



## Appendix 4E

ASX: APT

# PRELIMINARY FINAL REPORT

### Company details

Name of entity:	Afterpay Touch Group Limited
ACN:	618 280 649
Reporting period:	For the year ended 30 June 2017
Previous period:	For the year ended 30 June 2016

## Results for announcement to the market

### Statutory Results Summary

Afterpay Touch Group Limited (**Company**) was incorporated on 30 March 2017 for the purpose of the merger between Touchcorp Ltd (**Touchcorp**) and Afterpay Holdings Ltd (**Afterpay**) (**Merger**).

On 19 June 2017, each of Afterpay and Touchcorp held a shareholder meeting with the scheme resolution passed by the requisite majorities of eligible Afterpay and Touchcorp shareholders respectively. The Merger became legally effective on 28 June 2017 through each of the Afterpay Scheme and the Touchcorp Scheme being implemented.

The financial statements of the Company represent a continuation of Afterpay and its subsidiaries (the **Afterpay Group**) and the Company's consolidated results therefore reflect a full year of the Afterpay Group results plus the acquisition of Touchcorp at financial year end. Accordingly, the comparative period results reflect Afterpay Group only.

The results reflect the income and cashflows from the Afterpay Group only and the balance sheet reflects the acquisition of Touchcorp by Afterpay at 30 June 2017.

		Change from year ended 30 June		
		2017	2016	
		%	\$m	\$m
Revenue from ordinary activities	Up	1535%	to 22.9	from 1.4
Loss before income tax	Down	289%	to -14.4	from -3.7
Net Loss after tax attributable to the members of Afterpay Touch Group Limited	Down	167%	to -9.6	from -3.6

Revenue for the year increased from \$1.4m to \$22.9m due to the significant increase in the number of merchants who have adopted the Afterpay payment platform and increase in the number of customers now using Afterpay as their payment method.

	Normalised Results* Year ended 30 June			Statutory Results Year ended 30 June		
	2017 \$m	2016 \$m	Movement %	2017 \$m	2016 \$m	Movement %
Revenue from ordinary activities	22.9	1.4	1535%	22.9	1.4	1535%
<b>Earnings before tax, depreciation and amortisation (excl significant items)</b>	<b>5.8</b>	<b>-1.4</b>	<b>514%</b>	<b>5.8</b>	<b>-1.4</b>	<b>514%</b>
Share based payments	-1.8	-0.1	N/A	-1.8	-0.1	N/A
One off costs	-	-	-	-2.1	-	N/A
Depreciation and amortisation	-2.7	-2.2	-23%	-2.7	-2.2	-23%
Touchcorp customer development contract	-	-	-	-13.6	-	N/A
<b>Net profit/(loss) before tax attributable to the members of Afterpay Touch Group Limited</b>	<b>1.3</b>	<b>-3.7</b>	<b>135%</b>	<b>-14.4</b>	<b>-3.7</b>	<b>289%</b>

\* Normalised results have been adjusted for significant and one-off items in the 2017 and 2016 financial years.

The Company's statutory loss is mainly due to Merger related costs and a one-off decision by the Board of the Company post the Merger. In particular, the Board of the Company decided to recognise a Touchcorp Customer Contract as an onerous contract given future revenue opportunities from this contract under the merged group were not likely to increase gross revenues through the winning of significant new business in the immediate future. An expense of \$13.6m has been recorded as a one-off expense (calculated as the impairment of the prepaid asset amounts plus future required payments under the contract).

#### Net Tangible Asset per Security

	2017	2016
Total number of shares on issue	212,409,322	165,000,000
Net Tangible assets per share	\$0.43	\$0.17

#### Loss per Share

	2017	2016
Loss per share (Basic, loss for the year attributable to ordinary equity holders of the Parent)	-\$0.05	-\$0.06

#### Dividends

No dividends were declared or paid for the year ended 30 June 2017.

#### Entities over which control has been gained or lost during the period

Touchcorp and its subsidiaries.

#### Basis of Preparation

This report is based on the consolidated financial statements which have been audited by Ernst & Young. The audit report is included within the Company's Financial Report which accompanies this Appendix 4E.

#### Other information required by Listing Rule 4.3A

Other information requiring disclosure to comply with Listing Rule 4.3A is contained in the 30 June 2017 Financial Report (which includes the Directors' Report).

#### Accounting Standards

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

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Afterpay Touch Group Limited

# ANNUAL REPORT

For the year ended 30 June 2017

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## Chairman's Message

Dear fellow Shareholders,

It has been an incredible year for Afterpay and now the Afterpay Touch Group.

Driven by a passion and determination to empower the customer and innovate the retail economy, Afterpay has grown rapidly since its commercialisation in 2015 and its Initial Public Offering in May 2016. Over this short period, we have been very privileged to partner with the best retailers in Australia and many global brands to become Australia's leading 'buy now, receive now, pay later' service.

We have created a retail community that is delivering incremental value to all key stakeholders in the retail industry. Now celebrating one million Australian customers, we are more inspired and energised than ever to develop Afterpay's application to additional retail verticals and geographies. Our current launch into New Zealand marks the first step of an international expansion strategy that will continue to receive our strategic and investment focus.

Innovation, technology leadership and data analytics are at the core of our value proposition. Our capabilities, insights and results are improving with scale and we are committed to continually building and improving our proprietary systems and intellectual property. The ability to utilise data not just to improve the profitability of our service but to enhance the value proposition we provide to customers and retailers is driving our development efforts.

Our ability to maintain and grow our leadership position in Australia and accelerate Afterpay's international expansion has been greatly strengthened by Afterpay's recent merger with Touchcorp, which became effective at the end of the 2017 financial year. The rationale for the merger remains compelling. As a combined entity, the Afterpay Touch Group is vertically integrated from a technology and end to end service delivery perspective. Clear synergies exist in relation to platform development and systems which will increase our pace of innovation and speed to market. Touchcorp has well established businesses and annuity style revenue streams in the areas of Mobility, Health and e-Services. These businesses are complementary to Afterpay at many levels and these businesses will also receive management's full focus and attention.

The most compelling aspect of the merger, however, is the joining of two highly talented and complementary teams. I am delighted that David Hancock has been appointed Group Head of Afterpay Touch, which will facilitate and support Nick Molnar's (CEO of Afterpay) resolute focus

and attention on growing the Afterpay business. David will also oversee the development of the Touchcorp businesses and ensure group resources are effectively utilised across the organisation.

I am also excited about the performance of the Group during the financial year. Company revenue increased from \$1.4m to \$22.9m across the period, driven by significant growth in the number of retailers integrated with the Afterpay platform. By the end of the financial year, more than 6,000 Australian retailers had integrated with the Afterpay platform. This figure has grown to over 7,200 retailers today and we see significant scope for further growth. It is pleasing that this rapid growth profile has been paired with underlying transaction profitability and Afterpay's ability to generate overall operating profitability in its first full financial year of operations.

Significant expansion of Afterpay's receivables funding debt facilities with National Australia Bank (NAB), from \$20m to \$200m, in June 2017 provides further scope for efficient growth and high returns on capital employed.

The year again saw Afterpay being recognised as one of Australia's Financial Technology leaders being awarded "Fintech organisation of the Year" crediting the platform for its revolutionary approach to payment technology that allows customers to buy now, receive now and pay later. This is a credit to the team of people working in both the previous Afterpay and Touchcorp businesses and is representative of what the Company can achieve as a combined Group.

Once again I would also like to pay special tribute to Adrian Cleeve, the former Co-founder and Managing Director of Touchcorp, who passed away in late 2016. Adrian is sadly missed by so many but his innovative spirit and legacy is alive and well in the new Afterpay Touch Group. We will continue to honour Adrian with our collective passion to succeed and reflect his love of learning and technology via a sponsored work experience programme in his name.

I would like to thank the Board, the former directors of Touchcorp and entire Afterpay Touch team for their efforts, talents and amazing support during the year and as part of the Merger. I would also like to thank our shareholders, customers, retail partners and everyone who uses our products for their strong support of the Company.

I am really looking forward to another exciting year ahead.

**Anthony Eisen**  
Executive Chairman

# Directors' Report

The Directors submit their report on the consolidated entity consisting of Afterpay Touch Group Limited and the entities it controlled (**Group**) at the end of, or during the year ended, 30 June 2017.

## Operations and Activities

### Background to Results

On 30 March 2017, Afterpay Holdings Limited (**Afterpay**) and Touchcorp Limited (**Touchcorp**) announced that they had entered into a formal Merger Implementation Agreement under which the two companies had agreed to merge under a new Australian holding company called "Afterpay Touch Group Limited" (to be implemented by inter-conditional schemes of arrangement) (**Merger**).

Afterpay Touch Group Limited (**Company**) was incorporated on 30 March 2017 for the purpose of the Merger. On 15 May 2017:

- the Federal Court of Australia approved orders to convene a meeting of Afterpay's shareholders to consider and vote on the Scheme of Arrangement ("**Afterpay Scheme**") in connection with Afterpay's merger with Touchcorp; and
- the Supreme Court of Bermuda approved orders to convene a meeting of Touchcorp's shareholders to consider and vote on the Scheme of Arrangement ("**Touchcorp Scheme**") in connection with the merger.

On 19 June 2017, each of Afterpay and Touchcorp held a shareholder meeting with the scheme resolution passed by the requisite majorities of eligible Afterpay and Touchcorp shareholders respectively.

On 23 June 2017, the Supreme Court of Bermuda made orders sanctioning the Touchcorp Scheme and on 28 June 2017, the Federal Court of Australia made orders approving the Afterpay Scheme.

The Merger became legally effective on 28 June 2017 through each of the Afterpay Scheme and the Touchcorp Scheme being implemented. On 6 July 2017, in accordance with the Afterpay Scheme, all Afterpay shares (other than those held by Touchcorp's subsidiary) were exchanged for new shares in the Company on a 1-for-1 basis, and in accordance with the Touchcorp Scheme, all Touchcorp shares were exchanged for new shares in the Company on the basis of 0.64 of a share in the Company for each Touchcorp share.

The financial statements of the Company represent a continuation of Afterpay and its subsidiaries (the **Afterpay Group**) and the Company's consolidated results therefore reflect a full year of the Afterpay Group results plus the acquisition of Touchcorp from 30 June 2017.

In reviewing the results of the Company, it is important to understand that the Merger has been reflected in the financial statements of the Company as if the acquisition of Touchcorp by Afterpay occurred on 30 June 2017. Consequently, the comparative and current period disclosure of the Group's results is not representative of the operations of the Company in the future.

More specifically, the Company's results for the financial year reflect the income and cashflows from the Afterpay Group only. Accordingly, the reported income statement and statement of cashflows are not the same as if the Merger had occurred at the beginning of the financial year. The balance sheet reflects the acquisition of Touchcorp by Afterpay at 30 June 2017. The comparative period represents the full year results of the Afterpay Group only.

## Directors' report (CONTINUED)

## Financial Results

The performance of the Company for the year ended 30 June 2017 is summarised in the table below:

	2017 \$	2016 \$	Net change \$
Revenue from ordinary activities	22,905,727	1,383,241	21,522,486
Cost of sales	(5,263,468)	(258,389)	(5,005,079)
<b>Gross profit</b>	<b>17,642,259</b>	<b>1,124,852</b>	<b>16,517,407</b>
Other income	6,120,104	289,422	5,830,682
Net finance expense	(179,580)	168,751	(348,331)
Operating expenses	(17,812,307)	(2,948,561)	(14,863,746)
<b>Earnings before tax, depreciation &amp; amortisation (EBTDA), share based payment, one-off items*</b>	<b>5,770,476</b>	<b>(1,365,536)</b>	<b>7,136,012</b>
Share based payments	(1,837,821)	(153,438)	(1,684,383)
One off costs	(2,051,259)	-	(2,051,259)
<b>EBTDA (excluding Touchcorp customer development contract)*</b>	<b>1,881,396</b>	<b>(1,518,974)</b>	<b>3,400,370</b>
Depreciation & amortisation	(2,708,227)	(2,171,143)	(537,084)
Touchcorp customer development contract	(13,595,869)	-	(13,595,869)
<b>Earnings before income tax</b>	<b>(14,422,700)</b>	<b>(3,690,117)</b>	<b>(10,732,583)</b>
Income tax benefit	4,803,070	137,789	4,665,281
<b>Net loss after income tax</b>	<b>(9,619,630)</b>	<b>(3,552,328)</b>	<b>(6,067,302)</b>

\* EBTDA and before one-off expenses are unaudited. EBTDA is a non-IFRS measure that is determined to present, in the opinion of the directors, the ongoing operations of the Company that appropriately reflects its underlying performance.

The results reflect a profitable underlying performance for the financial year with earnings of \$5.8m prior to share based payments, merger related expenses, one-off expenses and strategic decisions and depreciation and amortisation. As foreshadowed in both the Touchcorp Scheme Booklet and Afterpay Scheme Booklet, the Board of the Company decided to recognise a Touchcorp Customer Contract as an onerous contract and impair a related prepayment asset given future revenue opportunities from this contract under the merged group were not likely to increase gross revenues through the winning of significant new business in the immediate future. An expense of \$13.6m has been recorded as a one-off expense (calculated as the impairment of the prepaid asset amounts plus future required payments under the contract).

## Liquidity and Capital Resources

The consolidated statement of cash flows illustrates that there was an increase in cash and cash equivalents in the year ended 30 June 2017 to \$29.6m (2016: \$19.7m). The other financial asset of \$8.9m is the cash held in the Group's Trust bank account to repay the Group's secured interest-bearing borrowings of \$46.7m and other expenses relating to the borrowing.

The increase in cash inflows in comparison to the prior year is due to an increase in cash from financing activities and investing activities of \$40.8m and \$19.9m, respectively, partially offset by an increase in cash used in operating activities of \$70.6m.

Afterpay raised an additional \$36m in equity and implemented the two-year Secured Receivable Funding facility with NAB in the year ended 30 June 2017 to fund Afterpay's growth and growing receivables book.

## Directors

The names and details of the Company's directors in office at the date of this report are as follows.

- **Anthony Eisen**  
Executive Chairman
- **David Hancock**  
Executive Director & Afterpay Touch Group Head
- **Nicholas Molnar**  
Executive Director & CEO of Afterpay
- **Michael Jefferies**  
Independent Non-Executive Director
- **Clifford Rosenberg**  
Independent Non-Executive Director
- **Elana Rubin**  
Independent Non-Executive Director

Directors' Report (CONTINUED)

Information on Directors

**Anthony Eisen**

**Executive Chairman**

Anthony was appointed an executive director of Afterpay Touch Group on 5 July 2017. Anthony has over 20 years' experience in investing, public company directorships and providing corporate advice across a variety of sectors. Prior to co-founding Afterpay, he was the Chief Investment Officer at Guinness Peat Group (GPG). He was actively involved in a number of financial services, software and technology companies in which GPG was a major shareholder. Before joining GPG, Anthony was involved in investment banking, specialising in mergers and acquisitions. He is currently also a director of Foundation Life (N.Z) Limited.

**Interests in Shares and Options**

- 25,000,000 ordinary shares subject to ASX escrow until 3 May 2018.
- 1,500,000 unlisted options issued under the Company's Employee Option Plan, with an exercise price of \$1.00 per option and an expiry date of 31 December 2020 and subject to ASX escrow until 3 May 2018.

**David Hancock**

**Executive Director & Group Head**

David was appointed an independent non-executive director of Afterpay Touch Group on 30 March 2017. On 5 July 2017, David was appointed Group Head of the Company. David has over 25 years of broad experience in financial services. This experience includes being Executive General Manager at the Commonwealth Bank of Australia, with a variety of roles including capital markets, fixed income and equities. Prior to that he served in senior investment banking roles at JPMorgan where he was a Managing Director with responsibilities in New Zealand, Australia and Asia across various operations in Debt and Equity Markets. He has served on a number of boards and is currently a director and advisor to Tower Insurance Limited and a board member of the Insurance Council of New Zealand.

**Interests in Shares and Options**

- 2,400,000 ordinary shares of which 2,000,000 subject to ASX escrow until 3 May 2018.
- 200,000 unlisted options issued under the Company's Employee Option Plan, with an exercise price of \$1.00 per option and an expiry date of 31 December 2020 and subject to ASX escrow until 3 May 2018.

**Nicholas Molnar**

**Executive Director & CEO of Afterpay**

Nick was appointed an executive director of Afterpay Touch Group on 5 July 2017. Nicholas has extensive experience in online retail. Prior to co-founding Afterpay, Nicholas launched the leading American online jeweller, Ice.com, into Australia under the local brand Iceonline.com.au. Nicholas successfully grew Ice in Australia to become the largest online-only jewellery and watch retailer. Prior to launching Ice, Nicholas was an Investment Analyst at venture capital fund M. H. Carnegie & Co., where he was primarily responsible for growth stage investment opportunities in the technology sector. Nicholas holds a Bachelor of Commerce from Sydney University.

**Interests in Shares and Options**

- 25,000,000 ordinary shares subject to ASX escrow until 3 May 2018.
- 1,500,000 unlisted options issued under the Company's Employee Option Plan, with an exercise price of \$1.00 per option and an expiry date of 31 December 2020 and subject to ASX escrow until 3 May 2018.

**Michael Jefferies**

**Independent Non-Executive Director**

Michael was appointed a non-executive director of Afterpay Touch Group on 5 July 2017 and immediately prior to the merger was executive Chairman of Touchcorp. Michael is a chartered accountant with extensive experience in finance and investment including more than 20 years as an executive of Guinness Peat Group plc, an international investment group listed on the major stock exchanges in London, Australia and New Zealand.

In addition to his role with the Company, he is also a non-executive Chairman of Pantoro Limited and a non-executive Director of Homeloans Limited and Ozgrowth Limited and has previously been a director of a number of listed public companies in Australia and New Zealand including ClearView Wealth Limited, Tower Australia Limited, Metals X Limited and Tower Limited (New Zealand). Michael has over 30 years of public company and finance experience.

**Interests in Shares and Options**

- 4,323,226 ordinary shares of which 200,000 subject to ASX escrow until 3 May 2018.
- 200,000 unlisted options issued under the entity's Employee Option Plan, with an exercise price of \$1.00 per option and an expiry date of 31 December 2020 and subject to ASX escrow until 3 May 2018.

## Directors' Report (CONTINUED)

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### Information on Directors (CONTINUED)

#### Clifford Rosenberg

##### Independent Non-Executive Director

Clifford was appointed an independent non-executive director of Afterpay Touch Group on 30 March 2017. Clifford has spent more than 20 years working at digital companies leading innovation and change in the industry both as an entrepreneur and senior executive. Clifford was a senior executive at LinkedIn for six and a half years and until recently serving as the Managing Director of LinkedIn for South East Asia, Australia and New Zealand. Prior to LinkedIn, Clifford was Managing Director at Yahoo Australia and New Zealand, and previously the founder and Managing Director of iTouch Australia and New Zealand, one of the biggest mobile content and application service providers in Australia.

Prior to iTouch Clifford was the head of strategy for Vodafone Australasia. Clifford is also a non-executive director of ASX listed companies Nearmap Ltd, Pureprofile Ltd and Cabcharge Australia Limited. Clifford has a Bachelor of Business Science (Honours) degree and a Master of Science in Management.

##### Interests in Shares and Options

- 1,000,000 ordinary shares of which 800,000 subject to ASX escrow until 3 May 2018.
  - 700,000 unlisted options issued under the Company's Employee Option Plan, with an exercise price of \$0.20 per option and an expiry date of 1 September 2020 and subject to ASX escrow until 3 May 2018.
  - 200,000 unlisted options issued under the Company's Employee Option Plan, with an exercise price of \$1.00 per option and an expiry date of 31 December 2020 and subject to ASX escrow until 3 May 2018.
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#### Elana Rubin

##### Independent Non-Executive Director

Elana was appointed an independent non-executive director of Afterpay Touch Group on 30 March 2017. Elana has been a longstanding director of a number of public and private companies, with extensive experience in property, insurance and financial services. Elana is currently a Non-Executive Director of Mirvac Limited and several unlisted companies.

Elana was previously a non-executive Director of TAL Life and Bravura Solutions, and was the former Chair of AustralianSuper and the Victorian WorkCover Authority. Elana has over 20 years' experience as a non-executive director

##### Interests in Shares and Options

- 46,567 ordinary shares in Afterpay Touch Group Limited.
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#### Sophie Karzis (B. Juris, LLB)

##### Company Secretary

Sophie is a practicing lawyer with over 15 years' experience as a corporate and commercial lawyer, and company secretary and general counsel for a number of private and public companies. Sophie is the principal of Corporate Counsel, a corporate law practice with a focus on equity capital markets, mergers and acquisitions, corporate governance for ASX-listed entities, as well as the more general aspects of corporate and commercial law. Sophie is the company secretary of a number of ASX-listed and unlisted entities, and is a member of the Law Institute of Victoria as well as the Governance Institute of Australia.

##### Interests in Shares and Options

- 23,305 ordinary shares in Afterpay Touch Group Limited.
-

Directors' Report (CONTINUED)

Meetings of Directors

There was one Afterpay Touch Group Limited Board meeting since incorporation, attended by all of the Company's directors at that time.

The number of meetings each of the Afterpay Board of Directors and of each Board committee held during the year and the number of meetings attended by each Director or their alternate were as follows:

DIRECTORS	Board of Directors Meetings		Audit, Risk & Compliance Committee Meetings		Remuneration & Nomination Committee Meetings	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Anthony Eisen	12	11	-	-	-	-
David Hancock	12	12	3	3	1	1
Michael Jefferies*	7	6	3	3	1	-
Nicholas Molnar	12	12	-	-	-	-
Cliff Rosenberg	12	12	3	3	1	1

\* Michael Jefferies was a director of Afterpay Holdings Limited from 26 August 2015 until 7 April 2017. Prior to 7 April 2017, Michael Jefferies did not participate in any decisions regarding the Merger or Merger related activities due to his role as Executive Chairman of Touchcorp.

Elana Rubin was not a director of Afterpay Holdings Limited during the financial year ended 30 June 2017. Both Michael Jefferies and Elana Rubin were members of the Touchcorp Board of Directors and were eligible to attend, and attended, all Touchcorp Board meetings.

Committee membership

As at the date of this report, the Company has an Audit, Risk & Compliance Committee and a Remuneration & Nomination Committee of the Board of Directors.

The members of the **Audit, Risk & Compliance Committee** are Elana Rubin, Michael Jefferies and Clifford Rosenberg. The Chairman of the Audit, Risk & Compliance Committee is Elana Rubin.

The members of the **Remuneration & Nomination Committee** are Clifford Rosenberg, Elana Rubin and Michael Jefferies. The Chairman of the Remuneration & Nomination Committee is Clifford Rosenberg.

### Principal activities

The Merger has brought together the businesses of Afterpay and Touchcorp under the ownership of Afterpay Touch Group Limited. As a result of the Merger, the Company will operate a Pay Later business, being Afterpay, and a Pay Now business which operates across three divisions: Mobility and Payments, Health and Retail Services. The following description of activities for the Group will be applicable for the period commencing 1 July 2017.

#### Pay Later

Afterpay focusses on providing a customer and retail centric, omni channel retail service that facilitates commerce between retail merchants and their end-customers. Afterpay delivers its services by providing a platform that allows retail merchants to offer the ability for customers to buy products on a "buy now, receive now, pay later" basis without the end-customer having to:

- Apply for or enter into a traditional loan;
- Pay any additional amount (by way of interest or upfront fees to Afterpay) for the merchant's products; or
- Provide extensive personal information that would likely cause delay or failure to complete a purchase.

Instalment payment terms are presented to end-customers for a maximum of 56 days. The purchase value is recouped by Afterpay from the end-customer usually in four equal, fortnightly instalments. Retail merchants benefit from providing the Afterpay service to its end-customers because:

- A proportion of end-customers are more inclined to make a purchase and/or will increase the value of their purchase because of the affordability and flexibility attributes of the Afterpay service; and
- Afterpay pays the retail merchant upfront and assumes all end-customer non-payment risks.

#### Pay Now

The Company owns a proprietary software platform (The Touch System Platform) that enables consumers to quickly and simply purchase products both in-store and directly via secure self-service methods and across mobile device applications, web sites, interactive voice recognition ("IVR") systems and a variety of other methods.

The Touch System Platform is designed to minimise friction for merchant retailers and enhance the shopping experience for consumers. This allows merchant retailers to operate, and consumers to purchase goods and services without unnecessary processes while having confidence that transaction services are consistently operational with 100% uptime capability.

The Touch System Platform provides customers with competitive performance and cost advantages with sophisticated strategic and tactical fraud management capability. The Touch System Platform provides merchant retailers with the capacity to maximise transaction acceptance while minimising the cost of fraud to those merchant retailers. In some cases, Touchcorp accepts fraud risk for merchant retailers.

## Directors' Report (CONTINUED)

## Operating environment

### Operations

#### Pay Later

The Company continues to integrate the Afterpay platform with leading Australian online retailers and maintains a strong pipeline of prospective retail merchant integrations. During the year, Afterpay successfully completed an equity capital raising of 15m shares at \$2.40 per share to raise \$36m by way of a placement to sophisticated and professional investors. The proceeds were used to support the underlying sales opportunity as it implemented its initial bank facility.

In November 2016, Afterpay announced its partnership with the NAB to fund a Secured Receivables Funding Facility, with NAB initially committing \$20m to the facility. This facility was increased in April 2017 to \$40m and again in June 2017 to \$200m to provide scope for continued rapid expansion of the Afterpay product. The Secured Receivables Funding Facility provides Afterpay with a structurally efficient and low transaction cost model to support Afterpay's strong growth profile.

Afterpay has been growing strongly since it commenced offering its services to Australian based online retail merchants in the first half of calendar 2015. Significant retail merchants and other customers include Myer, Premier Investments, Country Road, Cue Clothing, Officeworks, Optus, Kookai, Rebel, Athletes Foot, Mimco, Adore Beauty, Ezibuy, BCF Australia, Best & Less and Toys R Us. Afterpay currently has over 7,200 live retail merchants, and 1,000,000 unique registered end-customers. Total underlying retail merchant sales through the Afterpay platform since inception is now more than \$700m, including \$561m achieved in FY2017 alone.

During the financial year Afterpay increased the size of its end-customer base by approximately 8.6 times and a large proportion (over 80%) of monthly transactions since 1 July 2016 are being generated by repeat Afterpay end-customers. Afterpay's transaction integrity engine continues to be enhanced through increasing transaction volumes and end-customer repayments have continued to trend positively.

International expansion was a development for Afterpay during the year, signing an agreement with New Zealand's largest ecommerce player. Other strategic partnerships with Tyro and BigCommerce are progressing and we expect

them to further contribute to underlying sales over the following financial year.

The ability for end-customers to utilise the Afterpay product in-store as well as online remains a key strategic focus and Afterpay commenced integration and pilot programmes with some key existing omni-channel retail merchant clients including Review, Sheike, Politix, Strandbags, Sunseeker, etc. A number of additional retail partners are integrating Afterpay 'in-store' prior to Christmas 2017.

Afterpay was also awarded "Fintech organisation of the Year" crediting the platform for its revolutionary approach to payment technology that allows customers to buy now, receive now and pay later.

#### Pay Now

##### (a) Mobility and Payments

The Touch System Platform enables merchant retailers in particular to sell goods and services via any consumer channel including in-store, IVR, website and mobile applications, as well as self-service methods.

The Company provides solutions for clients in an environment where security for online transactions and business efficiency are becoming increasingly important in a competitive retail business environment. The Touch System Platform allows the identification of consumers and the establishment, registration, activation, and operation of consumer accounts including formal accounts requiring compliance with anti-money laundering ("AML") or anti-terrorist ("ATL") protocols to meet know your customer ("KYC") requirements in multiple jurisdictions.

The Company seeks to enhance the consumer experience by simplifying the process steps and reducing the time required to complete a transaction, and by providing more payment options. The platform also provides real-time processing and data analytics to suppliers and merchant retailers to enhance sales insights and performance.

##### (b) Health and Government

Health and Government is an Australian focused part of Touchcorp's business. The Touch System Platform is used by the major banks such as NAB, HICAPS, Commonwealth Bank, Suncorp and ANZ, in addition to Medicare and private health insurers.

The Touch System Platform enables a range of Medicare and private health insurer electronic claiming solutions which streamline the health claiming and payment processing for patients using Electronic Funds Transfer Point of Sale (EFTPOS) terminals.

The Touch System Platform is designed to streamline processing and payments of health insurance claims originating in medical and allied health practices in real-time at the point of service provision, using existing EFTPOS payment terminals or practice management systems used by medical practitioners.

### (c) Retail Services

The Touch System Platform enables point of sale devices commonly found in merchant retail stores such as EFTPOS payment terminals, Electronic Cash Registers and self-service kiosks, to process and deliver transactions. The types of transactions most commonly offered are electronic products such as mobile phone and data recharge vouchers, calling cards, iTunes cards, road tolls, transport tickets, gaming cards and fishing licences.

The Touch System Platform can be integrated with the merchant retailer's technology infrastructure to inform the merchant retailer's inventory management and accounting systems, in real-time, of any transactions conducted on the point-of-sale devices. The Company has operations in Australia and Europe.

In order to support the supply programs managed through the Touch System Platform, the Company has obtained, supports and maintains a number of domestic and international certifications. For example, within the supply and management of health and government services transactions in Australia, ongoing certification with the Information Security Registered Assessors Program ("IRAP") is required, meaning the business must adhere to the Australian Government's policies and guidelines as provided by the Australian Signals Directorate ("ASD") on information and communications technology ("ICT") services in support of Australian security. As at June 2017, the Company meets these policies and guidelines.

## Revenue Model

### Pay Later

Afterpay receives its revenue primarily from transaction fees paid by its retail merchant clients (Merchant Fees) in relation to underlying Afterpay sales.

Merchant Fees are generated on each discrete, approved order placed by the end-customer through the Afterpay system. Merchant Fees are predominantly based on a percentage of the end-customer order value plus a fixed per transaction fee. Merchant Fees represented approximately 79% of Afterpay's income for the

twelve-month period ending 30 June 2017, with the remainder principally represented by late fees charged to end-customers who do not make their agreed instalment payments on time.

Increasing Merchant Fees is a function of the number of Afterpay retail merchant clients that provide the Afterpay service to their end-customers as well as the proportion of end-customers associated with each retail merchant client that choose to use Afterpay as a method of online payment. Seasonality will also impact Afterpay transaction revenue in any given period, which is a function of consumer buying patterns at different times of the calendar year.

Afterpay employs capital to fund the period between paying its retail merchant clients upfront and the time it takes to recoup full payment from the end-customer. Afterpay aims to fully recoup the value of any discrete transaction within a maximum of 56 days. Afterpay's business model aims to recycle capital efficiently and to drive higher potential transaction volumes. The average weighted duration to recoup end-customer payments during the 12 months ended 30 June 2017 was less than 30 days.

### Pay Now

Touchcorp generates revenue from four main sources:

- Transaction fees for the delivery of completed transactions
- Integration fees for the connection of new customers to the Touch System Platform
- Integration fees for granting existing customers access to additional service models
- Infrastructure fees for providing a bespoke Touch platform.

Transaction fees are calculated as either a percentage of the transaction volume (in the mobility business) or as a fixed transaction fee (in the retail eservices business) from customers utilising the Touch System Platform to process their transactions. Touchcorp also generates additional revenue from marketing and advertising services, mostly from the sale of advertising space in the Touchcorp magazine, and providing other direct and indirect communications to merchant retailers and consumers.

## Future Prospects

Some of the immediate strategic goals for the Company are:

- (a) To continue to rapidly grow the Afterpay business and grow sales while maintaining positive net transaction margins.
- (b) Optimise the Pay Now businesses and pursue recurring revenue streams which are complementary to the Afterpay business and from a financial perspective, provide an adequate return on investment.

Afterpay end-customers continue to highly rate the Afterpay service. In line with the rapid growth in retail merchant clients, Afterpay's unique end-customer base has grown strongly. Continued growth in the number of retail merchant clients that integrate the Afterpay platform into their sales offering and end-customers is expected to result in increases in underlying Afterpay sales and Afterpay merchant fees generated from them.

The Company sees significant opportunity and product alignment in developing an Afterpay presence in various e-Services markets. Retail Services is a broad and very large market segment in Australia alone and covers multiple sub-verticals such as travel, health, education, ticketing, etc. Afterpay has already started making in-roads towards developing the Afterpay product for various e-services markets and this will continue to be a focus area for the Company.

There is also potential to grow Afterpay's in-store presence and capability to promote omni-channel opportunities to Afterpay's online merchant base. The market opportunity in Australia alone is very large, with the size of the physical retail market still significantly larger (approximately \$300 billion) than the online retail market (approximately \$22 billion). The inter-connectedness of online and physical retail is becoming increasingly apparent, however, as consumer buying habits evolve and demand for omni-channel shopping applications becomes more mainstream.

A key aspect of the Company's strategy is to progressively develop the in-store Afterpay product to promote retail innovation opportunities and add value to Afterpay's retail merchant clients and their customers.

International expansion is a clear opportunity for the Afterpay product. This stems from the applicability of Afterpay's product to other retail markets and the ability to develop its transaction integrity capabilities in new geographies. A number of Afterpay's existing merchant clients maintain an international footprint and this provides logical direction as it relates to international expansion. A market expansion strategy into New Zealand has been underway for some time and Afterpay is actively exploring strategic partnership opportunities in other markets and international expansion to meet retail merchant interest remains a strong opportunity for the Company.

To facilitate this growth, the Company will continue to invest in technology development resources which will be dedicated towards the Afterpay product and market development activities to rapidly capture the expansion opportunities that have become increasingly apparent since inception.

## Directors' Report (CONTINUED)

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With respect to the Pay Now business lines, opportunities for product development complementary to the Afterpay product are illustrated below:

- **Mobility** – real-time fraud identification and repayment capability assessment is a key element of the value proposition that the mobility platform provides to customers. The mobility business relies on an ability to identify and reject fraudulent transactions in real-time. Transaction integrity and data analytics are relevant to many facets of both Afterpay's and other customer businesses and are the key ingredients to direct innovation and additional customer centric services in the future. Having access to a broader and international data set post Merger, the Company has the opportunity to streamline and coordinate its transaction integrity and data related activities to increase the productivity of its resources, develop its intellectual property base and enhance future related business opportunities.
- **Health** – the Company has strong technical capability in the Australian health sector. The health platform provides a number of transaction related services to banking groups and other participants in the health sector, including NAB, Commonwealth Bank of Australia and Suncorp. Activities and relationships in the health sector are a source of opportunity and growth and they are complementary and applicable to introducing the Afterpay product to selected health care market segments.
- **Retail Services** – The e-services platform supports approximately 7,500 merchants in Australia, including 7-Eleven and an additional 6,500 merchants in Europe including Valora. International customer relationships, infrastructure and transaction experience are valuable to the wider group.

The Company will focus on developing proprietary, profitable, transaction based products that are scalable in their markets and add to the transaction integrity and data capabilities of the combined group and will not devote resources to new activities that would not further those objectives. The Company will be undertaking a strategic review of all business lines to ensure that resources are appropriately allocated.

Directors' Report (CONTINUED)

**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, other than the Group restructure which was effected through the Merger as noted in this Report.

**Significant events subsequent to the end of the financial year**

Except as noted above, the Directors are not aware of any other matter or circumstance which has arisen since 30 June 2017 that has significantly affected or may significantly affect the operations of the consolidated entity in subsequent financial years, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

**Likely developments and expected results of operations**

The Company believes there is significant scope to increase revenue and profitability from its business strategy. The Company's focus is to deliver long-term returns, strong revenue growth and profitability to shareholders by increasing the number of underlying Afterpay sales and Afterpay merchant fees. The Company is also focused on optimising the performance of the Pay Now business lines. Optimisation reviews are currently underway and this may result in a rationalisation of product lines or areas of focus. Further information on likely developments in the operations of the consolidated entity and the expected results of operations 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 Company.

**Key risks and business challenges**

The Company is still in the early stages of establishing its presence in the Australian market and overseas, and its ability to profitably scale its business is reliant on increases in transaction volumes and increases in its end customer and retail merchant client base.

In particular the Afterpay product has a competitive advantage in being one of the first to provide an interest free 'buy now, pay later' service to the Australian retail market. However, there is always a risk of new entrants in the market which may disrupt business and market share.

The principal risks and business challenges for the Company are:

- Ability to retain and grow Afterpay's retail merchant client base;
- Ability to retain and grow Pay Later key clients in Australia and overseas;
- Risks associated with the emergence of new technologies and customer requirements;
- Maintaining and optimising its systems and processes to make accurate real time fraud and repayment capability assessments in connection with the end-customer approval processes;
- The possible requirement for additional funding to support the expected growth in instalment payments receivables;
- Changes to the regulatory environment that may impact the Company's products and their delivery.

In order to manage these challenges, the Company has strengthened its business development resources and processes, continues to invest in improving its transaction integrity engine, and continues to invest in expanding its service offering, such as the recent introduction of the in-store payment service.

There is a risk that additional Government or other regulation might delay or prevent the Company from growing across other jurisdictions and there is the risk of a decline in economic activity levels resulting in the Company's existing customers requiring to process fewer transactions resulting in decreased revenue. These factors can affect the Company's ability to forecast accurately the timing and quantum of both new and on-going business.

## Directors' Report (CONTINUED)

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### Environmental regulation

The Group Head reports to the Board on any environmental and regulatory issues at each Directors meeting, if required. There are no matters that the Board considers need to be reported in this report.

### Greenhouse gas and energy data reporting requirements

The Group is not subject to the reporting requirements of either the Energy Efficiency Opportunities Act 2006 or the National Greenhouse and Energy Reporting Act 2007.

### Share Option Plan

#### Unissued shares

As at the date of this report there were 18,431,000 and 155,000 ordinary shares under options and performance rights, respectively.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Group or any related body corporate.

Details of the option plan are disclosed in Note 14 to the Financial Statements.

#### Company Equity Incentive Plan (EIP)

As at the date of this report there were nil issued ordinary shares under the EIP.

EIP Shareholders are entitled to exercise the voting rights attaching to their ordinary shares from the date of allocation of those shares.

Details of the share plan are disclosed in Note 14 of the Financial Statements.

### Deeds of access, indemnity and insurance for directors and officers

#### Access

The Company has entered into deeds of access, indemnity and insurance with each Director which contain rights of access to certain books and records of the Company.

#### Indemnification

Under the Constitution, the Company is required to indemnify all Directors and officers, past and present, against all liabilities allowed under law. Under the deed of access, indemnity and insurance, the Company indemnifies parties against all liabilities to another person that may arise from their position as an officer of the Company or its subsidiaries to the extent permitted by law. The deed stipulates that the Company will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

#### Insurance

Under the Constitution, the Company may arrange and maintain directors' and officers' insurance for its Directors to the extent permitted by law and under the deed of access, indemnity and insurance, the Company must maintain insurance cover for each Director for the duration of the access period.

Directors' Report (CONTINUED)

## Remuneration Report (Audited)

This remuneration report outlines the director and executive remuneration arrangements of the Company and the Afterpay Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel (KMP) of the Afterpay Group are defined as those persons having authority and responsibility for planning, directing, and controlling major activities of Afterpay, directly or indirectly, including any director (whether executive or otherwise) of Afterpay Holdings Limited for the financial year.

For the purposes of this report, the term "executive" encompasses the senior executives and general managers of the Afterpay Group.

### Details of Key Management Personnel

#### (i) Directors

The names and details of the directors of Afterpay Holdings Ltd in office during the financial year are as follows.

- Anthony Eisen – Chairman (Executive)
- David Hancock – Director (Executive)
- Nicholas Molnar – Director (Executive)
- Michael Jefferies – Director (Independent Non-Executive) – resigned on 7 April 2017
- Clifford Rosenberg – Director (Independent Non-Executive)

#### (ii) Executives

The other key executives for Afterpay Holdings Limited during the financial year were:

- Richard Harris – Chief Risk Officer
- David Whiteman – Director of Products
- Fabio de Carvalho – Director of Strategic Partnerships
- Barry Odes – Chief Operating Officer
- Matthew Walton – Chief Financial Officer

The Afterpay Touch Group Limited executives were appointed on 5 July 2017 and are as follows:

- David Hancock – Group Head
- Nick Molnar – CEO of Afterpay
- Nadine Lennie – Chief Financial Officer
- Richard Harris – Chief Risk Officer
- Barry Odes – Chief Operating Officer
- Mathew Cagney – Head of Pay Now
- Jon Donoghue – Chief Technology Officer

### Remuneration charter

The charter of this committee provides that the committee should comprise at least three Directors, where practicable a majority of whom (including the Chair) must be independent and all of whom must be non-executive Directors (to the extent that this is practical given the size and composition of the Board from time to time).

### Remuneration committee

The role of the committee is to assist the Board with fulfilling its responsibilities to Shareholders and other stakeholders to seek to ensure that the Company:

- Has coherent and appropriate remuneration policies and practices which enable the Company to attract and retain Directors and executives who will create value for Shareholders;
- Fairly and responsibly remunerates Directors and executives having regard to the performance of the Company, the performance of the executives and the general market environment;
- Has policies to evaluate the performance and composition of the Board, individual Directors and executives on (at least) an annual basis with a view to ensuring that the Company has a Board of effective composition, size and diversity, expertise and commitment to adequately discharge its responsibilities and duties;
- Has adequate succession plans in place (including for the recruitment or appointment of Directors and senior management); and
- Has policies and procedures that are effective to attract, motivate and retain appropriately skilled and diverse people that meet the Company's needs and that are consistent with the Company's strategic goals and human resource objectives.

The Committee may seek advice and assistance where appropriate (for example, for the purpose of conducting the annual review process) from external consultants.

### Diversity Policy

The workforce of the Company comprises individuals with diverse skills, backgrounds, perspectives and experiences and this diversity is valued and respected. To demonstrate the Company's commitment to developing measurable objectives to achieve diversity and inclusion in its workplace, the Company has implemented a Diversity Policy. The Company's policy has meritocracy as a guiding principle, and seeks to align the Company's management systems with its commitment to continue to develop a culture that values and achieves diversity in its workforce and on its Board.

In its Corporate Governance Statement, the Company will disclose the measurable objectives for achieving diversity and progress towards the policy's goals, and will also disclose the proportion of women in the whole organisation, women in senior positions and women on the Board.

### Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive officer remuneration is separate and distinct.

### Non-executive director remuneration

#### Objective

The Board seeks to set aggregate remuneration at a level which provides the Group with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

#### Structure

Under the Constitution, the Directors decide the total amount paid to each Director as remuneration for their services as a Director to the Company. However, under the ASX Listing Rules, the total amount paid to all Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by the Company's general meeting. This amount is currently \$700,000. Annual Directors' fees currently agreed to be paid by the Company to non-executive Directors are \$60,000 per annum plus sub-committee fees. The executive directors are not entitled to be paid annual Directors' fees.

The remuneration of non-executive Directors for the year ended 30 June 2017 is detailed in table 1 of this report.

### Senior manager and Executive director remuneration

#### Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- Reward executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company in the financial year; and
- Ensure total remuneration is competitive by market standards.

#### Structure

In determining the level and make-up of executive remuneration, the Remuneration Committee uses a combination of business experience, comparisons with executive remuneration of comparable companies and comparative remuneration in the market and makes its recommendations to the Board.

Remuneration consists of the following key elements:

- Fixed Remuneration; and
- Variable Remuneration.

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each executive officer and senior manager by the Remuneration Committee. Under the plan in existence during the financial year, the maximum possible value of all bonuses for KMP should be less than 80% of their combined total remuneration.

The remuneration committee has appointed an external consultant to review the Group's remuneration structure and ensure it is appropriate to support of the strategic goals of the Company going forward. The structure disclosed here may change as result of this review.

## Directors' Report (CONTINUED)

**Fixed Remuneration****Objective**

Fixed remuneration is reviewed annually by the remuneration committee. The process consists of a review of Company, individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices. As noted above, the Remuneration Committee may obtain external advice independent of management.

**Structure**

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

**Variable Remuneration****Objective**

The objective of the variable program is to link the achievement of the Company's operational targets with the remuneration received by the executives charged with meeting those targets and to also reward executive officers in a manner which is consistent with the interests of shareholders. The total potential variable component is set at a level so as to provide sufficient incentive to the executive officer to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

**Structure**

Actual variable payments granted to each executive officer depend on the extent to which specific targets set at the beginning of the financial year are met. The operational targets consist of a number of key performance indicators (KPIs) covering both financial and non-financial measures of performance. Typically included are measures such as contribution to operational profit, customer service, risk management, product management, leadership and team contribution. The Company has predetermined benchmarks which must be met in order to trigger payments.

## Remuneration report (audited) (CONTINUED)

The type of variable remuneration and performance against KPIs of the Company and the individual performance of each executive are taken into account when determining the amount, if any, of the variable incentive pool, which includes cash bonus that is to be allocated to each executive. The aggregate of variable payments available for executives across the Company is subject to the approval of the Remuneration Committee. Payments made are usually cash bonuses.

**Relationship of rewards to performance**

In assessing whether the performance hurdles for each variable component have been met, the Company measures audited results against internal targets.

**Short term incentive (STI)****– How is it paid?**

STI award amount is determined and approved by the board. It is paid subject to the relevant performance, conditions, restrictions and requirements. STI award is paid after the end of the financial year.

**– How is performance measured?**

The STI measures were chosen as they reflect the core drivers of short term performance and also provide a framework for delivering sustaining value to the Group, its shareholders and customers.

**Long term incentive (LTI)****– How is it paid?**

Executives are eligible to receive share options and performance rights specified by Afterpay Touch Employee Incentive Plan. This is offered at the discretion of the board of directors of the Company's parent company, Afterpay Touch Group Limited and in accordance with the term of the Employee Incentive Plan Rules. An offer of options and performance rights is communicated separately to the employees. The number of options granted is determined using the fair value at the grant using the Binomial Model, taking into account the terms and conditions upon which the share options were granted.

## Employments Contracts

### Executive Chairman

The Company has entered into an executive services agreement with Anthony Eisen to govern his employment with the Company as Executive Chairman.

Anthony will receive annual fixed remuneration and will also be eligible to participate in any incentive scheme that may be implemented by the Company. Anthony may terminate his employment contract by giving three months' notice in writing. The Company may terminate by giving three months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other circumstances, the Company may terminate Anthony's executive services agreement immediately without notice.

Upon the termination of Anthony's executive services agreement, he will be subject to a restraint of trade period of 12 months. The enforceability of the restraint clause is subject to all usual legal requirements.

### Group Head

The Company has entered into an executive services agreement with David Hancock to govern his employment with the Company as the Group Head.

David will receive annual fixed remuneration and will also be eligible to participate in any incentive scheme that may be implemented by the Company. David may terminate his employment contract by giving three months' notice in writing. The Company may terminate by giving three months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other similar circumstances, the Company may terminate David executive services agreement immediately without notice.

Upon the termination of David's executive services agreement, he will be subject to a restraint of trade period of 12 months. The enforceability of the restraint clause is subject to all usual legal requirements.

### CEO of Afterpay

The Company has entered into an executive services agreement with Nicholas Molnar to govern his employment with the Company as the CEO of Afterpay.

Nicholas will receive annual fixed remuneration and will also be eligible to participate in any incentive scheme that may be implemented by the Company. Nicholas may terminate his employment contract by giving three months' notice in writing. The Company may terminate by giving three months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other similar circumstances, the Company may terminate Nicholas' executive services agreement immediately without notice.

Upon the termination of Nicholas' executive services agreement, he will be subject to a restraint of trade period of 12 months. The enforceability of the restraint clause is subject to all usual legal requirements.

### Other Executives

All executives have fixed contracts. The Group may terminate the executive's employment agreement by providing between one and three months' written notice (depending on the executive) or providing a payment in lieu of the notice period. On termination on notice by the Group, all unvested options may lapse at a specified date. The Group may terminate the contract at any time without notice if serious misconduct has occurred.

Where termination with cause occurs, the Other executives are only entitled to that portion of remuneration that is fixed. On termination with cause, all options granted will lapse immediately.

### Amounts of remuneration

Given the Afterpay Touch Group Limited was incorporated on 30 March 2017 and the merger became legally effective on 28 June 2017, the Remuneration Report reflects payments made to the Afterpay key management personnel for the year ended 30 June 2017.

The tables below shows details of the nature and amount of each element of the emoluments of each Director of Afterpay Holdings Limited, the key management personnel (as defined in AASB 124 Related Party Disclosures) and specified executives of Afterpay Holdings Limited.

## Directors' Report (CONTINUED)

## Remuneration report (audited) (CONTINUED)

Table 1:  
Remuneration of key management personnel of Afterpay Holdings Limited  
for the year ended 30 June 2017

	Short-term		Post Employ- ment	Long- term	Termin- ation	Share based payment		Total	Perform- ance Related
	Salary and Fees	Cash Bonus	Super- annuation	Long Service Leave		Options	Perform- ance Rights		
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive directors</b>									
Michael Jefferies	52,500	-	4,987	-	-	417	-	57,904	0%
David Hancock	75,000	-	7,125	-	-	417	-	82,542	0%
Clifford Rosenberg	75,000	-	7,125	-	-	27,651	-	109,776	0%
<b>Sub-total non-executive directors</b>	<b>202,500</b>	<b>-</b>	<b>19,237</b>	<b>-</b>	<b>-</b>	<b>28,485</b>	<b>-</b>	<b>250,222</b>	
<b>Executive directors</b>									
Anthony Eisen	221,283	75,000	26,646	1,396	-	3,023	-	327,348	23%
Nicholas Molnar	268,269	75,000	30,875	1,698	-	3,023	-	378,865	20%
<b>Other key management personnel</b>									
Richard Harris	213,351	100,000	28,500	1,359	-	163,401	-	506,611	18%
David Whiteman	209,810	-	20,084	1,359	-	48,831	-	280,084	0%
Fabio de Carvalho	211,275	83,584	26,940	1,359	-	19,775	-	342,933	22%
Barry Odes*	163,525	79,178	22,571	348	-	343,454	77,357	686,433	28%
Matthew Walton*	156,322	30,000	17,065	356	93,750	356,176	72,362	726,031	14%
<b>Sub-total key management personnel</b>	<b>1,443,835</b>	<b>442,762</b>	<b>172,681</b>	<b>7,875</b>	<b>93,750</b>	<b>937,683</b>	<b>149,719</b>	<b>3,248,305</b>	
<b>Totals</b>	<b>1,646,335</b>	<b>442,762</b>	<b>191,918</b>	<b>7,875</b>	<b>93,750</b>	<b>966,168</b>	<b>149,719</b>	<b>3,498,527</b>	

\* Does not represent full year. Barry Odes started on 15 September 2016 and Matthew Walton started on 10 October 2016.

Table 2:  
Remuneration of key management personnel of Afterpay Holdings Limited  
for the year ended 30 June 2016

	Short-term		Post Employment	Long-term	Termination	Share based payment	Total	Performance Related
	Salary and Fees	Cash Bonus	Superannuation	Long Service Leave		Options		
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive directors</b>								
Michael Jefferies	18,958	-	1,800	-	-	61	20,819	0%
David Hancock	20,312	-	1,930	-	-	61	22,303	0%
Clifford Rosenberg	20,312	-	1,930	-	-	10,680	32,922	0%
<b>Sub-total non-executive directors</b>	<b>59,582</b>	<b>-</b>	<b>5,660</b>	<b>-</b>	<b>-</b>	<b>10,802</b>	<b>76,044</b>	
<b>Executive directors</b>								
Anthony Eisen	80,738	-	7,670	296	-	564	89,268	0%
Nicholas Molnar	160,962	-	15,292	296	-	564	177,114	0%
<b>Other key management personnel</b>								
Richard Harris	111,753	-	10,617	296	-	63,713	186,379	0%
David Whiteman	79,104	11,416	8,599	296	-	16,408	115,823	10%
Fabio de Carvalho	159,461	31,964	18,185	355	-	24,651	234,616	14%
<b>Sub-total key management personnel</b>	<b>592,018</b>	<b>43,380</b>	<b>60,363</b>	<b>1,539</b>	<b>-</b>	<b>105,900</b>	<b>803,200</b>	
<b>Totals</b>	<b>651,600</b>	<b>43,380</b>	<b>66,023</b>	<b>1,539</b>	<b>-</b>	<b>116,702</b>	<b>879,244</b>	

**Table 3. Options awarded, vested and lapsed during the year for key management personnel of Afterpay Holdings Limited**

The table below disclosed the number of share options granted, vested or lapsed during the year.

Share options do not carry any voting or dividend rights, and can only be exercised once the vesting conditions have been met, until their expiry.

Financial Year	Options awarded during the year	Performance-ance rights awarded during the year	Award date	Fair value per option at award date A\$	Vesting date	Exercise price A\$	Expiry date	No. vested during the year	No. lapsed during the year	Value of options granted during the year	Value of performance-ance rights granted during the year	Value of options exercised during the year
2017												
Michael Jefferies	2016 200,000		1/3/16	0.0035	1/3/17	1.00	31/12/20	66,666				
2017												
David Hancock	2016 200,000		1/3/16	0.0035	1/3/17	1.00	31/12/20	66,666				
2017												
Clifford Rosenberg	2016 700,000		11/12/15	0.3400	10/12/16	0.20	31/12/20	233,333				
2016 200,000		1/3/16	0.0034	1/3/17	1.00	31/12/20	66,666					
2017												
Anthony Eisen	2016 1,500,000		1/3/16	0.0034	1/3/17	1.00	31/12/20	500,000				
2017												
Nicholas Molnar	2016 1,500,000		1/3/16	0.0034	1/3/17	1.00	31/12/20	500,000				
2017												
Richard Harris	2016 4,200,000		11/12/15	0.0678	10/12/16	0.20	31/12/20	1,400,000				
2017												
David Whiteman	2016 1,250,000		1/12/15	0.0680	30/11/16	0.20	31/12/20	416,667				
2017												
Fabio de Carvalho	2016 1,000,000		30/8/15	0.0034	29/8/16	1.00	31/12/20	250,000				
2017 750,000		19/8/16	0.8683	19/8/17	2.30	31/12/20	-	-	651,225			
Barry Odes	2017 50,000		19/8/16	2.3903	19/8/17	-	31/12/20	-	-	119,515		
2016												
Matthew Walton	2017 600,000		22/8/16	1.1364	22/8/17	2.33	31/12/20	-	-	681,840		
2017	-	50,000	22/8/16	2.7710	22/8/17	-	31/12/20	-	-	138,550		

Table 4:  
Shareholding of key management personnel

30 June 2017	Opening Balance 1 July 2016	Share capital re-structure	Share Split	Net change other	Balance 30 June 2017
<b>Non-executive directors</b>					
Michael Jefferies	250,000	-	-	4,073,226	4,323,226
David Hancock	2,500,000	-	-	(100,000)	2,400,000
Clifford Rosenberg	1,000,000	-	-	-	1,000,000
<b>Executives</b>					
Anthony Eisen	25,000,000	-	-	-	25,000,000
Nicholas Molnar	25,000,000	-	-	-	25,000,000
<b>Other key management personnel</b>					
Richard Harris	-	-	-	-	-
David Whiteman	-	-	-	-	-
Fabio de Carvalho	-	-	-	-	-
<b>Total</b>	<b>53,750,000</b>	<b>-</b>	<b>-</b>	<b>3,973,226</b>	<b>57,723,226</b>
<hr/>					
30 June 2016	Opening Balance 1 July 2015	Share capital re-structure	Share Split	Net change other	Balance 30 June 2016
<b>Non-executive directors</b>					
Michael Jefferies*	-	-	-	250,000	250,000
David Hancock*	-	-	-	2,500,000	2,500,000
Clifford Rosenberg*	-	-	-	1,000,000	1,000,000
<b>Executives</b>					
Anthony Eisen**	1	4,999,999	20,000,000	-	25,000,000
Nicholas Molnar**	1	4,999,999	20,000,000	-	25,000,000
<b>Other key management personnel</b>					
Richard Harris	-	-	-	-	-
David Whiteman	-	-	-	-	-
Fabio de Carvalho	-	-	-	-	-
<b>Total</b>	<b>2</b>	<b>9,999,998</b>	<b>40,000,000</b>	<b>3,750,000</b>	<b>53,750,000</b>

\* As part of the private capital raise, Michael Jefferies, David Hancock and Clifford Rosenberg subscribed to shares of Afterpay Holdings Limited.

\*\* On 16 July 2015, the shares of Anthony Eisen and Nicholas Molnar in Afterpay Pty Ltd were exchanged for 5m shares each in Afterpay Holdings Limited, which became the ultimate parent of Afterpay Pty Ltd.

#### 5. Other transactions with key management personnel and their related parties

During the year, purchases relating to consulting services totalling \$126,000 have been made by the Group companies from Finarch Pty Limited, of which David Hancock is the owner. As at 30 June 2017, \$10,000 was outstanding.

Directors' Report (CONTINUED)

**Insurance of Directors and Officers**

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

**Proceedings on behalf of the Company**

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

**Non-audit services**

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

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

Details of the audit and non-audit fees paid or payable for services provided by the auditor of the parent entity, and its related practices, are detailed in Note 22.

**Indemnification of auditors**

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

**Corporate governance**

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Afterpay Touch Group Limited support and have substantially adhered to the principles of corporate governance.

The Board monitors the operational and financial position and performance of Afterpay Touch Group 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 level of shareholder value and financial return and achieving the growth and success of the Group. In conducting the Group's business with these objectives, the Board seeks to ensure that the Group is properly managed to protect and enhance shareholder interests and that the Company, 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 business. Details of the Group's key policies and the charters for the Board and each of its committees is available at [www.afterpaytouchgroup.com](http://www.afterpaytouchgroup.com).

Signed in accordance with a resolution of the Directors.



**Anthony Eisen**  
Executive Chairman  
Melbourne  
23 August 2017

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

As lead auditor for the audit of Afterpay Touch Group Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

David McGregor  
Partner  
23 August 2017

# Consolidated statement of comprehensive income

For the year ended 30 June 2017

	Note	2017 \$	2016 \$
Revenue from ordinary activities		22,905,727	1,383,241
<b>Revenue</b>		<b>22,905,727</b>	<b>1,383,241</b>
Cost of sales		(5,263,468)	(258,389)
<b>Gross profit</b>		<b>17,642,259</b>	<b>1,124,852</b>
Other income		6,120,104	289,422
<b>Total other income</b>		<b>6,120,104</b>	<b>289,422</b>
Depreciation	11	(21,385)	(4,476)
Amortisation	12	(2,686,842)	(2,166,667)
Share based payments expense	14(a)	(1,837,821)	(153,438)
Employee benefits expense	5	(4,732,161)	(1,228,647)
Bad and doubtful debts expense	9	(8,158,383)	(646,292)
Asset impairment & provision for onerous contract	16	(13,595,869)	-
Consulting & contractor costs		(1,087,785)	(273,680)
Legal expenses		(698,166)	(283,922)
Operating lease expense		(180,881)	(55,893)
General and administrative expenses		(3,198,033)	(460,127)
Merger related costs		(1,558,157)	-
<b>Operating loss</b>		<b>(13,993,120)</b>	<b>(3,858,868)</b>
Finance income		347,400	168,751
Finance cost		(776,980)	-
<b>Loss before income tax</b>		<b>(14,422,700)</b>	<b>(3,690,117)</b>
Income tax benefit	6	4,803,070	137,789
<b>Loss for the year after income tax</b>		<b>(9,619,630)</b>	<b>(3,552,328)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss for the year, net of tax</b>		<b>(9,619,630)</b>	<b>(3,552,328)</b>
<b>Loss per share</b>	24		
Basic, profit for the year attributable to ordinary equity holders of the Parent		-\$0.05	-\$0.06
Diluted, profit for the year attributable to ordinary equity holders of the Parent		-\$0.05	-\$0.06

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

# Consolidated statement of financial position

At 30 June 2017

	Note	2017 \$	2016 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	29,601,808	19,723,472
Other financial asset	8	8,892,905	-
Trade receivables	9	98,385,482	7,229,936
Other current assets	10	11,937,214	567,861
<b>Total Current Assets</b>		<b>148,817,409</b>	<b>27,521,269</b>
<b>Non-current Assets</b>			
Property, plant and equipment	11	4,459,866	28,193
Intangible assets	12	68,762,327	10,833,333
Deferred tax asset	6(d)	16,813,296	609,400
Other non current assets	10	1,475,000	-
<b>Total Non-current Assets</b>		<b>91,510,489</b>	<b>11,470,926</b>
<b>TOTAL ASSETS</b>		<b>240,327,898</b>	<b>38,992,195</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	15	22,835,949	870,986
Onerous contract provision	16	6,152,787	-
Unearned income		142,440	-
Annual leave provision		1,117,877	57,427
Long service leave provision		308,326	-
Income tax payable		1,065,348	-
<b>Total Current Liabilities</b>		<b>31,622,727</b>	<b>928,413</b>
<b>Non-current Liabilities</b>			
Long service leave provision		140,327	2,945
Onerous contract provision	16	1,538,197	-
Office lease provision		195,430	-
Interest bearing loans	17	46,747,800	-
<b>Total Non-current Liabilities</b>		<b>48,621,754</b>	<b>2,945</b>
<b>TOTAL LIABILITIES</b>		<b>80,244,481</b>	<b>931,358</b>
<b>NET ASSETS</b>		<b>160,083,417</b>	<b>38,060,837</b>
<b>EQUITY</b>			
Issued capital	18(a)	171,411,156	41,506,567
Accumulated losses		(13,218,798)	(3,599,168)
Reserves	18(c)	1,891,059	153,438
<b>TOTAL EQUITY</b>		<b>160,083,417</b>	<b>38,060,837</b>

The above statement of financial position should be read in conjunction with the accompanying notes.

# Consolidated statement of changes in equity

For the year ended 30 June 2017

	Issued capital \$	Accumulated losses \$	Reserves \$	Total \$
<b>At 1 July 2016</b>	<b>41,506,567</b>	<b>(3,599,168)</b>	<b>153,438</b>	<b>38,060,837</b>
Loss for the year	-	(9,619,630)	-	(9,619,630)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(9,619,630)</b>	<b>-</b>	<b>(9,619,630)</b>
<b>Transactions</b>				
Issue of share capital	36,000,000	-	-	36,000,000
Share options exercised	150,200	-	(100,200)	50,000
Acquisition of a subsidiary	94,847,544	-	-	94,847,544
Share issue expenses (net of tax)	(1,093,155)	-	-	(1,093,155)
Share based payment expenses	-	-	1,837,821	1,837,821
<b>At 30 June 2017</b>	<b>171,411,156</b>	<b>(13,218,798)</b>	<b>1,891,059</b>	<b>160,083,417</b>
	Issued capital \$	Accumulated losses \$	Reserves \$	Total \$
<b>At 1 July 2015</b>	<b>2</b>	<b>(46,840)</b>	<b>-</b>	<b>(46,838)</b>
Loss for the year	-	(3,552,328)	-	(3,552,328)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(3,552,328)</b>	<b>-</b>	<b>(3,552,328)</b>
Issue of share capital	18,000,000	-	-	18,000,000
Share issue expenses (net of tax)	(1,493,435)	-	-	(1,493,435)
Issue of share capital via IPO	25,000,000	-	-	25,000,000
Share based payment expenses	-	-	153,438	153,438
<b>At 30 June 2016</b>	<b>41,506,567</b>	<b>(3,599,168)</b>	<b>153,438</b>	<b>38,060,837</b>

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

# Consolidated statement of cashflows

For the year ended 30 June 2017

	Note	2017 \$	2016 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		440,879,330	27,327,113
Payments to employees		(3,668,505)	(1,214,529)
Payments to merchants and suppliers (inclusive of GST)		(516,077,347)	(34,420,348)
<b>Net cash flows used in operating activities</b>	<b>7</b>	<b>(78,866,522)</b>	<b>(8,307,764)</b>
<b>Cash flows from investing activities</b>			
Interest received		432,969	74,966
Increase in term deposit		(100,000)	-
Acquisition of subsidiary, net of cash acquired		17,168,836	-
Purchase of intangibles		(452,017)	(3,000,000)
Purchase of plant and equipment		(78,279)	(32,669)
<b>Net cash flows from/(used in) investing activities</b>		<b>16,971,509</b>	<b>(2,957,703)</b>
<b>Cash flows from financing activities</b>			
Repayment to directors		-	(49,800)
Proceeds for exercise of shares options		50,000	-
Proceeds from issue of shares		36,000,000	33,000,000
Proceeds from borrowings		37,854,894	-
Interest and bank fees paid		(542,637)	-
Capital raising expenses		(1,588,908)	(1,965,046)
<b>Net cash flows from financing activities</b>		<b>71,773,349</b>	<b>30,985,154</b>
Net increase in cash and cash equivalents		9,878,336	19,719,687
Cash and cash equivalents at beginning of the year		19,723,472	3,785
<b>Cash and cash equivalents at end of the year</b>	<b>7</b>	<b>29,601,808</b>	<b>19,723,472</b>

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

## Notes to the financial statements

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**Note 1: Corporate Information**

The consolidated financial statements of Afterpay Touch Group Limited for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the Directors on 23 August 2017.

The securities of Afterpay Touch Group Limited (the Company) are listed on the Australian Securities Exchange (ASX). The activities of Afterpay Touch Group Limited and its subsidiaries (the Group) are described in the Directors' Report.

The Company was incorporated on 30 March 2017. On 19 June 2017, the Company completed the merger of Afterpay Holdings Ltd ("Afterpay") and Touchcorp Ltd ("Touchcorp"), which resulted in the Company becoming the ultimate parent of Afterpay and Touchcorp. The Company was incorporated as a special-purpose company to make an offer to acquire all of the shares of Afterpay and Touchcorp. The Company has not conducted any business other than to be the holding company of Afterpay and Touchcorp. The Company's consolidated financial statements for the period ended 30 June 2017 are presented as the continuation of Afterpay financial statements and the acquisition of Touchcorp as at 30 June 2017.

**Note 2: Summary of Significant Accounting Policies****Basis of Preparation**

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis and is presented in Australian dollars.

**(a) Compliance with IFRS**

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

**(b) Comparatives**

Certain amounts in the comparative information have been restated to conform with current period financial statement presentations.

**(c) New accounting standards and interpretations**

The following standards and interpretations have been applied:

- AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138).
- AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.
- AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent.

There are no changes to the financial report as a result of adopting these items.

The following standards and interpretations have been issued and amended by the AASB but are not yet effective for the period ending 30 June 2017.

## Notes to the Financial Statements (CONTINUED)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	<p>AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities.</p>	1-Jan-18	The Group is assessing the impact of AASB 9 which may have an impact on the doubtful debt provision.	1-Jul-18
AASB 15	Revenue from Contracts with Customers	<p>AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards. AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).</p> <p>AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.</p>	1-Jan-18	The Group is in the process of planning the approach for assessing and applying AASB15 for the year ended 30 June 2019.	1-Jul-18
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>AASB 2014-10 amends AASB 10 Consolidated Financial Statements and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:</p> <ol style="list-style-type: none"> <li>A full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not)</li> <li>A partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</li> </ol>	1-Jan-18	The Group expects that there will be no material impact.	1-Jul-18

## Notes to the Financial Statements (CONTINUED)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 16	Leases	<p>In February 2016, AASB issued AASB 16 'Leases', which replaces the current guidance in AASB 117 'Leases'.</p> <p>The new standard significantly changes accounting for lessees requiring recognition of all leases on the balance sheet, including those currently accounted for as operating leases. A lessee will recognise liabilities reflecting future lease payments and 'right-of-use assets', initially measured at a present value of unavoidable lease payments. Depreciation of leased assets and interest on lease liabilities will be recognised over the lease term.</p> <p>AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases and account for them as operating leases or finance leases.</p> <p>There is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.</p>	1-Jan-19	The Group is assessing the impact of AASB 16.	1-Jul-19
AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions [AASB 2]	<p>This standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:</p> <p>The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments.</p> <p>Share-based payment transactions with a net settlement feature for withholding tax obligations.</p> <p>A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.</p>	1-Jan-18	The Group expects that there will be no material impact.	1-Jul-18

## Notes to the Financial Statements (CONTINUED)

**(d) Significant accounting judgements, estimates and assumptions**

Management has identified the following accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of these assumptions may be found in the relevant notes to the financial statements.

**(i) Share based payment transactions**

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

**(ii) Estimation of useful lives of intangible assets**

The estimation of the useful lives of intangible assets have been based on typical product life cycles for the asset.

In addition, the assumptions of the estimation of useful lives of intangible assets are assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

**(iii) Impairment of intangible assets**

Intangible assets with finite lives are reviewed annually for impairment where an impairment trigger exists, the carrying value of the intangible asset is assessed against its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Management estimates and assumptions are used in the above calculations.

**(iv) Taxation**

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

**(v) Bad and doubtful debt provision**

The provision for bad and doubtful debts are reviewed on an ongoing basis. Management estimates and assumptions are based on historical loss experience. Historical loss experience is adjusted based on current observable data. The methodology and assumptions used for estimating future cash flows are reviewed regularly and updated for actual payment history.

**(vi) Onerous contract provision**

Onerous contract provisions are recognised when the total unavoidable costs exceed the estimated benefits to be received. The assumptions used to derive the provisions are reviewed regularly and updated for actual costs and benefits.

**(e) Basis of consolidation**

The consolidated financial information comprises the financial information of the Group and its subsidiaries as at 30 June 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

## Notes to the Financial Statements (CONTINUED)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

### (f) Business combinations and goodwill

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

## Notes to the Financial Statements (CONTINUED)

**(g) Revenue recognition**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

**(i) Rendering of services**

The Group facilitates the sales of products and services by merchants to end-customers by allowing end-customers to buy now and pay later without having to take out a traditional loan or paying any interest and fees. Afterpay pays merchants up front and assumes all non-payment risk. For this, the merchant pays Afterpay a fee with revenue recognised for the service upon end-customers' acceptance through the Afterpay System.

**(ii) Other Income – late fee charges**

Late fee charges are currently used by Afterpay as an incentive mechanism in order to encourage end-customers to pay their outstanding balances as and when they fall due. Revenue is recognised upon charge to end-customer at certain time points where late fees become applicable and are expected to be recovered. These time frames may vary over time.

**(iii) Interest revenue**

Revenue is recognised as the interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**(h) Leases**

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

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

**(i) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the Statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

The cash held in the Group's Trust is only used to repay the group's secured interest-bearing borrowing and payment of interest and bank fees associated to that borrowings, therefore it is classified as Other financial asset.

**(j) Financial assets**

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

The Group has designated its financial assets as loans and receivables, and available for sale financial assets.

**(i) Trade and other receivables**

Trade receivables which generally have 14-56 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. The bad and doubtful debt provision for trade receivables is calculated based on historical loss experience. Historical loss experience is adjusted based on current observable data. The methodology and assumptions used for estimating future cash flows are reviewed regularly, and updated for actual payment history.

**(ii) Available for sale financial assets**

Available for sale (AFS) financial assets include equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss.

## Notes to the Financial Statements (CONTINUED)

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in Other Comprehensive Income (OCI) and credited to the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss. Interest earned whilst holding AFS financial assets is reported as interest income using the Effective Interest Rate (EIR) method.

The Group evaluates whether the ability and intention to sell its financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade the financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

**(k) Income tax**

Current income tax assets and liabilities in respect of the taxable profit (tax loss) for the year is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit and loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and established provision where appropriate.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the deductible temporary difference is associated with investments in subsidiaries, associates and interests in joint ventures, in which case deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

**Tax consolidation legislation**

Afterpay Touch Group Limited and its wholly-owned Australian controlled subsidiaries have not yet implemented a tax consolidation group.

Afterpay Touch Group Limited and controlled subsidiaries account for their own current and deferred tax amounts subject to satisfying the recoverability tests for the deferred tax assets arising from unused tax losses and unused tax credits.

Notes to the Financial Statements (CONTINUED)

**(l) Other taxes**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**(m) Property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Repairs and maintenance are recognised in the profit and loss as incurred.

Depreciation is calculated on the straight-line basis over the estimated useful life of the specific assets as follows:

- Plant and equipment - 3 to 5 years

**(i) Impairment**

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate the carrying value may be impaired.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The assets or cash-generating unit is written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the profit or loss in the cost of sales line item.

**(ii) Derecognition**

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

**(n) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

Notes to the Financial Statements (CONTINUED)

**Research and development costs**

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits

- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development
- The ability to use the intangible asset generated

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

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

	Patents	Core Technology	Others
Useful lives	Finite	Finite	Finite
Amortisation method used	20 years – Straight-line	5 years – Straight-line	3 – 5 years – Straight-line
Internally generated / Acquired	Acquired	Acquired and Internally generated	Acquired
Impairment testing	Amortisation method reviewed at every reporting period. Reviewed annually for indicators of impairment.	Amortisation method reviewed at every reporting period. Reviewed annually for indicators of impairment.	Amortisation method reviewed at every reporting period. Reviewed annually for indicators of impairment.

**(o) Impairment of assets**

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely dependent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment

losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

## Notes to the Financial Statements (CONTINUED)

**(p) Trade and other payables**

Trade payables and other payables are carried at amortised cost. Due to their short term nature, they are not discounted. They represent liabilities for goods and services provided to the Group that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

**(q) Provisions and employee benefits**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**(i) Onerous contracts**

An onerous contract provision is recognised when the total unavoidable costs of the contract exceeds the expected future economic benefits. The amount of the provision recognised will be the best estimate of the total unavoidable costs offset with the expected future economic benefits. The provision is discounted to reflect the present value of the expenditures and benefit where the time value of money is material.

**(ii) Employee leave benefits**

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

**(iii) Long service leave**

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

**(iv) Restructuring provisions**

Restructuring provisions are recognised only when the Group has a constructive obligation, which is when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan's main features.

**(r) Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIP amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIP. The EIP amortisation is included as finance costs in the statement of profit or loss.

**(s) Equity settled transactions**

The Group measures the cost of equity settled transactions with employees and other parties based on the fair value of the equity provided at grant date. Where the transaction is with a non-employee, the cost is based on the fair value of the asset or service received. That cost is recognised, together with a corresponding increase in other capital reserves or share capital in equity, over the period in which the performance and/or service conditions are fulfilled and/or the asset or service is delivered/received.

The Group provides benefits to employees (including key management personnel) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

The Employee Share Option Plan (ESOP) provides benefits to executive directors and senior executives, and other staff as agreed by the Board of Directors.

Eligible executives and shareholders in the case of executive directors are provided with an interest free, limited recourse loan from the Group for the sole purpose of acquiring shares in the Group. Executives may not deal with the shares while the loan remains outstanding. Executives are entitled to exercise the voting rights attaching to their Group ordinary shares from the date of allocation of those shares.

## Notes to the Financial Statements (CONTINUED)

Shares allocated under this plan in conjunction with limited recourse loans are accounted for as options. As a result, the amounts receivable from employees in relation to these loans are not recognised in the financial statements. A share-based payments expense is recognised in the income statement over the vesting period based on the fair value of the options. Settlement of share loans upon vesting are recognised as contributed equity.

A share-based payments expense is recognised in the income statement over the vesting period based on the fair value of the options. Settlement of share options upon vesting are recognised as contributed equity. The vesting of shares under the ESOP will depend on the satisfaction of certain key performance indicators by the executive. If the executive leaves within the vesting period, the share options allocated are returned to the Group, subject to discretion retained by the Directors.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

### (t) Contributed equity

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

### Note 3: Segment Information

For the purposes of preparing the financial statements, the merger was assumed to have occurred on 30 June 2017. The Statement of Comprehensive Income includes only the transactions of Afterpay for the year ended 30 June 2017 as the results of operations for Touchcorp Limited were not material to the overall group during the period from 19 June to 30 June 2017. The net assets acquired from Touchcorp are disclosed in Note 4.

For this period, Afterpay was an Australian domiciled technology driven payments company with only one product; as such for the year ended 30 June 2017 there was only segment. The Board and Management are in the process of assessing its segment reporting under the new Group structure which will apply for financial year 2018.

## Notes to the Financial Statements (CONTINUED)

**Note 4: Business Combinations**

On 19 June 2017, the Group acquired 100% of the voting shares of Afterpay and Touchcorp shares. The rationale for the merger is compelling as it brings together the complementary skill and product sets of Afterpay and Touchcorp. Afterpay has grown its merchant numbers, customer numbers and revenues at a strong rate since Afterpay commenced business in the first half of 2015, with that growth supported and enabled in a technology sense by Touchcorp. The merger brings together the key executives responsible for this success under a single company structure allowing shareholders in both Afterpay and Touchcorp to benefit from having a single corporate objective.

Given the relative market capitalisation of Afterpay and Touchcorp, together with the structure of Afterpay Touch Group Board and executive representation, Afterpay has been identified as the acquirer of Touchcorp Ltd.

Goodwill is the difference between the fair value of the net assets of the Touchcorp business and the deemed purchase consideration.

The goodwill of \$40,777,906 comprises the value of expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group has one year from acquisition date to finalise the business combination accounting which might change the fair value of the assets and liabilities acquired, including goodwill.

**Assets acquired and liabilities assumed**

The provisional fair values of the identifiable assets and liabilities of Touchcorp as at the date of acquisition were:

	Fair value recognised on acquisition \$
<b>Assets</b>	
Property, plant and equipment	4,383,680
Intangible assets	17,535,914
Cash and cash equivalents	17,168,836
Trade receivables	6,537,781
Deferred tax asset	9,859,699
Prepayments	8,171,738
Other assets	9,359,952
Investment in associate - Afterpay	144,000,000
	<b>217,017,600</b>
<b>Liabilities</b>	
Trade and other payables	(16,467,525)
Unearned income	(142,728)
Employee entitlements	(2,345,280)
	<b>(18,955,533)</b>
<b>Net assets at 30 June 2017</b>	<b>198,062,067</b>
Goodwill arising on acquisition	40,777,906
<b>Purchase consideration transferred</b>	<b>238,839,973</b>

The purchase consideration has been based on Afterpay's share price of \$2.88, the share price at the close of business on 19 June 2017.

## Notes to the Financial Statements (CONTINUED)

## Note 4: Business Combinations (CONTINUED)

	\$
Number of shares issued to Touchcorp shareholders	82,322,284
Fair value of shares issued (\$)	237,088,177
Fair value of employee shares issued subject to non-recourse loans (\$)	1,751,796
<b>Total purchase consideration</b>	<b>238,839,973</b>

The fair value of the trade receivable amount reasonably approximates its carrying value due to the short-term nature of the trade receivable.

The deferred tax asset mainly comprised the tax effect of the carried forward tax losses and R&D offsets.

Merger related costs of \$1,558,157 were expensed and are included in the Statement of Comprehensive Income.

Number of shares issued to Touchcorp shareholders included 50 million shares Touchcorp held in Afterpay. On merger, these shares have been eliminated.

From the date of the acquisition, the results of operations for Touchcorp Limited were not material to the overall group and are not included in the profit and loss and cash flow segment of the financial statement.

The Group re-assessed the customer development contract that Touchcorp has with one of its customers, which resulted in an impairment of the prepaid asset related to the agreement of \$5,904,885 (2016: \$nil) and recognised an onerous contract provision of \$7,690,984 (2016: \$nil). Refer to Note 16 for details.

## Note 5: Expenses

	2017	2016
	\$	\$
<b>Employee benefits expense</b>		
Wages and salaries	4,099,717	1,039,117
Employee on-costs	632,444	189,530
	<b>4,732,161</b>	<b>1,228,647</b>

## Notes to the Financial Statements (CONTINUED)

## Note 6: Income Tax

## (a) Income tax expense

The major components of income tax expense benefit:

	2017	2016
	\$	\$
Current Income tax charge		
Current income tax charge	2,119,277	-
Deferred income tax		
Relating to origination / reversal of temporary differences	(5,868,418)	(137,789)
Reversal / recognition of deferred tax asset in relation to tax losses	(1,053,929)	-
<b>Income tax benefit as reported in the income statement</b>	<b>(4,803,070)</b>	<b>(137,789)</b>

## (b) Statement of changes in equity

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

	2017	2016
	\$	\$
Deferred income tax related to items credited directly to equity:	(468,496)	(471,611)
<b>Net deferred income tax share issue expenses</b>	<b>(468,496)</b>	<b>(471,611)</b>

## (c) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax benefit calculated per the statutory income tax rate

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

	2017	2016
	\$	\$
Accounting loss before tax	<b>(14,422,700)</b>	<b>(3,690,117)</b>
At the Group's statutory rate of 30% (2016: 30%)	(4,326,810)	(1,107,035)
Expenditure not allowed for income tax purposes	577,669	48,702
Initial recognition of deferred tax balances	-	(120,927)
Tax losses not recognised	-	1,041,471
Utilisation of tax losses not previously recognised	(1,053,929)	-
<b>Income tax benefit</b>	<b>(4,803,070)</b>	<b>(137,789)</b>

Deferred tax assets are recognised unused tax losses, based on managements' foreseeable forecasts, to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

## Notes to the Financial Statements (CONTINUED)

## Note 6: Income Tax (CONTINUED)

## (d) Deferred income tax

Deferred income tax at 30 June relates to the following:

	2017	2016
	\$	\$
<b>Deferred tax liabilities</b>		
Prepayments	(22,954)	(30,922)
<b>Deferred tax liabilities</b>	<b>(22,954)</b>	<b>(30,922)</b>
<b>Deferred tax assets</b>		
Employee provisions	469,959	150,599
Share issue expenses	1,490,484	471,611
R&D offsets	3,284,735	-
Impairment Provision	2,307,295	-
Doubtful Debts	1,642,311	-
Other	(110,453)	18,112
Losses	7,751,919	-
<b>Gross deferred tax assets</b>	<b>16,836,250</b>	<b>640,322</b>
Set-off of deferred tax liabilities	(22,954)	(30,922)
<b>Net deferred tax assets</b>	<b>16,813,296</b>	<b>609,400</b>

## Notes to the Financial Statements (CONTINUED)

## Note 7: Cash and Cash Equivalents

	2017	2016
	\$	\$
Cash at bank and in hand	16,564,770	723,472
Short-term deposits	13,037,038	19,000,000
	<b>29,601,808</b>	<b>19,723,472</b>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The fair value of cash and cash equivalents is \$29,601,808 (2016: \$19,723,472) which approximately equals to their carrying amounts due to their short-term maturities.

	2017	2016
	\$	\$
<b>Reconciliation from the net loss before tax to the net cash flows from operations</b>		
Loss before tax	(14,422,700)	(3,690,117)
<b>Adjustments for:</b>		
Depreciation	21,385	4,476
Amortisation	2,686,842	2,166,667
Asset impairment and provision for onerous contract	13,595,869	-
Share based payment expense	1,837,821	153,438
Interest expense	776,980	-
Interest revenue	(347,400)	(168,751)
<b>Changes in assets and liabilities</b>		
Increase in trade receivables	(84,841,923)	(6,950,451)
Increase in prepayments and other assets	(4,117,320)	(175,009)
Increase in trade and other payables	5,943,924	351,983
<b>Net cash used in operating activities</b>	<b>(78,866,522)</b>	<b>(8,307,764)</b>

## Note 8: Other Financial Asset

	2017	2016
	\$	\$
Other financial asset	8,892,905	-
	<b>8,892,905</b>	<b>-</b>

Other financial asset is cash held for the purposes of repayment of the Group's secured interest-bearing borrowings (as disclosed in note 17) and payment of interest and bank fees associated to the borrowings.

The fair value of the other financial assets is \$8,892,905 (2016: \$nil) and approximate their carrying amounts due to their short-term maturities.

The Group has a non-controlling interest of 15.3% in a privately held company in the start-up phase which is designated as an available for sale financial asset. The fair value of the Group's non-controlling interest was valued at \$0 at 30 June 2017 due to uncertainty concerning the Company's future prospects and its ability to generate profits. The shares of the non-controlling interest are privately held and not listed on any third party public exchange. This is a Level 3 financial asset.

Notes to the Financial Statements (CONTINUED)

Note 9: Trade Receivables

	2017 \$	2016 \$
<b>Trade receivables (current)</b>		
Trade receivables	103,676,631	7,628,726
<b>Less allowance for doubtful debts</b>		
Opening balance	(398,790)	(6,623)
Provided in the year	(8,158,383)	(646,292)
Debts written off/collected	3,266,024	254,125
Total allowance for doubtful debts	(5,291,149)	(398,790)
<b>Total trade receivables</b>	<b>98,385,482</b>	<b>7,229,936</b>

Trade receivables are non-interest bearing and are generally on 14-56 day terms.

At 30 June, the aging analysis of trade receivables is as follows:

2017	Current	Past Due			TOTAL
	Owed But Not Yet Due	1-30 days	31-61 days	Over 61 days	
Trade receivables	94,851,876	4,598,782	2,126,952	2,099,021	103,676,631
Provision for impairment	566,465	1,795,528	1,671,468	1,257,688	5,291,149
<b>Net trade receivables</b>	<b>94,285,411</b>	<b>2,803,254</b>	<b>455,484</b>	<b>841,333</b>	<b>98,385,482</b>

  

2016	Current	Past Due			TOTAL
	Owed But Not Yet Due	1-30 days	31-61 days	Over 61 days	
Trade receivables	7,127,660	256,216	96,530	148,320	7,628,726
Provision for impairment	55,462	122,993	81,940	138,395	398,790
<b>Net trade receivables</b>	<b>7,072,198</b>	<b>133,223</b>	<b>14,590</b>	<b>9,925</b>	<b>7,229,936</b>

**Fair value and credit risk**

Due to the short-term nature of these receivables the fair value is the amount presented in the financial statements.

The maximum exposure to credit risk is the fair value of receivables.

**Foreign exchange and interest rate risk**

Detail regarding foreign exchange and interest rate risk exposure is disclosed in Note 13.

Notes to the Financial Statements (CONTINUED)

Note 10: Current and Non-Current Other Assets

	2017	2016
	\$	\$
GST receivable	-	26,280
Prepayments	962,379	9,289
Accrued interest	-	93,785
Security bonds	600,321	18,340
Receivable from a financial institution	3,450,389	417,585
Prepaid electronic PINS	2,784,520	-
Accrued revenue	3,238,426	-
Others	901,179	2,582
<b>Total current-assets</b>	<b>11,937,214</b>	<b>567,861</b>
Prepayment	1,375,000	-
Term deposit	100,000	-
<b>Total non-current assets</b>	<b>1,475,000</b>	<b>-</b>

Notes to the Financial Statements (CONTINUED)

Note 11: Property, Plant and Equipment

	Property, Plant and Equipment \$
<b>Year ended 30 June 2017</b>	
At 1 July 2016	
Net of accumulated depreciation	28,193
Additions	78,279
Acquisition of subsidiary property, plant and equipment	4,383,680
Disposal cost	(11,510)
Depreciation charge for the year	(21,385)
Disposal depreciation	2,609
<b>At 30 June 2017</b>	
<b>Net of accumulated depreciation</b>	<b>4,459,866</b>
<b>At 30 June 2017</b>	
Cost	4,483,118
Accumulated depreciation	(23,252)
<b>Net carrying value</b>	<b>4,459,866</b>
<b>Year ended 30 June 2016</b>	
At 1 July 2015	-
Net of accumulated depreciation	-
Additions	32,669
Depreciation charge for the year	(4,476)
<b>At 30 June 2016</b>	
<b>Net of accumulated depreciation</b>	<b>28,193</b>
<b>At 30 June 2016</b>	
Cost	32,669
Accumulated depreciation	(4,476)
<b>Net carrying value</b>	<b>28,193</b>

## Notes to the Financial Statements (CONTINUED)

## Note 12: Intangible Assets

	Core Technology \$	Work in Progress \$	Patents \$	Goodwill \$	Total \$
<b>Year ended 30 June 2017</b>					
At 1 July 2016					
Net of accumulated depreciation	10,833,333	-	-	-	10,833,333
Additions	1,641,070	660,947	-	-	2,302,017
Acquisition of subsidiary assets	17,409,602	-	126,311	40,777,906	58,313,819
Amortisation for the year	(2,686,842)	-	-	-	(2,686,842)
<b>At 30 June 2017</b>					
<b>Net of accumulated depreciation</b>	<b>27,197,163</b>	<b>660,947</b>	<b>126,311</b>	<b>40,777,906</b>	<b>68,762,327</b>
<b>At 30 June 2017</b>					
Cost	32,050,672	660,947	126,311	40,777,906	73,615,836
Accumulated amortisation	(4,853,509)	-	-	-	(4,853,509)
<b>Net carrying value</b>	<b>27,197,163</b>	<b>660,947</b>	<b>126,311</b>	<b>40,777,906</b>	<b>68,762,327</b>
<b>Year ended 30 June 2016</b>					
At 1 July 2015					
Net of accumulated depreciation	3,000,000	-	-	-	3,000,000
Additions	10,000,000	-	-	-	10,000,000
Amortisation for the year	(2,166,667)	-	-	-	(2,166,667)
<b>At 30 June 2016</b>					
<b>Net of accumulated depreciation</b>	<b>10,833,333</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,833,333</b>
<b>At 30 June 2016</b>					
Cost	13,000,000	-	-	-	13,000,000
Accumulated amortisation	(2,166,667)	-	-	-	(2,166,667)
<b>Net carrying value</b>	<b>10,833,333</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,833,333</b>

Goodwill is provisional at 30 June 2017.

### Note 13: Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits, other financial assets and secured interest-bearing borrowings.

The Group manages its exposure to key financial risks, including interest rate, credit, liquidity and currency risk in accordance with the Group's financial risk management policy. The objective of which is to support the delivery of the Group's financial targets, whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The Group uses different methods to measure and manage different types of risks to which it is exposed.

These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange, and by depositing funds with a number of different banking institutions. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

#### Risk Exposures and Responses

##### Credit risk

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

The Group utilises its proprietary fraud engine and risk decisioning rules to mitigate credit risk. The Group also regularly reviews the adequacy of the provision for doubtful debts to ensure that it is sufficient to mitigate the credit risk exposure in terms of financial reporting. The provision for doubtful debts raised represents management's best estimate of losses incurred at reporting date based on historical loss experience and their experienced judgement.

##### Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash and cash equivalents and interest-bearing borrowings.

##### Foreign currency risk

The Group's balance sheet can be affected by movements in the Euro, Swiss Franc, US Dollars, Fijian Dollars, Singapore Dollars, Malaysian Ringgit, Norwegian Krone and Swedish Krona.

The Group has transactional currency exposures arising from sales and purchases by Touchcorp in Europe.

##### Interest rate risk

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	2017	2016
	\$	\$
<b>Financial Assets</b>		
Cash and cash equivalents	29,701,808	19,723,472
Other financial asset	8,892,905	-
Term deposit	100,000	-
	38,594,713	19,723,472
<b>Financial Liabilities</b>		
Interest - bearing loans	46,747,800	-
	46,747,800	-
<b>Net exposure</b>	<b>(8,153,087)</b>	<b>19,723,472</b>

## Notes to the Financial Statements (CONTINUED)

## Note 13: Financial Risk Management Objectives and Policies (CONTINUED)

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

At 30 June 2017, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2017 \$	2016 \$	2017 \$	2016 \$
-0.25% (25 basis points)	14,268	(12,333)	14,268	(12,333)
+1.00% (100 basis points)	(57,072)	49,331	(57,072)	49,331

The movements in profits and equity are due to lower interest rates from variable cash balances

Significant assumptions used in the interest rate sensitivity analysis include:

- Management believes that interest rates will remain constant during the 12 month period subsequent to balance date.
- The net exposure at balance date being representative of what the group was and is expecting to be exposed to in the next twelve months from balance date.

## Foreign currency risk

At 30 June 2017, the Group has the following exposure to foreign currency that is not designated in cash flow hedges:

	2017 \$	2016 \$
<b>Financial Assets</b>		
Cash and cash equivalents - Other	40,642	-
Trade and other receivables - EUR	153,938	-
Trade and other receivables - CHF	206,069	-
Trade and other receivables - Other	101,986	-
	<b>502,635</b>	<b>-</b>
<b>Financial Liabilities</b>		
Trade and other payables - EUR	97,820	-
Trade and other payables - CHF	83,192	-
Trade and other payables - Other	301,005	-
	<b>482,017</b>	<b>-</b>
<b>Net exposure</b>	<b>20,618</b>	<b>-</b>

## Note 13: Financial Risk Management Objectives and Policies (CONTINUED)

Judgements of reasonably possible movements:	Post Tax Profit (Higher)/Lower		Equity Higher/(Lower)	
	2017 \$	2016 \$	2017 \$	2016 \$
AUD/EUR +10%	(3,571)	-	3,571	-
AUD/EUR -5%	2,076	-	(2,076)	-
AUD/CHF +10%	(7,819)	-	7,819	-
AUD/CHF -5%	4,527	-	(4,527)	-
AUD/USD +10%	2,955	-	(2,955)	-
AUD/USD -5%	(1,711)	-	1,711	-
AUD/FJD +10%	(21)	-	21	-
AUD/FJD +5%	12	-	(12)	-
AUD/SGD +10%	(2,511)	-	2,511	-
AUD/SGD -5%	1,454	-	(1,454)	-
AUD/MYR +10%	303	-	(303)	-
AUD/MYR -5%	(175)	-	175	-
AUD/NOK +10%	(1,144)	-	1,144	-
AUD/NOK -5%	663	-	(663)	-
AUD/SEK +10%	10,497	-	(10,497)	-
AUD/SEK -5%	(6,077)	-	6,077	-

**Liquidity risk**

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The remaining contractual maturities of the Group's and parent entity's financial liabilities are:

	2017 \$	2016 \$
1 year or less	23,060,106	870,986
1-2 years	46,747,800	-
	<b>69,807,906</b>	<b>870,986</b>

## Notes to the Financial Statements (CONTINUED)

## Note 13: Financial Risk Management Objectives and Policies (CONTINUED)

## Maturity analysis of financial assets and liability based on management's expectation

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

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows.

Year ended 30 June 2017	< 1 Year \$	1-2 Years \$	2-3 Years \$	> 3 Years \$	Total \$
<b>Financial assets</b>					
Cash & cash equivalents	29,601,808	-	-	-	29,601,808
Other financial asset	8,892,905	-	-	-	8,892,905
Trade & other receivables	110,322,696	-	100,000	-	110,422,696
	<b>148,817,409</b>	<b>-</b>	<b>100,000</b>	<b>-</b>	<b>148,917,409</b>
<b>Financial liabilities</b>					
Trade & other payables	22,835,949	-	-	-	22,835,949
Interest - bearing loans	-	46,747,800	-	-	46,747,800
	<b>22,835,949</b>	<b>46,747,800</b>	<b>-</b>	<b>-</b>	<b>69,583,749</b>
<b>Net maturity</b>	<b>125,981,460</b>	<b>(46,747,800)</b>	<b>100,000</b>	<b>-</b>	<b>79,333,660</b>
<b>Year ended 30 June 2016</b>					
	< 1 Year \$	1-2 Years \$	2-3 Years \$	> 3 Years \$	Total \$
<b>Financial assets</b>					
Cash & cash equivalents	19,723,472	-	-	-	19,723,472
Trade & other receivables	7,797,797	-	-	-	7,797,797
	<b>27,521,269</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,521,269</b>
<b>Financial liabilities</b>					
Trade & other payables	870,986	-	-	-	870,986
	<b>870,986</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>870,986</b>
<b>Net maturity</b>	<b>26,650,283</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,650,283</b>

The carrying value of financial assets and liabilities is materially the same as the fair value.

## Notes to the Financial Statements (CONTINUED)

## Note 14: Share-Based Payment Plans

## (a) Recognised share-based payment expenses

The expense recognised for employee services received during the period less lapsed options is shown in the table below:

	2017 \$	2016 \$
Expenses arising from equity-settled share-based payment transactions	1,837,821	153,438
	<b>1,837,821</b>	<b>153,438</b>

The share based payment plan is described below:

## (b) Share-based payment plan

The Company has an employee share option plan (ESOP), with a view to aligning the interests of employees with the objectives of the Company and to provide incentives to executive directors, senior executives and staff. Under the ESOP, awards are made to employees who have an impact on the Group's performance. ESOP awards are delivered in the form of options over shares which vest over a number of years subject to meeting performance and service measures. The fair value of share options granted is estimated at the date of grant using a Binomial Model, taking into account the terms and conditions upon which the share options were granted, with a share-based payments expense being recognised in the income statement over the vesting period. The share options are subject to service periods of one to three years.

Certain eligible executives are provided with non-interest bearing, limited recourse loan from the Group for the sole purpose of acquiring shares in the Company. Vesting hurdles are applied to align employee and shareholder interests. Executives may not deal with the shares while the shares are unvested and the loan remains outstanding and any dividends paid on the shares are applied (on an after-tax basis) towards repaying the loan. Executives are entitled to exercise the voting rights attaching to their Group ordinary shares from the date of allocation of those shares. Shares allocated under this plan in conjunction with limited recourse loans are accounted for as options. As a result, the amounts receivable from employees in relation to these loans are not recognised in the financial statements. A share-based payments expense is recognised in the income statement over the vesting period based on the fair value of the options. Settlement of share loans upon vesting are recognised as contributed equity. If the executive leaves the Group within the vesting period the shares allocated are returned to the Group, subject to discretion retained by the Directors. The Company has used the fair value measurement provisions of AASB 2 Share-based Payments for all options or equity instruments granted to relevant senior executives.

Under AASB 2 Share-based Payments, these shares and loans are treated as 'in substance options' even where the equity instrument itself is not a share option. The fair value of such 'in substance option' grants is amortised and disclosed as part of senior manager compensation over the vesting period.

The Company has also issued Performance Rights during the year to certain senior executives and staff as part of the incentive plan. The performance rights vest between 1-3 years, are measured at the fair value at the grant date, and are subject to service conditions.

The grants have been amortised over the vesting and exercisable periods resulting in an increase in employee benefits expense to \$1,837,821 for the 2017 financial year (2016: \$153,438).

## Notes to the Financial Statements (CONTINUED)

## Note 14: Share-Based Payment Plans (CONTINUED)

## (c) Summary of options granted under the ESOP

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options issued during the period.

ESOP	2017		2017		2016	2016
	Share Options No.	Performance Rights No.	WAEP		Share Options No.	Share Options No.
			Share Options \$	Performance Rights \$		
Outstanding at the beginning of the year	14,475,000	-	0.41	-	-	-
Granted during the year	2,047,038	155,000	2.34	-	14,475,000	0.41
Forfeited during the year	(100,000)	-	1.00	-	-	-
Exercised during the year	(87,038)	-	1.72	-	-	-
Issued at merger	2,096,000	-	3.11	-	-	-
<b>Outstanding at the end of the year</b>	<b>18,431,000</b>	<b>155,000</b>	<b>0.94</b>	<b>-</b>	<b>14,475,000</b>	<b>0.41</b>
<b>Exercisable at the end of the year</b>	<b>6,481,667</b>	<b>155,000</b>	<b>0.83</b>	<b>-</b>	<b>-</b>	<b>-</b>

The 18,431,000 share options outstanding balance as at 30 June 2017 is represented by:

- 16,335,000 share options issued with a weighted average exercisable price of \$1.56;
- 2,096,000 share options granted to Touchcorp employees on merger with a weighted average exercisable price of \$3.11;
- The weighted average remaining contractual life for the share options outstanding as at 30 June 2017 was 2.5 years;
- The range of exercise prices for options outstanding as at 30 June 2017 was \$0.09 to \$3.38;
- The weighted average fair value of options granted during the year was \$1.00.

The 155,000 performance rights outstanding as at 30 June 2017 represents the performance rights granted during the year

- The weighted average remaining contractual life for the performance rights options as at 30 June 2017 was 1.15 years.

	2017 ESOP	2016 ESOP
Weighted average fair value at the measurement date (\$)	1.01	0.05
Dividend yield (%)	0%	0%
Expected volatility (%)	40%	40%
Risk-free interest rate (%)	2.1%	2.1%
Expected life of share options	4	4
Weighted average share price (\$)	2.73	0.41

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

## (d) Option pricing model: ESOP

The fair value of the equity-settled share options granted under the ESOP was calculated using the Binomial Model.

## Notes to the Financial Statements (CONTINUED)

## Note 15: Trade and Other Payables

	2017	2016
	\$	\$
Trade and other payables	19,547,202	675,434
GST payable	309,086	-
Employee benefit liabilities	2,979,661	195,552
	<b>22,835,949</b>	<b>870,986</b>

The net of GST payable and GST receivable is remitted to the appropriate tax body as required.

**(a) Fair Value**

Due to the short-term nature of these payables, their carrying values are assumed to approximate their fair values.

**(b) Financial Guarantees**

The Group does not hold any financial guarantees.

**(c) Interest rate, foreign exchange and liquidity risk**

Information regarding interest rate, foreign exchange and liquidity risk are set out in Note 13.

## Notes to the Financial Statements (CONTINUED)

## Note 16: Asset Impairment and Provision for Onerous Contract

	2017	2016
	\$	\$
Impairment of asset	5,904,885	-
Provision for onerous contract	7,690,984	-
	<b>13,595,869</b>	<b>-</b>
		Provision for onerous contract
		\$
<b>At 1 July 2016</b>		-
Arising during the year		7,690,984
Utilised		-
<b>At 30 June 2017</b>		<b>7,690,984</b>
Current		6,152,787
Non-current		1,538,197

This relates to the 5-year customer development contract to develop and pay rebates to a party with whom Touchcorp seeks to co-operate to increase the numbers of transactions carried on the Touch System Platform. Given the financial performance of the agreement in the last six months and the changing focus of the merged Group, the forecasted costs to fulfil the obligations will exceed the economic benefits expected to be received. As a result, the Group impaired the prepaid asset related to the agreement of \$5,904,885 (2016: \$nil) and recognised an onerous contract provision of \$7,690,984 (2016: \$nil) on and for the period ended 30 June 2017. The provision has been calculated on the remaining costs to fulfil the obligations to the expiration date of the contract being 30 September 2018.

## Note 17: Interest Bearing Borrowings

	2017	2016
	\$	\$
Secured interest bearing borrowings	46,747,800	-
	<b>46,747,800</b>	<b>-</b>

The secured interest-bearing borrowings represent the Group's \$200 million Secured Receivable Funding facility. The total amount is repayable on maturity being 31 December 2018. The facility has been secured against Afterpay's trade receivables with a carrying value of \$92,071,859 as at 30 June 2017. The unused portion of the facility available to be drawn at 30 June 2017 is based on a percentage of eligible trade receivables. As at 30 June 2017, the facility carries an interest of 1-month BBSY plus 2.09% per annum.

## Note 18: Contributed Equity and Reserves

	2017	2016
	\$	\$
<b>(a) Ordinary shares</b>		
Issued and fully paid	171,411,156	41,506,567

**(b) Movement in ordinary shares on issue**

	Number	\$
At 1 July 2015	2	2
Share issue	164,999,998	41,506,565
<b>At 30 June 2016</b>	<b>165,000,000</b>	<b>41,506,567</b>
Shares issued	15,000,000	36,000,000
Share options exercised	87,038	150,200
Acquisition of a subsidiary	32,322,284	94,847,544
Share issue expenses (net of tax)	-	(1,093,155)
<b>At 30 June 2017</b>	<b>212,409,322</b>	<b>171,411,156</b>

**(c) Employee equity benefits reserves**

	Employee equity benefits reserves
	\$
At 1 July 2015	-
Share based payment expense	153,438
<b>At 30 June 2016</b>	<b>153,438</b>
At 1 July 2016	153,438
Share based payment expense	1,837,821
Share options exercised	(100,200)
<b>At 30 June 2017</b>	<b>1,891,059</b>

The employee equity benefits reserve is used to record the fair value of equity options granted to employees, senior executives and directors as part of their remuneration.

**(d) Capital management**

When managing capital, management's objective is to ensure the entity continues as a going concern, as well as to provide optimal returns to shareholders and benefits for other stakeholders. The Group constantly reviews the capital structure and the level of return on assets.

## Notes to the Financial Statements (CONTINUED)

## Note 19: Commitments and Contingencies

## Operating lease commitments – Group as lessee

Following the merger, the Group has entered into commercial leases for its registered offices in Melbourne, Sydney and Singapore. The Group has also entered into leases for a data centre and associated communication costs, and an agreement of the supply of terminals. There are no restrictions placed upon the lessee by entering into this lease. Future minimum rentals payable under the non-cancellable operating lease are as follows:

	2017	2016
	\$	\$
Within one year	1,285,513	11,115
After one year but not more than five years	3,473,331	–
<b>Total minimum lease payments</b>	<b>4,758,844</b>	<b>11,115</b>

## Legal commitments and claims

Claims can be raised by customers and suppliers against the Group in the ordinary course of business. There were no outstanding claims at 30 June 2017 which were required recognition of a provision or contingent liability.

## Note 20: Related Party Disclosure

## Subsidiaries

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

Name	Country of incorporation	% Equity interest 2017
Afterpay Holdings Limited	Australia	100%
Afterpay Pty Ltd	Australia	100%
Afterpay Warehouse Trust	Australia	100%
Touchcorp Ltd*	Bermuda	100%
Touch Holdings Ltd*	Australia	100%
Touch Networks Australia Pty Ltd*	Australia	100%
Touch Australia Pty Ltd*	Australia	100%
Touch Networks Pty Ltd*	Australia	100%
Touchcorp Singapore Pte Ltd*	Singapore	100%
Touch Networks Payments (Malaysia) Sdn Bhd*	Malaysia	100%

\* Touchcorp financial year end was 31 December which will be subsequently changed to 30 June post the merger.

## Notes to the Financial Statements (CONTINUED)

### Note 20: Related Party Disclosure (CONTINUED)

Afterpay Touch Group Limited became the ultimate parent entity of Afterpay and Touchcorp on 19 June 2017. The total purchases Afterpay had with Touchcorp was \$6,279,017 for the period from 1 July 2016 to 19 June 2017 (2016: \$10,179,448).

The following table provides the total amount of transactions which have been entered into with related parties for the relevant period.

Related party		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
		\$	\$	\$	\$
<b>Director related entities</b>					
ICM Limited	2017	-	12,500	-	12,500
	2016	-	-	-	-
Finarch Pty Limited	2017	-	126,000	-	10,000
	2016	-	-	-	-

Details relating to key management personnel, including remuneration paid are included in the Remuneration Report and Note 23.

### Note 21: Events after the Balance Sheet date

The directors are not aware of any other matter or circumstance which has arisen since 30 June 2017 that has significantly affected or may significantly affect the operations of the consolidated entity in subsequent financial years, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

### Note 22: Auditor's Remuneration

	2017	2016
	\$	\$
Amounts received or due and receivable by Ernst & Young (Australia) for:		
• An audit or review of the financial report of the entity and any other entity in the consolidated Group	253,610	73,000
• Other services in relation to the entity and any other entity in the consolidated Group		
– due diligence in relation to Initial Public Offering	-	206,000
– due diligence in relation to the Merger with Touchcorp	147,000	-
– tax compliance, grant assistance & planning	33,500	54,300
	<b>434,110</b>	<b>333,300</b>

## Notes to the Financial Statements (CONTINUED)

## Note 23: Key Management Personnel

Compensation of Key Management Personnel are as follows:

	2017	2016
	\$	\$
Short-term employee benefits	2,089,097	694,980
Post employment benefits	191,918	66,023
Other long-term benefits	7,875	1,539
Termination benefits	93,750	-
Share based payment	1,115,887	116,702
<b>Total compensation</b>	<b>3,498,527</b>	<b>879,244</b>

## Note 24: Earnings Per Share (EPS)

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

Diluted EPS amounts are calculated by dividing the loss attributable to ordinary equity holders of the Parent by the sum of the weighted average number of ordinary shares outstanding during the year and the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares

The following reflects the income and share data used in the basic and diluted EPS computations:

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

	2017	2016
	\$	\$
Loss attributable to ordinary equity holders of the Parent for basic earnings	(9,619,630)	(3,552,328)
	Number	Number
Weighted average number of ordinary shares for basic EPS	175,463,325	64,295,082
Effect of dilution from:		
Share options	6,481,667	-
Weighted average number of ordinary shares adjusted for the effect of dilution	<b>181,944,992</b>	<b>64,295,082</b>

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

## Notes to the Financial Statements (CONTINUED)

Note 25: Information Relating to Afterpay Touch Group Limited  
(The Parent)

	2017 \$	2016 \$
Non - Current assets	160,777,729	-
<b>Total assets</b>	<b>160,777,729</b>	-
Current liabilities	(383,918)	-
<b>Total liabilities</b>	<b>(383,918)</b>	-
<b>Net assets</b>	<b>160,393,811</b>	-
Issued Capital	160,777,729	-
Accumulated losses	(383,918)	-
<b>Total equity</b>	<b>160,393,811</b>	-
Loss of the Parent entity	(383,918)	-
<b>Total comprehensive loss of the Parent entity</b>	<b>(383,918)</b>	-

## Directors' Declaration

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

1. In the opinion of the Directors:
  - a. The financial statements and notes of Afterpay Touch Group Limited for the year ended 30 June 2017 are in accordance with the *Corporations Act 2001*, including:
    - (i) Giving a true and fair view of its financial position as at 30 June 2017 and of the Company's performance for the year ended on that date
    - (ii) Complying with Accounting standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*.
  - b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
  - c. The remuneration disclosures set out in the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the *Corporations Regulations 2001*; and
  - d. The financial statements and notes also comply with International Financial Reporting Standards as disclosed in 2(a).

The Directors have been given the declarations by the Group Head required by section 295A of the *Corporations Act 2001*.

On behalf of the Board.



**Anthony Eisen**  
Executive Director  
Melbourne  
23 August 2017



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Melbourne VIC 3000 Australia  
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Melbourne VIC 3001

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Afterpay Touch Group Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Afterpay Touch Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

### 1. Merger Transaction

#### Why significant

On 19 June 2017 the merger of Touchcorp Limited and Afterpay Holdings Limited was completed and was treated as an acquisition of Touchcorp Limited by Afterpay Holdings Limited.

Due to the significance of the merger and magnitude of the goodwill arising from the acquisition of \$40.8 million, this was considered a key audit matter.

There was judgement in determining the transaction purchase price, the fair value of net assets acquired, the acquirer and the acquisition date.

As at the date of the financial report, the acquisition accounting was assessed as provisional.

Accounting for the acquisition of Touchcorp Limited is disclosed in Note 4 to the financial report.

#### How our audit addressed the key audit matter

We assessed the provisional accounting for the acquisition under Australian Accounting Standards. In doing so, we:

- Evaluated the methodology applied to identify and fair value the assets acquired and liabilities assumed, as well as the calculation of goodwill;
- Agreed key terms to underlying evidence including contracts, Scheme booklets and final shareholder votes;
- Assessed the terms and conditions of the merger agreement;
- Assessed the treatment of the acquisition costs and agreed these costs to supporting evidence; and
- Considered the adequacy of the disclosure included in the financial report.

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## 2. Provision for Doubtful Debts

### Why significant

The nature of the Group's business is to assume the credit risk of merchant transactions with consumers.

The model used to calculate the bad and doubtful debt provisions is performed manually using daily payment data and applied to the trade receivables balance.

Due to the significance and magnitude of trade debtors and the judgement associated with the bad and doubtful debt provision in determining the recoverability of the amounts outstanding at balance date, this was considered a key audit matter.

The Group's disclosure for the provision of bad and doubtful debts is disclosed in Note 9 to the financial report.

### How our audit addressed the key audit matter

Our procedures over the bad and doubtful debt provision and related consolidated statement of comprehensive income expense involved the assessment and analysis of all key assumptions and methodology applied in the model, including payment history and aging history. We agreed these assumptions to supporting calculations.

Additionally, we performed subsequent receipts testing over a sample of debtor balances at year end and agreed these balances to cash receipts received post year end.

### Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information in the Group's Annual Report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.



### Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf). This description forms part of our auditor's report.

### Report on the Remuneration Report

#### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 22 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Afterpay Touch Group Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

#### Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

David McGregor  
Partner

Melbourne  
23 August 2017

## Additional Information

### Additional Securities Exchange Information

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 24 August 2017 (**Reporting Date**).

### Corporate Governance Statement

The Company's Directors and management are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (Third Edition) (**Recommendations**) to the extent appropriate to the size and nature of the Group's operations.

The Company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations (**Corporate Governance Statement**).

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement will be available for review on the Company's website ([www.afterpaytouchgroup.com](http://www.afterpaytouchgroup.com)), and will be lodged together with an Appendix 4G with ASX at the same time that this Annual Report is lodged with ASX.

The Appendix 4G will particularise each Recommendation that needs to be reported against by the Company, and will provide shareholders with information as to where relevant governance disclosures can be found.

The Company's corporate governance policies and charters are all available on Afterpay Touch Group's website ([www.afterpaytouchgroup.com](http://www.afterpaytouchgroup.com)).

### Substantial holders

As at the Reporting Date, the names of the substantial holders of the Company and the number of equity securities in which those substantial holders and their associates have a relevant interest, as disclosed in substantial holding notices given to the Company, are as follows:

Holder of Equity Securities	Class of Equity Securities	Number of Equity Securities held	% of total issued securities capital in relevant class
Afterpay Touch Group Limited	Ordinary Shares	53,000,000	24.67*
Anthony Eisen	Ordinary Shares	25,000,000	11.78
Nicholas Molnar	Ordinary Shares	25,000,000	11.78
Duncan Saville	Ordinary Shares	20,772,467	9.67

\* Afterpay Touch Group Limited has a deemed relevant interest in 24.67% of its own shares pursuant to section 608(1)(c) of the Corporations Act, arising from the restriction on the disposal of shares under ASX restriction agreements and voluntary escrow deeds as disclosed in the Company's Substantial Holder notice dated 7 July 2017. Accordingly, the total relevant interest attributed to Afterpay Touch Group Limited includes shares which are held by other substantial holders.

## Number of holders

As at the Reporting Date, the number of holders in each class of equity securities:

Class of Equity Securities	Number of holders
Fully paid ordinary shares	6,354
Options exercisable at \$1.00 each on or before 31 December 2020	5
Options exercisable at \$0.20 each on or before 1 September 2020	1
Options exercisable at \$2.23 each on or before 31 December 2020	2
Options exercisable at \$2.30 each on or before 31 December 2020	2
Options exercisable at \$2.71 each on or before 31 December 2020	1
Options exercisable at \$2.32 each on or before 31 December 2020	1
Options exercisable at \$2.77 each on or before 31 December 2020	1
Options exercisable at \$0.20 each on or before 31 December 2020	12
Performance Rights	4

## Voting rights of equity securities

The only class of equity securities on issue in the Company which carries voting rights is ordinary shares.

As at the Reporting Date, there were 6,354 holders of a total of 214,805,360 ordinary shares of the Company.

At a general meeting of the Company, every holder of ordinary shares present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each ordinary share held. On a poll, every member (or his or her proxy, attorney or representative) is entitled to vote for each fully paid share held and in respect of each partly paid share, is entitled to a fraction of a vote equivalent to the proportion which the amount paid up (not credited) on that partly paid share bears to the total amounts paid and payable (excluding amounts credited) on that share. Amounts paid in advance of a call are ignored when calculating the proportion.

## Distribution of holders of equity securities

The distribution of holders of equity securities on issue in the Company as at the Reporting Date is as follows:

### Distribution of ordinary shareholders

Holdings Ranges	Holders	Total Units	%
1 – 1,000	1,891	955,323	0.44
1,001 – 5,000	2,258	6,027,238	2.81
5,001 – 10,000	948	7,327,394	3.41
10,001 – 100,000	1,122	29,655,243	13.81
100,001 – 999,999,999	135	170,840,162	79.53
<b>Totals</b>	<b>6,354</b>	<b>214,805,360</b>	<b>100.00</b>

Distribution of Option holders

	Holders of \$1.00 options expiring 31 Dec 2020	Holders of \$0.20 options expiring 1 Sept 2020	Holders of \$2.23 options expiring 31 Dec 2020	Holders of \$2.30 options expiring 31 Dec 2020	Holders of \$2.71 options expiring 31 Dec 2020	Holders of \$2.32 options expiring 31 Dec 2020	Holders of \$2.77 options expiring 31 Dec 2020	Holders of \$0.20 options expiring 31 Dec 2020
1 to 1,000	-	-	-	-	-	-	-	-
1,001 to 5,000	-	-	-	-	-	-	-	-
5,001 to 10,000	-	-	-	-	-	-	-	-
10,001 to 100,000	-	-	2	-	1	-	1	3
100,001 and over	5	1	-	2	-	1	-	9
<b>Total</b>	<b>5</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>12</b>

Distribution of Performance Rights holders

Holdings Ranges	Holders	Total Units	%
1 - 1,000	0	0	0
1,001 - 5,000	0	0	0
5,001 - 10,000	1	10,000	9.52
10,001 - 100,000	3	95,000	90.48
100,001 - 999,999,999	0	0	0
<b>Totals</b>	<b>4</b>	<b>105,000</b>	<b>100.00</b>

Less than marketable parcels of ordinary shares (UMP Shares)

The number of holders of less than a marketable parcel of ordinary shares based on the closing market price at the Reporting Date is as follows:

Total Shares	UMP Shares	UMP Holders	% of issued shares held by UMP holders
214,805,360	9,697	142	0.000045143

### Twenty largest shareholders

The Company only has one class of quoted securities, being ordinary shares. The names of the 20 largest holders of ordinary shares, and the number of ordinary shares and percentage of capital held by each holder is as follows:

Rank	Holder Name	Balance as at Reporting Date	%
1	J P Morgan Nominees Australia Limited	26,861,963	12.51
2	Anthony Mathew Eisen	25,000,000	11.64
3	Nicholas Molnar Pty Ltd <Nicholas David Family A/C>	25,000,000	11.64
4	ATC Capital Pty Ltd	9,984,000	4.65
5	RBC Investor Services Australia Pty Limited <VFA A/C>	9,091,363	4.23
6	HSBC Custody Nominees (Australia) Limited	7,957,936	3.70
7	Citicorp Nominees Pty Limited	5,829,658	2.71
8	UBS Nominees Pty Ltd	3,600,001	1.68
9	National Nominees Limited	3,559,507	1.66
10	Estate Late Adrian Cleeve	3,200,001	1.49
11	Fifty Second Celebration Pty Ltd <McBain Family A/C>	2,982,500	1.39
12	ICM NZ Limited	2,877,200	1.34
13	Norfolk Enchants Pty Ltd <Trojan Retirement Fund A/C>	2,320,000	1.08
14	One Managed Investment Funds Limited <Lakehouse Small Companies A/C>	2,069,711	0.96
15	Fiona Kate Hancock	2,000,000	0.93
16	Ronald Langley	1,940,816	0.90
17	Mr Michael Jefferies + Mrs Julie Jefferies <Jefferies Super Fund A/C>	1,919,626	0.89
18	Cleevecorp Pty Ltd	1,297,507	0.60
19	Mr Michael Leslie Jefferies	1,280,000	0.60
20	Jay Even Dale Hughes <Inkese Family A/C>	1,000,000	0.47
20	Hunter Investments Australia Pty Ltd	1,000,000	0.47
20	Utilico Investments Limited	1,000,000	0.47
20	Wilbow Group Pty Ltd <Wilbow Group A/C>	1,000,000	0.47
	<b>Total number of shares of Top 20 Holders</b>	<b>142,771,789</b>	<b>66.47</b>
	<b>Total Remaining Holders Balance</b>	<b>72,033,571</b>	<b>33.53</b>

## Escrow

Class of restricted securities	Type of restriction	Number of securities	End date of escrow period
Ordinary shares	Voluntary escrow	250,000	18 October 2019

## Unquoted equity securities

The number of each class of unquoted equity securities on issue, and the number of holders in each such class, are as follows:

Class of Equity Securities	Number of unquoted Equity Securities	Number of holders
Ordinary shares subject to ASX escrow until 4 May 2018	53,000,000	5
Options exercisable at \$1.00 each on or before 31 December 2020 subject to ASX escrow until 4 May 2018	3,600,000	5
Options exercisable at \$0.20 each on or before 1 September 2020 subject to ASX escrow until 4 May 2018	700,000	1

The names of the holders of 20% or more of the equity securities in an unquoted class and the number of equity securities held by each of these holders (other than in the case of securities issued or acquired under an employee incentive scheme) are as follows

Holder name	Class of unquoted Equity Securities	Number of unquoted Equity Securities held	% of total unquoted Equity Securities in the relevant class
Afterpay Touch Group Limited	Ordinary Shares	53,000,000	24.67*

\* Refer to page 67 for details.

## Other Information

The Company is not currently conducting an on-market buy-back.

There are no issues of securities approved for the purposes of item 7 of section 611 of the Corporations Act which have not yet been completed.

No securities were purchased on-market during the reporting period under or for the purposes of an employee incentive scheme or to satisfy the entitlements of the holders of options or other rights to acquire securities granted under an employee incentive scheme.

## Corporate information

Afterpay Touch Group Limited  
ACN 618 280 649

### Board of Directors

Anthony Eisen  
(Executive Chairman)

Nicholas Molnar  
(Executive Director & CEO of Afterpay)

Michael Jefferies  
(Independent Non-Executive Director)

David Hancock  
(Executive Director & Group Head)

Clifford Rosenberg  
(Independent Non-Executive Director)

Elana Rubin  
(Independent Non-Executive Director)

**Australian Registered Office**  
Level 5, 406 Collins Street  
Melbourne VIC 3000 Australia

### Company Secretary

Sophie Karzis  
Corporate Counsel  
Level 1, 61 Spring Street  
Melbourne VIC 3000  
Phone: +61 3 9286 7500

### Solicitors

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

### Auditor

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

### Share Registry

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

### Stock exchange listing

Afterpay Touch Group Limited  
shares are listed on the  
Australian Securities Exchange  
(ASX: APT)



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