills talk taught us all concrete ways to stand tall in our commitments to inclusion. A newly created online space includes ongoing resources to support learning with articles, event recordings, and company D&I information and materials.

To encourage engagement and spark conversations around these ideas, we created an internal employee communications group 'Together@Afterpay' for sharing D&I communications and raising awareness about key diversity days and months. These included Black History Month, International Women's Day, Asian American and Pacific Islander (AAPI) Heritage Month, National Reconciliation Week and Pride Month.

Each of these was brought to life with different campaigns such as internal storytelling from employees and community partners, panel discussions, learning resources and external communications. In some of these events, we also had a focus on spotlighting and celebrating the diverse merchants on our platform.

Responding to the needs of our teams is also a key part of how we foster inclusion and promote a sense of belonging. We ran surveys to capture inclusion experience feedback and formed employee resource groups for women and the LGBTQI+ community.

We promoted LGBTQI+ inclusion through various initiatives. This included joining Pride in Diversity in Australia, running awareness training, delivering initiatives for Pride Month, introducing options for employees to identify as non-binary or gender diverse, and providing access to learning resources. During Pride Month, we created a video where employees around the world shared thoughts on what 'Pride is to me'. We also heard moving stories from members of our team in a 'Sharing Our Stories' event. In the US, we launched a 'GenderFree' shopping experience to encourage self expression.

We formed partnerships with hiring platforms that support diversity including People of Color in Tech, Power to Fly and Work180. We work collaboratively with these platforms to attract talent and promote our culture. We also developed new guidelines to promote D&I in hiring, and delivered training for the talent acquisition team.

We leaned into community support by engaging with organisations promoting gender equality. This included joining Code Like A Girl's internship program, sponsoring Grad Girls and the Australian Women in Security Network, and being a member of the Corporate Program in Stanford's VMware Women's Leadership Innovation Lab.

We support the global movement to tackle systemic racial inequality, focusing on racial equality and diversity through several US initiatives during FY21. In addition to celebrating Black History Month, we amplified the voices of Black women from our merchant community through our International Women's Day panel. We honoured Juneteenth by encouraging our US employees to participate in community activities and to engage in activism and self-education. During AAPI Heritage Month, we highlighted the importance of ally skills in response to the escalation of violence against Asian communities, as well as celebrating the work of our AAPI merchants.

As a company born in Australia, we recognise the importance of fostering respectful, authentic and sustainable relationships with First Nations communities. We formed an internal working group to support our focus on engagement with Aboriginal and Torres Strait Islander communities in FY21. We launched an internal Welcome to and Acknowledgement of Country guide to help employees understand why these cultural protocols are important, what they mean and how to use them in meetings and events. We held events for National Reconciliation Week, and we continue to look for ways to support the work of Indigenous merchants in Australia. We know there is more work to do but we're committed to ongoing learning, education and raising awareness with our team.

Developing strong and meaningful community partnerships

We partner with community organisations around the world, giving back and underpinning our mission to power an economy in which everyone wins. These partnerships bring our Do The Right Thing value to life, and our people are absolutely passionate about this work.

This year, we continued our principal partnership with Australian start-up charity Thread Together, whose mission is to source excess new clothing from fashion retailers and redistribute items to vulnerable families and individuals. As well as restoring dignity and hope for those doing it tough, Thread Together's work has resulted in tonnes of new clothing being diverted from landfill.

In FY21, Afterpay raised $200,000 for Thread Together through numerous 'add $1' at the checkout' campaigns. Afterpay has also committed to topping up the campaigns , ensuring that Thread Together receives a minimum of $400,000 each year from FY22. The Afterpay team also regularly volunteers at Thread Together's distribution centres and stores, where they sort through clothing and pack orders to be sent out to people in need.

We created a new partnership with Global Sisters in FY21, a leading Australian not-for-profit that makes business possible for women experiencing barriers to traditional work. In this multi-year partnership, Afterpay will raise a minimum of $50,000 annually through fundraising initiatives such as the 'add $1' at the checkout' campaign, the first of which ran for the month of March to celebrate International Women's Day.

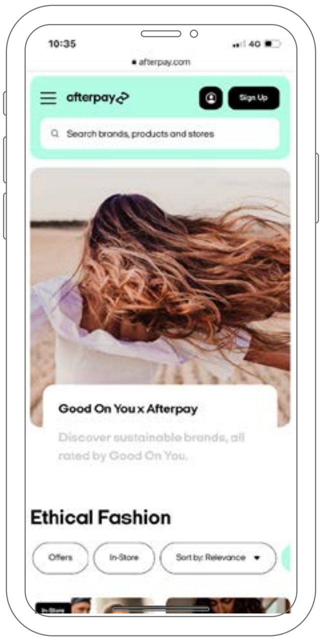
Afterpay is also an ongoing participant in Global Sisters' corporate coaching program, which supports women starting their own business. The first round of this program, which began in May, saw 15 Afterpay employees coach budding entrepreneurs in developing their own businesses, offering 1:1 mentoring in skills such as marketing, lead generation, and time management.

We continue to encourage greater awareness of the environmental impacts generated by our suppliers and their retail supply chains through our partnership with Good On You. This is the world's leading source of sustainable fashion brand ratings, using expert analysis and proprietary technology to give each fashion brand an easy-to-understand score based on ethical and sustainable criteria. This year, we launched a category powered by Good On You on Afterpay's Shop Directory. This ethical fashion category features retailers which have been rated highly (4 or 5 out of 5) by Good On You and helps connect conscious shoppers to ethical brands. To help this category grow, we have funded the rating of over 300 merchants during the partnership.

GLOBAL SISTERS

rated good on you

THREAD TOGETHER



Good On You

We partner with community organisations around the world, giving back and underpinning our mission to power an economy in which everyone wins.

Supporting industry and small business

Afterpay is dedicated to supporting small and medium-sized businesses (SMBs) and shining a light on this critical segment of our economy. We connected our SMB partners around the world to our millions of customers by highlighting what makes these businesses unique, whether it's original products, interesting stories or sustainable initiatives.

We encourage our customers to support local SMBs through a range of marketing activities and regional activations such as our evergreen 'Support Small' Saturdays and quarterly 'Support Small' weekends in Australia. This initiative saw us visit different regional areas around the country, lighting up the streets with pop-ups and entertainment, as well as an online sale with traffic driven from our Shop Directory and social media channels directly to these businesses.

Afterpay Access is a one-stop online hub for the small business community that offers resources, tools, and expert advice on how to grow and thrive during this challenging period and beyond.

Afterpay also continues to support the future of the retail industry through numerous initiatives. In FY21, we continued our partnership with the Australian Retailers Association. This included jointly launching financial literacy courses for retail employees, as well as participating in key ARA events like the Leaders Forum, and providing insights briefings for members.

As part of our partnership with the Australian Fashion Council we helped launch High Fashion to High Vis on the economic contribution of Australia's fashion and textile industry. We also generated coverage on the announcement of the 'Edit Collection', a partnership between Afterpay, Australian Fashion Council and Vicinity Centres to showcase local fashion designers at Chatswood Chase.

In the UK, support for Clearpay's London Fashion Week included the launch of a report on the outlook for the local fashion and beauty retail industries with the British Fashion Council by Oxford Economics. Commissioning the report, alongside the BFC, demonstrates Clearpay's commitment to supporting the fashion industry.

afterpay Support Small

We support these businesses and encourage our customers to support local through a range of marketing activities and regional activations.

Responsible spending

Afterpay has revolutionised how consumers pay for goods and services by turning the traditional model of high-cost consumer credit on its head. Afterpay is a no-cost service to the customer if instalment payments are made on time.

Responsible spending rules and consumer protections are built into the service – these rules help ensure customers never get stuck in debt cycles, with no exceptions. In circumstances where the customer does not pay their instalment payments on time, their service is immediately suspended. Our late payment fees are fixed, capped and do not accumulate or compound over time.

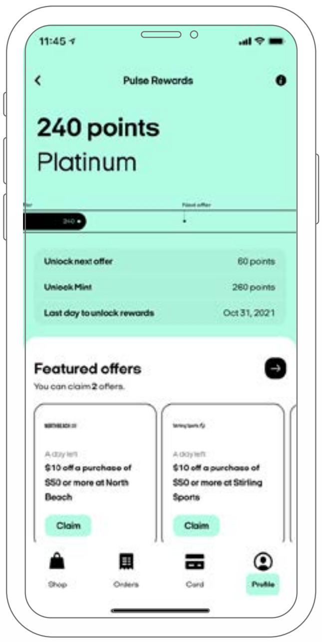
Although our product is simple by design, we are always looking for ways to improve the experience and empower customers to take control of their financial commitments. We launched a range of new product features in FY21, including the ability for customers to move payment dates. Unlike other products, Afterpay does not charge customers a fee for doing this.

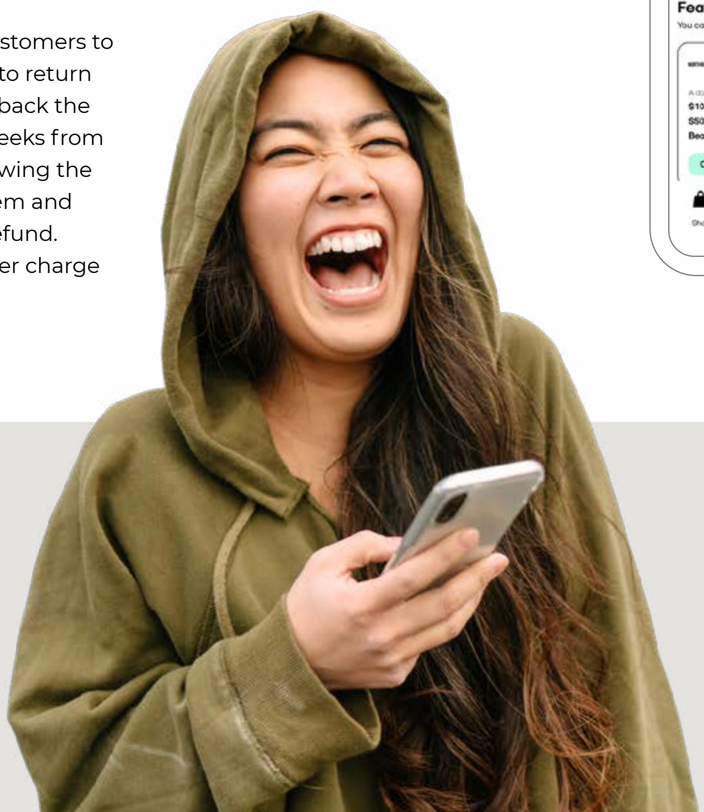
Another feature allows customers to notify us when they wish to return a product. We then push back the next instalment by two weeks from the original due date, allowing the customer to return the item and the retailer to process a refund. Again, there is no customer charge for this service.

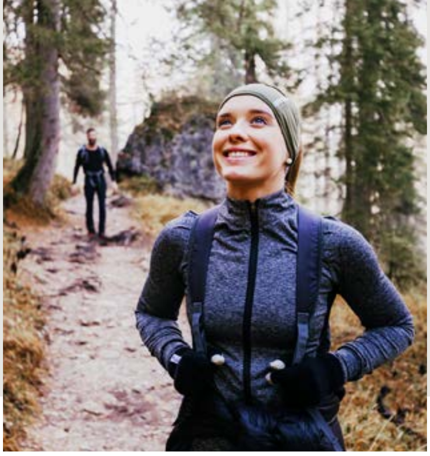
Afterpay also launched the next phase of Pulse Rewards in FY21. Every customer can join the program and earn points as a reward for responsible spending. Unlike other reward schemes that encourage people to spend, our program rewards on-time payment behaviour. A $50 on-time payment is rewarded in the same way as a $200 on-time payment. Customers move through different tiers and unlock new benefits like exclusive offers from much-loved brands, flexible payment dates, and early access to sales.

In partnership with the Australian Retailers Association (ARA), Afterpay has commissioned the creation of a free financial literacy program for retail workers. The program aims to address the education gap in financial literacy experienced by retail workers, which include a high proportion of Millennials and Gen Z.

Afterpay also launched the next phase of Pulse Rewards. Every Afterpay customer can join the program and earn points as a reward for responsible spending.







Environmental sustainability

Afterpay is committed to environmental sustainability and recognises the direct impact of our business. To demonstrate this commitment, we have begun the process of joining the Race to Zero via The Climate Pledge, a UN-backed global campaign that aims to build momentum around the shift to a decarbonised economy and halve all global emissions by 2040.

In addition, we are independently calculating our carbon footprint across global operations. We are currently working towards achieving carbon neutral certification from Climate Active.

Alongside the business becoming carbon neutral, Anthony and Nick will also become carbon neutral in their personal capacities. They have started the process to join Leaders For Climate Action, a global coalition of entrepreneurial leaders who are passionate about fighting climate change.

Broader impact

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

We empower our customers to make informed decisions about fashion brands through our ongoing partnership with Good On You, the world's leading sustainable and ethical fashion brands rating system. In addition, our partnership with Thread Together has resulted in tonnes of new clothing being diverted from landfill. This is the best possible response to Australia's textile waste problem.

For Earth Month, Afterpay introduced a 'top-up' program that allowed customers to donate to Magpies & Peacocks, a non-profit design house disrupting the cycle of waste in the fashion industry, and Surfrider, a non-profit environmental organisation focused on protecting clean water and healthy beaches.

We also integrated a live shopping technology platform in partnership with MagicLinks, a B-Corp Certified social commerce company, to inspire customers to ship more consciously. Customers are able to watch their favourite influencers and shop live for their favourite eco-friendly brands.

We have begun the process of joining the Race to Zero via The Climate Pledge, a UN-backed global campaign that aims to build momentum around the shift to a decarbonised economy and halve all global emissions by 2040.

Regulatory update

Afterpay strongly supports fit-for-purpose regulation of the BNPL sector. We proactively engage with regulators, government, policymakers, consumer advocates and financial counsellors in each of our regions to ensure we achieve the best possible consumer outcomes.

In Australia, Afterpay welcomed the launch of the Buy Now Pay Later Industry Code of Practice (BNPL Code). Drafted under the guidance of the Australian Finance Industry Association (AFIA), the Code goes above and beyond the law, setting best practice standards for the diverse and growing BNPL sector.

We are well advanced in preparing for the forthcoming Design and Distribution Obligations, which come into effect from early October in Australia. These obligations will ensure that providers create products that are suitable for their customers and operate alongside ASIC's existing product intervention powers. These outcome-based regulatory tools, in conjunction with the minimum standards in the BNPL Code, will ensure the industry is held accountable for customer outcomes.

The RBA recently confirmed that it will not require BNPL providers to remove their no-surcharge rules at this time. It acknowledged that these rules promote payment service competition and innovation by helping new providers to compete with incumbents.

We provided submissions to Scott Farrell's review of the Payments Systems and the Senate Select Committee on Financial Technology and Regulatory Technology.

In October 2020, AUSTRAC confirmed that it had finalised its review of the Final Audit Report, undertaken by Independent Auditor Neil Jeans, examining the Afterpay's compliance with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006. AUSTRAC considered the Final Audit Report and Afterpay's response to the findings and decided it would not be taking any further regulatory action. AUSTRAC noted that Afterpay had uplifted its AML/CTF compliance framework and financial crime function, and satisfactorily completed all required remediation activity.

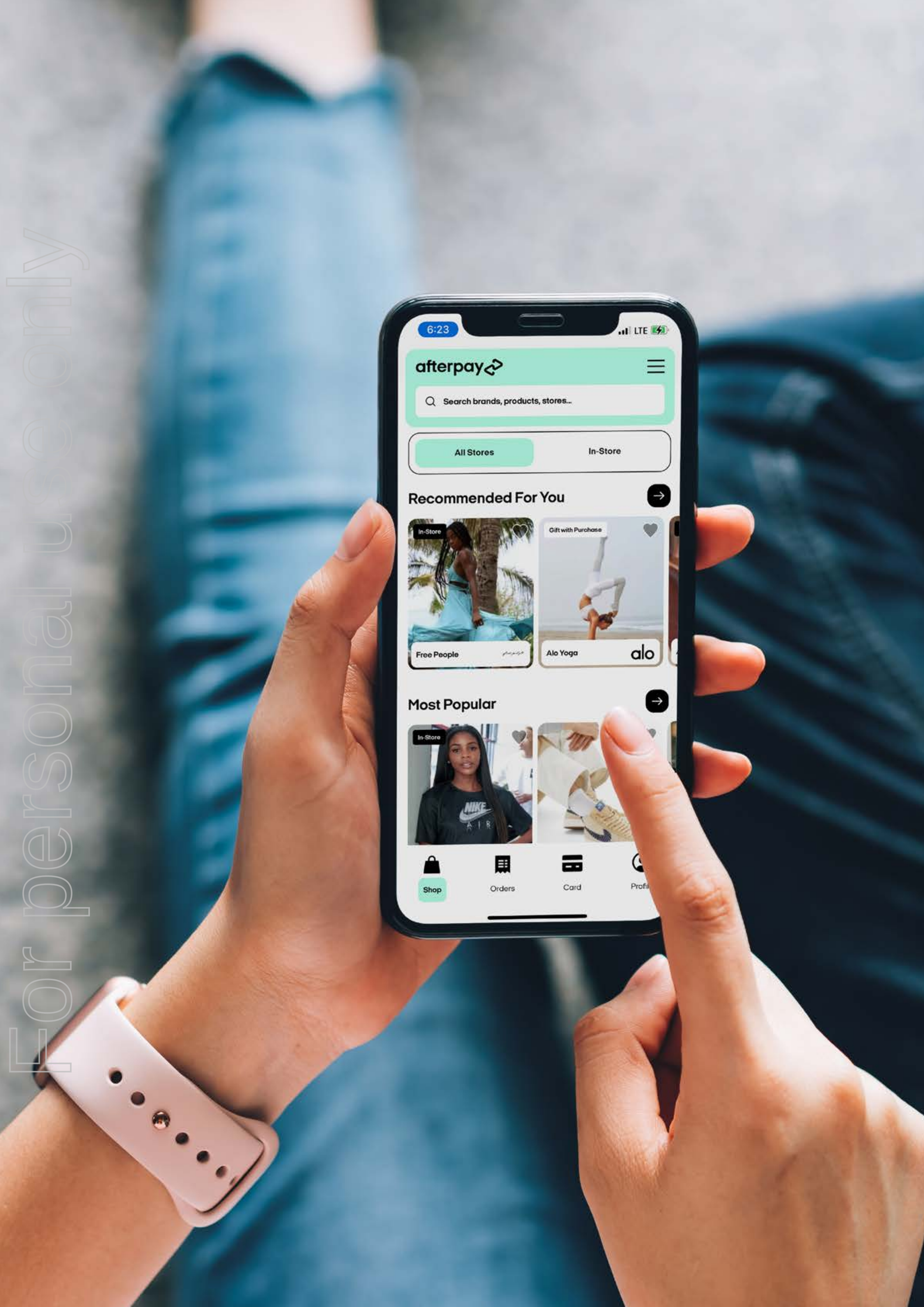
Clearpay welcomed the publication of the UK's Woolard Review. This acknowledged the varied nature of the market and how proportionate regulation of the BNPL market protects consumers. We are working with the FCA, the UK Government and stakeholders to build on the consumer protections we already provide to create strong safeguards and appropriate industry regulation.

We proactively engage with regulators, government, policymakers, consumer advocates and financial counsellors in each of our regions to ensure we can achieve good consumer outcomes.

Directors' Report.

Afterpay ended the year with 16.2 million Active Customers, an increase of 63% on the prior year. The average number of orders per Active Customer[1] in the period also continued to increase across all regions

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

The Directors submit their report on the consolidated entity consisting of Afterpay Limited (Company) and the entities it controlled (Group) at the end of, or during, the year ended 30 June 2021.

Directors

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

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

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

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 Loss after tax of $159.4 million for the year ended 30 June 2021 (2020: $22.9 million loss).

Operating & Financial Review

The year ended 30 June 2021 was a period of high growth and investment as the Group continued to scale its differentiated business model. With the economies that Afterpay operates in at varying stages of reopening, the Group benefited from both online and offline spending and the continued shift away from traditional credit card and point of sale lending products.

Overall, in the year ended 30 June 2021, Afterpay:

- Grew **Underlying Sales** to $21.1 billion (AUD), exceeding our publicly stated ambition to achieve $20 billion by FY22, a year early. On a constant currency basis[1], Underlying Sales was $22.4 billion, up 102% on the prior year. Rapid growth in North America has largely driven the result for the year, diversifying the geographic profile of Afterpay
- Maintained **Afterpay Income Margin** at 3.9% of Underlying Sales, whilst increasing our number of merchant partners to nearly 100,000 globally, including a growing number of global enterprise merchant partners
- **Added 6 million new customers** to the platform, with over 16 million active customers[2] around the world
- Continued to **successfully manage losses**, with Gross losses within Receivables Impairment Expense at 0.9% of Underlying Sales. Our risk management process and decision engine have continued to outperform during a period of high business growth and despite significant economic uncertainty during the pandemic
- Sustained **Afterpay Net Margin[3]** at over 2% of Underlying Sales, despite increasing contribution from less mature regions
- **Continued to invest and scale the business**, with increased spend on exceptional talent, operations, brand awareness, customer marketing and merchant acquisition
- **Further strengthened the Group's balance sheet position**, with the ability to fund over $40 billion[4] in incremental Underlying Sales over the current Underlying Sales run rate of $24 billion (Q4 annualised).

Afterpay Net Margin was sustained above 2% during yet another year of high growth, despite increased contribution from international regions which are initially lower margin.

While Asia Pacific[5] (APAC) continues to contribute the largest EBITDA (excluding significant items) to the Group, North America[5] is now the largest contributor to Underlying Sales.

1. Constant currency is provided to facilitate comparability of Afterpay's operational performance, excluding the impact of foreign currency fluctuations. Constant currency is a non-IFRS measure and has been calculated by translating the results for the year ended 30 June 2021 at the effective exchange rates for the prior year ended 30 June 2020 for each of Underlying Sales, Total Income and Afterpay Income.
2. Active is defined as having transacted at least once in the last 12 months.
3. Afterpay Net Margin has replaced Afterpay Net Transaction Margin as a key performance metric for current and future reporting periods. In addition to merchant margin earned directly from Underlying Sales, Afterpay Net Margin includes other income and margin items associated with the Afterpay platform (such as Money by Afterpay).
4. Estimated calculation based on the terms of Afterpay's existing warehouse funding facilities and historical performance of receivables.
5. Asia Pacific: Comprises the Afterpay platforms in Australia, New Zealand and Asia; North America: Comprises the Afterpay platforms in the United States of America and Canada.

1. Group Summary

Total income was $924.7 million for the year ended 30 June 2021, up 78% on the prior year driven by growth in Underlying Sales. On a constant currency[1] basis, Total income was $978.9 million for the year ended 30 June 2021, up 89% on the prior year.

Afterpay Net Margin[2] was $434.1 million, up 74% on the prior year, slightly lower than growth in Underlying Sales. This was primarily the result of a lower contribution from late fees while merchant margin and other variable costs were stable as a percentage of Underlying Sales. Afterpay Net Margin is Afterpay Net Transaction Margin (earned directly from Underlying Sales), plus other income and margin items associated with the Afterpay platform (such as Money by Afterpay). The shift to Afterpay Net Margin, which will continue to be used for future reporting periods, reflects new revenue streams announced by the Group that were not present in the prior corresponding period.

The Group achieved EBITDA (excluding significant items) of $38.7 million for the year ended 30 June 2021, down from $44.4 million in the prior year. The Group continued to deliver strong results while increasing investment in people, operations and marketing to accelerate current and future Underlying Sales through heightened brand awareness and customer acquisition across three regions (APAC, North America and Clearpay[3]) and nine countries.

The Group recorded a Loss after tax of $159.4 million for the year ended 30 June 2021, an increase on the prior year loss of $22.9 million. The Loss after tax was primarily driven by the net loss on financial liabilities at fair value of $96.8 million, one-off items of $18.1 million and share-based payments of $59.0 million.

- The net loss on financial liabilities at fair value is non-cash and relates to an increase in the valuation of the Clearpay Put Options liability for the remaining shares in Clearpay Finance Limited (Afterpay's UK operations or Clearpay UK) held by ThinkSmart Limited. The increased valuation reflects better than expected results for the year, improvements due to the forecast future cash flows and increases in broader market valuations for similar businesses.
- One-off amounts relate to items and investments that are non-recurring in nature.
- Share-based payments relate to the investment in eligible employees across the Group who were issued share-based equity in line with the Group's remuneration framework. The increase on prior year was due to the increase in Afterpay's share price and growth in employee numbers.

Table 1 Summary Financial Results

For the year ended 30 June	2021 $m	2020 $m	Change $m	Change %
Total income	924.7	519.2	405.5	78%
Cost of sales[4]	(249.6)	(134.3)	(115.3)	(86)%
Receivables impairment expenses[4]	(195.1)	(94.5)	(100.6)	(106)%
Employment expenses[4]	(150.9)	(86.1)	(64.8)	(75)%
Operating expenses[4]	(298.6)	(146.3)	(152.3)	(104)%
Afterpay Net Margin[2]	**434.1**	**250.2**	**183.9**	**74%**
EBITDA (excl. significant items)[5]	**38.7**	**44.4**	**(5.7)**	**(13)%**
Loss before tax	**(194.2)**	**(26.8)**	**(167.4)**	**(625)%**
Loss after tax	**(159.4)**	**(22.9)**	**(136.5)**	**(597)%**

Change calculations may not equate due to rounding.

1. Constant currency is provided to facilitate comparability of Afterpay's operational performance, excluding the impact of foreign currency fluctuations. Constant currency is a non-IFRS measure and has been calculated by translating the results for the year ended 30 June 2021 at the effective exchange rates for the prior year ended 30 June 2020 for each of Underlying Sales, Total Income and Afterpay Income.
2. Afterpay Net Margin is a non-IFRS measure that is not audited but is a key financial metric used at a Group level. Pay Now is not included within Afterpay Net Margin as it is not related to the Afterpay platform
3. Clearpay: Comprises the Clearpay platforms in the United Kingdom and Europe
4. Expenses include one-off items of $18.1 million (2020: $6.4 million) and foreign currency gains of $9.9 million (2020: $19.9 million) which are not included in the calculation of EBITDA (excluding significant items). One-off items relate to international expansion costs, business combinations, and impairment. There were no AUSTRAC or regulatory related one-off costs in the period.
5. EBITDA (excluding significant items) is a non-IFRS measure that is not audited but is a key financial metric used by management at a Group level. EBITDA (excluding significant items) excludes foreign currency gains, share-based payment expenses, net loss on financial liabilities at fair value, share of loss of associate, gain on dilution of shareholding in associate and one-off items.

afterpay

2. Afterpay Platform Key Drivers

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

Table 2 Summary Platform Drivers

For the year ended 30 June	2021	2020	Change	Change %
Underlying Sales ($m)	21,087.4	11,114.2	9,973.2	90%
Underlying Sales ($m) - const. currency[1]	22,422.8	11,114.2	11,308.6	102%
Active Customers (millions)[2]	16.2	9.9	6.3	63%
Active Merchants ('000s)[2]	98.2	55.4	42.8	77%

Change calculations may not equate due to rounding. 1. Constant currency is a non-IFRS measure and has been calculated by translating the results for the year ended 30 June 2021 at the effective exchange rates for the prior year ended 30 June 2020 for Underlying Sales. 2. Active is defined as having transacted at least once in the last 12 months to 30 June.

2.1. Underlying Sales

Underlying Sales were $21.1 billion in the year ended 30 June 2021, a 90% increase on the prior year driven by strong growth across all regions.

Table 3 Underlying Sales

For the year ended 30 June	2021	2020	Change	Change %
APAC	9,447.1	6,566.9	2,880.3	44%
North America	9,818.9	3,990.4	5,828.6	146%
Clearpay	1,821.3	557.0	1,264.4	227%
Underlying Sales ($m)	**21,087.4**	**11,114.2**	**9,973.2**	**90%**

Change calculations may not equate due to rounding.

For the first time, North America exceeded APAC as our largest region as measured by Underlying Sales. Expansion within North America, the world's largest retail region, continues at an impressive rate despite growing off a larger base.

Clearpay growth was driven primarily by the UK, with Clearpay EU launched during the last quarter of the period.

2.2. Active Customers

Afterpay ended the year with 16.2 million Active Customers[1], an increase of 63% on the prior year. The average number of orders per Active Customer in the period (otherwise referred to as customer frequency) also continued to increase across all regions. Afterpay continues to attract a significant number of new and repeat customers to the platform, as the offering is enhanced and our list of merchant partners expands.

North America and Clearpay are driving growth in new customers while customer frequency is highest in Afterpay's more mature APAC market, reaching an average of 17x for active APAC customers. Frequency in North America and Clearpay also increased, as both regions experienced growth of over 40% compared to the prior period. These combined factors continue to power growth in Underlying Sales.

Table 4 Active Customers

As at 30 June	2021	2020	Change %
APAC	3.6	3.3	8%
North America	10.5	5.6	88%
Clearpay	2.1	1.0	104%
Active Customers (millions)[1]	**16.2**	**9.9**	**63%**

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

2.3. Active Merchants

Afterpay Active Merchants[1] grew to more than 98,000 by the end of the year, an increase of approximately 43,000 or 77%.

Afterpay continues to add merchants of all sizes to the platform across each region. Enterprise merchants contributed 65% of Group Underlying Sales in FY21, a slight increase on the prior year.

As regions reopen from COVID-19 restrictions, Afterpay has continued to integrate merchants to both its in-store and online offering. This omnichannel approach is continuing to drive higher customer frequency and higher incremental spend across APAC and the United States where Afterpay has launched its in-store card.

Table 5 Active Merchants

As at 30 June	2021	2020	Change %
APAC	63.1	42.8	47%
North America	28.4	11.5	148%
Clearpay	6.7	1.1	501%
Active Merchants ('000s)	**98.2**	**55.4**	**77%**

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

afterpay

3. Total Income by Service

Total Income for the Group was $924.7 million for the year ended 30 June 2021, an increase of 78% on the prior year. Afterpay generates income primarily from its Afterpay service, together with a smaller contribution from Pay Now, each of which are discussed separately below.

Table 6 Total Income

For the year ended 30 June	2021	2020	Change
Afterpay Total Income ($m)[1]	910.9	502.7	81%
Pay Now Revenue ($m)	13.8	16.5	(16)%
Total Income ($m)	**924.7**	**519.2**	**78%**

Change calculations may not equate due to rounding. 1. Afterpay Total Income includes Afterpay Income and Other Income, excludes Pay Now Revenue

3.1. Afterpay

Afterpay Total Income comprises Afterpay Income (including merchant income, affiliate fees and interchange earned from the US virtual one time use card) and Other Income. Other Income is primarily Late Fees, and also includes contributions associated with Money by Afterpay and newly acquired non-core international products that will be discontinued.

In the year ended 30 June 2021, Afterpay Income increased by 90% on the prior year to $822.3 million. Afterpay Income as a percentage of Afterpay Underlying Sales was 3.9% in the year, in line with the prior year. Maintaining this key metric at 3.9% despite Underlying Sales from regions outside of APAC increasing during the year demonstrates the value the Afterpay ecosystem is delivering to merchants.

Late Fees increased to $87.3 million from $68.8 million in the prior year. However, Late Fees have decreased as a percentage of Underlying Sales and now represent less than 10% of Afterpay Total Income.

Afterpay also generates revenue from the provision of the 'Money by Afterpay' platform for customers in Australia. Non-core international income relates to products acquired through the Pagantis acquisition; all related products are planned to be discontinued.

Table 7 Afterpay Total Income

For the year ended 30 June	2021	2020	Change
Afterpay Income ($m)	**822.3**	**433.8**	**90%**
% of Afterpay Underlying Sales	3.9%	3.9%	0.0 pp
Late Fees	87.3	68.8	27%
Money by Afterpay	0.9	-	-
Non-core international[1]	0.4	-	-
Other Income ($m)	**88.6**	**68.8**	**29%**
Afterpay Total Income ($m)	**910.9**	**502.7**	**81%**
Late Fees Share of Afterpay Total Income	9.6%	13.7%	-4.1 pp

Change calculations may not equate due to rounding. 1. Non-core international includes revenue associated with Pagantis products that are planned to be discontinued

3.2. Pay Now

Pay Now Revenue declined by $2.7 million to $13.8 million for the year ended 30 June 2021, primarily due to the wind down of the e-Services Australia business unit.

4. Expenses

Expenses increased in the year ended 30 June 2021 as the Group continued its growth and investment in people, the Afterpay platform, customer and merchant acquisition, and expansion into new regions, verticals and products. These investments have further solidified the Group's competitive advantage fueling growth in this and subsequent periods. In the year ended 30 June 2021, the Group launched in Canada as well as a number of European countries following the Pagantis transaction.

The Group did not receive any government grants or benefits related to COVID-19 during the year.

4.1. Cost of Sales

Cost of Sales for the year ended 30 June 2021 was $249.6 million, up 86% on the prior year, largely due to increased processing and other variable costs associated with higher Underlying Sales.

Cost of Sales represented 1.2% of Underlying Sales, unchanged compared to the prior year, as benefits from global payments partnerships have offset the increased contribution from international regions which typically have higher processing costs.

Afterpay contributed $244.8 million to Cost of Sales in the period relative to $4.6 million for Pay Now and $0.2 million for non-core international products.

Table 8 Cost of Sales

For the year ended 30 June	2021	2020	Change %
Cost of Sales ($m)	**249.6**	**134.3**	**86%**
% of Afterpay Underlying Sales	1.2%	1.2%	0 pp

Change calculations may not equate due to rounding.

4.2. Losses

4.2.1. Receivables Impairment Expense

Receivables Impairment Expense was $195.1 million for the year ended 30 June 2021, an increase of $100.6 million on the prior year. Gross Loss represented $194.9 million of the Receivables Impairment Expense, with Non-Core International products representing the balance.

Gross Loss represented 0.9% of Underlying Sales. Gross Loss remained consistent with the prior period, a strong result given increased Underlying Sales contribution from the newer Clearpay and North American regions which, due to their earlier growth phase, have initially higher losses relative to the more mature APAC region.

Afterpay's proprietary risk management techniques and high proportion of returning customers (who are lower risk), has ensured Gross Loss as a percentage of Underlying Sales remained flat during a period in which 6 million new customers joined the platform and Underlying Sales increased by 90%. Ongoing enhancement of Afterpay's risk management and the benefits and insights derived from returning customers means Afterpay is able to continuously manage Gross Loss.

Table 9 Gross Loss

For the year ended 30 June	2021	2020	Change %
Gross Loss ($m)	**194.9**	**94.5**	**106%**
% of Afterpay Underlying Sales	0.9%	0.9%	0.0 pp
Non-core international	0.2	-	-
Receivables impairment expense ($m)[1]	**195.1**	**94.5**	**106%**

Change calculations may not equate due to rounding. 1. Receivables impairment expenses equals the sum of Afterpay Gross Loss ($194.9m) and non-core international receivable impairment expenses ($0.2m). Non-core international receivable impairment expense is included in one-off items.

4.2.2. Net Transaction Loss

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

NTL for the year ended 30 June 2021 was $132.6 million, or 0.6% of Underlying Sales, increasing by 0.2 percentage points. This increase was driven by a lower contribution of Late Fees, which declined by 0.2 percentage points to 0.4% of Underlying Sales.

All other inputs to NTL were held flat during yet another year of high Underlying Sales growth.

Table 10 NTL

For the year ended 30 June	2021	2020	Change %
NTL ($m)	**132.6**	**42.8**	**210%**
% of Afterpay Underlying Sales	0.6%	0.4%	0.2 pp

Change calculations may not equate due to rounding.

4.3. Employment Expenses

Employment Expenses were $150.9 million for the year ended 30 June 2021, up 75% on the prior year but slightly lower as a percentage of Underlying Sales by 0.1 percentage points.

The growth in Employment Expenses in dollar terms reflects the Group's continued investment in talent globally, particularly across the sales, marketing, technology and product functions, to support Afterpay's continued global expansion and to position the Group for accelerated growth. Afterpay has doubled the number of employees with the team now comprising approximately 1,300 employees globally.

Afterpay plans to continue to invest in talent to accelerate sector penetration as well as regional and global expansion. In the current financial year the Group has invested in skills and talents to build new product offerings for customers, such as Money by Afterpay. This and other innovations will allow the Group to continue to serve Afterpay customers and merchants in new ways.

Table 11 Employment Expenses

For the year ended 30 June	2021	2020	Change %
Employment Expenses ($m)[1]	**150.9**	**86.1**	**75%**
% of Afterpay Underlying Sales	0.7%	0.8%	-0.1 pp

Change calculations may not equate due to rounding. 1. Employment expenses include $1.4m of one-off items relating to non-core operations.

4.4. Operating Expenses

Operating Expenses, which comprise Marketing and Other Operating Expenses, were $298.6 million for the year ended 30 June 2021, up 104% on the prior year. Operating Expenses excluding significant items such as one-off items and foreign currency gains were $292.1 million for the year ended 30 June 2021, up 83% on the prior year and in line as a percentage of Underlying Sales.

Table 12 Operating Expenses

For the year ended 30 June	2021	2020	Change %
Operating Expenses ($m)	**298.6**	**146.3**	**104%**
% of Afterpay Underlying Sales	1.4%	1.3%	0.1 pp
Operating Expenses (excl. Significant Items) ($m)[1]	**292.1**	**159.8**	**83%**
% of Afterpay Underlying Sales	1.4%	1.4%	0.0 pp

Change calculations may not equate due to rounding. 1. Operating Expenses included $16.4 million of one-off items (2020: $6.4 million) and $9.9 million of foreign currency gains (2020: $19.9 million gain)

4.4.1. Marketing Expenses

Marketing Expenses were $168.8 million in the year ended 30 June 2021, up by 139% and 0.2 percentage points of Underlying Sales compared to the prior year. Marketing Expenses includes co-marketing initiatives with major brand merchant partners, investment in growing Afterpay brand awareness including the global roll-out of our Pay Better campaign, growth and lifecycle marketing to support new customer acquisition, and investments in in-store partnerships and visual merchandising.

Investment in Marketing Expenses is consistent with the stated strategy of the Group, driving merchant and customer engagement across each region, and therefore contributing to the growth in Underlying Sales. Further investment in marketing will continue into next financial year.

Table 13 Marketing Expenses

For the year ended 30 June	2021	2020	Change %
Marketing Expenses ($m)	**168.8**	**70.5**	**139%**
% of Afterpay Underlying Sales	0.8%	0.6%	0.2 pp

Change calculations may not equate due to rounding.

4.4.2. Other Operating Expenses

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

Other Operating Expenses were $129.8 million in the year ended 30 June 2021, up 71% on the prior year but lower as a percentage of Underlying Sales. Afterpay has been able to scale successfully over the financial year due to the performance of these support teams and functions, and will continue to appropriately invest in these areas.

Other Operating Expenses included $16.4 million of one-off items[1] (2020: $6.4 million) and $9.9 million of foreign currency gains (2020: $19.9 million). Other Operating Expenses, excluding the net impact of these items, would have been $123.3 million, representing 0.6% of Afterpay Underlying Sales, 0.2 percentage points lower than the prior year.

Table 14 Other Operating Expenses

For the year ended 30 June	2021	2020	Change %
Other Operating Expenses ($m)	**129.8**	**75.8**	**71%**
% of Afterpay Underlying Sales	0.6%	0.7%	-0.1 pp
Other Operating Expenses (excl. Significant Items) ($m)[1]	**123.3**	**89.3**	**38%**
% of Afterpay Underlying Sales	0.6%	0.8%	-0.2 pp

Change calculations may not equate due to rounding. 1. Total one off items of $18.1 million includes $16.4 million in Other Operating Expenses, $0.2 million in receivables impairment expense and $1.4 million in Employment Expenses.

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5. Margin & EBITDA

5.1. Afterpay Net Margin

Afterpay Net Margin is a non-IFRS measure that is not audited but is a key financial metric used by management to track Afterpay's Gross Profit inclusive of losses and funding costs.

Afterpay Net Margin was $434.1 million in the year ended 30 June 2021, up 74% on the prior year. Afterpay Net Margin is equal to Afterpay Net Transaction Margin[1] earned directly from Underlying Sales ($432.8 million), plus other income and margin associated with the Afterpay platform ($1.3 million, primarily related to Money by Afterpay).

Afterpay Net Margin as a percentage of Underlying Sales was 2.1%, down from the prior period primarily due to lower late fees. The low percentage contribution of late fees is a distinguishing characteristic of the Afterpay business model and contributes to customer loyalty and trust.

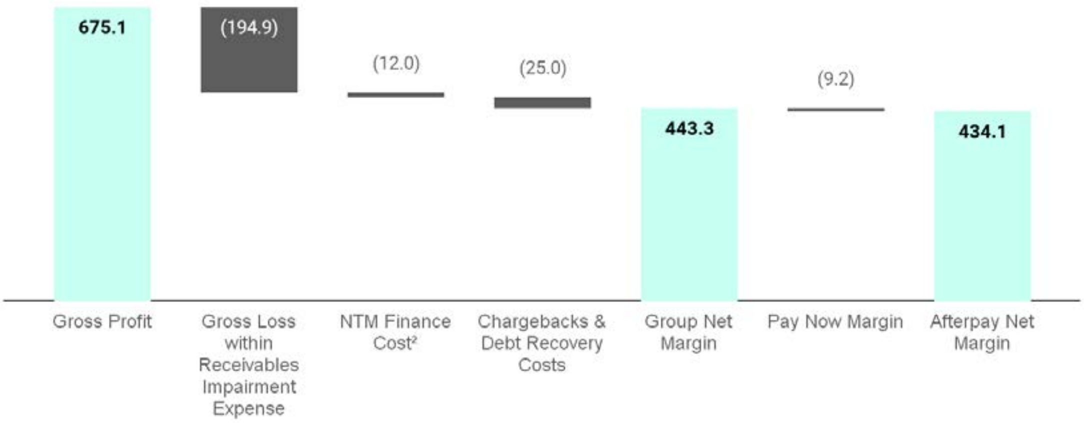
Table 15 Afterpay Net Margin

For the year ended 30 June	2021	2020	Change %
Afterpay Net Margin ($m)	**434.1**	**250.2**	**74%**
% of Afterpay Underlying Sales	2.1%	2.3%	-0.2 pp

Change calculations may not equate due to rounding.

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

Figure 1 Gross Profit bridge to Afterpay Net Margin ($ million)



Note: Change calculations may not equate due to rounding.

1. Afterpay Net Transaction Margin is comprised of Afterpay Income less Afterpay variable costs, including Cost of Sales (excluding Pay Now cost of sales), NTL, and finance costs associated with external receivables funding.
2. Finance cost associated with external receivables funding: reported in finance costs but included in Net Margin. Excludes finance costs relating to the APT Convertible Notes, amortisation of capitalised borrowing costs, lease expense, and interest income. Methodology consistent with prior periods.

5.2. **EBITDA** (excluding significant items)

The Group's EBITDA (excluding significant items) was $38.7 million in the year ended 30 June 2021, down 13% on the prior year. The decline in EBITDA (excluding significant items) compared to the prior year reflects investments in total operating expenses, including investment to drive product innovation and launch Afterpay into new regions. This investment has marginally exceeded the growth in Group Net Margin during the year, and was considered necessary to accelerate current and future Underlying Sales growth.

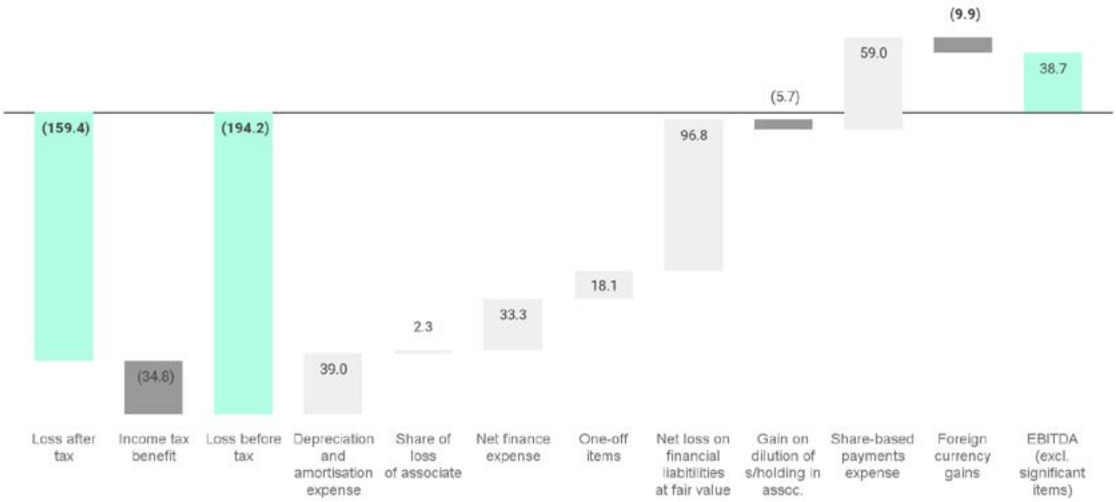
Table 16 EBITDA (excluding significant items)

For the year ended 30 June	2021	2020	Change %
EBITDA (excl. significant items) ($m)	**38.7**	**44.4**	**(13)%**

Change calculations may not equate due to rounding.

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

Figure 2 Reconciliation from Loss after tax to EBITDA (excluding significant items) ($ million)



6. Constant Currency

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

Constant currency (CC) is provided to facilitate comparability of Afterpay's operational performance, excluding the impact of foreign currency fluctuations. Constant currency is a non-IFRS measure and has been calculated by translating the results for the year ended 30 June 2021 at the effective exchange rates for the prior year ended 30 June 2020 for each of Underlying Sales and Afterpay Income.

Table 17 Constant Currency

For the year ended 30 June	2021 CC	2021	2020	Change in CC %	Reported Change %
Underlying Sales ($m)	22,422.8	21,087.4	11,114.2	102%	90%
Total Income ($m)	978.9	924.7	519.2	89%	78%
Afterpay Income ($m)	875.1	822.3	433.8	102%	90%

Change calculations may not equate due to rounding.

7. Financial Position

The Group's financial position has increased to Net Assets of $1,303.9 million as at 30 June 2021, up from $946.4 million at 30 June 2020. The Group's financial position, across both assets and liabilities, was impacted by the capital raising of $786.2 million in July 2020 and issuance of the $1,500.0 million APT Convertible Note in March 2021.

Total Assets were $3,116.2 million, an increase of $1,507.7 million, which is primarily due to growth in Cash and cash equivalents (up $541.1 million) and Receivables (up $672.2 million). The increase in Receivables to $1,454.1 million at 30 June 2021 was primarily due to the continued growth in Underlying Sales.

Total Liabilities were $1,812.3 million, an increase of $1,150.1 million from 30 June 2020 primarily due to the growth in Borrowings (up $824.8 million), Other financial liabilities (up $163.6 million) and Trade and other payables (up $123.6 million). The increase in Borrowings to $1,286.4 million at 30 June 2021 was due to the issuance of the $1,500.0 million APT Convertible Notes, while the increase in Trade and other payables was due to merchant payments. The increase in Other financial liabilities is primarily due to the increase in the valuation of the Clearpay Put Option liability of $96.8 million, reflecting improvements to forecast future cash flows of Afterpay's UK operations and increases in broader market valuations for similar businesses. Other financial liabilities also includes $66.8 million for the deferred and contingent consideration for the Pagantis acquisition completed in March 2021.

8. Capital Management

The Group is focused on capital management to ensure that it has sufficient cash and available facilities to meet current and future funding requirements and growth aspirations. As at 30 June 2021, the Group's Balance Sheet and Liquidity position remained strong with the launch of new, and extension of existing warehouse funding facilities during the period. The Group's Balance Sheet and Liquidity position was further enhanced following an equity capital raising in July 2020 and the issuance of the APT Convertible Notes in March 2021.

8.1. Net Cash / Debt

As at 30 June 2021, Net Debt was $125.4 million, comprising Total Cash of $1,161.0 million less Borrowings of $1,286.4 million. Net Debt was $271.4 million lower than the prior year Net Cash position of $146.0 million. Movements are primarily due to funding of growth in Receivables (which have increased by $672.2 million from the prior year) and payments made to US ESOP participants and Matrix, partially offset by the issuance of the $1,500.0 million APT Convertible Notes and equity capital raisings during the year.

Table 18 Net Cash / (Debt)

As at 30 June	2021 $m	2020 $m	Change $m
Cash and Cash Equivalents	1,147.1	606.0	541.1
Restricted Cash[1]	13.8	1.5	12.3
Total Cash[2]	**1,161.0**	**607.6**	**553.4**
Borrowings	(1,286.4)	(461.6)	(824.8)
Net (Debt) / Cash	**(125.4)**	**146.0**	**(271.4)**

Change calculations may not equate due to rounding.

1. Restricted Cash relates to cash held with banks and other financial service providers as collateral for daily cash settlements with merchants and payments to funding providers. Included within Other Financial Assets in the Financial Statements.
2. Sum calculation for Total Cash may not equate due to rounding.

8.2 Debt Funding

The Group's debt funding is diversified by both source and maturity. During the year ended 30 June 2021, Afterpay:

- Extended all previously existing facilities for a period of at least 12 months;
- Increased the NZ$50 million NZ receivables warehouse funding facility with Bank of New Zealand to NZ$100 million;
- Established a £125 million UK receivables warehouse funding facility with Citi with a FY23 maturity;
- Established a £50 million UK receivables warehouse funding facility with NAB with a FY23 maturity; and
- Issued the $1.5 billion APT Convertible Notes with a FY26 maturity.

Afterpay has no debt maturity within the next 12 months (earliest maturity is December 2022), with a weighted average debt facility maturity of ~3.3 years as at the date of this report.

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

Table 19 Debt funding sources

Facility	Region	Provider	Facility size	Drawn	Maturity
Receivables Warehouse Funding	AU	Citi	$200m	nil	Dec-23
Receivables Warehouse Funding	AU	NAB	$300m	nil	Dec-23
Receivables Warehouse Funding	NZ	BNZ	NZ$100m	NZ$35.0m	Jun-23
Receivables Warehouse Funding	UK	Citi	£125m	nil	Feb-23
Receivables Warehouse Funding	UK	NAB	£50m	nil	Feb-23
Receivables Warehouse Funding	US	GS	US$200m	nil	Dec-22
Receivables Warehouse Funding	US	Citi	US$200m	nil	May-24
APT Convertible Notes	Group	-	$1.5bn	$1.5bn	Mar-26

8.3 Liquidity & Growth Capacity

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

Liquidity for Afterpay is calculated as:

- $1,147.1 million Cash and Cash Equivalents balance; plus
- $1,151.6 million undrawn capacity under receivables warehouse facilities.

Afterpay had Liquidity of $2,298.7 million at 30 June 2021 to fund the business. Undrawn capacity under the receivables warehouse facilities can be readily converted into cash at any time by drawing down debt.

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

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

Afterpay had Growth Capacity of $264.4 million at 30 June 2021. Growth capacity represents headroom in existing warehouse facilities to fund growth in Receivables. As Receivables grow, growth capacity transitions to undrawn warehouse capacity which contributes to liquidity.

The combination of Liquidity and Growth Capacity is $2,563.2 million. This provides Afterpay with the ability to fund in excess of $40 billion[1] in annualised Underlying Sales above the current annualised Underlying Sales run-rate of $24 billion (Q4 FY21 annualised).

Table 20 Liquidity and Growth Capacity

As at 30 June	**2021 $m**	2020 $m	Change $m
Cash and Cash Equivalents	1,147.1	606.0	541.1
Undrawn warehouse capacity	1,151.6	122.4	1,029.2
Liquidity	**2,298.7**	**728.4**	**1,570.3**
Growth capacity	264.4	541.8	(277.4)
Total Liquidity & Growth Capacity	**2,563.2**	**1,270.2**	**1,293.0**

Change calculations may not equate due to rounding. 1. Estimated calculation based on the terms of Afterpay's existing warehouse funding facilities and historical performance of receivables.

9. Outlook for FY22

Afterpay will continue to invest for growth in FY22. With newer regions tracking in line with APAC blueprint, and additional regions coming online in FY22, we will continue to strategically invest in order to:

- Appropriately scale our infrastructure and people resources to continue topline growth in established and new regions.
- Pursue co-marketing opportunities and invest in our global and local retail partnerships.
- Launch and grow new and innovative products such as Money by Afterpay, and develop new revenue streams that leverage our established ecosystem.

10. Other

This Operating and Financial Review should be read in conjunction with the FY21 in Review section of this Annual Report.

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

Key Risks & Business Challenges

The Group effectively manages risks and will continue to strengthen and invest in enterprise risk resources and capability to proactively identify and manage risks as our operations expand. The principal risks and business challenges for the Group are:

Key Risks

Loss of, or failure to attract or retain, key management personnel

- Risks associated with an increase in personnel working from home and any associated workplace health and safety issues.

Ability to continue driving customer and merchant growth

- Ability to retain and grow retail merchant client base;
- Ability to retain and grow customers in all regions;
- Ability to increase transaction volumes, merchant and customer numbers;
- Increased competition and new sector entrants;
- Ability of the Group's technology to integrate with third-party platforms, particularly websites, point of sale systems, and other merchant systems;
- Risks associated with the emergence of new technologies and customer requirements; and
- Risks associated with macroeconomic factors, including a slowdown in merchant and customer growth resulting from the COVID-19 pandemic.

Risks related to technology infrastructure, performance and intellectual property

- Failures or disruption to technology systems and communication networks;
- Third party banking and payment processing performance;
- Exposure to potential security breaches and data protection issues;
- Protection and ownership of technology and intellectual property;
- Capacity constraints on platform and network infrastructure; and
- Risks that the Group's technology may be superseded by other technology or changes in business practice.

Credit, fraud and other related risks

- Risk of Afterpay customers not repaying;
- Risk of fraud, both internal and external; and
- Other credit and fraud related risks driven by the macro-economic environment.

Access to funding to support the growth in instalment payments receivables

- Access to equity funding sources; and
- Access to debt funding sources.

Risks associated with compliance and changes to the regulatory environment that may impact the Group's products, product delivery, brand and/or financial returns (due to potential higher compliance costs). Some of these risks may include:

- Financial product regulation;
- Payment system regulation;
- Regulatory interpretation;
- AML / CTF laws; and
- Privacy laws.

Information on Directors

Elana Rubin AM (63, Melbourne AU)

Independent Chair and
Non-Executive Director

Member of the Audit, Risk & Compliance Committee

Member of the People, Remuneration & Nomination Committee

Chair of the AML/CTF & Regulatory Review Sub-Committee

Background and Experience: Elana was appointed Chair on 25 May 2020. She previously served as Interim Chair from 1 July 2019 and has been an Independent Non-Executive Director of Afterpay since 30 March 2017.

Elana has over 20 years' experience as a director of a number of public and private companies, with extensive experience in property, insurance and financial services.

Elana has a Bachelor of Arts (Hons) and Master of Arts from University of Melbourne. She is a Fellow of the Australian Institute of Company Directors and a Senior Fellow of Financial Services Institute of Australasia.

Other Roles: Elana is currently Acting Chair of Slater and Gordon Limited (ASX: SGH) and a Non-Executive Director of Telstra Corporation Limited (ASX: TLS). She is also a director of several unlisted companies and/or government bodies. Elana was previously a Non-Executive Director of Mirvac Limited (ASX: MGR). She was the former Chair of AustralianSuper and the Victorian WorkCover Authority.

Interests in Shares and Options[1]:

- 65,151 ordinary shares in Afterpay Limited

Anthony Eisen (49, Melbourne AU)

Co-founder, Co-Chief Executive Officer and
Managing Director

Member of the AML/CTF & Regulatory Review Sub-Committee

Background and Experience: Anthony was appointed CEO and Managing Director on 1 July 2019. Prior to this, he served as Executive Chairman of Afterpay for two years.

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

Anthony holds a Bachelor of Commerce (Finance and Accounting) from UNSW and he is a member of the Institute of Chartered Accountants ANZ..

Other Roles: Anthony is currently a Director of Stone & Chalk Pty Ltd.

Interests in Shares and Options[1]:

- 19,455,963 ordinary shares in Afterpay Limited
- 125,000 unlisted options, with an exercise price of $37.31 per option and an expiry date of 1 July 2024
- 40,203 unlisted options, with an exercise price of $98.97 per option and an expiry date of 1 July 2025

1. As at 30 June 2021.

Nick Molnar (31, Sydney AU)

Co-founder, Co-Chief Executive Officer and Managing Director

Background and Experience: Nick has been an Executive Director of Afterpay since 5 July 2017. He was Global Chief Revenue Officer from 1 July 2019 until his appointment as Co-CEO and Managing Director on 17 November 2020.

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

Nick holds a Bachelor of Commerce from Sydney University.

Interests in Shares and Options[1]:

- 19,455,963 ordinary shares in Afterpay Limited
- 125,000 unlisted options, with an exercise price of $37.31 per option and an expiry date of 1 July 2024
- 40,203 unlisted options, with an exercise price of $98.97 per option and an expiry date of 1 July 2025

Gary Briggs (58, Seattle US)

Independent Non-Executive Director

Chair of the People, Remuneration & Nomination Committee

Background and Experience: Gary was appointed as an independent Non-Executive Director on 1 January 2020.

From 2019-2021 Gary was Chairman of Hawkfish, a digital agency focused on Democratic causes and initiatives. Prior to this, he was the Chief Marketing Officer of Facebook (responsible for the Company's brand, consumer, and product marketing), and he worked at Google where he led marketing efforts for search, maps, commerce, Chrome, Google+, Google.org, and the Google brand overall. He also led marketing for Motorola Mobility, upon its acquisition by Google. Before Google, Gary was CEO at Plastic Jungle, a gift card startup, and he worked at eBay in the roles of Vice President of Consumer Marketing, General Manager of eBay Canada, Global Marketing Head of PayPal, and CMO of eBay North America. Earlier in his career, Gary worked for Pepsi, where he launched Aquafina, Pepsi's joint venture with Starbucks and was Director of Brand, and for IBM running worldwide brand strategy. He was also an engagement manager at McKinsey.

Gary has a Bachelor of Arts degree from Brown University and a Masters in Management from the Kellogg School of Management, Northwestern University.

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

Interests in Shares and Options[1]:

- 2,630 ordinary shares in Afterpay Limited

1. As at 30 June 2021.

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Pat O'Sullivan (57, Sydney AU)

Independent Non-Executive Director

Chair of the Audit, Risk & Compliance Committee

Member of the People, Remuneration & Nomination Committee

Background and Experience: Pat was appointed as an independent Non-Executive Director on 1 March 2020.

Pat previously worked for 30 years in various senior financial and operational roles in Ireland, the US, Australia and New Zealand across a number of industries including traditional and online media, telecommunications, fast moving consumer goods and professional accounting. He was previously the Chief Financial Officer of Optus and the Chief Operating Officer and Finance Director of Nine Entertainment Co Pty Limited (formerly PBL Media Pty Ltd).

Pat is a member of The Institute of Chartered Accountants in Ireland and Australia. He is a graduate of the Harvard Business School's Advanced Management Program.

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

Interests in Shares and Options[1]:

- 7,473 ordinary shares in Afterpay Limited

Sharon Rothstein (64, New York US)

Independent Non-Executive Director

Member of the People, Remuneration & Nomination Committee

Background and Experience: Sharon was appointed as an independent Non-Executive Director on 1 June 2020.

Sharon currently serves as an Operating Partner at growth equity firm, Stripes Group. She was previously the Executive Vice President, Global Chief Marketing Officer of Starbucks Corporation for five years, following her position as Senior Vice President of Marketing at Sephora. Sharon has held senior marketing and brand management positions with Godiva, Starwood Hotels and Resorts, Nabisco Biscuit Company and Procter & Gamble.

She holds a Bachelor of Commerce from the University of British Columbia and an M.B.A. from the University of California, Los Angeles.

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

Interests in Shares and Options[1]:

- 3,350 ordinary shares in Afterpay Limited

1. As at 30 June 2021.

Dana Stalder (53, San Francisco US)
Independent Non-Executive Director

Member of the Audit, Risk & Compliance Committee

Background and Experience: Dana was appointed as an independent Non-Executive Director on 24 January 2018.

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

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

Interests in Shares and Options[1]:

- 19,300 ordinary shares in Afterpay Limited
- Dana is a General Partner in Matrix Partners, which is the general partner of Matrix Partners X, L.P. and Weston & Co. X LLC, however he does not have a relevant interest in the APT shares and convertible notes held by those two entities

1. As at 30 June 2021.

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Company Secretary

Amanda Street	Nat McKaig
Company Secretary	Deputy Company Secretary
Company Secretary since 18 August 2020	Company Secretary since 15 May 2020
Background and Experience: Amanda has over 20 years of legal, governance, company secretariat, and other relevant experience. Before joining Afterpay, Amanda was the Company Secretary of Transurban Group. Prior to Transurban, Amanda was Assistant Company Secretary at AusNet Services, and Senior Corporate Counsel at National Australia Bank. Prior to her in-house work, Amanda was a solicitor specialising in public company M&A work with Australian law firm, King & Wood Mallesons. Amanda has a Bachelor of Law (Honours) and Bachelor of Commerce from the University of Melbourne.	**Background and Experience:** Nat has over 15 years of legal and company secretariat experience. Before joining Afterpay, Nat held governance / company secretariat roles at various listed entities, including BHP Limited, National Australia Bank Limited and Treasury Wine Estates Limited. Prior to that, Nat was a solicitor specialising in commercial and corporate law. Nat has a Bachelor of Laws, Graduate Diploma in Company Secretarial Practice and is a Fellow of the Governance Institute of Australia.

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Meetings of Directors

The number of meetings of the Board and each Board Committee held during the year ended 30 June 2021, and the number of meetings attended by each Director, are set out below:

Table 21 Board and Committee meetings

	Board of Directors		Audit, Risk & Compliance Committee [1]		People, Remuneration & Nomination Committee [2]		AML/CTF & Regulatory Review Sub-Committee [3]		Board Sub-Committees [4]	
	Attended	Held**	Attended	Held**	Attended	Held**	Attended	Held**	Attended	Held**
Elana Rubin AM	17	17	4	4	5	5	8	8	6	6
Anthony Eisen	17	17	4	#	5	#	8	8	5	5
Nick Molnar	16	17	4	#	5	#	-	#	5	5
Gary Briggs	17	17	-	#	5	2	-	#	-	#
Pat O'Sullivan	17	17	4	4	5	5	-	#	6	6
Sharon Rothstein	17	17	2	#	5	5	-	#	-	#
Dana Stalder	16	17	4	4	-	#	-	#	2	2

Not a member of the relevant Committee during FY21. Details of current Committee memberships are set out in our Corporate Governance Statement (https://corporate.afterpay.com/investors/corporate-governance).

** Number of meetings held during FY21 that the Director was eligible to attend.

1. Anthony Eisen, Nick Molnar and Sharon Rothstein were not members of the Audit, Risk & Compliance Committee during FY21 but attended meetings as observers.
2. Anthony Eisen and Nick Molnar were not members of the People, Remuneration & Nomination Committee during FY21 but attended meetings as observers. They were excluded from discussions involving their remuneration during meetings that they attended. Gary Briggs was appointed Chair of the Committee on 24 February 2021. Prior to that he attended meetings as an observer.
3. The Executive Vice President, Public Policy and External Affairs and the Chief Enterprise Risk Officer are also members of the AML/CTF & Regulatory Review Sub-Committee.
4. During FY21 the Board established other Sub-Committees to provide oversight of significant projects (and final approvals within certain Board-approved parameters). For example, Sub-Committees were established to oversee transactions to increase our underlying interest in Afterpay US completed in April 2021 , and in respect of the proposed acquisition by Square, Inc of 100% of Afterpay's issued share capital by way of a scheme of arrangement announced on 2 August 2021. Between 1 July 2021 and 2 August 2021, a further 17 Board and Sub-Committee meetings were held in respect of the Square transaction.

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 Year

With the exception of the items listed below, the Directors are not aware of any other matters or circumstances that have arisen since 30 June 2021 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.

Proposed acquisition by Square, Inc.

In August 2021, Square, Inc. (Square) and Afterpay entered into a Scheme Implementation Deed (SID) under which Square has agreed to acquire all of the issued shares in Afterpay by way of a recommended court-approved Scheme of Arrangement (The Transaction). The Transaction has an implied value of approximately US$29 billion ($39 billion) based on the closing price of Square common stock on 30 July 2021.

The acquisition aims to enable Square and Afterpay to better deliver compelling financial products and services that expand access to more consumers and drive incremental revenue for merchants of all sizes.

Under the terms of the SID, which has been approved by the members of the Boards of Directors of both Square and Afterpay, Afterpay shareholders will receive a fixed exchange ratio of 0.375 Square shares for each Afterpay ordinary share held on the record date (Consideration). Square may elect to pay 1% of Consideration in cash.

Square has agreed to establish a secondary listing on the Australian Securities Exchange (ASX) to allow Afterpay shareholders to trade Square shares via CHESS Depositary Interests (CDIs) on the ASX. These CDIs are expected to be eligible for S&P index inclusion in Australia. Afterpay shareholders will be able to elect whether to receive the Consideration in NYSE listed Square Class A common stock or CDIs.

The financial effects of the Transaction, including impact on any existing contractual arrangements, have not been recognised as at 30 June 2021.

The Transaction is expected to complete in the first quarter of calendar year 2022, subject to the satisfaction of certain closing conditions, including approval from both Square and Afterpay shareholders.

Investment in Postpay

In July 2021, the Group acquired a 12.5% equity stake in Postpay Technology Limited, a Dubai-based BNPL business, for US$5.0 million.

Dividends

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

Share-based Payment Plans

Details of share-based payment plans are set out in Note 22 of the Financial Statements.

Sustainability

Afterpay understands the importance of considering the impact of environmental and social factors on the sustainability of its businesses. Pages 17 to 23 disclose climate change information and sustainability initiatives that are in place across the Group.

The Group confirms that it is not subject to any particular or significant environmental legislation under a law of the Commonwealth, State or Territory law of Australia or in any of the other jurisdictions that Afterpay currently, or is soon to, have a presence in.

Corporate Governance

Afterpay is committed to good governance, transparency and accountability. The Board believes this is essential for the performance and sustainability of the business, and to protect and enhance the interests of shareholders and other stakeholders.

Afterpay's governance framework plays a critical role in helping the business deliver on its strategy. It provides the structure through which business objectives are set, performance is monitored, and risks are managed, and it provides guidance on the standards of behaviour expected of Afterpay's people.

Afterpay's governance framework, including our statement of compliance with the 4th edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, is outlined in our FY21 Corporate Governance Statement, which is available on Afterpay's website at https://corporate.afterpay.com/investors/corporate-governance, together with key governance documents, including charters and policies.

Remuneration Report

The Remuneration Report set out on pages 53 to 79 forms part of this Directors' Report.

Insurance of Directors and Officers

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

Indemnification of Auditors

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

Proceedings on Behalf of the Group

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

Non-Audit Services

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

The Board of Directors has considered the services provided by the external auditor, EY, during the year and, in accordance with the advice received from the Audit, Risk & Compliance Committee, is satisfied that the provision of non-audit services (including assurance related services) by EY is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by EY did not compromise the auditor independence requirements of the *Corporations Act 2001 for* the following reasons:

- the engagement of EY to provide non-audit services was authorised by the Chief Financial Officer, and where relevant, the Audit, Risk & Compliance Committee in accordance with the Group's External Audit Policy to ensure it did not impact the impartiality and objectivity of EY; and
- none of the services provided by EY undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*.

Details of the audit, assurance and non-audit fees paid or payable for services provided by the auditor of the parent entity, and its subsidiaries, are detailed in Note 26.

Auditor Independence

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

Rounding Off of Amounts

The amounts contained in this report have been rounded to the nearest $100,000 (unless otherwise stated) and the amounts contained in the financial report have been rounded to the nearest $1,000 (unless otherwise stated) under the options 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 AM

Independent Chair and Non-Executive Director
Melbourne
25 August 2021

Building a better working world

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Fax: +61 3 8650 7777
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Auditor's Independence Declaration to the Directors of Afterpay Limited

As lead auditor for the audit of the financial report of Afterpay Limited for the financial year ended 30 June 2021, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Fiona Campbell
Partner
25 August 2021

Remuneration Report.

We have a continual focus on the health and wellbeing of our people. Creating an environment where everyone feels able to be their authentic self is our top priority

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1. Executive Summary

On behalf of the Board of Directors of Afterpay Limited (Afterpay or the Group), we are pleased to present the audited FY21 Remuneration Report (Report).

At Afterpay, our people are our greatest asset and our business is all about human connection. Having the right culture and a team of people with shared values and a clear purpose is critical to the sustainability of our business. We recognise that remuneration is only one of a number of reasons why our people come to work for us every day. Further detail on people and culture at Afterpay is set out in the FY21 in Review section of this Annual Report.

1.1 FY21 – Continued global growth and strong operating performance achieved across all regions

The year ended 30 June 2021 was a period of continued high growth and investment as the Group scaled to achieve a vision for a world that delivers fairness and financial freedom for all.

Operational milestones that Afterpay has achieved include reaching $21.1 billion in Underlying Sales on the platform, an increase of 90% on FY20, and exceeding the publicly stated ambition to achieve $20 billion by FY22 a year early. The Group ended the year with 16.2 million Active Customers, an increase of 63% on the prior year. Notably, the North America platform is now the largest contributor to both Underlying Sales and Active Customers, reaching $9.8 billion and 10.5 million respectively. The integration of Pagantis (now Clearpay Europe) has also been a notable milestone in Afterpay's international expansion this year.

Financially, Afterpay Net Margin[1] of $434.1 million was up 74% on FY20, driven by growth in Underlying Sales. Afterpay continued to manage losses and achieved Net Margin in excess of 2% of Underlying Sales despite more than 6 million new customers added in the year and increasing contribution from less mature regions. EBITDA (excluding significant items) of $38.7 million was delivered in an environment of continued investment as planned in Afterpay's people, operations, and marketing. Further discussion is available in the Operating & Financial Review in the Directors' Report.

Afterpay's results have been achieved in an environment of continued uncertainty with the COVID-19 global pandemic. Our response and approach in this environment continues to be centred upon taking care of our people, preserving our strong relationships with customers and merchants, limiting losses, preserving margins and maintaining our strong balance sheet and capital position.

Figure 1 FY21 Group Performance Summary

FY21 Group Performance Summary

▲ Underlying Sales	▲ Active Customers	▼ Net Transaction Loss	▼ Afterpay Net Margin[1]	▼ EBITDA (excl. significant items)
90% on FY20	63% on FY20	0.6% of Underlying Sales	2.1% of Underlying Sales	$38.7 million

1. Afterpay has adopted Net Margin as a key performance metrics for current and future reporting periods. Afterpay Net Margin is Afterpay Net Transaction Margin (merchant margin earned directly from Underlying Sales), plus other income and margin items associated with the Afterpay platform (such as Money by Afterpay). Pay Now is not included within Afterpay Net Margin as it is not related to the Afterpay platform. Refer to Section 5.1 of the Operating and Financial Review in the Directors Report for additional detail.

In August 2021, the Board announced plans for Square, Inc. to acquire Afterpay, which would bring together two of the fastest growing global fin-tech companies to advance the companies' shared mission of economic empowerment and financial inclusion. Subject to satisfaction of certain closing conditions, the transaction is expected to close in the first quarter of calendar year 2022.

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1.2 FY21 Remuneration and Outcomes Review

The Group's executive remuneration framework (summarised in section 3) is designed to ensure there is a strong link between remuneration outcomes and the Group's performance (as outlined above).

During FY21:

- **no increases were made to fixed remuneration for the Executive Key Management Personnel (KMP).** Fixed remuneration comprises a cash component (base salary and superannuation) and RSUs (which vest over 3 years), other than for the Co-CEOs who elected not to receive RSUs in FY21, consistent with previous years;
- **the FY21 STI vested at 93% of maximum.** The Group's current Chief Financial Officer (**CFO**), Rebecca Lowde, was the only KMP eligible to receive an STI in FY21. The Co-CEOs elected not to participate in the STI, consistent with previous years; and
- **there were no LTI grants under the current framework (as summarised in section 4.4) which were eligible to vest in FY21.** The Co-CEOs have elected not to receive an LTI grant for FY22.

In respect of Non-Executive Directors, no changes to Board and Committee fees or the fee pool were made in respect of FY21.

2. Who is covered by this Report

This Report outlines the remuneration arrangements in place for KMP of the Group in FY21, which comprises all Non-Executive Directors and senior executives who have authority and responsibility for planning, directing and controlling the activities of the Group. Table 1 below sets out the Group's KMP during FY21.

During the year, the former Global CFO - Luke Bortoli - ceased as a KMP on 5 October 2020 and the current CFO - Rebecca Lowde - became a KMP effective 6 October 2020.

Afterpay remains committed to maintaining the representation of independent Non-Executive Directors. The Independent Chair and four Non-Executive Directors of the Board all served throughout FY21.

Table 1 Overview of FY21 KMP

KMP	Position	Term as KMP
Executive KMP		
Anthony Eisen	Co-CEO	Full Year
Nick Molnar	Co-CEO	Full Year
Rebecca Lowde[1]	Chief Financial Officer	Effective 6 October 2020
Luke Bortoli[2]	Global Chief Financial Officer	Ceased as KMP on 5 October 2020
Non-Executive Directors		
Elana Rubin AM	Independent Chair	Full Year
Dana Stalder	Non-Executive Director	Full Year
Gary Briggs	Non-Executive Director	Full Year
Pat O'Sullivan	Non-Executive Director	Full Year
Sharon Rothstein	Non-Executive Director	Full Year

1. Rebecca Lowde started in the position of CFO during the 2021 financial year, effective from her starting date of 6 October 2020.
2. Luke Bortoli held the position of Global CFO during the 2021 financial year effective from 1 July 2020. Luke ceased as Global CFO and KMP on 5 October 2020. Luke ceased formal employment with the Group on 30 June 2021.

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3. FY21 Executive Remuneration Framework

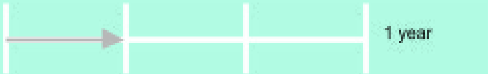
3.1 Snapshot

1. Our Strategic Priorities				
Brand	**Grow**	**Innovate**	**Perform**	**Do the Right Thing**
It's not pay in four, or BNPL, it's Afterpay. We are the verb and our own category. New visual identity to enhance alignment with our global customer base and differentiation.	Expand globally to deepen retailer partnerships. Increased focus on SMB acceptance in newer regions. Utilise brand and innovation to drive customer acceptance and retention.	Drive greater ecosystem value to customers and merchants. Customer-led differentiation via platform enhancements. Merchant insights, tools and value-added outcomes.	Maintain focus in every aspect of our performance. Accelerate investment in the global addressable opportunity.	Maintain focus on our people, protecting the business, caring for communities and good corporate governance.

2. Remuneration Policy & Principles			
Acting like owners and pay for performance	**Strategy-led and customer-centric**	**Attract, motivate and retain world's best talent**	**Doing the right thing**
Strong alignment between executive reward and shareholder outcomes Drive an "ownership mindset" and encourage a focus on long-term sustainable decision making in the interests of all of our stakeholders	Aligned with the Group's key value drivers and strategic objectives Support the Group's high-performance culture and focus executives on delivering exceptional results and the best possible user experience for our customers	Market competitive remuneration to attract and retain world-class talent from the global technology talent pool, with the skills and experience to drive our global expansion and shareholder returns	Meeting the expectations of our shareholders, customers, regulators and the broader community

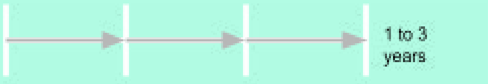
3. Our Executive KMP Remuneration Framework – Visualised

Fixed Cash Base Salary + Super



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

Fixed Annual RSU Grant

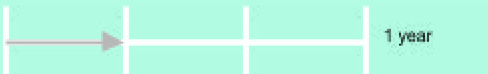


Annual RSU grants as part of fixed remuneration to reflect the **higher focus on equity** under the framework
Vesting in **equal annual tranches over 3 years** (subject to service)
Subject to **malus and clawback**

Fixed Remuneration

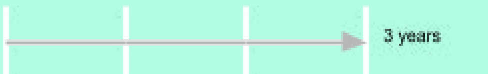
Aggregate of cash base salary and super, and RSUs, is positioned at or around the median of total fixed remuneration of peer companies

Short-Term Incentive



Positioned **below the median** of peers
Paid in cash at end of financial year
Subject to **clawback and a Board discretion modifier** for "doing the right thing"

LTI Performance Tested Options



Annual LTI grants subject to **formal performance testing**
Positioned **above the median of peers**
Subject to **malus and clawback**

Variable Remuneration

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

4. A Pay Mix for Performance

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

1. The Co-CEOs agreed not to receive STIs or RSUs in FY21 (as in previous years). Total fixed remuneration for the Co-CEOs is shown on an annualised basis and does not take into account the voluntary 20% reduction in base salaries for July 2020.
2. CFO pay mix reflects the annual FY21 package of the CFO (Rebecca Lowde). The CFO's initial grant and total remuneration package is positioned well below market. The Board intends to review the CFO's LTI arrangements in FY22 to align them more closely with the Group's remuneration framework and market competitive remuneration for her role.

3.2 More Detail

We set out below a more detailed description of each element of the FY21 executive remuneration framework and the rationale and positioning relative to peer companies.

Table 2 Detailed Overview of FY21 Executive Remuneration Framework

Element	Description	Positioning against peers and rationale
Fixed Remuneration		
Fixed cash remuneration (SECTION 4.2)	• Comprises base salary and superannuation • **Set conservatively** having regard to the individual's role, responsibilities, skills, experience and performance, and remuneration levels offered by comparable companies with whom the Group competes for talent	• **Positioned below median of peer companies** in recognition of the annual RSU grant which is also part of fixed compensation • Reviewed periodically with adjustments only for change in role or promotion, internal relativities and significant market changes, including material market relativity changes (not CPI / wage growth increases)
Annual RSU grant (SECTION 4.2)	• **Instrument:** RSUs (i.e. a right to a share upon satisfaction of vesting conditions) granted annually • **Allocation methodology:** Annual grants at market price (i.e. face value allocation methodology) • **Vesting period / conditions:** three equal tranches vesting annually over three years (subject to continued employment at vesting dates) • Subject to **malus / clawback** and no dividend or voting rights over vesting period	• **Compensates for conservative positioning of fixed cash remuneration** and is awarded as part of fixed remuneration to reflect the higher focus on equity • Restricted equity component generates strong alignment between executives and shareholders and provides a retention mechanism for key talent (as vesting is subject to continued employment at the respective vesting dates) • The Co-CEOs elected to forego RSUs in FY21 (as in previous years)
Fixed cash remuneration is positioned low relative to peers in recognition of the annual RSU grant. The sum of these two elements represents "total fixed remuneration" and is positioned at or around the median of peer companies (having regard to market capitalisation and comparable companies in relevant industries), with a higher weighting to equity than cash to encourage alignment with shareholders		
Variable Remuneration		
Short-term incentive (SECTION 4.3)	• **Instrument:** cash • **Performance period:** financial year • **Vesting conditions:** balanced scorecard comprising financial (50%), customers (25%), innovation (15%), and people (10%) measures • Subject to **clawback** and **Board discretion modifier for "doing the right thing"** (i.e. downward adjustments for conduct, risk, regulatory and reputational issues, and quality of results)	• Positioned below the median of peer companies in favour of heavy weighting towards LTI to provide for a stronger alignment to shareholder interests and to support long-term decision making • To reward the achievement of challenging annual goals set in line with the Group's mid-term objectives and to reflect the key value drivers of the business to deliver returns for shareholders • The Co-CEOs elected to forego a STI in FY21 (as in previous years)
Long-term incentive (SECTION 4.4)	• **Instrument:** options granted annually using a Binomial Model • **Exercise Price:** set based on volume weighted average price (**VWAP**) of Afterpay Limited shares based on the 10 day VWAP post release of the full year results (with a 20% premium for the Co-CEOs for FY21)[1] • **Performance period:** three years • **Performance conditions:** GMV (i.e. Underlying Sales) (50%) and NTM (50%) • Subject to **malus and clawback**	• LTI opportunity is positioned above market (i.e. packages are highly leveraged to LTI) • To reward for achievement of challenging long-term goals, generate strong alignment between executives and shareholders, and encourage sustainable decision making in the long-term interests of shareholders • Market price options (with a premium for the Co-CEOs for FY21) also encourage a focus on growing the share price and shareholder return
Cash STI levels are conservative relative to peers, with packages highly leveraged to the LTI to support long term sustainable decision making and alignment with shareholders		

1. The exercise price on the CFO's LTI grant for FY21 was equal to the 10-day VWAP of Afterpay Limited shares in the period up to and excluding her commencement date of 6 October 2020, reflecting that the CFO commenced after the annual cycle.

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4. FY21 Executive Remuneration Outcomes

4.1 Overview of Group performance

The Group is committed to ensuring strong alignment between the Group's performance and shareholder experience, and what is paid to its executives in remuneration. During FY21, the Group achieved strong growth in respect of key financial and non-financial indicators set out in Table 3 below. Group performance is only shown from FY18 as the Group was only formed in June 2017.

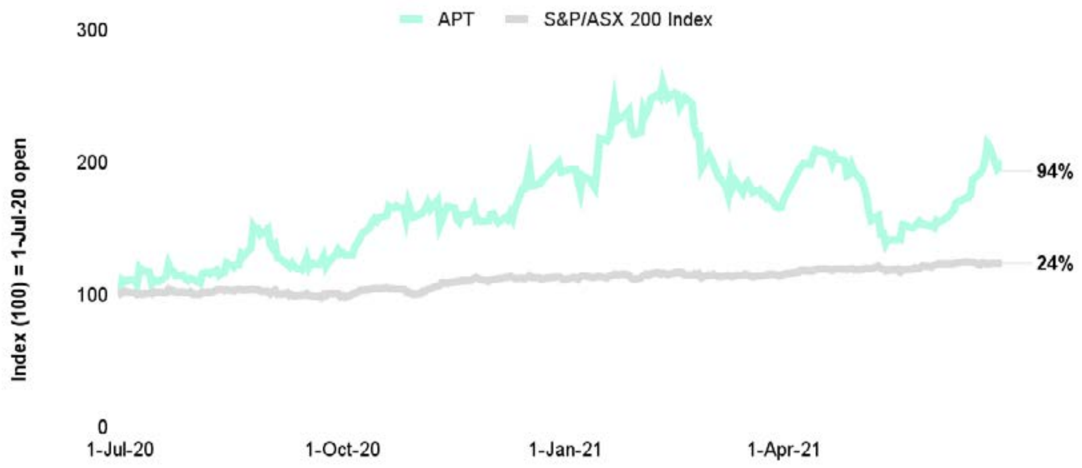
Table 3 FY21 Group performance relative to FY20, FY19, and FY18

$m (unless otherwise stated)	Change[1] %	FY21	FY20	FY19	FY18
Share price performance as at y/e ($/sh)	94%	118.17	60.99	25.07	9.35
Total dividends paid	-%	-	-	-	-
GMV (i.e. Underlying Sales)	90%	21,087.4	11,114.2	5,247.2	2,184.6
Active Customers (m)	63%	16.2	9.9	4.6	2.0
Active Merchants ('000s)	77%	98.2	55.4	32.3	16.0
Afterpay Income	90%	822.3	433.8	200.9	88.3
% of Afterpay Underlying Sales	-0.0 pp	3.9%	3.9%	3.8%	4.0%
Total Income[2]	78%	924.7	519.2	264.1	142.3
Net Transaction Loss[3]	210%	(132.6)	(42.8)	(22.2)	(9.3)
% of Afterpay Underlying Sales	-0.2 pp	(0.6%)	(0.4%)	(0.4%)	(0.4%)
Afterpay Net Margin[4]	74%	434.1	250.2	119.3	55.7
% of Afterpay Underlying Sales	-0.2 pp	2.1%	2.3%	2.3%	2.6%
EBITDA (excluding significant items)[5]	(13%)	38.7	44.4	25.7	33.8

1. Change percentage based on FY21 compared to FY20.
2. Total income comprises Afterpay income, Pay Now revenue and Other income.
3. NTL comprises gross loss, chargebacks, debt recovery costs, less late fees.
4. Afterpay Net Margin is a non-IFRS measure that is not audited but is a key financial metric used by management. Afterpay Net Margin is Afterpay Net Transaction Margin (merchant margin earned directly from Underlying Sales), plus other income and margin items associated with the Afterpay platform (such as Money by Afterpay).
5. EBITDA is a non-IFRS measure that is not audited but is a key financial metric used by management at a Group level. EBITDA (excluding significant items) excludes foreign currency gains, share-based payment expenses, net loss on financial liabilities at fair value, share of loss of associate, gain on dilution of shareholding in associate, and one-off items.

Delivery of strong operational and financial performance in FY21 translated to strong returns for Afterpay's shareholders. The Group's share price increased by 94% from a closing share price of $60.99 at 30 June 2020 (the last trading day of FY20) to $118.17 on 30 June 2021. By comparison, the S&P/ASX 200 Index increased by 24% from 5,898 points to 7,313 points over the same period.

Figure 2 FY21 APT share price performance compared to the S&P/ASX 200 Index



Source: Bloomberg.

4.2 Total fixed remuneration

4.2.1 Overview of FY21 total fixed remuneration levels

As outlined in section 3, under the FY21 remuneration framework, the fixed remuneration component for Executive KMP comprises two elements being (1) fixed cash remuneration which includes cash base salary and superannuation; and (2) fixed annual grant of RSUs which vests in equal tranches annually over 3 years (subject to service at the respective vesting dates).

Table 4 below outlines Executive KMPs' contractual fixed remuneration on an annualised basis. The Co-CEOs elected to forego the RSU component for FY21 under the framework and no increases were made to their cash base salary. The current CFO's total fixed remuneration was positioned having regard to external market data sourced from independent remuneration consultants. The former Global CFO (Luke Bortoli) did not receive an RSU grant during FY21.

Table 4 FY21 fixed remuneration levels for Executive KMP (contract values)

Total Fixed Remuneration (FY21)				
Executive KMP	**Fixed cash remuneration[1]**	**Face value of RSUs**	**Face value of RSUs (% of fixed cash remuneration)**	**Total fixed remuneration[2]**
Anthony Eisen[3]	$450,000	N/A	N/A	$450,000[3]
Nick Molnar[3]	$450,000	N/A	N/A	$450,000[3]
Rebecca Lowde (annualised)[4]	$525,000	$262,500	50%	$787,500
Luke Bortoli (annualised)[5]	$300,000	N/A	N/A	$300,000

1. Fixed cash remuneration represents the contract value and includes cash base salary and superannuation.
2. Total fixed remuneration represents the sum of fixed cash remuneration and the face value of RSUs (as applicable).
3. In May 2020, the Co-CEOs elected to take a 20% reduction in their cash base salaries for three months from May 2020, reflecting the uncertainty of the impact of COVID-19 on the community. The impact of this decision affected July 2020 in FY21. Total fixed remuneration for the Co-CEOs is shown on an annualised basis and excludes the voluntary 20% reduction in salaries.
4. Total fixed remuneration for the CFO is shown on an annualised basis. The CFO commenced employment on 6 October 2020 and received a pro-rated RSU issuance of $192,740, representative of 50% of her pro-rated fixed cash remuneration.
5. Total fixed remuneration for the former Global CFO is shown on an annualised basis. The former Global CFO ceased as a KMP on 5 October 2020.

4.2.2 FY21 RSUs key terms – further detail

Table 5 sets out the key terms which apply to RSUs granted as part of total fixed remuneration in FY21. **The Group's current CFO was the only Executive KMP to receive RSU grants during the period.**

Table 5 RSUs – key terms

<table>
<tr><th colspan="2">Restricted Stock Units (RSUs) – Key Terms</th></tr>
<tr><th>Term</th><th>Further Detail</th></tr>
<tr><td>Allocation methodology</td><td>RSUs would typically be granted on a face value basis by dividing the participant's RSU dollar value opportunity in Australian dollars for FY21 by the 10-day VWAP of Afterpay Limited shares traded in the period immediately following the release of the 2020 full year results.

The Group's current CFO was the only Executive KMP to receive RSU grants during the period. The RSUs to the current CFO were granted based on a 10-day VWAP of APT shares up to and excluding the CFO's commencement date on 6 October 2020 (reflecting that the CFO commenced after the annual cycle).</td></tr>
<tr><td>Entitlement</td><td>Upon satisfaction of the vesting conditions, each RSU entitles the participant to one fully paid ordinary share in Afterpay Limited (or a cash equivalent payment in lieu of a share at the discretion of the Board). Participants are not required to pay any amount (e.g. an exercise price) upon vesting of the RSUs.</td></tr>
<tr><td>Vesting conditions and schedule</td><td>The RSUs will vest subject to the participant remaining employed by, or continuing to provide services to, the Group at each vesting date. The vesting schedule in respect of the RSUs granted during FY21 to the CFO is set out below:

<table>
<tr><th>Tranche</th><th>Vesting Date</th><th>Percentage of FY21 RSUs</th></tr>
<tr><td>1</td><td>1 July 2021</td><td>One-third</td></tr>
<tr><td>2</td><td>1 July 2022</td><td>One-third</td></tr>
<tr><td>3</td><td>1 July 2023</td><td>One-third</td></tr>
</table></td></tr>
<tr><td>Treatment on cessation of employment</td><td>If the participant ceases to be employed, any unvested RSUs will immediately lapse.

However, the Board may, in its absolute discretion and subject to any requirement for shareholder approval, determine to treat any of the unvested RSUs in a different manner (e.g. in the case of a "good leaver").

A "good leaver" may include, for example, an employee who leaves the company due to death, total or permanent disablement, illness, genuine redundancy, or other factors determined by the Board to constitute sufficient reason to treat the person as a "good leaver".</td></tr>
<tr><td>Malus and clawback</td><td>Amongst other things, the Board may elect to forfeit any unvested awards (i.e. malus) or recoup any vested and paid awards (i.e. clawback) in the following circumstances:
• a participant has engaged in serious misconduct (including but not limited to fraud, dishonesty, gross negligence or a breach of employment conditions);
• a material misstatement in, or omission from the Group's financial statements or a misstatement of an applicable vesting condition;
• a participant has acted or failed to act in a way that has contributed to material reputational damage to the Group; or
• in the opinion of the Board, acting in good faith, all or part of the initial RSU award is no longer justified having regard to the circumstances or information which has subsequently come to light after a grant was made.</td></tr>
<tr><td>Change of control</td><td>Where a transaction or event is proposed that, in the opinion of the Board, may result in a person becoming entitled to control of Afterpay Limited, the Board retains the discretion (to be exercised consistently with the ASX Listing Rules) to determine that a particular treatment will apply to unvested RSUs.

Where this discretion is not exercised and a change of control event (as defined) occurs, any unvested RSUs will vest on a pro-rata basis to time, based on the portion of the vesting period that has passed at the time of the change of control event (unless the Board determines otherwise).</td></tr>
<tr><td>Voting and dividends</td><td>RSUs do not carry any dividend or voting rights.</td></tr>
<tr><td>Hedging</td><td>Participants are not permitted to enter into any arrangement for the purpose of hedging, borrowing or otherwise affecting their economic exposure to RSUs.</td></tr>
</table>

4.3 FY21 short-term incentive outcomes

4.3.1 Overview of FY21 STI outcomes

The maximum STI awards that Executive KMP were eligible to receive in respect of FY21 are set out in Table 6 below. **The CFO was the only Executive KMP eligible to receive an STI in FY21, reflecting that the Co-CEOs elected to continue to not be eligible for an STI award under the new framework.**

FY21 STI awards were assessed against a balanced scorecard of annual objectives that are aligned with the Group's value drivers, achievement of Afterpay's mid-term objectives and generation of long-term value for our shareholders. The FY21 STI scorecard and performance against it (which determines the CFO's STI) is set out at section 4.3.2 below. The final outcomes reflect the Group's strong performance including exceptional growth across all key platform metrics, strong risk management outcomes, and achievement of targeted EBITDA, notwithstanding the accelerated investment in global expansion.

Table 6 FY21 STI opportunities and outcomes

FY21 STI Opportunities and Outcomes					
Executive KMP	**Maximum STI opportunity**[1] ($)	**Maximum STI opportunity** (% of total fixed remuneration[2])	**STI awarded**	**% of maximum FY21 STI awarded**	**% of maximum FY21 STI award unrealised**
Anthony Eisen[3]	N/A	N/A	N/A	N/A	N/A
Nick Molnar[3]	N/A	N/A	N/A	N/A	N/A
Rebecca Lowde (annualised)[4]	$393,750	50%	$366,188	93%	7%
Luke Bortoli[5]	N/A	N/A	N/A	N/A	N/A

1. These figures represent the maximum STI that can be earned by Executive KMP when performance targets are met.
2. Total fixed remuneration is based on the figures disclosed in section 4.2.
3. As noted above, the Co-CEOs are not eligible for any STI awards.
4. Total fixed remuneration, STI opportunity, and STI awarded for the CFO is shown on an annualised basis. As the CFO commenced employment on 6 October 2020, she had a maximum pro-rated STI opportunity of $289,110 for FY21, representative of 50% of her pro-rated total fixed remuneration. The CFO was awarded a pro-rated STI of $268,872 for FY21, reflective of 93% of the maximum.
5. The Board determined that the former Global CFO will not receive a STI award for FY21.

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4.3.2 Performance against the FY21 STI scorecard

Performance against the FY21 STI scorecard is set out below. Targets are set at challenging levels to ensure Executive KMP are rewarded for exceptional performance. For each measure, 50% vesting occurs at threshold, with up to 100% vesting at target (with straight line vesting in between). No vesting occurs below threshold. Threshold performance is generally set at 90% of target. Final STI outcomes are subject to a Board discretion modifier for "doing the right thing" and assessment of the quality of results.

Figure 3 FY21 STI scorecard and performance

Measure	Weight	Strategic Link	Vesting Outcome[1]	Outcome Commentary
Financial measures (50%)			**Threshold** (50% vesting) **Target** (100% vesting)	
Underlying Sales	25%	Strong financial performance, including EBITDA (excluding Significant Items) and GMV (i.e. Underlying Sales), is critical to delivering long-term shareholder value.		GMV of $21.1b exceeded the FY21 target and was 90% higher than FY20. The almost doubling of GMV was driven by growth across all regions. In particular in FY21, North America grew rapidly and now exceeds APAC as Afterpay's largest region.
EBITDA	25%			EBITDA (excluding significant items) of $38.7m was above target, and included planned investments in people, operations and marketing to drive brand awareness and customer acquisition globally.
Non-financial measures (50%)				
Customers				
Active Customers	12.5%	At Afterpay, we are committed to putting our customers first and achieving our mission to power an economy in which everyone wins. Execution of our mid-term plan is underpinned by strong customer expansion annually. STI measures reflect both the number of active customers and customer defaults.		Active Customers of 16.2m exceeded the FY21 target, an increase of 63% on prior year. North America and Clearpay (UK and Europe) have particularly driven growth in new customers to Afterpay.
Net Transaction Loss (NTL)	12.5%			NTL of 0.6% was better than the FY21 target, with lower gross loss due to continued focus on risk management and higher proportion of returning customers (who are lower risk) offsetting lower late fees.
Innovation				
Innovation	15%	We are a platform. We are focussed on providing new and valuable experiences to customers and merchants. "Innovation" reflects achievement of key product, technology and network build milestones.		Achieved delivery of key product plan milestones including: launch of Canada, integration of Clearpay in Europe, growth of US instore, launch of Afterpay card in ANZ, continued enhancement of loyalty, integration of new global channel partners, growth in cross-border activity, and development of new revenue streams and customer and merchant value such as in-app advertising, Afterpay iQ, and Money by Afterpay
People				
People	10%	Our people are at the heart of everything we do. A high-performing and engaged workforce is critical to delivering superior returns.		Achieved positive results in employee engagement surveys assessed using the CultureAMP methodology with a higher score than FY20. Continued to prioritise the health and wellbeing of employees through COVID-19 including providing robust remote working arrangements and employee support initiatives.
			FY21 STI outcome: 93%	

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

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4.3.3 FY21 STI terms - further detail

The table below outlines the key terms and conditions applying to the STI arrangements for the CFO during FY21.

Table 7 Description of key terms of FY21 Executive KMP STI

FY21 STI – Key Terms	
Term	**Further Detail**
Performance period	STI awards are assessed over the 12-month financial year. Any STI award payments are made after performance is tested at the end of the performance period.
Assessment of performance measures	Performance against the scorecard measures is assessed annually by the Board based on recommendations from the People, Remuneration & Nomination Committee (with input from the Co-CEOs) after the end of the performance period, as part of the broader performance review process for each Executive KMP. Financial and non-financial measures are assessed quantitatively against predetermined benchmarks where applicable. When testing financial measures, financial results are extracted from the Group's accounting system. These methods of assessing performance were chosen because they are, as far as practicable, objective and fair. The use of the Group's accounting system ensures the integrity of the measure and alignment with the true financial performance of the Group. In determining final outcomes, the Board will also have regard to the quality of the result in each category (facilitated by contra / supplementary indicators, including customer complaints and customer Net Promoter Score (**NPS**)).
Board discretion modifier for "doing the right thing"	The Board retains absolute discretion in respect of STI awards and final vesting outcomes. As part of its overarching discretion, the Board may reduce final STI outcomes having regard to affordability considerations and the Group's financial performance over the period. In addition to this overarching discretion, final STI outcomes will be subject to a Board discretion modifier for "doing the right thing" whereby the Board may make downward adjustments (including to zero) for regulatory issues, conduct issues, brand and reputational issues, and non-financial and financial risk issues.
Treatment on cessation of employment	Subject to Board discretion, if an Executive KMP ceases to be employed: ● in "bad leaver" circumstances (e.g. termination for cause) during the performance period, the Executive KMP will not be eligible for an STI award (unless the Board determines otherwise); or ● in "good leaver" circumstances (i.e. other than as a bad leaver), the treatment of their unvested STI awards will be at the absolute discretion of the Board.
Malus and clawback	The Board may elect to forfeit an Executive KMP's FY21 STI award (i.e. malus) or recoup any vested and paid awards (i.e. clawback) in the circumstances specified in respect of the FY21 RSUs at section 4.2.2.
Change of control	Where a transaction or event is proposed that, in the opinion of the Board, may result in a person becoming entitled to control of Afterpay Limited during the performance period, the Board retains the discretion (to be exercised consistently with the ASX Listing Rules) to determine that a particular treatment will apply to STI awards. Where this discretion is not exercised and a change of control event (as defined) occurs during the performance period, any unvested STI awards will vest on a pro-rata basis to time, based on the portion of the vesting period that has passed at the time of the change of control event (unless the Board determines otherwise).

4.3.4 Withheld FY19 STI awards

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

AUSTRAC announced on 14 October 2020 that it had considered the Final Audit Report and Afterpay's response to the findings; and decided it will not be taking any further regulatory action. The FY19 STI awards that were withheld from the Co-CEOs and former CFO were paid in November 2020.

4.4 FY21 long-term incentive awards

4.4.1 Overview

Key features of the Group's FY21 LTI program are as follows:

- **the LTI component of the Group's FY21 remuneration framework is tested against two equally weighted measures, being the Group's GMV (i.e. Underlying Sales) and Afterpay Net Transaction Margin (NTM) over the three-year performance period** (refer section 4.4.3);
- **delivery of LTI awards in market price options for the Executive KMP (other than the Co-CEOs where the exercise price on their FY21 LTI awards was set at a 20% premium to market) so that the LTI awards only deliver value to executives where the share price increases**. While a number of ASX listed companies have some form of share price measure in their LTI (e.g. relative total shareholder return), the use of market value options under the LTI (with an exercise price based on Afterpay's share price at grant) has an implicit share price hurdle. That is, executives are incentivised to drive share price performance in the interests of our shareholders, as the market price at the time of exercise will need to exceed the exercise price for the options to deliver any value to executives (in addition to performance hurdles being met); and
- **in general, Executive KMP remuneration packages are also highly leveraged to the performance-tested LTI to encourage long-term, sustainable decision making in the interests of our shareholders** (refer section 4.4.2)

4.4.2 FY21 LTI awards

Table 8 below outlines the face value of LTI awards granted to Executive KMP during FY21.

The maximum LTI opportunity level for the Co-CEOs as a percentage of total fixed remuneration reflects the intended heavy weighting of Executive KMP packages towards the LTI, as well as the modest positioning of total fixed remuneration relative to market. The Co-CEOs' options were approved by shareholders at the 2020 AGM in accordance with LR 10.14.

As noted above, the Co-CEOs have elected not to receive an LTI grant for FY22.

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Table 8 FY21 LTI awards to Executive KMP

Executive KMP	Maximum LTI Opportunity	Maximum LTI opportunity (% of total fixed remuneration)[1]
Anthony Eisen[2]	$1,500,000	333%
Nick Molnar[2]	$1,500,000	333%
Rebecca Lowde[3] (annualised)	$262,500	33%
Luke Bortoli[4]	N/A	N/A

1. Total fixed remuneration is based on the figures disclosed in section 4.2. For the Co-CEOs, this represents total fixed cash remuneration. For the CFO, this represents total fixed cash remuneration plus the face value of RSUs.
2. The exercise price of the performance-tested LTI options granted to the Co-CEOs was set at a 20% premium to the market value of Afterpay Limited shares, where the market value was set equal to the 10-day VWAP of Afterpay Limited shares immediately following the release of 2020 full year results.
3. The CFO commenced employment on 6 October 2020 and received a pro-rated LTI issuance of $192,740, representative of 33% of her pro-rated total fixed remuneration. The exercise price of the CFO's performance-tested LTI options was based on the market value of Afterpay Limited shares, where the market value was set equal to the 10-day VWAP of Afterpay Limited shares in the period up to and excluding commencement date.
4. The former Global CFO was not eligible to participate in the FY21 LTI plan.

4.4.3 FY21 LTI key terms – further detail

The table below outlines the key terms of the LTI awards granted to Executive KMP during FY21.

Table 9 Key terms of FY21 LTI awards granted to Executive KMP

Long-Term Incentive (FY21) – Key Terms	
Term	**Further Detail**
Entitlement	Subject to the satisfaction of the performance conditions and payment of the exercise price, each LTI option entitles the holder to one fully paid ordinary share in Afterpay Limited (or a cash equivalent payment at the discretion of the Board).
Allocation methodology	The number of LTI options granted was calculated by dividing the participant's dollar value LTI opportunity for FY21 (as outlined in section 4.4.2 above) by the market value of the options. The market value of options was calculated by using a Binomial Model, based on • for the Co-CEOs, the 10-day VWAP of Afterpay Limited shares in the period immediately following the release of full year results and the exercise price of the options outlined below; and • For the CFO, the 10-day VWAP of Afterpay Limited shares in the period up to and excluding commencement date of 6 October 2020 (reflecting that the CFO commenced after the annual cycle) and the exercise price of the options outlined below. The market value of options is not reduced for the likelihood of performance hurdles being met.
Exercise price	Participants are required to pay an exercise price to exercise their LTI options upon vesting. In respect of the FY21 LTI awards, the exercise price for the: • Co-CEOs is $98.97. This was set at a 20% premium to the market value of Afterpay Limited shares, equal to the 10-day VWAP of Afterpay Limited shares in the period immediately following the release of 2020 full year results; and • CFO is $78.87. This was set at the market value of Afterpay Limited shares, being equal to the 10-day VWAP of Afterpay Limited shares in the period up to and excluding commencement date of 6 October 2020 (reflecting that the CFO commenced after the annual cycle)
Expiry date	The FY21 LTI options will expire on 1 July 2025.
Performance period	The performance period is 3 years, commencing on 1 July 2020 to 30 June 2023.

Performance conditions and vesting schedule

The options are subject to performance testing against the following performance conditions over the performance period:

- GMV (i.e. Underlying Sales) – 50%. GMV is a measure of the total order value processed on the Afterpay platform; and
- Afterpay NTM – 50%. NTM is a measure of gross profit margin (post-receivables impairment expense and receivables financing costs, pre-operating costs) generated by transactions on the Afterpay platform.

GMV performance condition

The vesting schedule in respect of the GMV performance condition is set out below. Vesting will occur on a straight-line basis between target and maximum levels of performance. No vesting occurs if target performance is not achieved. Specific targets in respect of GMV will be disclosed at the end of the performance period.

Level of performance	Vesting of GMV-target related measure (%)	GMV (targets)
Target	50%	Targets to be disclosed at the end of the performance period due to commercial sensitivity
Maximum	100%	Targets to be disclosed at the end of the performance period due to commercial sensitivity

Afterpay NTM performance condition

The vesting schedule in respect of the Afterpay NTM performance condition is set out below. Vesting will occur on a straight-line basis between target and maximum levels of performance. No vesting occurs if target performance is not achieved.

Specific targets in respect of Afterpay NTM will be disclosed at the end of the performance period due to commercial sensitivity. A transparent disclosure of the calculation of Afterpay NTM (that reconciles to the statutory accounts) will be provided at the end of the performance period.

Level of performance	Vesting of NTM-target related measure (%)	Afterpay NTM (targets)
Target	50%	Targets to be disclosed at the end of the performance period due to commercial sensitivity.
Maximum	100%	Targets to be disclosed at the end of the performance period due to commercial sensitivity.

Treatment on cessation of employment

Subject to Board discretion, if an Executive KMP ceases to be employed:

- in "bad leaver" circumstances (e.g. termination for cause) during the performance period, all of the unvested LTI options will lapse (unless the Board determines otherwise); and
- in "good leaver" circumstances (i.e. other than as a bad leaver), the treatment of unvested LTI options will be at the discretion of the Board (subject to applicable law). The Board's intention is that the LTI options would be pro-rated to time served in employment and left on foot to be tested and vest in the ordinary course.

Malus and clawback

The Board may elect to forfeit any unvested LTI awards (i.e. malus) or recoup any vested and paid LTI awards (i.e. clawback) in the circumstances specified in respect of the FY21 RSUs at section 4.2.2.

Change of control

Where a transaction or event is proposed that, in the opinion of the Board, may result in a person becoming entitled to control of Afterpay Limited, the Board retains the discretion (to be exercised consistently with the ASX Listing Rules) to determine that a particular treatment will apply to unvested LTI awards.
Where this discretion is not exercised and a change of control event (as defined) occurs, any unvested LTI awards will vest on a pro-rata basis to time served in employment, based on the portion of the vesting period that has passed at the time of the change of control event (unless the Board determines otherwise).

Voting and dividend rights

LTI awards do not carry any dividend or voting rights over the performance period.

Hedging

Participants are not permitted to enter into any arrangement for the purpose of hedging, borrowing or otherwise affecting their economic exposure to LTI options.

4.5 Legacy one-off equity awards

As part of the Group's legacy executive remuneration arrangements, Executive KMP received one-off grants of equity (in the form of options, loan shares or rights) at the time they commenced employment with the Group, which were subject to continued employment and the achievement, in some cases, of KPIs. No one-off equity grants were made during FY20 or FY21 to Executive KMP (as the Group has transitioned to a new remuneration framework in FY20).

The former Global CFO (Luke Bortoli) was granted 1,350,000 options in June 2018 under the Group's legacy one-off equity arrangements (with an exercise price of $5.00 and expiry date of 31 December 2022). The options were eligible to vest in equal tranches over three years. As noted above, the former Global CFO ceased as a KMP on 5 October 2020 and remained employed with the Group until 30 June 2021. The third and final tranche of the former Global CFO's options vested in full on 1 June 2021.

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4.6 Executive KMP remuneration statutory table

Table 10 below sets out Executive KMP remuneration for FY21 (and FY20 for comparative purposes) in accordance with the requirements of the Accounting Standards and Corporations Act 2001 (Cth). The table reflects the accounting value of Executive KMP remuneration, derived from the various components of their remuneration.

Table 10 Statutory remuneration table

Afterpay Remuneration ($) For the years ending 30 June 2021 and 30 June 2020	Short term					Long term			Share-based payments	Total
	Financial Year	Salary and Fees	Cash Bonus	Other Monetary Benefits	Non-Monetary Benefits[1]	Super-annuation	Long-Service Leave	Termination	Options and RSUs	Total
Anthony Eisen	2021	450,155	-[2]	-	-	25,000	9,671	-	1,191,403	1,676,229
	2020	470,897	-	-	-	25,000	9,360	-	233,668	738,925
Nick Molnar	2021	450,192	-[2]	-	-	25,000	12,231	-	1,191,403	1,678,826
	2020	464,353	-	-	79,861	25,000	13,932	-	233,668	816,814
Rebecca Lowde (part year)[3]	2021	400,093	268,872	-	-	16,271	971	-	179,602	865,809
Luke Bortoli (part year)[4]	2021	77,777	-	-	13,676	5,670	-	-	135,154	232,277
	2020	300,079	344,000	-	9,797	21,120	1,504	-	1,228,136	1,904,636
Frerk-Malte Feller[5]	2021	-	-	-	-	-	-	-	-	-
	2020	279,176	-	100,000	71,056	21,444	-	-	1,383,170	1,854,846
David Hancock[6]	2021	-	-	-	-	-	-	-	-	-
	2020	75,002	-	-	-	7,334	-	-	1,190,600	1,272,936
Total	**2021**	**1,378,217**	**268,872**	**-**	**13,676**	**71,941**	**22,873**	**-**	**2,697,562**	**4,453,141**
	2020	1,589,507	344,000	100,000	160,714	99,898	24,796	-	4,269,242	6,588,157

1. Non-monetary benefits include benefits such as insurance, rent and relocation expenses.
2. No cash bonus for the Co-CEOs. In FY21, the Co-CEOs were paid for their FY19 bonus which had been withheld pending the outcome of the AUSTRAC audit.
3. Rebecca Lowde commenced as KMP on 6 October 2020.
4. Luke Bortoli ceased as a KMP on 5 October 2020 and was not entitled to a FY21 STI cash bonus. Luke's cash bonus for FY20, plus his FY19 STI payment, which was withheld pending the outcome of the AUSTRAC audit (which was completed in FY21), was paid post him ceasing as KMP.
5. Frerk-Malte Feller ceased as KMP on 12 June 2020.
6. David Hancock ceased as KMP on 8 October 2019.

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4.7 Actual remuneration snapshot

Table 11 below provides a summary of the actual take-home pay received by Executive KMP during the Reporting Period. Unlike the statutory remuneration tables in section 4.6, the below table has not been prepared in accordance with the requirements of the Australian Accounting Standards and is unaudited. It is included on a voluntary basis to show the remuneration actually received by Executive KMP during the Reporting Period.

The options exercised in FY21 by the Co-CEOs represent legacy one-off equity arrangements. The value delivered from these options is aligned with the value delivered to shareholders over the vesting period. Anthony and Nick remain fully committed to Afterpay and remain the largest shareholders of the Group.

Table 11 FY21 Actual Remuneration—Executive KMP

	Actual Remuneration					
KMP	**Fixed remuneration**[1] (A)	**Other monetary benefits** (B)	**Non-monetary benefits**[2] (C)	**Cash Bonus** (D)	**Options vested and exercised in FY21**[3] (E)	**Total actual remuneration** (A) + (B) + (C) + (D) + (E)
Anthony Eisen	442,500	-	-	300,000[4]	131,625,000	132,367,500
Nick Molnar	442,500	-	-	300,000[4]	131,625,000	132,367,500
Rebecca Lowde (part year)[5]	387,937	-	-	-	-	387,937
Luke Bortoli (part year)[6]	77,323	-	13,676	-	-	90,999

1. Fixed remuneration includes base salary and superannuation. This figure excludes Rebecca's FY21 RSUs which have not yet vested.
2. Non-monetary benefits represent benefits such as insurance, rent and relocation expenses.
3. Options vested and exercised is calculated as the difference between the share price at the date of exercise less the exercise price, and includes options vested in prior years that were exercised in FY21.
4. Cash bonus for the Co-CEOs relate to the withheld STI bonus from FY19 pending the outcome of the AUSTRAC audit, which was completed in FY21.
5. Rebecca Lowde commenced as KMP on 6 October 2020. Annualised total fixed remuneration is $525,000.
6. Actual remuneration is shown for Luke Bortoli up until the date he ceased as KMP on 5 October 2020. Luke's cash bonus for FY20, plus his FY19 STI payment, which was withheld pending the outcome of the AUSTRAC audit (which was completed in FY21), was paid post him ceasing as KMP.

5. Non-Executive Director Remuneration

5.1 Overview of FY21

5.1.1 Composition of the Board

The Board currently has seven directors: five independent Non-Executive Directors and two Executive Directors (being the co-CEOs). The composition of the Board was significantly strengthened during FY20, with the appointment of three independent Non-Executive Directors, Gary Briggs, Pat O'Sullivan and Sharon Rothstein, and no changes were made to composition during FY21.

The Board will continue to assess its collective skills, knowledge, experience and diversity (including diversity of thought, gender, relationships and background), with a view to identifying any particular competencies and perspectives that will best increase its effectiveness and support the Group's continued growth, global expansion and long-term success (refer section 2 of the Group's FY21 Corporate Governance Statement for further detail).

5.2 Remuneration policy and arrangements

The Board sets the fees for its Non-Executive Directors in line with the key objectives of the Group's Non-Executive Director remuneration policy set out below. The People, Remuneration & Nomination Committee makes recommendations to the Board regarding remuneration for Non-Executive Directors (refer section 6.1 for further detail regarding "Remuneration Governance").

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

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

Table 12 Non-Executive Director remuneration policy

Market competitive to secure and retain talented, qualified Directors	Preserving and safeguarding independence and impartiality	Aligning Director and security holder interests
The Board's policy is to remunerate Non-Executive Directors at market-competitive rates to attract and retain Non-Executive Directors of the highest calibre and requisite expertise having regard to: • fees paid by comparable companies; • the size, complexity and international spread of the Group's operations; and • the workload and time commitment of Non-Executive Directors.	Director remuneration consists of base fees, and additional fees for the Chair and members of any Board Committee (with the exception of the role of Board Chair who receives an all-inclusive fee). No element of Non-Executive Director remuneration is "at risk" (i.e. Non-Executive Directors are not entitled to any performance-related remuneration) to preserve the Directors' independence and impartiality.	In accordance with Afterpay's Non-Executive Director Shareholding Requirement Policy, Non-executive Directors are required to hold securities in the Group, with a view to strengthening the alignment between the interests of Directors and shareholders (refer section 5.4).

5.3 Fees and other benefits

5.3.1 Board and Committee fees

Table 13 sets out the fees (inclusive of superannuation) payable to the Non-Executive Directors of the Group in respect of FY21 and how they are positioned relative to market. Committee fees are paid in addition to the Non-Executive Director base fee, with the exception of fees payable to the Board Chair who receives an "all-inclusive fee" (i.e. is not eligible for additional Committee fees).

As shown in Table 13, the Group's fees (which are consistent with FY20) are positioned conservatively relative to market. To support the attraction and retention of overseas Directors (particularly out of the US where director fee levels are significantly higher than Australian fees), the Board retains the discretion to provide overseas Directors with an uplift to the base member fee (as set out below) of up to 50% (as required). This uplift was provided to US-based Directors Gary Briggs and Sharon Rothstein in FY21.

Table 13 Non-Executive Director fees

Board and Committee fees (per annum)	FY21[1]
Chair of the Board – base fee	$350,000 (all inclusive)[2]
Non-Executive Director – base fee[3]	$150,000[3]
Committee Chair (Audit, Risk & Compliance)	$30,000
Committee Chair (People, Remuneration & Nomination)	$25,000
Committee Member (Audit, Risk & Compliance)	$15,000
Committee Member (People, Remuneration & Nomination)	$12,500

1. Fees shown on an annualised basis. Non-Executive Directors' fees (including Committee fees) were adjusted by the Board for FY22 to reflect the increased size, complexity, and geographical reach of Afterpay. The increased NED fees remain within the aggregate fee pool of $1,800,000 (noted in section 5.3.2 below).
2. The Chair of the Board fee is all-inclusive, i.e. the Board Chair does not receive additional fees for permanent Committees.
3. The Board will retain the discretion to provide overseas directors with an uplift to the base member fee of up to 50% (as required). During FY21, a 50% uplift in the base member fee was paid to US-based directors Gary Briggs and Sharon Rothstein.

Non-Executive Directors are entitled to be reimbursed for all reasonable business-related expenses in addition to Board Fees (including travel), as may be reasonably incurred in the discharge of their duties.

5.3.2 Aggregate fee pool

Non-Executive Directors' fees (including Committee fees) apply within the aggregate fee pool of $1,800,000, which was approved by the Group's shareholders at the AGM held in November 2019. Afterpay's aggregate fee pool would continue to be positioned conservatively relative to the market, with the median fee pool of companies within the market capitalisation comparator group (noted above) being $3,000,000.

Any proposal to increase the aggregate fee pool will be subject to shareholder approval at a future AGM.

5.4 Minimum shareholding requirements

Afterpay's Non-Executive Director Shareholding Requirement Policy is designed to strengthen the alignment between the interests of Directors and shareholders. The policy requires Non-Executive Directors to acquire and maintain Afterpay shares worth at least one year's base fee (gross) within the later of three years of appointment or the Policy's effective date of 16 October 2019. This must be achieved by each Director using personal funds.

The shareholdings of the Group's Non-Executive Directors at the end of the Reporting Period are outlined in detail in section 6.4 of this Report. All Non-Executive Directors held shareholdings in excess of the minimum shareholding requirement as at 30 June 2021.

5.5 Non-Executive Directors – statutory remuneration

The fees paid or payable to the Non-Executive Directors of the Group in respect of FY21 are set out in the table below. These fees include the temporary reduction in Board base member and Committee fees as noted in the FY20 Remuneration Report (which impacted July 2020 in FY21), with Non-Executive Directors electing to forego 20% of their base member and Committee fees from May 2020 to July 2020 inclusive.

Table 14 Non-Executive Directors – statutory remuneration

Afterpay remuneration ($) for the years ending 30 June 2021 and 30 June 2020	Financial year	Short-term Benefits	Long-term Benefits	Share-based payments	Total
		Salary & Fees	Superannuation	Options	
Elana Rubin	2021	344,167	-	-	344,167
	2020	377,832	10,501	-	388,333
Dana Stalder	2021	162,250	-	-	162,250
	2020	169,500	-	-	169,500
Gary Briggs[1]	2021	229,872	-	-	229,872
	2020	105,000	-	-	105,000
Pat O'Sullivan[2]	2021	172,869	16,423	-	189,292
	2020	50,266	4,775	-	55,041
Sharon Rothstein[3]	2021	233,542	-	-	233,542
	2020	15,833	-	-	15,833
Clifford Rosenberg[4]	2021	-	-	-	-
	2020	170,996	-		170,996
Total	**2021**	**1,142,700**	**16,423**	**-**	**1,159,123**
	2020	**889,427**	**15,276**	**-**	**904,703**

1. Gary Briggs was appointed as a Non-Executive Director on 1 January 2020.
2. Pat O'Sullivan was appointed as a Non-Executive Director on 1 March 2020.
3. Sharon Rothstein was appointed as a Non-Executive Director on 1 June 2020.
4. Clifford Rosenberg ceased to be Non-Executive Director on 24 May 2020.

6. Remuneration Governance

6.1 Responsibility for setting remuneration

The People, Remuneration & Nomination Committee of the Board represents one element of the Group's robust remuneration governance framework (summarised below), which aims to ensure that the Group's remuneration practices are fair, reasonable, aligned with best practice and consistent with the Group's remuneration principles outlined in section 3.1.

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

Figure 4 Overview of the Group's remuneration governance framework

Afterpay Board

The Board is responsible for reviewing and approving the remuneration framework (including key policies and practices), the remuneration structure, quantum and outcomes for Executive KMP (including exercising discretion where required) and the remuneration of Non-Executive Directors.

People, Remuneration & Nomination Committee

Role and Responsibilities

The People, Remuneration & Nomination Committee Charter sets out the Committee's role, responsibilities, and how it operates. During FY21, the Board reviewed and updated the Charter to reflect a continued uplift in governance practices generally and to more clearly delineate the Committee's responsibilities.

The People, Remuneration & Nomination Committee is responsible for assisting the Board to set the remuneration framework (ensuring it is aligned with Afterpay's purpose, values, strategic objectives and risk appetite), and determine the appropriate remuneration for the co-CEOs and senior executives (having regard to their performance) and Non-Executive Directors. The People, Remuneration & Nomination Committee considers the remuneration framework when developing recommendations for the Board regarding the remuneration structure, quantum and outcomes for Executive KMP. In addition, the Committee has oversight and responsibilities in respect of monitoring corporate culture, employee engagement, and other people-related policies (including talent identification, training and development, and diversity).

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

Composition

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

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

Management

Proposals on executive remuneration outcomes and implementing remuneration policies

Remuneration Advisers

External and independent remuneration advice and information (refer section 6.2 for further detail).

For further details of the composition and responsibilities of the People, Remuneration & Nomination Committee (including a copy of the Committee's Charter), please refer to the Corporate Governance section on our website (https://corporate.afterpay.com/investors/corporate-governance).

6.2 Use of remuneration consultants

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

During the Reporting Period, KPMG was engaged by the People, Remuneration & Nomination Committee to provide independent advice in respect of a range of remuneration related matters. In FY21, KPMG provided remuneration recommendations as defined in section 9B of the Corporations Act 2001 in relation to the quantum of Executive KMP remuneration. KPMG was paid $12,000 (plus GST) for these services.

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

KPMG Australia also provided other advice relating to incentive design and the provision of data and market practice, as well as legal, tax, accounting, valuations, global mobility and migration during FY21. KPMG Australia was paid a total of $668,909 (excluding GST and disbursements) for services provided to the Group during FY21.

6.3 Details of Executive Service Agreements

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

Table 15 Key terms of Executive KMP contracts in FY21

Executive service agreements	
Element	**Further detail**
Duration	Ongoing term
Periods of notice required to terminate	Either party may terminate the contract by giving: • **six months' written notice** for Co-CEOs (Anthony Eisen and Nick Molnar); and CFO (Rebecca Lowde); and • **three months' written notice** for the former Global CFO (Luke Bortoli). The notice period provisions for the Co-CEOs also provide that notice of termination given by one co-CEO must not overlap with any notice of termination given by the other co-CEO, unless approved by the Board in writing. For all current and former Executive KMP, the Group may terminate the service agreement immediately without notice in certain circumstances, including (but not limited to) where the relevant Executive KMP engages in a serious breach of agreement or serious misconduct.
Termination payments	Members of the Executive KMP are not entitled to any termination payments. A payment may be made in lieu of notice at the discretion of the Board where termination occurs other than for cause.

As noted in section 3, Afterpay's former Group CFO (Luke Bortoli) ceased as a KMP of Afterpay Limited on 5 October 2020. Luke Bortoli remained employed with Afterpay to assist with transition to the new Chief Financial Officer, Rebecca Lowde, and ceased employment with the Group on 30 June 2021.

6.4 Executive KMP and Director share ownership

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

As disclosed to the market in July 2020, concurrent with the Group's Share Purchase Plan, the Co-CEOs sold 2.05 million shares, representing 10% of their respective holdings in the Group. In February 2021, the Co-CEOs announced the intention to establish Private Ancillary funds for charitable purposes. The Co-CEOs have since each transferred 950,000 APT shares from their personal shareholdings to those funds and sold down 450,000 APT shares. The Co-CEOs remain fully committed to Afterpay and are the two largest shareholders in the Group.

Table 16 Movements in shareholdings not held under an employee share plan

	Opening balance 1-Jul-20	Purchase of shares	Disposal of shares	Balance 30-Jun-21
Non-Executive Directors				
Elana Rubin	64,847	304	-	65,151
Dana Stalder	19,300	-	-	19,300
Gary Briggs	-	2,630	-	2,630
Pat O'Sullivan	7,169	304	-	7,473
Sharon Rothstein	-	3,350	-	3,350
Executive KMP				
Anthony Eisen	20,450,659	1,500,304[1]	(2,495,000)	19,455,963
Nick Molnar	20,450,659	1,500,304[1]	(2,495,000)	19,455,963
Rebecca Lowde (part year)	-	-	-	-
Luke Bortoli (part year)[2]	-	-	-	-[2]

1. Includes 1,500,000 shares resulting from the exercise of options under an employee share plan (see Table 17 below).
2. As at 5 October 2020, being the date that Luke Bortoli ceased as a KMP.

Table 17 Movements in shareholdings held under an employee share plan

	Instrument	Opening balance 1-Jul-20	Granted	Exercised	Lapsed / cancelled	Balance 30-Jun-21	Exercisable 30-Jun-21
Non-Executive Directors							
Elana Rubin	N/A	-	-	-	-	-	-
Dana Stalder	N/A	-	-	-	-	-	-
Gary Briggs	N/A	-	-	-	-	-	-
Pat O'Sullivan	N/A	-	-	-	-	-	-
Sharon Rothstein	N/A	-	-	-	-	-	-
Executive KMP							
Anthony Eisen	Options	1,625,000	40,203	(1,500,000)	-	165,203	-
Nick Molnar	Options	1,625,000	40,203	(1,500,000)	-	165,203	-
Rebecca Lowde (part year)[1]	Options	-	4,282	-	-	4,282	-
	RSUs	-	2,443	-	-	2,443	-
Luke Bortoli (part year)[2]	Options	450,000	-	-	-	450,000[2]	-[2]

1. Rebecca Lowde commenced as KMP on 6 October 2020, her start date.
2. As at 5 October 2020, being the date that Luke Bortoli ceased as a KMP.

7. Further Information

7.1 US ESOP

(a) US ESOP

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

The US ESOP was established to facilitate the attraction and retention of top-tier talent in the US, who have been critical to delivering the Group's US growth aspirations, and has been successful in achieving these objectives. As previously announced, the US ESOP is now closed to new offers. New incentive awards made to US employees are being provided by way of awards over APT equity to ensure a globally aligned and consistent approach going forward and to provide greater transparency for Afterpay stakeholders. No Executive KMP participates in the US ESOP.

(b) US ESOP Modification

During the period, eligible US ESOP participants were offered an ability to exchange their vested shares and options, and unvested shares in Afterpay US, Inc. (**FY21 US ESOP Modification**). Participants that chose to participate in the FY21 US ESOP Modification received a combination of cash, APT shares, and restricted APT shares based on an agreed value of Afterpay US, Inc. shares. The FY21 US ESOP Modification resulted in:

- Purchase of 2,009,106 vested shares and vested options from US ESOP participants for $202.6 million;
- Exchange of 3,874,478 vested shares for 2,784,186 APT shares;
- Exchange of 987,058 unvested shares for 709,289 restricted APT shares (restricted until vesting period concludes).

Further detail in respect of the US ESOP and US ESOP Modification is available in Note 22 of the Notes to the Financial Statements.

7.2 UK ESOP

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

The Board of Afterpay and Clearpay adopted the UK ESOP Rules on 24 June 2020. As previously disclosed, after the UK ESOP pool has been fully allocated to UK employees, new incentive awards made to UK employees will be provided by way of awards over APT equity to ensure consistency with market practice and transparency for our shareholders going forward. No Executive KMP participates in the UK ESOP.

Further detail in respect of the UK ESOP, including the exchange mechanism and maximum dilution impact, is outlined in detail in Note 22 of the Notes to the Financial Statements.

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7.3 Movement of securities

The table below discloses the number of options or RSUs granted, vested or lapsed during FY21 for Executive KMP.

Table 18 Options or RSUs awarded, vested and lapsed during the reporting period for Executive KMP

			Awarded									Exercised	
Key Management Personnel	Financial year	Instrument	Awarded during the reporting period	Award date	Fair value at award date[1] $	Vesting date[2]	Exercise price $	Expiry date	Value of options granted during the reporting period $	No. vested during the reporting period	No. lapsed during the reporting period	No. exercised during the reporting period	Value of options exercised during the reporting period $[3]
Executive KMP													
Anthony Eisen	2021	Options	40,203	17/11/2020	51.62	30/06/2023	98.97	01/07/2025	2,075,451	-	-	1,500,000	131,625,000
Nick Molnar	2021	Options	40,203	17/11/2020	51.62	30/06/2023	98.97	01/07/2025	2,075,451	-	-	1,500,000	131,625,000
Rebecca Lowde (part year)[4]	2021	Options	4,282	22/11/2020	57.27	30/06/2023	78.87	01/07/2025	245,238	-	-	-	-
		RSUs	2,443	22/11/2020	97.59	01/07/2023	-	-	238,412	-	-	-	-
Luke Bortoli (part year)[5]	2021	N/A	-	-	-	-	-	-	-	-	-	-	-

1. The fair value of options are calculated using the Binomial Model.
2. Vesting date of options is the earliest date the vested options can be exercised. Vesting date of RSUs is the date when all RSUs are fully vested (refer section 4.2.2).
3. Options vested and exercised is calculated as the difference between the share price at the date of exercise less the exercise price, and includes options vested in prior years that were exercised in FY21.
4. Rebecca Lowde commenced as KMP on 6 October 2020, her start date.
5. Luke Bortoli ceased as KMP on 5 October 2020.

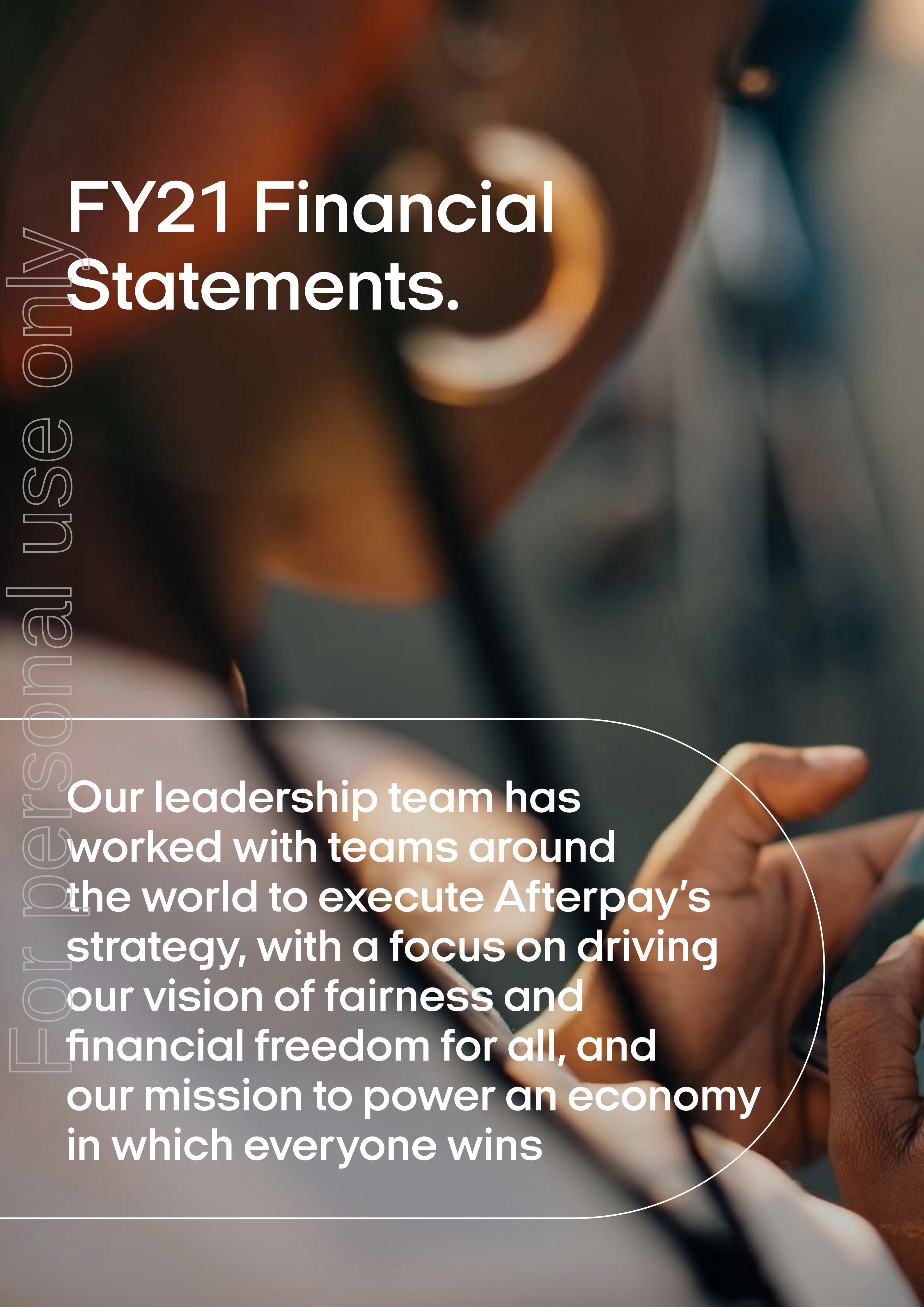
7.4 Other transactions and balances with Executive KMP

7.4.1 Loans to Executive KMP

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

7.4.2 Other Executive KMP transactions

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



FY21 Financial Statements.

Our leadership team has worked with teams around the world to execute Afterpay's strategy, with a focus on driving our vision of fairness and financial freedom for all, and our mission to power an economy in which everyone wins

Contents.

Consolidated statement of comprehensive income

For the year ended 30 June	Note	2021 $'000	2020 $'000
Afterpay income	2	822,258	433,815
Pay Now revenue	2	13,788	16,493
Other income	3	88,624	68,843
Total income		**924,670**	**519,151**
Cost of sales		(249,564)	(134,295)
Gross profit		**675,106**	**384,856**
Depreciation and amortisation expenses	4	(38,989)	(30,035)
Employment expenses	4	(150,911)	(86,129)
Share-based payment expenses		(59,003)	(30,454)
Receivables impairment expenses	8	(195,056)	(94,493)
Net loss on financial liabilities at fair value	16	(96,835)	(1,999)
Operating expenses	4	(298,596)	(146,305)
Operating loss		**(164,284)**	**(4,559)**
Share of loss of associate		(2,271)	(1,101)
Gain on dilution of shareholding in associate	19	5,683	-
Finance income		965	1,408
Finance costs		(34,307)	(22,530)
Loss before tax		**(194,214)**	**(26,782)**
Income tax benefit	5	34,819	3,925
Loss after tax		**(159,395)**	**(22,857)**
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		(31,323)	(17,904)
Total comprehensive loss, net of tax		**(190,718)**	**(40,761)**
Loss after tax attributable to:			
Ordinary shareholders of Afterpay Limited		(156,298)	(19,780)
Non-controlling interests		(3,097)	(3,077)
Earnings per share for loss attributable to the ordinary shareholders of the company	6	$	$
Basic loss per share		(0.55)	(0.08)
Diluted loss per share		(0.55)	(0.08)

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

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Consolidated statement of financial position

As at 30 June	Note	2021 $'000	2020 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	7	1,147,147	606,041
Receivables	8	1,454,072	781,895
Other financial assets	9	26,788	10,660
Other assets		18,780	6,695
Income tax receivable		10,970	-
Total Current Assets		**2,657,757**	**1,405,291**
Non-Current Assets			
Property, plant and equipment	10	8,112	5,127
Right-of-use assets	11	33,958	6,999
Intangible assets	12	227,513	106,589
Deferred tax assets	5	156,127	78,291
Investment in associate	19	23,578	5,166
Other financial assets	9	3,217	893
Other assets		5,965	170
Total Non-Current Assets		**458,470**	**203,235**
TOTAL ASSETS		**3,116,227**	**1,608,526**
LIABILITIES			
Current Liabilities			
Trade and other payables		306,259	182,613
Employee benefit provision		10,323	5,279
Other provisions		501	-
Contract liabilities		3,636	224
Lease liabilities	14	2,201	4,278
Income tax payable		2,477	1,158
Total Current Liabilities		**325,397**	**193,552**
Non-Current Liabilities			
Employee benefit provision		672	513
Other provisions		1,222	305
Lease liabilities	14	31,999	3,167
Borrowings	15	1,286,383	461,600
Other financial liabilities	16	166,648	3,038
Total Non-Current Liabilities		**1,486,924**	**468,623**
TOTAL LIABILITIES		**1,812,321**	**662,175**
NET ASSETS		**1,303,906**	**946,351**
EQUITY			
Issued capital	13	2,204,450	975,317
Accumulated losses		(246,653)	(90,355)
Reserves		(654,704)	58,711
Equity attributable to the ordinary shareholders of Afterpay Limited		**1,303,093**	**943,673**
Non-controlling interests		813	2,678
TOTAL EQUITY		**1,303,906**	**946,351**

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

Consolidated statement of changes in equity

For the year ended 30 June 2021	Issued Capital $'000	Accumulated Losses $'000	Foreign Currency Translation Reserve $'000	Other reserves (Note 13) $'000	Total $'000	Non-Controlling Interest $'000	Total $'000
At 1 July 2020	**975,317**	**(90,355)**	**(18,725)**	**77,436**	**943,673**	**2,678**	**946,351**
Loss after tax	-	(156,298)	-	-	**(156,298)**	(3,097)	**(159,395)**
Other comprehensive loss	-	-	(31,323)	-	**(31,323)**	-	**(31,323)**
Total comprehensive loss	**-**	**(156,298)**	**(31,323)**	**-**	**(187,621)**	**(3,097)**	**(190,718)**
Transactions							
Issue of share capital	786,167	-	-	-	**786,167**	-	**786,167**
Issue of ordinary shares, as consideration for a business combination, net of transaction costs and tax	1,737	-	-	-	**1,737**	-	**1,737**
Share and APT Convertible Notes issue expenses (net of tax)	(11,741)	-	-	(4,705)	**(16,446)**	-	**(16,446)**
Share options, RSUs and loan shares exercised (net of tax)	51,617	-	-	(316,466)	**(264,849)**	415	**(264,434)**
Share-based payments	-	-	-	41,319	**41,319**	817	**42,136**
FY21 US ESOP Modification (Note 22)	401,353	-	-	(195,579)	**205,774**	-	**205,774**
Matrix Transaction (Note 22)	-	-	-	(372,465)	**(372,465)**	-	**(372,465)**
Issue of APT Convertible Notes (net of tax) (Note 15)	-	-	-	165,804	**165,804**	-	**165,804**
At 30 June 2021	**2,204,450**	**(246,653)**	**(50,048)**	**(604,656)**	**1,303,093**	**813**	**1,303,906**

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

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

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Consolidated statement of cash flows

For the year ended	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Receipts from customers		18,645,746	9,954,963
Payments to employees		(146,483)	(80,895)
Payments to merchants and suppliers		(19,068,588)	(10,103,761)
Income taxes paid		(1,870)	(4,260)
Net cash outflow from operating activities	**7**	**(571,195)**	**(233,953)**
Cash flows from investing activities			
Interest received		949	1,476
(Increase)/decrease in short-term deposits		(12,653)	560
Payments for development of intangible assets		(60,734)	(40,754)
Purchase of intangibles		(5,502)	(1,452)
Purchase of plant and equipment		(4,353)	(3,389)
Acquisition of subsidiaries, net of cash acquired		(13,616)	-
Contributions to associate		(15,000)	(5,088)
Net cash outflow from investing activities		**(110,909)**	**(48,647)**
Cash flows from financing activities			
Proceeds from borrowings		793,268	1,386,247
Repayment of borrowings		(1,226,098)	(970,826)
Issue of APT Convertible Note		1,500,000	-
Matrix Transaction, net of transaction costs	22	(377,647)	-
Cash settlement of FY21 US ESOP Modification	22	(202,587)	-
Proceeds from issue of shares		786,167	233,012
Share and APT Convertible Notes issue expenses		(46,041)	(5,208)
(Increase)/decrease in restricted cash		(12,271)	494
Proceeds from exercise of share options		27,400	30,550
Payment of lease liabilities		(6,209)	(5,307)
Interest and bank fees paid		(15,581)	(19,514)
Net cash inflow from financing activities		**1,220,401**	**649,448**
Net increase in cash and cash equivalents		**538,297**	**366,848**
Foreign exchange on cash balance		2,809	7,737
Cash and cash equivalents at beginning of the year		606,041	231,456
Cash and cash equivalents at end of the year	**7**	**1,147,147**	**606,041**

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

Notes to the financial statements

1. Basis of preparation

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

The Consolidated Financial Statements of Afterpay Limited as at and for the year ended 30 June 2021 were authorised for issue in accordance with a resolution of the Directors on 25 August 2021.

These financial statements:

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

Significant judgements, estimates and assumptions

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

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

- Note 5 Taxation;
- Note 8 Receivables;
- Note 12 Intangible assets;
- Note 16 Other financial liabilities; and
- Note 22 Share-based payment plans.

Group performance

2. Segment information

The Group's reportable operating segments have been identified based on the financial information currently provided to the Chief Operating Decision Makers (CODMs). The CODMs, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Co-Chief Executive Officers and Chief Financial Officer. The business operates under the following segments:

- Afterpay Asia Pacific: Comprises the Afterpay platforms in Australia, New Zealand and Asia;
- Afterpay North America: Comprises the Afterpay platforms in the United States of America and Canada;
- Clearpay: Comprises the Clearpay platforms in the United Kingdom and Europe;
- Pay Now: Comprises Mobility, Health and e-Services; and
- Corporate: Comprises Group expenses that are not directly attributable or allocated to the Afterpay, Clearpay or Pay Now segments.

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

The Group continuously reviews its global operating model, financial reporting systems and relevant financial measures reviewed by the CODMs for decision making purposes in light of its expansion into regions outside of Australia. In the current year, this has resulted in the following changes:

- Afterpay ANZ has been renamed to Afterpay Asia Pacific to reflect changes to the Group's operating model during the year;
- Afterpay Canada, which launched in August 2020, is included within Afterpay North America (previously referred to as Afterpay US); and
- Clearpay Europe, which launched in March 2021, is included within the Clearpay segment.

These changes have not resulted in any changes to the comparatives for the year ended 30 June 2021.

The Group's reportable operating segments may change in the future in line with expansion and review.

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

Segment EBITDA (excluding significant items) does not include an allocation of operating costs related to group functions (e.g. legal, human resources, finance, information technology etc.).

For the year ended 30 June 2021	Afterpay Asia Pacific $'000	Afterpay North America $'000	Clearpay $'000	Pay Now $'000	Corporate $'000	Total Segments $'000
Total segment income[1]	**427,384**	**390,841**	**92,657**	**13,788**	**-**	**924,670**
Segment EBITDA (excl. significant items)[2]	**195,232**	**(101,078)**	**13,559**	**8,794**	**(77,778)**	**38,729**
Foreign currency gains						9,865
Share-based payment expenses						(59,003)
Net loss on financial liabilities at fair value						(96,835)
Share of loss of associate						(2,271)
Gain on dilution of shareholding in associate						5,683
One-off items						(18,051)
EBITDA						**(121,883)**
Net finance cost						(33,342)
Depreciation and amortisation						(38,989)
Loss before tax						**(194,214)**
Income tax benefit						34,819
Loss after tax						**(159,395)**

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

1. Total segment income includes Afterpay income, Pay Now revenue and Other income.
2. Segment EBITDA (excluding significant items) excludes the impact of share-based payment expenses, foreign currency gains, net loss on financial liabilities at fair value, share of loss of associate, gain on dilution of shareholding in associate, and one-off items. No government grants or other benefits relating to COVID-19 have been recognised in the year (2020: nil).

Significant accounting policies

Afterpay income

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

Afterpay income is recognised in the Consolidated Statement of Comprehensive Income using the Effective Interest Rate (EIR) method, accreting Merchant fees and other transaction related fees over the average period from initial payment to the merchant by Afterpay to the final instalment paid by the consumer to Afterpay. The Group defers Afterpay income over the average time it takes for the collection of the receivable to occur, with the current weighted average duration to recoup end-consumer payments being approximately 23 days or less (2020: 25 days or less). This deferred income is recorded as a reduction in the consumer receivables balance in Note 8.

Pay Now revenue

The Pay Now business primarily generates its revenue via transaction fees for delivery of completed transactions and integration fees to connect new, or grant existing customers access to additional service models. The transaction revenue is generated from facilitating the sales of electronic products and services where the Group receives a fee (either fixed or a percentage of the transaction volume) for every successful transaction. Revenue is recognised on completion of a successful transaction or when products are delivered and activated by end-customers. The Group is generally remunerated for the transactional services on a weekly and monthly basis.

Revenue from these services are considered distinct and are recognised by reference to the stage of completion of a contract or contracts in progress at balance date, as required by AASB 15 *Revenue from Contracts with Customers*. Stage of completion is measured by reference to labour hours of each contract, which aligns with the transfer of the services. Where there is a final customer acceptance condition in the contract, revenue is recognised only upon customer acceptance.

Contract liabilities are recorded in the Consolidated Statement of Financial Position in respect of any unsatisfied performance obligations. The Group does not have any contract assets due to the invoicing and payment terms generally being in advance of the service provision. Payments are generally collected within 30 days of the provision of services.

3. Other income

For the year ended 30 June	2021 $'000	2020 $'000
Late fees	87,306	68,843
Money by Afterpay	909	-
Other	409	-
Total other income	**88,624**	**68,843**

Significant accounting policies

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

Afterpay also generates revenue from other streams, including 'Money by Afterpay' in Australia.

4. Expenses

For the year ended 30 June	2021 $'000	2020 $'000
Depreciation and amortisation expenses		
Depreciation	(9,592)	(7,607)
Amortisation	(29,397)	(22,428)
Total depreciation and amortisation expenses	**(38,989)**	**(30,035)**
Employment expenses		
Wages and salaries	(131,348)	(74,113)
Employee on-costs	(19,563)	(12,016)
Total employment expenses	**(150,911)**	**(86,129)**
Operating expenses		
Debt recovery costs, including chargebacks	(25,018)	(17,135)
Consulting and contractor costs	(55,614)	(32,896)
Marketing expenses	(168,809)	(70,520)
Communication and technology	(29,563)	(18,536)
Operating lease expenses[1]	(236)	(1,159)
Foreign currency gains	9,865	19,948
AUSTRAC related costs	-	(3,723)
Impairment[2]	(4,790)	-
General and administrative expenses	(24,431)	(22,284)
Total operating expenses	**(298,596)**	**(146,305)**

1. Includes expenses relating to short-term leases and leases of low value assets.
2. Includes goodwill impairment expense of $4.3 million (note 12).

Significant accounting policies

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in the Consolidated Statement of Comprehensive Income. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. Foreign exchange gains and losses are presented in the Consolidated Statement of Comprehensive Income on a net basis within operating expenses.

5. Taxation

Income tax expense

For the year ended 30 June	2021 $'000	2020 $'000
The major components of income tax expense:		
Current income tax charge		
Current income tax expense	(42,096)	(21,945)
Adjustments in respect of current income tax of previous years	333	734
Deferred income tax		
Relating to origination/reversal of temporary differences	70,537	25,619
Adjustment in relation to deferred income tax of previous years	6,045	(483)
Income tax benefit	**34,819**	**3,925**

Statement of changes in equity

For the year ended 30 June	2021 $'000	2020 $'000
Current income tax related to share-based payments	(122,942)	(46,420)
Deferred income tax related to APT Convertible Notes	71,059	-
Deferred income tax related to capital raising costs	(5,032)	(764)
Total income tax related to items credited directly to equity	**(56,915)**	**(47,184)**

Numerical reconciliation between aggregate Income tax expense recognised in the Consolidated Statement of Comprehensive Income and Income tax expense calculated per the statutory income tax rate

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

For the year ended 30 June	2021 $'000	2020 $'000
Loss before tax	**(194,214)**	**(26,782)**
At the Group's statutory rate of 30% (2020: 30%)	58,264	8,035
Expenditure not allowed for income tax purposes	(27,591)	(2,199)
Foreign tax rate differential	401	(1,339)
Amount over provided in prior years	6,378	252
Non-recoverable foreign taxes	(259)	(824)
Tax losses not recognised	(2,374)	-
Income tax benefit	**34,819**	**3,925**

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Deferred income tax

As at 30 June	2021 $'000	2020 $'000
Deferred tax liabilities		
Capitalisation of development expenditure	3,019	-
Acquired intangibles	2,554	1,530
Unrealised foreign exchange	1,295	1,331
Deferred receivables	12,071	5,772
APT Convertible Notes	67,113	-
Other	455	2,312
Gross deferred tax liabilities	**86,507**	**10,945**
Deferred tax assets		
Capitalisation of development expenditure	4,303	708
Employee benefits	16,053	5,768
Other provisions	1,722	580
Capital raising costs	6,140	3,314
Research and development offsets	3,763	1,000
Property, plant and equipment	843	640
Provision for expected credit losses	29,252	10,028
Deferred receivables	2,993	2,583
Losses	175,284	63,434
Other	2,281	1,181
Gross deferred tax assets	**242,634**	**89,236**
Net deferred tax assets	**156,127**	**78,291**

Significant accounting judgements, estimates and assumptions

Timing of recognition of deferred tax balances

Deferred tax assets are recognised only to the extent that it is probable they will be utilised against future taxable profits not arising from the reversal of existing deferred tax liabilities. Judgement is required in determining the probability, timing and extent of the forecast future profits, particularly in tax jurisdictions where there is a history of losses.

The determination of future forecast profits uses operating budgets and strategic business plans based on management's view of the expected long-term growth profile, adjusted for permanent and temporary tax differences. The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences (future taxable profits). The amount of deferred tax assets dependent on future taxable profits and which relate to tax jurisdictions where the taxable entities have suffered a loss in the current or preceding year was $175.3 million at 30 June 2021 (2020: $63.4 million). The Group also has $9.3 million in deferred tax assets which have not been recognised at 30 June 2021 (2020: nil) as they are not considered probable to be recoverable based on current forecasts.

The inclusion of forward-looking information increases the degree of judgement required. Differences between the future profits of the Group (and the timing of these profits) and the tax positions in the financial report of the Group could necessitate future adjustments to the deferred tax balances recorded.

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Significant accounting policies

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Consolidated Statement of Comprehensive Income except for those items recognised directly in equity. Current tax in respect of the taxable income for the year is measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax is recognised using the balance sheet method in which temporary differences are calculated based on the difference between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets are recognised for deductible temporary differences and unused tax credits and tax losses only to the extent that it is probable that future taxable profit will be available against which the assets can be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The tax effect of awards granted under the Group's equity incentive plans (see Note 22) is recognised in the Consolidated Statement of Comprehensive Income except to the extent that the total tax deductions are expected to exceed the cumulative share-based payments expense of an award. In this situation, the excess of the associated current or deferred tax is recognised in equity within the Share-based payments reserve.

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

Tax consolidation legislation

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

Nature of tax funding arrangements and tax sharing arrangements

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

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

Other taxes

Revenues, expenses and assets are recognised net of the amount of sales tax (goods and services tax (GST) or value-added tax (VAT)) except:

- when the sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Consolidated Statement of Financial Position. Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis and the sales tax component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of sales tax recoverable from, or payable to, the taxation authority.

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6. Earnings per share (EPS)

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

	2021 $'000	2020 $'000
Loss attributable to ordinary shareholders of Afterpay Limited	**(156,298)**	**(19,780)**
	No.'000	No.'000
Weighted average number of ordinary shares for basic EPS	284,713	259,147
Adjustment for calculation of diluted EPS[1]	2,832	6,839
Weighted average number of ordinary shares adjusted for the effect of dilution	**287,545**	**265,986**

1. Includes the effect of dilution from share options, loan shares and rights (e.g. restricted stock units) if they are not anti-dilutive.

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 Matrix Convertible Notes, Clearpay Put and Call Option, US ESOP, UK ESOP, Pagantis Convertible Note or the APT Convertible Notes. Further details on these arrangements are included below.

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, details of which are included below.

The potential impact of the Square Acquisition (Note 25) has not been reflected in the potentially dilutive impacts of the following arrangements as at 30 June 2021.

Matrix Convertible Notes

On 19 January 2018, Afterpay US, Inc. issued two convertible notes to Matrix Partners X L.P and Weston & Co X LLC (Matrix Convertible Notes). The Matrix Convertible Notes may be converted into APT shares in certain circumstances between 5 and 7 years from the date of issue of the notes (being 19 January 2018), with conversion at the noteholder's election. Conversion of the Matrix Convertible Notes may also be accelerated, at the Group's election, in the event of a change in control of APT.

On 25 February 2021, Afterpay entered into an agreement to extinguish 35% of the Matrix Convertible Notes for $373.3 million in cash (the FY21 Matrix Transaction). All other terms of the Matrix Convertible Notes remain unchanged. See Note 22 for further details.

The number of APT shares which may be issued on conversion is determined by a conversion value calculated based on 6.5% (2020: 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.

Subsequent to the FY21 Matrix Transaction, the maximum number of shares in APT that may be issued in the future on conversion of the remaining Matrix Convertible Notes is capped at 14,155,480 being 6.5% of the number of APT shares on issue at the date the Matrix Convertible Notes were issued (2020: 21,777,661 and 10%). This now equates to less than 5% of current APT shares on issue due to subsequent share issues since the Matrix Convertible Notes were issued.

US ESOP

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

The number of APT shares which are issued in exchange for exercised shares in Afterpay US, Inc. will be based on the future value of Afterpay US, Inc. shares (based on the same valuation as referred to in the Matrix Convertible Notes, or based on an independent valuation in the case of exchange occurring at the discretion of the APT Board, as applicable).

During the year, the Group exchanged 3,493,475 APT shares for exercised shares or options in Afterpay US, Inc as part of the FY21 US ESOP Modification (see Note 22 for further details). The maximum number of APT shares that could be issued in the future under the US ESOP in exchange for exercised shares cannot exceed 18,284,186 APT shares (2020: 21,777,661), being 10% of the number of APT shares on issue at the date the Matrix Convertible Notes were issued, less the number of APT shares issued as part of the FY21 US ESOP Modification. This now equates to less than 7% of current APT shares on issue due to subsequent share issues since the Matrix Convertible Notes were issued.

Further detail in respect of the US ESOP, including the exchange mechanism and details of the FY21 US ESOP Modification, are outlined in Note 22.

Clearpay Put and Call Option

On 23 August 2018, the Group acquired 90% of the issued shares in ClearPay Finance Limited (Clearpay) (an unlisted entity based in the United Kingdom, 100% owned by ThinkSmart Limited) (ThinkSmart) for total consideration of 1.0 million APT shares. The Group has a call option to acquire the remaining Clearpay shares held by ThinkSmart, which is exercisable any time after 5 years from the completion of the acquisition of 90% of Clearpay (being 23 August 2018). If the Group does not exercise its call option within that period, then ThinkSmart has a put option to sell all the remaining shares it holds in Clearpay to the Group, exercisable any time after 5.5 years from the above mentioned date of completion.

APT has the right to exercise the call option earlier than 5 years from the above mentioned 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 VWAP of APT shares over the 5 trading days up to the date of option exercise. The maximum number of APT shares that may be issued or exchanged for the remaining Clearpay shares held by ThinkSmart as a result of its exercise of the put option is capped at 5% of APT shares on issue at the time of exchange.

UK ESOP

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

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

The maximum number of APT shares that can be issued in exchange for exercised Clearpay shares under the UK ESOP is subject to a capped at 8,039,024, being 3% of APT shares on issue at the date of adoption of the UK ESOP Rules on 24 June 2020.

Further detail in respect of the UK ESOP, including the exchange mechanism, is outlined in Note 22.

Pagantis Convertible Note

On 9 March 2021 (the Pagantis Completion Date), the Group acquired 100% of the issued shares and voting rights in Pagantis SAU and PMT Technology SLA (collectively, Pagantis) from NBQ Corporate SLU (NBQ). Pursuant to the Share Purchase Agreement, the Group has issued a convertible note (the Pagantis Convertible Note) to NBQ or its permitted assigns (the noteholders) with a face value of €45 million (subject to certain adjustments). The Pagantis Convertible Note will be used to settle the Pagantis Deferred Consideration and the Pagantis Contingent Consideration that will be paid in three (or, in certain circumstances, three-and-a-half) years subsequent to the Pagantis Completion Date. Conversion may also be accelerated, at the Group's election, in the event of a change in control of APT.

The face value of the Pagantis Convertible Note represents the Pagantis Deferred Consideration and will be settled in cash.

The Pagantis Contingent Consideration (see Note 16) will also be settled by the Pagantis Convertible Note and may be settled in APT shares or cash, at the Group's election.

The number of APT shares which may be issued on conversion is determined by the value of the Pagantis Contingent Consideration divided by the VWAP of APT shares over the 5 trading days up to the date of conversion. The value of the Pagantis Contingent Consideration is determined with reference to the equity value of Pagantis on the conversion date (the Equity Value). If the Equity Value exceeds €45 million (subject to certain adjustments), the Pagantis Contingent Consideration is equal to:

- 50% of the Equity Value above €45 million (subject to certain adjustments), up to €100 million, plus
- 40% of the Equity Value above €100 million, up to €150 million, plus
- 10% of the Equity Value above €150 million.

Should Afterpay choose to settle a portion of the Pagantis Contingent Consideration with APT shares (as opposed to cash), the value of that portion is increased by 1%.

Further details on the Pagantis Contingent Consideration, including the current valuation, are included in Note 16.

The number of APT shares that may be issued is unknown, as the actual number of shares to be issued will depend on the future Equity Value of Pagantis, the future market price of APT shares, and the exercise of the Group of the election to settle the Pagantis Contingent Consideration in cash or APT shares. However, the maximum Pagantis Deferred and Contingent Consideration is capped at 8,573,499, being 3% of the total number of APT shares on issue on the Pagantis Completion Date, multiplied by the VWAP of APT shares over the 5 trading days up to the date of conversion.

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APT Convertible Notes

On 12 March 2021, Afterpay Limited completed the settlement of $1.5 billion zero coupon convertible notes (APT Convertible Notes). The 7,500 APT Convertible Notes were listed on the Singapore Exchange on 15 March 2021 and have a maturity date of 12 March 2026. The APT Convertible Notes may also be converted into APT shares in certain circumstances (including a change of control) at any time on or after 22 April 2021 up to the maturity date, with conversion at the noteholder's election.

The number of APT shares which may be issued on conversion is determined by dividing the principal amount of the APT Convertible Notes to be converted by the Conversion Price on the conversion date. The Conversion Price at 12 March 2026 is $194.8220 per APT share, subject to adjustment for term yet to run.

The maximum number of shares in APT that may have been issued on conversion of the APT Convertible Notes as at 30 June 2021 was 10,955,320. This equates to less than 4% of current APT shares on issue.

Assets and liabilities

7. Cash and cash equivalents

As at 30 June	2021 $'000	2020 $'000
Cash at bank	1,136,441	512,984
Short-term deposits	10,706	93,057
Total cash and cash equivalents	**1,147,147**	**606,041**

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

For the year ended 30 June	2021 $'000	2020 $'000
Loss before tax	(194,214)	(26,782)
Adjustments for:		
Depreciation and amortisation expenses	38,989	30,035
Share-based payment expenses	59,003	30,454
Net loss on financial liabilities at fair value	96,835	1,999
Share of loss of associate	2,271	1,101
Gain on dilution of shareholding in associate	(5,683)	-
Finance costs	34,307	22,530
Finance income	(965)	(1,408)
Foreign currency gains	(9,865)	(19,948)
Impairment	4,790	-
Changes in assets and liabilities:		
Increase in total receivables	(672,177)	(329,196)
Increase in other working capital assets	(11,407)	(11,981)
Increase in working capital liabilities	93,105	73,503
Acquired net working capital	(4,314)	-
Tax paid	(1,870)	(4,260)
Net cash outflow from operating activities	**(571,195)**	**(233,953)**

Significant accounting policies

Cash and cash equivalents in the Consolidated Statement of Financial Position comprises cash at bank and in hand, cash in transit and cash in escrow for daily receipts and settlements that is settled within one to seven days. Cash and cash equivalents also comprise short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

8. Receivables

As at 30 June	2021 $'000	2020 $'000
Consumer receivables - face value	1,555,774	816,812
Consumer receivables - recognised over time[1]	(22,387)	(16,678)
Consumer receivables	**1,533,387**	800,134
Provision for expected credit losses - consumer receivables	(99,605)	(33,951)
Trade and other receivables	20,290	15,712
Total receivables	**1,454,072**	**781,895**
Provision for expected credit losses - consumer receivables		
Opening balance	(33,951)	(27,760)
Provided in the year	(195,056)	(94,493)
Debts written off/collected	129,402	88,302
Total provision for expected credit losses - consumer receivables	**(99,605)**	**(33,951)**

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

Significant accounting judgements, estimates and assumptions

Judgement is applied in measuring the Provision for expected credit losses (ECL) and determining whether the risk of default has increased significantly since initial recognition of the Consumer receivable. The Group considers both quantitative and qualitative information, including historical loss experience, internal expert risk assessment and data examination, and forward-looking information and analysis. Historical balances, as well as the proportion of those balances that have defaulted over time, are used as a basis to determine the probability of default.

The Group also considers forward looking adjustments, including macro-economic seasonality trends that are not captured within the base ECL calculations. The inclusion of forward-looking information increases the degree of judgement required to assess effects on the Group's ECLs. COVID-19 continues to impact economies around the globe on both a micro- and macro-economic level. Consistent with 30 June 2020, the Group continues to review judgements, estimates and assumptions specific to the impact of COVID-19, where relevant, in the measurement of ECL. However, the Group's collections subsequent to year end have not deteriorated relative to past experience.

The assumptions and methodologies applied are reviewed regularly.

Significant accounting policies

Trade and other receivables

Trade and other receivables are primarily amounts due from merchants as a result of transactions with consumers. A receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). The Group's business model is to hold the receivables with the objective to collect the contractual cash flows. Trade and other receivables are measured at amortised cost and generally have 1 - 30 day payment terms. There are no contract assets at 30 June 2021 (2020: nil).

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

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

Consumer receivables

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

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

The Group uses ageing of Consumer receivables as the basis for ECL measurement given the short duration of consumer payment terms (maximum 56 days). For consumers experiencing hardship, payment terms may be extended which is determined on a per case basis.

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

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

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

Receivables are written off when the Group has no reasonable expectation of recovery. Prior period receivable balances are either fully written off or collected during the current financial year. Any subsequent recoveries following write off are credited to Receivables impairment expenses within the Consolidated Statement of Comprehensive Income in the period in which they were recovered.

	Stage 1	Stage 2	Stage 3	Total
As at 30 June 2021 [1]	$'000	$'000	$'000	$'000
Consumer receivables - face value[2]	1,447,729	81,579	26,466	1,555,774
Provision for expected credit losses	(16,365)	(57,749)	(25,491)	(99,605)
Net consumer receivables	**1,431,364**	**23,830**	**975**	**1,456,169**

	Stage 1	Stage 2	Stage 3	Total
As at 30 June 2020 [1]	$'000	$'000	$'000	$'000
Consumer receivables - face value[2]	783,679	25,007	8,126	816,812
Provision for expected credit losses	(11,473)	(14,910)	(7,568)	(33,951)
Net consumer receivables	**772,206**	**10,097**	**558**	**782,861**

1. The simplified approach prescribed in AASB 9 is used for Trade receivables, therefore the related provision for expected credit losses is excluded from the ECL staging table for both 2021 and 2020. While the general approach is used for other receivables, staging has not been provided as all balances that are at risk of non-recovery have been written off. The provision for expected credit losses related to Trade and other receivables was $0.3 million (2020: nil).
2. ECL for Consumer receivables is calculated on the Consumer receivables – face value.

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

9. Other financial assets

As at 30 June	2021 $'000	2020 $'000
Restricted cash	13,808	1,536
Short-term deposits	16,101	3,448
Other	96	6,569
Total other financial assets	**30,005**	**11,553**
Total Current	26,788	10,660
Total Non-Current	3,217	893
Total other financial assets	**30,005**	**11,553**

Restricted cash are cash assets held with banks and other financial service providers as collateral for daily cash settlements with merchants and payments to funding providers. Refer to Note 15 for further information on the Group's receivables warehouse facilities. Short-term deposits are cash assets held with banks as collateral for bank guarantees (see Note 24) and as part of the Group's normal business operations.

10. Property, plant and equipment

The net book value of property, plant and equipment of $8.1 million (2020: $5.1 million) primarily includes computer equipment, furniture fittings and leasehold improvements. During the period, the Group purchased property, plant and equipment of $5.7 million (2020: $3.4 million), acquired $0.2 million via business combinations (note 18) (2020: nil), disposed of $0.1 million (2020: $nil million) and recognised depreciation of $2.8 million (2020: $2.2 million) in the Consolidated Statement of Comprehensive Income.

Significant accounting policies

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

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

11. Right-of-use assets

	Commercial property leases $'000	Other $'000	Total $'000
Cost			
At 1 July 2019	8,614	-	8,614
Additions	4,480	-	4,480
Modifications	(749)	-	(749)
Cessations	(1,255)	-	(1,255)
At 30 June 2020	**11,090**	**-**	**11,090**
Additions	32,946	-	32,946
Additions through business combinations	716	77	793
Modifications	(218)	-	(218)
Cessations	(3,010)	-	(3,010)
Foreign exchange movement	172	1	173
At 30 June 2021	**41,696**	**78**	**41,774**
Accumulated depreciation			
At 1 July 2019	-	-	-
Depreciation	(5,338)	-	(5,338)
Disposals	1,247	-	1,247
At 30 June 2020	**(4,091)**	**-**	**(4,091)**
Depreciation	(6,741)	(10)	(6,751)
Cessations	3,010	-	3,010
Foreign exchange movement	16	-	16
At 30 June 2021	**(7,806)**	**(10)**	**(7,816)**
Net book value			
At 30 June 2020	**6,999**	**-**	**6,999**
At 30 June 2021	**33,890**	**68**	**33,958**

Significant accounting policies

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

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

- the amount of the initial measurement of lease liability (see Note 14);
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

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

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12. Intangible assets

	Core Technology $'000	Customer Contracts and Relationships $'000	Other Intangibles $'000	Goodwill $'000	Total $'000
Cost					
At 1 July 2019	68,868	14,104	4,814	39,807	127,593
Additions - internally generated	38,884	-	228	-	39,112
Other additions	-	-	834	-	834
At 30 June 2020	**107,752**	**14,104**	**5,876**	**39,807**	**167,539**
Additions - internally generated	60,342	-	-	-	60,342
Other additions	4,544	-	1,140	-	5,684
Acquisition of a subsidiary	6,566	2,862	4,726	75,917	90,071
Impairment	(678)	(250)	(111)	(4,325)	(5,364)
Disposals	(8,546)	-	(296)	-	(8,842)
Foreign exchange	(1,458)	-	-	897	(561)
At 30 June 2021	**168,522**	**16,716**	**11,335**	**112,296**	**308,869**
Amortisation					
At 1 July 2019	(27,150)	(8,932)	(2,439)	-	(38,521)
Amortisation	(19,029)	(2,591)	(809)	-	(22,429)
At 30 June 2020	**(46,179)**	**(11,523)**	**(3,248)**	**-**	**(60,950)**
Amortisation	(25,308)	(2,969)	(1,120)	-	(29,397)
Disposals	8,546	-	296	-	8,842
Foreign exchange	151	-	(2)	-	149
At 30 June 2021	**(62,790)**	**(14,492)**	**(4,074)**	**-**	**(81,356)**
Net book value					
At 30 June 2020	**61,573**	**2,581**	**2,628**	**39,807**	**106,589**
At 30 June 2021	**105,732**	**2,224**	**7,261**	**112,296**	**227,513**

Significant accounting judgements, estimates and assumptions

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

Significant accounting policies

Goodwill

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

Goodwill is allocated to each of the cash generating units expected to benefit from the business combination. Goodwill has an indefinite useful life and is not amortised but is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually.

Intangible assets (excluding Goodwill)

Intangible assets, including Core technology, Customer contracts and Relationships and Other intangible assets are recognised when control of the asset is obtained and measured at cost on initial recognition. Intangible assets acquired as a result of a business combination are measured at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in the Consolidated Statement of Comprehensive Income in the period in which the expenditure is incurred.

Where costs are incurred that do not result in the creation of a resource which is identifiable and where the Group does not have the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits, these costs are recognised as an expense in the Consolidated Statement of Comprehensive Income in the period in which the expenditure is incurred.

Core technology

Core technology includes internally generated software being developed as research and development projects. Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

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

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

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

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

Impairment tests for Intangible assets, including Goodwill

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

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

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

The Group's impairment tests during the year ended 30 June 2021 resulted in the identification of impairment of the goodwill associated with the Afterpay Asia and PayNow CGUs. At 30 June 2021, the market capitalisation of the Group was significantly greater than the Group's equity book value, supporting no further impairment of goodwill or other assets of the CGUs.

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

	Note	Afterpay AU $'000	Afterpay Asia $'000	Clearpay UK $'000	Clearpay EU $'000	Pay Now $'000	Total $'000
Goodwill allocation							
At 1 July 2020		21,220	-	16,232	-	2,355	39,807
Additions - business combinations	18	-	1,970	-	73,947	-	75,917
Impairment		-	(1,970)	-	-	(2,355)	(4,325)
Foreign exchange		-	-	-	897	-	897
At 30 June 2021		**21,220**	**-**	**16,232**	**74,844**	**-**	**112,296**
Risk weighted pre-tax discount rate		8.4%	n/a	10.3%	n/a	n/a	n/a
Risk adjusted growth rate		2%	n/a	n/a	n/a	n/a	n/a
Revenue exit multiple		n/a	n/a	35.4x	n/a	n/a	n/a

The Group has performed a detailed sensitivity analysis as part of its impairment testing to ensure that the results of its testing are reasonable.

Afterpay AU

The recoverable amount has been determined based on a value-in-use calculation using five-year pre-tax cash flow projections. The pre-tax cash flow projections are based on the Group's expectations of growth, excluding the impact of possible future acquisitions, business improvement and restructuring. The discount rate would need to increase by approximately 3,300 basis points before the recoverable amount would equal its carrying value.

Afterpay Asia

The recoverable amount has been determined based on a value-in-use calculation. When Afterpay acquired EmpatKali in August 2020 (see Note 18 for details), EmpatKali had not yet received the Indonesian Business License (the License) required to operate as an Information Technology Based Peer-to-Peer Lending Services Provider in Indonesia. In May 2021, the Indonesian Financial Services Authority advised that the License would not be granted. Without this License, EmpatKali is unable to provide payment instalment services in Indonesia, and thus revenue forecasts do not support the carrying value of the goodwill balance. An impairment expense of $2.0 million has been recorded in the Consolidated Statement of Comprehensive Income (see Note 4).

Clearpay UK

The recoverable amount has been determined based on a fair value less costs of disposal calculation using a number of inputs including cash flow projections based on five years of financial forecasts approved by senior management. The valuation is measured using inputs that are not based on observable market data. Therefore, they are considered to be level 3 within the fair value hierarchy as per AASB 13 *Fair Value Measurement*. Further details on the valuation, including the sensitivity to the most significant inputs are included in Note 16.

Pay Now

During the period, the Pay Now revenue forecasts were updated from those used in the VIU calculation at 30 June 2020. This was considered an indicator of impairment and a detailed impairment assessment was performed. Other than the future revenue projections and associated costs, there were no changes to the key assumptions used in the VIU calculation from those at 30 June 2020.

The assessment indicated an impairment of $2.4 million which has been recorded in the Consolidated Statement of Comprehensive Income (see Note 4).

Capital structure, financing & risk management

13. Equity

Issued Capital

As at 30 June	2021 $'000	2020 $'000
Issued and fully paid	**2,204,450**	**975,317**

Movement in ordinary shares on issue

	Note	No.'000	$'000
At 1 July 2019		**251,492**	**674,769**
Shares issued		8,453	233,012
Share options and loan shares exercised		7,680	69,318
Capital raising costs (net of tax)		-	(1,782)
At 30 June 2020 [1]		**267,625**	**975,317**
Shares issued		11,919	786,167
Share options, RSUs and loan shares exercised		6,271	51,617
Issue of ordinary shares, as consideration for a business combination		23	1,737
FY21 US ESOP Modification	22	3,493	401,353
Capital raising costs (net of tax)		-	(11,741)
At 30 June 2021 [1]		**289,331**	**2,204,450**

1. The total number of ordinary shares on issue excludes 0.3 million loan shares (2020: 0.4 million).

During the financial year ended 30 June 2021, the Group raised capital totalling $786.2 million. This comprised:

- $650.0 million Institutional Placement
- $136.2 million Share Purchase Plan (SPP).

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

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

Other reserves

As at 30 June	Note	2021 $'000	2020 $'000
Share-based payments reserve		(764,716)	78,475
Convertible debt option reserve		161,099	-
Other		(1,039)	(1,039)
Total other reserves		**(604,656)**	**77,436**

Significant accounting policies

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

Information relating to employee options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is included in Note 22.

Information relating to the Convertible debt option reserve is included in Note 15.

14. Lease liabilities

As at 30 June	2021 $'000	2020 $'000
Commercial property leases	34,133	7,445
Other	67	-
Total lease liabilities	**34,200**	**7,445**
Total Current	2,201	4,278
Total Non-Current	31,999	3,167
Total lease liabilities	**34,200**	**7,445**

The Group leases various offices across Australia, New Zealand, Asia, Europe, the United Kingdom and the United States. Rental contracts are typically made for fixed periods of one to five years. The Group has several lease contracts that include extension options where the exercise is at the Group's discretion. These options are negotiated by management to provide flexibility in managing the Group's leasing portfolio and align with the Group's business needs. Gross lease extensions, for which the Group is not reasonably certain of exercise and has not been included in lease liabilities, total $13.5 million. This relates to extension options beyond 2026.

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

Significant accounting policies

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of the specific asset and whether the arrangement conveys a right to use the asset.

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Refer to Note 17(d) for maturity of future lease payments.

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

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

15. Borrowings

As at 30 June	2021 $'000	2020 $'000
Secured interest bearing borrowings	33,330	461,444
Matrix Convertible Notes	99	156
APT Convertible Notes	1,252,954	-
Total borrowings	**1,286,383**	**461,600**
Total Current	-	-
Total Non-Current	1,286,383	461,600
Total borrowings	**1,286,383**	**461,600**

Borrowings are classified as non-current when there is no obligation or expectation at 30 June that the liability will be settled within the next 12 months at the reporting date.

Secured interest bearing borrowings

The Group has several warehousing facilities that are secured against the respective receivables, which are transferred into the facilities.

30 June 2021 Facility	Carrying value of receivable $'000	Provider	Maturity date	Weighted average interest rate	Facility Limit $'000	Facility drawn $'000
Afterpay AU	595,912	NAB	Dec 2023	0.09%	300,000	-
		Citi	Dec 2023		200,000	-
Afterpay US	664,154	Citi	May 2024	1.69%	266,454	-
		Goldman Sachs	Dec 2022		266,454	-
Afterpay NZ	66,816	BNZ	Jun 2023	1.64%	93,119	32,591
Clearpay UK	114,830	NAB	Feb 2023	nil	92,166	-
		Citi	Feb 2023		230,415	-
Total					**1,448,606**	**32,591**
Accrued interest						949
Capitalised borrowing costs						(210)
Total Secured interest bearing borrowings						**33,330**

30 June 2020 Facility	Carrying value of receivable $'000	Provider	Maturity date	Weighted average interest rate	Facility Limit $'000	Facility drawn $'000
Afterpay AU	368,028	NAB	Dec 2022	2.20%	300,000	79,973
		Citi	Dec 2022		200,000	75,000
Afterpay US	329,889	Citi	May 2022	3.20%	291,418	5,872
		Goldman Sachs	Dec 2021		291,418	281,218
Afterpay NZ	35,390	BNZ	Mar 2022	1.65%	46,716	23,358
Total					**1,129,552**	**465,421**
Accrued interest						962
Capitalised borrowing costs						(4,939)
Total Secured interest bearing borrowings						**461,444**

Matrix Convertible Notes

On 19 January 2018, Afterpay US, Inc. issued two convertible notes to Matrix Partners X L.P and Weston & Co X LLC (Matrix Convertible Notes). The Matrix Convertible Notes have a carrying value of US$0.1 million (2020: US$0.1 million), carry a fixed interest rate of 6.0% for a seven year maximum term and may be converted into APT shares in certain circumstances (subject to a cap) between five and seven years from the date of issue of the notes (being 19 January 2018), with conversion at the noteholder's election.

Further detail in respect of the Matrix Convertible Notes, including the conversion mechanism and maximum dilution impact, is outlined in Note 6.

APT Convertible Notes

On 12 March 2021, Afterpay Limited completed the settlement of $1,500 million zero coupon convertible notes (APT Convertible Notes). The APT Convertible Notes are interest free and have a maximum term of five years. They may be converted into APT shares in certain circumstances (subject to a cap) before the maturity date of 12 March 2026, with conversion at the noteholder's election. The conversion price is $194.8220.

The APT Convertible Notes are presented in the Consolidated statement of financial position as follows:

As at 30 June	2021 $'000
Face value of APT Convertible Notes issued	1,500,000
Value of conversion rights recognised in equity	(236,863)
Capitalised borrowing costs	(23,336)
Finance cost[1]	13,153
APT Convertible Notes	**1,252,954**

1. Finance cost is calculated by applying the effective interest rate of 3.83% per annum to the liability component. The increase in the liability due to passage of time over the term of the APT Convertible Notes is recognised as a finance cost in the Consolidated Statement of Comprehensive Income.

Further detail in respect of the APT Convertible Notes, including the conversion mechanism and maximum dilution impact, is outlined in Note 6.

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Significant accounting policies

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds are allocated to the conversion rights that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not re-measured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

16. Other financial liabilities

As at 30 June	2021 $'000	2020 $'000
Clearpay Put Option	99,873	3,038
Pagantis Contingent Consideration	6,398	-
Pagantis Deferred Consideration	60,377	-
Total other financial liabilities	**166,648**	**3,038**
Total Current	-	-
Total Non-Current	166,648	3,038
Total other financial liabilities	**166,648**	**3,038**

Clearpay Put Option

As outlined in Note 6, the Group has a call option to acquire the remaining Clearpay Finance Limited (Clearpay) shares held by ThinkSmart Limited (ThinkSmart), which is exercisable any time after 5 years from the date of completion of the acquisition of 90% of Clearpay (being 23 August 2018). If the Group does not exercise its call option within that period, then ThinkSmart has a put option to sell the remaining shares it holds in Clearpay to the Group, exercisable any time after 5.5 years from the above mentioned date of completion (Clearpay Put Option).

Pagantis Contingent Consideration

As outlined in Note 6 and Note 18, the consideration for Pagantis includes an earn-out style contingent consideration arrangement (the Pagantis Contingent Consideration) payable via the Pagantis Convertible Note, 3 to 3.5 years post completion.

The value of the Pagantis Contingent Consideration is determined with reference to the equity value of Pagantis three years post completion (the Equity Value). If the Equity Value exceeds €45 million (subject to certain adjustments), the Pagantis Contingent Consideration is equal to:

- 50% of the Equity Value above €45 million (subject to certain adjustments), up to €100 million, plus
- 40% of the Equity Value above €100 million, up to €150 million, plus
- 10% of the Equity Value above €150 million.

Significant accounting judgements, estimates and assumptions

The Clearpay Put Option and Pagantis Contingent Consideration are recorded at fair value and the valuation is re-assessed at each reporting period.

The valuations are conducted by a reputable, licensed and qualified independent valuer using the valuation principles outlined in the relevant Share Purchase Agreements and use cash flow projections based on operating budgets which reflect management's view of the expected long-term growth profile of the businesses.

The determination of cash flows over the life of a business requires management judgement in assessing the future number of merchant acquisitions, customer usage, potential price changes as well as any changes to the costs of the product and of other operating costs incurred by the business.

The valuations are then derived by discounting the cash flow projections to present value using discount rates that reflect current market conditions, external analyst views, industry benchmarks, and, where available, the underlying businesses cost of debt and/or equity.

Because the valuations are determined using cash flow inputs that are not based on observable market data, they are considered to be level 3 within the fair value hierarchy as per AASB 13 *Fair Value Measurement* (see Note 17)

The most significant inputs into the valuation are as follows:

As at 30 June	Clearpay Put Option	Pagantis Contingent Consideration
Discount rate	10.25%	18.30%
Revenue exit multiple	35.4x	n/a
Volatility	n/a	60%

Changes in these inputs would result in the following increase/(decrease) in the fair value of the recognised liability (all other variables being held constant):

	Fair value of liability (Higher)/Lower		Loss for the year Higher/(Lower)	
Judgements of reasonable possible movements:	2021 $'000	2020 $'000	2021 $'000	2020 $'000
-1.0% Discount rate (2020: -2.5%)	(19,242)	(250)	19,242	250
+1.0% Discount rate (2020: +2.5%)	14,724	235	(14,724)	(235)
-1.0x Revenue exit multiple (2020: -0.1x)	22,376	677	(22,376)	(677)
+1.0x Revenue exit multiple (2020: +0.1x)	(22,376)	(677)	22,376	677
-10% Volatility	626	n/a	(626)	n/a
+10% Volatility	(424)	n/a	424	n/a

Reconciliation of liabilities arising from financing activities

2021	Note	Cash movements: Opening balance $'000	Cash movements: Cash flows [2] $'000	Non-cash movements: Interest and amortisation $'000	Non-cash movements: Other [1] $'000	Non-cash movements: Fair value gain or loss $'000	Closing balance $'000
Secured interest bearing borrowings [3]	15	461,444	(447,708)	19,019	575	-	33,330
Matrix Convertible Notes	15	156	(377,647)	29	377,561	-	99
APT Convertible Notes	15	-	1,475,438	14,379	(236,863)	-	1,252,954
Total borrowings		**461,600**	**650,083**	**33,427**	**141,273**	**-**	**1,286,383**
Lease liabilities [4]	14	7,445	(6,209)	343	32,621	-	34,200
Other financial liabilities	16	3,038	-	-	66,775	96,835	166,648
Total liabilities arising from financing activities		**472,083**	**643,874**	**33,770**	**240,669**	**96,835**	**1,487,231**

2020	Note	Cash movements: Opening balance $'000	Cash movements: Cash flows [2] $'000	Non-cash movements: Interest and amortisation $'000	Non-cash movements: Other [1] $'000	Non-cash movements: Fair value gain or loss $'000	Closing balance $'000
Secured interest bearing borrowings [3]	15	-	449,638	5,567	6,239	-	461,444
Senior unsecured notes		49,737	(50,000)	263	-	-	-
Matrix Convertible Notes	15	144	-	12	-	-	156
Total borrowings		**49,881**	**399,638**	**5,842**	**6,239**	**-**	**461,600**
Lease liabilities [4]	14	342	(4,867)	-	11,970	-	7,445
Other financial liabilities	16	1,039	-	-	-	1,999	3,038
Total liabilities arising from financing activities		**51,262**	**394,771**	**5,842**	**18,209**	**1,999**	**472,083**

1. Includes movements recorded directly in equity, new or modified lease arrangements, liabilities recognised as a result of business combinations (Note 18), foreign exchange movements and other non-cash movements.
2. Movements include the net cash inflows (e.g. drawdowns) and outflows (e.g. repayments and interest payments).
3. Other includes foreign exchange movement of $0.6 million (2020: $6.2 million).
4. Other includes foreign exchange movement of $0.2 million (2020: $0.0 million) and additions via acquisitions of $0.8 million (2020: nil). Remaining relates to new or modified lease arrangements.

17. Financial risk management objectives and policies

The Group’s activities expose it to certain financial risks. The Group manages its exposure to key financial risks, including interest rate, foreign currency, credit and liquidity risk in accordance with the Group's financial risk management policy; the objective of which is to support the delivery of the Group's financial targets, while protecting future financial security. The financial risk management policy is reviewed and approved by the Board on an annual basis to ensure that risk mitigations are still fit for purpose. These mitigations include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange, and by depositing funds with several different banking institutions. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Group’s principal financial instruments comprise cash and cash equivalents, receivables, other financial assets, trade and other payables, other financial liabilities and borrowings.

(a) Interest rate risk

The Group’s exposure to market interest rates relate primarily to the Group’s Cash and cash equivalents and Secured interest bearing borrowings. There are no other financial liabilities subject to interest rate risk. The Group had the following mix of financial assets and liabilities exposed to variable interest rate risk:

As at 30 June	Note	2021 $'000	2020 $'000
Financial Assets			
Cash and cash equivalents	7	1,147,147	606,041
Other financial assets		3,222	2,693
Total financial assets		**1,150,369**	**608,734**
Financial Liabilities			
Secured interest bearing borrowings	15	(33,330)	(461,444)
Total financial liabilities		**(33,330)**	**(461,444)**
Net Exposure		**1,117,039**	**147,290**

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. At the reporting date, if interest rates had moved, as illustrated in the table below, with all other variables held constant, loss after tax and equity would have been affected as follows:

	Loss after tax (Higher)/Lower		Equity (Higher)/Lower	
Judgements of reasonably possible movements:	2021 $'000	2020 $'000	2021 $'000	2020 $'000
-0.25% (25 basis points)	(1,955)	(258)	1,955	258
+1.00% (100 basis points)	7,819	1,031	(7,819)	(1,031)

The Group’s receivables warehouse funding facilities are on a variable rate (30 day) basis. This aligns closely to the weighted average life of the Afterpay consumer receivables they finance. The Matrix Convertible Notes are on a fixed interest rate basis. The APT Convertible Notes are interest-free. The financial liabilities, as disclosed in Note 16, are not exposed to interest rate risks. The Group is not exposed to significant interest rate risk and has not hedged any interest rate risk during the year or at 30 June 2021.

(b) Foreign currency risk

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

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

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

	Loss after tax (Higher)/Lower		Equity Higher/(Lower)	
Judgements of reasonably possible movements:	2021 $'000	2020 $'000	2021 $'000	2020 $'000
AUD/NZD +10%	(3,337)	(1,492)	3,337	1,492
AUD/NZD -5%	1,932	864	(1,932)	(864)
AUD/USD +10%	(52,834)	(9,277)	52,834	9,277
AUD/USD -5%	30,588	5,371	(30,588)	(5,371)
AUD/GBP +10%	(10,374)	(3,930)	10,374	3,930
AUD/GBP -5%	6,006	2,275	(6,006)	(2,275)
AUD/EUR +10%	2,994	-	(2,994)	-
AUD/EUR -5%	(1,733)	-	1,733	-
AUD/CAD +10%	(2,841)	15	2,841	(15)
AUD/CAD -5%	1,645	(9)	(1,645)	9
AUD/Other +10%	(23)	-	23	-
AUD/Other -5%	13	-	(13)	-

The Group has not hedged any material foreign currency risk during the year or at 30 June 2021.

(c) Credit risk

Credit risk arises from the financial assets of the Group. The Group's exposure to credit risk arises from potential default of the Consumer receivables, with a maximum exposure equal to the carrying amount of these instruments.

The Group utilises its proprietary fraud engine and risk decisioning rules to mitigate credit risk for its Consumer receivables. The Group regularly reviews the adequacy of the provision for expected credit losses to ensure that it is sufficient to mitigate credit risk exposure in terms of financial reporting. The provision for doubtful debts represents management's best estimate at the reporting date of the expected credit losses based on their experienced judgement. Further details have been provided in Note 8.

Credit risk also arises from cash held with banks and financial institutions, and from the investment of financial assets when they are available with designated counterparties. The Group's bank and financial institution counterparties maintain high long-term credit ratings across both Moody's and S&P.

(d) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of credit facilities. The Group mitigates funding and liquidity risks by ensuring it has:

- sufficient funds on hand to meet its working capital and investment objectives;
- is focused on improving operational cash flow; and
- adequate flexibility in financing facilities to balance the growth objectives with short-term and long-term liquidity requirements.

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

Maturity analysis of financial assets and liabilities

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

As at 30 June 2021	< 1 year $'000	1-2 years $'000	2-3 years $'000	> 3 years $'000	Total $'000
Financial assets					
Cash and cash equivalents	1,147,147	-	-	-	1,147,147
Receivables	1,576,064	-	-	-	1,576,064
Other financial assets	26,788	3,217	-	-	30,005
Total financial assets	**2,749,999**	**3,217**	**-**	**-**	**2,753,216**
Financial liabilities					
Trade and other payables	306,259	-	-	-	306,259
Secured interest bearing borrowings	1,483	33,125	-	-	34,608
Matrix Convertible Notes	-	-	99	-	99
APT Convertible Notes	-	-	-	1,500,000	1,500,000
Financial liabilities	-	-	166,648	-	166,648
Lease liabilities	2,206	10,009	9,561	13,450	35,226
Total financial liabilities	**309,948**	**43,134**	**176,308**	**1,513,450**	**2,042,840**
Net maturity	**2,440,051**	**(39,917)**	**(176,308)**	**(1,513,450)**	**710,376**

As at 30 June 2020	< 1 year $'000	1-2 years $'000	2-3 years $'000	> 3 years $'000	Total $'000
Financial assets					
Cash and cash equivalents	606,041	-	-	-	606,041
Receivables	832,524	-	-	-	832,524
Other financial assets	10,660	893	-	-	11,553
Total financial assets	**1,449,225**	**893**	**-**	**-**	**1,450,118**
Financial liabilities					
Trade and other payables	182,613	-	-	-	182,613
Secured interest bearing borrowings	6,499	316,947	157,705	-	481,151
Matrix Convertible Notes	-	-	-	207	207
Financial liabilities	-	-	-	3,038	3,038
Lease liabilities	4,517	1,774	1,003	573	7,867
Total financial liabilities	**193,629**	**318,721**	**158,708**	**3,818**	**674,876**
Net maturity	**1,255,596**	**(317,828)**	**(158,708)**	**(3,818)**	**775,242**

The fair value of the APT Convertible Notes on 30 June 2021 was $1,148.0 million (2020: n/a). The carrying value of all other financial assets and liabilities approximates their fair value.

Capital management

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

In particular, the Group periodically reviews its capital management strategy to ensure that funding initiatives are in place to support medium-term growth objectives and other working capital requirements.

During the year, the Group:

- raised capital totalling $786.2 million (2020: $233.0 million) (Note 13)
- raised $1,500.0 million via the APT Convertible Notes (Note 15).

As detailed in Note 15, the Group has receivable warehouse funding facilities in Australia, New Zealand, the United States and the United Kingdom. The receivables warehouse funding facilities contain portfolio parameters. The Group satisfied the portfolio parameters during the financial year ended and at 30 June 2021.

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

As at 30 June	Note	2021 $'000	2020 $'000
Cash and cash equivalents		1,147,147	606,041
Restricted cash		13,808	1,536
Borrowings		(1,286,383)	(461,600)
Net (debt)/cash		**(125,428)**	**145,977**

Fair value measurement

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

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

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

As at 30 June 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Clearpay Put Option (Note 16)	-	-	99,873	99,873
Pagantis Contingent Consideration (Note 16)	-	-	6,398	6,398
Total financial liabilities	**-**	**-**	**106,271**	**106,271**

As at 30 June 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Clearpay Put Option (Note 16)	-	-	3,038	3,038
Total financial liabilities	**-**	**-**	**3,038**	**3,038**

The movements in Level 3 financial liabilities measured at fair value is as follows:

Year ended 30 June	Note	2021 $'000	2020 $'000
Opening balance		3,038	1,039
Additions		6,317	-
Net loss on financial liabilities at fair value recognised in the Consolidated Statement of Comprehensive Income		96,835	1,999
Foreign exchange loss		81	-
Closing balance		**106,271**	**3,038**

Details of the key inputs included in the valuations of these level 3 financial liabilities, as well as the sensitivities of these inputs, are included in Note 16.

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Group structure

18. Business combinations

Pagantis

On 9 March 2021 (the Pagantis Completion Date), the Group acquired 100% of the issued shares and voting rights in Pagantis SAU and PMT Technology SLA (collectively, Pagantis) from NBQ Corporate SLU (NBQ).

The acquisition of Pagantis met the recognition criteria for consolidation from the Pagantis Completion Date. The financial statements for the year ended 30 June 2021 therefore include 100% of the results of Pagantis for the three-month period from the Pagantis Completion Date.

Pagantis contributed income of $0.5 million and $5.5 million of losses to the Group for the period from 9 March 2021 to 30 June 2021. If the acquisition had taken place on 1 July 2020, Pagantis would have contributed income of $3.1 million and $17.3 million of losses to the Group. Acquisition-related costs of approximately $2.5 million were included in operating expenses in the Consolidated Statement of Comprehensive Income for the year ended 30 June 2021.

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

NBQ will receive a minimum €50 million in consideration (subject to the acquired net assets and working capital adjustments), paid or payable as follows:

- Upfront consideration - €5 million in cash paid at completion;
- Deferred consideration - €45 million payable in cash, 3 years post completion (Pagantis Deferred Consideration); and
- Contingent consideration - if the equity value of Pagantis 3 years post completion exceeds €45 million, any excess is calculated using a sliding scale payable in cash or shares in Afterpay Limited at Afterpay's election (Pagantis Contingent Consideration).

Both the deferred consideration and the contingent consideration will be settled 3 to 3.5 years post completion.

The transaction resulted in the acquisition of provisional net assets with a fair value of $26,000 and goodwill of $73.9 million (see Note 12). At the Pagantis Completion Date, the goodwill comprised the value of expected synergies arising from the acquisition, as well as the value attributed to the existing Pagantis workforce, which was not able to be separately recognised under the criteria established in AASB 138 *Intangible Assets* (AASB 138). The goodwill was allocated to the Clearpay EU CGU and is not deductible for income tax purposes.

Details of the purchase consideration and the fair values of the provisional identifiable assets and liabilities of Pagantis as at the Pagantis Completion Date were as follows:

	Note	Provisional Fair value recognised on acquisition $'000
Assets		
Cash and cash equivalents		3,833
Receivables		10,845
Other current assets		1,120
Intangible assets		12,875
Right-of-use assets		793
Other non-current assets		203
Total assets		**29,669**
Liabilities		
Trade and other payables		(15,014)
Other current liabilities		(1,265)
Lease liabilities		(793)
Deferred tax liabilities		(3,219)
Other non-current liabilities		(9,404)
Net assets acquired at fair value		**(26)**
Goodwill acquired on acquisition	12	73,947
Total identifiable net assets at fair value		**73,921**
Purchase consideration		
Cash consideration paid		7,837
Pagantis Deferred Consideration		59,767
Pagantis Contingent Consideration	16	6,317
Total purchase consideration		**73,921**

1. Gross contractual receivables at the Pagantis acquisition date was $11.9 million. A provision for expected credit losses of $1.1 million reflects the best estimate of the contractual cash flows not expected to be collected.

Due to the proximity of the Pagantis Completion Date to the reporting date and the terms of the Sale and Purchase Agreement, the identifiable assets and liabilities are provisional as at 30 June 2021 and may change if additional assets or liabilities in existence at the Pagantis Completion Date are identified.

Further details on the settlement of the Pagantis Deferred and Contingent Consideration are included in Note 6.

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EmpatKali

On 31 August 2020 (the EmpatKali Completion Date), Afterpay acquired 100% of the shares outstanding and voting rights in Setelah Bayer Pte Ltd, the Singapore-based holding company for a buy now, pay later financial services business operating in Indonesia through its subsidiary PT EmpatKali Indonesia (collectively, EmpatKali). Afterpay agreed to pay US$2.0m (subject to acquired assets and working capital adjustments) to acquire EmpatKali, paid or payable as:

- 23,235 ($1.7 million) APT shares valued using the APT 30-day VWAP share price, paid upon completion; and
- US$0.5 million shares valued using the APT 30-day VWAP share price (up to and including the trading day before the date the Indonesian Business License is received), contingent upon the Indonesian Business Licence being received and subject to any final adjustments to the acquired net assets.

The acquisition of EmpatKali met the recognition criteria for consolidation from the EmpatKali Completion Date. The financial statements for the year ended 30 June 2021 therefore include the EmpatKali results from the EmpatKali Completion Date. EmpatKali contributed $2.2 million of losses to the Group for the period from 31 August 2020 to 30 June 2021. If the acquisition had taken place on 1 July 2020, EmpatKali would have contributed approximately $2.4 million in statutory losses to the Group's results.

The transaction resulted in the acquisition of net assets with a fair value of $0.7 million and goodwill of $2.0 million (see Note 12). At the EmpatKali Completion Date, the goodwill comprised the value of expected synergies arising from the acquisition, as well as the value attributed to the existing EmpatKali workforce, which was not able to be separately recognised under the criteria established in AASB 138. The goodwill was allocated to the Afterpay Asia CGU and was not deductible for income tax purposes. As a result of not receiving the Indonesian Business License, the goodwill has subsequently been impaired. See Note 12 for further detail.

Significant accounting policies

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

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

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

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

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19. Related party disclosure

The ultimate controlling entity is Afterpay Limited, otherwise described as the parent company. The Consolidated Financial Statements include the financial statements of Afterpay Limited and its subsidiaries. These are listed in the following table:

Name	Country of incorporation	% Equity interest 30 June 2021	% Equity interest 30 June 2020
Afterpay Holdings Pty Ltd [1]	Australia	100%	100%
Afterpay Australia Pty Ltd [1]	Australia	100%	100%
Afterpay Warehouse Trust	Australia	100%	100%
Afterpay Touch Group Employee Share Plan Trust	Australia	100%	100%
Afterpay NZ Limited	New Zealand	100%	100%
Afterpay NZ Warehouse Trust	New Zealand	100%	100%
Afterpay International Holdings Pty Ltd (formerly Afterpay Touch Group No.2 Pty Ltd) [1]	Australia	100%	100%
Afterpay US, Inc. [4]	United States	99%	96%
Afterpay Receivables Warehouse-C LLC [2]	United States	99%	96%
Afterpay Receivables Warehouse-GS LLC [2]	United States	99%	96%
Afterpay US Services, LLC [2]	United States	99%	96%
Afterpay Canada Limited	Canada	100%	100%
Setelah Bayar Pte. Ltd [6]	Singapore	100%	0%
PT Empat Kali Indonesia [6,7]	Indonesia	85%	0%
Clearpay (International) Finance Holding Limited [5]	United Kingdom	100%	0%
Clearpay (UK) Finance Services Limited [5]	United Kingdom	100%	0%
Clearpay (International) Limited [5]	United Kingdom	100%	0%
Clearpay (Europe) Limited [5]	United Kingdom	100%	0%
Clearpay Technology, S.L (formerly PMT Technology SLA) [6]	Spain	100%	0%
Clearpay, S.A.U (formerly Pagantis SAU) [6]	Spain	100%	0%
Clearpay Finance Limited	United Kingdom	90%	90%
Clearpay Receivables Warehouse 2020-1 Limited [3]	United Kingdom	90%	90%
Clearpay Receivables Warehouse 2020-2 Limited [3]	United Kingdom	90%	90%
Clearpay Finance HCB Limited [3]	United Kingdom	90%	90%
Touchcorp Limited [1]	Bermuda	100%	100%
Touch Holdings Pty Ltd [1]	Australia	100%	100%
Touch Australia Pty Ltd [1]	Australia	100%	100%
Afterpay Corporate Services Australia Pty Ltd (formerly known as Touch Networks Australia Pty Ltd) [1]	Australia	100%	100%
Touch Networks Pty Ltd [1]	Australia	100%	100%
Afterpay China Holdings Pty Ltd	Australia	100%	100%
Afterpay Information Technology Service (Shanghai) Co., Ltd	China	100%	100%
Afterpay Asia Pte. Ltd (formerly known as Touchcorp Singapore Pte Ltd)	Singapore	100%	100%

1. Refer to Note 21 for further information on the parties subject to a deed of cross guarantee.
2. Wholly owned subsidiaries of Afterpay US, Inc.
3. Wholly owned subsidiary of Clearpay Finance Limited.
4. The Group's equity interest in Afterpay US, Inc is approximately 96% due to vested and exercised options under the US ESOP. Refer to Note 22 for further information.
5. New legal entity established during the year.
6. Acquired during the year. Refer to Note 18 for further details.
7. 15% of PT Empat Kali Indonesia's shares are owned by a local employee, as required by Indonesian Law. There are no voting rights attached to these shares and PT Empat Kali Indonesia is considered fully controlled by the Group.

The following tables provide the total amount of transactions that have been entered into with related parties.

For the year ended 30 June	2021		2020	
	Sales to related parties $'000	Purchases from related parties $'000	Sales to related parties $'000	Purchases from related parties $'000
Associate				
AP Ventures Limited	-	-	1,180	-

No amounts are owed to or from the associate as at 30 June 2021 (2020: nil).

AP Ventures Limited

AP Ventures Limited (APV) is an Australian company whose principal activity is the identification and assessment of potential investment opportunities including, but not limited to opportunities that are referred by Afterpay.

Afterpay owns 32.0% of the common shares of APV (2020: 43.9%), is entitled to 21.8% of the voting rights (2020: 24.2%), has no representation on the Board, no ability to appoint a representative to the Board, and has no involvement in the management of APV through contractual arrangements. Afterpay is thus considered to have significant influence, but not control over APV. Afterpay's investment is measured using the equity method described within AASB 128 *Investments in Associates and Joint Ventures*. APV is not considered a material associate.

	2021 $'000
Investment in associate	
At 1 July 2020	5,166
Contributions to associate	15,000
Share of loss of associate	(2,271)
Gain on dilution of shareholding in associate	5,683
At 30 June 2021	**23,578**

The dilution of Afterpay's shareholding during the year ended 30 June 2021 occurred as a result of capital raising activities completed by APV, which Afterpay did not fully participate in. APV raised $68.5 million during the year to fund investment opportunities.

20. Information relating to Afterpay Limited (The Parent)

As at 30 June	2021 $'000	2020 $'000
Current Assets	18,788	57,486
Non-Current Assets	3,745,344	971,893
Total Assets	**3,764,132**	**1,029,379**
Current Liabilities	2,962	6,754
Non-Current Liabilities	1,352,941	-
Total Liabilities	**1,355,903**	**6,754**
Net Assets	**2,408,229**	**1,022,625**
Issued Capital	2,204,450	957,932
Reserves	355,634	82,409
Accumulated Losses	(151,855)	(17,716)
Total Equity	**2,408,229**	**1,022,625**
Loss of the Parent entity	(133,813)	(1,598)
Total comprehensive loss of the Parent entity	**(133,813)**	**(1,598)**

21. Deed of cross guarantee

The subsidiaries identified in Note 19 'Related Party Disclosure' are parties to a deed of cross guarantee under which each guarantees the debts of the others. By entering into the Deed, the wholly-owned entities have been relieved of the requirement to prepare a financial report and Directors' Report under ASIC Corporations (Wholly-owned Companies) Instruments 2016/785. These subsidiaries and Afterpay Limited together referred to as the 'Closed Group', originally entered into the Deed on 29 November 2017. The effect of the Deed is that each party to it has guaranteed to pay any deficiency in the event of the winding up of any of the entities in the Closed Group.

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

For the year ended 30 June	2021 $'000	2020 $'000
(Loss) / profit before tax	(17,375)	65,991
Income tax expense	(28,676)	(19,805)
Total comprehensive (loss) / income for the year, net of tax	**(46,051)**	**46,186**

The Consolidated Statement of Financial Position of the Closed Group is as follows:

As at 30 June	2021 $'000	2020 $'000
ASSETS		
Current Assets		
Cash and cash equivalents	47,898	185,154
Receivables	592,190	369,518
Other financial assets	9,258	3,015
Other assets	7,727	5,314
Income tax receivable	10,970	-
Total Current Assets	**668,043**	**563,001**
Non-Current Assets		
Investments in associates	23,578	5,166
Investments in subsidiaries	3,608,316	570,527
Tangible assets	18,758	9,482
Intangible assets	68,770	73,280
Deferred tax asset	60,756	43,144
Other financial assets	3,217	893
Other assets	259	170
Total Non-Current Assets	**3,783,654**	**702,662**
TOTAL ASSETS	**4,451,697**	**1,265,663**
LIABILITIES		
Current Liabilities		
Trade and other payables	87,140	61,700
Employee benefit and other provision	8,075	5,131
Contract liabilities	3,636	226
Lease liabilities	(4,506)	2,528
Financial liabilities	113	631
Income tax payable	-	917
Total Current Liabilities	**94,458**	**71,133**
Non-Current Liabilities		
Employee benefit and other provision	1,894	513
Lease liabilities	16,677	3,167
Borrowings	1,252,952	-
Related party payables	471,586	121,474
Financial liabilities	99,873	3,038
Total Non-Current Liabilities	**1,842,982**	**128,192**
TOTAL LIABILITIES	**1,937,440**	**199,325**
NET ASSETS	**2,514,257**	**1,066,338**
EQUITY		
Contributed equity	2,204,450	975,317
Accumulated losses	(17,684)	17,266
Reserves	327,491	73,755
TOTAL EQUITY	**2,514,257**	**1,066,338**

Employee remuneration

22. Share-based payment plans

Overview of plans

(a) **Purpose of incentive plans**

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

The purpose of these plans is to:

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

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

During the year ended 30 June 2021, 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 Afterpay Equity Incentive Plan;
- 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);
- Equity in APT issued to participating employees in the Group's Employee Share Matching Plan which was launched in November 2020;
- Equity in Afterpay US, Inc. (a subsidiary of Afterpay Limited) under the Afterpay US, Inc. 2018 Equity Incentive Plan (US ESOP); and
- Equity in Clearpay Finance Limited (Clearpay) (a subsidiary of Afterpay Limited) under the Clearpay Finance Limited 2020 Share Option Plan (UK ESOP).

The potential impact of the Square Acquisition (Note 25) has not been reflected in the share-based payment plans of the Group for the year ended 30 June 2021.

Significant accounting judgements, estimates and assumptions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using the Binomial Model. The fair value of options is determined in accordance with the fair market value of the shares available at the grant date.

The value of the US and UK businesses are a significant estimate used to determine the fair value of the options issued under the UK and US ESOPs (including the FY21 US ESOP Modification) and the fair value of the share-based payments component of the Matrix Convertible Notes. These fair values are determined by valuations conducted by independent valuers using cash flow projections based on operating budgets which reflect management's view of the expected long-term growth profile of the businesses. The determination of cash flows over the life of a business requires management judgement in assessing the future number of merchant acquisitions, customer usage, potential price changes as well as any changes to the costs of the product and of other operating costs incurred by the business. The valuations are then derived by discounting the cash flow projections to present value using discount rates that reflect current market conditions, external analyst views, industry benchmarks, and, where available, the underlying businesses cost of debt and/or equity.

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

	FY21	FY20	FY21	FY20	FY21
	APT ESOP		US ESOP		UK ESOP
Expected volatility	60-80%	50-80%	N/A	60%	60%
Risk-free interest rate	0.40%	1.00%	N/A	1.39%	0.29%
Expected life of share options (years)	3	4	N/A	5	3
Dividend yield	0%	0%	N/A	0%	0%

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

The weighted average fair value of the awards granted under the APT ESOP, US ESOP and UK ESOP during the year was $51.91, N/A and $0.18, respectively (2020: $12.96, $1.72 and N/A, respectively).

At the modification date, the fair value of the original awards granted to participants of the FY21 US ESOP Modification (see below) was $96.35 and the fair value of the modified award was $101.03 based on expected volatility of 60%, risk-free interest rate of 0.0% and dividend yield of 0%.

Significant accounting policies

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

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

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

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

When an equity-settled award is modified, the fair value of both the original award (immediately prior to the modification) and the modified award is determined on the modification date. To the extent that the fair value of the modified award is greater than the original award, the difference is expensed by share-based payments over the remaining vesting period. The remaining difference is recognised directly in equity.

Awards over APT equity

(a) **Overview**

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

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

Set out below is an overview of the APT equity awards for the year ended 30 June 2021.

Options

During the year, 84,688 LTI options were granted to Key Management Personnel (KMP) in accordance with the FY21 Executive KMP Remuneration Framework (as detailed in the Remuneration Report).

No new options were granted under the legacy Afterpay Employee Incentive Plan during the year.

Restricted Stock Units (RSUs)

During the year, 769,767 RSUs were granted under the Afterpay Equity Incentive Plan, comprising:

- 2,443 RSUs granted to KMP in accordance with the FY21 Executive KMP Remuneration Framework (as detailed in the Remuneration Report); and
- 767,324 RSUs granted to other eligible employees.

Share Matching Plan

Employees may contribute up to $2,500 to acquire APT shares in any plan year. On the first anniversary of each quarterly contribution, subject to meeting certain criteria, the Group will match the number of acquired shares. During the year, 3,852 shares were granted under Afterpay's Share Matching Plan.

FY21 US ESOP Modification

709,289 restricted APT shares were awarded to eligible US employees who participated in the FY21 US ESOP Modification (see US ESOP below).

Legacy arrangements—loan shares and performance rights

Historically, and as part of Afterpay's legacy remuneration arrangements, Afterpay has issued performance rights to certain employees under the legacy Afterpay Employee Incentive Plan (adopted prior to listing) which vest over a one to two-year period and loan shares (non-interest bearing, limited recourse loans from the Group for the sole purpose of acquiring shares in APT) which vest over a one to four-year period. Under AASB 2 *Share-based payment*, these performance rights and loan shares are treated as 'in substance options' even where the equity instrument itself is not a share option. No new loan shares or performance rights were granted during the year.

Detailed breakdown of APT equity awards

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

	2021		2020		2021		2020		2021	2020
	Share options				Loan shares				Rights[1] & RSUs	
	No. '000	WAEP $	No. '000	WAEP $	No. '000	WAEP $	No. '000	WAEP $	No. '000	No. '000
Outstanding at the beginning of the year	9,391.00	10.28	14,907	5.49	419	4.50	1,143	3.91	998	-
Granted during the year	85.00	97.95	1,341	32.85	-	-	-	-	774	1,006
Forfeited during the year	(438.00)	18.37	(63)	21.61	-	-	-	-	(213)	(8)
Exercised during the year	(5,763)	4.31	(6,794)	4.12	(127)	3.38	(724)	3.56	(387)	-
Outstanding at the end of the year	**3,275**	**21.59**	**9,391**	**10.28**	**292**	**4.99**	**419**	**4.50**	**1,172**	**998**
Exercisable at the end of the year	**1,660**	**13.46**	**5,668**	**3.65**	**222**	**4.71**	**264**	**3.69**	**-**	**-**

1. Performance rights relating to legacy remuneration arrangements were fully exercised in the prior comparable period and no further awards have been granted. Granted during the year includes 3,852 share rights that were awarded under the Afterpay Share Matching Plan. It does not include 709,289 restricted APT shares issued to US employees who participated in the FY21 US ESOP Modification (see below), of which 133,483 vested prior to year-end.

US ESOP

(a) Overview

The Afterpay US, Inc. 2018 Equity Incentive Plan (US ESOP) is a share option plan under which the Group may issue options to eligible participants to acquire shares in Afterpay US, Inc., the Group's US based subsidiary.

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 6).

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 total US ESOP pool was limited to options over a maximum of 10% of Afterpay US, Inc. fully diluted shares on issue and the Group has 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 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 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, the US ESOP is now closed to new offers and new incentive awards made to US employees are being provided by way of awards over APT equity to ensure a globally aligned and consistent approach going forward.

(b) **FY21 US ESOP Modification**

During the period, eligible US ESOP participants were offered an ability to exchange their vested and unvested shares in Afterpay US, Inc. (FY21 US ESOP Modification). For each participant who chose to participate in the FY21 US ESOP Modification, Afterpay acquired, for cash, the lower of:

- The aggregate number of a participants' vested shares and vested options; or
- The number of vested shares and vested options which was equal to 25% of all the participant's eligible shares and options.

Any remaining vested shares of the participants were exchanged for APT shares. In addition, all unvested shares of the participants were exchanged for restricted shares in APT (subject to original vesting terms). The cash or number of APT shares which were issued was based on the agreed value of Afterpay US, Inc. shares (based on the same valuation used for the Matrix Transaction as referred to in the Matrix Convertible Notes below). Any unvested options were not eligible for the FY21 US ESOP Modification and these awards were not modified.

The FY21 US ESOP Modification resulted in:

- Purchase of 2,009,106 vested shares and vested options from US ESOP participants for $202.6 million;
- Exchange of 3,874,478 vested shares for 2,784,186 APT shares; and
- Exchange of 987,058 unvested shares for 709,289 restricted APT shares (restricted until original vesting period concludes).

The FY21 US ESOP Modification was determined to be a modification of a share-based payment arrangement and an additional share-based payment expense of $7.0 million has been recognised during the period. The remaining impact of the FY21 US ESOP Modification has been recognised directly in equity.

(c) **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.

	2021		2020	
	Share options			
	No. '000	WAEP[1] $	No. '000	WAEP[1] $
Outstanding at the beginning of the year	5,764	0.42	8,998	0.27
Granted during the year	-	-	392	2.64
Forfeited during the year	(80)	0.36	(756)	0.30
Exercised during the year	(2,307)	0.39	(2,870)	0.30
Outstanding at the end of the year[2]	**3,377**	**0.45**	**5,764**	**0.42**
Exercisable at the end of the year	**319**	**0.59**	**1,136**	**0.43**

1. The exercise price for options granted is set on a periodic basis by reference to a third-party valuation of Afterpay US, Inc. which is conducted for US tax purposes.
2. This number includes options that have been exercised early but remain subject to vesting and a re-purchase right by Afterpay US, Inc.

During the year, the Group received $0.3 million (2020: $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 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 liability of $1.0 million (2020: $1.1 million) has been recognised as a current 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*.

Matrix Convertible Notes

When originally issued in January 2018, the Group determined the US$0.1 million Matrix Convertible Notes included a share-based payment component, for services to be delivered by Matrix. The fair value of the Matrix Convertible Notes when initially issued of US$1.7 million exceeded their face value and were determined to be a share-based payment in accordance with AASB 2 *Share-based payment*. The fair value of the Matrix Convertible Notes was initially 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 payment expense will be recognised over the expected period the services will be performed.

On 25 February 2021, Afterpay entered into an agreement to extinguish 35% of the Matrix Convertible Notes for $373.3 million in cash (the Matrix Transaction). This resulted in a modification of the initial share-based payment and the fair value of the original award was determined with reference to the equity value of Afterpay US, Inc. at the modification date.

Similar to the FY21 US ESOP Modification (see above), the Matrix Transaction resulted in an incremental increase to the fair value of the Matrix Convertible Notes and an additional share-based payment expense of $0.8 million has been recognised during the period. The remaining impact has been recognised directly in equity. The remaining 65% of the Matrix Convertible Notes has not been revalued or modified and continues to vest at the original fair value through to the maturity date.

Further details on the Matrix Convertible Notes are outlined in Note 6.

UK ESOP

(a) **Overview**

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

The Board of Afterpay and Clearpay adopted the UK ESOP Rules on 24 June 2020. The UK ESOP options have both continued service and performance-based vesting conditions. On exercise of UK ESOP options, eligible participants will be allocated shares in Clearpay (exercised shares). In order to provide eligible participants with a mechanism to liquidate their exercised shares, it is intended that exercised shares may be exchanged for fully paid ordinary APT shares or cash (at the Group's election) in specified circumstances. Specifically, the exercised shares in Clearpay may only be exchanged for APT shares or cash at the same time as the exercise of the Clearpay Put and Call Option by APT or ThinkSmart, as applicable (the Clearpay Put and Call Option mechanism is outlined in Note 6). 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 8,039,024 APT shares, being 3% of APT shares on issue at the date of first adoption of the UK ESOP Rules on 24 June 2020. Separately, and as outlined in Note 6, 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 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 fully allocated to UK employees, new incentive awards made to UK employees will be provided by way of awards over APT equity to ensure a globally aligned and consistent approach going forward.

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

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

	2021	
	Share options	
	No. '000	WAEP $
Outstanding at the beginning of the year	-	-
Granted during the year	1,860	0.18
Forfeited during the year	(40)	0.16
Exercised during the year	-	-
Outstanding at the end of the year	**1,820**	**0.17**
Exercisable at the end of the year	**1,050**	**0.17**

23. Compensation of Executive Key Management Personnel and Non-executive Directors

For the year ended 30 June	2021 $	2020 $
Short-term employee benefits	2,803,465	3,083,648
Post-employment benefits	88,364	115,174
Other long-term benefits	22,873	24,796
Share-based payment	2,697,562	4,269,242
Total compensation	**5,612,264**	**7,492,860**

Compensation of Key Management Personnel (KMP) includes Executive KMP and Non-Executive Directors. Compensation details for KMP are included in Sections 4.6 and 5.5 of the Remuneration Report.

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Items not recognised in the financial statements

24. 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) **Legal commitments and claims**

Claims can be raised by customers and suppliers against the Group in the ordinary course of business. To the extent that a future outflow is probable and able to be reliably estimated, a liability has been recorded.

(b) **Bank guarantees**

The Group had entered into bank guarantee arrangements totalling $6.0 million relating to the Group's normal business operations (2020: $2.9 million).

25. Events occurring after the reporting period

With the exception of the items listed below, the Directors are not aware of any other matters or circumstances that have arisen since 30 June 2021 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.

Proposed acquisition by Square, Inc.

In August 2021, Square, Inc. (Square) and Afterpay entered into a Scheme Implementation Deed (SID) under which Square has agreed to acquire all of the issued shares in Afterpay by way of a recommended court-approved Scheme of Arrangement (The Transaction). The Transaction has an implied value of approximately US$29 billion ($39 billion) based on the closing price of Square common stock on 30 July 2021. The acquisition aims to enable Square and Afterpay to better deliver compelling financial products and services that expand access to more consumers and drive incremental revenue for merchants of all sizes.

Under the terms of the SID, which has been approved by the members of the Boards of Directors of both Square and Afterpay, Afterpay shareholders will receive a fixed exchange ratio of 0.375 Square shares for each Afterpay ordinary share held on the record date (Consideration). Square may elect to pay 1% of Consideration in cash.

Square has agreed to establish a secondary listing on the Australian Securities Exchange (ASX) to allow Afterpay shareholders to trade Square shares via CHESS Depositary Interests (CDIs) on the ASX. These CDIs are expected to be eligible for S&P index inclusion in Australia. Afterpay shareholders will be able to elect whether to receive the Consideration in NYSE listed Square Class A common stock or CDIs.

The financial effects of the Transaction, including impact on any existing contractual arrangements, have not been recognised as at 30 June 2021.

The Transaction is expected to complete in the first quarter of calendar year 2022, subject to the satisfaction of certain closing conditions, including approval from both Square and Afterpay shareholders.

Investment in Postpay

In July 2021, the Group acquired a 12.5% equity stake in Postpay Technology Limited, a Dubai-based BNPL business, for US$5.0 million.

Other information

26. Auditor's remuneration

	2021 $	2020 $
Amounts received or due and receivable by Ernst & Young (Australia) for:		
Audit fees		
Fee for auditing the statutory financial report of the parent, including the Group's annual and half-year report	1,493,812	1,351,686
Fee for auditing the statutory financial reports of any controlled entities	177,594	32,200
Fees for assurance services that are required by legislation to be provided by the auditor	67,600	29,120
Assurance Related Services		
Fees for other assurance and agreed-upon-procedures services under other legislation or contractual arrangements where there is discretion as to who provides the service	312,500	52,800
Non-audit services		
Fees for non-audit services	-	-
Total auditor's remuneration	**2,051,506**	**1,465,806**

27. Other significant accounting policies

New and amended standards adopted by the Group

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

- IFRIC agenda decision *Configuration or Customisation Costs in a Cloud Computing Arrangement*

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

- Amendments to AASB 101 *Classification of Liabilities as Current or Non-current*
- Amendments to AASB 101 and AASB Practice Statement 2 *Disclosure of Accounting Policies*

The adoption of these amendments did not have a material impact on the Group's accounting policies and does not require retrospective adjustment to the disclosures included in these financial statements.

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

Directors' declaration

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

In the opinion of the Directors:

a) The financial statements and notes of Afterpay Limited for the year ended 30 June 2021 are in accordance with the *Corporations Act 2001*, including:
   i) giving a true and fair view of its financial position as at 30 June 2021 and of the Group's performance for the year ended on that date; and
   ii) complying with Accounting standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*.

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

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

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

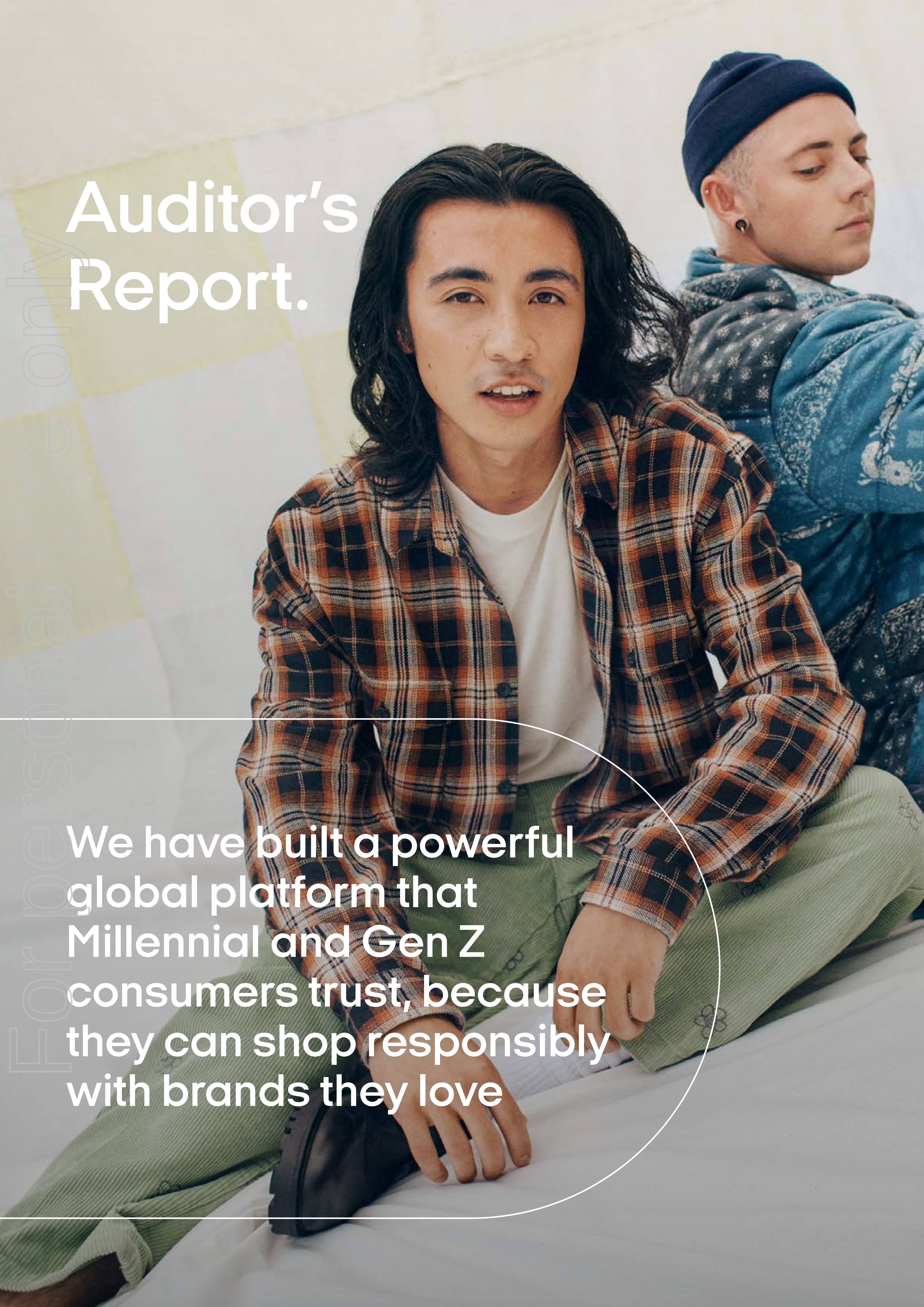
The Directors have been given the declarations by the Co-Chief Executive Officers and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

On behalf of the Board.

Elana Rubin AM

Independent Chair
Melbourne
25 August 2021

Auditor's Report.



We have built a powerful global platform that Millennial and Gen Z consumers trust, because they can shop responsibly with brands they love

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Independent Auditor's Report to the Members of Afterpay Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Afterpay Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2021 and of its consolidated financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

Key Audit Matters

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

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

1. Afterpay Convertible Notes

Why significant	How our audit addressed the key audit matter
On 12 March 2021, the Group issued $1.5 billion of zero coupon convertible notes which have a maturity date of 12 March 2026. The convertible notes are listed on the Singapore Exchange Securities Trading Limited (SGX-ST). Decisions regarding the appropriate accounting treatment and valuation of these convertible notes are complex and involved the application of significant judgement. Notes 6 and 15 of the financial report describe this transaction and the related valuation of the convertible notes and how they have been accounted for.	Our audit procedures on the convertible notes focused on the appropriateness of the accounting treatment and the judgements made in determining their valuation. Our audit procedures included the following: ▸ We assessed the terms and conditions of the convertible notes as disclosed in the Offering Circular, focusing on the conversion features and key terms. ▸ We involved our financial instrument accounting specialists to consider and challenge the accounting treatment of the convertible notes including the allocation between debt and equity and the valuation of any embedded derivatives, and our financial instrument valuation specialists to assess the appropriateness of the discount rate adopted to determine the fair value of the liability component at inception. ▸ We assessed the adequacy of the related disclosures in the financial report.

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2. Judgements in Cash Flow Models

Why significant	How our audit addressed the key audit matter
On 25 February 2021, the Group entered into an agreement to extinguish 35% of the Matrix Convertible Notes for cash consideration of $373.3 million. At the same time, the Group launched a tender offer to eligible participants under the Afterpay US, Inc. 2018 Equity Incentive Plan (US ESOP). These agreements resulted in modifications to existing share-based payment arrangements related to the US business. Also, the Group has a put option liability to acquire the remaining Clearpay Finance Limited (Clearpay) shares held by ThinkSmart Limited (ThinkSmart), which is exercisable at any time after 23 August 2023, which relates to the UK business. Significant judgements were required to be made by the Group in preparing the US and UK cash flow models. The cash flow models are highly sensitive to changes in underlying assumptions such as future cash flows and discount rates. The US cash flow model is a significant input in the calculation of the fair value of the share-based payment awards at modification date, and the UK cash flow model in the valuation of the put liability at 30 June 2021. Refer to Notes 6, 15 and 22 of the financial report for the relevant disclosures in relation to the Matrix Convertible Notes and awards under the US ESOP. Refer to Notes 6 and 16 of the financial report for the relevant disclosures in relation to the Clearpay Put Option liability.	Our audit procedures included the following: ▸ We understood and assessed the respective transactions and key terms. ▸ We assessed the competence, qualifications and objectivity of the valuation specialists engaged by the Group. ▸ We involved our valuation specialists to challenge and evaluate the valuation approach, terminal growth rates and discount rates applied by the Groups external valuation experts. ▸ We assessed the underlying cash flow assumptions to determine whether reasonably possible changes to the cash flow model inputs would result in a material misstatement to the accounting outcomes. ▸ We assessed the adequacy of the related disclosures in the financial report.

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3. Business Combinations

Why significant	How our audit addressed the key audit matter
On 9 March 2021, the Group completed the acquisition of Pagantis SAU and PMT Technology SLU (collectively, Pagantis) for $73.9 million including deferred consideration of $59.8 million and contingent consideration of $6.3 million. The valuation of goodwill, other intangible assets and deferred and contingent consideration in a business combination is complex and highly sensitive to underlying assumptions such as future cash flows and discount rates. These judgements could have an impact on the recognition of the amount of goodwill ($73.9 million) if alternative assumptions had been adopted. Refer to Note 18 of the financial report for the relevant disclosures in relation to the acquisition of Pagantis.	Our audit procedures included the following: ▸ We assessed the terms and conditions of the share purchase agreement to obtain an understanding of the transaction and the key terms. ▸ We assessed and recalculated the value of the purchase consideration, inclusive of the deferred and contingent consideration. ▸ We assessed the competence, qualifications and objectivity of the specialists engaged by the Group to determine the fair value of the deferred and contingent consideration and the acquired identifiable intangible assets at the acquisition date. ▸ We involved our valuation specialists to challenge and evaluate the valuation approach, methodology and assumptions applied to determine the fair value the contingent consideration and acquired identifiable intangible assets at the acquisition date. ▸ We assessed the adequacy of the disclosures in the financial report in respect of the acquisition of Pagantis.

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4. Capitalised Software Development Costs

Why significant	How our audit addressed the key audit matter
The Group's income is generated through the processing of transactions using internally developed software platforms disclosed as Core Technology in Note 12 of the financial report. Software development is core to the Company's operations and s judgement is required in determining whether development expenditure meets the capitalisation criteria set out in Australian Accounting Standards. Internally developed software is inherently judgemental with respect to technical feasibility, intention and ability to complete the intangible asset, ability to generate future economic benefits and the ability to measure the costs reliably. This increases the risk that expenditures may be inappropriately capitalised. The Group's disclosure for capitalised software costs is included in Note 12 of the financial report.	Our audit procedures included the following: ▸ We selected a sample of projects and evaluated the nature of the project, the status of the project and assess whether the project met the capitalisation criteria as set out in Australian Accounting Standards. ▸ For a sample of capitalised employee and sub-contractor costs, we agreed the pay rates applied to employment contracts, supplier invoices and obtained evidence to support the time charged to development projects. ▸ We assessed the useful lives and amortisation rates allocated to capitalised development costs. ▸ We recalculated the amortisation expense for the period. ▸ We assessed the consistency of the capitalisation methodology applied by the Group in comparison to prior reporting periods. ▸ We challenged whether there were any indicators of impairment present during the reporting period. ▸ We assessed the adequacy of the related disclosures in the financial report in respect of the capitalised costs.

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5. Provision for expected credit losses on consumer receivables

Why significant	How our audit addressed the key audit matter
The nature of the Group's business is to assume the credit risk of merchant transactions with consumers. In accordance with Australian Accounting Standards, the Group has applied a forward-looking model to determine the provision for expected credit loss (ECL). Significant judgement is involved in determining the estimated loss rates on outstanding receivables including any impact of the COVID-19 pandemic, along with forward-looking factors. The Group's disclosure for the provision for expected credit losses is disclosed in Note 8 of the financial report.	Our audit procedures included the following: ▸ We assessed whether the methodology applied by management in their model is in accordance with the requirements of Australian Accounting Standards. ▸ We assessed the mathematical accuracy of the model and recalculated the ageing of the consumer receivables at period end. ▸ We assessed the integrity of current and historical loss rates assumptions on consumer receivables and compared these assumptions to those of the prior period and investigated any significant differences. ▸ We assessed the impact of the COVID-19 pandemic on the loss rates along with forward-looking factors in the measurement of the provision for ECL. ▸ We assessed the adequacy of the provision by comparing the cash receipts after period end to the outstanding consumer receivables balance at period end. ▸ We assessed the adequacy of the related disclosures in the financial report in respect of the consumer receivables.

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

The directors are responsible for the other information. The other information comprises the information included in the Company's 2021 Annual Report, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 58 to 83 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Afterpay Limited for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Ernst & Young

Ernst & Young

Fiona Campbell
Partner
Melbourne
25 August 2021

Additional Securities Exchange Information

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 9 August 2021.

Corporate Governance Statement

Afterpay's FY21 Corporate Governance Statement, together with the ASX Appendix 4G, have been lodged with the ASX and are available at https://corporate.afterpay.com/investors/corporate-governance.

Substantial holders

Unless otherwise stated below, as at 9 August 2021, the names of the substantial holders of the Company and the number of equity securities in which those substantial holders and their associates have a relevant interest, as disclosed in substantial holding notices[1] given to the Company, are as follows:

Holder of Equity Securities	Number of Equity Securities held	% of total issued securities capital in relevant class
Anthony Eisen	19,455,963	6.71%
Nicholas Molnar	19,455,963	6.71%
Vanguard Group	19,386,851	6.68%
BlackRock Group	14,852,759	5.12%

1. The equity securities held by Anthony Eisen and Nicholas Molnar reflect their current interests as disclosed in their Appendix 3Y change of director's interest notices released to the ASX on 2 March 2021 (noting their last substantial shareholder notices were released on 13 July 2020).

Number of holders

As at 9 August 2021, the number of holders in each class of equity securities is as follows:

Class of Equity Securities	Number of holders
Fully paid ordinary shares	62,019
Options to acquire ordinary shares	61
Convertible Notes	7,503
Restricted Stock Units	621
Rights	379

Less than marketable parcels of ordinary shares (UMP Shares)

As at 9 August 2021, the number of shareholders holding less than a marketable parcel of $500 worth of shares, based on the closing market price on that date of $130.05 per share, is 459.

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Voting rights of equity securities

The only class of equity securities on issue in the Company which carries voting rights is fully paid ordinary shares. As at 9 August 2021, there were 62,019 holders of a total of 290,073,416 ordinary shares of the Company.

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

Distribution of holders of equity securities

The distribution of holders of equity securities on issue in the Company as at 9 August 2021 is as follows:

Distribution of ordinary shareholders			
Holdings Ranges	Holders	Total Units	%
1 – 1,000	57,644	8,407,469	2.90
1,001 – 5,000	3,643	7,591,783	2.62
5,001 – 10,000	365	2,582,109	0.89
10,001 – 100,000	306	7,773,436	2.68
100,001 – and over	61	263,718,619	90.91
Totals	**62,019**	**290,073,416**	**100.00**

Distribution of option holders			
Holdings Ranges	Holders	Total Units	%
1 – 1,000	-	-	-
1,001 – 5,000	4	10,782	0.38
5,001 – 10,000	9	71,266	2.52
10,001 – 100,000	41	1,494,869	52.93
100,001 – and over	7	1,247,667	44.17
Totals	**61**	**2,824,584**	**100.00**

Distribution of Restricted Stock Unit (RSU) holders			
Holdings Ranges	Holders	Total Units	%
1 – 1,000	417	148,378	14.48
1,001 – 5,000	159	367,222	35.83
5,001 – 10,000	27	180,253	17.58
10,001 – 100,000	18	329,118	32.11
100,001 – and over	-	-	-
Totals	**621**	**1,024,971**	**100.00**

Distribution of Rights holders			
Holdings Ranges	Holders	Total Units	%
1 – 1,000	379	3,852	100.00
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 – and over	-	-	-
Totals	**379**	**3,852**	**100.00**

Convertible note holders

One convertible note has been issued to each of Matrix Partners X L.P, Weston & Co X LLC and NBQ Corporate, S.L.U.

Escrow

Class of restricted securities	Type of restriction	Number of securities	End date of escrow period
Ordinary shares	Voluntary escrow	10,018	31 August 2022
Ordinary shares	Voluntary escrow	1,440,213	16 January 2025
Ordinary shares	Voluntary escrow	732,396	On APT's instructions

Unquoted equity securities

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

Class of Equity Securities	Number of unquoted Equity Securities	Number of holders
Convertible Notes	7,503	7,503
Options to acquire ordinary shares	2,824,584	61
Restricted Stock Units	1,024,971	621
Rights	3,852	379

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

Twenty largest shareholders

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

Rank	Holder Name	Total shares	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	72,942,637	25.15
2	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	42,809,788	14.76
3	CITICORP NOMINEES PTY LIMITED	34,851,381	12.01
4	ANTHONY MATHEW EISEN	18,505,963	6.38
5	NICHOLAS MOLNAR PTY LTD <NICHOLAS DAVID FAMILY A/C>	17,005,963	5.86
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	12,698,504	4.38
7	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	11,029,607	3.80
8	CLEEVECORP PTY LTD	5,517,000	1.90
9	NATIONAL NOMINEES LIMITED	5,055,672	1.74
10	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	4,050,768	1.40
11	BNP PARIBAS NOMS PTY LTD <DRP>	3,288,602	1.13
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <GSCO CUSTOMERS A/C>	3,097,894	1.07
13	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	2,677,289	0.92
14	CITICORP NOMINEES PTY LIMITED <CITIBANK NY ADR DEP A/C>	2,645,648	0.91
15	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	2,420,022	0.83
16	ATC CAPITAL PTY LTD	2,319,475	0.80
17	NICHOLAS MOLNAR PTY LTD <NICHOLAS MOLNAR A/C>	1,500,000	0.52
18	WOODROSS NOMINEES PTY LTD	1,425,347	0.49
19	ESTATE LATE ADRIAN CLEEVE	1,410,470	0.49
20	NATIONAL NOMINEES LIMITED <N A/C>	1,405,689	0.48
	Total number of shares of Top 20 Holders	**246,657,719**	**85.03**
	Total Remaining Holders Balance	**43,415,697**	**14.97**

Corporate information.

Afterpay Limited ACN 618 280 649

Board of Directors

Elana Rubin AM (Independent Chair and Non-Executive Director)

Anthony Eisen (Co-Chief Executive Officer)

Nick Molnar (Co-Chief Executive Officer)

Gary Briggs (Independent Non-Executive Director)

Pat O'Sullivan (Independent Non-Executive Director)

Sharon Rothstein (Independent Non-Executive Director)

Dana Stalder (Independent Non-Executive Director)

Registered Office

The address and telephone number of the Company's registered office is:

Level 5, 406 Collins Street

Melbourne VIC 3000

Telephone: +61 1300 100 729

Company Secretaries

Amanda Street

Nat McKaig

Auditor

Ernst & Young

8 Exhibition Street

Melbourne VIC 3000

Share Registry

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

Computershare Investor Services

Yarra Falls

452 Johnson Street

Abbotsford Victoria 3067

Telephone: +61 1300 137 328

Stock Exchange Listing

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

Other Information

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

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

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

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