Afterpay Limited ASX: APT

ASX Announcement

25 February 2021

Appendix 4D and 2021 Half Year Report

Afterpay Limited attaches its Appendix 4D and 2021 Half Year Report for the period ended 31 December 2020.

Authorised by:
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Co-CEO & Managing Director

ENDS

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Appendix 4D
2021 HALF YEAR REPORT
UNDER ASX LISTING RULE 4.2A

Company Details

NAME OF ENTITY:	Afterpay Limited
ACN:	618 280 649
REPORTING PERIOD:	Half year ended 31 December 2020
PREVIOUS PERIOD:	Half year ended 31 December 2019

Results for announcement to the market
Statutory Results Summary

		Change from period ended 31 December:				
				2020		2019
		%		$m		$m
Total income[1]	▲	89%	to	417.2	From	220.3
Loss after tax	▼	151%	to	(79.2)	from	(31.6)
Loss attributable to the ordinary shareholders of Afterpay Limited	▼	165%	to	(76.5)	from	(28.9)

1. Total income consists of Afterpay income, Pay Now revenue and Other income. Total income represents Afterpay's revenue from ordinary activities.

The Group achieved total income of $417.2 million for the half year ended 31 December 2020, up 89% on the half year ended 31 December 2019. Total income growth was supported 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 United Kingdom.

The Group delivered earnings before interest, tax, depreciation and amortisation (EBITDA) (excluding significant items)[2] of $47.9 million for the half year ended 31 December 2020, up $40.2 million on the half year ended 31 December 2019. Higher EBITDA (excluding significant items)[2] was driven by an increase in gross profit which more than offset planned increased investment in employment and operating expenses. Investment continues to be directed to scaling Afterpay's global operations and growing Underlying Sales[2].

The Group recorded a Loss after tax of $79.2 million for the half year ended 31 December 2020. The increase in the Loss after tax of $47.6 million was primarily driven by the net loss on financial liabilities at fair value of $64.8 million. This non-cash loss 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) held by ThinkSmart Limited. The increase in the valuation reflects better than expected results for Clearpay for the period ended 31 December 2020, improvements to Clearpay's forecast future cash flows and increases in broader market valuations for similar businesses.

2. Underlying Sales and EBITDA (excluding significant items) are non-IFRS measures that are not audited but are key financial metrics used by management.

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As well as the net loss on financial liabilities at fair value, Loss after tax includes foreign currency losses, share-based payment expenses, share of loss of associate and one-off items. Together, these items totalled $97.0 million in the half year and are not included in EBITDA (excluding significant items)[2].

2. Underlying Sales and EBITDA (excluding significant items) are non-IFRS measures that are not audited but are key financial metrics used by management.

Financial Summary

For the half year ended 31 December	2020 $'000	2019 $'000	Change %
Total income[1]	417,205	220,275	89%
EBITDA (excluding significant items)[2]	**47,869**	**7,709**	**521%**
Foreign currency losses	(1,548)	(958)	(62)%
Share-based payment expenses	(25,536)	(13,647)	(87)%
Net loss on financial liabilities at fair value	(64,802)	(912)	(7,005)%
Share of loss of associate	(558)	-	na
One-off items	(4,544)	(6,321)	28%
International expansion costs	(4,051)	(2,909)	(39)%
Goodwill impairment	(2,355)	-	na
Gain on dilution of shareholding in associate	1,862	-	na
Business combination and other	-	(386)	100%
AUSTRAC-related costs	-	(3,026)	100%
EBITDA	**(49,119)**	**(14,129)**	**(248)%**
Net finance costs	(9,304)	(7,875)	(18)%
Depreciation and amortisation	(17,742)	(13,788)	(29)%
Loss before tax	**(76,165)**	**(35,792)**	**(113)%**
Income tax (expense)/benefit	(3,046)	4,226	na
Loss after tax	**(79,211)**	**(31,566)**	**(151)%**

1. Total income consists of Afterpay income, Pay Now revenue and Other income.
2. EBITDA (excluding significant items) is a non-IFRS measure that is not audited but is a key financial metric used by management. EBITDA (excluding significant items) excludes foreign currency losses, share-based payment expenses, net loss on financial liabilities at fair value, share of loss of associate and one-off items.

Net tangible assets per ordinary share

At 31 December	2020 $	2019 $
Net tangible assets per ordinary share[1]	5.63	2.82

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

Dividends

No dividends were declared or paid for the half year ended 31 December 2020.

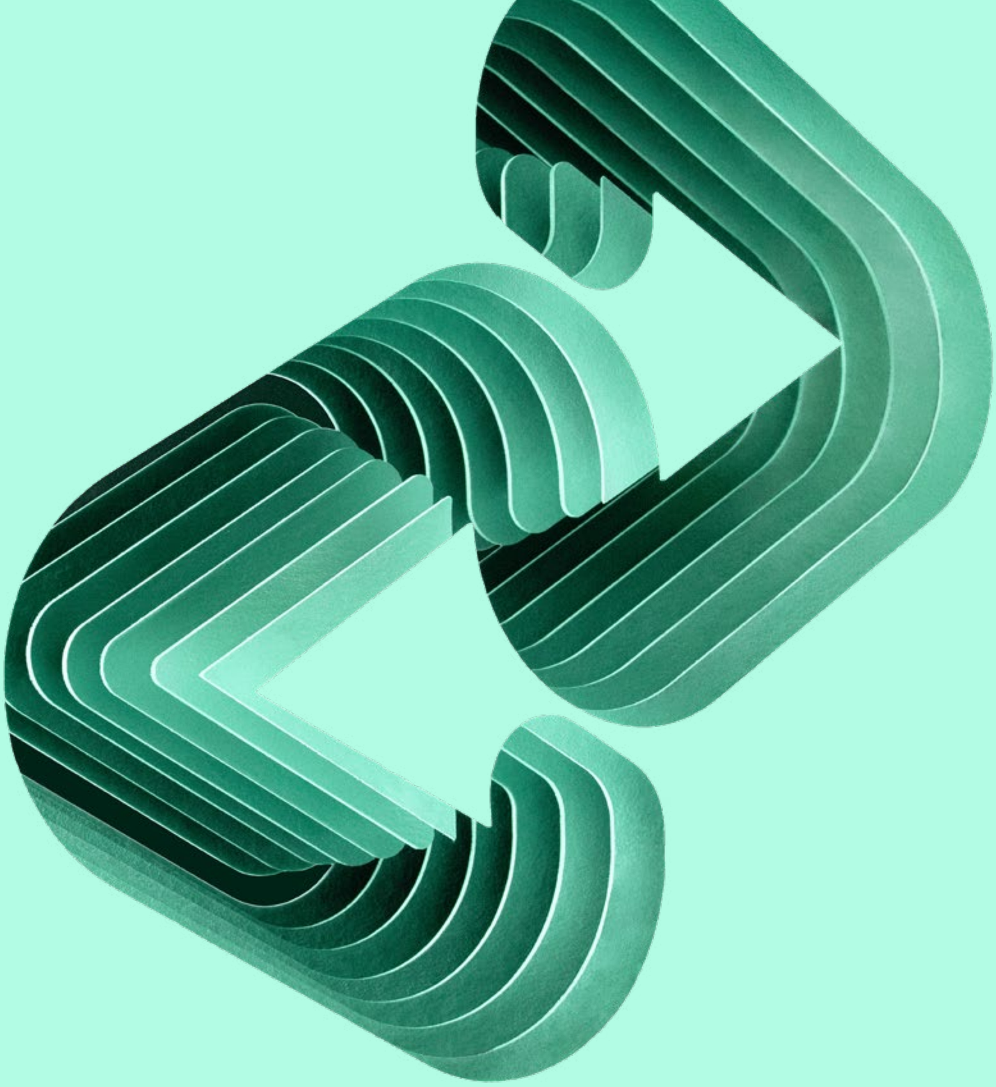
Basis of preparation

This report is based on the Consolidated Financial Statements of Afterpay Limited which have been reviewed by Ernst & Young.

Other information required by Listing Rule 4.2A

Other information requiring disclosure to comply with Listing Rule 4.2A is contained in the 2021 Half Year Report, which includes the Consolidated Financial Statements for the half year ended 31 December 2020 and in the Directors' Report for the half year ended 31 December 2020.

This document should be read in conjunction with the Group's 2020 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.



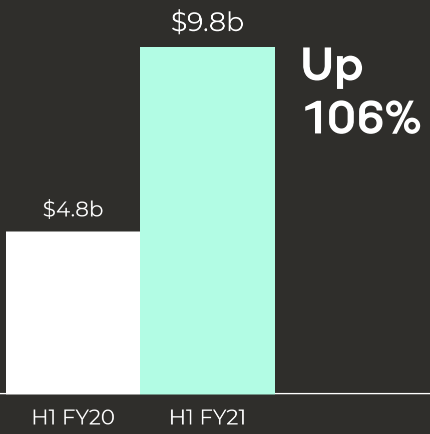
amplify.

Afterpay Limited 2021 Half Year Report

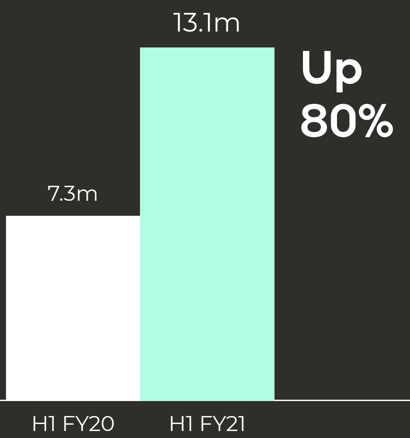
Performance highlights.

Key Operating Metrics

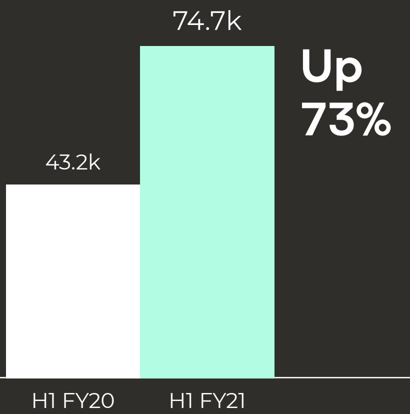
Afterpay Underlying Sales[1]



Afterpay Active Customers[1,2]



Afterpay Active Merchants[1,2]



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

Key Financial Metrics

Group Total Income

$417.2 million

Up 89% on prior year

Afterpay Income

$374.2 million

Up 108% on prior year

Group Net Margin[1]

$219.2 million

Up 105% on prior year

Afterpay Net Transaction Margin

$213.9 million

Up 110% on prior year

2.2%[2]

EBITDA

(excluding Significant items)

$47.9 million

Up 521% on prior year

Change calculations may not equate due to rounding. Notes: 1. Group Net Margin is equal to Afterpay Net Transaction Margin and Pay Now Gross Margin. 2. Afterpay Net Transaction Margin as a percentage of Afterpay Underlying Sales.

About Afterpay

Founded in 2015 in Sydney, Australia, Afterpay now has over 13 million active[1] customers and almost 75,000 active[1] merchants using the platform across Australia and New Zealand, US and Canada, and UK (where it is called Clearpay). Afterpay's global team is currently made up of more than 900 people and growing.

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

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

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

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

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

Contents.

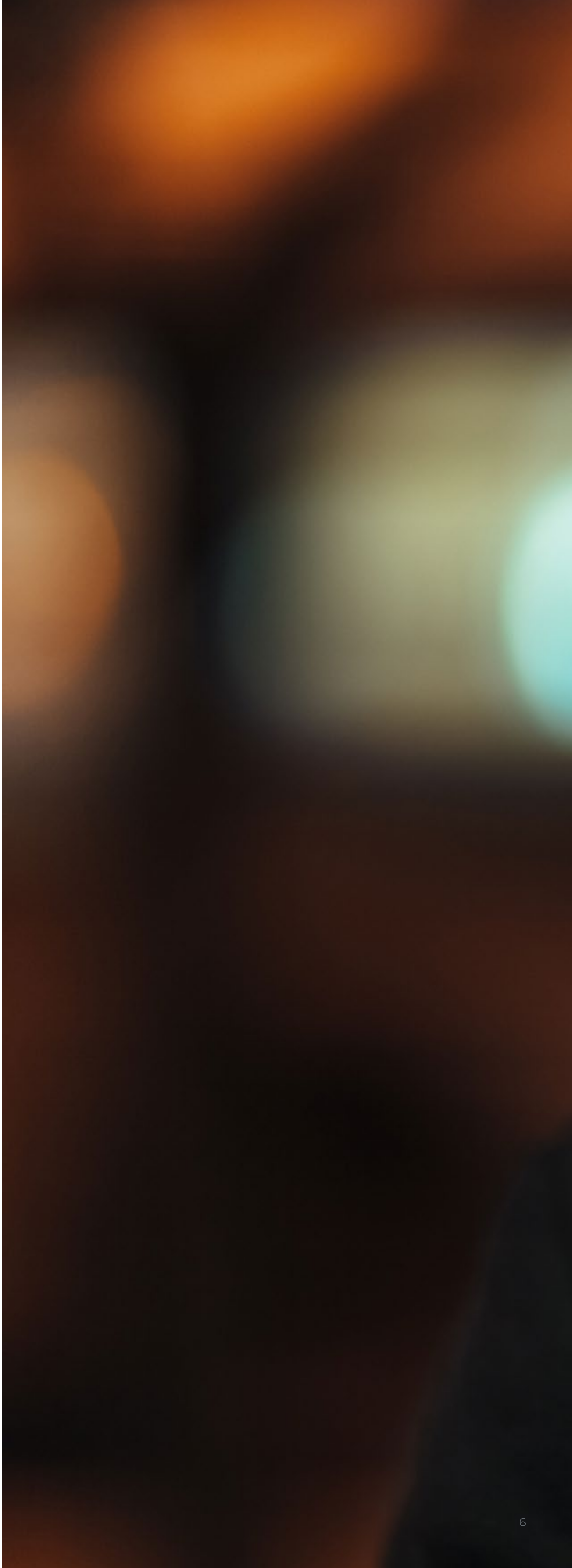
Afterpay Limited
2021 Half Year Report

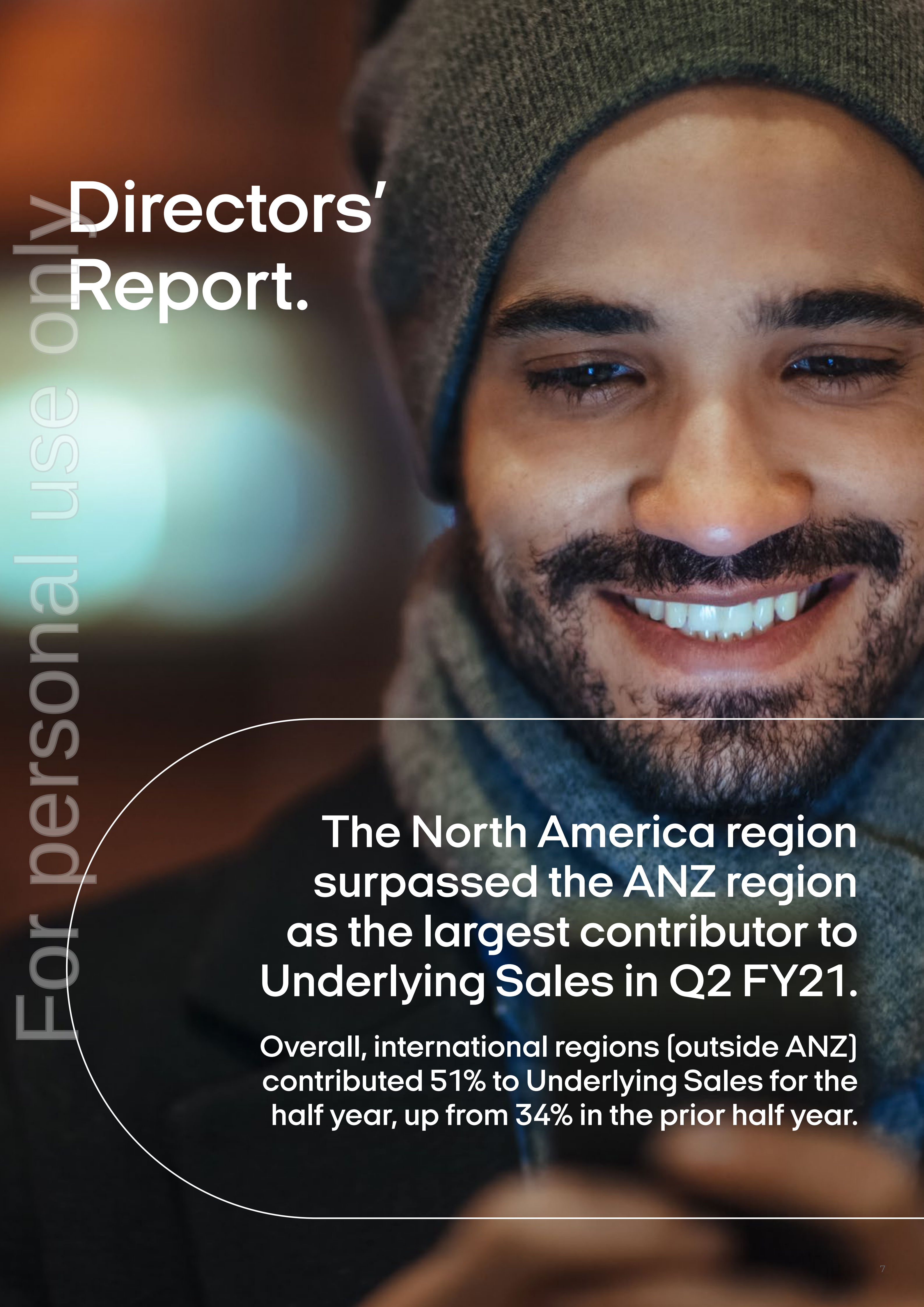
This Interim Financial Report (Half Year Report) has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001 and does not include all the notes of the type normally included in an annual financial report. Afterpay Limited's (the Group or Afterpay) most recent annual financial report is available at https://corporate.afterpay.com/investors/reports-presentation as part of the Group's 2020 Annual Report.

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

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

The 2021 Half Year Report was authorised for issue by Afterpay's Directors on 25 February 2021. The Board of Directors has the power to amend and reissue the Half Year Report.





Directors' Report.

The North America region surpassed the ANZ region as the largest contributor to Underlying Sales in Q2 FY21.

Overall, international regions (outside ANZ) contributed 51% to Underlying Sales for the half year, up from 34% in the prior half year.

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 half year ended 31 December 2020.

Directors

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

Elana Rubin	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 statutory Loss after tax of $79.2 million for the half year ended 31 December 2020 (2019: $31.6 million).

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Operating & Financial Review

The half year ended 31 December 2020 represented a period where Afterpay's differentiated business model continued to benefit from tailwinds associated with the global shift towards online spending and a further shift away from traditional credit.

In the half year ended 31 December 2020, Afterpay:

- doubled **Underlying Sales** to $9.8 billion, with increases achieved across all regions
- held **Afterpay Income Margin** stable to the prior half year, at 3.8% of Underlying Sales, whilst growing the merchant portfolio
- continued to improve **losses**, with Receivables Impairment Expense (Gross Loss) at a historical low of 0.7% of Underlying Sales, reflecting benefits of repeat transactions from longer-tenured customers and effective risk management practices, despite record new customer acquisition and accelerating growth in newer regions in the period
- achieved **Afterpay Net Transaction Margin** at over 2% of Underlying Sales, despite increasing contribution from newer regions
- **scaling investment** to support continued growth in customers and merchants in existing and new products and markets
- maintained robust **balance sheet position,** with the ability to fund over $26 billion in incremental Underlying Sales over the current Underlying Sales run rate of $23 billion (Q2 FY21).

Afterpay Net Transaction Margin has been sustained at >2% in H1 FY21, despite increasing contribution from newer regions which now account for >50% of Afterpay's Underlying Sales.

North America is now[1] the largest contributor to Afterpay Underlying Sales.

1. From Q2 FY21

1. Group Summary

Total Income was $417.2 million for the half year ended 31 December 2020, up 89% on the prior half year driven by growth in Underlying Sales.

Afterpay Net Transaction Margin (NTM) was $213.9 million, up 110% on the prior half year, supported by Underlying Sales growth. The growth in Afterpay NTM was greater than the growth in Total Income as Receivables Impairment Expenses (Gross Loss) grew at a slower rate than revenue, reflecting Afterpay's continued enhancements of its proprietary risk management platform and the benefit of repeat customers.

The Group achieved EBITDA (excluding significant items) of $47.9 million for the half year ended 31 December 2020, up $40.2 million on the prior half year, driven by growth in Afterpay NTM which more than offset planned increased investment in Employment and Operating Expenses to support Afterpay's continued expansion.

The Group recorded a Loss after tax of $79.2 million for the half year ended 31 December 2020. The increase in the Loss after tax of $47.6 million from the half year ended 31 December 2019 was primarily driven by the net loss on financial liabilities at fair value of $64.8 million. This non-cash loss 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) held by ThinkSmart Limited. The increased liability is due to an increase in the valuation of Afterpay's UK operations from 30 June 2020, reflecting better than expected results for the period ended 31 December 2020, improvements to forecast future cash flows and increases in broader market valuations for similar businesses.

Table 1 Summary Financial Results

For the half year ended 31 December	2020 $m	2019 $m	Change $m	Change %
Total income	417.2	220.3	196.9	89%
Cost of sales	(110.3)	(55.4)	(54.9)	(99)%
Receivables impairment expenses	(72.1)	(47.8)	(24.3)	(51)%
Employment expenses	(62.6)	(36.0)	(26.6)	(74)%
Operating expenses	(130.4)	(80.6)	(49.8)	(62)%
Afterpay Net Transaction Margin [1]	**213.9**	**102.0**	**111.9**	**110%**
EBITDA (excl. significant items) [2,3]	**47.9**	**7.7**	**40.2**	**521%**
Loss before tax	**(76.2)**	**(35.8)**	**(40.4)**	**(113)%**
Loss after tax	**(79.2)**	**(31.6)**	**(47.6)**	**(151)%**

Change calculations may not equate due to rounding.
1. Net Transaction Margin is a non-IFRS measure that is not audited but is a key financial metric used by management.
2. One-off items of $4.5 million (2019: $6.3 million) and foreign currency losses of $1.5 million (2019: $1.0 million) are reported within Expenses but are not included in the calculation of EBITDA (excluding significant items). One-off items relate to international expansion costs, goodwill impairment, gain on dilution of shareholding in associate, business combination, and other one-off gains or costs.
3. 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 losses, share-based payment expenses, net loss on financial liabilities at fair value, share of loss of associate and one-off items.

2. Afterpay Platform Key Drivers

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

Table 2 Summary Platform Drivers

For the half year ended 31 December	2020	2019	Change	Change %
Underlying Sales ($m)	9,818.1	4,758.0	5,060.1	106%
Active Customers (millions)[1]	13.1	7.3	5.8	80%
Active Merchants ('000s)[1]	74.7	43.2	31.5	73%

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

2.1 Underlying Sales

Underlying Sales were $9.8 billion in the half year ended 31 December 2020, more than doubling the prior half year driven by strong growth across all regions. Underlying Sales in all regions benefited from greater acceptance from customers and merchants, and the accelerated shift towards online e-commerce driven by COVID-19.

Table 3 Underlying Sales

For the half year ended 31 December	2020	2019	Change %
ANZ	4,786.3	3,118.5	53%
North America	4,246.7	1,437.4	195%
UK	785.1	202.1	288%
Underlying Sales ($m)	**9,818.1**	**4,758.0**	**106%**

Change calculations may not equate due to rounding.

The North America region surpassed the ANZ region as the largest contributor to Underlying Sales in Q2 FY21. Overall, international regions (outside ANZ) contributed 51% to Underlying Sales for the half year, up from 34% in the prior half year.

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2.2 Active Customers

Afterpay ended the half year with over 13 million Active Customers[1], an increase of 80% on the prior half year, with the growth driven by newer, international regions where Afterpay continues to attract more new customers to the platform.

The average number of orders per active customer (otherwise referred to as customer frequency) continues to increase, particularly in ANZ, where average 12-month frequency across all active customers now exceeds 15x, 30% higher than the prior half year. The increase in customer frequency combined with the increase in Active Customers is driving the increase in Underlying Sales of 106%.

Table 4 Active Customers

For the half year ended 31 December	2020	2019	Change %
ANZ	3.4	3.1	10%
North America	8.1	3.6	127%
UK	1.6	0.6	161%
Active Customers (millions)	**13.1**	**7.3**	**80%**

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

Active Merchants[1] reached almost 75,000 by the end of the half year, an increase of more than 31,000, or 73%, on the prior half year. New merchants contracted or integrating during the half-year include:

> ANZ: Clear Skincare Clinics, Mitre 10 New Zealand, REISS. Strawberrynet, Glasshouse Fragrances, Lauren Simpson Fitness, END., The Gamesman, Bluebridge, and Vodafone NZ
> North America: Houzz, JackRabbit. Shoes.com, Dillard's, Ashley Stewart, UGG (instore), Steve Madden (instore) and Chubbies (instore)
> UK: Superdry UK, BLK BOX UK, Le Labo, Olive and Sage LTD, Face the Future, Arcadia Group Brands (Topshop, Topman, Miss Selfridge, Dorothy Perkins, Wallis), Signet Brands (Ernest Jones and H Samuel), Pandora, RIXO, Goop, FaceGym, Lounge Underwear, FOREO and Revolution Beauty.

Table 5 Active Merchants

For the half year ended 31 December	2020	2019	Change %
ANZ	53.6	35.5	51%
North America	17.9	7.4	141%
UK	3.3	0.4	812%
Active Merchants ('000s)	**74.7**	**43.2**	**73%**

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

3. Total Income by Service

Total Income for the Group was $417.2 million for the half year ended 31 December 2020, an increase of 89% on the prior half year. Afterpay generates income primarily from its Afterpay service, together with a smaller contribution from the Pay Now business, each of which are discussed separately below.

Table 6 Total Income

For the half year ended 31 December	2020	2019	Change %
Afterpay Total Income ($m) [1]	409.4	212.2	93%
Pay Now Revenue ($m)	7.8	8.1	(3)%
Total Income ($m)	**417.2**	**220.3**	**89%**

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

3.1 Afterpay

Afterpay Total Income is comprised of Afterpay Income and Other Income (Late Fees).

In the half year ended 31 December 2020, Afterpay Income increased by 108% on the prior half year to $374.2 million. Afterpay Income as a percentage of Afterpay Underlying Sales (Afterpay Income Margin) was 3.8% in the half year, flat to the prior half year.

Other Income (Late Fees) increased to $35.1 million from $32.6 million in the prior half year. Late Fees grew at a slower rate than the increase in Underlying Sales and are now less than 9% of Afterpay Total Income.

Table 7 Afterpay Total Income

For the half year ended 31 December	2020	2019	Change %
Afterpay Income ($m)	**374.2**	**179.6**	**108%**
% of Afterpay Underlying Sales	3.8%	3.8%	0.0 pp
Other Income ($m)	**35.1**	**32.6**	**8%**
% of Afterpay Total Income	8.6%	15.3%	-6.8 pp
Afterpay Total Income ($m)	**409.4**	**212.2**	**93%**

Change calculations may not equate due to rounding.

3.2 Pay Now

Pay Now Revenue declined by $0.3 million to $7.8 million for the half year ended 31 December 2020, due to the wind-down of the e-Services AU business and partially offset by higher services revenue.

4. Expenses

Expenses increased in the half year ended 31 December 2020 as the Group continued its growth and investment in customers and merchants in existing and new product initiatives and markets. The Group is well positioned and intends to amplify investment for growth in the second half of FY2021.

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

4.1 Cost of Sales

Cost of Sales for the half year ended 31 December 2020 was $110.3 million, up 99% on the prior half year, largely due to increased processing and other variable costs associated with higher Underlying Sales.

Cost of Sales represented 1.1% of Underlying Sales, in line with the prior half year, with the result in part due to benefits achieved from global payments partnerships which have offset the impact of a mix shift towards the North America region where transaction costs are typically higher.

Afterpay contributed $107.8 million to Cost of Sales in the period relative to $2.5 million for Pay Now.

Table 8 Cost of Sales

For the half year ended 31 December	2020	2019	Change %
Cost of Sales ($m)	**110.3**	**55.4**	**99%**
% of Afterpay Underlying Sales	1.1%	1.2%	-0.0 pp

Change calculations may not equate due to rounding.

4.2 Losses

4.2.1 Receivables Impairment Expense (Gross Loss)

Gross Loss was $72.1 million for the half year ended 31 December 2020, representing 0.7% of Underlying Sales and improving by 0.3 percentage points on the prior half year. Gross Loss improved despite a mix shift towards newer regions which are initially higher loss. Continued development of Afterpay's risk management techniques and the benefits and insights derived from returning customers (who intrinsically result in lower losses) continues to help Afterpay actively improve Gross Loss.

Table 9 Gross Loss

For the half year ended 31 December	2020	2019	Change %
Gross Loss ($m)	**72.1**	**47.8**	**51%**
% of Afterpay Underlying Sales	0.7%	1.0%	-0.3 pp

Change calculations may not equate due to rounding.

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4.2.2 Net Transaction Loss

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

NTL for the half year ended 31 December 2020 was $46.8 million, or 0.5% of Underlying Sales. NTL as a percentage of Underlying Sales was in line with the prior half year, with a reduction in Gross Loss offsetting a reduction in Other Income (Late Fees).

The NTL result was achieved notwithstanding increasing contribution from international regions where there is a larger proportion of new customers with higher loss rates.

Table 10 NTL

For the half year ended 31 December	2020	2019	Change %
NTL ($m)	**46.8**	**21.8**	**115%**
% of Afterpay Underlying Sales	0.5%	0.5%	0.0 pp

Change calculations may not equate due to rounding.

4.3 Employment Expenses

Employment Expenses were $62.6 million for the half year ended 31 December 2020, up 74% but declining as a percentage of Underlying Sales by 0.1 percentage points to 0.6%.

The growth in Employment Expenses in dollar terms reflected the Group's continued investment in talent to support Afterpay's growth, particularly across the sales, technology, and product functions. Headcount was added in all regions with the Group closing the half year with 930 employees globally, up from 462 employees at 31 December 2019 and 665 employees at 30 June 2020.

Afterpay plans to continue to invest in talent to drive new customer and merchant product initiatives and scale new markets.

Table 11 Employment Expenses

For the half year ended 31 December	2020	2019	Change %
Employment Expenses ($m)	**62.6**	**36.0**	**74%**
% of Afterpay Underlying Sales	0.6%	0.8%	-0.1 pp

Change calculations may not equate due to rounding.

4.4 Operating Expenses

Operating Expenses, which comprise Marketing and Other Operating Expenses, were $130.4 million for the half year ended 31 December 2020, up 62% on the prior half year. Operating Expenses represented 1.3% of Underlying Sales and were 0.4 percentage points lower than the prior half year. Marketing and Other Operating Expenses are each discussed in the sections below.

Table 12 Operating Expenses

For the half year ended 31 December	2020	2019	Change %
Operating Expenses ($m)	**130.4**	**80.6**	**62%**
% of Afterpay Underlying Sales	1.3%	1.7%	-0.4 pp

Change calculations may not equate due to rounding.

4.4.1 Marketing Expenses

Marketing Expenses were $69.2 million in the half year ended 31 December 2020, up by 116% but flat as a percentage of Underlying Sales compared to the prior half year. Marketing Expenses include both co-marketing initiatives with major enterprise merchant partners and other marketing spend such as digital paid media and visual merchandising, the latter of which supports Afterpay's instore growth.

The increase in Marketing Expenses in dollar terms was in line with the Group's statements at the previous year end to increase marketing spend and partner with major brand merchants to accelerate growth in Underlying Sales. Marketing Expenses also supported increased investment in brand, including the recent global Afterpay re-brand. Further investment in marketing will continue in the second half of FY2021.

Table 13 Marketing Expenses

For the half year ended 31 December	2020	2019	Change %
Marketing Expenses ($m)	**69.2**	**32.0**	**116%**
% of Afterpay Underlying Sales	0.7%	0.7%	0.0 pp

Change calculations may not equate due to rounding.

4.4.2 Other Operating Expenses

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

Other Operating Expenses were $61.2 million in the half year ended 31 December 2020, up 26% on the prior half year driven by increases in investments to support customer growth and technology infrastructure.

Table 14 Other Operating Expenses

For the half year ended 31 December	2020	2019	Change %
Other Operating Expenses ($m)	**61.2**	**48.6**	**26%**
% of Afterpay Underlying Sales	0.6%	1.0%	-0.4 pp

Change calculations may not equate due to rounding.

5. Margin & EBITDA

5.1 Net Transaction Margin – Afterpay

Net Transaction Margin (NTM) is a non-IFRS measure that is not audited but is a key financial metric used by management to track Afterpay's gross profit inclusive of losses and funding costs.

Afterpay NTM is comprised of Afterpay Income less Afterpay variable costs, including Cost of Sales (excluding Pay Now Cost of Sales), NTL, and finance costs associated with external receivables funding. Afterpay NTM was $213.9 million in the half year ended 31 December 2020, up 110% on the prior half year, and was stable at 2.2% as a percentage of Underlying Sales, reflecting a stable Afterpay Income margin and a stable NTL percentage.

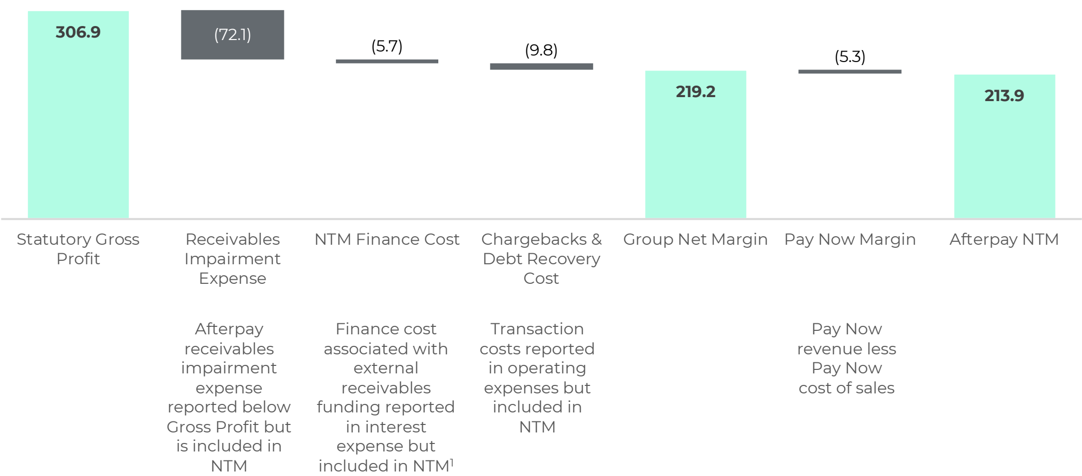
Table 15 Afterpay NTM

For the half year ended 31 December	2020	2019	Change %
Afterpay NTM ($m)	**213.9**	**102.0**	**110%**
% of Afterpay Underlying Sales	2.2%	2.1%	0.0 pp

Change calculations may not equate due to rounding.

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

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



1. Excludes amortisation of capitalised borrowing costs, lease expense and interest income. Methodology is consistent with prior periods.

5.2 EBITDA (excluding significant items)

The Group's EBITDA (excluding significant items) was $47.9 million in the half year ended 31 December 2020, up 521% on the prior half year. The increase in EBITDA (excluding significant items) was driven by growth in Underlying Sales, Afterpay Income, and Net Transaction Margin in the Afterpay business, partially offset by increased Employment and Operating Expenses to support strong Underlying Sales growth. EBITDA (excluding significant items) excludes $4.5 million of one-off items (2019: $6.3 million) and $1.5 million of foreign currency losses (2019: $1.0 million) that are reported within Expenses.

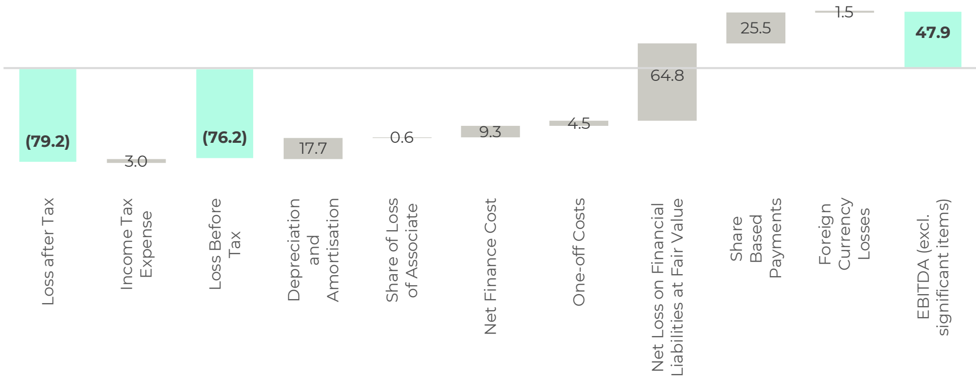
Table 16 EBITDA (excluding significant items)

For the half year ended 31 December	2020	2019	Change %
EBITDA (excl. significant items) ($m)	**47.9**	**7.7**	**521%**
% of Afterpay Underlying Sales	0.5%	0.2%	0.3 pp

Change calculations may not equate due to rounding.

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

Figure 2 Reconciliation from Loss 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 the growth in contribution from international markets outside of Australia.

Constant currency (CC) is provided to facilitate comparability of Afterpay's operational performance, excluding the impact of foreign currency fluctuations. Constant currency is a non-IFRS measure and has been calculated by translating the results for the half year ended 31 December 2020 at the effective exchange rates for the prior half year ended 31 December 2019 for each of Underlying Sales and Afterpay Income.

Table 17 Constant Currency

For the half year ended 31 December	2020 (CC)	2020	2019	Change in CC %	Reported change %
Underlying Sales ($m)	10,102.5	9,818.1	4,758.0	112%	106%
Afterpay Income ($m)	385.2	374.2	179.6	114%	108%

7. Financial Position

The Group's Net Assets increased to $1,725.6 million as at 31 December 2020, up from $946.4 million at 30 June 2020.

Total Assets were $2,136.6 million, an increase of $528.1 million, which is primarily due to the capital raising in July 2020 and the growth in Receivables (up $532.2 million). The increase in Receivables to $1,314.1 million at 31 December 2020 was due to the continued growth in Underlying Sales.

Total Liabilities were $410.9 million, a decrease of $251.2 million from 30 June 2020 primarily due to paydown in debt, offset by the increase in the Clearpay Put Option liability of $64.8m. The increased liability is due to an increase in the valuation of Afterpay's UK operations from 30 June 2020, reflecting better than expected results for the period ended 31 December 2020, improvements to forecast future cash flows and increases in broader market valuations for similar businesses.

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 31 December 2020 and to the date of this report, the Group's Balance Sheet and Liquidity position remains strong with the launch of new, and the extension of existing, warehouse funding facilities.

8.1 Net Cash / Debt

As at 31 December 2020, reported Net Cash was $338.3 million, comprising Total Cash of $460.5 million less Interest Bearing Loans and Borrowings of $122.1 million.

Reported Net Cash was $199.8 million higher than the last balance date due primarily to the capital raising in July 2020, partially offset by funding of growth in receivables.

Table 18 Net Cash / (Debt)

As at	31 Dec 2020 $m	30 Jun 2020 $m	Change $m
Cash and Cash Equivalents	458.8	606.0	(147.2)
Restricted Cash[1]	1.7	1.5	0.1
Total Cash	**460.5**	**607.6**	**(147.1)**
Interest Bearing Loans and Borrowings	(122.1)	(469.0)	346.9
Net Cash	**338.3**	**138.5**	**199.8**

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

8.2 Debt Funding

The Group's debt funding is diversified by both source and maturity. During the half year ended 31 December 2020, Afterpay:

> Extended the $200 million Australian receivables warehouse facility with Citi to December 2023; and

> Extended the US$200 million US receivables warehouse funding facility with Goldman Sachs to December 2022.

Subsequent to 31 December 2020, Afterpay:

> Established two new UK receivables warehouse facilities totalling £175 million ($310 million) to fund Clearpay, Afterpay's UK business. Each warehouse is for a 2-year term with maturities in February 2023. The Group's UK receivables warehouse funding facilities are provided by National Australia Bank (NAB) (£50 million) and Citi (£125 million). The size of warehouse capacity in the UK is higher than the £100 million warehouse facility indicated to the market in July 2020, reflecting strong interest from both existing and potential lenders and the current and expected future performance of the business; and

> Extended the $300 million Australian receivables warehouse funding facility with NAB to December 2023.

Afterpay has no debt maturity within the next 12 months (earliest maturity in March 2022), with an average debt facility maturity of ~2.1 years as at the date of this report.

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

Table 19 Debt funding sources

Facility	Region	Provider	Facility Size	Drawn	Maturity
Receivables Warehouse Facility	AU	Citi	A$200m	A$0m	Dec-23
Receivables Warehouse Facility	AU	NAB	A$300m	A$0m	Dec-23
Receivables Warehouse Facility	NZ	BNZ	NZ$50m	NZ$40m	Mar-22
Receivables Warehouse Facility	US	Citi	US$200m	US$28m	May-22
Receivables Warehouse Facility	US	GS	US$200m	US$35m	Dec-22
Receivables Warehouse Facility[1]	UK	Citi	£125m	£0m	Feb-23
Receivables Warehouse Facility[1]	UK	NAB	£50m	£0m	Feb-23

1. UK facilities were completed in Q3 FY21.

8.3 Liquidity & Growth Capacity

The Group maintains a strong liquidity position and capacity to fund future growth. Liquidity for Afterpay is calculated as:

> the Cash and Cash Equivalents balance; plus
> undrawn available capacity under receivables warehouse facilities.

Afterpay had Liquidity of $1,351.2 million as at 31 December 2020, and $1,438.2 million on a pro forma basis inclusive of the new UK facilities which were completed in Q3 FY21.

The nature of Afterpay's warehouse facilities is that funds become available in line with the growth in consumer 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 $54.2 million at 31 December 2020, and $277.2m on a pro forma basis inclusive of the new UK facilities. The combination of Liquidity and Growth Capacity was $1,715.4 million on a pro forma basis inclusive of the new UK facilities, which provides Afterpay with the ability to fund in excess of $26 billion in annualised Underlying Sales above the current annualised Underlying Sales run-rate of $23 billion (Q2 FY21 annualised).

Table 20 Liquidity and Growth Capacity

As at	31 Dec 20 $m	30 Jun 20 $m	Change $m
Cash	458.8	606.0	(147.2)
Undrawn warehouse capacity	892.4	122.4	770.1
Liquidity	**1,351.2**	**728.4**	**622.8**
Growth capacity	54.2	541.8	(487.6)
Total Liquidity & Growth Capacity	**1,405.4**	**1,270.2**	**135.2**
UK - undrawn warehouse capacity[1]	86.9	-	86.9
Pro Forma Liquidity	**1,438.2**	**728.4**	**709.8**
UK - growth capacity[1]	223.0	-	223.0
Pro Forma Liquidity & Growth Capacity	**1,715.4**	**1,270.2**	**445.2**

1. UK facilities were completed in Q3 FY21.

9. Other

This Operating and Financial Review in this Half Year Report should be read in conjunction with the 2020 Annual Report.

Afterpay plans to continue investment to support continued growth in customers and merchants in existing and new products and markets.

As previously disclosed, on 21 August 2020, a wholly owned subsidiary of the Group entered into a Share Purchase Agreement (SPA) with NBQ Corporate SLU (NBQ) to acquire 100% of the shares outstanding and voting rights in Pagantis SAU and PMT Technology SLA (collectively, Pagantis). The acquisition will accelerate the Group's planned launch into Europe. Pagantis currently provides a range of buy now, pay later and traditional credit services across Spain, France and Italy, with regulatory approval to also operate in Portugal and a pending application to passport its payment institution licence into Germany. Completion of the acquisition is expected to occur before 31 March 2021 and is subject to certain conditions being satisfied, principally regulatory approval for the acquisition being granted by the Bank of Spain.

The acquisition of Setelah Bayer Pte Ltd, a Singapore-based holding company for a buy now, pay later financial services business operating in Indonesia through its subsidiary PT EmpatKali Indonesia (collectively, EmpatKali), was completed on 31 August 2020. Business plans and strategies have been developed with the local management team.

Afterpay also continues to develop its new money management services, following the Collaboration Agreement with Westpac, as announced to the market on 20 October 2020. The new offerings will replicate the simplicity and transparency of the existing Afterpay service and will enable customers to have greater control over their budget, with an efficient and seamless digital user experience.

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.

Afterpay ended the half year with over 13 million Active Customers[1], an increase of 80% on the prior half year, with the growth driven by newer, international regions where Afterpay continues to attract more new customers to the platform.

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

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 Period

With the exception of the items listed below, no other matters or circumstances have occurred subsequent to 31 December 2020 that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Consumer receivables warehouse funding facilities

In February 2021, the Group completed two new UK consumer receivables warehouse facilities totalling £175 million ($310 million) to provide funding for Clearpay (Clearpay consumer receivables warehouse funding facilities). Each warehouse is for a 2-year term with maturities in February 2023. The Clearpay consumer receivables warehouse funding facilities are provided by National Australia Bank (NAB) (£50 million) and Citi (£125 million) and are secured against Afterpay UK consumer receivables, which are transferred into the facility.

Had the Clearpay consumer receivables warehouse funding facilities been in place at 31 December 2020, the Group's Total Debt Facility Limit would have been $1,375.8 million (31 December 2020: $1,065.8 million).

In addition, in January 2021, Afterpay extended the $300 million Australian consumer receivables warehouse funding facility with NAB from 1 December 2022 to 1 December 2023, increasing the Group's Facility Maturity Profile to 2.1 years at 25 February 2021 from 2.0 years at 31 December 2020.

Matrix Convertible Notes

On 25 February 2021, Afterpay entered into an agreement with Matrix Partners X L.P and Weston & Co X LLC (Matrix Transaction) to extinguish 35% of the Matrix Convertible Notes for approximately $385 million in cash. The Matrix Transaction is expected to complete prior to 31 March 2021 (the completion period). The final price will be determined prior to the end of the completion period.

Following completion of the Matrix Transaction, the number of Afterpay shares that may be issued upon conversion of the remaining Matrix Convertible Notes will be calculated based on 6.5% of the future value of Afterpay US, Inc. in excess of US$50 million. All other terms of the Matrix Convertible Notes will remain unchanged (refer to Note 4 of the Financial Statements). The maximum number of shares in APT that may be issued 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.

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Dividends

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

Sustainability

Afterpay understands the importance of considering the impact of environmental and social factors on the sustainability of its businesses. Pages 19 to 23 of the 2020 Annual Report 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

The Board monitors the operational and financial position and performance of Afterpay Limited and oversees its business strategy, including approving the strategic goals of the Group and considering and approving its annual business plan and associated budget. The Board is committed to generating appropriate levels of shareholder value and financial return and achieving the growth and success of the Group.

In conducting the Group's business in line with these objectives, the Board acts at all times in a manner designed to create and continue to build sustainable value for Afterpay's customers, merchants, and shareholders. The Board seeks to ensure that the Group is properly managed to protect and enhance all stakeholder interests and that the Group, its Directors, officers and personnel operate in an appropriate environment of corporate governance. Accordingly, the Board has adopted a framework of corporate governance including risk management practices and internal controls that it believes appropriate for the Group's businesses.

Details of the Group's key policies and the charters for the Board and each of the committees are available at https://corporate.afterpay.com/investors/corporate-governance.

Afterpay has processes in place to verify the integrity of periodic corporate reports prepared for the benefit of investors, including this Directors' Report for the half year ended 31 December 2020. The periodic corporate report is:

- prepared by the function with the relevant subject matter expertise, with cross-functional input provided where required;
- reviewed by the senior executives responsible for those functions to ensure the content of the report is accurate (and any financial information or data has been verified);
- reviewed by the Investor Relations team to ensure consistency with Afterpay's financial disclosures and other publicly available information and to consider the timing of the release of the report; and
- approved by the Board prior to the release of the report.

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Indemnification of Auditor

To the extent permitted by law, the Group has agreed to indemnify its auditor, 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*.

Auditor Independence

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

Rounding Off of Amounts

The amounts contained in this report 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

Chair, Independent Non-Executive Director
Melbourne
25 February 2021

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Auditor's independence declaration to the directors of Afterpay Limited

As lead auditor for the review of the half-year financial report of Afterpay Limited for the half-year ended 31 December 2020, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Fiona Campbell
Partner
25 February 2021

Financial statements.

Active Merchants[1] reached almost 75,000 by the end of the half year, an increase of more than 31,000, or 73%, on the prior half year.

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

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Consolidated statement of comprehensive income

For the half year ended 31 December	Note	2020 $'000	2019 $'000
Afterpay income		374,245	179,618
Pay Now revenue		7,834	8,090
Other income		35,126	32,567
Total income		**417,205**	**220,275**
Cost of sales		(110,348)	(55,416)
Gross profit		**306,857**	**164,859**
Depreciation and amortisation expenses	2	(17,742)	(13,788)
Employment expenses	2	(62,589)	(36,020)
Share-based payment expenses		(25,536)	(13,647)
Receivables impairment expenses	5	(72,133)	(47,803)
Net loss on financial liabilities at fair value	8	(64,802)	(912)
Operating expenses	2	(130,358)	(80,606)
Operating loss		**(66,303)**	**(27,917)**
Share of loss of associate		(558)	-
Finance income		625	713
Finance costs		(9,929)	(8,588)
Loss before tax		**(76,165)**	**(35,792)**
Income tax (expense)/benefit	3	(3,046)	4,226
Loss after tax		**(79,211)**	**(31,566)**
Other comprehensive income/(loss)			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods (net of tax)			
Exchange differences on translation of foreign operations		(49,112)	493
Total comprehensive loss for the period, net of tax		**(128,323)**	**(31,073)**
Loss attributable to			
Owners of Afterpay Limited		(76,492)	(28,906)
Non-controlling interests		(2,719)	(2,660)
Earnings per share for loss attributable to the ordinary shareholders of the company	4	$	$
Basic loss per share		(0.27)	(0.11)
Diluted loss per share		(0.27)	(0.11)

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	Note	31 December 2020 $'000	30 June 2020 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		458,795	606,041
Receivables	5	1,314,054	781,895
Other financial assets		13,121	10,660
Other assets		13,735	6,695
Total Current Assets		**1,799,705**	**1,405,291**
Non-Current Assets			
Property, plant and equipment		5,013	5,127
Right-of-use assets		3,237	6,999
Intangible assets		122,942	106,589
Deferred tax assets	3	177,590	78,291
Investment in associate		21,470	5,166
Other financial assets		182	893
Other assets		6,422	170
Total Non-Current Assets		**336,856**	**203,235**
TOTAL ASSETS		**2,136,561**	**1,608,526**
LIABILITIES			
Current Liabilities			
Trade and other payables		204,038	180,730
Employee benefit provision		6,467	5,279
Contract liabilities		1,590	224
Interest bearing loans and borrowings	7	3,686	4,278
Other financial liabilities	8	1,609	1,883
Income tax payable		2,021	1,158
Total Current Liabilities		**219,411**	**193,552**
Non-Current Liabilities			
Employee benefit provision		655	513
Other provisions		568	305
Contract liabilities		3,091	-
Other financial liabilities	8	68,770	3,038
Interest bearing loans and borrowings	7	118,454	464,767
Total Non-Current Liabilities		**191,538**	**468,623**
TOTAL LIABILITIES		**410,949**	**662,175**
NET ASSETS		**1,725,612**	**946,351**
EQUITY			
Issued capital		1,784,937	975,317
Accumulated losses		(166,847)	(90,355)
Reserves		106,692	58,711
Equity attributable to the owners of Afterpay Limited		**1,724,782**	**943,673**
Non-controlling interest		830	2,678
TOTAL EQUITY		**1,725,612**	**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 half year ended 31 December 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 2020	**975,317**	**(90,355)**	**(18,725)**	**77,436**	**943,673**	**2,678**	**946,351**
Loss after tax	-	(76,492)	-	-	**(76,492)**	(2,719)	**(79,211)**
Other comprehensive income	-	-	(49,112)	-	**(49,112)**	-	**(49,112)**
Total comprehensive loss for the period	**-**	**(76,492)**	**(49,112)**	**-**	**(125,604)**	**(2,719)**	**(128,323)**
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 issue expenses (net of tax)	(11,741)	-	-	-	**(11,741)**	-	**(11,741)**
Share options exercised (net of tax)	33,457	-	-	78,378	**111,835**	345	**112,180**
Share-based payments	-	-	-	18,715	**18,715**	526	**19,241**
At 31 December 2020	**1,784,937**	**(166,847)**	**(67,837)**	**174,529**	**1,724,782**	**830**	**1,725,612**

For the half year ended 31 December 2019	Issued Capital $'000	Accumulated Losses $'000	Foreign Currency Translation Reserve $'000	Other Reserves $'000	Total $'000	Non-Controlling Interest $'000	Total $'000
At 1 July 2019	**674,769**	**(70,575)**	**(821)**	**42,186**	**645,559**	**2,957**	**648,516**
Loss after tax	-	(28,906)	-	-	**(28,906)**	(2,660)	**(31,566)**
Other comprehensive income	-	-	493	-	**493**	-	**493**
Total comprehensive loss for the period	**-**	**(28,906)**	**493**	**-**	**(28,413)**	**(2,660)**	**(31,073)**
Transactions							
Issue of share capital	200,000	-	-	-	**200,000**	-	**200,000**
Share issue expenses (net of tax)	(1,843)	-	-	-	**(1,843)**	-	**(1,843)**
Share options exercised (net of tax)	5,936	-	-	4,454	**10,390**	954	**11,344**
Share-based payments	-	-	-	12,675	**12,675**	972	**13,647**
At 31 December 2019	**878,862**	**(99,481)**	**(328)**	**59,315**	**838,368**	**2,223**	**840,591**

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

Consolidated statement of cash flows

For the half year ended 31 December	2020 $'000	2019 $'000
Cash flows from operating activities		
Receipts from customers	8,443,811	4,117,506
Payments to employees	(64,769)	(40,021)
Payments to merchants and suppliers	(8,905,608)	(4,415,311)
Income taxes paid	(227)	(4,260)
Net cash outflow from operating activities	**(526,793)**	**(342,086)**
Cash flows from investing activities		
Interest received	531	748
Increase in short-term deposits	(6,521)	-
Payments for development of intangible assets	(28,558)	(18,368)
Purchase of intangibles	(72)	(161)
Purchase of plant and equipment	(1,342)	(808)
Acquisition of subsidiaries, net of cash acquired	(201)	-
Contributions to associate	(15,000)	-
Net cash outflow from investing activities	**(51,163)**	**(18,589)**
Cash flows from financing activities		
Proceeds from borrowings	466,687	704,652
Repayment of borrowings	(812,940)	(342,097)
Increase in restricted cash	(131)	(22,644)
Proceeds from exercise of share options	18,910	4,385
Proceeds from issue of shares, net	786,167	200,000
Capital raising expenses	(17,447)	(4,575)
Payment of lease liabilities	(2,835)	(2,372)
Interest and bank fees paid	(5,875)	(7,575)
Net cash inflow from financing activities	**432,536**	**529,774**
Net (decrease)/increase in cash and cash equivalents	(145,420)	169,099
Foreign exchange on cash balance	(1,826)	1,937
Cash and cash equivalents at beginning of the period	606,041	231,456
Cash and cash equivalents at end of the period [1]	**458,795**	**402,492**

1. Excludes $1.7 million in restricted cash (30 June 2020: $1.5 million)

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

Notes to the financial statements

Group performance

1. 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 the Global 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 platform in the United Kingdom;
- **Pay Now:** Comprises Mobility, Health and e-Services; and
- **Corporate:** Comprises Group expenses that are not directly attributable or allocated to the Afterpay, Clearpay or Pay Now segments.

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

The number of operating segments has increased from the 31 December 2019 half year financial statements as a reflection of the growth of the Clearpay business (previously included within Afterpay Other) and changes to reporting reviewed by the CODMs (Afterpay New Zealand was previously included within Afterpay Other but is now managed within Afterpay Asia Pacific). Afterpay Canada, which launched in August 2020, has been combined with Afterpay US to form Afterpay North America. In addition, Afterpay ANZ has been renamed to Afterpay Asia Pacific to reflect changes to the Group's operating model during the period. The 2019 comparatives have been restated in line with the current year presentation.

The Group continuously reviews its global operating model, financial reporting systems and relevant financial measures reviewed by the CODMs for decision making purposes in light of its expansion into markets outside of Australia. The Group's reportable operating segments may change in the future in line with this expansion and review.

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

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For the half year ended 31 December 2020	Afterpay Asia Pacific $'000	Afterpay North America $'000	Clearpay $'000	Pay Now $'000	Corporate $'000	Total Segments $'000
Total segment income[1]	**208,615**	**163,375**	**37,381**	**7,834**	**-**	**417,205**
Segment results						
Segment EBITDA (excl. significant items)[2]	**113,296**	**(45,202)**	**6,504**	**4,873**	**(31,602)**	**47,869**
Foreign currency gains/(losses)						(1,548)
Share-based payment expenses						(25,536)
Net loss on financial liabilities at fair value						(64,802)
Share of loss of associate						(558)
One-off items						(4,544)
EBITDA						**(49,119)**
Depreciation and amortisation						(17,742)
Net finance cost						(9,304)
Loss before tax						**(76,165)**
Income tax expense						(3,046)
Loss after tax						**(79,211)**

For the half year ended 31 December 2019[3]	Afterpay Asia Pacific $'000	Afterpay North America $'000	Clearpay $'000	Pay Now $'000	Corporate $'000	Total Segments $'000
Total segment income[1]	**146,218**	**56,592**	**9,375**	**8,090**	**-**	**220,275**
Segment results						
Segment EBITDA (excl. significant items)[2]	**67,690**	**(30,661)**	**(10,867)**	**2,789**	**(21,242)**	**7,709**
Foreign currency losses						(958)
Share-based payment expenses						(13,647)
Net loss on financial liabilities at fair value						(912)
One-off items						(6,321)
EBITDA						**(14,129)**
Depreciation and amortisation						(13,788)
Net finance cost						(7,875)
Loss before tax						**(35,792)**
Income tax benefit						4,226
Loss after tax						**(31,566)**

1. Total segment income includes Afterpay income, Pay Now revenue and Other income, which relates to Afterpay's late fees.
2. Segment EBITDA (excluding significant items) excludes the impact of share-based payment expenses, foreign currency losses, net loss on financial liabilities at fair value, share of loss of associate and one-off items. No government grants or benefits relating to COVID-19 have been recognised in the period (2019: nil).
3. The prior period comparative has been restated to be comparable with the current period segment classifications.

2. Expenses

For the half year ended 31 December	Note	2020 $'000	2019 $'000
Depreciation and amortisation expenses			
Depreciation[1]		(4,906)	(3,550)
Amortisation[1]		(12,836)	(10,238)
Total depreciation and amortisation expenses		**(17,742)**	**(13,788)**
Employment expenses			
Wages and salaries		(54,273)	(30,690)
Employee on-costs		(8,316)	(5,330)
Total employment expenses		**(62,589)**	**(36,020)**
Operating expenses			
Debt recovery costs, including chargebacks		(9,838)	(6,548)
Consulting and contractor costs		(24,193)	(17,220)
Marketing expenses		(69,173)	(31,973)
Communication and technology		(14,506)	(7,883)
Operating lease expenses[2]		(144)	(361)
Foreign currency losses		(1,548)	(958)
AUSTRAC related costs		-	(3,026)
Goodwill impairment	6	(2,355)	-
Gain on dilution of shareholding in associate	10	1,862	-
General and administrative expenses		(10,463)	(12,637)
Total operating expenses		**(130,358)**	**(80,606)**

1. Depreciation expense relating to Right of Use assets of $2.5 million has been reclassified from Amortisation to Depreciation for the half year ended 31 December 2019.
2. Includes expenses relating to short-term leases and leases of low value assets.

3. Taxation

Income tax expense

For the half year ended 31 December	2020 $'000	2019 $'000
The major components of Income tax expense:		
Current income tax		
Current Income tax expense	(22,523)	(12,210)
Deferred income tax		
Relating to origination/reversal of temporary differences	19,477	16,436
Income tax (expense)/benefit	**(3,046)**	**4,226**

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Statement of changes in equity

For the half year ended 31 December	2020 $'000	2019 $'000
Current income tax related to share-based payments	(100,623)	(6,887)
Deferred income tax related to capital raising costs	(5,032)	(709)
Total income tax related to items credited directly to equity	**(105,655)**	**(7,596)**

Deferred income tax

As at	31 December 2020 $'000	30 June 2020 $'000
Deferred income tax relates to the following:		
Deferred tax liabilities		
Capitalisation of development expenditure	2,405	-
Prepayments	37	112
Customer contracts	616	1,530
Unrealised foreign exchange	732	1,331
Deferred receivables	6,906	5,772
Other	45	2,200
Gross deferred tax liabilities	**10,741**	**10,945**
Deferred tax assets		
Capitalisation of development expenditure	3,180	708
Employee benefits	4,991	5,768
Other provisions	1,026	580
Capital raising costs	7,282	3,314
Research and development tax offsets	891	1,000
Property, plant and equipment	742	640
Provision for expected credit losses	19,869	10,028
Deferred receivables	3,833	2,583
Losses	144,424	63,434
Other	2,093	1,181
Gross deferred tax assets	**188,331**	**89,236**
Net deferred tax assets	**177,590**	**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 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. There is a history of losses in all tax jurisdictions in which Afterpay operates.

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. The amounts recognised reflect the Group's best judgement and estimates of the probability, timing and extent of future profits.

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.

4. Earnings per share (EPS)

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

For the half year ended 31 December	2020 $'000	2019 $'000
Loss attributable to owners of Afterpay Limited for basic earnings	**(76,492)**	**(28,906)**
	No.'000	No.'000
Weighted average number of ordinary shares for basic EPS	282,233	253,307
Adjustment for calculation of diluted EPS[1]	3,716	11,806
Weighted average number of ordinary shares adjusted for the effect of dilution	**285,949**	**265,113**

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

Basic EPS amounts are calculated by dividing the loss after tax for the period attributable to ordinary shareholders of Afterpay Limited by the weighted average number of ordinary shares outstanding during the period. During the period, the Group completed a $786.2 million capital raising, which comprised a $650.0 million Institutional Placement and a $136.2 million Share Purchase Plan. This resulted in the issuance of 11.9 million shares.

Diluted EPS amounts are calculated by dividing the loss attributable to ordinary shareholders 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 by the Group under the Matrix Convertible Notes, Clearpay Put and Call Option, US ESOP, UK ESOP and EmpatKali Contingent Consideration. Further detail on these arrangements is detailed 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. The maximum number of APT shares which may be issued on conversion or exchange for each arrangement is detailed below.

Matrix Convertible Notes

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

The number of APT shares which may be issued on conversion is determined by a conversion value calculated based on 10% of the future value of Afterpay US, Inc. in excess of US$50 million (to be determined by an independent valuation at the time of conversion) divided by the volume weighted average price ('VWAP') of APT shares over the 30 trading days up to (but excluding) the date on which an exercise notice is delivered.

The maximum number of shares in APT that may be issued on conversion of the Matrix Convertible Notes is capped at 21,777,661 being 10% of the number of APT shares on issue at the date the Matrix Convertible Notes were issued. This now equates to less than 8% of current APT shares on issue due to subsequent share issues since the Matrix Convertible Notes were issued. The Group considers it unlikely that the maximum number of APT shares would be issued on conversion because for this to happen it would mean that the value of APT (excluding Afterpay US, Inc.) is negligible or very low in comparison to the assessed value of Afterpay US, Inc.

Subsequent to 31 December 2020 Afterpay entered into an agreement with Matrix Partners X L.P and Weston & Co X LLC (Matrix Transaction) to extinguish 35% of the Matrix Convertible Notes. See Note 13 for further details.

Clearpay Put and Call Option

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

APT has the right to exercise the call option earlier than 5 years from the abovementioned date of completion in the event of a change of control of either APT or ThinkSmart. APT may also exercise the call option early on certain events of default or insolvency events in relation to ThinkSmart, in which case the exercise price will be based on Clearpay's net tangible assets instead of the valuation principles described below.

Consideration for the remaining Clearpay shares held by ThinkSmart at the time of exercise of the put or call option will be determined by agreement, or failing agreement, by an independent expert valuation of Clearpay shares. Consideration may be paid by the Group in cash or APT shares, at APT's election. The number of APT shares that may be issued and exchanged as consideration for the remaining Clearpay shares will be based on the value of the remaining Clearpay shares divided by the volume weighted average price (VWAP) of APT shares over the 5 trading days up to the date of option exercise. The maximum number of APT shares that may be issued or exchanged for the remaining Clearpay shares held by ThinkSmart as a result of its exercise of the put option is capped at 5% of APT shares on issue at the time of exchange.

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US ESOP

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

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

The maximum number of APT shares that can be issued under the US ESOP in exchange for exercised shares cannot exceed 21,777,661 APT shares, being 10% of the number of APT shares on issue at the date the Matrix Convertible Notes were issued. This now equates to less than 8% of current APT shares on issue due to subsequent share issues since the Matrix Convertible Notes were issued.

For the reasons set out above in respect of the Matrix Convertible Notes, the Group considers it unlikely that the maximum number of APT shares would be issued upon exchange.

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 will not dilute Afterpay's 90% shareholding in Clearpay.

On vesting and 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 8,039,024, being 3% of APT shares on issue at the date of adoption of the UK ESOP Rules on 24 June 2020. The Group considers it unlikely that the maximum number of APT shares across the Clearpay Put and Call Option (with a cap of 5% as outlined above) and the UK ESOP (with a cap of 3% as outlined in this section) would be issued because for this to happen it would necessarily mean that the value of APT (excluding Clearpay) is negligible or very low in comparison to the assessed value of Clearpay at the time of exchange.

EmpatKali Contingent Consideration

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).

US$0.5 million (subject to any final adjustments to the acquired net assets) in consideration remains outstanding and will be settled via APT shares, contingent upon the Indonesian Business Licence being received by 1 September 2021. The number of APT shares which may be issued on conversion is determined using the VWAP of APT shares for each of the 30 trading days up to and including the trading day before the date the Indonesian Business License is received.

Assets and liabilities

5. Receivables

As at	31 December 2020 $'000	30 June 2020 $'000
Consumer receivables - face value	1,390,385	816,812
Consumer receivables - recognised over time[1]	(27,797)	(16,678)
Consumer receivables	**1,362,588**	**800,134**
Trade and other receivables	21,199	15,712
Total receivables before provision for expected credit losses	**1,383,787**	**815,846**
Provision for expected credit losses		
Opening balance	(33,951)	(27,760)
Provided in the period	(72,133)	(94,493)[2]
Written off/collected	36,351	88,302[2]
Total provision for expected credit losses	**(69,733)**	**(33,951)**
Total receivables	**1,314,054**	**781,895**

1. Recognised over time represents the consumer transactions completed by period end but earned over the collection period of the consumer receivables.
2. Amounts provided for and written off/collected during the year ended 30 June

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. The global impact of the COVID-19 pandemic remains uncertain and represents a material downside risk to the economy. However, the Group's collections subsequent to period end have not deteriorated relative to past experience. Consistent with 30 June 2020, the Group continues to incorporate judgements, estimates and assumptions specific to the impact of COVID-19, where relevant, in the measurement of ECL.

The assumptions and methodologies applied are reviewed regularly.

6. Goodwill

As at	Note	Afterpay Asia Pacific $'000	Clearpay $'000	Pay Now $'000	Total $'000
Goodwill					
1 July 2020		21,220	16,232	2,355	39,807
Additions – acquisition of subsidiary	9	1,970	-	-	1,970
Impairment		-	-	(2,355)	(2,355)
31 December 2020		**23,190**	**16,232**	**-**	**39,422**

Significant accounting judgements, estimates and assumptions

Goodwill is tested for impairment at least annually. The impairment assessment requires management judgement with respect to an estimate of the value in use (VIU) 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.

An assessment of the key assumptions used in the VIU calculation for each CGU has been undertaken at 31 December 2020. Other than as detailed below for the Pay Now CGU, there have been no significant changes to the key assumptions during the period.

Pay Now impairment

During the period ended 31 December 2020, 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 2).

7. Interest bearing loans and borrowings

As at	31 December 2020 $'000	30 June 2020 $'000
Secured interest bearing borrowings	117,369	461,444
Matrix Convertible Notes	139	156
Total interest bearing borrowings	**117,508**	**461,600**
Lease liabilities	4,632	7,445
Total interest bearing loans and borrowings	**122,140**	**469,045**
Total Current	3,686	4,278
Total Non-Current	118,454	464,767
Total interest bearing loans and borrowings	**122,140**	**469,045**

Secured interest bearing borrowings

The Group's Australian receivables warehouse funding facility totalling $500.0 million (30 June 2020: $500.0 million) is provided by National Australia Bank (NAB) ($300.0 million) and Citi ($200.0 million) and is secured against Afterpay AU consumer receivables, which are transferred into the facility. As at 31 December 2020, the carrying value of Afterpay AU consumer receivables is $571.2 million (30 June 2020: $368.0 million) and the facilities are undrawn (30 June 2020: $155.0 million drawn). For the period ended 31 December 2020, drawings under these facilities incurred a weighted average interest rate of 1.7% p.a. (2019: 2.5%). Subsequent to the extension of the NAB facility in January 2021 (see Note 13), both facilities mature in December 2023 (30 June 2020: December 2022).

The Group's US receivables warehouse funding facilities totalling US$400.0 million ($519.0 million) (30 June 2020: US$400.0 million or $582.8 million) are provided by Citi (US$200.0 million) and Goldman Sachs (US$200.0 million). The facilities are secured against Afterpay US consumer receivables, which are transferred into the facility. At 31 December 2020, the carrying value of Afterpay US consumer receivables is US$449.3 million ($583.0 million) (30 June 2020: $329.9 million) and the facilities have US$63.0 million ($81.7 million) drawn (30 June 2020: $287.1 million). For the period ended 31 December 2020, drawings under these facilities incurred a weighted average interest rate of 2.7% p.a. (2019: 3.7%). The Citi facility matures in May 2022 (30 June 2020: May 2022) and the Goldman Sachs facility matures in December 2022 (30 June 2020: December 2021).

The Group's New Zealand receivables warehouse funding facility totalling NZ$50.0 million ($46.8 million) (30 June 2020: NZ$50.0 million or $46.7 million) is provided by Bank of New Zealand (BNZ). The facility is secured against Afterpay NZ consumer receivables, which are transferred into the facility. As at 31 December 2020, the carrying value of Afterpay NZ consumer receivables is NZ$63.8 million ($59.7 million) (30 June 2020: $35.4 million), and the facility has NZ$40.0 million ($37.4 million) drawn (30 June 2020: $23.4 million). For the period ended 31 December 2020, drawings under this facility incurred a weighted average interest rate of 1.6% p.a. (2019: N/A). The facility matures in March 2022 (30 June 2020: March 2022).

The Group has capitalised $2.1 million of borrowing costs during the period ended 31 December 2020 (2019: $6.3 million).

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

Matrix Convertible Notes

On 19 January 2018, Afterpay US, Inc. issued two convertible notes to Matrix Partners X L.P and Weston & Co X LLC (Matrix Convertible Notes). The Matrix Convertible Notes have a carrying value of US$0.1 million, carry a fixed interest rate of 6.0% for a 7-year maximum term and may be converted into APT shares in certain circumstances (subject to a cap) between 5 and 7 years from the date of issue of the notes (being 19 January 2018), with conversion at the noteholder's election. Further detail in respect of the Matrix Convertible Notes, including the conversion mechanism and maximum dilution impact, is outlined in Note 4.

Lease liabilities

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

8. Other financial liabilities

As at	Note	31 December 2020 $'000	30 June 2020 $'000
Exercised options not yet settled		883	1,672
Clearpay Put Option	4	67,840	3,038
EmpatKali Contingent Consideration	4,9	649	-
Other		1,007	211
Total other financial liabilities		**70,379**	**4,921**
Total Current		1,609	1,883
Total Non-Current		68,770	3,038
Total other financial liabilities		**70,379**	**4,921**

Clearpay Put Option

As outlined in Note 4, the Group has a call option to acquire the remaining Clearpay Finance Limited (Clearpay) shares held by ThinkSmart Limited (ThinkSmart), which is exercisable any time after 5 years from the date of completion of the acquisition of 90% of Clearpay (being 23 August 2018). If the Group does not exercise its call option within that period, then ThinkSmart has a put option to sell the remaining shares it holds in Clearpay to the Group, exercisable any time after 5.5 years from the abovementioned date of completion (Clearpay Put Option).

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Significant accounting judgements, estimates and assumptions

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

The valuation is determined using the valuation principles outlined in the Clearpay Share Purchase Agreement which requires the valuation of Clearpay as a stand-alone entity. 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 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 valuation is then derived by discounting the cashflow projections to present value using a discount rate that reflects current market conditions, external analyst views, industry benchmarks, and, where available, the underlying businesses cost of debt and/or equity.

Because the valuation is determined using cash flow inputs that are not based on observable market data, it is considered to be level 3 within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

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 31 December 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Clearpay Put Option	-	-	67,840	**67,840**
EmpatKali Contingent Consideration	-	649	-	**649**
Total financial liabilities at fair value	**-**	**649**	**67,840**	**68,489**

As at 30 June 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Clearpay Put Option	-	-	3,038	**3,038**
Total financial liabilities at fair value	**-**	**-**	**3,038**	**3,038**

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

As at	31 December 2020 $'000
Opening balance	3,038
Net loss on financial liabilities at fair value recognized in the Consolidated Statement of Comprehensive Income	64,802
31 December 2020	**67,840**

The most significant inputs into the valuation are as follows:

As at 31 December 2020	Clearpay Put Option
Discount rate	42.7%
Revenue multiple beyond 5 years	12.5x

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):

Judgements of reasonably possible movements:	31 December 2020 $'000
Discount rate	
-2.5% (250 basis points)	5,499
+2.5% (250 basis points)	(5,279)
Revenue multiple beyond 5 years	
-1.0x	(5,517)
+1.0x	5,218

Increases/(decreases) in the fair value of the liability has a corresponding (loss)/gain in the Consolidated Statement of Comprehensive Income.

Group structure

9. Business combinations

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$2m (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. $0.6 million has been recorded in Other financial liabilities in the Consolidated Statement of Financial Position to reflect this (see Note 8).

The acquisition of EmpatKali met the recognition criteria for consolidation from the EmpatKali Completion Date. The financial statements for the period ended 31 December 2020 therefore included the EmpatKali results from the EmpatKali Completion Date. If the acquisition had taken place on 1 July 2020, EmpatKali would have contributed approximately $0.9 million in statutory losses to the Group's results.

The transaction resulted in the acquisition of provisional net assets with a fair value of $0.7 million and provisional goodwill of $2.0 million (see Note 6). The goodwill comprises the value of expected synergies arising from the acquisition, as well as the value attributed to the existing EmpatKali workforce, which are not able to be separately recognised under the criteria established in AASB 138. The goodwill has been allocated to the Afterpay Asia Pacific CGU. None of the goodwill is expected to be deductible for income tax purposes.

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10. 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 31 December 2020	30 June 2020
Afterpay Holdings Pty Ltd	Australia	100%	100%
Afterpay Australia Pty Ltd	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)	Australia	100%	100%
Afterpay US, Inc. [1]	United States	95%	96%
Afterpay Receivables Warehouse-C LLC [2]	United States	95%	96%
Afterpay Receivables Warehouse-GS LLC [2]	United States	95%	96%
Afterpay US Services, LLC [2]	United States	95%	96%
Afterpay Canada Limited	Canada	100%	100%
Setelah Bayar Pte. Ltd	Singapore	100%	-
PT Empat Kali Indonesia [6]	Indonesia	85%	-
Clearpay (International) Limited [5]	United Kingdom	100%	-
Clearpay (Europe) Limited [5]	United Kingdom	100%	-
Clearpay Finance Limited [3]	United Kingdom	90%	90%
Clearpay Receivables Warehouse 2020-1 Limited [4,5]	United Kingdom	90%	-
Clearpay Receivables Warehouse 2020-2 Limited [4,5]	United Kingdom	90%	-
Clearpay Finance HCB Limited [4]	United Kingdom	90%	90%
Touchcorp Limited	Bermuda	100%	100%
Touch Holdings Pty Ltd	Australia	100%	100%
Touch Australia Pty Ltd	Australia	100%	100%
Afterpay Corporate Services Australia Pty Ltd (formerly Touch Networks Australia Pty Ltd)	Australia	100%	100%
Touch Networks Pty Ltd	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 Touchcorp Singapore Pte Ltd)	Singapore	100%	100%

1. The Group's equity interest in Afterpay US, Inc is approximately 95% (30 June 2020: 96%) due to vested and exercised options under the US ESOP (Note 4).
2. Wholly owned subsidiaries of Afterpay US, Inc.
3. The Group's equity interest in Clearpay Finance Limited is approximately 90% due to vested and exercised options under the UK ESOP (see Note 4) and the Clearpay Put Option (Note 4).
4. Wholly owned subsidiary of Clearpay Finance Limited.
5. New legal entity established during the period.
6. 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 period ended 31 December	2020 Sales to related parties $'000	2020 Purchases from related parties $'000	2019 Sales to related parties $'000	2019 Purchases from related parties $'000
Associate				
AP Ventures Limited [1] (APV)	-	-	-	-

As at	31 December 2020 Amounts owed by/(to) related parties $'000	31 December 2020 Contributions made to associate $'000	30 June 2020 Amounts owed by/(to) related parties $'000	30 June 2020 Contributions made to associate $'000
Associate				
AP Ventures Limited [1] (APV)	-	15,000	-	6,587

1. Afterpay owns 35.6% of the common shares of APV (30 June 2020: 43.9%), is entitled to 24.2% of the voting rights (30 June 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. The dilution of Afterpay's shareholding occurred as a result of a capital raising completed by APV, which Afterpay did not fully participate in. This resulted in a deemed gain on dilution of $1.9m (2019: nil) recorded in the Consolidated Statement of Comprehensive Income (see Note 2). APV raised $50 million to fund future investment opportunities.

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Employee remuneration

11. Share-based payment plans

During the period ended 31 December 2020, the Group operated share-based payment plans across the following instruments:

- Awards over APT equity comprising of options and restricted stock units (RSUs) under the Group's 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 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).

Further details on the Group's share-based payment plans can be found in Note 20 to the FY20 Financial Statements.

Significant accounting judgements, estimates and assumptions

The cost of equity-settled transactions is determined by the fair value of the options at the grant date using the Binomial Model. The fair value 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 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. There were no options issued under the US ESOP during the period

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

	H1 FY21	FY20	H1 FY21	FY20	H1 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 options granted under the APT ESOP, US ESOP and UK ESOP during the period was $51.36, N/A and $0.18 respectively (2020: $13.01, $1.74 and N/A respectively).

APT equity

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

	H1 FY21		FY20		H1 FY21		FY20		H1 FY21	FY20
	Share options				Loan shares				RSUs	
	No. '000	WAEP $	No. '000	WAEP $	No. '000	WAEP $	No. '000	WAEP $	No. '000	No. '000
Outstanding at the beginning of the period	**9,391**	**10.28**	**14,907**	**5.49**	**419**	**4.50**	**1,143**	**3.91**	**998**	**-**
Granted during the period	85	97.95	1,341	32.85	-	-	-	-	445	1,006
Forfeited during the period	(185)	27.59	(63)	21.61	-	-	-	-	(21)	(8)
Exercised during the period	(4,972)	3.66	(6,794)	4.12	(81)	3.38	(724)	3.56	(199)	-
Outstanding at the end of the period	**4,319**	**18.84**	**9,391**	**10.28**	**338**	**4.77**	**419**	**4.50**	**1,223**	**998**
Exercisable at the end of the period	**1,494**	**11.24**	**5,668**	**3.65**	**225**	**4.22**	**264**	**3.69**	**-**	**-**

US ESOP

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

	H1 FY21		FY20	
	Share options			
	No. '000	WAEP $	No. '000	WAEP $
Outstanding at the beginning of the period	5,764	0.42	8,998	0.27
Granted during the period	-	-	392	2.64
Forfeited during the period	(63)	0.27	(756)	0.30
Exercised during the period	(1,028)	0.32	(2,870)	0.30
Outstanding at the end of the period[1]	**4,673**	**0.39**	**5,764**	**0.42**
Exercisable at the end of the period	**1,043**	**0.47**	**1,136**	**0.43**

1. This number includes options that have been exercised early but remain subject to vesting and a re-purchase right by Afterpay US, Inc.

UK ESOP

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

	H1 FY21	
	Share options	
	No. '000	WAEP $
Outstanding at the beginning of the period	-	-
Granted during the period	1,860	0.18
Forfeited during the period	(40)	0.16
Exercised during the period	-	-
Outstanding at the end of the period	**1,820**	**0.17**
Exercisable at the end of the period	**1,050**	**0.17**

Items not recognised in the financial statements

12. Commitments and contingencies

Contingent liabilities and contingent assets

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

(a) **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) **Global expansion commitment – Pagantis**

On 21 August 2020, a wholly owned subsidiary of the Group entered into a Share Purchase Agreement (SPA) with NBQ Corporate SLU (NBQ) to acquire 100% of the shares outstanding and voting rights in Pagantis SAU and PMT Technology SLA (collectively, Pagantis).

The 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 currently provides a range of buy now, pay later and traditional credit services across Spain, France and Italy, with regulatory approval to also operate in Portugal and a pending application to passport its payment institution licence into Germany.

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 to be paid at completion;
- Deferred consideration - €45 million payable in cash, 3 years post completion; 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.

Completion of the acquisition is expected to occur before 31 March 2021 and is subject to certain conditions being satisfied, principally regulatory approval for the acquisition being granted by the Bank of Spain.

(c) **Bank guarantees**

The Group had entered into bank guarantee arrangements totalling $2.9 million, of which $2.0 million has been cross guaranteed as part of a Consolidated sub-agency agreement. The remaining guarantee is part of the Group's normal business operations.

13. Events occurring after the reporting period

With the exception of the items listed below, no other matters or circumstances have occurred subsequent to 31 December 2020 that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Consumer receivables warehouse funding facilities

In February 2021, the Group completed two new UK consumer receivables warehouse facilities totalling £175 million ($310 million) to provide funding for Clearpay (Clearpay consumer receivables warehouse funding facilities). Each warehouse is for a 2-year term with maturities in February 2023. The Clearpay consumer receivables warehouse funding facilities are provided by National Australia Bank (NAB) (£50 million) and Citi (£125 million) and are secured against Afterpay UK consumer receivables, which are transferred into the facility.

Had the Clearpay consumer receivables warehouse funding facilities been in place at 31 December 2020, the Group's Total Debt Facility Limit would have been $1,375.8 million (31 December 2020: $1,065.8 million).

In addition, in January 2021, Afterpay extended the $300 million Australian consumer receivables warehouse funding facility with NAB from 1 December 2022 to 1 December 2023, increasing the Group's Facility Maturity Profile to 2.1 years at 25 February 2021 from 2.0 years at 31 December 2020.

Matrix Convertible Notes

On 25 February 2021, Afterpay entered into an agreement with Matrix Partners X L.P and Weston & Co X LLC (Matrix Transaction) to extinguish 35% of the Matrix Convertible Notes described in Note 4 for approximately $385 million in cash. The Matrix Transaction is expected to complete prior to 31 March 2021 (the completion period). The final price will be determined prior to the end of the completion period.

Following completion of the Matrix Transaction, the number of Afterpay shares that may be issued upon conversion of the remaining Matrix Convertible Notes will be calculated based on 6.5% of the future value of Afterpay US, Inc. in excess of US$50 million. All other terms of the Matrix Convertible Notes will remain unchanged. The maximum number of shares in APT that may be issued 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.

Other information

14. Corporate information

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 Level 5, 406 Collins Street, Melbourne, Victoria, Australia.

The Consolidated Financial Statements of Afterpay Limited as at and for the half year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors on 25 February 2021.

15. Basis of preparation

This Interim Financial Report (Half Year Report) and half year financial statements:

- are general-purpose financial statements, which have been prepared in accordance with AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard (IFRS) 34 *Interim Financial Reporting;*
- do not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual report;
- apply significant accounting policies consistently to all periods presented, and consistent with those adopted and disclosed in the Afterpay Annual Report for the year ended 30 June 2020, unless otherwise stated. These policies comply with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) 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*; and
- where necessary, comparative information has been restated to conform to changes in presentation in the current year.

Directors' Declaration

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

In the opinion of the Directors:

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

  (i) giving a true and fair view of its financial position as at 31 December 2020 and of its performance for the period ended on that date; and

  (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory professional reporting requirements.

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

On behalf of the Board.

Elana Rubin

Independent Chair
Melbourne
25 February 2021

Auditor's Review Report.

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Independent auditor's review report to the members of Afterpay Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Afterpay Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance for the half-year ended on that date; and

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

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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Independence

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

Ernst & Young

Ernst & Young

Fiona Campbell
Partner
Melbourne
25 February 2021

Corporate information.

Afterpay Limited ACN 618 280 649

Board of Directors

Elana Rubin (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)

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 Secretary

Amanda Street and Natalie McKaig are Company Secretaries.

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 Johnston Street
Abbotsford VIC 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).

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