Afterpay Holdings Limited
ASX: AFY

APPENDIX 4E
PRELIMINARY FINAL REPORT

COMPANY DETAILS

Name of entity:	Afterpay Holdings Limited
ACN:	606 589 520
Reporting period:	For the year ended 30 June 2016
Previous period:	For the year ended 30 June 2015

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Statutory Results Summary

	CHANGES FROM PERIOD ENDED 30 JUNE					
		2016				2015
		%		$m		$m
Revenue from ordinary activities	Up	5700%	to	1.4	from	0.02
Loss before tax	Down	9289%	to	-3.7	from	-0.04
Net loss after tax attributable to the members of Afterpay Holdings Limited	Down	8939%	to	-3.6	from	-0.04

Revenue for the year increased compared to the previous corresponding period predominantly due to the fact that FY16 was the Company's first full financial year of being operational and also the strong growth experienced by the Company in the take-up of its Afterpay service by leading Australian online retailers who have integrated the Afterpay platform into their online retail offering.

The Company's statutory loss after tax increased predominantly as a result of costs associated with staff and amortisation of the Afterpay system. The revenue growth is due to an increase in merchants using the Afterpay platform.

Overview of Operating Performance

The period ended 30 June 2016 was marked by a number of foundational and strategic achievements that have positioned the Company well for long-term future growth, including:

> IPO successfully completed and admission to the official list of the ASX on 3 May 2016.

> IPO raised $25 million of capital with proceeds being wholly applied (net of listing related costs) to support the Company's continuing strong growth profile.

> Growth in the number of leading Australian online retailers choosing to integrate the Afterpay platform.

> Successful launch of the Afterpay 'in-store' product.

> Increasing transaction volumes

Afterpay maintains a strong pipeline of on-boarding retail partners and expects underlying sales, merchant revenue and end-customer numbers to continue to increase

RESULTS FOR ANNOUNCEMENT TO THE MARKET (CONTINUED)

Net Tangible Asset per Security

	2016	2015
Total number of shares on issue	165,000,000	2
Net Tangible assets per share	$0.17	-$1,523,419

Loss per Share

	2016	2015
Loss per share (Basic, loss for the year attributable) to ordinary equity holders of the Parent	-$0.06	-$19,651

Return to shareholders

No dividends were declared or paid for the year ended 30 June 2016 and no share buy backs were conducted during the year.

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 Annual Report which accompanies this Appendix 4E.

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

On 16 July 2015, Afterpay completed the acquisition of Afterpay Pty Ltd, which resulted in Afterpay becoming the ultimate parent of Afterpay Pty Ltd. Afterpay was incorporated as a special-purpose company to make an offer to acquire all of the shares of Afterpay Pty Ltd. Afterpay has not conducted any business other than to be the holding company of Afterpay Pty Ltd since incorporation nor since the successful completion of the acquisition of Afterpay Pty Ltd on16 July 2015.

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 2016 Annual Report (which includes the Directors' Report) which accompanies this Appendix 4E.

Accounting Standards

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

afterpay

Afterpay Holdings Limited
Annual Report
For the year ended 30 June 2016

Contents

Chairman's Message

The 2016 Financial Year was one of major achievement for Afterpay.

Following Afterpay's successful listing on the ASX in May 2016, the business has shown strong growth across all key operating metrics.

The Company's revenue increased to $1.4 million in FY16 ($0.8m in Q4 FY16), driven by significant growth in the number of retailers integrated with the Afterpay platform and end-customers utilising the Afterpay service. Underlying sales increased to $37.3m in FY16, including $21.5m in Q4 FY16.

More than 300 Australian retailers were integrated with the Afterpay platform in FY16. By late August 2016, retail partners have grown to more than 600. Afterpay retail partners include significant category leaders, including brands such as Cue, General Pants, House, Marcs, David Lawrence, Jeanswest, Optus, Surfstitch and Peter's of Kensington to name just a few. The platform is equally accessible and valuable to Small to Medium Businesses (SMB), which are representing an increasing component of underlying sales.

Customers are responding powerfully to the Afterpay offer. There are currently 140,000 unique end-customers, which represents an increase of approximately 40% since 30 June 2016. And we are holding our customers' attention, with around 65% of all Afterpay transactions in the past 6 months generated by repeat customers.

The platform continues to evolve to meet customer and retailer demand. In June 2016, Afterpay expanded its service to include 'in-store' accessibility which has now rolled out to approximately 100 Cue Clothing and Veronika Maine retail locations. Topshop and other highly recognised brands are expected to shortly follow.

A core focus on transaction integrity and data analytics will continue in FY17. It has been pleasing to witness our capabilities and effectiveness develop as increasing transaction volumes and data populate the Afterpay system. Improving Net Transaction Loss performance over FY16 is a key performance indicator in this regard. The business is becoming recognised as one of Australia's Financial Technology leaders, securing the *Innovation in Payments Award* at the Australian FinTech Awards in May 2016.

Afterpay is well positioned for continued growth, with a strong management team in place led by Nick Molnar. We have attracted some amazing talent across our business and new additions will continue in FY17.

The Company is well positioned to deliver on its strategic growth and development objectives in FY17 and beyond.

Managing Director's Message

Afterpay is reshaping the way Australians shop.

Through innovation, transparency and a customer centric payments platform, we set out to evolve the retail status quo. It is clear from the feedback of our retail partners and Australian customers over the past 12 months that Afterpay's compelling "buy now, receive now, pay later" model is undoubtedly resonating.

We have successfully introduced a new retail payments product to the Australian market, which is genuinely customer centric and uniquely simple - effectively replacing the familiar layby system of old with a next generation model which helps customers with their monthly budgeting but still allows them to enjoy their purchases today.

Most importantly, we have always taken each step forward with the customer front of mind. Through a grass roots understanding of the retail buying landscape, we have purposely shifted the economics in favour of the customer while maintaining a true win-win for the retail industry. Every day, retailers are faced with conversion challenges in a price competitive market – Afterpay helps retailers increase conversion rates, average order values and brand loyalty through increased repeat purchase behaviour. Both our retail partners and end-customers are our advocates.

Encouragingly, customer demand is shaping our product evolution. The 2016 Financial Year saw the business evolve from a payments brand to a digital destination and directory for Australian shoppers – with over 650,000 monthly page views and growing. Afterpay customers are beginning to buy based on who accepts Afterpay and are visiting Afterpay's shopping directory to decide where to buy.

Our customers are extremely passionate about our brand because our business model is aligned with them, premised on trust and transparency and we add value to their lives. Our success in the future will be driven by engaging and growing with our customer base.

The Afterpay network is expanding and both our retailers and customers are the driving force behind the momentum. At Afterpay we set out to re-imagine the way customers can buy and our slogan "life doesn't wait" is holding true.

Australian shoppers will remain at the heart of our Afterpay offering and we will continue our customer-led innovation in the 2017 Financial Year.

Directors' Report

The Directors submit their report on the consolidated entity consisting of Afterpay Holdings Limited and the entities it controlled at the end of, or during the year ended, 30 June 2016.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows.

Anthony Eisen	Executive Chairman
Nicholas Molnar	Managing Director
Michael Jefferies	Non-Executive Director
David Hancock	Independent Non-Executive Director
Clifford Rosenberg	Independent Non-Executive Director

All of the Directors have been in office for the entire period unless otherwise stated.

INFORMATION ON DIRECTORS

Anthony Eisen
Executive Chairman

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 in Afterpay Holdings Limited, subject to ASX escrow until 3 May 2018.

1,500,000 options over ordinary shares in Afterpay Holdings Limited, exercisable at $1.00 each, expiring on 31 December 2020 and subject to ASX escrow until 3 May 2018.

Nicholas Molnar
Managing Director

Nicholas has extensive experience in online retail, having 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 in Afterpay Holdings Limited, subject to ASX escrow until 3 May 2018.

1,500,000 options over ordinary shares in Afterpay Holdings Limited, exercisable at $1.00 each, expiring on 31 December 2020 and subject to ASX escrow until 3 May 2018.

Directors' Report

Michael Jefferies

Non-Executive Director

Michael Jefferies was appointed a director in August 2015. He is the Chairman of Touchcorp Limited, an ASX listed company with which Afterpay has a significant operational relationship. 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 Touchcorp, he is also a non-executive Director of RESIMAC 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

200,000 ordinary shares in Afterpay Holdings Limited subject to ASX escrow until 3 May 2018.

50,000 ordinary shares in Afterpay Holdings Limited subject to voluntary escrow until 1 March 2017.

200,000 options over ordinary shares in Afterpay Holdings Limited, exercisable at $1.00 each, expiring on 31 December 2020 and subject to ASX escrow until 3 May 2018.

David Hancock

Independent Non-Executive Director

David was appointed an independent non-executive director in March 2016. 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

2,000,000 ordinary shares in Afterpay Holdings Limited subject to ASX escrow until 3 May 2018.

500,000 ordinary shares in Afterpay Holdings Limited subject to voluntary escrow until 1 March 2017.

200,000 options over ordinary shares in Afterpay Holdings Limited, exercisable at $1.00 each, expiring on 31 December 2020 and subject to ASX escrow until 3 May 2018.

Clifford Rosenberg

Independent Non-Executive Director

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 has been a senior executive at LinkedIn for six and half years and currently serves 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 and Pureprofile Ltd. Clifford has a Bachelor of Business Science (Honours) degree and a Master of Science in Management.

Interests in Shares and Options

800,000 ordinary shares in Afterpay Holdings Limited subject to ASX escrow until 3 May 2018.

200,000 ordinary shares in Afterpay Holdings Limited subject to voluntary escrow until 1 March 2017.

200,000 options over ordinary shares in Afterpay Holdings Limited, exercisable at $1.00 each, expiring on 31 December 2020 and subject to ASX escrow until 3 May 2018.

700,000 options over ordinary shares in Afterpay Holdings Limited, exercisable at $0.20 each, expiring on 31 December 2020 and subject to ASX escrow until 3 May 2018.

Sophie Karzis (B. Juris, LLB)

Company secretary

Ms. Karzis 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

15,110 ordinary shares in Afterpay Holdings Limited.

Directors' Report

MEETINGS OF DIRECTORS

The number of meetings of the Company's 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	MEETINGS OF DIRECTORS		MEETINGS OF COMMITTEES AUDIT		REMUNERATION & NOMINATION	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Anthony Eisen	4	4	0	0*	0	0*
Nicholas Molnar	4	4	0	0*	0	0*
Michael Jefferies	2	2	0	0	0	0
David Hancock	2	2	0	0	0	0
Clifford Rosenberg	2	2	0	0	0	0

**DENOTES THAT THE DIRECTOR WAS NOT A MEMBER OF THE RELEVANT COMMITTEE.*

At a number of the Directors' meetings, matters regarding the remuneration policy and practices of the Group were discussed with relevant executives; with Directors abstaining from considering and voting on such matters where relevant.

COMMITTEE MEMBERSHIP

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

Members of the Audit & Risk Management Committee during the period were:
David Hancock (Chairman)
Michael Jefferies
Clifford Rosenberg

Members of the Remuneration & Nomination Committee during the period were:
Clifford Rosenberg (Chairman)
Michael Jefferies
David Hancock

PRINCIPAL ACTIVITIES

Afterpay is a technology driven payments company with a focus on applying its leading technology to provide a retail centric, omni channel retail service that facilitates commerce between retail merchants and their end-customers.

Afterpay delivers this by providing a platform that allows our retail merchant clients to offer their end-customers the ability to buy products on a "buy 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
- 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
- Afterpay pays the retail merchant upfront and assumes all end-customer non-payment risks

For online transactions, Afterpay is typically positioned at the product page and offers a fast and frictionless process resulting in reduced abandoned online "shopping carts".

WHAT DOES AFTERPAY DO

1. Afterpay integrates directly into merchant web sites and retail environments
2. Merchants then offer their products to end-customers with a BUY NOW, PAY LATER offer
3. The Afterpay BUY NOW, PAY LATER offer is very simple:
   - End-customers pay for items in four fortnightly instalments
   - Afterpay does not charge customers any interest, establishment or monthly fees
   - No additional information required at checkout
4. Afterpay then settles with merchants upfront (less Afterpay fee)
5. Afterpay retrieves funds from end-customers through an automated end-to-end process

Purchase
End-customer selects Afterpay at checkout

Shipment
Purchase shipped to returning customer with no payment

Settlement
Afterpay settles full amount with merchant upfront

Payment
End-customer pays directly to Afterpay in 4 instalments

OPERATING AND FINANCIAL REVIEW

Operations

INITIAL PUBLIC OFFERING

During the financial year ended 30 June 2016, the Company successfully completed its initial public offering of securities **(IPO)** and was admitted to the official list of the Australian Securities Exchange **(ASX)** on 3 May 2016.

A total of 25 million new shares at $1.00 each were issued to new shareholders to raise $25 million. The Afterpay IPO did not incorporate any sell-down by pre-existing shareholders. The IPO proceeds (net of listing related costs) are being wholly applied to support the Company's continuing strong growth profile. The Company continues to integrate the Afterpay platform with leading Australian online retailers and maintains a strong pipeline of prospective retail merchant integrations.

Directors' Report

Business Update

GROWTH IN AFTERPAY RETAIL PARTNERS

Afterpay's Directors are pleased with the growth in retail partners that have chosen to integrate the Afterpay service into their online businesses. In Q4 FY2016 the total number of retail merchant clients live with Afterpay grew by over 140% to over 300.

By late August 2016, integrated retail merchant clients have grown to over 600. Additionally satisfying is the growth in Afterpay retail partners that are category leaders in the Australian retail market with highly recognised brands.

Recent key retail partnership additions that are now live with the Afterpay service are outlined below:

House
MON PURSE
crazy sales.com.au
Peter's of Kensington
BEC&BRIDGE
ROBINS KITCHEN
culture kings
adorebeauty
SUNDAY SOMEWHERE
CITY BEACH
ROGER DAVID
TONY BIANCO
JEANSWEST
DAVID LAWRENCE
MARCS
HYPE DC
SIREN

In line with Afterpay's growth in the Australian retail market with category leading brands, the Company is receiving progressively larger volumes of reverse enquiry from other large and SMB online retailers who wish to integrate the Afterpay service.

Afterpay maintains a large pipeline of prospective retail merchant clients that are at varying stages of contracting and/or on boarding.

Growth in Afterpay End-Customers

Afterpay end-customers continue to highly rate the Afterpay service. Off the back of the rapid growth in retail merchant clients, Afterpay's unique end-customer base has grown strongly. Afterpay currently has over 140,000 unique end-customers. The most pleasing aspect of this rapid growth in customer numbers is that it has not diminished end-customer repeat transaction behaviour. Approximately 65% of all Afterpay transactions since 1 January 2016 have consistently been generated by repeat Afterpay end-customers.

The growth in retail merchant clients and end-customers alike has resulted in strong increases in underlying Afterpay sales and Afterpay merchant revenue.

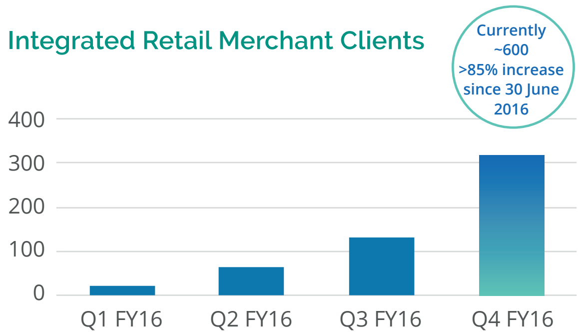
With increasing transaction volumes, Afterpay continues to refine and enhance Afterpay's transaction integrity engine. End-customer repayment performance, or Net Transaction Losses, have continued to trend positively over the six-month period to 30 June 2016, compared to the previous half.

A summary of the Afterpay's key operating and financial metrics is outlined below:

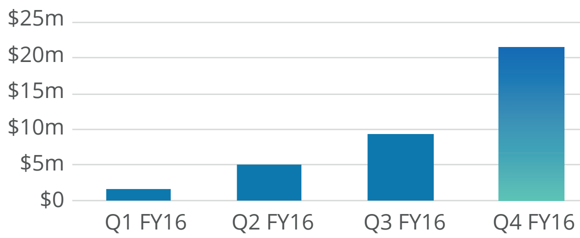
Key Operating and Financial Metrics

- Over 600 current retail partners currently live with Afterpay (over 85% increase since 30 June 2016)
- Over 140,000 current unique end-customers (over 40% increase since 30 June 2016)
- Underlying Afterpay Sales of $37.3m in FY16 ($21.5m in Q4 FY16)
- Afterpay Merchant Revenue of $1.4m ($0.8m in Q4 FY16)
- Net Transaction Loss experience of 0.9% of underlying sales for FY16 (1.3% for 6 months to 31 December 2015)
- EBITDA loss of ($1.7m) for FY16
- Cash and cash equivalents of $19.7m as at 30 June 2016
- Net end-customer receivables of $7.2m as at 30 June 2016
- No external debt

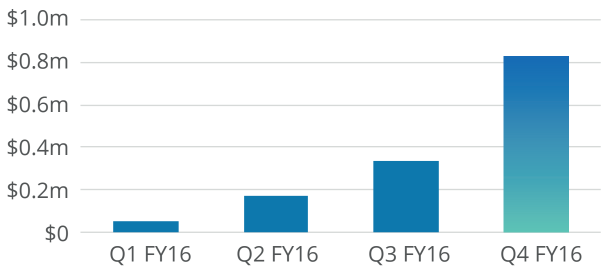
Integrated Retail Merchant Clients



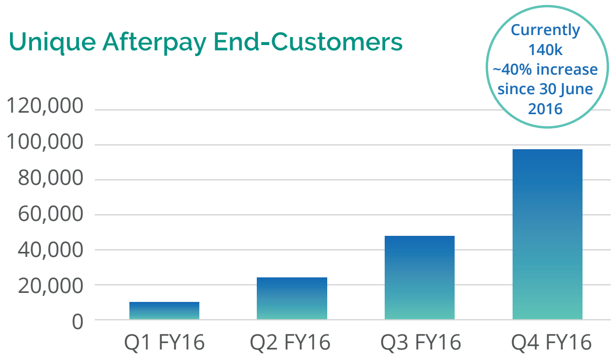
Underlying Afterpay Merchant Sales



Afterpay Quarterly Merchant Revenue



Unique Afterpay End-Customers



Directors' Report

In-Store Point of Sale

A key strategic goal at the time of Afterpay's IPO was to launch an "in-store, point of sale" version of Afterpay's successful online "buy now, pay later" offer. The strategic opportunity is significant because it allows retailers to capture the same online Afterpay benefits (i.e. increased sales and increased average order values) in the in-store environment and also allows retailers to partially or wholly replace traditional lay-by services which remain a material portion of merchant sales but are generally costly and cumbersome for retailers to administer.

Most of Afterpay's leading retail merchant clients have substantial offline businesses, with underlying offline sales many times greater than their online businesses. Afterpay, and its technology development partner Touchcorp, have significantly invested in the Afterpay System to create a fully integrated omni-channel experience for both retail merchants and end-customers.

In June, Afterpay partnered with key retailers Cue Clothing Company and Veronika Maine to run an "in-store, point of sale" pilot. Following the successful pilot we have successfully rolled out the Afterpay in-store solution to approximately 100 retail locations. Afterpay's online partners have large retail networks and we maintain a strong pipeline of partners who will progressively integrate Afterpay 'in-store'.

The Company's financial results in FY16 were:

> Revenue: Revenue in the year was A$1,383,241 up from A$23,847 in FY 2015. Revenue for the year increased compared to the previous corresponding period predominantly due to FY2016 being the Company's first full financial year of being operational and also due to the strong growth experienced by the Company in the take-up of its Afterpay service by leading Australian online retailers who have integrated the Afterpay platform into their online retail offering.

> Expenses: The largest cost drivers in FY2016 were the amortisation of the Afterpay System of $2,166,667 (which is a non cash expense) and employee benefit expense of A$1,228,647

> Statutory Loss After Tax (LAT): The Company's statutory LAT in FY 2016 was (A$3,552,328)

Revenue Model

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.

Late payment fees are also rendered against the end-customer in some circumstances where the end-customer fails to have sufficient funds available to have payments automatically collected by the Afterpay System on due payment dates. Late payment fees are not intended to be a primary revenue component for Afterpay but serve more as an incentive for end-customers to facilitate on-time payments.

FUTURE PROSPECTS

Afterpay prides itself on being a highly innovative and a genuinely customer-centric company that is delivering leading customer experiences.

The focus is to continue proliferating the existing "buy now, pay later" offer in omni-channel retail environments.

Afterpay maintains a strong pipeline of on-boarding retail partners and expects underlying sales, merchant revenue and end-customer numbers to increase.

The Company will continue to invest in enhancing its transaction integrity and data analytics capability and to maintain focus on improving Net Transaction Loss performance.

Afterpay will continue to promote and advocate responsible buying behaviour through our technology, our processes and our people.

The Company will continue to invest in the ongoing development of its products and services and will prudently deploy capital in supporting these activities with the hiring of additional staff and associated resources.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The Directors are not aware of any other matter or circumstance which has arisen since 30 June 2016 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 is focussed on integrating the Afterpay platform with the retail offerings of new retail merchants, and building on existing customer relationships by expanding its offering from online to include in-store accessibility to the Afterpay payment service. Afterpay has identified and is pursuing a large pipeline of prospective retail merchant clients that are at varying stages of contracting and/or on-boarding. In addition, while the opportunity for Afterpay in the online retail commerce sector is large, there are other medium to long-term opportunities across additional online and offline markets.

The Company believes there is significant scope for the Company to increase revenue and profitability from its business strategy. The Company's focus is to deliver long-term returns, and strong revenue growth and profitability to shareholders by increasing the number of underlying Afterpay sales and Afterpay merchant fees.

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.

R&D AND GST

R&D claim

An R&D claim has been lodged with AusIndustry and the ATO. The ATO is yet to process the R&D refund of $1.35 million. When the R&D refund is processed, or the ATO confirms the refund will be processed, the refund amount will be recognised for financial reporting purposes by netting off against the cost of the Intellectual Property platform on the balance sheet and amortised accordingly.

GST claim

Afterpay has claimed input tax credits referable to GST included on certain costs it has incurred, the most material of which is an input tax credit of $300,000 referable to supplies made by Touchcorp to Afterpay.

Afterpay is under audit by the ATO with respect to certain Business Activity Statements (BAS) lodged including the BAS for the period during which the $300,000 input tax credit was claimed. Afterpay with the assistance of its adviser is working with the ATO to resolve the ATO audit, the outcome of which is unknown as of the date of this Annual Report.

Directors' Report

KEY RISKS AND BUSINESS CHALLENGES

Afterpay is still in the early stages of establishing its presence in the Australian retail market, and its ability to profitably scale its business is reliant on increases in transaction volumes and expansion of its end-customer and retail merchant client base. Afterpay considers it has a competitive advantage in being one of the first to provide a 'buy now, pay later' service to the Australian retail market. However, there is always a risk that incumbent financial companies and new entrants in the market may disrupt Afterpay's business and market share. The principal risks and business challenges for the Company are:

- the often lengthy tender and decision making processes on the part of the large retailers;
- risks associated with the emergence of new technologies regulation and customer requirements;
- having and optimising its systems and processes to make accurate real time fraud and repayment capability assessments in connection with the end-customer approval processes;
- managing key third party relationships that are important to the delivery of its products;
- the possible requirement for additional funding to support the expected growth in instalment payments receivables;

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

ENVIRONMENTAL REGULATION

The Managing Director 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 14,475,000 ordinary shares under options.

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 12 to 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 of the Company, 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 of the Company, 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.

REMUNERATION REPORT (AUDITED)

This remuneration report outlines the director and executive remuneration arrangements of the Company and the 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 Group are defined as those persons having authority and responsibility for planning, directing, and controlling major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent.

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

Details of Key Management Personnel

(I) DIRECTORS

Anthony Eisen
Chairman (Executive)

Nicholas Molnar
Managing Director (Executive)

Michael Jefferies
Director (Non-executive)

David Hancock
Director (Independent Non-executive)

Clifford Rosenberg
Director (Independent Non-executive)

(II) EXECUTIVES

Richard Harris
Chief Finance & Risk Officer

David Whiteman
Director of Product

Fabio de Carvalho
Director of Strategic Partnerships

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 Afterpay:

- has coherent and appropriate remuneration policies and practices which enable Afterpay 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 Afterpay, 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 Afterpay 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 Afterpay's needs and that are consistent with Afterpay'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 Afterpay comprises individuals with diverse skills, backgrounds, perspectives and experiences and this diversity is valued and respected. To demonstrate Afterpay's commitment to developing measurable objectives to achieve diversity and inclusion in its workplace, Afterpay has implemented a Diversity Policy. Afterpay's policy has meritocracy as a guiding principle, and seeks to align Afterpay'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, Afterpay 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 2016 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 director and senior manager by the Remuneration Committee.

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. These measures were chosen as they align closely to the company's growth strategy. The Company has predetermined benchmarks which must be met in order to trigger payments.

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.

Employments Contracts

MANAGING DIRECTOR

The Company has entered into an executive services agreement with Nicholas Molnar to govern his employment with the Company as Managing Director.

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.

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.

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. 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. All unvested options held by the executive may lapse on the executive ceasing to be an employee or director of the Group, except in a 'good leaver' situation. The Group may terminate the contract at any time without notice if serious misconduct has occurred.

AMOUNTS OF REMUNERATION

Details of the nature and amount of each element of the emoluments of the key management personnel of the Group are set out in the following tables.

TABLE 1: REMUNERATION FOR THE YEAR ENDED 30 JUNE 2016

	Short-term		Post Employment	Long-term		Share based payment		
	Salary & Fees	Cash Bonus	Superannuation	Long Service Leave	Termination	Options	Total	Performance related
	$	$	$	$	$	$	$	%
Non-executive directors								
Michael Jefferies	18,958	-	1,801	-	-	61	20,820	-
David Hancock	20,312	-	1,930	-	-	61	22,303	-
Clifford Rosenberg	20,312	-	1,930	-	-	10,680	32,922	-
Sub-total non-executive directors	**59,582**	**-**	**5,660**	**-**	**-**	**10,802**	**76,044**	
Executive directors								
Anthony Eisen	75,000	-	7,125	296	-	564	82,985	-
Nicholas Molnar	150,000	-	14,250	296	-	564	165,110	-
Other key management personnel								
Richard Harris	108,654	-	10,322	296	-	63,713	182,985	-
David Whiteman	74,038	11,416	8,118	296	-	16,408	110,276	10.4
Fabio de Carvalho	150,692	31,964	17,352	355	-	24,651	225,014	14.2
Sub-total key management personnel	**558,384**	**43,380**	**57,168**	**1,539**	**-**	**105,900**	**766,371**	
Totals	**617,966**	**43,380**	**62,828**	**1,539**	**-**	**116,702**	**842,415**	

Details of the share option holdings, shareholdings and other transactions with key management personnel and their related parties are set out in note 19 of the consolidated financial statements.

END OF REMUNERATION REPORT

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 18.

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 Holdings Limited support and have substantially adhered to the ASX Corporate Governance Principles and Recommendations.

The Board monitors the operational and financial position and performance of Afterpay and oversees its business strategy, including approving the strategic goals of Afterpay 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 Afterpay. In conducting Afterpay's business with these objectives, the Board seeks to ensure that Afterpay is properly managed to protect and enhance shareholder interests and that Afterpay, 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 Afterpay's business. Details of Afterpay's key policies and the charters for the Board and each of its committees is available at www.afterpay.com.au.

Signed in accordance with a resolution of the Directors.

ANTHONY EISEN
Executive Chairman
Melbourne
25 August 2016

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Auditor's Independence Declaration to the Directors of Afterpay Holdings Limited

As lead auditor for the audit of Afterpay Holdings Limited for the financial year ended 30 June 2016, 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 Holdings Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

David McGregor
Partner
25 August 2016

Statement of Comprehensive Income

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	2016 $	2015 $
Rendering of services		1,383,241	23,847
Revenue		**1,383,241**	**23,847**
Cost of sales		(258,389)	(4,655)
Gross profit		**1,124,852**	**19,192**
Other income		289,422	3,455
Total other income		**289,422**	**3,455**
Depreciation	9	(4,476)	-
Amortisation	10	(2,166,667)	-
Share based payment expense	12	(153,438)	-
Employee benefits expense	4	(1,228,647)	-
Bad and doubtful debts expense	7	(567,481)	(6,623)
Rental expenses		(55,893)	-
Consulting Costs		(212,533)	(7,147)
Entertainment		(34,752)	(2,158)
Marketing expense		(135,643)	(6,707)
Legal expenses		(283,922)	(5,000)
Contractor expenses		(61,147)	(1,120)
Corporate & compliance expenses		(94,472)	(12,665)
Travel & accommodation expenses		(88,666)	(11,714)
Other expenses		(185,405)	(8,819)
Operating loss		**(3,858,868)**	**(39,306)**
Interest revenue		168,751	5
Loss before tax		**(3,690,117)**	**(39,301)**
Income tax benefit	5	137,789	-
Loss for the year		**(3,552,328)**	**(39,301)**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year, net of tax		**(3,552,328)**	**(39,301)**
Loss per share	20		
Basic, profit for the year attributable to ordinary equity holders of the Parent		-$0.06	-$19,651
Diluted, profit for the year attributable to ordinary equity holders of the Parent		-$0.06	-$19,651

THE ABOVE STATEMENT OF COMPREHENSIVE INCOME SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES

Statement of Financial Position

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	NOTE	2016 $	2015 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	19,723,472	3,785
Trade receivables	7	7,229,936	279,485
Prepayments and other receivables	8	567,861	299,067
Total Current Assets		**27,521,269**	**582,337**
Non-current Assets			
Property, plant and equipment	9	28,193	-
Intangible assets	10	10,833,333	3,000,000
Deferred tax asset	5(c)	609,400	-
Total Non-current Assets		**11,470,926**	**3,000,000**
TOTAL ASSETS		**38,992,195**	**3,582,337**
LIABILITIES			
Current Liabilities			
Trade and other payables	13	870,986	3,579,375
Employee leave provisions		57,427	-
Amounts due to directors		-	49,800
Total Current Liabilities		**928,413**	**3,629,175**
Non-current Liabilities			
Long service leave provision		2,945	-
Total Non-current Liabilities		**2,945**	**-**
TOTAL LIABILITIES		**931,358**	**3,629,175**
NET ASSETS (LIABILITIES)		**38,060,837**	**(46,838)**
EQUITY			
Issued capital	14(a)	41,506,567	2
Accumulated losses		(3,599,168)	(46,840)
Reserves	14(c)	153,438	-
TOTAL EQUITY		**38,060,837**	**(46,838)**

THE ABOVE STATEMENT OF FINANCIAL POSITION SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES

Statement of Changes in Equity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	ISSUED CAPITAL $	ACCUMULATED LOSSES $	RESERVES $	TOTAL $
At 1 July 2015	2	(46,840)	-	(46,838)
Loss for the year	-	(3,690,117)	-	(3,690,117)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	**-**	**(3,690,117)**	**-**	**(3,690,117)**
TRANSACTIONS				
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
At 30 June 2016	**41,506,567**	**(3,599,168)**	**153,438**	**38,060,837**

	ISSUED CAPITAL $	ACCUMULATED LOSSES $	RESERVES $	TOTAL $
At 1 July 2014	**2**	**(7,539)**	**-**	**(7,537)**
Loss for the year	-	(39,301)	-	(39,301)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	**-**	**(39,301)**	**-**	**(39,301)**
Share based payment expenses	-	-	-	-
At 30 June 2015	**2**	**(46,840)**	**-**	**(46,838)**

Statement of Cashflows

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	2016 $	2015 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		27,327,113	248,863
Payments to employees		(1,214,529)	-
Payments to merchants and suppliers (inclusive of GST)		(34,420,348)	(286,592)
Net cash flows used in operating activities	**6**	**(8,307,764)**	**(37,729)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		74,966	5
Purchase of intangibles		(3,000,000)	-
Purchase of plant and equipment		(32,669)	-
Net cash flows (used in)/from investing activities		**(2,957,703)**	**5**
CASH FLOWS FROM FINANCING ACTIVITIES			
Advance from/(repayment) to directors		(49,800)	39,800
Proceeds from issue of shares		33,000,000	-
Capital raising expenses		(1,965,046)	-
Net cash flows from financing activities		**30,985,154**	**39,800**
Net increase in cash and cash equivalents		19,719,687	2,076
Cash and cash equivalents at beginning of the year		3,785	1,708
Cash and cash equivalents at end of the year	**6**	**19,723,472**	**3,785**

THE ABOVE STATEMENT OF CASH FLOWS SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES

Notes to the Financial Statements

Note 1
Corporate Information

The consolidated financial statements of Afterpay Holdings Limited for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the Directors on 25 August 2016.

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

Afterpay Pty Ltd and Afterpay were incorporated on 2 May 2014 and 22 June 2015, respectively. On 16 July 2015, Afterpay completed the acquisition of Afterpay Pty Ltd, which resulted in Afterpay becoming the ultimate parent of Afterpay Pty Ltd. Afterpay was incorporated as a special-purpose company to make an offer to acquire all of the shares of Afterpay Pty Ltd. Afterpay has not conducted any business other than to be the holding company of Afterpay Pty Ltd since incorporation nor since the successful completion of the acquisition of Afterpay Pty Ltd on 16 July 2015. As Afterpay Pty Ltd is a small proprietary company as defined in the Corporations Act 2001, it did not have a financial reporting requirement. Similarly, Afterpay did not have a financial reporting requirement prior to its conversion to an unlisted public company on 2 March 2016.

Note 2
Summary of Significant Accounting Policies

BASIS OF PREPARATION

Afterpay was incorporated 22 June 2015. On the 16 July 2015, Afterpay completed the acquisition of Afterpay Pty Ltd, which resulted in Afterpay becoming the ultimate parent of the Group. The 2015 comparative amounts reflect the acquisition of Afterpay Pty Ltd as if it was made on 1 July 2015. Prior to the acquisition of Afterpay Pty Ltd, Afterpay did not undertake any business activities.

The acquisition of Afterpay Pty Ltd did not meet the definition of a business combination under AASB3 Business Combinations.

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) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2015, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

Amendments to AASB 119 Defined Benefit Plans: Employee Contributions

AASB 119 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

With the exception of the improvement relating to AASB 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

AASB 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods. In addition, the Group had not granted any awards during the second half of 2014. Thus, these amendments did not impact the Group's financial statements or accounting policies.

AASB 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of AASB 139. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

Note 2

Summary of Significant Accounting Policies

The following standards and interpretations have been issued by the AASB but are not yet effective for the year ended 30 June 2016.

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP
AASB 9	Financial Instruments	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.** **AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.** **Classification and measurement** **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.** The main changes are described below. **Financial assets** a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. **Financial liabilities** Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows: > **The change attributable to changes in credit risk are presented in other comprehensive income (OCI)**	1-Jan-18	The Group is currently evaluating the impact of the new standard.	1-July-18

Note 2

Summary of Significant Accounting Policies

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP
AASB 9	Financial Instruments	> **The remaining change is presented in profit or loss** AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount. **Impairment** **The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.** **Hedge accounting** Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E. AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014. AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after **1 January 2015.**	1-Jan-18	The Group is currently evaluating the impact of the new standard.	1-July-18

Note 2

Summary of Significant Accounting Policies

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP
AASB 15	Revenue from Contracts with Customers	AASB 15 *Revenue from Contracts with Customers* replaces the existing revenue recognition standards AASB 111 *Construction Contracts*, AASB 118 Revenue and related Interpretations **(Interpretation *13 Customer Loyalty Programmes*, Interpretation 15 *Agreements for the Construction of Real Estate*, Interpretation 18 *Transfers of Assets from Customers*, Interpretation 131 *Revenue—Barter Transactions Involving Advertising Services* and Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*)**. 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). 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.** **An entity recognises revenue in accordance with that core principle by applying the following steps:** **(a) Step 1: Identify the contract(s) with a customer** **(b) Step 2: Identify the performance obligations in the contract** **(c) Step 3: Determine the transaction price** **(d) Step 4: Allocate the transaction price to the performance obligations in the contract** **(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation** AASB 2015-8 amended the **AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.** AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. *AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15* amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15.	1-Jan-18	The Group is currently evaluating the impact of the new standard.	1-July-18

Note 2

Summary of Significant Accounting Policies

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP
AASB 16	Leases	See below	1-Jan-19	The Group is currently evaluating the impact of the new standard.	1-July-19

The key features of AASB 16 are as follows:

Lessee accounting

> Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

> A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.

> Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

> AASB 16 contains disclosure requirements for lessees.

AASB 16 supersedes:

(a) AASB 117 Leases

(b) Interpretation 4 Determining whether an Arrangement contains a Lease

(c) SIC-15 Operating Leases—Incentives

(d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.

Note 2

Summary of Significant Accounting Policies

(C) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Significant accounting 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.

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.

ESTIMATION OF USEFUL LIVES OF ASSETS

The estimation of the useful lives of assets have been based on historical experience as well as manufacturers' warranties (plant and equipment) and lease terms (for leased equipment). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

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.

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.

Deferred tax assets are recognised for unused tax losses 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.

BAD AND DOUBTFUL DEBT PROVISION

The provision for bad and doubtful debts is 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 and are applied to receivables overdue and receivables not yet due. The methodology and assumptions used for estimating future cash flows are reviewed regularly and updated for actual payment history.

(D) BASIS OF CONSOLIDATION

The consolidated financial information comprises the financial information of the Group and its subsidiary as at 30 June 2016. 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

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.

(E) REVENUE RECOGNITION

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it 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.

(F) 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.

Note 2

Summary of Significant Accounting Policies

(i) Group as a lessee

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

(G) 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 cashflows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(H) 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 on the estimated loss of all end-customer receivables 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.

(I) 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.

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 Holdings Limited and its wholly-owned Australian consolidated entity are intending to form an income tax consolidation group.

The head entity, Afterpay Holdings Limited and the wholly-owned entity in the tax consolidated group, should account for their own current and deferred tax amounts. The Group intends to apply the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Afterpay Holdings Limited should also recognise the current tax liabilities (or assets) and subject to satisfying the recoverability tests, the deferred tax assets arising from unused tax losses and unused tax credits assumed from the wholly-owned entities in the tax consolidated group.

Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement should be recognised as a contribution to (or distribution from) the wholly-owned tax consolidated entities.

(J) OTHER TAXES

Revenues, expenses and assets are recognised net of the amount of 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 cashflows 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.

(K) 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

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.

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.

Note 2

Summary of Significant Accounting Policies

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.

(L) 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.

	CORE TECHNOLOGY
Useful lives	Finite
Amortisation method used	5 years - Straight-line
Internally generated / Acquired	Acquired
Impairment testing	Amortisation method reviewed at every reporting period. Reviewed annually for indicators of impairment.

(M) 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.

(N) 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.

(O) 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) 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.

(ii) 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 rates 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.

(P) 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.

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 Afterpay.

Note 2
Summary of Significant Accounting Policies

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instrument at the date at which they are granted.

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.

(Q) GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

When the Group receives grants that relate to non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

(R) 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

Afterpay is an Australian domiciled technology driven payments company; as such management views the overall business as one segment.

Note 4
Expenses

	2016 $	2015 $
EXPENSES		
Employee benefits expense		
Wages and salaries	1,039,117	-
Workers' compensation costs	15,599	-
Fringe benefits tax	14,120	-
Payroll tax	63,851	-
Superannuation costs	95,960	-
Total employee benefits expense	**1,228,647**	**-**

Note 5
Income Tax

	2016 $	2015 $
(A) INCOME TAX BENEFIT		
The major components of income tax benefit:		
Current income tax		
Current income tax charge	-	-
Deferred income tax		
Relating to origination / reversal of temporary differences	(137,789)	-
Income tax expense/(benefit) as reported in the income statement	**(137,789)**	**-**

(B) 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 benefit and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:

	2016	2015
Accounting loss before tax	(3,690,117)	(39,301)
Group's statutory rate of 30% (2015: 30%)	(1,107,035)	(11,790)
Expenditure not allowed for income tax purposes	48,702	3,671
Initial recognition of deferred tax balances	(117,903)	-
Tax losses not recognised	1,041,471	10,186
Others	(3,024)	(2,067)
Income tax expense/(benefit)	**(137,789)**	**-**

Note 5
Income Tax

	2016 $	2015 $
(C) DEFERRED INCOME TAX		

Deferred income tax at 30 June, relates to the following:

CONSOLIDATED

DEFERRED TAX LIABILITIES

	2016 $	2015 $
Prepayments	(30,922)	-
Deferred tax liabilities	**(30,922)**	**-**

DEFERRED TAX ASSETS

	2016 $	2015 $
Employee provisions	150,599	-
Share issue expenses	471,611	-
Other	18,112	-
Gross deferred tax assets	**640,322**	**-**
Set-off of deferred tax liabilities	(30,922)	-
Net deferred tax assets	**609,400**	**-**

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.

The Group has Australian tax losses of $3,505,524 (2015: $33,953) that are available indefinitely for offsetting against future taxable profits. Deferred tax assets relating to these unused tax losses which have not been recognised.

Note 6
Cash and Cash Equivalents

	2016 $	2015 $
Cash at bank and in hand	723,472	3,785
Short-term deposits	19,000,000	-
Total cash and cash equivalents	**19,723,472**	**3,785**

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 $19,723,472 (2015: $3,785) and approximate their carrying amounts due to their short term maturities.

RECONCILIATION FROM THE NET LOSS BEFORE TAX TO THE NET CASH FLOWS FROM OPERATIONS

Loss before tax	(3,690,117)	(39,301)
ADJUSTMENTS FOR:		
Depreciation	4,476	-
Amortisation	2,166,667	-
Share based payment expense	153,438	-
Interest revenue	(168,751)	(5)
CHANGES IN ASSETS AND LIABILITIES		
Increase in trade and other receivables	(6,950,451)	(578,552)
Increase in prepayments	(175,009)	-
Increase in trade and other payables	351,983	580,129
Net cash used in operating activities	**(8,307,764)**	**(37,729)**

Note 7
Trade Receivables

	2016 $	2015 $
TRADE RECEIVABLES (CURRENT)		
Trade receivables	7,549,915	286,108
Less allowance for doubtful debts		
Opening balance	(6,623)	-
Provided in the year	(567,481)	(6,623)
Debts written off/collected	254,125	-
Total allowance for doubtful debts	(319,979)	(6,623)
Total trade receivables	**7,229,936**	**279,485**

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

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

		Past Due			
2016	Owed But Not Yet Due	1-30 days	31-61 days	Over 61 days	TOTAL
Trade receivables	7,127,660	256,216	96,530	69,509	7,549,915
Provision for impairment	55,462	122,993	81,940	59,584	319,979
Net trade receivables	7,072,198	133,223	14,590	9,925	7,229,936

		Past Due			
2015	Owed But Not Yet Due	1-30 days	31-61 days	Over 61 days	TOTAL
Trade receivables	271,739	10,866	2,494	1,009	286,108
Provision for impairment	-	3,645	2,120	858	6,623
Net trade receivables	271,739	7,221	374	151	279,485

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 11.

Note 8

Prepayments and Other Receivables

	2016 $	2015 $
GST receivable	26,280	299,067
Prepaid insurance	9,289	-
Accrued interest	93,785	-
Security bonds	18,340	-
Receivable from a financial institution	417,585	-
Others	2,582	-
Total prepayments and other receivables	**567,861**	**299,067**

Due to the short term nature of these assets, their carrying amounts are reasonable approximations of their fair value.

Note 9

Property, Plant and Equipment

	PLANT AND EQUIPMENT $
YEAR ENDED 30 JUNE 2016	
At 1 July 2015	-
Net of accumulated depreciation	-
Additions	32,669
Depreciation charge for the year	(4,476)
At 30 June 2016	
Net of accumulated depreciation	**28,193**
AT 30 JUNE 2016	
Cost	32,669
Accumulated depreciation	(4,476)
Net carrying value	**28,193**
YEAR ENDED 30 JUNE 2015	
At 1 July 2014	-
Net of accumulated depreciation	-
Additions	-
Depreciation charge for the year	-
At 30 June 2015	
Net of accumulated depreciation	**-**
AT 30 JUNE 2015	
Cost	-
Accumulated depreciation	-
Net carrying value	**-**

Note 10

Intangible Assets

The Afterpay system (which comprises the transaction integrity engine and the Afterpay operating platform) was developed by Touchcorp Limited (Touchcorp) through the modification and further development of pre-existing Touchcorp technology and systems. The Afterpay system continues to be maintained and developed by Touchcorp under a Software Development and License Agreement. All intellectual property created as a consequence of development of the Afterpay System is owned by Afterpay, having paid Touchcorp a development fee of $13 million, which comprised of $3 million in cash and $10 million in shares. The fair value of shares issued as consideration for the development fee was determined by reference to the shares issued in August 2015 at $1 per share as part of Afterpay's private capital raise.

	TOTAL $
YEAR ENDED 30 JUNE 2016	
At 1 July 2015	
Net of accumulated depreciation	3,000,000
Additions	10,000,000
Amortisation for the year	(2,166,667)
At 30 June 2016	
Net of accumulated depreciation	**10,833,333**
AT 30 JUNE 2016	
Cost	13,000,000
Accumulated amortisation	(2,166,667)
Net carrying value	**10,833,333**
YEAR ENDED 30 JUNE 2015	
At 1 July 2014	
Net of accumulated depreciation	-
Additions	3,000,000
Amortisation for the year	-
At 30 June 2015	
Net of accumulated depreciation	**3,000,000**
AT 30 JUNE 2015	
Cost	3,000,000
Accumulated amortisation	-
Net carrying value	**3,000,000**

Note 11

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits.

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, 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. 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

Price risk

The Group has no exposure to pricing risk as prices are determined in formal sales agreements.

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.

Interest rate risk

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

At reporting 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:

	CONSOLIDATED	
	2016	2015
	$	$
FINANCIAL ASSETS		
Cash and cash equivalents	19,723,472	3,785
Total cash and cash equivalent	**19,723,472**	**3,785**

Note 11

Financial Risk Management Objectives and Policies

The Group's policy to manage its market interest rate exposure.

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

At 30 June 2016, 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:

	POST TAX PROFIT HIGHER/(LOWER)		EQUITY HIGHER/(LOWER)	
	2016	2015	2016	2015
JUDGEMENTS OF REASONABLY POSSIBLE MOVEMENTS:	$	$	$	$
CONSOLIDATED				
-0.25% (25 basis points)	(12,333)	(6)	(12,333)	(6)
+1.00% (100 basis points)	49,331	22	49,331	22

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

The group currently has no exposure to foreign currency risk as all purchases are made in Australian dollars.

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

THE REMAINING CONTRACTUAL MATURITIES OF THE GROUP'S AND PARENT ENTITY'S FINANCE LIABILITIES ARE:

	2016	2015
	$	$
1 year or less	870,986	3,579,375
1-2 years	-	-
3-4 years	-	-
Over 4 years	-	-
Total financial liabilities	**870,986**	**3,579,375**

Note 11

Financial Risk Management Objectives and Policies

MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITY BASED ON MANAGEMENT'S EXPECTATION

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in our operations such as plant and equipment and investments in working capital. These assets are considered in the Group's overall liquidity risk.

YEAR ENDED 30 JUNE 2016	<1 YEAR $	1-2 YEAR $	2-3 YEAR $	>3 YEAR $	TOTAL
CONSOLIDATED FINANCIAL ASSETS					
Cash & cash equivalents	19,723,472	-	-	-	19,723,472
Trade & other receivables	7,797,797	-	-	-	7,797,797
	27,521,269	**-**	**-**	**-**	**27,521,269**
CONSOLIDATED FINANCIAL LIABILITIES					
Trade & other payables	870,986	-	-	-	870,986
	870,986	**-**	**-**	**-**	**870,986**
Net maturity	**26,650,283**	**-**	**-**	**-**	**26,650,283**

YEAR ENDED 30 JUNE 2015	<1 YEAR $	1-2 YEAR $	2-3 YEAR $	>3 YEAR $	TOTAL
CONSOLIDATED FINANCIAL ASSETS					
Cash & cash equivalents	3,785	-	-	-	3,785
Trade & other receivables	578,552	-	-	-	578,552
	582,337	**-**	**-**	**-**	**582,337**
CONSOLIDATED FINANCIAL LIABILITIES					
Trade & other payables	3,579,375	-	-	-	3,579,375
	3,579,375	**-**	**-**	**-**	**3,579,375**
Net maturity	**(2,997,038)**	**-**	**-**	**-**	**(2,997,038)**

Note 12

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:

	2016 $	2015 $
Expenses arising from equity-settled share-based payment transactions	153,438	-
Total share-based payment expenses	**153,438**	**-**

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 three year service period. 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 Company has used the fair value measurement provisions of AASB 2: Share-based Payment for all options or equity instruments granted to relevant senior executives and disclosed as part of senior manager compensation on a straight-line basis over the vesting period.

The grants have been amortised over the vesting and exercisable periods resulting in an increase in employee benefits expense of $153,438 for the 2016 financial year.

(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	2016 NO.	2015 WAEP	2016 NO.	2015 WAEP
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	14,475,000	0.41	-	-
Exercised during the year	-	-	-	-
Outstanding at the end of the year	**14,475,000**	**0.41**	**-**	**-**
Granted during the year	14,475,000	0.41	-	-

The outstanding balance as at 30 June 2016 is represented by:

> 14,475,000 share options issued with a weighted average exercisable price of $0.41.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2016 was 2.5 years.

The range of exercise prices for options outstanding at 30 June 2016 was $0.20 to $1.00.

The weighted average fair value of options granted during the year was $0.05.

Note 12

Share-based Payment Plans

(C) SUMMARY OF OPTIONS GRANTED UNDER THE ESOP (CONTINUED)

	2016 ESOP	2015 ESOP
Weighted average fair vale at the measurement date	$0.05	-
Dividend yield	0%	-
Expected volatility	40%	-
Risk-free interest rate	2.1%	-
Expected life of share options	4	-
Weighted average share price	$0.41	-

(D) OPTION PRICING MODEL: ESOP

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

Note 13

Trade and Other Payables

	2016 $	2015 $
Trade and other payables	675,434	3,579,375
Employee provisions	195,552	-
Total trade and other payables	**870,986**	**3,579,375**

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 11.

Note 14
Contributed Equity and Reserves

	2016 $	2015 $
(A) ORDINARY SHARES		
Issued and fully paid	**41,506,567**	**2**

(B) MOVEMENT IN ORDINARY SHARES ON ISSUE	NUMBER	$
At 1 July 2014	2	2
Share issue	-	-
At 30 June 2015	**2**	**2**
Share capital re-structure*	9,999,998	-
Shares issued	18,000,000	18,000,000
Share issue expenses (net of tax)	-	(1,493,435)
Share split**	112,000,000	-
Shares issued - initial public offering	25,000,000	25,000,000
At 30 June 2016	**165,000,000**	**41,506,567**

* *ON 16 JULY 2015, THE SHARES OF ANTHONY EISEN AND NICHOLAS MOLNAR IN AFTERPAY PTY LTD WERE EXCHANGED FOR 5 MILLION SHARES EACH IN AFTERPAY HOLDINGS LIMITED, WHICH BECAME THE ULTIMATE PARENT OF AFTERPAY PTY LTD.*

** *ON 7 MARCH 2016, THE SHAREHOLDERS OF AFTERPAY HOLDINGS LIMITED APPROVED FOR A FIVE-FOR-ONE SHARE SPLIT.*

(C) EMPLOYEE EQUITY BENEFITS RESERVES

	EMPLOYEE EQUITY BENEFITS RESERVES $
At 1 July 2014	-
Share based payment expense	-
At 30 June 2015	**-**
At 1 July 2015	-
Share based payment expense	153,438
At 30 June 2016	**153,438**

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.

Note 15
Commitments and Contingencies

OPERATING LEASE COMMITMENTS – GROUP AS LESSEE

The Group has entered into a commercial lease for its office space, which has a remaining period of 2 months at balance date.

	2016 $	2015 $
Within one year	11,115	77,805
After one year but not more than five years	-	-
More than five years	-	-
Total minimum lease payments	**11,115**	**77,805**

Note 16
Related Party Disclosure

(A) SUBSIDIARIES

The consolidated financial statements include the financial statements of Afterpay Holdings Limited and its subsidiary. These are listed in the following table.

	COUNTRY OF INCORPORATION	% EQUITY INTEREST 2016
Afterpay Pty Ltd	Australia	100%

Afterpay Holdings Limited became the ultimate parent entity of Afterpay Pty Ltd on 16 July 2015.

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 $
Minority Shareholder					
Touchcorp Limited	2016	-	10,179,448	-	64,906

Touchcorp Limited became a shareholder of Afterpay Holdings Limited on 26 August 2015. As a result of the initial public offering, Touchcorp Limited's interest was reduced from 35.7% to 30.3%.

(B) KEY MANAGEMENT PERSONNEL

Details relating to key management personnel, including remuneration paid are included in note 19.

Note 17

Events After the Balance Sheet Date

The directors are not aware of any other matter or circumstance which has arisen since 30 June 2016 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 18

Auditor's Remuneration

	CONSOLIDATED	
	2016	2015
	$	$
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	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	-
– tax compliance, grant assistance & planning	54,300	-
Total	**333,300**	**-**

Note 19

Key Management Personnel

(A) COMPENSATION OF KEY MANAGEMENT PERSONNEL

	CONSOLIDATED 2016 $	2015 $
Short-term employee benefits	661,346	-
Post employment benefits	62,828	-
Other long-term benefits	1,539	-
Share based payment	116,702	-
Total compensation	**842,415**	**-**

(B) OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL (CONSOLIDATED)

30 June 2016	Opening balance 1-Jul-15	Options granted	Options exercised	Closing balance 30-Jun-16	Total	Exercisable	Not Exercisable
Non-executive directors							
Michael Jefferies	-	200,000	-	200,000	200,000	-	200,000
David Hancock	-	200,000	-	200,000	200,000	-	200,000
Clifford Rosenberg	-	900,000	-	900,000	900,000	-	900,000
Executive directors							
Anthony Eisen	-	1,500,000	-	1,500,000	1,500,000	-	1,500,000
Nicholas Molnar	-	1,500,000	-	1,500,000	1,500,000	-	1,500,000
Other key management personnel							
Richard Harris	-	4,200,000	-	4,200,000	4,200,000	-	4,200,000
David Whiteman	-	1,250,000	-	1,250,000	1,250,000	-	1,250,000
Fabio de Carvalho	-	1,000,000	-	1,000,000	1,000,000	-	1,000,000
Total	**-**	**10,750,000**	**-**	**10,750,000**	**10,750,000**	**-**	**10,750,000**

30 June 2015	Opening balance 1-Jul-14	Options granted	Options exercised	Closing balance 30-Jun-15	Total	Exercisable	Not Exercisable
Executive directors							
Anthony Eisen	-	-	-	-	-	-	-
Nicholas Molnar	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note 19

Key Management Personnel

(C) SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL (CONSOLIDATED)

30 June 2016	Opening Balance 1-Jul-15	Share capital re-structure	Share Split	Net change other	Balance 30-Jun-16
Non-executive directors					
Michael Jefferies**	-	-	-	250,000	250,000
David Hancock**	-	-	-	2,500,000	2,500,000
Clifford Rosenberg**	-	-	-	1,000,000	1,000,000
Executive directors					
Anthony Eisen*	1	4,999,999	20,000,000	-	25,000,000
Nicholas Molnar*	1	4,999,999	20,000,000	-	25,000,000
Other key management personnel					
Richard Harris	-	-	-	-	-
David Whiteman	-	-	-	-	-
Fabio de Carvalho	-	-	-	-	-
Total	**2**	**9,999,998**	**40,000,000**	**3,750,000**	**53,750,000**

** ON 16 JULY 2015, THE SHARES OF ANTHONY EISEN AND NICHOLAS MOLNAR IN AFTERPAY PTY LTD WERE EXCHANGED FOR 5 MILLION SHARES EACH IN AFTERPAY HOLDINGS LIMITED, WHICH BECAME THE ULTIMATE PARENT OF AFTERPAY PTY LTD.*

***AS PART OF THE PRIVATE CAPITAL RAISE, MICHAEL JEFFERIES, DAVID HANCOCK AND CLIFFORD ROSENBERG SUBSCRIBED TO SHARES OF AFTERPAY HOLDINGS LIMITED.*

30 June 2015	Opening Balance 1-Jul-14	Share capital re-structure	Share Split	Net change other	Balance 30-Jun-15
Executive directors					
Anthony Eisen	1	-	-	-	1
Nicholas Molnar	1	-	-	-	1
Total	**2**	**-**	**-**	**-**	**2**

(D) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

There are no other transactions with key management personnel and their related parties.

Note 20

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:

	$	$
Loss attributable to ordinary equity holders of the Parent for basic earnings	(3,552,328)	(39,301)
	NUMBER	**NUMBER**
Weighted average number of ordinary shares for basic EPS	64,295,082	2
Effect of dilution from:		
Share options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	**64,295,082**	**2**

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.

Note 21

Information Relating to Afterpay Holdings Limited (The Parent)

	2016 $	2015 $
Current assets	19,627,574	2
Total assets	41,551,586	2
Current liabilities	14,609	-
Total liabilities	14,609	-
Issued Capital	41,506,567	2
Accumulated losses	(123,028)	-
Reserves	153,438	-
	41,536,977	**2**
Loss of the Parent entity	(123,028)	-
Total comprehensive income of the Parent entity	(123,028)	-

Directors' Declaration

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

In the opinion of the directors:

a. The financial statements and notes of Afterpay Holdings Limited for the year ended 30 June 2016 are in accordance with the Corporations Act 2001, including:

   (i) Giving a true and fair view of its financial position as at 30 June 2016 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 Managing Director and the Chief Finance & Risk Officer required by section 295A of the Corporations Act 2001.

On behalf of the Board.

Nicholas Molnar
Managing Director
Melbourne
25 August 2016

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

Report on the financial report

We have audited the accompanying financial report of Afterpay Holdings Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a. the financial report Afterpay Holdings Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 13 to 16 of the directors' report for the year ended 30 June 2016. 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.

Opinion

In our opinion, the Remuneration Report of Afterpay Holdings Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

David McGregor
Partner
Melbourne
25 August 2016

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 18 August 2016 (Reporting Date).

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.afterpay.com.au), 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 Afterpay Holdings, 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 ITS WEBSITE WWW.AFTERPAY.COM.AU

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 Holdings Limited	Ordinary Shares	140,000,000	84.85*
Touchcorp Limited	Ordinary Shares	50,000,000	30.30
Anthony Eisen	Ordinary Shares	25,000,000	15.15
Nicholas Molnar	Ordinary Shares	25,000,000	15.15

** AFTERPAY HOLDINGS LIMITED HAS A DEEMED RELEVANT INTEREST IN 84.85% 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 REPLACEMENT PROSPECTUS DATED 14 APRIL 2016. ACCORDINGLY, THE TOTAL RELEVANT INTEREST ATTRIBUTED TO AFTERPAY HOLDINGS LIMITED INCLUDES SHARES WHICH ARE HELD BY OTHER SUBSTANTIAL HOLDERS.*

Additional Information

NUMBER OF HOLDERS

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

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	1,378
Options exercisable at $0.20 each on or before 31 December 2020	13
Options exercisable at $1.00 each on or before 31 December 2020	6

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 1,378 holders of a total of 165,000,000 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:

Holdings Ranges	Holders	Total Units	%
1 – 1,000	256	152,292	0.09
1,001 – 5,000	450	1,292,734	0.78
5,001 – 10,000	281	2,346,847	1.42
10,001 – 100,000	328	8,830,556	5.35
100,001 – 999,999,999	63	152,377,571	92.35
Totals	**1,378**	**165,000,000**	**100.00**

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 Securities	UMP Shares	UMP Holders	% of issued shares held by UMP holders
165,000,000	1184	13	0.000718

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:

HOLDER NAME	BALANCE AS AT REPORTING DATE	%
Touchcorp Limited	50,000,000	30.30
Anthony Mathew Eisen	25,000,000	15.15
Nicholas Molnar Pty Ltd <Nicholas David Family A/C>	25,000,000	15.15
Sidereal Holdings Inc	5,500,000	3.33
RBC Investor Services Australia Pty Limited <VFA A/C>	4,432,039	2.69
J P Morgan Nominees Australia Limited	4,231,815	2.56
Fifty-Second Celebration Pty Ltd <McBain Family Margin A/C>	3,500,000	2.12
Fiona Kate Hancock	2,500,000	1.52
Ronald Langley	2,500,000	1.52
Mercantile Investment Company Ltd	2,500,000	1.52
Norfolk Enchants Pty Ltd <Trojan Retirement Fund A/C>	1,500,000	0.91
Silvan Bond Pty Ltd	1,500,000	0.91
Wilbow Group Pty Ltd <Wilbow Group A/C>	1,500,000	0.91
Bodhi Investment Ltd	1,250,000	0.76
Buduva Pty Ltd <Baskerville Super Fund A/C>	1,250,000	0.76
Hsbc Custody Nominees (Australia) Limited	1,149,953	0.70
Clifro Pty Ltd <Clifro A/C>	1,000,000	0.61
CVC Limited	1,000,000	0.61
Jay Even Dale Hughes <Inkese Family A/C>	1,000,000	0.61
Hunter Investments Australia Pty Ltd	1,000,000	0.61
Total number of shares of Top 20 Holders	**137,313,807**	**83.22**
Total Remaining Holders Balance	**27,686,193**	**16.78**

STOCK EXCHANGE LISTING

The Company's ordinary shares are quoted on the Australian Securities Exchange (ASX). The Company was admitted to the official list of the ASX on 3 May 2016 (ASX issuer code: AFY).

Class of restricted securities	Type of restriction	Number of securities	End date of escrow period
Ordinary shares	Voluntary escrow	40,000,000	1 March 2017
Ordinary shares	ASX escrow	103,000,000	3 May 2018
Options exercisable at $0.20 each on or before 31 December 2020	ASX escrow	700,000	3 May 2018
Options exercisable at $1.00 each on or before 31 December 2020	ASX escrow	3,600,000	3 May 2018

**THE 103,000,000 SHARES COMPRISE:*

- *100,000,000 SHARES THAT ARE SUBJECT TO ASX ESCROW ONLY; AND*
- *3,000,000 SHARES WHICH ARE SUBJECT TO BOTH ASX ESCROW AND VOLUNTARY ESCROW.*

ACCORDINGLY, 3,000,000 OF THE 103,000,000 ASX ESCROW SHARES ARE ALSO COUNTED IN THE NUMBER OF SHARES SUBJECT TO VOLUNTARY ESCROW ARRANGEMENTS UNTIL 1 MARCH 2017

Additional Information

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 3 May 2018	103,000,000	6
Options exercisable at $0.20 each on or before 31 December 2020	10,725,000	13
Options exercisable at $1.00 each on or before 31 December 2020	3,750,000	6

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
Anthony Mathew Eisen	Ordinary shares subject to ASX escrow until 3 May 2018	25,000,000	24.27%
Nicholas Molnar Pty Ltd <Nicholas David Family A/C>	Ordinary shares subject to ASX escrow until 3 May 2018	25,000,000	24.27%
Touchcorp Limited	Ordinary shares subject to ASX escrow until 3 May 2018	50,000,000	48.54%

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.

Glossary

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
Afterpay or the Company	Afterpay Holdings Limited (ACN 606 589 520)
Afterpay Operating Platform	Afterpay's end-to-end, largely automated, operating platform
Afterpay Pty Ltd	Afterpay Pty Ltd (ACN 169 342 947)
Afterpay System	The Company's technology platform comprising the Transaction Integrity Engine and the Afterpay Operating Platform
Afterpay In-store	Refers to the integration of the Afterpay System into retailers offline stores
ASIC	Australian Securities and Investments Commission
ASX	ASX Australian Securities Exchange, as operated by ASX Limited (ABN 98 008 624 691)
ASX Listing Rules	The rules which set out the specific requirements an organisation must meet to list and remain listed on ASX's market
ATO	Australian Taxation Office
AUD or $	Australian dollars
Audit & Risk Management Committee	The Committee has been established to assist the board of the Company (Board) by reviewing and making recommendations to the Board in relation to matters as listed in the Audit & Risk Management Committee Charter as listed on the Afterpay website, adopted by the Company on 23 March 2016.
Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board
Australian Accounting Standards Board	The AASB is an Australian Government agency under the Australian Securities and Investments Commission Act 2001

Glossary

BAS	Business Activity Statement
Board	The Board of Directors of the Company
CGT	Capital Gains Tax
Company of Afterpay	Afterpay Holdings Limited (ACN 606 589 520)
Constitution	System of laws and principles governing the conduct of the Company
Corporations Act	Corporations Act 2001 (Cth)
Corporate Governance Statement	The Company's annual Corporate Governance Statement lodged with the ASX on the same date as the FY16 Annual Report.
Diversity Policy	The Company's Diversity Policy, adopted by the Company on 23 March 2016 as listed on Afterpay website
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Employee Incentive Plan or Awards	The Company's Employee Incentive Plan, adopted by the Company
Employee Option Plan	The Afterpay Employee Option Plan adopted by the Company on 29 October 2015
End-customer	The end-customers who use the Afterpay service to make a purchase from a retail merchant
Escrow Period	In respect of the Escrowed Shareholders, the period ending on the dates as listed

Glossary

Escrowed Shareholders	Each of the existing shareholders that have entered into a restriction agreement or voluntary escrow deed with the Company in relation to their Shares
Existing Shareholders	Persons owning Shares in the Company
Executive or executive management team	A person with senior managerial responsibility in the Company that has power to put plans or actions into effect
FY2015	Financial year ended 30 June 2015
FY2016	Financial year ended 30 June 2016
Group	Means the Company and its subsidiary, Afterpay Pty Ltd
GST	Goods and services or similar tax imposed in Australia
H1 FY2016	Six month period ended 31 December 2015
H2 FY2016	Six month period ended 30 June 2016
IFRS	International Financial Reporting Standards
Investigating Accountant	Ernst & Young
IPO	Initial Public Offering
KMP	Key management personnel
Late Payments	A payment received by Afterpay from an end-customer which is received after the payments scheduled due date
Managing Director	The most senior full-time executive of the Company
Merchant Fees	Transaction fees paid to the Company by its retail merchant clients
Net Transaction Loss	Non-recoupable instalment payments less recoupable late fees net of payment recovery costs
Non-Executive Directors	A member of the Board of Directors who does not form part of the Executive management team.

Glossary

NPAT	Net profit after tax
Options	Options to subscribe for Shares in the Company issued by the Company to Optionholders
Optionholder	Holder of an Option
POS	Point of sale
Retail partners, retail merchants or retail merchant clients	Retail partners, retail merchants or retail merchant clients of the Company
Reporting Date	30 June 2016
Remuneration & Nomination Committee	The Committee has been established to assist the board of the Company (Board) by reviewing and making recommendations to the Board in relation to matters as listed in the Remuneration & Nomination Committee Charter as listed on the Afterpay website, adopted by the Company on 23 March 2016.
R&D	Research and development
Shares	Fully paid ordinary shares in the Company.
Shareholder	The registered holder of a Share in the company
Share Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277)
Software Development and Licence Agreement or SDLA	The Software Development and Licence Agreement dated 12 February 2015 between Afterpay Pty Ltd and Touch Australia Pty Ltd (as amended)
Touchcorp	Touchcorp Touchcorp Limited (ARBN 603 731 184), or if the context requires, the corporate group comprising Touchcorp Limited and each of its subsidiaries and, where relevant, means one or more of those subsidiaries, as the context requires
Transaction Integrity Engine	The Company's transaction integrity engine which conducts end customers fraud and repayment capability assessments in real-time

Corporate Information

AFTERPAY HOLDINGS LIMITED

ABN 36 606 589 520

Board of Directors

Anthony Eisen (Executive Chairman)
Nicholas Molnar (Managing Director)
Michael Jefferies (Non-Executive Director)
David Hancock (Non-Executive Director)
Clifford Rosenberg (Non-Executive Director)

Australian Registered Office

Level 16, 380 La Trobe 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 Holdings Limited shares are listed on the Australian Securities Exchange (ASX: AFY)

Company Website

www.afterpay.com.au