For personal use only

Afterpay Limited ASX: APT

ASX Announcement

5 November 2021

Scheme Booklet registered with ASIC

Afterpay Limited (**Afterpay**) refers to the announcement made yesterday in relation to the proposed acquisition by Lanai (AU) 2 Pty Ltd, a wholly owned indirect subsidiary of Square, Inc. (NYSE: SQ) (**Square**) of Afterpay by way of scheme of arrangement (**Scheme**), and the orders made by the Supreme Court of New South Wales that Afterpay convene and hold a meeting of Afterpay shareholders to consider and vote on the Scheme (**Scheme Meeting**) and approving the distribution of an explanatory statement providing information about the Scheme and notice of Scheme Meeting (**Scheme Booklet**) to Afterpay shareholders.

Scheme Booklet

Afterpay confirms that the Scheme Booklet has today been registered with the Australian Securities and Investments Commission (**ASIC**). A copy of the Scheme Booklet is attached and will be made available online at https://corporate.afterpay.com/investors/egm-2021.

Further details on where the Scheme Booklet can be viewed and downloaded will be dispatched to Afterpay shareholders today, as described in the announcement dated 4 November 2021.

The Scheme Booklet should be read in its entirety before making a decision on whether or not to vote in favour of the Scheme.

Independent Experts Report

The Scheme Booklet includes a copy of the independent expert's report prepared by Lonergan Edwards & Associates Limited (**Independent Expert**).

The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Afterpay shareholders, in the absence of a Superior Proposal.

The Independent Expert's conclusion should be read in context with the full Independent Expert's Report and the Scheme Booklet.

For personal use only

Afterpay Directors' Recommendation

The Afterpay Directors unanimously recommend that Afterpay shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Afterpay shareholders. Each Afterpay Director intends to vote all of the Afterpay Shares held or controlled by them in favour of the Scheme subject to the same qualifications.[1]

Scheme Meeting

The Scheme Meeting will be conducted as a virtual meeting at 10.00am (AEDT) on Monday, 6 December 2021. As previously announced, having regard to the uncertainty and potential health risks associated with large gatherings during the COVID-19 pandemic, Afterpay shareholders will not be able to attend the Scheme Meeting in person. Afterpay shareholders and their authorised proxies, attorneys and corporate representatives may participate in the Scheme Meeting through an online platform available at http://web.lumiagm.com/354553219 (meeting ID 354553219). Afterpay shareholders who participate in the Scheme Meeting via the online platform will be able to listen to the Scheme Meeting, cast a vote online and ask questions.

All registered Afterpay shareholders as at 7.00pm (AEDT) on Saturday, 4 December 2021 will be eligible to vote at the Scheme Meeting.

You should carefully read the Scheme Booklet in its entirety before making any decision in relation to the Scheme. You are encouraged to seek independent financial, legal, accounting, taxation and/or other professional advice before making any voting or investment decision in relation to your Afterpay shares.

Further Information

If you have any questions in relation to the Scheme or the Scheme Booklet, please contact the Afterpay Shareholder Information Line on 1300 229 418 (within Australia), or +61 2 9066 4051 (outside Australia) between Monday to Friday (excluding public holidays in Australia) between 9.00am and 5.00pm (AEDT).

Authorised by

Anthony Eisen
Co-CEO & Managing Director

[1] In relation to the recommendation of Co-CEOs Anthony Eisen and Nick Molnar, Afterpay shareholders should have regard to the fact that, if the Scheme is implemented, each of Anthony Eisen and Nick Molnar will receive those entitlements as described in section 10.1 of the Scheme Booklet.

For personal use only

ENDS

For further information please contact

Investors	Media	Company
Investors Rhianna Fursdon Senior Director Investor Relations rhianna.fursdon@afterpay.com +61 477 020 337	ANZ Amanda Shannahan Moore Global Director, Comms & PR amanda.shannahan@afterpay.com +61 429 374 631 North America Amanda Pires VP, Communications amandap@afterpay.com +1 650-208-372	Amanda Street Company Secretary amanda.street@afterpay.com

afterpay

For personal use only

Scheme Booklet

For a scheme of arrangement in relation to the proposed acquisition of Afterpay Limited by Lanai (AU) 2 Pty Ltd, a wholly owned indirect subsidiary of Square, Inc.

Vote In Favour

YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU APPROVE THE SCHEME BY VOTING IN FAVOUR OF THE SCHEME RESOLUTION, IN THE ABSENCE OF A SUPERIOR PROPOSAL AND SUBJECT TO THE INDEPENDENT EXPERT CONTINUING TO CONSIDER THE SCHEME TO BE IN THE BEST INTERESTS OF AFTERPAY SHAREHOLDERS

This is an important document and requires your immediate attention. You should read this document carefully and in its entirety before deciding whether or not to vote in favour of the resolution to approve the Scheme. If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser.

If, after reading this Scheme Booklet, you have any questions about the Scheme or the number of Afterpay Shares you hold or how to vote, please call the Afterpay Shareholder Information Line on 1300 229 418 (within Australia) or +61 2 9066 4051 (outside Australia) Monday to Friday (excluding public holidays in Australia) between 9.00am and 5.00pm (AEDT).

If you have recently sold all of your Afterpay Shares, please disregard this document.

Financial Advisers

Goldman Sachs

Qatalyst Partners

Financial Adviser to the Board

Highbury Partnership

Legal Adviser

Gilbert + Tobin

Important Notices

For personal use only

Defined Terms and Interpretation

Capitalised terms used in this Scheme Booklet are defined in the Glossary in section 11 of this Scheme Booklet. If a word or phrase is defined, its other grammatical forms have a corresponding meaning. The documents reproduced in the attachments to this Scheme Booklet may have their own defined terms, which sometimes differ from those in the Glossary.

This Scheme Booklet

This Scheme Booklet will explain the terms of the Scheme, the manner in which the Scheme will be considered and implemented (if approved), and sets out information as prescribed by law or that may be material to Afterpay Shareholders' decision as to whether to vote in favour of the Scheme. This Scheme Booklet includes the explanatory statement required to be sent to Afterpay Shareholders in relation to the Scheme under Part 5.1 of the Corporations Act. A copy of the proposed Scheme is set out in Attachment A to this Scheme Booklet.

This Scheme Booklet is not a prospectus lodged under chapter 6D of the Corporations Act in respect of New Square Shares. An offer of shares does not require disclosure under chapter 6D of the Corporations Act if such an offer is made under a compromise or arrangement under Part 5.1 of the Corporations Act and is approved at a scheme meeting held pursuant to a court order made under section 411(1) or (1A) of the Corporations Act.

Responsibility for Information

Except as provided below, the information in this Scheme Booklet has been provided by Afterpay and is the responsibility of Afterpay. Neither Square nor Square Acquirer or their directors, officers and advisers assume any responsibility for the accuracy or completeness of any such Afterpay Information.

Square has provided and is responsible for the Square Information. Afterpay and its directors, officers and advisers do not assume any responsibility for the accuracy or completeness of the Square Information.

The Independent Expert, Lonergan Edwards & Associates Limited, has provided and is responsible for the information contained in Attachment C to this Scheme Booklet. Afterpay does not assume any responsibility for the accuracy or completeness of the information contained in Attachment C to this Scheme Booklet except in relation to information given by it to the Independent Expert. Square does not assume any responsibility for the accuracy or completeness of the information contained in Attachment C to this Scheme Booklet. The Independent Expert does not assume any responsibility for the accuracy or completeness of the information contained in this Scheme Booklet other than that contained in Attachment C.

Ernst & Young Strategy and Transactions Limited (**Ernst & Young Strategy and Transactions**) has prepared the Independent Limited Assurance Report set out in Attachment D and takes responsibility for that report. Computershare has had no involvement in the preparation of any part of this Scheme Booklet other than being named as the Afterpay Share Registry. Computershare has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

Investment Decisions

The information in this Scheme Booklet does not constitute financial product advice. This Scheme Booklet has been prepared without reference to the investment objectives, financial situation or particular needs of any Afterpay Shareholder or any other person. This Scheme Booklet should not be relied on as the sole basis for any investment decision. Independent legal, financial and taxation advice should be sought before making any investment decision in relation to your Afterpay Shares.

ASIC and ASX Involvement

This document is the explanatory statement for the scheme of arrangement between Afterpay and the holders of Afterpay Shares as at the Record Date for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included in this Scheme Booklet as Attachment A.

A copy of this Scheme Booklet (including the Independent Expert's Report) has been lodged and registered with ASIC for the purposes of section 412(6) of the Corporations Act. ASIC has been given the opportunity to comment on this Scheme Booklet and has been requested to provide a statement in accordance with section 411(17)(b) of the Corporations Act that ASIC has no objection to the Scheme. If ASIC provides that statement, then it will be produced to the Court on the Court Approval Date.

Neither ASIC nor any of its officers take any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet will be lodged with ASX. Neither ASX nor any of its officers take any responsibility for the contents of this Scheme Booklet.

For personal use only

Important Notice Associated with Court Order under Subsection 411(1) of the Corporations Act

The fact that under subsection 411(1) of the Corporations Act the Court has ordered that a meeting be convened and has approved the explanatory statement required to accompany the notice of the meeting does not mean that the Court:

- has formed any view as to the merits of the proposed Scheme or as to how members should vote (on this matter members must reach their own decision); or
- has or will approve the terms of the Scheme; or
- has prepared, or is responsible for the content of, the explanatory statement.

The order of the Court that the Scheme Meeting be convened is not, and should not be treated as, an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

Notice Regarding Second Court Hearing and Afterpay Shareholders' Rights to Oppose the Scheme

The date of the Second Court Hearing to approve the Scheme is Friday, 10 December 2021. The hearing will be at 9.15am (AEDT) at the Supreme Court of New South Wales at Law Courts Building, 184 Phillip Street, Sydney NSW 2000.

Each Afterpay Shareholder has the right to appear and be heard at the Second Court Hearing and if so advised, oppose the approval of the Scheme at the Second Court Hearing. If you wish to oppose in this manner, you must file and serve on Afterpay a notice of appearance, in the prescribed form, together with any affidavit on which you wish to rely at the hearing. The notice of appearance and affidavit must be served on Afterpay at its address for service at least one day before Friday, 10 December 2021.

The address for service for Afterpay is:
126 Buckingham Street,
Surry Hills NSW 2010

with a copy to

Gilbert + Tobin,
L35, Tower Two,
International Towers Sydney
200 Barangaroo Avenue,
Barangaroo NSW 2000.

(Attention: Andrew Cameron)
Email: andrew.cameron@afterpay.com.

Disclosure Regarding Forward-Looking Statements

This Scheme Booklet contains both historical and forward-looking statements.

The forward-looking statements reflect the views of Afterpay or, in relation to the Square Information, Square, held only as at the date of this Scheme Booklet concerning future results and events and generally may be identified by the use of forward-looking words or phrases such as "believe", "aim", "expect", "anticipated", "intending", "foreseeing", "likely", "should", "planned", "may", "estimated", "potential", or other similar words and phrases. Similarly, statements that describe Afterpay's and Square's objectives, plans, goals or expectations are or may be forward-looking statements.

The statements in this Scheme Booklet about the impact that the Scheme may have on the results of Afterpay's operations, and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

Examples of forward-looking statements in this Scheme Booklet include, among others, statements regarding the future performance of Square and Afterpay, the perceived synergies and other benefits of the pending transaction between Square and Afterpay; the ability of the transaction to accelerate growth and to strengthen the integration between Square's Seller and Cash App ecosystems; and expectations around the financial impact of the transaction on Square's financials. Although Square believes that the views reflected in any forward-looking statements contained in the Square Information in this Scheme Booklet have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

Although Afterpay believes that the views reflected in any forward-looking statements contained in the Afterpay Information in this Scheme Booklet have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

These forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause either Afterpay's or Square's actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed, projected or implied by these forward-looking statements. In addition, factors related to the Scheme that contribute to the uncertain nature of the forward-looking statements include, but are not limited to: the expected timing to complete the Scheme; filings and approvals relating to the Scheme; the ability to complete the Scheme considering the various closing conditions, including shareholder approvals; and the possibility that a governmental entity may prohibit, delay or refuse to grant approval for the consummation of the Scheme. Deviations

For personal use only

as to future results, performance and achievements are both normal and to be expected. Afterpay Shareholders should note that the historical financial performance of Afterpay or Square is no assurance of future financial performance of Afterpay or Square (whether the Scheme is implemented or not). Afterpay Shareholders should review carefully all of the information included in this Scheme Booklet, including the risks described in section 7. The forward-looking statements included in this Scheme Booklet are made only as of the date of this Scheme Booklet. Neither Afterpay, nor Square nor their directors give any representation, assurance or guarantee to Afterpay Shareholders that any forward-looking statements will actually occur or be achieved. Afterpay Shareholders are cautioned not to place undue reliance on such forward-looking statements.

Subject to any continuing obligations under law or the ASX Listing Rules, Afterpay and Square do not give any undertaking to update or revise any forward-looking statements after the date of this Scheme Booklet to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

All subsequent written and oral forward-looking statements attributable to Afterpay or Square or any person acting on their behalf are qualified by this cautionary statement.

Privacy and Personal Information

Afterpay, Square and their respective registries may collect personal information to implement the Scheme. The personal information may include the names, contact details and details of holdings of Afterpay Shareholders, plus contact details of individuals appointed by Afterpay Shareholders as proxies, corporate representatives or attorneys at the Scheme Meeting. The collection of some of this information is required or authorised by the Corporations Act.

Computershare advises that personal information it holds about you (including your name, address, date of birth and details of the financial assets) is collected by Computershare to administer your investment. Personal information is held on the public register in accordance with Chapter 2C of the Corporations Act. Some or all of your personal information may be disclosed to the Afterpay Share Registry, print and mail service providers, authorised securities brokers, any member of Square, Afterpay and its Related Bodies Corporate, and Afterpay and Square's advisers and service providers in Australia and overseas. Your information may also be disclosed to Australian government agencies, law enforcement agencies and regulators, or as required under other Australian law, contract, and court or tribunal order. For further details about our personal information handling practices, including how you may access and correct your personal information and raise privacy concerns, visit our website at www.computershare.com for a copy of the Computershare condensed privacy statement, or contact Computershare by phone on 1300 850 505 (within Australia) and +61 3 9415 5000 (outside Australia) from 8.30am to 8.00pm (AEDT) Monday to Friday (excluding public holidays) to request a copy of the complete privacy policy.

The information may be disclosed to print and mail service providers, and to Afterpay and Square and their respective Related Bodies Corporate and advisers to the extent necessary to effect the Scheme. If the information outlined above is not collected, Afterpay may be hindered in, or prevented from, conducting the Scheme Meeting or implementing the Scheme effectively or at all. Afterpay Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Scheme Meeting should inform that individual of the matters outlined above.

Implied Value

The Scheme Consideration comprises New Square Securities. The value of your Scheme Consideration will therefore vary based on changes in the Square Share Price and the AUD/USD exchange rate. Any reference to the implied value of the Scheme Consideration should not be taken as an indication that the implied value is fixed.

If you are an Ineligible Foreign Shareholder, this also applies to the New Square Shares which will be remitted to the Sale Agent to sell on your behalf. Any cash remitted to you under the Sale Facility will depend on the market price of Square Shares and the AUS/USD exchange rate after the sale by the Sale Agent has been completed.

Disclaimer

No person is authorised to give any information or make any representation in connection with the Scheme that is not otherwise contained in this Scheme Booklet.

You should not rely on any information or representation not contained in this Scheme Booklet as having been authorised by Afterpay, Square or either of their directors and officers regarding the Scheme.

Notice of Scheme Meeting

The Notice of Scheme Meeting is at Attachment E of this Scheme Booklet.

Notice to Persons Outside Australia

The release, publication or distribution of this Scheme Booklet (electronically or otherwise) outside of Australia may be restricted by law. If you come into possession of this Scheme Booklet

For personal use only

outside of Australia, you should observe and seek your own advice on such restrictions. Any failure to comply with such restrictions may contravene applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with the laws and regulations of Australia and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations outside Australia.

This Scheme Booklet and the Scheme do not in any way constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

You will not be able to receive New Square Shares if you are an Ineligible Foreign Shareholder. Any New Square Shares will be issued to the Sale Agent and sold through the Sale Facility.

For further details about Ineligible Foreign Shareholders and foreign selling restrictions regarding the Scheme, you should refer to Frequently asked questions and section 3.10.

Internet Websites

Any reference in this Scheme Booklet to any website is only for informational purposes and any information on such websites does not form part of this Scheme Booklet.

Afterpay and Square maintain websites. The information contained in Afterpay and Square's respective websites do not form part of this Scheme Booklet and should not be relied on by Afterpay Shareholders.

Effect of Rounding

A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Scheme Booklet and any discrepancies between totals in tables or financial information, or in calculations, graphs or charts are due to rounding.

Times and Dates

Unless otherwise stated, all times referred to in this Scheme Booklet are times in Sydney, Australia (AEDT), unless otherwise defined. All dates following the date of the Scheme Meeting are indicative only and are subject to the Court approval process and the satisfaction or, where applicable, waiver of the conditions precedent to the implementation of the Scheme (see Key dates section of this Scheme Booklet and clause 3 of the Scheme Implementation Deed).

Currency

Unless otherwise specified, all references to A$ or AUD and Australian cents are references to the currency of Australia.

Unless otherwise specified, all references to US$ or USD are references to the currency of the US.

Supplementary Information

For information about the steps that Afterpay will take if information about the Scheme needs to be updated, you should refer to section 10.16.

Please contact the Afterpay Shareholder Information Line on 1300 229 418 (within Australia), or +61 2 9066 4051 (outside of Australia) between Monday to Friday (excluding public holidays in Australia) between 9.00am and 5.00pm (AEDT) if you have any questions or require further information.

Date

This Scheme Booklet is dated 5 November 2021.

Contents

Important Notices	ii
Chair's Letter – Afterpay	5
Letter from Square's CEO and Chairman	8
Key Dates	9
Afterpay Directors' Recommendation and Matters Relevant to your Vote on the Scheme	11
Next Steps	18
How to Vote	19
1. Frequently Asked Questions	22
2. Summary of the Scheme	35
3. Overview of the Scheme	37
4. Information on Afterpay	55
5. Information on Square	77
6. Overview of the Combined Group	119
7. Key Risks	167
8. Taxation Considerations for Scheme Shareholders	181
9. Comparison of Relevant Australian and US Laws	190
10. Additional Information	206
11. Glossary	213
Attachment A. Scheme of Arrangement made under Section 411 of the Corporations Act	228
Attachment B. Deed Poll	252
Attachment C. Independent Expert's Report	264
Attachment D. Independent Limited Assurance Report	406
Attachment E. Notice of Scheme Meeting	417
Attachment F. Sample Proxy Form	422
Corporate Directory	425

For personal use only

Chair's Letter – Afterpay

Friday, 5 November 2021

Dear Afterpay Shareholders,

On behalf of the Afterpay Board, I am pleased to present this Scheme Booklet containing information about the proposed acquisition of Afterpay by Square, a leading global fintech company that builds tools to empower businesses and individuals to participate in the economy. The combination of Afterpay and Square will bring together two of the fastest growing global payments companies to advance a shared mission of economic empowerment and financial inclusion and provide Afterpay Shareholders with the opportunity to be a part of the future growth of an innovative company aligned with Afterpay's vision.

On 2 August 2021, Afterpay announced that it had entered into a Scheme Implementation Deed with Square and Square Acquirer, by which Square Acquirer would acquire all of the issued shares in Afterpay by way of a scheme of arrangement.

Recommendation of the Afterpay Board

The Afterpay Board believes the complementarity of the Afterpay and Square businesses will deliver strategic and commercial outcomes and represents a compelling opportunity. The combination will enable the companies to better deliver compelling financial products and services that expand access to more customers and drive incremental revenue for merchants of all sizes.

For Afterpay, the combination will enable Afterpay to further accelerate its growth in the US and globally, offer access to a new category of in-person merchants, and provide a broader platform of new and valuable capabilities and services to its merchants and customers. For Square, Afterpay will help accelerate the strategic priorities for its Seller and Cash App ecosystems supported by shifting customer preferences away from traditional credit, especially among younger customers. It will also help Square meet the consistent demand from merchants for new ways to grow their sales, and further support the global growth in omnichannel commerce.

The all scrip[1] Scheme Consideration provides Afterpay Shareholders with the opportunity to realise greater long-term value for their shares from the potential expected synergies through the combination of Afterpay and Square. This Scheme Booklet is intended to enable you to assess the transaction, which is to be implemented by way of a Court approved scheme of arrangement, and to determine whether to vote in favour of the Scheme.

The Afterpay Board unanimously recommends that you vote in favour of the Scheme in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Afterpay Shareholders and each Afterpay Director intends to vote all of the Afterpay Shares held or controlled by them in favour of the Scheme.[2]

Summary of the Offer Value for Afterpay Shareholders

If the Scheme is approved and implemented, you will be entitled to receive the Scheme Consideration for each Afterpay Share you hold on the Record Date.[3] The Scheme Consideration will comprise 0.375 New Square Securities per Afterpay Share, representing an ownership interest in Square Class A Shares.

As at the close of trading on NYSE on 29 October 2021, being the last practicable date prior to the date of this Scheme Booklet, the implied value of the Scheme Consideration was A$126.39 per Afterpay Share[4] and represents:

- a 30.8% premium over the undisturbed Afterpay Share Price on 30 July 2021 (being the last trading day prior to the announcement of the Scheme) of A$96.66;
- a 22.1% premium over the undisturbed 10-day VWAP of an Afterpay Share Price to 30 July 2021; and
- a 10.7% premium over the undisturbed 30-day VWAP of an Afterpay Share Price to 30 July 2021.

Please refer to section 3.1 for further information on the Scheme Consideration.

---

1. Ineligible Foreign Shareholders will have their New Square Shares issued instead to a Sale Agent. These shares will then be sold by the Sale Agent in the ordinary course of trading on NYSE and the net proceeds of the sale will be paid to the Ineligible Foreign Shareholders promptly afterwards. Refer to Section 3.5 for more details on this process.
2. You should note that when considering this recommendation that two of the Afterpay Directors (being Co-CEOs and Managing Directors, Anthony Eisen and Nick Molnar) have previously been issued options under the Afterpay equity incentive plan. As contemplated by the terms of the Scheme Implementation Deed, Mr Eisen and Mr Molnar will each be receiving a benefit if the Scheme proceeds. A pro rata portion of the unvested options they hold will be accelerated and the balance will be forfeited and converted into a Square award as contemplated in Section 4.11 of this Scheme Booklet. These arrangements are described in more detail in Sections 4.10, 4.11 and 10.1. The benefit to each of Anthony Eisen and Nick Molnar in respect of their Co-CEO Options is estimated to be approximately $9,612,242. See footnote 1 in section 10.1 for further information.

   Despite this interest in the outcome of the Scheme, each of Anthony Eisen and Nick Molnar, considers that, given the importance of the Scheme, and their role as directors of Afterpay, it is important and appropriate for them to provide a recommendation to shareholders in relation to voting on the Scheme. The Afterpay Board (excluding Anthony Eisen and Nick Molnar) also considers that it is appropriate for them to make a recommendation on the Scheme given their role in the management and operation of Afterpay.
3. Ineligible Foreign Shareholders will have their New Square Shares issued instead to a Sale Agent. These shares will then be sold by the Sale Agent in the ordinary course of trading on NYSE and the net proceeds of the sale will be paid to the Ineligible Foreign Shareholders promptly afterwards. Refer to Section 3.5 for more details on this process.
4. Based on the Square share price of US$254.50 and the AUD/USD exchange rate of 0.7551 as at the close of trading on NYSE on 29 October 2021, being the last practicable date before the date of this Scheme Booklet.

For personal use only

For personal use only

Benefits of the Scheme

Reasons to vote for the Scheme include:

1. The implied value of the Scheme Consideration offered to Afterpay Shareholders represents a significant premium to the trading prices of Afterpay Shares on ASX prior to the announcement of the Scheme
2. The Independent Expert has concluded that the Scheme is fair and reasonable, and in the best interests of Afterpay Shareholders in the absence of a Superior Proposal
3. Square brings added value, differentiation and scale to Afterpay's growth strategy
4. The combination brings together two shared visions and cultures to drive a common purpose
5. Afterpay Shareholders will benefit from any expected synergies generated by the transaction
6. No Superior Proposal has emerged as at the date of this Scheme Booklet
7. The Afterpay Share Price will continue to be subject to market volatility and may fall if the Scheme is not implemented and in the absence of a Superior Proposal
8. Afterpay Shareholders may be eligible to receive the Scheme Consideration in the form of New Square CDIs listed on ASX
9. Scheme Shareholders that are residents of Australia for tax purposes may be eligible for CGT roll-over relief for any gain made from the disposal of their Scheme Shares
10. Afterpay Shareholders will not incur any brokerage charges on the transfer of your Afterpay Shares if the Scheme proceeds

Further information in relation to these benefits is set out in **Reasons for recommendation and advantages of the Scheme**.

Other Considerations

You should consider the reasons why you may not want to vote in favour of the Scheme. These reasons may include:

1. You may wish to maintain your direct investment in Afterpay as an ASX-listed company and prefer Afterpay to continue to operate as a standalone entity
2. There are risks associated with holding shares in the Combined Group which are different from those associated with your shareholding in Afterpay
3. You may believe that the Scheme is not in your individual best interests and disagree with Afterpay Board's recommendation and the Independent Expert's conclusion
4. The value of the New Square Securities which form the consideration is not certain until the Implementation Date
5. There are risks associated with implementing the Scheme which you may consider outweigh the benefits of the Scheme
6. You may consider that there is a possibility that a Superior Proposal could emerge in relation to Afterpay in the foreseeable future

Further information on these reasons is set out in **Reasons why Afterpay Shareholders may consider voting against the Scheme and disadvantages of the Scheme.**

Independent Expert

The Afterpay Board appointed Lonergan Edwards & Associates to prepare an Independent Expert's Report opining on whether the Scheme is fair and reasonable and in the best interests of Afterpay Shareholders.

The Independent Expert has concluded that the Scheme Consideration is fair and reasonable and, therefore, the Scheme is in the best interests of Afterpay Shareholders, in the absence of a Superior Proposal.

The Independent Expert has assessed the value of an Afterpay Share to be in the range of A$115-135 per Afterpay Share. As at the close of trading on NYSE on 29 October 2021, being the last practicable date prior to the date of this Scheme Booklet, the implied value of the Scheme Consideration was A$126.39 per Afterpay Share[5] which falls within the Independent Expert's range.

The reasons why the Independent Expert reached these conclusions are set out in the Independent Expert's Report, a copy of which is included in Attachment C. The Afterpay Board encourages you to read this report in its entirety.

5. Based on the Square share price of US$254.50 and the AUD/USD exchange rate of 0.7551 as at the close of trading on NYSE on 29 October 2021, being the last practicable date before the date of this Scheme Booklet.

For personal use only

Your Vote is Important

Your vote is important regardless of how many shares you own in Afterpay and I encourage you to vote on the Scheme.

Voting will take place at the online Scheme Meeting to be held at 10.00am on Monday, 6 December 2021 through an online platform by using a **web browser** at http://web.lumiagm.com/354553219 on your smartphone, tablet or computer. Having regard to the uncertainty, legal restrictions and potential health risks associated with large gatherings during the COVID-19 pandemic, Afterpay Shareholders will not be able to attend the Scheme Meeting in person. Afterpay Shareholders who participate in the Scheme Meeting via the online platform will be able to listen to the Scheme Meeting, cast an online vote and ask questions online.

If you wish the Scheme to proceed, it is important that you vote in favour of the Scheme Resolution. Information on how to vote in the Scheme is set out in the "How to vote" section of this Scheme Booklet. The Scheme can only be implemented if approved by Afterpay Shareholders by the Requisite Majorities at the Scheme Meeting and by the Court.

Conditions Precedent

The Scheme is subject to the approval of Afterpay Shareholders and the Court. It also remains subject to a number of other Conditions Precedent, including regulatory approvals as set out in section 3.11(a).

Further Information

If you have any questions in relation to the Scheme or this Scheme Booklet, please contact the Afterpay Shareholder Information Line on 1300 229 418 (within Australia) or +61 2 9066 4051 (outside Australia) Monday to Friday (excluding public holidays in Australia) between 9.00am and 5.00pm (AEDT).

On behalf of the Afterpay Board, I would like to reiterate our support for the Scheme. We believe that it represents a compelling opportunity and attractive value to Afterpay Shareholders, and we encourage you to vote in favour of the Scheme, in the absence of a Superior Proposal.

I would also like to take this opportunity to thank you for your continued support of Afterpay.

Yours sincerely,

Elana Rubin
Chair
Afterpay

Letter from Square's CEO and Chairman

Friday, 5 November 2021

Dear Afterpay Shareholder,

The Square Board and management are excited to offer you the opportunity to participate in the combination of Square and Afterpay, which will unite two companies aligned in a shared mission of economic empowerment and financial inclusion.

We built our business to make the financial system more fair, accessible, and inclusive, and Afterpay has built a trusted brand aligned with those principles. Together, we can better connect Square's largest ecosystems – Cash App and Seller – to deliver even more compelling products and services for merchants and consumers and ultimately better serve our customers around the world.

Square is recognised as an industry leader with customers across a diverse range of industries and countries. Businesses use Square to reach buyers online and in person, manage their business, and access financing. Individuals use Cash App to spend, send, store, and invest money. Square owns a majority ownership stake in TIDAL, a global music and entertainment platform that expands Square's purpose of economic empowerment to artists. We also recently launched TBD, a bitcoin focused open-developer platform with the goal of making it easier to create non-custodial, permissionless, and decentralized financial services.

As an Afterpay Shareholder, your vote is important in order to ensure the Scheme is implemented and you have the opportunity to participate in the future growth and performance of the Combined Group.

On behalf of the Square Board, we look forward to welcoming you as a shareholder of Square, following the successful closing of this transaction.

Sincerely,

Jack Dorsey
President, Chief Executive Officer and Chairman of the Board

For personal use only

Key Dates

Date	Event
Friday, 5 November 2021	Date of this Scheme Booklet
10.00am on Saturday, 4 December 2021	**Scheme Meeting proxies** – the last date and time by which Proxy Forms (including proxies lodged online), powers of attorney or certificates of appointment of body corporate representatives for the Scheme Meeting must be received by the Afterpay Share Registry.
7.00pm on Saturday, 4 December 2021	**Voting Record Date** – the date and time for determining eligibility to vote at the Scheme Meeting.
10.00am on Monday, 6 December 2021	Scheme Meeting As a result of the potential health risks associated with large gatherings and the ongoing COVID-19 pandemic, the Scheme Meeting will be virtual (online only). There will not be a physical meeting where Afterpay Shareholders or their proxies, attorneys or corporate representatives can attend in person. Further details relating to the Scheme Meeting are set out in the Frequently Asked Questions section of this Scheme Booklet and in the Notice of Scheme Meeting in Attachment E.
If Afterpay Shareholders approve the Scheme at the Scheme Meeting	
Friday, 10 December 2021	Second Court Date to approve the Scheme
Friday, 10 December 2021	**Effective Date** – this is the date on which the Scheme comes into effect and is binding on Afterpay Shareholders. Court order lodged with ASIC and announced on ASX. Afterpay Shares will continue to trade on ASX after the Effective Date. If the Scheme becomes Effective, Afterpay Shareholders who sell their Afterpay Shares after the Effective Date and prior to the Record Date should be aware that they will not receive the Scheme Consideration on the Implementation Date. In addition, investors who acquire Afterpay Shares after the Effective Date should be aware that all Afterpay Shareholders who hold Afterpay Shares on the Record Date (other than Ineligible Foreign Shareholders) will be provided with the Scheme Consideration in exchange for their Afterpay Shares. The exchange ratio is fixed and holders of Afterpay Shares on the Record Date (other than Ineligible Foreign Shareholders) will receive 0.375 New Square Shares or 0.375 New Square CDIs. Square Class A Shares will continue to trade on NYSE between the Effective Date and the Record Date.
Tuesday, 4 January 2022	**Election Date** – the latest time and date by which CDI Election Forms and Share Election Forms must be received by the Afterpay Share Registry, only if holders wish to make a Share Election or a CDI Election rather than receive their default Scheme Consideration.
Thursday, 6 January 2022	Afterpay Shares will be suspended from trading at the close of trading on ASX on Thursday, 6 January 2022. If the Scheme proceeds, this will be the last day that Afterpay Shares will trade on ASX.

For personal use only

For personal use only

Date	Event
Friday, 7 January 2022	Commencement of trading of New Square CDIs on ASX under a symbol to be advised before implementation of the Scheme (deferred settlement basis).[1]
Monday, 10 January 2022	**Record Date** – determination of entitlement of Scheme Shareholders to receive the Scheme Consideration.
Tuesday, 18 January 2022	**Implementation Date** – all Scheme Shareholders[2] will be provided with the Scheme Consideration to which they are entitled on this date.
Wednesday, 19 January 2022	Holding statements or confirmation advice for New Square CDIs will be dispatched.
Wednesday, 19 January 2022	Commencement of trading of New Square CDIs on ASX under a symbol to be advised before implementation of the Scheme (normal settlement basis).
Wednesday, 19 January 2022	Commencement of cross-border conversions of New Square Shares and New Square CDIs between Australia and the US.
Wednesday, 19 January 2022	Commencement of trading of New Square Shares (and Square Class A Shares underlying any New Square CDIs) on NYSE.
Thursday, 20 January 2022	DRS statements for New Square Shares will be dispatched.

If the Scheme is approved by Afterpay Shareholders, but any Conditions Precedent remain outstanding on the scheduled date for the Second Court Hearing, the Second Court Hearing would be delayed until those Conditions Precedent have been satisfied or waived (if applicable).

All dates following the date of the Scheme Meeting are indicative only and are subject to the Court approval process and the satisfaction or, where applicable, waiver of the Conditions Precedent to the implementation of the Scheme (see Key dates section of this Scheme Booklet). All dates and times, unless otherwise indicated, refer to the date and time in Sydney, Australia. Any changes to the above timetable will be announced to ASX and notified on Afterpay's website at https://corporate.afterpay.com/.

1. The exact number of New Square Securities to be issued to you will not be known until after the Record Date and will not be communicated to you until after you receive your statement or confirmation advice statements following the Implementation Date. Therefore, please be aware that, if you trade in New Square CDIs during the deferred settlement period and prior to receipt of your holding statement or confirmation advice, you do so at your own risk. See section 7.5(d) for further details.
2. Ineligible Foreign Shareholders will have their New Square Shares issued instead to a Sale Agent. These shares will then be sold by the Sale Agent in the ordinary course of trading on NYSE and the net proceeds of the sale will be paid to the Ineligible Foreign Shareholders promptly afterwards. Refer to section 3.5 for more details on this process.

Afterpay Directors' Recommendation and Matters Relevant to your Vote on the Scheme

(a) Recommendation

The Afterpay Directors unanimously recommend that Afterpay Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Afterpay Shareholders. Each Afterpay Director intends to vote all of the Afterpay Shares held or controlled by them in favour of the Scheme subject to the same qualifications.[1]

(b) Reasons for Recommendation and Advantages of the Scheme

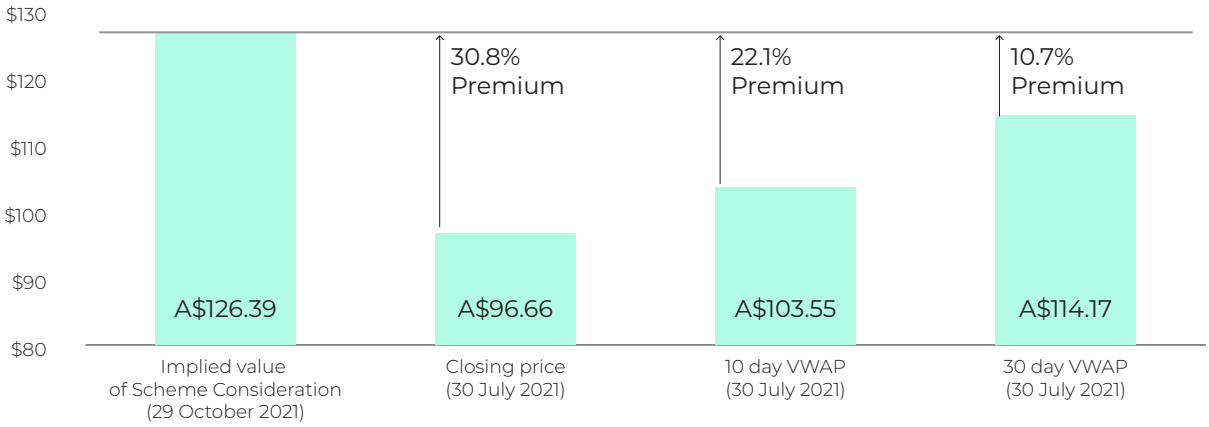
The factors which the Afterpay Board have taken into account in recommending the Scheme to Afterpay Shareholders include:

(i) **The implied value of the Scheme Consideration offered to Afterpay Shareholders represents a significant premium to the trading prices of Afterpay Shares on ASX prior to the announcement of the Scheme**

If the Scheme is approved and implemented, Afterpay Shareholders will be entitled to receive the Scheme Consideration for each Afterpay Share they hold on the Record Date.[2] The Scheme Consideration will comprise 0.375 New Square Securities per Afterpay Share held.

As at the close of trading on NYSE on 29 October 2021, being the last practicable date prior to the date of this Scheme Booklet, the implied value of the Scheme Consideration was A$126.39 per Afterpay Share[3] and represents:

- a 30.8% premium over the undisturbed Afterpay Share Price on 30 July 2021 (being the last trading day prior to the announcement of the Scheme) of A$96.66;
- a 22.1% premium over the undisturbed 10-day VWAP of an Afterpay Share Price to 30 July 2021; and
- a 10.7% premium over the undisturbed 30-day VWAP of an Afterpay Share Price to 30 July 2021.



1. You should note that when considering this recommendation that two of the Afterpay Directors (being Co-CEOs and Managing Directors, Anthony Eisen and Nick Molnar) have previously been issued options under the Afterpay equity incentive plan. As contemplated by the terms of the Scheme Implementation Deed, Mr Eisen and Mr Molnar will each be receiving a benefit if the Scheme proceeds. A pro rata portion of the unvested options they hold will be accelerated and the balance will be forfeited and converted into a Square award as contemplated in Section 4.11 of this Scheme Booklet. These arrangements are described in more detail in Sections 4.10, 4.11 and 10.1. The benefit to each of Anthony Eisen and Nick Molnar in respect of their Co-CEO Options is estimated to be approximately $9,612,242. See footnote 1 in section 10.1 for further information.

   Despite this interest in the outcome of the Scheme, each of Anthony Eisen and Nick Molnar, considers that, given the importance of the Scheme, and their role as Afterpay Directors, it is important and appropriate for them to provide a recommendation to shareholders in relation to voting on the Scheme. The Afterpay Board (excluding Anthony Eisen and Nick Molnar) also considers that it is appropriate for them to make a recommendation on the Scheme given their role in the management and operation of Afterpay.
2. Ineligible Foreign Shareholders will have their New Square Shares issued instead to a Sale Agent. These shares will then be sold by the Sale Agent in the ordinary course of trading on NYSE and the net proceeds of the sale will be paid to the Ineligible Foreign Shareholders promptly afterwards. Refer to Section 3.5 for more details on this process.
3. Based on the Square share price of US$254.50 and the AUD/USD exchange rate of 0.7551 as at the close of trading on NYSE on 29 October 2021, being the last practicable date before the date of this Scheme Booklet.

For personal use only

For personal use only

(ii) **The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Afterpay Shareholders in the absence of a Superior Proposal**

The Afterpay Board appointed Lonergan Edwards & Associates to prepare an Independent Expert's Report opining on whether the Scheme is fair and reasonable and in the best interests of Afterpay Shareholders.

The Independent Expert has concluded that the Scheme Consideration is fair and reasonable and, therefore, the Scheme is in the best interests of Afterpay Shareholders, in the absence of a Superior Proposal.

The Independent Expert has assessed the value of an Afterpay Share to be in the range of A$115-135 per Afterpay Share. As at the close of trading on NYSE on 29 October 2021, being the last practicable date prior to the date of this Scheme Booklet, the implied value of the Scheme Consideration was A$126.39 per Afterpay Share[4] which falls within the Independent Expert's range.

The reasons why the Independent Expert reached these conclusions are set out in the Independent Expert's Report, a copy of which is included in Attachment C. The Afterpay Board encourages you to read this report in its entirety.

(iii) **Square brings added value, differentiation and scale to Afterpay's growth strategy**

Afterpay will benefit from the complementarity of Square's large and growing customer base of more than 70 million annual active Cash App customers and millions of sellers, which will expand Afterpay's reach and growth both online and in-store. Afterpay customers will receive certain benefits of Cash App's financial tools, which may include money transfer, stock and bitcoin purchases, Cash Boost, and more.

Combined, Square and Afterpay's complementary businesses will create a global payments provider through multiple avenues:

- Afterpay will be integrated into Seller and Cash App, strengthening the connection between these ecosystems and helping drive more commerce between merchants and customers;
- Afterpay will be integrated into Square's online and in-person checkout solutions, strengthening Square's omnichannel platform;
- Afterpay customers will be able to manage their instalments and repayments directly within Cash App, helping to drive repeat engagement; and
- Cash App will integrate commerce discovery from Afterpay App to help drive lead generation for merchants and customer engagement.

The all scrip Scheme Consideration allows Afterpay Shareholders to participate in the expected benefits of combining the two businesses.

Further information in relation to Square and its business is set out in section 5.

(iv) **The combination brings together two shared visions and cultures to drive a common purpose**

Afterpay and Square are aligned in their shared mission and common purpose and this cultural alignment is a crucial aspect of any successful combination. The all scrip Scheme Consideration allows Afterpay Shareholders to continue to be part of a fast-growing global payments company with a mission of economic empowerment and financial inclusion.

A shared vision and culture

Vision

Shared focus on empowering merchants and consumers

Our common purpose

"Economic empowerment"
– Square

"Power an economy in which everyone wins"
– Afterpay

Culture

Founder-led, entrepreneurial management teams with shared purpose, vision, and strong collaboration between leadership teams to guide integration and synergies

4. Based on the Square share price of US$254.50 and the AUD/USD exchange rate of 0.7551 as at the close of trading on NYSE on 29 October 2021, being the last practicable date before the date of this Scheme Booklet.

For personal use only

(v) **Afterpay Shareholders will benefit from any expected synergies generated by the transaction**

The Afterpay Board believes that a combination of Afterpay and Square makes strong commercial sense and the Scheme will enable Afterpay Shareholders to realise greater longer term value for their shares from the potential expected synergies through the Combined Group. In addition, those Afterpay shareholders who choose to remain as Square stockholders (through holding New Square Shares or New Square CDIs) retain the opportunity for additional value over time to the extent that further benefits are realised.

The Combined Group has the potential to deliver meaningful longer-term growth synergies and presents shareholders with an opportunity to invest behind a significantly scaled global business focused on maximising the utility of both the Afterpay and Square ecosystems.

	Customers	**Merchants**
Expanding the customer and merchant base	• Strengthen Afterpay's customer base of 16 million with 70 million annual active Cash App customers • Bring Afterpay's merchant base more customers through Cash App • Reach new Cash App audiences in global geographies	• Strengthen Afterpay's merchant base with millions of Square sellers • Attract new sellers to Square with BNPL as an acquisition tool • Grow upmarket with larger sellers and in new geographies together
Strengthen customer and merchant relationships and build connections	• Add Afterpay BNPL to the Cash App ecosystem • Integrate commerce discovery from Afterpay App into Cash App to drive engagement • Provide Afterpay customers access to the benefits of Cash App's ecosystem, including peer-to-peer transfer, stock and bitcoin purchases, Cash Card, Boost and more	• Enable Afterpay BNPL for Square sellers, supporting their growth with the possibility of higher transaction sizes and conversion rates • Introduce the Seller ecosystem to Afterpay's merchants • Grow Afterpay's presence with SMBs, in-person commerce, and new verticals

See section 5 for further information on Square and its Seller and Cash App ecosystems.

(vi) **No Superior Proposal has emerged as at the date of this Scheme Booklet**

Since the announcement of the Scheme on 2 August 2021 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and Afterpay is not aware, as at the date of this Scheme Booklet, of any Superior Proposal that is likely to emerge.

(vii) **The Afterpay Share Price will continue to be subject to market volatility and may fall if the Scheme is not implemented and in the absence of a Superior Proposal**

If the Scheme is not implemented, Afterpay will continue to operate as a standalone entity and Afterpay Shares will remain quoted on ASX and will continue to be subject to Australian market volatility, and the impact of general economic conditions (including the prevailing uncertainty with respect to the impact of COVID-19 and the regulatory landscape). These factors may have an impact on the Afterpay Share Price in the short, medium and long term.

If the Scheme does not proceed, and no comparable proposal or Superior Proposal is received by the Afterpay Board, then the Afterpay Share Price is expected to fall.

Since market close on 30 July 2021 (being the last trading day before the Scheme was announced), the Afterpay Share Price has increased 27.6% up to a closing price of A$123.29 on 29 October 2021.

(viii) **Afterpay Shareholders may be eligible to receive the Scheme Consideration in the form of New Square CDIs listed on ASX**

If you are a Scheme Shareholder (other than an Ineligible Foreign Shareholder) you can make a Share Election or a CDI Election, for all of your Afterpay Shares, if you wish to receive Scheme Consideration other than the default consideration that you are eligible to receive as at the Record Date (see section 3.1(c) for details of the default consideration).

For personal use only

New Square CDIs will be CDIs in respect of New Square Shares. A CDI is an instrument through which shares of foreign companies such as Square can be traded on ASX. Each New Square CDI will represent a beneficial interest in one newly issued Square Class A Share listed on NYSE and will have economic and voting rights that are equivalent to the rights attaching to a Square Class A Share. New Square CDIs will be quoted and traded on ASX in Australian dollars under a symbol to be advised before implementation of the Scheme.

A holder of a New Square CDI has an indirect, beneficial interest in the New Square Share underlying their New Square CDI instead of directly owning the New Square Share. The New Square Shares to which the New Square CDIs relate will be issued by Square (at the direction of and on behalf of Square Acquirer) to a depositary nominee which will hold legal title to those shares on behalf of the holders of the New Square CDIs.

Except for certain differences noted in section 3.4(d), the rights attaching to New Square CDIs are economically equivalent to the rights attaching to New Square Shares. Square will generally be required to treat holders of Square CDIs as if they were the holders of the Square Class A Shares represented by those Square CDIs.

New Square CDIs will be tradeable on ASX only. This may be attractive to Afterpay Shareholders, as it allows New Square CDIs to be traded during Australian business hours using Australian brokers and at prices quoted in AUD. In addition, the CDIs may offer cost-effective advantages relative to the costs of trading directly overseas, since your broker does not need to incorporate other costs of an international service.

(ix) **Scheme Shareholders that are residents of Australia for tax purposes may be eligible for CGT roll-over relief for any gain made from the disposal of their Scheme Shares**

Scheme Shareholders that are residents of Australia for tax purposes and who make a capital gain from the disposal of their Scheme Shares may be eligible to choose CGT scrip-for-scrip roll-over relief provided certain conditions are met. Broadly, CGT scrip-for-scrip roll-over relief enables Scheme Shareholders to disregard the capital gain they make from the disposal of their Scheme Shares under the Scheme.

Afterpay has applied for a class ruling from the Australian Taxation Office (**ATO**) regarding the income tax implications for Scheme Shareholders participating in the Scheme, including the availability of CGT scrip-for-scrip roll-over relief.

A general guide to the tax implications of the Scheme for Scheme Shareholders is set out in section 8.

(x) **Afterpay Shareholders will not incur any brokerage charges on the transfer of your Afterpay Shares if the Scheme proceeds**

You will not incur any brokerage charges on the exchange of your Afterpay Shares for New Square Securities under the Scheme.

It is possible that such brokerage charges (and, potentially GST on those charges) would be incurred if you were to dispose of your Afterpay Shares and separately acquired Square Shares, other than under the Scheme.

(c) Reasons why Afterpay Shareholders may Consider Voting Against the Scheme and Disadvantages of the Scheme

Although the Afterpay Board unanimously recommends that you vote in favour of the Scheme Resolution in the absence of a Superior Proposal and subject to the Independent Expert continuing to consider the Scheme to be fair and reasonable and in the best interests of Afterpay Shareholders, factors which may lead Afterpay Shareholders to vote against the Scheme include:

(i) **You may wish to maintain your direct investment in Afterpay as an ASX-listed company and prefer Afterpay to continue to operate as a standalone entity**

If the Scheme is implemented and you receive the Scheme Consideration, you will no longer be an Afterpay Shareholder and will forgo any benefits that may result from being a Shareholder of Afterpay on a standalone basis. You may prefer that Afterpay is able to continue to execute its standalone strategy and therefore you prefer Afterpay continue operating on a standalone basis.

An investment in the Combined Group is not the same as an investment in Afterpay, and will have different characteristics (including with respect to your rights and the risks, returns and liquidity profiles) to your current investment in Afterpay. Your ownership percentage and voting power in the Combined Group will be diluted as a result of the Scheme.

For personal use only

(ii) **There are risks associated with holding shares in the Combined Group which are different from those associated with your shareholding in Afterpay**

In holding New Square Securities, you will be exposed to risk factors relating to Square and the Combined Group. In some cases, those risks are different from or additional to those related to Afterpay and you may prefer the risks and/or the investment profile of the Afterpay business as a standalone entity.

While Square and Afterpay operate broadly in a similar sector (payments), the operational profile, capital structure and size of the Combined Group will be different from that of Afterpay on a standalone basis.

Further details on the risks associated with a shareholding in the Combined Group are set out in section 7.4.

(iii) **You may believe that the Scheme is not in your individual best interests and disagree with the Afterpay Board's recommendation and the Independent Expert's conclusion**

Notwithstanding the unanimous recommendation of the Afterpay Board and the recommendation of the Independent Expert you may believe the Scheme is not in your best interests.

(iv) **The value of the New Square Securities which form part of the Scheme Consideration is not certain until the Implementation Date**

As at the close of trading on NYSE on 29 October 2021, being the last practicable date prior to the date of this Scheme Booklet, the implied value of the Scheme Consideration was A$123.39.[5] However, because the Scheme Consideration is based on a fixed exchange ratio, the implied value of the Scheme Consideration will vary over time depending on the prevailing Square Share price and the AUD/USD exchange ratio. As a result of changes in these factors, the implied value of the Scheme Consideration is likely to change, including between the date of this Scheme Booklet, the date of the Scheme Meeting and the Implementation Date (being the date on which the Scheme Consideration is received).

The impact of changes in Square Share Price and the AUD/USD exchange ratio on the implied value of the Scheme Consideration (A$ per Afterpay Share) is shown in the table below.

Scheme Consideration Sensitivity

AUD/USD	**Square share price (US$)**				
Exchange Rate	270.00	272.50	275.00	277.50	280.00
0.60	168.75	170.31	171.88	173.44	175.00
0.65	155.77	157.21	158.65	160.10	161.54
0.70	144.64	145.98	147.32	148.66	150.00
0.75	135.00	136.25	137.50	138.75	140.00
0.80	126.56	127.73	128.91	130.08	131.25

As at the close of trading on NYSE on 29 October 2021, being the last practicable date prior to the date of this Scheme Booklet, the Square Share Price was US$254.50 and the AUD/USD exchange rate was 0.7551.

(v) **There are risks associated with implementing the Scheme which you may consider outweigh the benefits of the Scheme**

There are a number of material risks associated with implementing the Scheme and with a shareholding in the Combined Group. These are set out in section 7.4, which you should consider in detail, but include risks in relation to integration, business disruption, transaction costs, currency, due diligence, Square's business and industry, Square operational risks, economic, financial and tax risks and legal, regulatory and compliance risks.

5. Based on the Square share price of US$254.50 and the AUD/USD exchange rate of 0.7551 as at the close of trading on NYSE on 29 October 2021, being the last practicable date before the date of this Scheme Booklet.

For personal use only

(vi) **You may consider that there is a possibility that a Superior Proposal could emerge in relation to Afterpay in the foreseeable future**

While there is no evidence to suggest a third party may make a Superior Proposal, it remains possible that such a Superior Proposal may emerge.

The Afterpay Board believes that the possibility of a Superior Proposal emerging is low for the following reasons:

- substantial time has elapsed since the announcement of the Scheme (2 August 2021). Since that date, no Superior Proposal has emerged; and
- the potential synergies between Afterpay and Square are significant and the growth prospects of the Combined Group are strong. The Afterpay Board believes it is unlikely that another party would have the ability to make an offer constituting an Afterpay Competing Transaction that has the potential to deliver similar or greater value.

However, if an Afterpay Competing Transaction is received prior to the Scheme Meeting, this will be considered by the Afterpay Board in accordance with their fiduciary duties and the provisions in the Scheme Implementation Deed. Depending on the circumstances, if Afterpay terminates the Scheme Implementation Deed because it determines that the Afterpay Competing Transaction constitutes a Superior Proposal and should be accepted, Afterpay would be required to pay the Break Fee to Square.

(d) Additional Considerations

(i) **You may sell your Afterpay Shares on ASX any time prior to the suspension of Afterpay Shares from trading**

If you do not wish to hold your Afterpay Shares and participate in the Scheme, you may offer to sell your Afterpay Shares on ASX at any time prior to Thursday, 6 January 2022. You should note that, in doing so, you may not receive consideration equivalent to the implied value of the Scheme Consideration, and brokerage charges on the sale may be incurred.

Afterpay Shares will continue to trade on ASX after the Effective Date. If the Scheme becomes Effective, Afterpay Shareholders who sell their Afterpay Shares after the Effective Date and prior to the Record Date should be aware that they will not receive the Scheme Consideration on the Implementation Date. In addition, investors who acquire Afterpay Shares after the Effective Date should be aware that all Afterpay Shareholders who hold Afterpay Shares on the Record Date (other than Ineligible Foreign Shareholders) will be provided with the Scheme Consideration in exchange for their Afterpay Shares. The exchange ratio is fixed and holders of Afterpay Shares on the Record Date (other than Ineligible Foreign Shareholders) will receive 0.375 New Square Shares or 0.375 New Square CDIs. Square Class A Shares will continue to trade on NYSE between the Effective Date and the Record Date.

You should seek your own independent professional advice to determine if your individual financial or taxation circumstances make it preferable for you to do so.

(ii) **The Scheme may be implemented even if you do not vote or vote against the Scheme at the Scheme Meeting**

You should note that regardless of whether you do not vote or vote against the Scheme, the Scheme may still be implemented if the Requisite Majorities of Afterpay Shareholders and the Court approve the Scheme and the other Conditions Precedent have been satisfied or waived (as applicable). If this occurs, your Afterpay Shares will be transferred to Square Acquirer and you will receive the Scheme Consideration.

(iii) **Implications if the Scheme is not approved**

If the Scheme is not approved by the Requisite Majorities of Afterpay Shareholders at the Scheme Meeting, or by the Court at the Second Court Hearing, or any of the other Conditions Precedent are not satisfied or waived:

- you will not receive your Scheme Consideration;
- your Afterpay Shares will not be transferred to Square Acquirer (they will be retained by you);
- Afterpay will continue to operate as a standalone entity;
- you will continue to be exposed to the benefits and risks associated with an investment in Afterpay;
- Afterpay will continue to implement its business plan; and
- in the absence of a Superior Proposal, the Afterpay Share Price may fall.

For personal use only

(iv) **Costs**

Afterpay has incurred significant costs in developing the Scheme with Square to the point that it is capable of being submitted to Afterpay Shareholders for their consideration. These costs include management's and directors' time negotiating with and providing information to Square, engagement of advisers, facilitating Square's access to due diligence, engagement of the Independent Expert and preparation of this Scheme Booklet.

If the Scheme is implemented, these costs will effectively be absorbed by the Combined Group following implementation of the Scheme. If the Scheme is not implemented and if no Superior Proposal emerges and becomes effective, Afterpay expects to incur total costs of approximately A$25 million.

(v) **Break Fee**

The parties will incur significant costs, including significant opportunity costs, if the Scheme is not implemented. A Break Fee may be payable in certain circumstances by Afterpay to Square or by Square to Afterpay to account for such costs.

The Break Fee of A$385 million is an amount to compensate either Afterpay or Square for any advisory and professional services costs, costs of management and directors' time, out of pocket expenses, distraction of management from conducting business as usual caused by pursuing the Scheme, costs incurred in pursuing the Scheme and damage to reputation associated with a failed transaction and the implication of that damage on its business. Please see section 3.11 for further information regarding the Break Fee, including the circumstances in which Afterpay or Square must pay the Break Fee.

(vi) **Differences between applicable corporations and securities laws**

Afterpay is incorporated in Australia and Square is incorporated in the US, under the laws of the State of Delaware. Afterpay Shareholders' rights are currently governed by the laws of Australia and the Afterpay Constitution. If the Scheme is implemented, the rights of Afterpay Shareholders who receive and retain New Square Securities will be primarily governed by the General Corporation Law of the State of Delaware, the US federal securities laws, NYSE listing standards and Square's Certificate of Incorporation and Bylaws. Square intends to apply for admission to the official list of ASX as a Foreign Exempt Listing, conditional on the Scheme being implemented. Once Square is listed on ASX as a Foreign Exempt Listing, Square will be exempt from complying with most of the Listing Rules. Please see section 3.4 for further details on this Foreign Exempt Listing.

Although some of the material differences between Australian corporations and securities laws and US corporations and securities laws as they relate to Afterpay and Square respectively could be viewed as advantageous to Afterpay Shareholders, others could be viewed as disadvantageous to Afterpay Shareholders.

For further information on the differences between the applicable corporations and securities laws, see section 9.

Next Steps

Carefully read this Scheme Booklet

This is an important document and you should read it carefully and in its entirety before making a decision on how to vote at the online Scheme Meeting.

Vote on the Scheme

As an Afterpay Shareholder, you are entitled to vote on whether the Scheme should proceed at the online Scheme Meeting.

Please refer to the following pages of this Scheme Booklet for details on how to vote at the online Scheme Meeting, including by proxy.

Seek Further Information

If you have any questions in relation to the Scheme or the number of Afterpay Shares you hold or how to vote, please call the Afterpay Shareholder Information Line on 1300 229 418 (within Australia) or +61 2 9066 4051 (outside Australia) Monday to Friday (excluding public holidays in Australia) between 9.00am and 5.00pm (AEDT).

If you are in any doubt as to what to do, you should seek advice from your independent legal, financial and other professional adviser before making any decision regarding the Scheme.

Why you should Vote

As an Afterpay Shareholder, you have a say in whether Square Acquirer will acquire all of the issued shares in Afterpay. This is your opportunity to play a role in deciding the future of Afterpay.

For personal use only

How to Vote

Who is entitled to Vote at the Scheme Meeting?

If you are registered on the Afterpay Share Register as an Afterpay Shareholder at 7.00pm (AEDT) on Saturday, 4 December 2021, then you will be entitled to attend and vote at the online Scheme Meeting.

Voting is not Compulsory

Voting is not compulsory. However, your vote will be important in determining whether the Scheme will proceed, as only those votes cast by Scheme Shareholders on the Scheme will be counted in determining whether the Scheme has been approved by Requisite Majorities of Scheme Shareholders.

Voting by Joint Holders

In the case of Afterpay Shares held by joint holders, only one of the joint holders is entitled to vote. If more than one shareholder votes in respect of jointly held Afterpay Shares, only the vote of the Afterpay Shareholder whose name appears first in the Afterpay Share Register will be counted.

Your Vote is Important

In order for the Scheme to be implemented, the Scheme Resolution must be approved by Afterpay Shareholders at the online Scheme Meeting.

For this reason, the Afterpay Directors unanimously recommend that you vote in favour of the Scheme Resolution in the absence of a Superior Proposal and subject to the Independent Expert concluding that the Scheme is in the best interests of Afterpay Shareholders and each Afterpay Director intends to vote all of the Afterpay Shares held or controlled by them in favour of the Scheme.[1]

If you are unable to attend the online Scheme Meeting, the Afterpay Directors urge you to lodge your proxy form online at Computershare's website (www.investorvote.com.au) in accordance with the instructions given on the website or complete and return, in the enclosed reply paid envelope, the personalised Proxy Form.

Location and details of Scheme Meeting

The details of the online Scheme Meeting are as follows:

Location: Virtual meeting at http://web.lumiagm.com/354553219

Date: Monday, 6 December 2021

Time: 10.00am

Scheme Meeting

A copy of the Notice of Scheme Meeting is set out in Attachment E to this Scheme Booklet.

Section 3.3(b) of this Scheme Booklet provides details of the Scheme Resolution and the voting majorities that are required for the Scheme Resolution.

1. You should note that when considering this recommendation that two of the Afterpay Directors (being Co-CEOs and Managing Directors, Anthony Eisen and Nick Molnar) have previously been issued options under the Afterpay equity incentive plan. As contemplated by the terms of the Scheme Implementation Deed, Mr Eisen and Mr Molnar will each be receiving a benefit if the Scheme proceeds. A pro rata portion of the unvested options they hold will be accelerated and the balance will be forfeited and converted into a Square award as contemplated in Section 4.11 of this Scheme Booklet. These arrangements are described in more detail in Sections 4.10, 4.11 and 10.1. The benefit to each of Anthony Eisen and Nick Molnar in respect of their Co-CEO Options is estimated to be approximately $9,612,242. See footnote 1 in section 10.1 for further information.

   Despite this interest in the outcome of the Scheme, each of Anthony Eisen and Nick Molnar, considers that, given the importance of the Scheme, and their role as directors of Afterpay, it is important and appropriate for them to provide a recommendation to shareholders in relation to voting on the Scheme. The Afterpay Board (excluding Anthony Eisen and Nick Molnar) also considers that it is appropriate for them to make a recommendation on the Scheme given their role in the management and operation of Afterpay.

For personal use only

For personal use only

Voting in person, by Attorney or Corporate Representative

If you wish to vote in person, you must attend the online Scheme Meeting.

If you cannot attend the online Scheme Meeting, you may vote online or by proxy by completing the Proxy Form.

Attorneys who plan to attend the online Scheme Meeting must provide a certified copy of the power of attorney to the Afterpay Share Registry by no later than 10.00am (AEDT) on Saturday, 4 December 2021. The certified copy of the power of attorney may be submitted in the same manner as a completed Proxy Form.

A body corporate which is an Afterpay Shareholder may appoint an individual to act as its corporate representative. The appointment must comply with the requirements of section 250D of the Corporations Act. To vote by corporate representative, a corporate representative must provide written evidence of their appointment by obtaining and completing an 'Appointment of Corporate Representative' form from Computershare or online at www.investorcentre.com/au and select "Printable Forms" under the help tab, 'Printable Forms'. Corporate representative forms must be provided to the Afterpay Share Registry by no later than 10.00am (AEDT) on Saturday, 4 December 2021. A corporate representative form may be submitted in the same manner as a completed Proxy Form.

Voting by Proxy

If you wish to appoint a proxy to attend and vote at the online Scheme Meeting on your behalf, please complete and sign the personalised Proxy Form accompanying this Scheme Booklet in accordance with the instructions set out on the Proxy Form or lodge your proxy vote online at Computershare's website (www.investorcentre.com.au) in accordance with the instructions given on the website. You may complete the Proxy Form in favour of the chair of the Scheme Meeting or appoint up to two proxies to attend and vote on your behalf at the Scheme Meeting.

TO BE VALID, PROXY FORMS FOR THE SCHEME MEETING MUST BE RECEIVED BY AFTERPAY OR THE AFTERPAY SHARE REGISTRY BY NO LATER THAN 10.00AM (AEDT) ON SATURDAY, 4 DECEMBER 2021.

Proxy forms, duly completed in accordance with the instructions set out on the Proxy Form, may be submitted:

- online to Afterpay's Share Registry by visiting the website, www.investorvote.com.au. You will need your Holder Identifier (Securityholder Reference Number (**SRN**) or Holder Identification Number (**HIN**) as shown on your Proxy Form). You will be taken to have signed the Proxy Form if you lodge in accordance with the instructions on the website;
- by mail (using the reply paid envelope included with the Scheme Booklet) to Afterpay Limited, C/o Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, Vic 3001;
- by fax to Computershare Investor Services Pty Limited on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or
- by hand delivering them to Computershare Investor Services Pty Limited at Yarra Falls, 452 Johnston Street, Abbotsford, VIC, 3067 during business hours (Monday – Friday, 9.00am – 5.00pm (AEDT)).

Regardless of your Vote, decide whether to make a Share Election or a CDI Election

If you are a Scheme Shareholder (other than an Ineligible Foreign Shareholder) you can make a Share Election or a CDI Election for all your Afterpay Shares, if you wish to receive the Scheme Consideration other than the default consideration that you are eligible to receive as at the Record Date (see section 3.1(c) for details of the default consideration).

You can make a Share Election or CDI Election even if you choose to vote against the Scheme or not to vote. This is because, if the Scheme is implemented, all Scheme Shareholders will receive the Scheme Consideration, whether they voted for or against the Scheme, or did not vote.

Scheme Shareholders (excluding Ineligible Foreign Shareholders) who have not made a Share Election or CDI Election or have made an invalid Share Election or CDI Election (as applicable) will by default receive:

- New Square CDIs for all Afterpay Shares held on the Record Date if their registered address as at the Record Date is in Australia or New Zealand; or
- New Square Shares for all Afterpay Shares held on the Record Date if their registered address as at the Record Date is outside Australia or New Zealand.

For personal use only

Please refer to the below table for a summary of elections that Afterpay Shareholders can make.

		What will Afterpay Shareholders receive?		
		New Square CDIs traded on ASX	**New Square Shares traded on NYSE**	**Sale Facility Proceeds**
Afterpay Shareholders with a registered address in Australia or New Zealand	Default – Does not make a Share Election	✓		
	Makes a Share Election		✓	
Afterpay Shareholders with a registered address outside Australia or New Zealand (other than Ineligible Foreign Shareholders)	Default – Does not make a CDI Election		✓	
	Makes a CDI Election	✓		
Ineligible Foreign Shareholders				✓

Afterpay Shareholders who are eligible to make a CDI Election or Share Election, can only make an election in relation to all (not only some) of the Afterpay Shares to which they are entitled under the Scheme.

The above is a summary only. For further information on how to make a valid Share Election or CDI Election, see section 3.1(c).

How to Submit the Election Form

You may elect to receive all of your Scheme Consideration other than the default consideration that you are eligible to receive as at the Record Date, by submitting an Election Form to Afterpay's Share Registry. You can contact the Afterpay Shareholder Information Line on or before the Election Date, to request an Election Form. If you wish to submit the Election Form, it must be completed in accordance with the instructions specified in this Scheme Booklet and in the Election Form, and received by the Afterpay Share Registry prior to 5.00pm (AEDT) on the Election Date. Please ensure that you allow sufficient time for the Election Form to be received prior to 5.00pm (AEDT) on the Election Date.

An Election Form that is not submitted in accordance with the instructions specified in this Scheme Booklet and in the Election Form (including if the Election Form is not received by the Afterpay Share Registry prior to 5.00pm (AEDT) on the Election Date) will not be a valid election for the purpose of the Scheme and will not be recognised by Afterpay or Square for any purpose.

Square Acquirer will determine, in its sole discretion, all questions as to the correct completion of an Election Form or Election Withdrawal Form, and the time of receipt of such form. Square Acquirer is not required to communicate with any Scheme Shareholder prior to making this determination. The determination of Square Acquirer will be final and binding on the Scheme Shareholder.

For personal use only

Section 1

Frequently Asked Questions

No.	Question	Further Information
An Overview of the Scheme		
1.	**Why have I received this Scheme Booklet?** You have received this Scheme Booklet because you are an Afterpay Shareholder and you are being asked to vote on the Scheme, in respect of the proposed acquisition of Afterpay by Square Acquirer. This Scheme Booklet contains important information including: (a) the reasons for Afterpay Directors' recommendation; (b) the reasons why you may choose to vote against the Scheme; (c) information about the Scheme Consideration; (d) information about Afterpay, Square and the Combined Group; (e) the risks associated with the Scheme; and (f) the Independent Expert's Report.	Section 3
2.	**What is the Scheme?** The Scheme is a proposed transaction under which Square Acquirer would acquire 100% of the issued capital of Afterpay via a scheme of arrangement under Part 5.1 of the Corporations Act for the Scheme Consideration. If the Scheme becomes Effective each Afterpay Shareholder will receive the Scheme Consideration equal to 0.375 New Square Shares per Afterpay Share held on the Record Date.	Sections 2 and 3.1

For personal use only

No.	Question	Further Information
3.	**Who is Square?** Square is a global fintech company incorporated in Delaware. Square's Class A Shares are listed on NYSE under the symbol SQ. Square has a market capitalisation of approximately US$117 billion as at the close of trading on NYSE on 29 October 2021. There is no public trading market for Square Class B Shares. Founded in 2009, Square builds tools that aim to empower businesses and individuals to participate in the economy. Sellers use Square to reach buyers online and in person, manage their business, and access financing. Individuals use Square's Cash App to spend, send, store, and invest money. Square owns a majority ownership stake in TIDAL, a global music and entertainment platform that expands Square's purpose of economic empowerment to artists. Square also recently launched TBD, a bitcoin-focused business established to build an open developer platform with the sole goal of making it easy to create non-custodial, permissionless, and decentralised financial services. Square has offices in the United States, Canada, Japan, Australia, Ireland, Spain, Norway, and the UK.	Section 5
4.	**What are Square's intentions regarding Afterpay?** If the Scheme is implemented, Square intends to integrate Afterpay into both the Seller and Cash App ecosystems. Afterpay's Co-Founders and Co-CEOs Anthony Eisen and Nick Molnar will join Square upon implementation of the Scheme. The customer and merchant sides of the Afterpay business will be integrated into Cash App and Seller, led by Brian Grassadonia and Alyssa Henry, respectively. Square will appoint one Afterpay Director as a member of the Square Board effective immediately following the implementation of the Scheme. Further details on Square's intentions regarding Afterpay are set out in section 6.3.	Sections 6.3 and 6.5
5.	**How will the Scheme be implemented?** Details on how the Scheme will be implemented are described in section 3.3.	Section 3.3
6.	**What do the Afterpay Directors recommend?** The Afterpay Board unanimously recommends that Afterpay Shareholders vote in favour of the Scheme in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Afterpay Shareholders.[1]	Chair's letter and Afterpay Directors' recommendation and matters relevant to your vote on the Scheme

1. You should note that when considering this recommendation that two of the Afterpay Directors (being Co-CEOs and Managing Directors, Anthony Eisen and Nick Molnar) have previously been issued options under the Afterpay equity incentive plan. As contemplated by the terms of the Scheme Implementation Deed, Mr Eisen and Mr Molnar will each be receiving a benefit if the Scheme proceeds. A pro rata portion of the unvested options they hold will be accelerated and the balance will be forfeited and converted into a Square award as contemplated in Section 4.11 of this Scheme Booklet. These arrangements are described in more detail in Sections 4.10, 4.11 and 10.1. The benefit to each of Anthony Eisen and Nick Molnar in respect of their Co-CEO Options is estimated to be approximately $9,612,242. See footnote 1 in section 10.1 for further information.

   Despite this interest in the outcome of the Scheme, each of Anthony Eisen and Nick Molnar, considers that, given the importance of the Scheme, and their role as directors of Afterpay, it is important and appropriate for them to provide a recommendation to shareholders in relation to voting on the Scheme. The Afterpay Board (excluding Anthony Eisen and Nick Molnar) also considers that it is appropriate for them to make a recommendation on the Scheme given their role in the management and operation of Afterpay.

For personal use only

No.	Question	Further Information
7.	**How are the Afterpay Directors intending to vote?** Each Afterpay Director who holds Afterpay Shares intends to vote his or her Afterpay Shares in favour of the Scheme in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Afterpay Shareholders.	Afterpay Directors' recommendation and matters relevant to your vote on the Scheme
8.	**What is the Independent Expert's opinion of the Scheme?** The Independent Expert has concluded that the Scheme Consideration is fair and reasonable and, therefore, the Scheme is in the best interests of Afterpay Shareholders, in the absence of a Superior Proposal. The Independent Expert has assessed the value of an Afterpay Share to be in the range of A$115-135 per Afterpay Share. As at the close of trading on NYSE on 29 October 2021, being the last practicable date prior to the date of this Scheme Booklet, the implied value of the Scheme Consideration was A$126.39 per Afterpay Share[2] which falls within the Independent Expert's range. The reasons why the Independent Expert reached these conclusions are set out in the Independent Expert's Report, a copy of which is included in Attachment C. The Afterpay Board encourages you to read this report in its entirety.	Attachment C
9.	**Why you may consider voting in favour of the Scheme** 1. The implied value of the Scheme Consideration offered to Afterpay Shareholders represents a significant premium to the trading prices of Afterpay Shares on ASX prior to the announcement of the Scheme 2. The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Afterpay Shareholders in the absence of a Superior Proposal 3. Square brings added value, differentiation and scale to Afterpay's growth strategy 4. The combination brings together two shared visions and cultures to drive a common purpose 5. Afterpay Shareholders will benefit from any expected synergies generated by the transaction 6. No Superior Proposal has emerged as at the date of this Scheme Booklet 7. The Afterpay Share Price will continue to be subject to market volatility and may fall if the Scheme is not implemented and in the absence of a Superior Proposal 8. Afterpay Shareholders may be eligible to receive the Scheme Consideration in the form New Square CDIs listed on ASX 9. Afterpay Shareholders that are residents in Australia for tax purposes may be eligible for CGT roll-over relief in respect to the New Square Securities received 10. Afterpay Shareholders will not incur any brokerage charges on the transfer of your Afterpay Shares if the Scheme proceeds For more information about the reasons to vote in favour of the Scheme, please see **Reasons for recommendation and advantages of the Scheme** in this Scheme Booklet.	Afterpay Directors' recommendation and matters relevant to your vote on the Scheme

2. Based on the Square share price of US$254.50 and the AUD/USD exchange rate of 0.7551 as at the close of trading on NYSE on 29 October 2021, being the last practicable date before the date of this Scheme Booklet.

For personal use only

No.	Question	Further Information
10.	**Why you may consider voting against the Scheme** 1. You may wish to maintain your direct investment in Afterpay as an ASX-listed company and prefer Afterpay to continue to operate as a standalone entity 2. There are risks associated with holding shares in the Combined Group which are different from those associated with your shareholding in Afterpay 3. You may believe that the Scheme is not in your individual best interests and disagree with Afterpay Board's recommendation and the Independent Expert's conclusion 4. The value of the New Square Securities which form part of the consideration is not certain until the Implementation Date 5. There are risks associated with implementing the Scheme which you may consider outweigh the benefits of the Scheme 6. You may consider that there is a possibility that a Superior Proposal could emerge in relation to Afterpay in the foreseeable future For more information about the reasons to vote against the Scheme, please see **Reasons why Afterpay Shareholders may consider voting against the Scheme and disadvantages of the Scheme** in this Scheme Booklet.	Afterpay Directors' recommendation and matters relevant to your vote on the Scheme
11.	**What will happen if a Superior Proposal emerges?** Since the Scheme was announced, no Superior Proposal has emerged. If an alternative proposal is received the Afterpay Board will review that proposal and determine if it represents a Superior Proposal and advise you on their recommendation.	Afterpay Directors' recommendation and matters relevant to your vote on the Scheme
12.	**Is there a break fee payable?** If the Scheme is not implemented the parties will incur significant opportunity costs. To reflect this, a Break Fee may be payable by Afterpay to Square or by Square to Afterpay in certain circumstances. For further information on the Break Fees see section 3.11(i).	Section 3.11(i)
13.	**What are the risks associated with an investment in Afterpay if the Scheme does not become Effective?** If the Scheme is not approved by Afterpay Shareholders and the Court, Afterpay Shareholders will retain their Afterpay Shares. In the absence of a Superior Proposal, there is a risk that Afterpay Shareholders may not be able to realise a price for all of their Afterpay Shares (at least in the short term) comparable to the price that they would receive under the Scheme. Additionally, if the Scheme does not proceed, and no comparable proposal or Superior Proposal is received by the Afterpay Board, the Afterpay Share Price may fall. The consequences of the Scheme not being implemented include: (a) you will not be paid the Scheme Consideration; and (b) you will retain your Afterpay Shares. If the Scheme is not implemented, the Afterpay Directors intend to continue to operate the business of Afterpay in the ordinary course and in a manner consistent with its business plan and strategy. Afterpay Shareholders will be exposed to any benefits and risks associated with their investment in Afterpay.	Section 2.4

For personal use only

No.	Question	Further Information
14.	**What are the transaction costs associated with the Scheme?** Afterpay is expected to have incurred one-off transaction costs of approximately A$25 million which will be payable by Afterpay regardless of whether the Scheme is implemented or not. These costs are expected to comprise adviser, legal, accounting and expert fees and various other costs. These costs exclude success-based fees and other costs which are contingent upon the successful implementation of the Scheme.	Section 10.11
An Overview of the Scheme Consideration		
15.	**What is the Scheme Consideration?** If the Scheme is implemented Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive the Scheme Consideration comprising 0.375 New Square Shares or 0.375 New Square CDIs for each Scheme Share held as at the Record Date.	Section 3.1
16.	**What is the premium of the Scheme Consideration to Afterpay's Share price?** Based on Square's closing price of US$254.50 on 29 October 2021, this represents an implied transaction price of approximately A$126.39 per Afterpay Share, a premium of approximately 30.8% to Afterpay's latest closing price prior to the announcement of the Scheme of A$96.66 on 30 July 2021. This represents an approximate 22.1% premium over the 10-day volume weighted average Afterpay Share price, and an approximate 10.7% premium over the 30-day volume weighted average Afterpay Share Price, each as of 30 July 2021.	Chair's letter and Afterpay Directors' recommendation and matters relevant to your vote on the Scheme
17.	**How is the Scheme Consideration being funded?** The Scheme Consideration will be funded by the issuance of New Square Securities.	Section 3.1
18.	**Who is entitled to participate in the Scheme?** All Afterpay Shareholders who are registered holders of Afterpay Shares in the Afterpay Share Register at the Record Date are entitled to participate in the Scheme.	Section 3.3(g)
19.	**When will I receive the Scheme Consideration?** If the Scheme becomes Effective, Square Acquirer (or Square, at the direction of and on behalf of Square Acquirer) will, provide the New Square Securities to holders of Scheme Shares (other than Ineligible Foreign Shareholders) on the Implementation Date, which is currently expected to be Tuesday, 18 January 2022. If you are an Ineligible Foreign Shareholder, the net proceeds from the sale of the New Square Shares that you would have otherwise received will be paid to you in accordance with section 3.2.	Sections 2.3, 3.2 and 3.3(d)
20.	**What are the New Square Securities?** The New Square Securities comprise New Square Shares and New Square CDIs (as applicable) to be issued as Scheme Consideration. See also question 22 below.	Section 3.4
21.	**What is a New Square CDI?** CDIs, or CHESS depositary interests are instruments through which shares of foreign companies such as Square can be traded on ASX. Each New Square CDI will represent a beneficial interest in one Square Class A Share.	Sections 3.4(b) and 3.4(c)

For personal use only

No.	Question	Further Information
22.	**What is the difference between New Square Shares and New Square CDIs?** New Square Shares will be fully paid Square Class A Shares, ranking equally in all respects with all other Square Class A Shares on issue. New Square Shares will be listed and traded on NYSE in US dollars. Except for certain differences noted in section 3.4(d), a New Square CDI will have the rights that are economically equivalent to the rights attaching to a Square Class A Share. New Square CDIs will be quoted and traded on ASX in Australian dollars under a symbol to be advised before implementation of the Scheme. A holder of New Square CDIs can, however, elect at any time to convert those CDIs to an equivalent number of Square Class A Shares (see question 24 below). A holder of New Square CDIs will not be a registered Square stockholder. Instead, Square Class A Shares represented by New Square CDIs will be held in the name of the CDI Nominee, a Subsidiary of ASX. A New Square CDI holder can direct the CDI Nominee to vote the Square Class A Shares represented by its New Square CDIs in accordance with the New Square CDI holder's directions. For further detail on the difference between New Square Shares and New Square CDIs see section 3.4(d).	Section 3.4(d)
23.	**Can I elect to receive my Scheme Consideration as New Square Shares rather than New Square CDIs (and vice versa)?** Yes. Where a Scheme Shareholder has a registered address in Australia or New Zealand as at the Record Date, that Scheme Shareholder will receive as Scheme Consideration New Square CDIs that will be tradable on ASX, but may alternatively request to receive that consideration in the form of New Square Shares (that will be tradable on NYSE) registered directly in their name in book-entry form through the DRS. Where a Scheme Shareholder's address on the Afterpay Register as at the Record Date is located outside of Australia and New Zealand (other than an Ineligible Foreign Shareholder), that Scheme Shareholder will receive as Scheme Consideration New Square Shares registered directly in their name in book-entry form through the DRS, that will be tradable on NYSE, but may alternatively request to receive that consideration in the form of New Square CDIs. A Scheme Shareholder whose registered address as at the Record Date is in Australia or New Zealand may make a Share Election to receive New Square Shares instead of New Square CDIs by completing a Share Election Form and returning it to the address specified in the Share Election Form so that it is received by the Afterpay Share Registry (and not withdrawn) by no later than 5.00pm on the Election Date. A Scheme Shareholder whose registered address as at the Record Date is not in Australia or New Zealand (other than an Ineligible Foreign Shareholder) may make a CDI Election to receive New Square CDIs instead of New Square Shares by completing a CDI Election Form and returning it to the address specified in the CDI Election Form so that it is received by the Afterpay Share Registry (and not withdrawn) by no later than 5.00pm on the Election Date. Afterpay Shareholders who are eligible to make a CDI or Share Election, can only make an election in relation to all (but not only some) of the Afterpay Shares to which they are entitled under the Scheme.	Section 3.1(c)

For personal use only

No.	Question	Further Information
24.	**Does the CDI Election or Share Election apply to additional Afterpay Shares which I subsequently acquire?** Yes, if you acquire additional Afterpay Shares and you hold those additional Afterpay Shares at the Record Date, any CDI or Share Election you make (as applicable) will apply in respect of those Afterpay Shares.	Section 3.1(c)
25.	**Can I convert my Square CDIs to Square Class A Shares (and vice versa)?** New Square CDIs can be converted into Square Class A Shares and vice versa at any time following the Implementation Date, by contacting the Square CDI or Share Registry (as applicable). For further detail on the conversion of New Square CDIs to Square Class A Shares (and vice versa), see sections 3.4(c)(ix) and 3.4(c)(x).	Sections 3.4(c)(ix) and 3.4(c)(x)
26.	**What are the tax implications of the Scheme for Scheme Shareholders?** If the Scheme becomes Effective, there will be tax consequences for Scheme Shareholders which may include tax being payable on any gain made on disposal of their Scheme Shares. Section 8 provides a general description of the Australian tax consequences of the Scheme. Section 8.8 provides a general description of the material US federal income tax consequences of the Scheme, including the likelihood that, under the rules applicable to "passive foreign investment companies" or "PFICs", any gain recognised generally will be treated as ordinary income and that certain interest charges and other adverse tax consequences may apply. The tax consequences of the Scheme may vary depending on the nature and characteristics of each Scheme Shareholder and their individual circumstances. It is recommended that Scheme Shareholders seek professional tax advice in relation to the income tax implications associated with the Scheme, including the possibility of adverse US federal income tax consequences under the PFIC rules.	Sections 8 and 8.8
27.	**Will Scheme Shareholders have to pay brokerage or stamp duty?** No brokerage or stamp duty should be payable by the Scheme Shareholders on the acquisition by Square Acquirer of their Scheme Shares under the Scheme or on the receipt by Scheme Shareholders of the New Square Securities as Scheme Consideration. If you dispose of your Scheme Shares before the Record Date, brokerage fees may be payable.	Afterpay Directors' recommendation and matters relevant to your vote on the Scheme and 8.5

For personal use only

No.	Question	Further Information
28.	**Can I sell my Afterpay Shares now?** You can sell your Afterpay Shares on ASX at any time before the close of trading on the Thursday, 6 January 2022. Afterpay Shares will be suspended from official quotation on ASX from the close of trading on the Thursday, 6 January 2022. You will not be able to sell your Afterpay Shares on ASX after this time. If you cease to be a registered holder before the Record Date, you will not be entitled to the Scheme Consideration. **Afterpay Shares will continue to trade on ASX after the Effective Date. If the Scheme becomes Effective, Afterpay Shareholders who sell their Afterpay Shares after the Effective Date and prior to the Record Date should be aware that they will not receive the Scheme Consideration on the Implementation Date. In addition, investors who acquire Afterpay Shares after the Effective Date should be aware that all Afterpay Shareholders who hold Afterpay Shares on the Record Date (other than Ineligible Foreign Shareholders) will be provided with the Scheme Consideration in exchange for their Afterpay Shares. The exchange ratio is fixed and holders of Afterpay Shares on the Record Date (other than Ineligible Foreign Shareholders) will receive 0.375 New Square Shares or 0.375 New Square CDIs. Square Class A Shares will continue to trade on NYSE between the Effective Date and the Record Date.**	Afterpay Directors' recommendation and matters relevant to your vote on the Scheme
29.	**When will Afterpay Shares cease trading on ASX?** Provided that the Scheme becomes Effective, Afterpay Shares are expected to be suspended from trading on ASX from the close of trading on Thursday, 6 January 2022.	Key dates and Section 3.3(e)
30.	**When do New Square Securities start trading?** New Square CDIs are currently scheduled to commence trading on ASX on a deferred settlement basis on Friday, 7 January 2022 and a normal settlement basis on Wednesday, 19 January 2022. New Square Shares are currently scheduled to start trading on NYSE on the next New York trading day after the Implementation Date.	Key dates and Section 3.6
Ineligible Foreign Shareholders		
31.	**Who is classified as an Ineligible Foreign Shareholder?** An Afterpay Shareholder whose address shown in the Register is a place outside Australia and its external territories, Canada, Hong Kong, New Zealand, Singapore, Switzerland, United Kingdom and the United States or who is acting on behalf of such a person unless Square or Square Acquirer determines that: (a) it is lawful and not unduly onerous or unduly impracticable to issue that Afterpay Shareholder with the New Square Shares or New Square CDIs on implementation of the Scheme; and (b) it is lawful for that Afterpay Shareholder to participate in the Scheme by the law of the relevant place outside Australia and its external territories, Canada, Hong Kong, New Zealand, Singapore, Switzerland, United Kingdom and the United States. Please contact the Afterpay Shareholder Information Line on 1300 229 418 (within Australia) or +61 2 9066 4051 (outside Australia) Monday to Friday (excluding public holidays in Australia) between 9.00am and 5.00pm (AEDT), if you have any questions regarding what jurisdictions are impacted by the treatment of Ineligible Foreign Shareholders.	Section 3.2

For personal use only

No.	Question	Further Information
32.	**What will Ineligible Foreign Shareholders receive under the Scheme?** Where an Ineligible Foreign Shareholder would otherwise be entitled to receive New Square Shares as Scheme Consideration, Square Acquirer has no obligation to provide any New Square Shares to the Ineligible Foreign Shareholder, and instead Square Acquirer (or Square at the direction of and on behalf of Square Acquirer): (a) will issue to a Sale Agent any New Square Shares to which an Ineligible Foreign Shareholder would otherwise be entitled; (b) will procure that, as soon as reasonably practicable and in any event not more than 30 days after the Implementation Date, the Sale Agent: (i) sells or procures the sale of all of the New Square Shares issued to the Sale Agent in the ordinary course of trading on NYSE; and (ii) remits to Square Acquirer (or Square at the direction of and on behalf of Square Acquirer), or an agent acting on behalf of Square Acquirer or Square, the proceeds of sale (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges); and (c) as soon as practicable after the last sale of New Square Shares, Square Acquirer (or Square at the direction of and on behalf of Square Acquirer) will pay to each Ineligible Foreign Shareholder an amount in Australian dollars equal to the proportion of the net proceeds of sale received by Square Acquirer to which that Ineligible Foreign Shareholder is entitled in full satisfaction of the Ineligible Foreign Shareholder entitlement to the relevant New Square Shares.	Section 3.2
Scheme, Voting and Approvals		
33.	**Are there any conditions that must be satisfied or waived in order for the Scheme to be implemented?** In order for the Scheme to become Effective and then be implemented, each of the Conditions Precedent must be satisfied or waived (if applicable). The Conditions Precedent include, but are not limited to, Afterpay Shareholder approval, Court approval and other regulatory approvals. If the Conditions Precedent are not satisfied or waived (if applicable), the Scheme will not proceed. Further details on the Conditions Precedent are set out in section 3.11(a).	Section 3.11(a)
34.	**What happens if these conditions are not satisfied or the Scheme Implementation Deed is terminated?** If the Conditions Precedent above are not satisfied or waived (if applicable), or the Scheme Implementation Deed is terminated, the Scheme will not proceed.	Section 3.11

For personal use only

No.	Question	Further Information
35.	**What happens if the Scheme is approved, all conditions are satisfied and it is implemented?** Afterpay Scheme Shareholders will receive the Scheme Consideration and become holders of New Square Securities. Afterpay will be integrated into the Combined Group and Scheme Shareholders will be exposed to the risks associated with a shareholding in the Combined Group.	Section 2.3
36.	**Can the Scheme be terminated?** The Scheme Implementation Deed may be terminated in certain circumstances as described in clause 14 of the Scheme Implementation Deed. If the Scheme Implementation Deed is terminated, the Scheme will not proceed. For further details on the termination rights, see Section 3.11(j).	Section 3.11(j)
37.	**Am I entitled to vote at the Scheme Meeting?** Each Afterpay Shareholder who is registered on the Afterpay Share Register on the Voting Record Date (currently expected to be 7.00pm (AEDT) on Saturday, 4 December 2021) is entitled to vote at the Scheme Meeting. *More Information* The Notice of Scheme Meeting contained in Attachment E sets out further details on your entitlement to vote.	Section 3.3(b)
38.	**How do I vote?** You can vote: (a) in person by attending the online Scheme Meeting; or (b) by appointing a proxy, attorney or, if you are a body corporate, a duly appointed corporate representative, to attend the online Scheme Meeting and vote on your behalf. You can appoint a proxy online or by completing the Proxy Form and returning the form to Afterpay or Computershare by 10.00am (AEDT) on Saturday, 4 December 2021. *More Information* The Notice of Scheme Meeting contained in Attachment E sets out further details on your entitlement to vote and how to submit a Proxy Form.	How to vote and Attachment E

For personal use only

No.	Question	Further Information
39.	**When and where will the Scheme Meeting be held?** The Scheme Meeting will be held as a virtual (online only) meeting on Monday, 6 December 2021, commencing at 10.00am (AEDT). You (or your proxy, attorney or, if you are a body corporate, your duly appointed corporate representative) may virtually attend the Scheme Meeting by using a **web browser** at http://web.lumiagm.com/354553219 on your smartphone, tablet or computer. You will need the latest versions of Chrome, Safari, Edge or Firefox. Please ensure your browser is compatible. The **meeting ID** for the Scheme Meeting is: 354553219. Your **username** is your SRN/HIN. Your **password** is the postcode of your registered address for your holding if you are an Australian shareholder. If you are an overseas shareholder, your password is your three-character country code. Please refer to the online meeting user guide at www.computershare.com.au/virtualmeetingguide for further details. The online platform enables participants to view the Scheme Meeting live, ask questions online and vote on the Scheme Resolution in real time. *More Information* The Notice of Scheme Meeting contained in Attachment E sets out further details on your entitlement to vote.	How to vote and Attachment E
40.	**Is voting compulsory?** Voting is not compulsory. However, your vote will be important in determining whether the Scheme will proceed, as only those votes cast by Scheme Shareholders on the Scheme will be counted in determining whether the Scheme has been approved by Requisite Majorities of Scheme Shareholders.	How to vote
41.	**What vote is required to approve the Scheme?** For the Scheme to be approved, the Scheme Resolution must be passed by the Requisite Majorities, being: (a) more than 50% by number of Afterpay Shareholders who are present and voting, either in person or by proxy, by attorney or, in the case of a corporation, by its duly appointed corporate representative, at the Scheme Meeting; and (b) at least 75% of the total number of votes cast on the Scheme Resolution.	Sections 2.2 and 3.3(b)
42.	**What happens if I do not vote or if I vote against the Scheme?** If the Scheme is approved by the Requisite Majorities of Afterpay Shareholders, then, subject to the other Conditions Precedent being satisfied or waived (if applicable) and the Scheme becoming Effective, the Scheme will be implemented and will be binding on all Scheme Shareholders, including those who voted against the Scheme, or did not vote.	Afterpay Directors' recommendation and matters relevant to your vote on the Scheme
43.	**Can I keep my shares in Afterpay?** If the Scheme is implemented, Afterpay Shareholders will not be able to keep their Afterpay Shares as these will be exchanged for New Square Securities.	Section 2.3
44.	**When will the results of the Scheme Meeting be available?** The results of the Scheme Meeting will be made available by Afterpay on ASX on the date of the Scheme Meeting following the close of the Scheme Meeting and the finalisation of results.	

For personal use only

No.	Question	Further Information
Conditions Precedent		
45.	**When does the Scheme become Effective?** In order to become Effective, the Scheme must be approved by the Court at the Second Court Hearing. Afterpay will apply to the Court for an order approving the Scheme, if the Scheme is approved by the Requisite Majorities of Scheme Shareholders voting at the Scheme Meeting and all other Conditions Precedent (other than approval of the Court) have been satisfied or waived. If the Court makes orders approving the Scheme, Afterpay will lodge a copy of those orders with ASIC under section 411(10) of the Corporations Act. As soon as the copies of the Court orders approving the Scheme are lodged with ASIC, the Scheme will become Effective. This is expected to occur on, or on the next Business Day after, the date on which the Court issues orders approving the Scheme (currently scheduled to be Friday, 10 December 2021).	Section 3.3
46.	**What are the Conditions Precedent to the Scheme becoming Effective?** In order for the Scheme to become Effective and then be implemented, each of the Conditions Precedent must be satisfied or waived (if applicable). The Conditions Precedent include, but are not limited to, Afterpay Shareholder approval, Court approval and other regulatory approvals. If the Conditions Precedent are not satisfied or waived (if applicable), the Scheme will not proceed. Further details of the Conditions Precedent are set out in section 3.11(a).	Section 3.11(a)
Trading		
47.	**Can I sell my Afterpay Shares before the Scheme is implemented?** You are able to sell your Afterpay Shares on market in the usual manner on or before Thursday, 6 January 2022 if you do not wish to hold them and participate in the Scheme. However, you should note that if you choose to sell your Afterpay Shares, you may not receive consideration equivalent to the implied value of the Scheme Consideration, and brokerage expenses on sale may be incurred. **Afterpay Shares will continue to trade on ASX after the Effective Date. If the Scheme becomes Effective, Afterpay Shareholders who sell their Afterpay Shares after the Effective Date and prior to the Record Date should be aware that they will not receive the Scheme Consideration on the Implementation Date. In addition, investors who acquire Afterpay Shares after the Effective Date should be aware that all Afterpay Shareholders who hold Afterpay Shares on the Record Date (other than Ineligible Foreign Shareholders) will be provided with the Scheme Consideration in exchange for their Afterpay Shares. The exchange ratio is fixed and holders of Afterpay Shares on the Record Date (other than Ineligible Foreign Shareholders) will receive 0.375 New Square Shares or 0.375 New Square CDIs. Square Class A Shares will continue to trade on NYSE between the Effective Date and the Record Date.** If you are in any doubt as to what you should do, you should seek advice from independent and appropriately licensed financial, legal and taxation advisers before making any decision regarding the Scheme. For the purpose of determining entitlements under the Scheme, Afterpay will not accept for registration or recognise any transfer or transmission application in respect of Afterpay Shares received after the Record Date.	Section 3.3(e)
48.	**When will Afterpay Shares cease trading on ASX?** Provided the Scheme becomes Effective, Afterpay's Shares are expected to be suspended from trading on ASX from the close of trading on Thursday, 6 January 2022.	Section 3.3(e)

For personal use only

No.	Question	Further Information
Information on the Combined Group		
49.	**If the Scheme is implemented, what will the Combined Group look like?** Information on the Combined Group is contained in section 6, including details regarding the proposed Combined Group board of directors and senior management team.	Section 6
50.	**What are Square's intentions in relation to the Combined Group?** Square's intentions in relation to the Combined Group are set out in section 6.	Section 6
51.	**What are the key risks associated with implementation of the transaction and the creation of the Combined Group?** The key risks associated with the implementation of the transaction and the creation of the Combined Group are detailed in sections 7.3 to 7.6.	Sections 7.3 to 7.6
52.	**What is Square's dividend policy?** Like Afterpay, Square has never declared nor paid any cash dividends on its capital stock. Square currently intends to retain all available funds and any future earnings for use in the operation of its business and does not expect to pay any dividends on its capital stock in the foreseeable future. Any future determination relating to Square's dividend policy will be at the discretion of the Square Board, subject to applicable laws, and will depend on Square's financial position, results of operations, capital requirements, general business conditions, and other factors that the Square Board considers relevant.	Section 5.6
53.	**What voting rights will Afterpay Shareholders have in the Combined Group?** Unlike Afterpay, Square has a dual class stock structure, comprising Square Class A Shares and Square Class B Shares. Under that structure, holders of Square Class A Shares held, in the aggregate, approximately 38.98% of the outstanding voting power of Square as of 31 July 2021, and holders of Square Class B Shares held, in the aggregate, approximately 61.02% as of 31 July 2021. Certain of Square's directors and executive officers, and their affiliates, held 61.77% of the voting power as at that date. The Scheme Consideration comprises Square Class A Shares (and CDIs over those shares). Accordingly, Afterpay Shareholders on the Record Date (with the exception of Ineligible Foreign Shareholders) will receive New Square Shares or New Square CDIs and, as with all other holders of Square Class A Shares, will have the right to one vote per Square Class A Share or Square CDI.	Section 5.15(a)(i) and 5.15(b)
Further Information		
54.	**What if I want further information?** If you have any questions about the Scheme or you would like a hard copy of this Scheme Booklet, please contact the Afterpay Shareholder Information Line on 1300 229 418 (within Australia) or +61 2 9066 4051 (outside Australia) Monday to Friday (excluding public holidays in Australia) between 9.00am and 5.00pm (AEDT). For information about your individual financial or taxation circumstances please consult your financial, legal, taxation or other professional adviser.	Next steps

For personal use only

Section 2

Summary of the Scheme

2.1 Background to the Scheme

On 2 August 2021, Afterpay announced that it had executed a Scheme Implementation Deed with Square and Square Acquirer, under which the parties have agreed to implement the Scheme between Afterpay and the Scheme Shareholders. A full copy of the Scheme Implementation Deed is available on ASX's website (www.asx.com.au) and Afterpay's website (https://corporate.afterpay.com/investors/asx-announcements).

If the Scheme is approved by Afterpay Shareholders at the Scheme Meeting and by the Court, and if all other necessary approvals and conditions for the Scheme are satisfied or waived (as applicable), Afterpay will become a wholly-owned indirect subsidiary of Square, will be delisted from ASX and Scheme Shareholders will receive the Scheme Consideration. If the Scheme is not approved, the Scheme will not be implemented, Scheme Shareholders will not receive the Scheme Consideration and Afterpay will continue as a standalone entity listed on ASX.

2.2 Implementation of the Scheme

The Scheme is proposed to be undertaken pursuant to a Court approved scheme of arrangement. A scheme of arrangement is a statutory procedure under Part 5.1 of the Corporations Act that allows companies, with shareholder and Court approval, to carry out transactions that become binding on all shareholders by operation of law upon the Court orders approving the scheme of arrangement being lodged with ASIC. Approval of a scheme of arrangement requires a 50% majority of the number of shareholders voting (unless the Court orders otherwise) and a 75% majority of the total votes cast being in favour of the scheme, as well as approval by the Court.

The Scheme will become binding on Afterpay and Afterpay Shareholders only if the conditions to the Scheme are satisfied or waived (as applicable).

2.3 If the Scheme is approved

If the Scheme is approved by Afterpay Shareholders and the Court, all other Conditions Precedent are satisfied or waived (as applicable) and the Scheme is implemented:

(a) the Scheme will bind all Scheme Shareholders, including those who did not vote on the Scheme and those who voted against it, meaning that all Scheme Shares will be transferred to Square Acquirer;

(b) all Afterpay Shareholders as at the Record Date (whether they voted for or against the Scheme, or did not vote) will receive the Scheme Consideration; and

(c) Afterpay will be delisted from ASX.

For personal use only

2.4 What if the Scheme is not implemented?

If the Scheme is not implemented, Afterpay shareholders will retain their Afterpay Shares. In the absence of a Superior Proposal, there is a risk that Afterpay shareholders may not be able to realise a consideration for all of their Afterpay Shares (at least in the short term) comparable to the consideration that they would receive under the Scheme.

The consequences of the Scheme not being implemented include:

(a) Square Acquirer will not provide the Scheme Consideration; and

(b) Afterpay Shareholders will retain their Afterpay Shares.

If the Scheme is not implemented, the Afterpay Directors intend to continue to operate the business of Afterpay in the ordinary course and in a manner consistent with current practices. Afterpay Shareholders will continue to be exposed to any benefits and risks associated with their investment in Afterpay.

2.5 Strategy and intentions for Afterpay if the Scheme does not proceed

If the Scheme does not proceed, the Afterpay Board and management team intend to continue to operate the business of Afterpay in the ordinary course and in a manner consistent with current practices. Through its six strategic pillars, Afterpay will continue to drive its vision and mission outlined in section 4.1.

For personal use only

Section 3

Overview of the Scheme

3.1. Scheme Consideration

(a) Overview

If the Scheme becomes Effective, all Scheme Shareholders, will receive the Scheme Consideration, comprising 0.375 New Square Securities[1] for each Scheme Share, representing ownership interest in shares of Square Class A common stock (**Square Class A Shares**).

(b) New Square Securities

Scheme Shareholders (other than Ineligible Foreign Shareholders) may receive New Square Securities as either New Square Shares or New Square CDIs. Further detail regarding the treatment of Ineligible Foreign Shareholders is set out in section 3.2.

New Square Shares will be fully paid Square Class A Shares and will be listed and traded on NYSE in US dollars.

A CDI is an instrument through which shares of foreign companies such as Square can be traded on ASX. Each New Square CDI will represent a beneficial interest in one Square Class A Share and will have economic and other rights largely equivalent to the rights attaching to a Square Class A Share. New Square CDIs will be quoted and traded on ASX in Australian dollars under a symbol to be advised before implementation of the Scheme.

Existing instructions to the Share Registry

Except for tax file numbers, if not prohibited by law, all instructions, notifications or elections by an Afterpay Shareholder to Afterpay are binding or deemed binding between the Afterpay Shareholder and Afterpay relating to the Afterpay Shares (including any email addresses, instructions relating to communications from Afterpay, whether dividends are to be paid by cheque or into a specific bank account or by Global Wire, notices of meetings or other communications from Afterpay) and will be deemed from the Implementation Date (except to the extent determined otherwise by Square in its sole discretion), by reason of the Scheme, to be made by the Afterpay Shareholder to Square until that instruction, notification or election is revoked or amended in writing addressed to the Square CDI or Share Registry (as applicable) at its registered address.

For further details on New Square Securities, see section 3.4.

1. Ineligible Foreign Shareholders will have their New Square Shares issued instead to a Sale Agent. These shares will then be sold by the Sale Agent in the ordinary course of trading on NYSE and the net proceeds of the sale will be paid to the Ineligible Foreign Shareholders promptly afterwards. Refer to Section 3.5 for more details on this process.

For personal use only

(c) Share Election or CDI Election

Where a Scheme Shareholder's registered address on the Record Date is in Australia or New Zealand, that shareholder will receive New Square CDIs (tradeable on ASX) by default but may elect to receive New Square Shares (**Share Election**). Where a Scheme Shareholder's registered address on the Record Date is located outside of Australia and New Zealand (other than an Ineligible Foreign Shareholder), that shareholder will receive New Square Shares (tradeable on NYSE) by default but may elect to receive New Square CDIs (**CDI Election**).

To make a Share Election, Scheme Shareholders must complete a Share Election Form and return it to the address specified in the Share Election Form so that it is received by the Afterpay Share Registry (and not withdrawn) by no later than 5.00pm on the Election Date. Please contact the Afterpay Shareholder Information Line to request a Share Election Form.

To make a CDI Election, Scheme Shareholders must complete a CDI Election Form and return it to the address specified in the CDI Election Form so that it is received by the Afterpay Share Registry (and not withdrawn) by no later than 5.00pm on the Election Date. If ASX does not grant approval for Australian Admission on or before the Business Day after the Effective Date, all CDI Elections will be disregarded and the entitlements of all Scheme Shareholders (including those who made a CDI Election) will be satisfied by the distribution of New Square Shares. Please contact the Afterpay Shareholder Information Line to request a CDI Election Form.

Afterpay Shareholders who are eligible to make a CDI Election or a Share Election, can only make an election in relation to all (but not only some) of the Afterpay Shares to which they are entitled under the Scheme.

Scheme Shareholders may withdraw their Share Election or their CDI Election (for all and not only some) of their Afterpay Shares, by lodging an Election Withdrawal Form so that it is received by the Afterpay Share Registry by no later than 5.00pm on the Election Date. Please contact the Afterpay Shareholder Information Line to request an Election Withdrawal Form.

Scheme Shareholders who are eligible to make a CDI Election or a Share Election, can only make an election in relation to all (not only some) of the Afterpay Shares held by the relevant Scheme Shareholder as at the Record Date. A Scheme Shareholder who holds one or more parcels of Afterpay Shares as trustee or nominee for, or otherwise on account of, another person, may not make separate elections in relation to each of those parcels of Afterpay Shares. If some of the underlying beneficiaries prefer that the Scheme Consideration is received in the form of New Square CDIs, while others prefer that the Scheme Consideration is received in the form of New Square Shares, the trustee or nominee must, prior to an Election Form being submitted, establish separate and distinct holdings in the Afterpay Share Register in respect of each parcel of Afterpay Shares in order to allow the trustee or nominee to make separate elections in respect of each parcel of Afterpay Shares. Accordingly, trustees and nominees should only provide one Election Form for each registered shareholding of Afterpay Shares.

All items and documents (including Election Forms and Election Withdrawal Forms) sent to, from, by or on behalf of Afterpay Shareholders are sent entirely at the Afterpay Shareholders' risk.

Square Acquirer will determine, in its sole discretion, all questions as to the correct completion of a CDI Election Form, Share Election Form or Election Withdrawal Form, and time of receipt of such form. Square Acquirer is not required to communicate with any Scheme Shareholder prior to making this determination. The determination of Square Acquirer will be final and binding on the Scheme Shareholder.

3.2. Ineligible Foreign Shareholders

A Scheme Shareholder will be an Ineligible Foreign Shareholder for the purposes of the Scheme if, on the Record Date, his or her address as shown in the Afterpay Share Register is in a jurisdiction other than Australia and its external territories, Canada, Hong Kong, New Zealand, Singapore, Switzerland, the United Kingdom and the United States, unless Square or Square Acquirer determines:

(a) it is lawful and not unduly onerous or unduly impracticable to issue that Scheme Shareholder with New Square Securities on implementation of the Scheme; and

(b) it is lawful for that Afterpay Shareholder to participate in the Scheme by the law of the relevant place outside Australia and its external territories, Canada, Hong Kong, New Zealand, Singapore, Switzerland, United Kingdom and the United States.

Nominees, custodians and other Afterpay Shareholders who hold Afterpay Shares on behalf of a beneficial owner resident outside Australia, Canada, Hong Kong, New Zealand, Singapore, Switzerland, United Kingdom and the United States may not forward this Scheme Booklet (or any accompanying document) to anyone outside these countries without the consent of Afterpay.

For personal use only

If you are an Ineligible Foreign Shareholder and the Scheme is implemented, you will not be issued the Scheme Consideration under the Scheme. Instead, New Square Shares that would otherwise be issued to you under the Scheme will instead be issued to the Sale Agent. Square Acquirer (or Square at the direction of and on behalf of Square Acquirer) will procure that, as soon as reasonably practicable (and in any case no later than 30 days after the Implementation Date), the Sale Agent sells or procures the sale of all the New Square Shares issued to the Sale Agent in the ordinary course of trading on NYSE. The Sale Agent will then remit the net sale proceeds to Square Acquirer (or Square at the direction of and on behalf of Square Acquirer) or an agent acting on behalf of Square Acquirer or Square. Square Acquirer (or Square at the direction of and on behalf of Square Acquirer) will then, as soon as reasonably practicable, pay (or cause to be paid to) Ineligible Foreign Shareholders their pro rata proportion of the net proceeds (in cash) in Australian dollars, as described in section 3.5 below. None of Afterpay, Square, Square Acquirer or the Sale Agent give any assurance as to the price that will be achieved for the sale of the New Square Shares and the sale of the New Square Shares will be at the risk of the Ineligible Foreign Shareholder.

Square Acquirer (or Square at the direction of and on behalf of Square Acquirer) will make, or procure the making of, payments to Ineligible Foreign Shareholders by:

(a) electronic funds transfer in Australian dollars to a bank account with any Australian "Authorised Deposit-taking Institution" (as defined in the Corporations Act) notified to Afterpay by the Ineligible Foreign Shareholder;

(b) Global Wire Payment Service, if an Afterpay Shareholder who resides outside of Australia has elected to receive payments electronically in their local currency using the Afterpay Registry's Global Wire Payment Service; or

(c) if a bank account or Global Wire Payment instructions have not been notified to Afterpay's Share Registry as at 7.00pm on the Record Date, dispatching a cheque for the relevant amount in Australian dollars to the Ineligible Foreign Shareholder by prepaid post to their registered address (as at the Record Date), such cheque being drawn in the name of the Ineligible Foreign Shareholder.

If you wish to update your direct credit instructions or Global Wire Payment details, please visit www.computershare.com.au/easyupdate/apt and update these details by 7.00pm (AEDT) on the Record Date. For a list of currencies offered for the Global Wire Payment Service or for further information on how to subscribe to this service, please contact the Afterpay Registry. Cheques, direct credit payment advices and Global Wire Payment advices will be mailed by ordinary pre-paid post, at your risk, to your address as shown on the Afterpay Shares Register at 7.00pm (AEDT) on the Record Date.

3.3. Steps for Implementing the Scheme

(a) Preliminary steps

Afterpay, Square and Square Acquirer entered into the Scheme Implementation Deed on 2 August 2021, pursuant to which, among other things, Afterpay agreed to propose the Scheme. The Scheme Implementation Deed sets out each of Afterpay, Square and Square Acquirer's rights and obligations in connection with the implementation of the Scheme.

Square and Square Acquirer have executed the Deed Poll pursuant to which Square Acquirer has agreed to cause Square to, and Square will at the direction of and on behalf of Square Acquirer, subject to the Scheme becoming Effective, provide each Scheme Shareholder with, or procure the provision to each Scheme Shareholder of, the Scheme Consideration to which it is entitled under the Scheme.

A copy of the proposed Scheme is included in this Scheme Booklet as Attachment A. A copy of the Deed Poll is attached to this Scheme Booklet as Attachment B.

(b) Scheme Meeting

The Court has ordered that the Scheme Meeting be held at 10.00am on Monday, 6 December 2021 for the purposes of approving the Scheme Resolution. The Notice of Scheme Meeting for Afterpay Shareholders which sets out the Scheme Resolution is included in Attachment E to this Scheme Booklet.

Each Afterpay Shareholder who is registered on the Afterpay Share Register at 7.00pm (AEDT) on Saturday, 4 December 2021 is entitled to attend and vote at the Scheme Meeting, either in person or by proxy or attorney or in the case of a body corporate, by its corporate representative appointed in accordance with section 250D of the Corporations Act.

Instructions on how to attend and vote at the Scheme Meeting in person, or to appoint a proxy to attend and vote on your behalf, are set in the 'How to Vote' section of this Scheme Booklet.

For personal use only

The Scheme Resolution must be approved by:

(i) a majority in number (more than 50%) of Afterpay Shareholders present and voting at the Scheme Meeting (whether in person, by proxy, by attorney or, in the case of corporate Afterpay Shareholders, by a corporate representative) (the **Headcount Test**); and

(ii) at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting.

It should be noted that the Court has the power to waive the Headcount Test.

(c) Second Court hearing

In the event that:

(i) the Scheme Resolution is approved by the Requisite Majorities of Afterpay Shareholders at the Scheme Meeting; and

(ii) all Conditions Precedent of the Scheme have been satisfied or remain capable of being satisfied, or waived (if applicable),

Afterpay will apply to the Court for orders approving the Scheme. The Court has a broad discretion whether or not to approve the Scheme under section 411(4)(b) of the Corporations Act, even if the Scheme is approved by the Requisite Majorities of Afterpay Shareholders at the Scheme Meeting.

The Second Court Hearing is currently expected to be Friday, 10 December 2021, though an earlier or later date may be sought. Any change to this date will be announced through ASX and will be available on Afterpay's website at https://corporate.afterpay.com/.

Any Afterpay Shareholder, or with the Court's permission, any other interested person may appear at the Second Court Hearing in person or through counsel to support or oppose the approval by the Court of the Scheme or make representations to the Court in relation to the Scheme.

(d) Effective Date

If the Court makes orders approving the Scheme, Afterpay will lodge with ASIC an office copy of the Court orders given under section 411(4)(b) of the Corporations Act approving the Scheme. It is anticipated that this will occur on the Business Day immediately following the Court Approval Date.

Once the Scheme becomes Effective:

(i) Square Acquirer will become bound to pay Scheme Shareholders the Scheme Consideration on the Implementation Date; and

(ii) subject to payment of the aggregate Scheme Consideration by Square Acquirer as referred to in section 3.3(a) of this Scheme Booklet below, Afterpay will become bound to take the steps required for Square Acquirer to become the holder of all Afterpay Shares.

(e) Suspension of trading of Afterpay Shares

If the Court approves the Scheme, Afterpay will notify ASX of that approval on the day it is received.

It is expected that suspension of trading in Afterpay Shares on ASX will occur from the close of trading on Thursday, 6 January 2021.

Afterpay Shareholders are able to sell Afterpay Shares on market in the usual manner on or before Thursday, 6 January 2021.

Afterpay Shares will continue to trade on ASX after the Effective Date. If the Scheme becomes Effective, Afterpay Shareholders who sell their Afterpay Shares after the Effective Date and prior to the Record Date should be aware that they will not receive the Scheme Consideration on the Implementation Date. In addition, investors who acquire Afterpay Shares after the Effective Date should be aware that all Afterpay Shareholders who hold Afterpay Shares on the Record Date (other than Ineligible Foreign Shareholders) will be provided with the Scheme Consideration in exchange for their Afterpay Shares. The exchange ratio is fixed and holders of Afterpay Shares on the Record Date (other than Ineligible Foreign Shareholders) will receive 0.375 New Square Shares or 0.375 New Square CDIs. Square Class A Shares will continue to trade on NYSE between the Effective Date and the Record Date.

For the purpose of determining entitlements under the Scheme, Afterpay will not accept for registration or recognise any transfer or transmission application in respect of Afterpay Shares received after the Record Date.

For personal use only

(f) Record Date and determination of persons entitled to Scheme Consideration

Those Afterpay Shareholders who are recorded on the Afterpay Share Register on the Record Date (currently expected to be 7.00pm (AEDT) on Saturday, 4 December 2021) or such other time and date as the parties agree) will be entitled to receive the Scheme Consideration in respect of the Afterpay Shares they hold at that time.

(g) Dealings on or prior to the Record Date

For the purposes of determining who is a Scheme Shareholder (i.e. an Afterpay Shareholder on the Record Date), dealings in Afterpay Shares will be recognised only if:

- in the case of dealings of the type to be effected using Clearing House Electronic Subregister System (CHESS), the transferee is registered on the Afterpay Share Register as the holder of the relevant Afterpay Shares on or before the Record Date; and
- in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received by the Afterpay Share Registry on or before the Record Date at the place where the Afterpay Share Register is kept (and the transferee remains registered as at the Record Date).

For the purposes of determining entitlements under the Scheme, Afterpay will not accept for registration or recognise any transfer or transmission applications in respect of Afterpay Shares received after the Record Date (except a transfer to Square Acquirer pursuant to this Scheme and any subsequent transfer by Square Acquirer or its successors in title).

(h) Dealings after the Record Date

For the purpose of determining entitlements to the Scheme Consideration, Afterpay must maintain the Afterpay Share Register in its form as at the Record Date until the Scheme Consideration has been paid to the Scheme Shareholders. The Afterpay Share Register in this form will solely determine entitlements to the Scheme Consideration.

After the Record Date:

- any statements of holding in respect of Scheme Shares (other than statements of holding in favour of Square Acquirer and its successors in title) will cease to have effect as documents of title in respect of those shares; and
- each entry current on the Afterpay Register as at the Record Date (other than entries in respect of Square Acquirer or its successors in title) will cease to have effect except as evidence of entitlement to the Scheme Consideration.

(i) Implementation Date – transfer and registration of Afterpay Shares

The Implementation Date is expected to be Tuesday, 18 January 2022. On the Implementation Date, Square must, at the direction of and on behalf of Square Acquirer, issue New Square Securities to each Scheme Shareholder entitled to them as the Scheme Consideration and cause their names and addresses to be entered in the Square register. After the Implementation Date, Square must send a holding statement or confirmation advice to each Scheme Shareholder (other than an Ineligible Foreign Shareholder) representing the number of New Square Securities issued to the Scheme Shareholder pursuant to the Scheme.

For further information regarding issuance of the Scheme Consideration, see section 3.8 and clause 6 of the Scheme set out in Attachment A.

3.4. New Square Securities

(a) New Square Shares

New Square Shares will be Square Class A Shares, ranking equally in all respects with all other Square Class A Shares on issue. New Square Shares will be listed and traded on NYSE. They will not be quoted or traded on ASX. Accordingly, investors who wish to trade New Square Shares on the open market must do so on NYSE. Such trades must be undertaken through a broker entitled to trade on NYSE. It is the responsibility of Afterpay Shareholders to ensure that appropriate arrangements are in place if they wish to hold and trade New Square Shares on NYSE.

As trading in New Square Shares on NYSE will be in US dollars, the Australian dollar value of the New Square Shares will depend on the AUD/USD exchange rate.

For personal use only

(b) New Square CDIs

CDIs are CHESS Depositary Interests, used to enable trading on ASX of financial products issued by entities domiciled in countries whose laws may not recognise uncertificated holders or electronic transfer of title through CHESS. CDIs represent an interest in the underlying security of a foreign company. This allows investors to trade interests in foreign securities by trading the relevant CDIs on ASX.

In the case of the New Square CDIs provided as Scheme Consideration, each New Square CDI will represent a beneficial interest in one Square Class A Share and will have rights that are economically equivalent to the rights attaching to a Square Class A Share, except for certain differences noted in section 3.4(d).

The Square Class A Shares to which the New Square CDIs relate will be provided by Square Acquirer (or Square at the direction of and on behalf of Square Acquirer) to a depositary nominee which will hold legal title, or beneficial owner to a depositary nominee which will hold legal title, or beneficial ownership, to those shares on behalf of the holders of the New Square CDIs. It is Square's current intention to appoint CHESS Depositary Nominees Pty Ltd, a wholly owned subsidiary of ASX Limited, as depositary nominee. New Square CDIs will be quoted and traded on ASX in Australian dollars under a symbol to be advised before implementation of the Scheme. New Square CDIs will not be quoted or traded on NYSE.

(c) Key features of New Square CDIs

(i) General

Except for certain differences noted in section 3.4(d), the rights attaching to New Square CDIs are economically equivalent to the rights attaching to Square Class A Shares, and Square will generally be required to treat holders of New Square CDIs as if they were the holders of the Square Class A Shares represented by those New Square CDIs.

In accordance with clause 4.7 of the Scheme Implementation Deed, all New Square Shares, and New Square CDIs, will rank equally in all respects with all Square Class A Shares.

(ii) Ratio

Each New Square CDI will represent one Square Class A Share.

(iii) Voting

Holders of New Square CDIs will be sent notices of meetings of Square shareholders at the same time as they are sent to Square shareholders. As holders of New Square CDIs are not the registered holders of the Square Class A Shares represented by Square CDIs, they will not be automatically entitled to vote at a meeting of Square shareholders.

However, the holder of a New Square CDI can direct the CDI Nominee to cast votes in a particular manner on their behalf or they can require the CDI Nominee to appoint the holder (or a person nominated by the holder) as proxy to exercise the votes attaching to the Square Class A Shares represented by the holder's New Square CDIs. In the latter case, a holder of a Square CDI may, as proxy, vote at a meeting of Square shareholders.

Except as mentioned in this paragraph, if a holder of a New Square CDI wishes to vote at a meeting of Square shareholders, the holder must first convert their New Square CDIs into the underlying Square Class A Shares in sufficient time before the record date for the meeting.

(iv) Takeovers

The CDI Nominee must not accept a takeover offer in respect of any Square CDIs representing Square Class A Shares unless otherwise authorised by holders of Square CDIs to accept the offer. It is the CDI Nominee's responsibility to ensure that the bidder processes those acceptances.

(v) Communications from Square

Square will communicate directly with holders of New Square CDIs with respect to corporate actions and will send notices and other documents (e.g. notices of meetings) to holders of New Square CDIs at the same time, to the extent practicable, as they are sent to Square shareholders.

(vi) Trading

Following the listing of the New Square CDIs on ASX, New Square CDIs can be traded on ASX. New Square CDIs will not be tradeable on NYSE. If a holder of New Square CDIs wishes to trade on NYSE, they must convert the New Square CDIs into Square Class A Shares (see section 3.4(ix)).

For personal use only

(vii) Dividends

In accordance with the ASX Settlement Operating Rules, Square will distribute any dividend declared on Square Class A Shares to holders of Square CDIs.

Dividend record and payment dates will be the same for New Square Shares and New Square CDIs. See section 6.3(g) for further details on Square's intentions in relation to dividends.

(viii) Evidence of ownership

If New Square CDIs are issued to you under the Scheme, you will receive a holding statement or confirmation advice in respect of your Square CDIs rather than a holding statement for the underlying Square Class A Shares. Revised holding statements will be provided on a periodic basis if there is a change in the number of Square CDIs held by you. New Square CDIs may be held on an issuer sponsored subregister or on a CHESS subregister. New Square CDIs will be received:

- on the Square CDI issuer sponsored subregister, to the extent they are issued for Afterpay Shares held on the Afterpay issuer sponsored subregister as at the Record Date; and
- on the Square CDI CHESS subregister, to the extent they are issued for Afterpay Shares held on the Afterpay CHESS subregister as at the Record Date.

(ix) Conversion of New Square CDIs into Square Class A Shares

Holders of New Square CDIs may at any time (following the Implementation Date) request to convert their New Square CDIs into Square Class A Shares listed on NYSE by contacting:

- Computershare, the Square CDI registry, if their New Square CDIs are held directly on the Square CDI issuer sponsored subregister. Square CDI holders will be provided with a CDI cancellation request form for completion and return to Computershare; or
- their sponsoring participant (usually their broker), if their New Square CDIs are held on the Square CDI CHESS subregister. In this case, your sponsoring broker will arrange for completion of the relevant form and its return to Computershare.

Computershare will then arrange for the transfer of Square Class A Shares from the CDI Nominee to the former Square CDI holder and, depending on the request made, issue the Square Class A Shares to the former Square CDI holder in book-entry form directly on the US share register or deliver to their account held with a participant within The Depository Trust Company, US central securities depository. Trading on ASX will no longer be possible.

It is expected that requests for conversion will ordinarily be processed by the next business day, provided that Computershare is in receipt of a duly completed and valid removal request form. However, no guarantee can be given about the time for this conversion to take place.

Computershare will not charge an individual security holder a fee for transferring Square CDIs into Square Class A Shares (although a fee will be payable by market participants).

No trading of the underlying Square Class A Shares can take place on NYSE until the conversion process has been completed. The decision whether to convert New Square CDIs to Square Class A Shares will depend on your individual circumstances. You should seek advice from your own independent and appropriately licensed financial, legal and taxation advisers before deciding whether to convert New Square CDIs to Square Class A Shares.

(x) Conversion of New Square Shares into Square CDIs

Afterpay Shareholders that receive New Square Shares instead of Square CDIs, and existing Square Shareholders, may at any time (following the Implementation Date) convert them into Square CDIs by contacting Computershare in the US. Computershare will not charge a fee to a shareholder seeking to convert Square Class A Shares to CDIs (although a fee will be payable by market participants).

In this instance, underlying Square Class A Shares will be transferred to the CDI Nominee and a holding statement for the CDIs will be issued to the relevant security holder. No trading in Square CDIs on ASX can take place until this conversion process is complete.

The decision whether to convert New Square Shares to Square CDIs will depend on your individual circumstances. You should seek advice from your own independent and appropriately licensed financial, legal and taxation adviser before deciding whether to convert New Square Shares to Square CDIs.

For personal use only

(d) Principal differences between holding New Square CDIs and New Square Shares

(i) The principal difference between holding a New Square CDI and holding a New Square Share is that the holder of a New Square CDI has an indirect, beneficial interest in the New Square Share underlying their New Square CDI instead of directly owning the New Square Share. This means that the holder of the New Square CDI is not the holder of the underlying New Square Share and therefore:

- cannot directly trade the underlying New Square Share; and
- is a beneficial holder (rather than a registered legal holder) of the underlying New Square Share.

(ii) Other differences

(A) **Exercise of shareholder rights**

As holders of New Square CDIs are not registered shareholders of Square, the rights attaching to New Square Shares which underlie their New Square CDIs must be exercised by the CDI Nominee. A holder of New Square CDIs may instruct the CDI Nominee to exercise those rights on their behalf. In contrast, a registered holder of New Square Shares can directly exercise the rights attaching to their New Square Shares in such manner as they choose. For example, as described above, a holder of a New Square CDI cannot vote at a Square meeting as a Square shareholder but can direct the CDI Nominee how to vote, or appoint the holder as proxy, at that Square shareholder meeting.

(B) **New Square CDIs will be quoted and trade on ASX and New Square Shares will be quoted and trade on NYSE**

New Square Shares will be tradeable on NYSE only. They will not be quoted or tradeable on ASX. Accordingly, investors who wish to trade New Square Shares on the open market must do so on NYSE. Such trades must be undertaken through a broker entitled to trade on NYSE. It is the responsibility of Afterpay shareholders to ensure that appropriate arrangements are in place if they wish to hold and trade New Square Shares on NYSE.

New Square CDIs will be tradeable on ASX only. This may be attractive to Afterpay Shareholders, as it allows New Square CDIs to be traded during Australian business hours using Australian brokers in prices quoted in AUD.

See section 7.5(b) for further discussion of the liquidity of the market for New Square CDIs and the potential risk that they may trade at a discount to New Square Shares on NYSE.

(e) Foreign Exempt Listing

Square intends to apply for admission to the official list of ASX as a Foreign Exempt Listing, conditional on the Scheme being implemented. Once listed on ASX as a Foreign Exempt Listing, Square will be exempt from complying with most of the Listing Rules. For further details on this Foreign Exempt Listing, see section 6.4.

3.5. Sale Facility in Respect of Ineligible Foreign Shareholders

(a) Sale Facility Mechanics

Square Acquirer (or Square at the direction of and on behalf of Square Acquirer) will establish the Sale Facility and appoint the Sale Agent to sell any New Square Shares that would otherwise be issued to Ineligible Foreign Shareholders.

If the Scheme becomes Effective, the New Square Shares that would otherwise be issued to Ineligible Foreign Shareholders will be provided by Square Acquirer (or Square at the direction of and on behalf of Square Acquirer) to the Sale Agent on the Implementation Date.

Within 30 days after the Implementation Date, the Sale Agent must sell or procure the sale (including on an aggregated or partially aggregated basis), in the ordinary course of trading on NYSE, of all the New Square Shares issued to the Sale Agent on behalf of the Ineligible Foreign Shareholders, at such price or price as the Sale Agent determines in good faith. The Sale Agent must remit to Square Acquirer (or Square at the direction of and on behalf of Square Acquirer) or an agent acting on behalf of Square Acquirer or Square the proceeds of those sales (after deduction of any applicable brokerage, stamp duty and other selling costs, taxes and charges) in Australian dollars (**Sale Facility Proceeds**).

For personal use only

Square Acquirer (or Square at the direction of and on behalf of Square Acquirer) must, as soon as reasonably practicable after the last sale of the relevant New Square Shares, pay (or cause to be paid) to each Ineligible Foreign Shareholder their pro rata proportion of the Sale Facility Proceeds, calculated in accordance with the following formula:

A = (B ÷ C) x D

where:

A is the amount to be paid to the Ineligible Foreign Shareholder;

B is the number of New Square Shares attributable to, and that would otherwise have been issued to, that Ineligible Foreign Shareholder had it not been an Ineligible Foreign Shareholder and which are instead issued to the Sale Agent;

C is the total number of New Square Shares attributable to, and which would otherwise have been issued to, all Ineligible Foreign Shareholders collectively and which are instead issued to the Sale Agent; and

D is the Sale Facility Proceeds.

(b) Value of the Sale Facility Proceeds

The cash amount received by Ineligible Foreign Shareholders will depend on the price at which the New Square Shares can be sold under the Sale Facility by the Sale Agent at the relevant time and the amount of any applicable brokerage, taxes and charges incurred by the Sale Agent in connection with the sales under the Sale Facility.

The cash amount received by an Ineligible Foreign Shareholder under the Sale Facility may be more or less than the value of the New Square Shares that the Afterpay Shareholder would have received had they not been an Ineligible Foreign Shareholder.

None of Afterpay, Square, Square Acquirer, or the Sale Agent give any assurance as to the price that will be achieved for the sale of New Square Shares by the Sale Agent under the Sale Facility.

For further information regarding payment of the Sale Facility Proceeds, including the timing for receipt of that payment, see sections 3.2 and 3.5(a).

3.6. Commencement of Trading of New Square Securities

Deferred settlement trading of New Square CDIs is expected to be available on ASX from Friday, 7 January 2022.

Trading on ASX of New Square CDIs is expected to commence on a normal settlement basis on Wednesday, 19 January 2022.

Trading on NYSE of New Square Shares is expected to commence on the next New York trading day after the Implementation Date (which is currently expected to be Wednesday, 19 January 2022).

3.7. Delisting of Afterpay

After the Scheme has been implemented, Afterpay will request that ASX removes it from the official list of ASX, and such delisting is expected to occur one Business Day following the Implementation Date.

3.8. Issuance of the Scheme Consideration

Square and Square Acquirer have entered into the Deed Poll under which Square and Square Acquirer have covenanted in favour of Scheme Shareholders such that in accordance with the Scheme:

- Square Acquirer will provide or procure the provision of the Scheme Consideration to each Scheme Shareholder; and
- Square Acquirer agrees to cause Square to, and Square will at the direction of and on behalf of Square Acquirer (in satisfaction of Square Acquirer's obligation to provide such Scheme Consideration to the Scheme Shareholders), issue the Scheme Consideration.

For personal use only

(a) Issue of New Square Securities

If the Scheme becomes Effective, any New Square Securities to be provided to a Scheme Shareholder under the Scheme will be provided by Square Acquirer (or Square at the direction of and on behalf of Square Acquirer), on the Implementation Date.

The name and address of such Scheme Shareholders will be recorded in:

(i) the Square Share register in respect of those New Square Shares that are issued on the Implementation Date, and holding statements for those New Square Shares will be sent to those Scheme Shareholders;

(ii) the Square CDI CHESS subregister in respect of those New Square CDIs that are issued on the Implementation Date, to the extent that are issued for Afterpay Shares held on the Afterpay CHESS subregister, and confirmation advices of beneficial ownership for those New Square CDIs will be sent to those Scheme Shareholders; or

(iii) the Square issuer sponsored CDI subregister, in respect of those New Square CDIs that are issued on the Implementation Date, to the extent they are issued for Afterpay Shares held on the Afterpay issuer sponsored subregister, and holding statements for those New Square CDIs will be sent to those Scheme Shareholders.

3.9. Fractional Entitlements and Shareholding Splitting or Division

If the number of Scheme Shares held by a Scheme Shareholder at the Record Date is such that the aggregate entitlement of the Scheme Shareholder to the Scheme Consideration includes a fractional entitlement to a New Square Share or New Square CDI, then the entitlement of that Scheme Shareholder must be rounded up or down, with any such fractional entitlement of:

(a) less than 0.5 being rounded down to the nearest whole number of New Square Securities; and

(b) 0.5 or more being rounded up to the nearest whole number of New Square Securities.

If Afterpay and Square are of the opinion (acting reasonably) that two or more Scheme Shareholders have, before the Record Date, been party to shareholding splitting or division in an attempt to obtain an unfair advantage by reference to such rounding, Afterpay may give notice to those Scheme Shareholders:

(a) setting out their names and registered addresses as shown in the Afterpay Share Register;

(b) stating that opinion; and

(c) attributing to one of them specifically identified in the notice the Scheme Shares held by all of them.

After such notice has been given, the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme Shares will, for the purposes of the Scheme, be taken to hold all of those Scheme Shares and each of the other Scheme Shareholders whose names and registered addresses are set out in the notice will, for the purposes of the Scheme, be taken to hold no Scheme Shares.

3.10. Foreign Selling Restrictions

(a) Canada

The New Square Securities (including in the form of New Square CDIs) will be provided by Square Acquirer (or Square, at the direction of and on behalf of Square Acquirer) in reliance upon exemptions from the prospectus and registration requirements of the applicable Canadian securities law in each province and territory of Canada. No securities commission in Canada has reviewed or in any way passed upon this document or the merits of the Scheme.

(b) Hong Kong

WARNING: The contents of this Scheme Booklet have not been reviewed or approved by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Scheme. If you are in any doubt about any of the contents of this Scheme Booklet, you should obtain independent professional advice.

This Scheme Booklet does not constitute an offer or invitation to the public in Hong Kong to acquire or subscribe for or dispose of any securities. This Scheme Booklet also does not constitute a prospectus (as defined in section 2(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong)) or notice, circular, brochure or advertisement offering any securities to the public for subscription or purchase or calculated to invite such offers by the public to subscribe for or purchase any securities, nor is it an advertisement, invitation or document containing an advertisement or invitation falling within the meaning of section 103 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

For personal use only

Accordingly, unless permitted by the securities laws of Hong Kong, no person may issue or cause to be issued this Scheme Booklet in Hong Kong, other than (i) to persons who are "professional investors" (as defined in the Securities and Futures Ordinance and any rules made thereunder) or (ii) in other circumstances that do not result in the Scheme Booklet being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance or that do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

No person may issue or have in its possession for the purposes of issue, this Scheme Booklet or any advertisement, invitation or document relating to these securities that is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than any such advertisement, invitation or document relating to securities that are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder.

Copies of this Scheme Booklet may be issued to a limited number of persons in Hong Kong in a manner that does not constitute any issue, circulation or distribution of this Scheme Booklet, or any offer or an invitation in respect of these securities, to the public in Hong Kong. This Scheme Booklet is for the exclusive use of Afterpay Shareholders in connection with the Scheme. No steps have been taken to register or seek authorisation for the issue of this Scheme Booklet in Hong Kong.

This Scheme Booklet is confidential to the person to whom it is addressed and no person to whom a copy of this Scheme Booklet is issued may issue, circulate, distribute, publish, reproduce or disclose (in whole or in part) this Scheme Booklet to any other person in Hong Kong or use for any purpose in Hong Kong other than in connection with consideration of the Scheme by Afterpay Shareholders.

(c) New Zealand

This Scheme Booklet is not a New Zealand disclosure document and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Financial Markets Conduct Act 2013 or any other New Zealand law.

The offer of New Square Securities (including in the form of New Square CDIs) under the Scheme is being made to existing Afterpay Shareholders in reliance upon the Financial Markets Conduct (Incidental Offers) Exemption Notice 2016 and, accordingly, this Scheme Booklet may not contain all the information that a disclosure document is required to contain under New Zealand law.

(d) Singapore

This Scheme Booklet and any other document relating to the Scheme have not been, and will not be, registered as a prospectus with the Monetary Authority of Singapore and the Scheme is not regulated by any financial supervisory authority in Singapore. Accordingly, statutory liabilities in connection with the contents of prospectuses under the Securities and Futures Act, Cap. 289 (the **SFA**) will not apply.

This Scheme Booklet and any other document relating to the Scheme may not be made the subject of an invitation for subscription, purchase or receipt, whether directly or indirectly, to persons in Singapore except pursuant to exemptions in Subdivision (4) Division 1, Part XIII of the SFA, including the exemption under section 273(1)(c) of the SFA, or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Any offer is not made to you with a view to New Square Securities (including in the form of New Square CDIs) being subsequently offered for sale to any other party. You are advised to acquaint yourself with the SFA provisions relating to on-sale restrictions in Singapore and comply accordingly.

This Scheme Booklet is being furnished to shareholders of Afterpay on a confidential basis and solely for their information and may not be reproduced, disclosed, or distributed to any other person. Any investment referred to in this Scheme Booklet may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investment.

Neither Afterpay nor Square is in the business of dealing in securities or holds itself out, or purports to hold itself out, to be doing so. As such, Afterpay and Square are neither licensed nor exempted from dealing in securities or carrying out any other regulated activities under the SFA or any other applicable legislation in Singapore.

For personal use only

(e) Switzerland

The New Square Securities (including in the form of New Square CDIs) may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange or on any other stock exchange or regulated trading facility in Switzerland. Neither this Scheme Booklet nor any other document relating to the Scheme constitutes a prospectus or a similar notice as such terms are understood pursuant to art. 35 of the Swiss Financial Services Act or the listing rules of any stock exchange or regulated trading facility in Switzerland. Neither this Scheme Booklet nor any other document relating to the Scheme may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Scheme Booklet nor any other document relating to the Scheme or the New Square Securities (including in the form of CDIs) have been, or will be, filed with or approved by any Swiss regulatory authority or authorised review body. In particular, this Scheme Booklet will not be filed with, and the offer of New Square Securities (including in the form of New Square CDIs) will not be supervised by, the Swiss Financial Market Supervisory Authority.

This Scheme Booklet may be distributed in Switzerland only to existing Afterpay Shareholders and is not for general circulation in Switzerland.

(f) United Kingdom

Neither this Scheme Booklet nor any other document relating to the Scheme has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (**FSMA**)) has been published or is intended to be published in respect of the New Square Securities (including in the form of New Square CDIs).

This Scheme Booklet does not constitute an offer of transferable securities to the public within the meaning of the UK Prospectus Regulation or the FSMA. Accordingly, this Scheme Booklet does not constitute a prospectus for the purposes of the UK Prospectus Regulation or the FSMA.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 FSMA) received in connection with the issue or sale of the New Square Securities (including in the form of New Square CDIs) has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) FSMA does not apply to Afterpay or Square.

In the United Kingdom, this Scheme Booklet is being distributed only to, and is directed at, persons (i) who fall within Article 43 (members of certain bodies corporate) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005, or (ii) to whom it may otherwise be lawfully communicated (together "relevant persons"). The investments to which this Scheme Booklet relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Scheme Booklet.

(g) United States

This Scheme Booklet is neither an offer to sell nor a solicitation of an offer to buy securities as such terms are defined under the Securities Act. The New Square Shares have not been and will not be registered under the Securities Act.

Afterpay and Square intend to rely on an exemption from the registration requirements of the Securities Act provided by section 3(a)(10) of the Securities Act in connection with the issuance of New Square Shares.

The Court was aware at the time of the First Court Hearing that approval of the Scheme by the Court will be relied upon by Afterpay and Square for the purpose of qualifying for the section 3(a)(10) exemption.

None of the SEC, any US state securities commission or any other US regulatory authority has approved or disapproved of the securities to be issued by Square (at the direction of and on behalf of Square Acquirer) or passed comment upon or endorsed the merits of the Scheme or the accuracy, adequacy or completeness of this Scheme Booklet. Any representation to the contrary may be a criminal offence.

For personal use only

3.11. Scheme Implementation Deed

Afterpay, Square and Square Acquirer entered into the Scheme Implementation Deed on 2 August 2021. The Scheme Implementation Deed sets out the steps required to be taken by Square, Square Acquirer and Afterpay to implement the Scheme. A copy of the Scheme Implementation Deed is available on ASX and via Afterpay's website at https://corporate.afterpay.com/. The key terms of the Scheme Implementation Deed are set out below.

(a) Conditions Precedent

The Scheme is subject to a number of Conditions Precedent set out in clause 3.1 of the Scheme Implementation Deed including but not limited to the following:

No.	Condition Precedent	Status
1.	**(Regulatory approvals):** approvals from all the relevant regulatory bodies, including FIRB, NZ OIO, Bank of Spain, Spain FDI Authority, US Department of Justice under the HSR Act, ASX and NYSE required for the Scheme.	The waiting period under the HSR Act has expired. Other relevant regulatory approvals are expected to be obtained or waived prior to the date of the Scheme Meeting. While not a Condition Precedent, the ACCC has confirmed that it does not intend to conduct a public review of the transaction.
2.	**(Afterpay Shareholder approval):** Afterpay Shareholders approve the Scheme by the Requisite Majorities in accordance with the Corporations Act.	The Scheme Meeting is scheduled for Monday, 6 December 2021.
3.	**(Square Shareholder Approval):** Square Shareholders approve the issue of the New Square Securities by the requisite majority in accordance with the Listing Rules of NYSE.	Square Shareholder Approval was obtained on Wednesday, 3 November 2021. This Condition Precedent has been satisfied.
4.	**(Court approval):** the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act.	The Second Court Hearing is scheduled for Friday, 10 December 2021.
5.	**(Other prescribed events):** the following do not occur between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date: (a) no Governmental Authority (including any court) has issued an order, temporary restraining order, preliminary or permanent injunction, decree or ruling enjoining, restraining or otherwise imposing a legal restraint or prohibition preventing the Scheme; (b) no Afterpay Material Adverse Effect; (c) no Square Material Adverse Effect; (d) no Afterpay Prescribed Event; and (e) no Square Prescribed Event.	As at the date of this Scheme Booklet, neither Afterpay nor Square is aware of anything that will cause these Conditions Precedent not to be satisfied.
6.	**(Representations and warranties):** the representations and warranties given by each of Afterpay, Square and Square Acquirer are true and correct as and to the extent required under the Scheme Implementation Deed.	As at the date of this Scheme Booklet, neither Afterpay nor Square is aware of anything that will cause these Conditions Precedent not to be satisfied.

For personal use only

No.	Condition Precedent	Status
7.	**(Performance of Obligations):** the Afterpay Group and the Square Group shall have performed or complied in all material respects with the obligations, covenants, and agreements required to be performed or complied with by it under the Scheme Implementation Deed prior to 8.00am on the Second Court Date.	As at the date of this Scheme Booklet, neither Afterpay nor Square is aware of anything that will cause these Conditions Precedent not to be satisfied.
8.	**(ASX Quotation):** before 8.00am on the Second Court Date, the New Square CDIs have been approved for official quotation on ASX, subject only to customary conditions and the Scheme becoming Effective.	An application in respect of admission of Square to the Official List (as an ASX Foreign Exempt Listing), and approval of the New Square CDIs for quotation on ASX, are expected to be lodged with ASX after the date of this Scheme Booklet.
9.	**(NYSE Quotation):** before 8.00am on the Second Court Date, the New Square Shares have been approved for quotation on NYSE, subject only to official notice of issuance.	The approval for quotation on NYSE is expected to occur following Square Shareholder Approval.
10.	**(Australian tax ruling):** before 8.00am on the Second Court Date, Afterpay has received confirmation from the ATO that it is prepared to issue a class ruling confirming that qualifying Australian resident Afterpay Shareholders who hold their Afterpay Shares on capital account will be eligible to choose roll-over relief under the *Income Tax Assessment Act 1997* (Cth) to the extent to which they receive New Square Securities.	The application for that class ruling has been lodged with the ATO and Afterpay considers that the ATO should provide this confirmation prior to the Second Court Date.

If the Conditions Precedent relating to Regulatory Approvals are not satisfied or waived by the date of the Scheme Meeting, it is expected that the Afterpay Board would delay the Scheme Meeting until such time as those Conditions Precedent were satisfied or waived.

Square and Afterpay have agreed to use reasonable endeavours to procure satisfaction of the Conditions Precedent and to ensure that the Conditions Precedent remain satisfied until the last time they are to be satisfied (as required). Clause 3.1 of the Scheme Implementation Deed sets out which party can waive each of the Conditions Precedent. For the avoidance of doubt, the ability of the parties to vary any provision of the Scheme Implementation Deed includes the ability to vary the waivability of any conditions (including conditions that are not currently waivable under the agreement) to the Scheme.

If there is an act, failure or occurrence which will prevent a Condition Precedent set out in clauses 3.1(a)-(k), (r), (s) or (v) of the Scheme Implementation Deed from being satisfied or a breach or non-fulfilment of any of these Conditions Precedent which is not waived by the time satisfaction is required, Afterpay and Square must consult in good faith with a view to determining whether the parties wish to continue with the Scheme and if so, whether the Scheme may proceed by way of alternative means or methods, whether the relevant time for satisfaction of the Conditions Precedent should be extended, or if the End Date should be extended.

If Square and Afterpay are unable to reach an agreement following such consultation or do not both wish to pursue the Scheme within 5 Business Days (or any shorter period ending at 5.00pm the date before the Second Court Date), then unless the relevant Condition Precedent is waived by Afterpay or Square in accordance with the Scheme Implementation Deed, either party may terminate the Scheme Implementation Deed before 8.00am on the Second Court Date unless the relevant Condition Precedent has not been satisfied or an agreement cannot be reached as a result of a breach by the terminating party of the Scheme Implementation Deed.

For personal use only

(b) Afterpay Board recommendation

Clause 6.1 of the Scheme Implementation Deed states that, subject to the exclusivity provisions, the Afterpay Board must make and not withdraw or change its recommendation in favour of the Scheme unless:

- there is an Afterpay Superior Proposal and the Afterpay Board determines in good faith and acting reasonably, having received legal advice from its external legal advisers (who must be reputable advisers experienced in transactions of this nature) that failing to do so would constitute a breach of their fiduciary or statutory duties to Afterpay Shareholders; or
- the Independent Expert concludes that the Scheme is not in the best interests of Afterpay Shareholders, or adversely changes its previously given opinion that the Scheme is in the best interests of Afterpay Shareholders.

Square has acknowledged to Afterpay that, in circumstances where it sought to enforce clause 6.1(a) of the Scheme Implementation Deed, it would give no effect to the words "acting reasonably" in clause 6.1(a) of the Scheme Implementation Deed.

(c) No shop restriction

During the Exclusivity Period, Afterpay has agreed that it must ensure that Afterpay and its representatives do not directly or indirectly:

- solicit, invite, facilitate, encourage or initiate enquiries, negotiations or discussions; or
- communicate any intention to do any of these things,

with a view to obtaining any offer, proposal or expression of interest in relation to an Afterpay Competing Transaction.

(d) No talk restriction

Subject to the exceptions set out below in section 3.11(f), during the Exclusivity Period Afterpay must ensure that neither it nor its Representatives:

- negotiates or enters into negotiations or discussions; or
- participates in negotiations or discussions with any other person regarding,

an Afterpay Competing Transaction or any agreement, understanding or arrangement that could be reasonably expected to lead to an Afterpay Competing Transaction even if that person's Afterpay Competing Transaction was not directly or indirectly solicited, invited or initiated by Afterpay or its Representatives or the person has publicly announced the Afterpay Competing Transaction.

(e) Due Diligence Information

Subject to the exceptions below in section 3.11(f), during the Exclusivity Period, Afterpay must ensure that neither it nor its Representatives in relation to an Afterpay Competing Transaction:

- enable any other person, other than Square or its Representatives, to undertake due diligence investigations on any member of the Afterpay Group or their businesses or solicit, invite, initiate, encourage, facilitate or permit another person other than Square or its Representatives to undertake due diligence investigations on any member of the Afterpay Group or their businesses or operations; or
- make available to any other person, or permit any other person to receive, other than Square or its Representatives any non-public information relating to any member of the Afterpay Group or their businesses or operations,

in connection with the person formulating, developing, finalising or assisting in the formulation, development or finalisation of an Afterpay Competing Transaction.

(f) Exceptions to the due diligence information and no-talk restrictions

The due diligence information and no-talk restrictions do not apply to the extent that they restrict Afterpay or the Afterpay Board from taking or refusing to take any action with respect to a genuine Afterpay Competing Transaction that did not result, directly or indirectly, from a material breach of the no-talk, no-shop and due diligence information restrictions provided the Afterpay Board has determined in good faith after receiving advice from its financial and external legal advisers, that:

- the Afterpay Competing Transaction is, or would reasonably be expected to become, a Superior Proposal; and
- failing to respond to the Afterpay Competing Transaction would constitute a breach of the Afterpay Board's fiduciary or statutory obligations.

For personal use only

(g) Notice of unsolicited approach

During the Exclusivity Period Afterpay has agreed to promptly (and in any event within 36 hours) inform Square if it, or its Representatives:

- receives any approach with respect to any Afterpay Competing Transaction; or
- receives any request for information or provides any information to any person relating to any member of the Afterpay Group or any of their businesses or operations in connection with a current or future Afterpay Competing Transaction.

If a notice of an unsolicited approach is required to be given, Afterpay has agreed to specify all material details of the relevant event, including the identity of the person who made the relevant approach, inquiry or proposal, the material terms and conditions (including price, conditions precedent, timetable and break or reimbursement fees) and the nature of any information requested and/or provided.

During the Exclusivity Period Afterpay must also provide a copy of written materials or (if unavailable) a written statement of any non-public information relating to Afterpay or its related bodies corporate made available to any person formulating, developing or finalising an Afterpay Competing Transaction and which differs from, or is more extensive than, the information which has been provided to Square.

In addition, Afterpay is required to keep Square reasonably informed on a prompt and timely basis of the status and material terms and any material developments, discussions or negotiations regarding the Afterpay Competing Transaction.

(h) Matching rights

During the Exclusivity Period Afterpay must:

- not enter into an agreement or understanding to undertake an actual, proposed or potential Afterpay Competing Transaction; and
- procure that the Afterpay Board does not change its recommendation in favour of the Scheme to publicly recommend an actual, proposed or potential Afterpay Competing Transaction,

unless (i) Afterpay has provided Square with material terms of the Afterpay Competing Transaction (ii) Afterpay has negotiated in good faith with Square for 5 Business Days to the extent Square wishes to negotiate and make itself reasonably available to negotiate, to enable Square to propose revisions to the terms of the Scheme Implementation Deed, (iii) the Afterpay Board has determined that the Afterpay Competing Transaction constitutes a Superior Proposal and failing to take such actions would constitute a breach of its fiduciary or statutory duties to Afterpay Shareholders and (iv) after considering in good faith any binding revisions to the Scheme Implementation Deed proposed by Square, the Afterpay Board determines in good faith after receiving advice from its financial and outside legal advisers that such Afterpay Competing Transaction would nevertheless continue to constitute an Afterpay Superior Proposal if such revisions were to be given effect and that the failure to take such actions would continue to constitute a breach of its fiduciary or statutory duties to Afterpay Shareholders.

Afterpay has agreed that each successive material modification to the terms of any Afterpay Competing Transaction will constitute a new Afterpay Competing Transaction and, accordingly, will comply with its obligations outlined above in respect of any new Afterpay Competing Transaction.

(i) Break fees

(i) Afterpay Break Fee

Afterpay has agreed to pay a Break Fee to Square in the following circumstances:

- before the Effective Date an Afterpay Competing Transaction is publicly announced or made and within 12 months of the End Date an Afterpay Competing Transaction is completed;
- Square validly terminates the Scheme Implementation Deed prior to 8.00am on the Second Court Date on the basis of the Afterpay Board changing, withdrawing or adversely modifying its recommendation or otherwise making a public statement indicating that it no longer supports the Scheme except where the change, withdrawal or modification is made after the Independent Expert concludes that in the opinion of the Independent Expert the Scheme is not in the best interest of Afterpay Shareholders, or in circumstances arising as a result of Square's material breach of the Scheme Implementation Deed;

For personal use only

- Afterpay validly terminates the Scheme Implementation Deed at any time prior to 8.00am on the Second Court Date on the basis of the Afterpay Board determining that an Afterpay Competing Transaction is a Superior Proposal; or
- Square validly terminates the Scheme Implementation Deed at any time prior to 8.00am on the Second Court Date on the basis of Afterpay being in material breach of a term of the Scheme Implementation Deed (excluding any representation and warranty not being true and correct), taken in the context of the Scheme as a whole, subject to notice of breach setting out the relevant circumstances and 30 Business Day cure period (or such shorter period ending at 8:00 a.m. (AEDT) on the Second Court Date) after such notice is given.

If the Scheme becomes Effective no Break Fee is payable by Afterpay and any amount that has been paid must be refunded by Square.

If the Break Fee is payable, Afterpay must pay Square A$385 million for advisory costs, costs of management and directors' time, out-of-pocket expenses, the distraction of Square's management team from conducting business as usual by pursuing the Scheme, reasonable opportunity costs and damage to Square's reputation associated with the failed transaction.

(ii) Reverse Break Fee

Square has agreed to pay a Break Fee to Afterpay in the following circumstances:

- Afterpay validly terminates the Scheme Implementation Deed prior to 8.00am on the Second Court Date on the basis of the Square Board changing, withdrawing or adversely modifying its recommendation to Square shareholders that they approve the issuance of New Square Shares (including the shares underlying the New Square CDIs) to Afterpay Shareholders pursuant to the Scheme and Deed Poll or otherwise making a public statement indicating that it no longer supports the Scheme except where the change, withdrawal or modification is made after Afterpay's material breach of a term of the Scheme Implementation Deed;
- Afterpay validly terminates the Scheme Implementation Deed at any time prior to 8.00am on the Second Court Date on the basis of Square being in material breach of a term of the Scheme Implementation Deed (excluding any representation and warranty not being true and correct), taken in the context of the Scheme as a whole, subject to notice of breach setting out the relevant circumstances and 30 Business Day cure period (or such shorter period ending at 8:00 a.m. (AEDT) on the Second Court Date) after such notice is given; or
- before the Effective Date a Square Competing Transaction is publicly announced or made and within 12 months of the End Date a Square Competing Transaction is completed.

If the Scheme becomes effective no Break Fee is payable by Square and any amount that has been paid must be refunded by Afterpay.

If the Break Fee is payable, Square must pay Afterpay A$385 million for advisory costs, costs of management and directors' time, out-of-pocket expenses, the distraction of Afterpay's management team from conducting business as usual by pursuing the Scheme, reasonable opportunity costs and damage to Afterpay's reputation associated with the failed transaction.

(j) Termination rights

The Scheme Implementation Deed may be terminated by Square at any time prior to 8.00am on the Second Court Date if the Afterpay Board changes, withdraws or adversely modifies its recommendation to the Scheme Shareholders that they vote in favour of the resolution to approve the Scheme or otherwise makes a public statement indicating that it no longer supports the Scheme.

The Scheme Implementation Deed may be terminated by Afterpay:

- at any time prior to 8.00am on the Second Court Date if the Square Board changes, withdraws or adversely modifies its recommendation to the Square shareholders that they vote in favour of the issuance of New Square Securities or otherwise makes a public statement that it no longer supports the Scheme; or
- at any time prior to 8.00am on the Second Court Date if the Afterpay Board determines in accordance with the Scheme Implementation Deed that an Afterpay Competing Transaction is a Superior Proposal provided that there has not been a material breach by Afterpay of its obligations under clause 9.7 of the Scheme Implementation Deed;

For personal use only

The Scheme Implementation Deed may be terminated by either party:

- if the Scheme has not become Effective on or before 2 August 2022 (the **End Date**) (unless the failure to implement the Scheme is due to a party seeking to terminate the Scheme Implementation Deed failing to perform its obligations under the Scheme Implementation Deed);
- at any time prior to 8.00am on the Second Court Date, if the other is in material breach of a term of the Scheme Implementation Deed (excluding representations and warranties), taken in context of the Scheme as a whole subject to notice of breach setting out the relevant circumstances and 30 Business Day cure period (or such shorter period ending at 8:00 a.m. (AEDT) on the Second Court Date) after such notice is given;
- at any time prior to 8.00am on the Second Court Date, if any Governmental Authority who must grant a Regulatory Approval that constitutes a Condition Precedent has denied such Regulatory Approval (and the denial has become unappealable), or any Governmental Authority of competent jurisdiction has issued a final and non-appealable order, injunction, decree or other legal restraint or prohibition permanently enjoining or otherwise prohibiting or making illegal the consummation of the Scheme (unless this is due to the failure of the party seeking to terminate the Scheme Implementation Deed to perform its obligations under the Scheme Implementation Deed);
- if there is a breach or non-fulfilment of a Condition Precedent set out in clauses 3.1(a)-(k), (r), (s) or (v) of the Scheme Implementation Deed which is not waived, and if the parties cannot reach agreement or do not both wish to pursue the Scheme within 5 Business Days (provided that if the relevant Condition Precedent may be waived by and exists for the benefit of one party only, only that party may terminate the Scheme Implementation Deed) (unless the relevant Condition Precedent has not been satisfied or agreement cannot be reached as a result of a breach by the terminating party of the Scheme Implementation Deed); or
- if agreed in writing by Square and Afterpay.

3.12. Representations and Warranties

Each of Afterpay, on the one hand, and Square and Square Acquirer, on the other hand, has given representations and warranties to the other which are customary for an agreement of this kind.

3.13. Deed Poll

Square and Square Acquirer have entered into the Deed Poll under which Square and Square Acquirer have covenanted in favour of Scheme Shareholders at the Record Date, such that in accordance with the Scheme:

- Square Acquirer will provide or procure the provision of the Scheme Consideration to each Scheme Shareholder at the Record Date; and
- Square Acquirer agrees to cause Square to, and Square will at the direction of and on behalf of Square Acquirer (in satisfaction of Square Acquirer's obligation to provide such Scheme Consideration to the Scheme Shareholders at the Record Date), issue the Scheme Consideration.

The terms of the Deed Poll are set out in Attachment B.

3.14. Further Questions

If you have any further questions, you should call the Afterpay Shareholder Information Line on 1300 229 418 (within Australia) or +61 2 9066 4051 (outside Australia) Monday to Friday (excluding public holidays in Australia) between 9.00am and 5.00pm (AEDT).

For personal use only

Section 4

Information on Afterpay

4.1. Overview of Afterpay

Founded in 2014 in Sydney, Australia, and listed on ASX in 2016, Afterpay is a global BNPL provider that enables customers to pay for purchases in four instalments (online or in-store). Afterpay empowers customers to access the things they want and need, using their own money, enabling them to maintain financial wellness and control. Via a combination of user experience, brand trust and product utility, Afterpay is able to drive new and repeat customers to merchants, resulting in higher incremental sales volume and increased order size. Afterpay is deeply committed to helping customers spend responsibly and without having to pay interest or falling into revolving debt. Those customers who use Afterpay and repay on time, can do so without incurring fees. Afterpay does not offer interest bearing products.

As at 30 June 2021, Afterpay had grown to 16.2 million active global customers and 98.2k merchant partners who use the platform globally across Australia, New Zealand, the US, Canada, UK, Spain, France and Italy. The UK, Spain, France and Italy are branded as Clearpay. Afterpay's global team as at August 2021 is made up of approximately 1,300 people and growing. Whilst BNPL has become more prominent, it only accounted for approximately 2% of eCommerce spend in 2020. Total eCommerce spend in existing geographies is expected to grow to US$10 trillion in 2024[1], presenting a significant growth opportunity for Afterpay.

Afterpay's journey

2014
Founded in Sydney, Australia

2016
Listed on ASX

2017
Merged with Touchcorp to enable full integration of product and technology offering

2018
Expanded into US through Matrix partnership

2019
Expanded into the UK through acquisition of Clearpay

2020
5m customers in the US and launched in Canada

2021
Expanded into Spain, Italy and France. Announced acquisition by Square

1. Represents global opportunity, based on IDC's Worldwide New Media Market Model forecast for 2024.

For personal use only

4.2. Vision, Mission, Strategy, Values and Product Offering

Afterpay has a vision of a world that delivers fairness and financial freedom for all and a mission to power an economy in which everyone wins. To help deliver on this vision and mission, Afterpay has five strategic pillars that drive its operations:

- **Brand:** It's not pay in four, or BNPL, it's Afterpay. We are the verb and our own category
- **Grow:** Expand globally to deepen retailer partnerships. Increased focus on SMB acceptance in newer markets. Utilise brand and innovation to drive customer acceptance and retention
- **Innovate:** Drive greater ecosystem value to customers and merchants. Customer-led differentiation via platform enhancements. Merchant insights, tools and value-added outcomes
- **Perform:** Maintain focus in every aspect of our performance. Accelerate investment in the global addressable market opportunity
- **Do the right thing:** Maintain focus on our people, protect the business, care for customers and good corporate governance.

Afterpay's vision, mission, strategy and values

Our vision	Our strategy	Our values
Fairness and financial freedom for all	Brand Grow Innovate Perform Do the Right Thing	Keep it Real Be Brave Do the Right Thing Shape the Future
Our mission		
To power an economy in which everyone wins		

Afterpay's products:

(a) Afterpay

Partnering with globally recognised merchants, Afterpay allows customers to pay for their purchases in four instalments, interest free, over a six-to-eight-week period. Afterpay is offered globally with its key regions being North America, Australia and New Zealand, the UK, and Europe.

Afterpay's products are completely free for customers who pay on time – helping people spend responsibly without incurring interest, fees or extended debt. Afterpay is deeply committed to delivering positive outcomes for customers. A majority of Afterpay's income is derived from merchants, rather than customers (i.e. ~90% of FY21 revenue was from merchants). Afterpay generally pays merchants the net amount of the order value less the merchant fees. Afterpay then assumes most of the non-repayment risk from the customer.

For personal use only

Afterpay's business works in three simple steps

Step 1

Split your purchase into 4 instalments

Browse all your favourite places to shop online or in retail stores near you. Afterpay works online or in-store wherever you are used to shopping.

Step 2

No fees when you pay on time

Choose Afterpay as your checkout payment method when it's time. Always zero interest, never additional fees when you pay on time.

Step 3

Enjoy instant approval decision

Instantly create your account and finish the purchase with ease. You'll know if you're approved instantly and your order will ship as usual.

New Products and Innovation

During FY21, Afterpay announced the development of a range of new products that leverage the success of its BNPL platform and provide additional service offerings and further value add to its customers and merchants. These new products also offer potential new revenue streams, including:

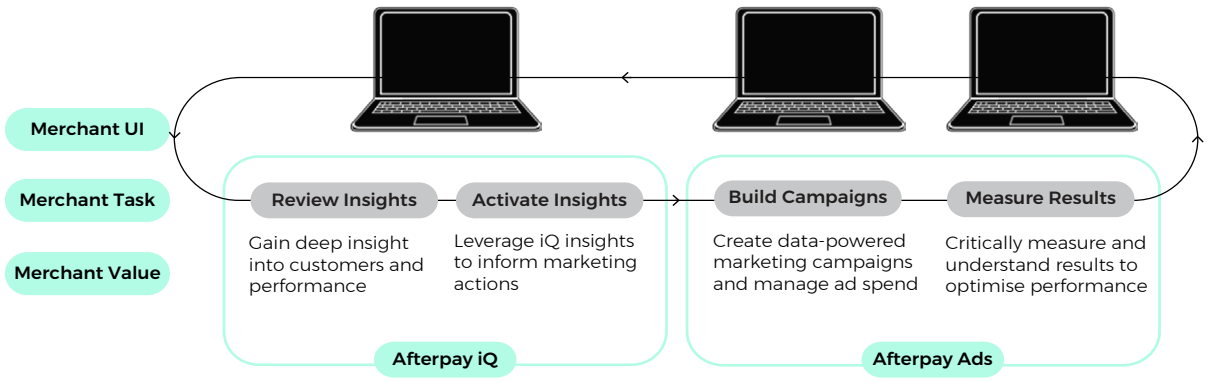
(i) Afterpay Ads

Afterpay Ads assists merchants with advertising on the Afterpay app. The in-app advertising gives merchants a way to promote their offers, products, and collections to Afterpay's highly engaged audience. Merchants are able to choose the products they want to promote via sponsored listing formats such as sponsored deals, products, and collections and Afterpay will derive associated affiliate commissions and advertising fees.

(ii) Afterpay iQ

Afterpay iQ is a merchant insights platform which combines artificial intelligence, machine learning, and data science to provide merchants with deep customer insights to optimise their marketing investment. The launch of Afterpay IQ is also expected to further enhance the value proposition of Afterpay's in-app advertising services.

Afterpay iQ



(iii) Cross border trade

Cross border trade enables customers to shop with globally integrated merchants. The product offering was expanded during FY21 across all operating regions and has seen customers transact ~24% more frequently than domestic-only customers while merchants using the services have seen up to a ~13% increase in sales by accessing a global customer base.

For personal use only

(iv) One-time use virtual card

During FY21, Afterpay enabled an initial cohort of US customers to shop using a one-time-use virtual card at merchants that are not directly integrated with Afterpay. Payment details are automatically populated at checkout, ensuring a seamless checkout experience and Afterpay monetises these transactions via a combination of affiliate fees and interchange.

(v) Omni-channel

Afterpay's omni-channel offering allows customers to use Afterpay either online or in-stores. Customers are able to add Afterpay's in-store card to their digital wallet via the Afterpay App to enable seamless purchasing from Afterpay's merchants in-store. Transactions made in-store are still processed in four instalments over six-to-eight weeks. In-store purchasing has been rolled out across Australia, New Zealand and the US and is expected to launch in the UK during H1 FY22. Afterpay's omni-channel functionality has seen increased customer frequency and additional increment merchant sales.

Omni-channel drives increased customer frequency and merchant sales

FY21 number of transactions per customer and purchase channel

(vi) Pulse

Consistent with Afterpay's focus on frequency and combined with Afterpay's belief in financial fairness, the Pulse loyalty program was launched to reward responsible spending with Afterpay. A revamped program was released in June 2021 and includes features such as no payment required upfront, gift cards from top brands available for purchase and exclusive offers and promotions from merchants. Pulse also acts as a potential customer acquisition channel for merchants and generates improved customer engagement. Additionally, there are strong parallels between Pulse and Money by Afterpay which can be utilised to reward responsible spending and saving over time (more information on Money by Afterpay below).

(vii) Money by Afterpay

In collaboration with Westpac Afterpay announced that it would launch "**Money by Afterpay**" to Australian customers in 2021. Money by Afterpay aims to help customers trust themselves with money management, grow their savings, and provides a single seamless view of their finances.

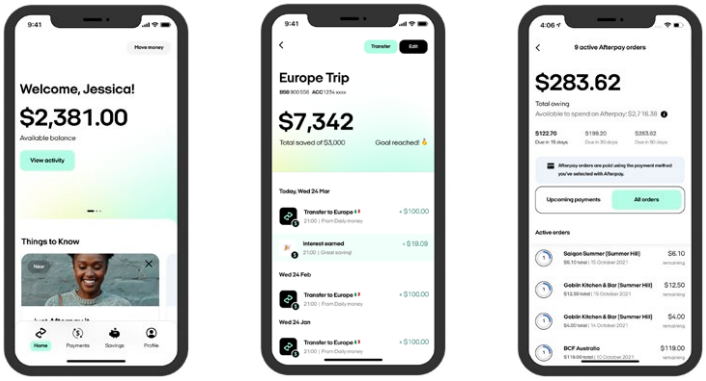
The app's phased roll out began with a staff pilot at the end of July 2021, ahead of a full-scale Australian launch before the end of CY2021.

- Key product features will include a competitive interest rate and no fees
- The overall experience will focus on helping customers trust themselves with money management
- Afterpay has obtained an Australian Financial Services License from ASIC to enable it to provide general financial product advice and distribute basic deposit products and debit cards

Within minutes of opening an account, customers can make it their primary money management app. The app's home carousel will display their BNPL balance, upcoming orders and instalments alongside their daily spending account and savings accounts.

For personal use only

Money by Afterpay



(b) Pay Now

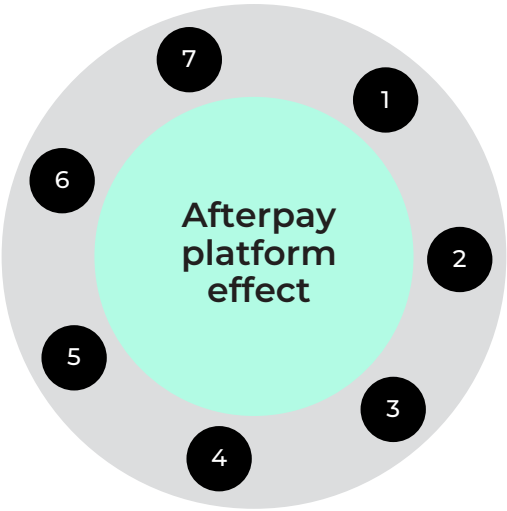
Comprises a digital payments business servicing customer-facing organisations in the telecommunications and health sectors in Australia.

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

4.3. The Afterpay Ecosystem

Afterpay's platform effect

Power of platform dynamics gives us an edge today and seeds our future



1. **Customer loyalty and frequency** drives powerful network effect
2. **Dual online and offline focus** further drives merchant-led and customer-led growth
3. Afterpay's **global digital marketing** sits at the core and drives **better merchant results**
4. **Global expansion** drives global retail relevance and platform opportunities
5. **Highly engaged ecosystem** to launch new products and services
6. **Customer aligned, low risk and self-reinforcing business model**
7. **Capital efficient/high return** and differentiated from traditional lending and payments businesses

By placing equal weighting and importance on both the customer and merchant, Afterpay's business model achieves strong acquisition, retention and engagement with both. The frequency of customer transactions and their length of tenure with Afterpay drives compelling economics and recurring revenue for Afterpay. Customers onboarded for less than 1 year transact on average 4 times per year, compared to customers onboarded more than 4 years ago transacting ~31 times per year.

For personal use only

Afterpay has grown to become a highly effective customer marketing and conversion channel by establishing strong engagement that drives strong outcomes, including:

Merchants

- Positive annual Underlying Sales[2] retention across historical cohorts;
- Strong paybacks and attractive returns on sales and marketing investments;
- Growth in monetisation with revenue per merchant of >A$9k in FY21, up 2% year on year;
- Afterpay now drives an average of 1 million lead referrals a day during H2 FY21 from its Shop Directory to its merchants globally; and
- During 2021 Afterpay launched the Afterpay iQ platform which provides merchants with data driven insights and real time intelligence in order to optimise their marketing spend and drive growth.

Customers

- Strong customer retention with existing customers driving > 90% of Underlying Sales[2];
- Driving engagement and utility, Australia and New Zealand customers transacted more than 17x per year on average in FY21;
- Growth in monetisation with revenue per customer of A$57 in FY21, up 11% year on year[3];
- As at 30 June 2021, 30% of active customers initiated one or more transactions from the Afterpay Shop Directory; and
- Afterpay has invested in enhancing the Afterpay App to support increased customer engagement. This resulted in a 131% increase in monthly app usage in FY21, with more than 55% of referrals coming from customers browsing the app home page.

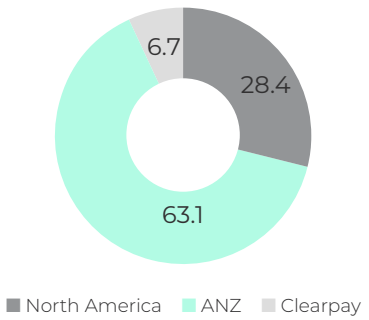
4.4. Key Operating and Financial Highlights

FY21 Underlying Sales[4]	FY21 Group Total Income
A$21.1bn	A$924.7m
Active Customers	**Active Merchants**
16.2m	98.2k

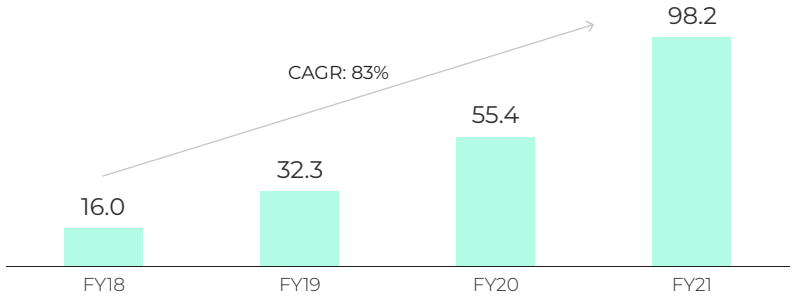
While the composition of Afterpay's merchant base has become increasingly globalised in recent years, merchants within ANZ still make up the majority of the base, although North America is growing quickly (up 148% pcp in FY21). From a total of 98.2k active merchants ~64% of these are within ANZ, 29% in North America and 7% in the UK.

Afterpay merchant growth

Afterpay merchants as at 30 June 2021 ('000s)



Afterpay merchant growth from FY18-FY21 ('000s)



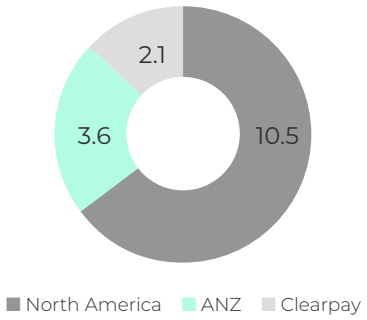
2. Underlying Sales is a non-IFRS measure that is not audited or reviewed but is a key financial metric used by management at a Group level. Underlying Sales does not have a comparable IFRS measure.
3. Revenue per customer based on Afterpay Total Income.
4. Underlying Sales is a non-IFRS measure that is not audited or reviewed but is a key financial metric used by management at a Group level. Underlying Sales does not have a comparable IFRS measure.

For personal use only

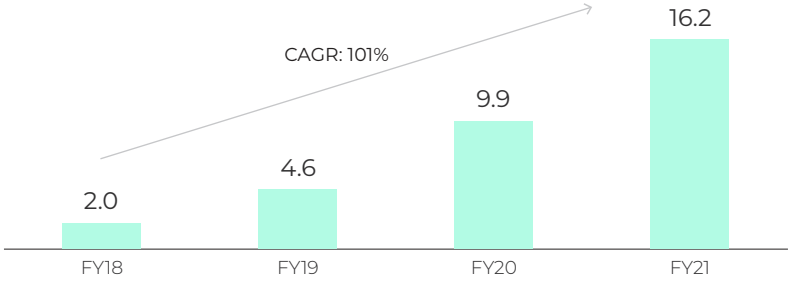
Afterpay's core focus customer groups are the Millennial and Gen Z demographics, making up ~70% of active global customers. As at 30 June 2021, Afterpay has an active customer base of ~16.2m globally, 10.5m customers from across North America, 3.6m in ANZ and 2.1m in the UK and Europe. Consistent with its strategic focus on North American growth, new customer acquisition and repeat customers in that region has grown considerably over recent years and in FY21 represented 65% of Afterpay's global active customer base (up from 57% at the end of FY20).

Afterpay customer growth

Afterpay customers as at 30 June 2021 (m)



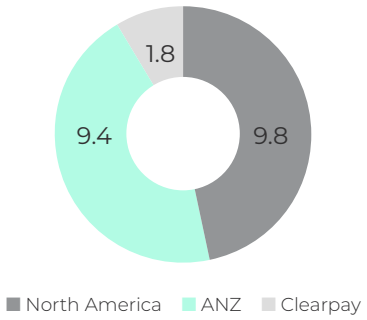
Afterpay customers growth from FY18-FY21 (m)



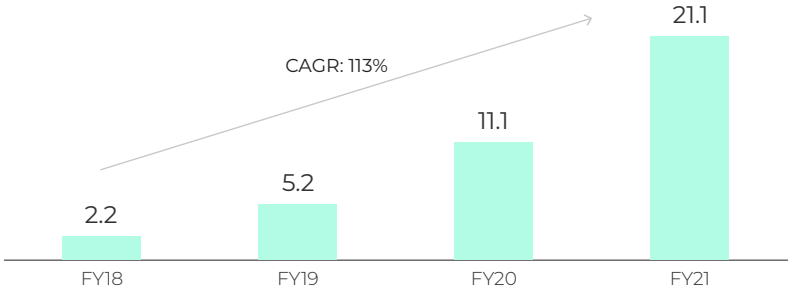
Afterpay has delivered an Underlying Sales[5] CAGR of 113% between FY18 and FY21. In the year ended 30 June 2021, Afterpay delivered growth in Underlying Sales of A$21.1 billion, a 90% increase on the prior year driven by strong growth across all regions. For the first time, North America exceeded ANZ as the largest region measured by Underlying Sales. This reflects the ongoing focus on expansion within North America, the world's largest retail region. Clearpay growth was driven primarily by the UK, with Clearpay EU launched during the last quarter of FY21.

Afterpay underlying sales growth

Afterpay underlying sales as at 30 June 2021 (A$bn)



Afterpay underlying sales growth from FY18-FY21 (A$bn)



5. Underlying Sales is a non-IFRS measure that is not audited or reviewed but is a key financial metric used by management at a Group level. Underlying Sales does not have a comparable IFRS measure.

For personal use only

4.5. Board and Management

(a) Board

Elana Rubin

Independent Chair,
Independent Non-Executive Director

Background and Experience:

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

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

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

Other Roles:

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

Anthony Eisen

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

Background and Experience:

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

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

Anthony has a Bachelor of Commerce (double major Accounting and Finance) from the University of New South Wales and is a member of the Institute of Chartered Accountants in Australia.

Other Roles:

Anthony is currently also a Director of Stone & Chalk Pty Ltd.

Nick Molnar

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

Background and Experience:

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

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

Nick holds a Bachelor of Commerce from Sydney University.

Gary Briggs

Independent Non-Executive Director

Background and Experience:

Gary was appointed as an independent Non-Executive Director on 1 January 2020.

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

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

Other Roles:

Gary is currently a Director of Etsy, Inc (NASDAQ: Etsy) and Petco, and is an advisor to several early stage companies.

For personal use only

Pat O'Sullivan

Independent Non-Executive Director

Background and Experience:

Pat was appointed as an independent Non-Executive Director on 1 March 2020.

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

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

Other Roles:

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

Dana Stalder

Independent Non-Executive Director

Background and Experience:

Dana was appointed as an independent Non-Executive Director on 24 January 2018.

He brings over 20 years' experience as a technology company operator and investor. His experience spans multiple disciplines including sales, marketing, finance, technology and product management at companies such as eBay, Netscape and PayPal. Dana is an expert in FinTech and an active FinTech and consumer internet investor in Silicon Valley.

Dana holds a Bachelor of Science in Commerce from Santa Clara University, and began his career at Ernst & Young advising technology companies. His executive experience extends to positions held at Netscape Communications, AOL, Respond.com, eBay and PayPal before joining Matrix Partners in 2008 as a General Partner. His investments focus primarily on FinTech, Consumer Marketplaces, and EnterpriseSoftware.

Other Roles:

Dana is currently a Director on the Board of several private US based technology companies.

Sharon Rothstein

Independent Non-Executive Director

Background and Experience:

Sharon was appointed as an independent Non-Executive Director on 1 June 2020.

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

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

Other Roles:

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

For personal use only

(b) Management

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

See section 4.5(a)

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

See section 4.5(a)

Rebecca Lowde
Chief Financial Officer

Background and Experience:
Rebecca was appointed Chief Financial Officer (CFO) of Afterpay in October 2020. Prior to this she worked at Salmat Limited for 6 years, first in the capacity of CFO and then took on the role of CEO for the final 3 years.

Rebecca has an extensive background in managing finance, contracts, strategy, mergers and acquisitions, budgeting and sales, and has a proven track record managing large, multi-cultural teams from around the world including the European and Asia Pacific regions.

Rebecca has more than 25 years' experience in finance and international operations and has held senior executive positions in Australia, Europe and Asia for businesses including Bravura Solutions, Business Objects, Lexmark and Oracle.

Rebecca holds a Bachelor of Business in Accounting and Computer Science and is a member of the Australian Institute of Company Directors and CPA Australia

Please refer to sections 10.1, 10.6 and 10.8 regarding the equity interests held by the Afterpay Board and Management.

For personal use only

4.6. Financial Information of Afterpay

(a) Overview

This section 4.6 contains the historical financial information of the Afterpay Group, which is comprised of the **Afterpay Historical Financial Information**, being:

- Afterpay historical consolidated income statements for the years ended 30 June 2019 (**FY19**), 30 June 2020 (**FY20**) and 30 June 2021 (**FY21**) (**Afterpay Historical Income Statements**);
- Afterpay historical consolidated statement of financial position as of 30 June 2021 (**Afterpay Historical Statement of Financial Position**); and
- Afterpay historical consolidated statements of cash flows for FY19, FY20 and FY21 (**Afterpay Historical Cash Flow Statements**).

The Afterpay Historical Financial Information has been reviewed by Ernst & Young Strategy and Transactions Limited (**Investigating Accountant**), in accordance with the Australian Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, as stated in its Independent Limited Assurance Report, included in Attachment D. Afterpay Shareholders should note the scope and limitations of the Independent Limited Assurance Report.

Afterpay Group's full year consolidated financial statements, including all notes to those consolidated financial statements and a full description of Afterpay Group's accounting policies can be found in:

(i) the Afterpay Group's Appendix 4E and Annual Financial Report for the financial year ended 30 June 2021 (released to ASX on 25 August 2021);

(ii) the Afterpay Group's Appendix 4E and Annual Financial Report for the financial year ended 30 June 2020 (released to ASX on 27 August 2020); and

(iii) the Afterpay Group's Appendix 4E and Annual Financial Report for the financial year ended 30 June 2019 (released to ASX on 28 August 2019).

The complete versions of these reports are available from Afterpay's website https://corporate.afterpay.com/, or ASX's website, www.asx.com.au.

This section 4.6 should be read in conjunction with the risks to which Afterpay is subject and the risks associated with the Scheme, as set out in section 7.

(b) Basis of Preparation

The Afterpay Historical Financial Information included in this section is intended to present shareholders with information to assist them in understanding the historical financial performance, financial position and cash flows of Afterpay Group. The Afterpay Board is responsible for the preparation and presentation of the Afterpay Historical Financial Information.

The Afterpay Historical Financial Information has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Afterpay Historical Financial Information has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards issued by the Australian Accounting Standards Board (**AASB**), which are consistent with International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board. The accounting policies used in preparation of the Afterpay Historical Financial Information are consistent with those set out in Afterpay's Annual Financial Report for the year ended 30 June 2021.

The Afterpay Historical Financial Information has been derived from the Afterpay Group's consolidated financial statements for FY20 (which included comparative information for FY19) and FY21. The Afterpay Historical Financial Information, reported in AUD thousands in the Afterpay Group's Annual Financial Reports, has been converted into AUD millions for the purposes of this Scheme Booklet. The Afterpay Historical Financial Information is presented in AUD as Afterpay has determined AUD as its presentation and functional currency and, unless otherwise noted, is rounded to the nearest AUD hundred thousand.

Afterpay Group's consolidated financial statements for FY20 and FY21, which were prepared in accordance with Australian Accounting Standards, were audited by Afterpay's auditor, Ernst & Young, in accordance with Australian Auditing Standards. Ernst & Young issued unqualified audit opinions on these consolidated financial statements.

The Afterpay Historical Financial Information contained in this section is presented in an abbreviated form insofar as it does not include all the presentation, disclosures, statements, or comparative information that is required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

For personal use only

(c) Afterpay Historical Income Statements[6]

Afterpay Historical Income Statements for FY19, FY20 and FY21 is set out in Table 4.1 below.

Table 4.1: Afterpay Historical Income Statements

A$ millions	FY19	FY20	FY21
Afterpay income	200.9	433.8	822.3
Pay Now revenue	17.1	16.5	13.8
Other income	46.1	68.8	88.6
Total income	**264.1**	**519.2**	**924.7**
Cost of sales	(59.6)	(134.3)	(249.6)
Gross profit	**204.6**	**384.9**	**675.1**
Depreciation and amortisation[7]	(22.4)	(30.0)	(39.0)
Employment expenses	(51.4)	(86.1)	(150.9)
Share-based payment expenses	(30.5)	(30.5)	(59.0)
Receivables impairment expenses	(58.7)	(94.5)	(195.1)
Net loss on financial liabilities at fair value	–	(2.0)	(96.8)
Operating expenses	(73.2)	(146.3)	(298.6)
Operating loss	**(31.7)**	**(4.6)**	**(164.3)**
Share of loss of associate	–	(1.1)	(2.3)
Gain on dilution of shareholding in associate	–	–	5.7
Finance income	0.6	1.4	1.0
Finance costs[7]	(11.7)	(22.5)	(34.3)
Loss before tax	**(42.8)**	**(26.8)**	**(194.2)**
Income tax benefit/(expense)	(1.0)	3.9	34.8
Loss for the year	**(43.8)**	**(22.9)**	**(159.4)**

6. All values are rounded to the nearest hundred thousand, except when otherwise indicated. Change calculations may not equate due to rounding.
7. The Afterpay Group adopted AASB 16 *Leases* in FY20 using the modified retrospective method and has not restated comparatives for FY19.

For personal use only

(d) Afterpay Historical Statement of Financial Position[8]

Afterpay Historical Statement of Financial Position as at 30 June 2021 is set out in Table 4.2 below.

Table 4.2: Afterpay Historical Statement of Financial Position

A$ millions	30 June 2021
ASSETS	
Current Assets	
Cash and cash equivalents	1,147.1
Receivables	1,454.1
Other financial assets	26.8
Other assets	18.8
Income tax receivable	11.0
Total Current Assets	2,657.8
Non-current assets	
Property, plant and equipment	8.1
Right-of-use assets	34.0
Intangible assets	227.5
Deferred tax assets	156.1
Investment in associate	23.6
Other financial assets	3.2
Other assets	6.0
Total non-current assets	458.5
TOTAL ASSETS	3,116.2

8. All values are rounded to the nearest hundred thousand, except when otherwise indicated. Change calculations may not equate due to rounding.

For personal use only

A$ millions	30 June 2021
LIABILITIES	
Current liabilities	
Trade and other payables	306.3
Employee benefit provision	10.3
Other provisions	0.5
Contract liability	3.6
Lease liabilities	2.2
Income tax payable	2.5
Total current liabilities	325.4
Non-current liabilities	
Employee benefit provision	0.7
Other provisions	1.2
Lease liabilities	32.0
Borrowings	1,286.4
Other financial liabilities	166.6
Total non-current liabilities	1,486.9
TOTAL LIABILITIES	1,812.3
NET ASSETS	1,303.9
EQUITY	
Issued capital	2,204.5
Accumulated losses	(246.7)
Reserves	(654.7)
Equity attributable to the ordinary shareholders of Afterpay Limited	1,303.1
Non-controlling interests	0.8
TOTAL EQUITY	1,303.9

For personal use only

(e) Afterpay Historical Cash Flow Statements[9]

Afterpay Historical Cash Flow Statements for FY19, FY20 and FY21 is set out in Table 4.3 below.

Table 4.3: Afterpay Historical Cash Flow Statements

A$ millions	FY19	FY20	FY21
Cash flows from operating activities			
Receipts from customers	4,823.0	9,955.0	18,645.7
Payments to employees	(39.8)	(80.9)	(146.5)
Payments to merchants and suppliers	(4,916.3)	(10,103.8)	(19,068.6)
Income taxes paid	(9.1)	(4.3)	(1.9)
Net cash flows used in operating activities	(142.2)	(234.0)	(571.2)
Cash flows from investing activities			
Interest received	0.7	1.5	0.9
Decrease/(Increase) in term deposits	(0.9)	0.6	(12.7)
Payments for development of intangible assets	(21.1)	(40.8)	(60.7)
Purchase of intangibles	(0.5)	(1.5)	(5.5)
Purchase of plant and equipment	(2.1)	(3.4)	(4.4)
Acquisition of subsidiaries, net of cash acquired	–	–	(13.6)
Proceeds from sale of business	7.5	–	–
Contributions to associates	–	(5.1)	(15.0)
Net cash flows used in investing activities	(16.3)	(48.6)	(110.9)
Cash flows from financing activities			
Proceeds from borrowings	415.0	1,386.2	793.3
Repayment of borrowings	(526.5)	(970.8)	(1,226.1)
Issue of SGX Convertible Notes	–	–	1,500.0
Matrix transaction, net of transaction costs	–	–	(377.6)
Cash settlement of FY21 US ESOP Modification	–	–	(202.6)
Proceeds from issue of shares, net	459.3	233.0	786.2
Share and SGX Convertible Notes issue expenses	(11.4)	(5.2)	(46.0)
(Increase)/Decrease in restricted cash	21.7	0.5	(12.3)
Proceeds from exercise of share options	13.6	30.6	27.4
Payment of lease liabilities[10]	–	(5.3)	(6.2)
Interest and bank fees paid[10]	(14.5)	(19.5)	(15.6)
Net cash flows from financing activities	357.1	649.4	1,220.4
Net increases in cash and cash equivalents	198.7	366.8	538.3

9. All values are rounded to the nearest hundred thousand, except when otherwise indicated. Change calculations may not equate due to rounding.
10. The Afterpay Group adopted AASB 16 *Leases* in FY20 using the modified retrospective method and has not restated comparatives for FY19.

For personal use only

4.7. Material changes to the financial position of Afterpay Group since 30 June 2021

Other than as disclosed in this Scheme Booklet, within the knowledge of the Afterpay Board, as at the date of this Scheme Booklet, the financial position of Afterpay Group has not materially changed since 30 June 2021, being the latest date of the statement of financial position available for Afterpay as disclosed in its Annual Financial Report for the year ended 30 June 2021.

4.8. Afterpay's secured interest bearing borrowings

The Afterpay Group's Australian receivables warehouse funding facility totalling A$500 million is provided by National Australia Bank (**NAB**) (A$300 million) and Citi (A$200 million) and is secured against Afterpay's Australian receivables, which are transferred into the facility. As at 30 June 2021, the facility is undrawn.

The Afterpay Group's US receivables warehouse funding facilities totalling US$400 million are provided by Citi (US$200 million) and Goldman Sachs (US$200 million). The facilities are secured against Afterpay's US receivables, which are transferred into the facility. As at 30 June 2021, both facilities are undrawn.

The Afterpay Group increased its receivables warehouse facility with Bank of New Zealand (**BNZ**) by NZ$50 million to NZ$100 million during the year ended 30 June 2021. The facility is secured against Afterpay's NZ receivables, which are transferred into the facility. As at 30 June 2021, the facility has NZ$35 million drawn.

During the year ended 30 June 2021, the Afterpay Group established two UK receivables warehouse funding facilities totalling £175 million which are provided by Citi (£125 million) and National Australia Bank (£50 million). As at 30 June 2021, both facilities are undrawn.

As at 25 August 2021, Afterpay had no debt maturing within the next 12 months, with a weighted average debt facility maturity of approximately ~3.3 years.

4.9. Issued Afterpay Shares

As of 29 October 2021, being the last practicable date prior to the date of this Scheme Booklet, there are 290,398,153 Afterpay Shares on issue and are quoted on ASX.

4.10. Afterpay Employee Incentives

Afterpay has the following equity incentive plans under which awards may be granted:

- Awards over Afterpay equity comprised of options, restricted stock and restricted stock units (**RSUs**) under the Afterpay Equity Incentive Plan approved at the 2019 AGM on 13 November 2019 (**Afterpay Equity Incentive Plan**);
- Awards over Afterpay equity comprised of options, loan shares and performance rights under Afterpay's legacy remuneration plan which was adopted prior to the merger of Afterpay and Touchcorp Limited in 2017 (**Legacy Employee Incentive Plan**);
- Equity in Afterpay issued to participating employees in Afterpay's Employee Share Matching Plan which was launched in November 2020 (**Share Matching Plan**);
- Options over equity in, and restricted stock of Afterpay's US based subsidiary, Afterpay US, Inc. under the Afterpay US, Inc. 2018 Equity Incentive Plan (**US ESOP**); and
- Options over equity in Afterpay's UK based subsidiary ClearPay Finance Limited (Clearpay) under the Clearpay Finance Limited 2020 Share Option Plan (**UK ESOP**).

(a) Afterpay Equity Incentive Plan

Under the Afterpay Equity Incentive Plan, the Afterpay Board has the discretion to offer awards in the form of options, restricted shares and RSUs. Subject to the terms of the Afterpay Equity Incentive Plan and the relevant award agreement, each option or RSU will entitle the holder to receive an Afterpay Share, or to receive a cash amount equivalent to the market value of a share in Afterpay (in each case, less the exercise price in respect of options) and each restricted share award is issued in the form of restricted shares in Afterpay which will become unrestricted at the time of vesting.

For personal use only

(b) Legacy Employee Incentive Plan

As part of Afterpay's legacy remuneration arrangements, Afterpay has issued loan shares (non-interest bearing, limited recourse loans from the Afterpay Group for the sole purpose of acquiring shares in Afterpay) which vest over a one to four-year period.

As at 29 October 2021, there are 42,267 unvested loan-backed Afterpay Shares on issue under this plan held by one employee. The Afterpay Board may exercise its discretion to accelerate the vesting of some or all of these Afterpay Shares prior to the Record Date.

(c) Share Matching Plan

Employees may contribute up to A$2,500 to acquire Afterpay Shares in any plan year. On the first anniversary of each quarterly contribution, subject to meeting certain criteria, Afterpay will match the number of acquired Afterpay Shares. As at 29 October 2021, there are 6,029 Afterpay Shares participating in the Share Matching Plan held by 570 employees. The Afterpay Board may exercise its discretion to accelerate the matching of some or all of these Afterpay Shares prior to the Record Date.

(d) US ESOP

The US ESOP is an equity plan under which Afterpay may issue equity awards to eligible participants to acquire shares in Afterpay US, Inc., Afterpay's US based subsidiary. Only options and restricted shares are outstanding under the US ESOP, both of which are subject to vesting conditions and typically vest over a four-year period. Following the vesting and exercise of US ESOP options, eligible participants are allocated shares in Afterpay US, Inc., and following the lapse of restrictions on US restricted shares, holders retain unrestricted shares in Afterpay US, Inc. In order to provide eligible participants with a mechanism to liquidate their shares in Afterpay US, Inc., such shares may be exchanged for fully paid ordinary Afterpay Shares in specified circumstances. The total US ESOP pool was limited to equity awards over a maximum of 10% of Afterpay US, Inc. fully diluted shares on issue. The US ESOP is now closed to new offers. New incentive awards made to US employees are being provided by way of awards over Afterpay equity to ensure a globally aligned and consistent approach going forward and to provide greater transparency for Afterpay stakeholders.

(e) UK ESOP

Afterpay previously established the UK ESOP in accordance with the terms of the acquisition of Clearpay from ThinkSmart. As part of these terms, ThinkSmart agreed to provide for an equity pool of 3.5% of Clearpay shares on issue (out of its remaining 10% shareholding in Clearpay) that could be used for the purposes of a UK ESOP.

On exercise of UK ESOP options, eligible participants will be allocated shares in Clearpay. In order to provide eligible participants with a mechanism to liquidate their exercised shares, exercised shares may be exchanged for fully paid ordinary Afterpay Shares or cash (at Afterpay's election) in specified circumstances. Specifically, the exercised shares in Clearpay may only be exchanged for Afterpay Shares or cash at the same time as the exercise of the Clearpay Call Option by Afterpay or ThinkSmart's put option described at 4.13(b)(i), as applicable. If UK ESOP options are not exercised and exchanged in connection with such event, the UK ESOP options will lapse for no consideration. This mechanism is intended to ensure that there are no outstanding UK ESOP options once Afterpay moves to a 100% shareholding in Clearpay via exercise of the Clearpay Call Option.

Further, it is intended that exercised shares in Clearpay will be exchanged into Afterpay Shares or cash at the same valuation of Clearpay shares as the Clearpay Call Option (as applicable). Consistent with the Clearpay Call Option, the number of Afterpay Shares that may be issued and exchanged as consideration for the exercised shares in Clearpay will be based on the value of the exercised shares in Clearpay divided by the volume weighted average price (**VWAP**) of Afterpay Shares over the 5 trading days up to and including the trading day before the date of option exercise.

For personal use only

Table 4.4: Afterpay Employee Incentives as at 28 October 2021

Type of security	Outstanding as at 28 October 2021	Exercisable as at 28 October 2021
Afterpay Equity Incentive Plan and Legacy Employee Incentive Plan		
Options	2,587,693	1,280,849
Loan Shares	207,316	158,005
Share Matching Plan shares & RSUs	1,238,489	–
Restricted Shares	352,442	–
US ESOP		
Options	648,520	388,678
Restricted Afterpay US Shares	2,631,913	1,840,089
UK ESOP		
Options	1,780,000	1,256,000*

* These are only exercisable on an "Exit Event" as defined in the relevant plan rules.

4.11. Treatment of Afterpay Employee Incentives

Details on the treatment of Afterpay's existing employee incentive plans upon implementation of the Scheme are set out below[11].

(a) Restricted Stock Units (Afterpay Equity Incentive Plan)

Unvested RSUs granted under the Afterpay Equity Incentive Plan before 2 August 2021 will vest immediately following the Effective Date on a 'pro-rata basis' based on the proportion of the then current vesting period that has elapsed at the Effective Date (measured based on the number of completed months). Any unvested Afterpay RSUs remaining will be forfeited and, on the Implementation Date, Square will grant Square RSUs of comparable value to the forfeited Afterpay RSUs. Square RSUs will vest in equal quarterly instalments from the Effective Date through the last vesting date of the original Afterpay RSU (generally subject to the employee's continued employment through the applicable vesting date).

(b) Afterpay Options

Afterpay Options granted before 2 August 2021 will vest immediately following the Effective Date on a 'pro-rata basis' based on the proportion of the then current vesting period that has elapsed at the Effective Date (measured based on the number of completed months). Any unvested Afterpay Options remaining will be forfeited and, on the Implementation Date, Square will grant Square Options of comparable value to the forfeited Afterpay Options. Further, the Square Options will vest in equal quarterly instalments from the Effective Date through the last vesting date of the original Afterpay Option grant (subject to the employee's continued employment through the applicable vesting date). Any Afterpay Options that are not exercised as of the Record Date will be forfeited for no consideration. The Board may provide that all vested Afterpay Options will be automatically exercised prior to the Record Date.

(c) Restricted Afterpay Shares (US ESOP tender offer)

Restricted Afterpay Shares will vest immediately following the Effective Date on a 'pro-rata basis' based on the proportion of the then current vesting period that has elapsed at the Effective Date (measured based on the number of completed months). Any unvested Restricted Afterpay Shares remaining will be forfeited and, on the Implementation Date, Square will grant Square Restricted Stock of comparable value to the forfeited Restricted Afterpay Shares. Further, the Square Restricted Stock will vest in equal quarterly instalments from the Effective Date through the last vesting date of the original grant of Restricted Afterpay Shares (subject to the employee's continued employment through the applicable vesting date).

11. Equity incentives granted after 2 August 2021 will generally vest in equal quarterly instalments over four years and do not include any accelerated vesting provisions.

For personal use only

(d) UK Options (UK ESOP)

UK Options will continue to vest in the ordinary course up until the Effective Date subject to the original vesting schedule, but with accelerated vesting comparable to the vesting acceleration applied to other Afterpay equity awards. Vested UK Options will continue to be treated as provided for in the Clearpay Limited Employee Share Option Plan. This means that if there is an "Exit Event" (as defined in a UK Option agreement, but generally consisting of a sale of ThinkSmart's remaining interest in Clearpay) prior to the Implementation Date, vested UK Options will be exercised and employees will receive any applicable consideration in accordance with their terms. Unvested UK Options will be forfeited and, on the Implementation Date, Square will grant Square Options of comparable value to forfeited UK Options. The number of Square Options granted in respect of forfeited UK Options will be determined by multiplying the number of shares subject to the forfeited UK Option by the Afterpay UK Exchange Ratio (which will be equal to the ratio of the fair market value of a Clearpay share over the value of a Square Class A Share) rounded down to the nearest whole share. The exercise price will be determined by dividing the exercise price of the forfeited UK Option by the Afterpay UK Exchange Ratio and rounding up to the nearest whole cent.

Further, the Square Options will vest in equal quarterly instalments from the Effective Date to the final vesting date of the original UK Option grant (subject to the employee's continued employment through the applicable vesting date).

(e) US Options and Restricted US Shares (US ESOP)

Unvested US Options or Restricted US Shares will vest at the Implementation Date on a 'pro-rata basis' based on the proportion of the then current vesting period that has elapsed at the Effective Date (measured based on the number of completed months). Any unvested US Options or Restricted US Shares which remain outstanding will be forfeited and, on the Implementation Date, Square will grant Square Options or Restricted Square Stock of comparable value to the forfeited US Options or Restricted US Shares (as applicable).

Vested US Options (including any US Options that vest on an accelerated basis, as described above) and any Restricted US Shares that vest on an accelerated basis, as described above, will be cancelled and converted into a right to receive Square Class A Shares. The number of Square Class A Shares received will be determined by multiplying the aggregate value of vested US Options or Restricted US Shares (as applicable) by the Afterpay US Exchange Ratio (which will be equal to the ratio of the fair market value of an Afterpay US Inc. share over the value of a Square Class A Share).

The number of Square Options or Restricted Square Stock granted in respect of forfeited US Options or Restricted US Shares (as applicable) will be determined by multiplying the number of shares subject to the forfeited US Option or Restricted US Shares by the Afterpay US Exchange Ratio, rounded down to the nearest share in the case of US Options and up to the nearest share in the case of Restricted US Shares. The exercise price for Square Options will be determined by dividing the exercise price of the forfeited US Option by the Afterpay US Exchange Ratio and rounding up to the nearest whole cent.

4.12. Annual short term incentive plan

Afterpay operates an annual short term incentive plan for employees. Afterpay may, immediately prior to the Implementation Date (and otherwise in the ordinary course and consistent with past practice), determine to pay employees a pro rata allocation of their annual incentive entitlement based on the number of days elapsed in FY22 through to and including the Implementation Date based on actual performance achieved through to the Implementation Date, as determined by Afterpay in its discretion. The Co-CEOs Ant Eisen and Nick Molnar have each confirmed to the Afterpay Board that they have waived any right to receive a cash payment under the annual short term incentive plan for FY22 (consistent with their determination in FY20 and FY21).

4.13. Afterpay Minority Interests

Set out below is a summary of each of the Afterpay Minority Interests and their current status.

(a) Matrix Convertible Notes

(i) Description of terms

On 16 January 2018, Afterpay US issued two convertible notes to Matrix Partners X L.P and Weston & Co X LLC (**Matrix Convertible Notes**) with a total face value of US$100,000. The Matrix Convertible Notes may be converted into Afterpay Shares in certain circumstances between 5 and 7 years from the date of issue of the notes (being 16 January 2018), with conversion at the noteholder's election. Conversion of the Matrix Convertible Notes may also be accelerated, at Afterpay's election, in the event of a change of control in respect of Afterpay.

For personal use only

As disclosed in Afterpay's 2021 Annual Report released on ASX on 25 August 2021, the maximum number of Afterpay Shares that may be issued on conversion is capped at 14,155,480, being 6.5% of the issued share capital of Afterpay as at the date of the issue of the convertible note.

(ii) **Current status of Matrix Convertible Notes**

Afterpay has commenced discussions with the applicable counterparties in relation to the early conversion of the Matrix Convertible Notes, but no agreement has yet been reached as to the consideration to be paid based upon the underlying agreement. The Matrix Convertible Notes can only be settled in Afterpay shares while Afterpay remains listed on ASX; otherwise, they must be settled in cash.

(b) Clearpay Call Option

(i) **Description of Clearpay Call Option**

On 23 August 2018, Afterpay acquired 90% of the issued shares in Clearpay from ThinkSmart Limited (**ThinkSmart**) for total consideration of 1.0 million Afterpay Shares (**Initial Acquisition**). As part of that transaction, Afterpay was granted a call option to acquire the remaining Clearpay shares held by ThinkSmart, which is exercisable any time after 5 years from the completion of the Initial Acquisition (being after 23 August 2023) (**Clearpay Call Option**). If Afterpay does not exercise the Clearpay Call Option within the six months following 23 August 2023, then ThinkSmart has a put option to sell all the remaining Clearpay shares it holds to Afterpay, exercisable any time after 5.5 years from the completion of the Initial Acquisition.

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

As disclosed in Afterpay's 2021 Annual Report released on ASX on 25 August 2021, the maximum number of Afterpay Shares that may be issued or exchanged for the remaining Clearpay shares held by ThinkSmart as a result of its exercise of the put option is capped at 5% of Afterpay Shares on issue at the time of exchange.

(ii) **Current status of Clearpay Call Option**

Afterpay has commenced discussions with the applicable counterparty in relation to the early exercise of the Clearpay Call Option, but no agreement has yet been reached as to the consideration to be paid based upon the underlying agreement. The Clearpay Call Option can only be settled in Afterpay shares while Afterpay remains listed on ASX; otherwise, it must be settled in cash.

(c) Pagantis Convertible Note

(i) **Description of Pagantis Convertible Note**

As announced on 24 August 2020, Afterpay's wholly owned subsidiary, Clearpay (Europe) Limited (**Clearpay EU**), entered into a Share Purchase Agreement (**Pagantis Agreement**) with NBQ Corporate SLU (**NBQ**) to acquire 100% of the shares outstanding in Pagantis SAU and PMT Technology SLU (collectively, **Pagantis**). Pursuant to the Pagantis Agreement, Clearpay EU issued a convertible note on 9 March 2021 to NBQ, with a total face value of €45 million (**Pagantis Convertible Note**). The Pagantis Convertible Note, if converted at Clearpay EU's election, may entitle the holder to Afterpay Shares (in respect of the contingent portion) as the deferred and contingent consideration payable three (or, in certain circumstances, three-and-a-half) years post-completion under the Pagantis Agreement. Such conversion and payment may be accelerated if Afterpay is subject to a change of control pursuant to the Pagantis Convertible Note terms.

As disclosed in Afterpay's 2021 Annual Report released on ASX on 25 August 2021, the maximum total value of the deferred consideration (including the cash component) is capped at 8,573,499 Afterpay Shares, being 3% of the total number of Afterpay Shares on issue at the date of issue of the convertible note multiplied by the Afterpay Share Price (on a five day VWAP basis) at the time of conversion.

(ii) **Current status of Pagantis Convertible Note**

Afterpay has commenced discussions with the applicable counterparty in relation to the early conversion of the Pagantis Convertible Note, but no agreement has yet been reached as to the consideration to be paid based upon the underlying agreement. The Pagantis Convertible Note can only be settled in Afterpay shares while Afterpay remains listed on ASX; otherwise, it must be settled in cash.

For personal use only

(d) SGX Notes

(i) Description of SGX Notes

On 12 March 2021, Afterpay Limited completed the settlement of A$1.5 billion zero coupon convertible notes (**SGX Notes**). The SGX Notes are interest free and have a maximum term of five years. The SGX Notes were listed on the Singapore Exchange on 15 March 2021 and have a maturity date of 12 March 2026. The SGX Notes may also be converted into Afterpay Shares in certain circumstances (including a change of control) at any time up to the maturity date, with conversion at the noteholder's election.

The number of Afterpay Shares which may be issued on conversion is determined by dividing the principal amount of the SGX Notes to be converted by the conversion price on the conversion date. The conversion price at 12 March 2021 was $194.82 per Afterpay Share, subject to adjustment for certain events and subject to an adjustment in the context of a conversion in connection with a change of control (including a scheme of arrangement under Part 5.1 of the Corporations Act).

The maximum number of Afterpay Shares that would be issued if every noteholder decided to convert their SGX Notes after a change of control occurring on 31 December 2021 would be approximately 10.6 million Afterpay Shares.

On a change of control of Afterpay, the holders of the SGX Notes are able to either:

- within 60 days, elect to have the SGX Notes redeemed for their face value (i.e. A$1.5 billion in aggregate);
- within 30 days, convert their SGX Notes to Afterpay Shares based on a formula which depends on the date the change of control occurs. For example, the conversion price would reduce to A$141.43 per Afterpay share if a change of control event occurred on 31 December 2021; or

continue to hold their SGX Notes on the existing terms.

(ii) Current status of SGX Notes

Based on the closing Square Share Price and the AUD/USD exchange rate on 29 October 2021 and assuming the Scheme Meeting is held on Monday, 6 December and the Effective Date is Friday, 10 December 2021, Afterpay expects that holders of the SGX Notes are likely to elect to redeem their SGX Notes on a change of control of Afterpay.

Where at least 85% of the SGX Notes have been converted or redeemed, Afterpay may redeem the balance of the SGX Notes still outstanding for their face value on giving not less than 30 and not more than 60 calendar days' notice to the noteholders. Afterpay intends to exercise its right to redeem the balance of the SGX Notes that are outstanding once the Scheme has become Effective and at least 85% of the SGX Notes have been converted or redeemed. Square has indicated to Afterpay that, to the extent the holders of SGX Notes do not elect to convert or redeem their SGX Notes in connection with the change of control of Afterpay, and the 85% redemption or conversion threshold is not met, then following the Implementation Date, Square has advised Afterpay that it intends to use the general compulsory acquisition power under the Corporations Act to acquire the remaining SGX Notes on foot.

4.14. Afterpay Directors' Intentions

If the Scheme becomes Effective, the Afterpay Directors will resign, and the Afterpay Board will be reconstituted in accordance with instructions from Square after the Implementation Date.

Accordingly, it is not possible for the Afterpay Directors to provide a statement of their intentions regarding:

- the continuation of the business of Afterpay or how Afterpay's existing business will be conducted;
- any major changes to be made to the business of Afterpay; and
- the future employment of the present employees of Afterpay, in each case, after the Scheme is implemented.

If the Scheme is implemented, Afterpay Shareholders will become shareholders in the Combined Group and the business of Afterpay will be integrated within Square. The current intentions of Square with respect to these matters are set out in section 6.3.

Anthony Eisen and Nick Molnar will join Square upon Implementation of the Scheme. The respective Afterpay businesses will be integrated into Cash App and Seller, led by Brian Grassadonia and Alyssa Henry, respectively. Square will appoint one Afterpay Director as a member of the Square Board effective immediately following the implementation of the Scheme. See section 6.3 in this Scheme Booklet for further detail on this.

If the Scheme is not implemented, the Afterpay Directors intend to continue to operate the business of Afterpay in the ordinary course and in a manner consistent with current practises. There are a range of specific risks associated with Afterpay's business and general market risks that Afterpay shareholders will continue to be subject to if the Scheme does not proceed. These specific and general risks include, but are not limited to, the risks set out in section 7.2.

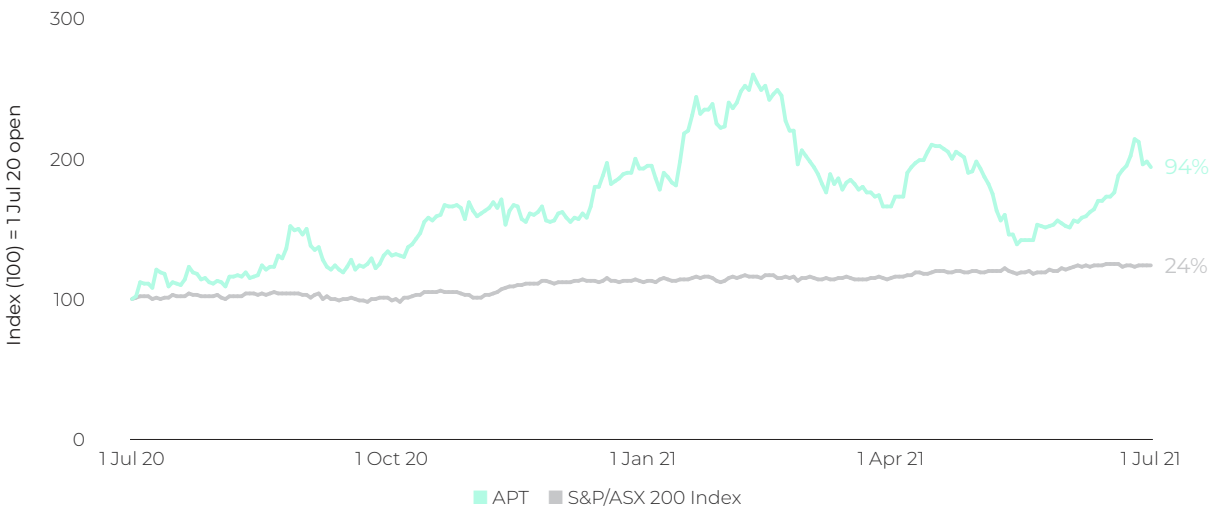
For personal use only

4.15. Recent Afterpay Share Price performance

Afterpay has experienced significant share price growth, supported by the business's strong growth and a network effect driving retailer-led international expansion.

During the year ended 30 June 2021, Afterpay's Share Price increased by 94% from a closing share price of $60.99 at 30 June 2020 (the last trading day of FY20) to $118.17 on 30 June 2021. By comparison, the S&P/ASX 200 Index increased by 24% from 5,898 points to 7,313 points over the same period.

FY21 APT share price performance compared to the S&P/ASX200 Index



As of 29 October 2021, being the last practicable date prior to the date of this Scheme Booklet:

- the last recorded trading price of Afterpay Shares was A$123.29;
- the 30-day volume weighted average price of Afterpay Shares was A$123.47; and
- the lowest and highest closing prices of Afterpay Shares during the previous 30-days were A$113.60 and A$132.11; respectively.

As of 30 July 2021, being the trading day before Afterpay, Square and Square Acquirer announced that they had entered into the Scheme Implementation Deed:

- the last recorded trading price of Afterpay Shares was A$96.66;
- the 30-day volume weighted average price of Afterpay Shares was A$114.17; and
- the lowest and highest closing prices of Afterpay Shares during the previous 30-days were A$96.66 and A$130.50 respectively.

4.16. Publicly Available Information

Afterpay is a 'disclosing entity' for the purposes of section 111AC(1) of the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules.

These obligations require Afterpay to notify ASX of information about specified matters and events as they arise for the purpose of ASX making that information available to participants in the market. Afterpay has an obligation under the Listing Rules (subject to some exceptions) to notify ASX immediately upon becoming aware of any information concerning it, which a reasonable person would expect to have a material effect on the price or value of Afterpay Shares. Afterpay's recent ASX announcements are available on ASX website at www.asx.com.au. Further announcements will continue to be made available on ASX website after the date of this Scheme Booklet.

Pursuant to the Corporations Act, Afterpay is required to prepare and lodge with ASIC and ASX both annual and half yearly consolidated financial statements accompanied by a Afterpay Directors' statement and report, with an audit or review report, as applicable. Copies of these and other documents lodged with ASIC may be obtained from or inspected at an ASIC office, on ASX's website (www.asx.com.au) and on Afterpay's website (https://corporate.afterpay.com/).

For personal use only

Section 5

Information on Square

5.1. Background

Square is a global fintech company.

It builds tools that aim to empower businesses and individuals to participate in the economy.

Businesses, as sellers, use Square to reach buyers online and in person, manage their business, and access financing. Individuals use Square's Cash App to spend, send, store, and invest money. Square also owns a majority ownership stake in TIDAL, a global music and entertainment platform that seeks to expand Square's purpose of economic empowerment to artists. Square also recently launched TBD, a bitcoin-focused ecosystem established to build an open developer platform with the sole goal of making it easy to create non-custodial, permissionless, and decentralised financial services.

Square's financial model is based on the recurrent use of its tools, attracting transaction-based revenue, subscription and services-based revenue, hardware revenue and bitcoin revenue.

In the six months ended 30 June 2021, the Square Group's total net revenue was US$9,738.0 million and its net profit after tax attributable to common shareholders was US$243.0 million. As of 30 June 2021, the Square Group's consolidated total assets were approximately US$13,815.8 million and its consolidated net assets were approximately US$2,736.7 million.

5.2. Brief History and Overview of Square's Business

(a) Overview

Square, Inc. was founded in San Francisco in 2009 by Jack Dorsey and Jim McKelvey as a simple way to enable anyone with a mobile device to accept card payments, anywhere, anytime. Square's first product was the Square Reader, a small communication device that is plugged into a smart phone and used to facilitate on-the-spot credit card payments. Following the success of the Square Reader, Square soon developed a range of products and services for merchants.

Square became a public company and listed on NYSE under the symbol "SQ" on 19 November 2015. Prior to that date, there was no public trading market for Square Class A Shares. There has never been a public trading market for Square Class B Shares.

Since listing, Square has grown to provide financial services and digital payments solutions in international markets outside the US. The business has expanded to provide more than 30 distinct products and services to sellers (together the "Seller ecosystem"), while through Cash App, the business provides a parallel ecosystem of financial services to support individuals in managing their money (together the "Cash App ecosystem").

For personal use only

Beginning on 30 June 2020, Square updated the way it reported its results from one operating and reportable segment to two, being Seller and Cash App, reflecting these two ecosystems and the way management reviews and assesses the performance of the business.

More specifically, Square categorises its business into a range of products that focus on different customer segments, being:

(i) the Seller ecosystem, incorporating a range of products and services to help merchants start, run, and grow their businesses, including:

  (A) software for point of sale, invoices, appointments, online sales, team management, loyalty, marketing, gift cards and business analytics;

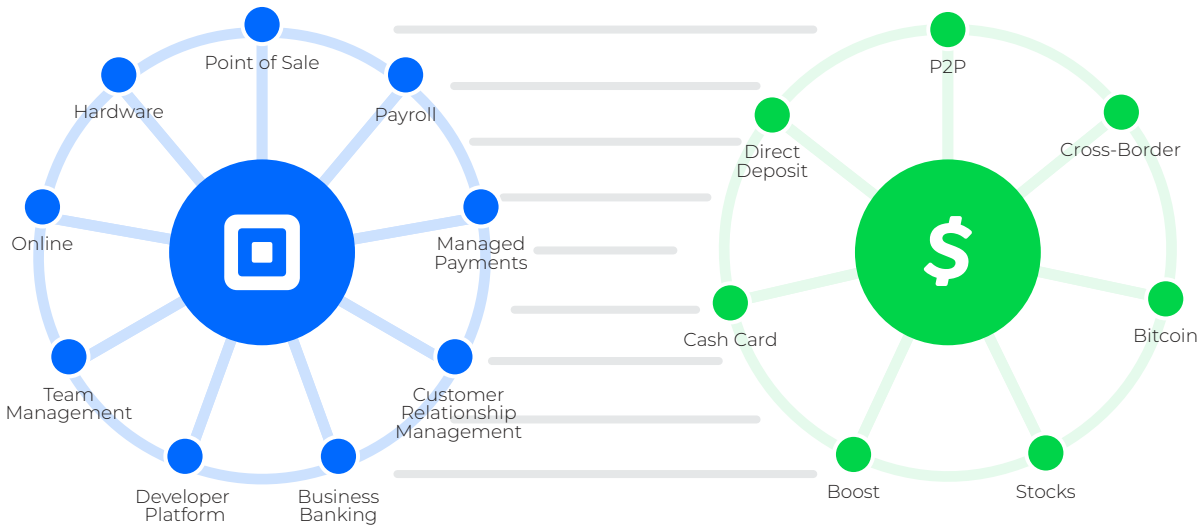
  (B) other financial services, such as debit cards, business loans, and managed payments and transfers. In Australia, the only financial services offered by Square are business loans and payment acceptance; and

  (C) hardware, such as contactless, and chip card readers, which enable merchants to accept card and other payments, and stands, registers, and terminals that provide full point of sale functions for merchants (and combine with software);

(ii) the Cash App ecosystem, a mobile app and peer-to-peer payments service that enables customers to request, receive, store, spend, and invest money. Cash App is not currently available in Australia;

(iii) TIDAL, a global music and entertainment platform that brings fans and artists together through unique music, content, and experiences; and

(iv) TBD, Square's Decentralised Financial Services group, a new business division dedicated to building an open developer platform with the sole goal of making it easy for third parties to create non-custodial, permissionless and decentralised financial services, with a primary focus on bitcoin.



A more detailed description of each of Square's current products is provided below in section 5.4(b).

(b) COVID-19 response

In 2020, Square made certain focused investments in each of its Seller and Cash App ecosystems to help its customers adapt to COVID-19.

For sellers, Square provided resources with information and advice, eliminated fees for software products in March and April of 2020, and introduced options for sellers to pause subscriptions temporarily based on their circumstances. Square prioritised omnichannel product launches to help sellers transition to serving more of their customers online and through contactless commerce, including curbside pickup and delivery for Square Online and a website for customers to purchase eGift cards from sellers. Square also temporarily offered sellers free marketing campaigns to update their buyers on recent changes and to promote their businesses. As a participant in the US Paycheck Protection Program (**PPP**), Square distributed loans to sellers. As of 31 December 2020, Square Capital (now Square Loans) had facilitated approximately US$857 million of PPP loans, excluding cancelled loans, providing access to a financial lifeline to over 80,000 small businesses.

For personal use only

For Cash App customers, Square published educational materials to help them understand the Coronavirus Aid, Relief, and Economic Security Act stimulus programs. Square expanded direct deposit access to many of its Cash App customers, allowing them to direct deposit government funds into their Cash App accounts. Customers could spend their funds on Cash Card and Square adapted certain Cash Boost rewards to pandemic relevant merchants and categories (e.g. grocery stores) to benefit customers.

In the quarter ended 30 June 2021, Square noted improvements in its business as the majority of US markets transitioned to varying states of economic recovery and re-openings. Square identified a positive impact on performance in Seller Gross Payment Volume (**GPV**) as in-person activity at sellers increased, and a positive impact on performance in Square's Cash App business associated with increased customer spending and inflows, as Square continued to benefit from the strength of a broader macroeconomic recovery, regional re-openings, and government stimulus and relief programs enacted in response to COVID-19.

5.3. Industry Overview

(a) Opportunities and growth drivers

The global software, financial services and digital payments industry is dynamic and evolving. Square management sees potential to continue to grow its available opportunity across Seller and Cash App ecosystems by launching new products and services, and expanding to reach new customers, which includes entering additional geographies. Growth of this opportunity also has the potential to be supported by:

(i) broader macroeconomic factors and the health of the economy;

(ii) increases in customer spending power, including government disbursements to customers;

(iii) growth in card payments, shifting customer preferences towards card payments and away from cash; and

(iv) greater adoption of software with integrated, digitised financial services products by individuals and businesses.

(b) Regulatory framework

Foreign and domestic laws and regulations apply to many key aspects of Square's business. Key features of the current applicable regulatory frameworks are summarised below. Existing regulatory frameworks are subject to interpretation and change, and new regulatory frameworks may arise.

(i) Payments regulation

Various laws and regulations govern the payments industry in the United States and globally. For example, certain jurisdictions in the United States require a license to offer money transmission services, such as Cash App's peer-to-peer payments, and Square maintains a licence in each of those jurisdictions and complies with new licence requirements as they arise. Square is also registered as a "Money Services Business" with the US Department of Treasury's Financial Crimes Enforcement Network. These licenses and registrations subject Square, among other things, to record-keeping requirements, reporting requirements, bonding requirements, limitations on the investment of customer funds, and inspection by state and federal regulatory agencies.

Outside the United States, Square provides localised versions of some of its services to customers, including through various foreign subsidiaries. The activities of those non-US entities are, or may be, supervised by regulatory authorities in the jurisdictions in which they operate. For instance, Square holds an AFSL issued by ASIC to provide non-cash payments in Australia, and it is licensed as an Electronic Money Institution to provide payments services and electronic money in the United Kingdom by the Financial Conduct Authority and in the European Union by the Central Bank of Ireland and the Bank of Lithuania.

(ii) Consumer protection

The US Consumer Financial Protection Bureau and other federal, local, state, and foreign regulatory and law enforcement agencies regulate financial products and enforce consumer protection laws, including credit, deposit, and payments services, and other similar services. These agencies have broad consumer protection mandates, and they promulgate, interpret, and enforce rules and regulations that affect Square's business.

(iii) Anti-money laundering

Square is subject to AML laws and regulations in the United States and other jurisdictions. Square has implemented an AML program designed to prevent its payments network from being used to facilitate money laundering, terrorist financing, and other illicit activity.

For personal use only

Square's program is also designed to prevent its network from being used to facilitate business in countries, or with persons or entities, included on designated lists promulgated by the US Department of the Treasury's Office of Foreign Assets Controls and equivalent applicable foreign authorities.

Square's AML compliance program includes policies, procedures, reporting protocols, and internal controls, including the designation of an AML compliance officer, and is designed to address these legal and regulatory requirements and to assist in managing risk associated with money laundering and terrorist financing.

(iv) Bank regulation

On 1 March 2021, the industrial loan company charter for SFS was approved by FDIC and the State of Utah and SFS began banking operations. SFS maintains capital and leverage ratios, as well as minimum liquidity levels that meet or exceed regulatory levels as defined by the FDIC to be considered "well capitalised". SFS offers banking services including certain loan and deposit products. SFS subjects Square to direct state and federal regulatory oversight and requires compliance with all applicable banking regulations and requirements.

(v) Broker-dealer regulation

Square's subsidiary, Cash App Investing, operates as a broker-dealer and is therefore registered with the SEC and a member of FINRA. As a broker-dealer, Cash App Investing is subject to SEC and FINRA laws and regulations including, without limitation, how it markets its services, handles customer assets, keeps records, and reports to the SEC and FINRA. Cash App Investing is also registered in each state where Square conducts business, and subject to those states' securities laws and regulations.

(vi) Virtual currency regulation

Square is subject to certain licensing and regulatory frameworks triggered by its Cash App offering, through which customers can use their stored funds to buy, hold and sell bitcoin, and transfer bitcoin to and from Cash App. Square currently holds a New York State Bitlicense. The laws and regulations applicable to virtual currency are evolving and subject to interpretation and change. Therefore, Square's virtual currency services may be or become subject to additional licensing and regulatory requirements by other authorities.

(vii) Protection and use of information

Square collects and uses a wide variety of information for various purposes in its business, including to help ensure the integrity of its services and to provide features and functionality to its customers. This aspect of Square's business, including the collection, use, disclosure, and protection of the information it acquires from its own services as well as from third-party sources, is subject to laws and regulations in the United States, the European Union, and elsewhere.

Accordingly, Square publishes its privacy policies and terms of service, which describe its practices concerning the use, transmission, and disclosure of information. As Square's business continues to expand in the United States and worldwide, and as laws and regulations continue to be passed and their interpretations continue to evolve in numerous jurisdictions, additional laws and regulations may become relevant to Square.

(viii) Communications regulation

Square sends texts, emails, and other communications in a variety of contexts, such as when providing digital receipts and marketing. Communications laws and regulations, including those promulgated by the Federal Communications Commission, apply to certain aspects of this activity in the United States and elsewhere.

(ix) Additional developments

Various regulatory agencies in the United States and elsewhere in Square's international markets continue to examine a wide variety of issues that could impact Square's business, including products liability, import and export compliance, accessibility for the disabled, insurance, marketing, privacy, data protection, information security, and labour and employment matters.

As Square's business continues to develop and expand, additional rules and regulations may become relevant. For example, if Square chooses to offer Square Payroll in more jurisdictions, additional regulations, including tax rules, will apply.

For personal use only

(c) Competition

The markets in which Square's Seller ecosystem operates are competitive and evolving. Square's competitors range from large, well-established vendors to smaller, earlier-stage emerging private companies.

Square seeks to differentiate itself from competitors primarily on the basis of its extensive commerce ecosystem and its focus on building products and services that are cohesive, fast, self-serve, and elegant. In addition, Square differentiates itself by offering transparent pricing, no long-term contracts, and Square's ability to innovate and reshape the industries in which it operates to expand access to traditionally unserved or underserved sellers and customers. With respect to each of these factors, Square management believes that Square compares favourably to its competitors. Competitors that overlap with certain functions and features that Square provides include:

(i) pen and paper, manual processes, and paper currency;

(ii) software providers such as those that provide POS, website building, inventory management, analytics, customer relationship management invoicing, and appointment booking solutions;

(iii) payment terminal vendors;

(iv) merchant acquirers;

(v) banks that provide payment processing, loans, and payroll;

(vi) payroll processors; and

(vii) established or new alternative lenders.

The Cash App ecosystem competes with other companies in the peer-to-peer payments, debit and prepaid cards, credit card rewards, stock trading, and bitcoin spaces. Square's competitors in this segment include money transfer apps, prepaid debit card offerings, brokerage firms, and crypto trading services.

Square primarily competes based on its brand and the simplicity and quality of its customer experience. Square invests in brand, design, and technology with the aim to keep its products fast and simple, while also improving and expanding its features.

5.4. Business Overview

(a) Introduction

Square builds tools that aim to empower businesses and individuals to participate in the economy. Square started by enabling businesses to accept card payments, an important capability that was previously inaccessible to many businesses, and has since evolved into a broader financial services company with multiple business units. Square has a diversified customer base. Square's sellers represent a diverse range of industries (including services, food-related, and retail businesses) and sizes, ranging from sole proprietors to multi-location businesses. These sellers also span geographies, including the United States, Canada, Japan, Australia, the United Kingdom, Ireland, France and Spain. Cash App has a diverse mix of customers across the United States and Europe. In the United States, Cash App had transacting active customers in each of the 50 states and nearly every county as of December 2020. As of 30 June 2021, Square employed 6,875 full-time employees worldwide with 1,057 outside of the United States.

The key investment highlights resulting from Square's business model include:

(i) global leadership in the software and payments industry with a broad range of services and a large geographical footprint;

(ii) a highly diversified customer base and range of revenue streams;

(iii) a trusted brand;

(iv) recurring and predictable revenues;

(v) robust cohort economics including strong revenue and gross profit retention, efficient acquisition, and attractive returns on investment in its Seller and Cash App ecosystems; and

(vi) as customers have found value across its Seller and Cash App ecosystems, they have adopted more products which has driven greater monetisation.

For personal use only

(b) Square's product and service offering

Square offers its products and services across its business ecosystems.

(i) Seller ecosystem

The Seller ecosystem offers a suite of products that helps Square's sellers start, run, and grow their businesses. Square combines software, hardware, and financial services to create products and services that are cohesive, fast, self-serve, and elegant. These attributes differentiate Square from competitors in a fragmented industry that traditionally forces sellers to stitch together products and services from multiple vendors and rely on inefficient non-digital processes and tools. Square's ability to add new sellers efficiently, help them grow their business, and cross-sell products and services, has historically led to continued and sustained long-term growth. In the year ended 31 December 2020, Square served more than 4 million sellers globally. At the end of 2020, the Square POS ecosystem had approximately 295 million items listed on Square by sellers. In the three months and six months ended 30 June 2021, the Seller ecosystem generated US$585 million and US$1,053 million of gross profit, respectively.

The Seller ecosystem consists of over 30 distinct software, hardware, and financial services products. Square monetises these products through a combination of transaction, subscription, and service fees.

(A) **Software:** Square offers a growing suite of cloud-based software solutions to help sellers more effectively operate and manage their businesses. Square's software is designed to be self-serve and intuitive to make initial setup and new employee training fast and easy. Its products are integrated to create a seamless experience and enable a holistic view of sales, customers, employees, and locations. Sellers get frequent software updates and upgrades automatically. Software includes Square's Online, Point of Sale, Developer Platform, Customer Relationship Management, and Team Management products.

Square's POS products help sellers make sales, send digital receipts, and collect instant customer feedback to improve their service. Each product takes payments, tracks sales, inventory and customers' purchase histories, and enables employees to clock in and clock out in the app. All POS products have a free software tier without a subscription fee, which Square monetises only through payments transaction fees. Among Square's POS products, Square Appointments, Square for Retail, and Square for Restaurants also have premium tiers with additional functionality, which Square monetises through subscription fees in addition to transaction fees on payments.

- Square Point of Sale is a general purpose POS software solution. It is available for both iOS and Android and is pre-installed on Square Register and Square Terminal hardware devices.
- Square Appointments is an integrated solution that includes support for booking, retail sales, invoicing, and payments. It can be used on iOS or Android as well as via a web browser on other operating systems. Appointments includes a free online booking site so buyers can easily schedule appointments and select their preferred time, service, and staff member. It is also integrated with Square Assistant which is an artificial intelligence enabled automated messaging tool that responds to buyers efficiently and professionally, saving sellers' time and helping prevent no-shows.

For personal use only

- Square for Retail is tailored for sellers in the retail industry and includes barcode scanning, advanced inventory management, support for tens of thousands of items, cost of goods sold reporting, purchase orders, and vendor management.
- Square for Restaurants is enhanced and tailored for the food and beverage industry and includes table, order and course management. It also provides back of the house functionality including a kitchen display system and revenue and cost reporting. These premium features aim to help managers and owners make informed decisions and run a more efficient business.

Square's online products are designed to make it easier to sell online and via social media. When also used in conjunction with Square's POS products, sellers can offer omnichannel experiences for their customers such as buy online, pickup in store (or curbside) and buy online, return in store. All online products have a free tier without a subscription fee, which Square monetises only through transaction fees on payments. Square Online and Square Invoices also have premium tier(s) with additional functionality that is monetised via software fees in addition to transaction fees on payments.

- Square Online helps sellers across a range of verticals reach customers in more ways. It makes it easy to build a website and online store as well as sell on Instagram and Facebook. The online store is mobile responsive, delivering an app-like ordering experience on a buyer's phone. With integrated support for QR code ordering, sellers can also streamline their in-store operations by posting the QR code and having their buyers order from their own phones. Fulfillment options include pickup, delivery managed by Square's sellers, and partner delivery platforms. Orders, items, inventory, and customer data stay in sync when selling both online and in-person.
- Square Online Checkout makes it easy to sell online without a website by allowing sellers to create a checkout link with only a name and price for their good or service.
- Square Invoices is a customisable digital invoicing solution with integrated and secure online payment acceptance. This eliminates the need to print and mail statements to customers and wait for cheques to arrive. Sellers use Square Invoices for upcoming, recurring, or previously-delivered goods and services, such as catering orders, contractor services, lessons, and retail orders. Square Invoices also lets sellers send estimates and collect partial payments for goods and services.
- Square Virtual Terminal allows sellers to use a computer as a card terminal. Sellers can take a payment, set up recurring billing, record sales, and send digital receipts for payments, including those made by cheque and bank transfer.

Square's business and customer relationship management products give sellers digital tools to streamline their operations. These tools seamlessly integrate with other Square products, eliminating the latent, time-consuming, and error prone processes typically used to copy and sync data between disparate systems. Square monetises these products via software fees with the exception of Square Contracts, Feedback, and Dashboard, which Square does not directly monetise.

- Square Team Management makes it easy to schedule staff, view team performance and sales analytics in real time, and pay employees in minutes when used together with Square Payroll. It also enables limiting access to Square software features per employee or role. The Square Team App enables team members to clock in and out, view and adjust their schedules, see timecards, hours worked, and estimated pay from their mobile phone. Team members paid via Square Payroll can also view their pay stubs in the Square Team App.
- Square Contracts helps sellers protect themselves by creating custom and template-based digital contracts with e-signature support for uses such as service agreements and liability waivers. These contracts can be used on their own or easily added to Square Invoices or Square Appointments.
- Square Loyalty, Marketing, Gift Cards, and Feedback and messages help sellers engage with their buyers in-store and online to grow their business. By linking customer data and feedback with POS and online commerce data, Square aims to offer sellers integrated omnichannel loyalty, marketing and feedback. Square allows sellers to easily assess performance and return on investment.
- Square Dashboard provides sellers with real-time data and insights about orders, items, inventory, customers, employees, payments, marketing, and loyalty performance. It can be used via the web or the Dashboard iOS app. This reporting is designed to enable sellers to stay informed and make timely decisions about their business from anywhere.

Square also offers a developer platform including APIs and SDKs that enable external developers to integrate with the Square ecosystem.

- Payment APIs support in-person, online, and mobile payments. Square Reader SDK enables developers to seamlessly integrate Square hardware with a seller's custom POS, allowing them to build unique checkout experiences such as self-ordering kiosks powered by Square's managed payments service. With Square's online payments APIs, developers can integrate Square payments into a seller's e-commerce website or online store. Our In-App Payments SDK enables developers to build customer mobile apps that use Square to process payments. These products are primarily monetised through transaction fees on payment volumes.

For personal use only

- Commerce APIs include more than 30 commerce APIs, through which developers can create and manage orders, subscriptions, product catalogues, inventory, customer profiles, employees, loyalty programs, gift cards and more in order to build applications that enrich and integrate with Square's ecosystem of products. In addition, these APIs enable developers to build integrations with their existing business systems such as accounting, CRM, employee management, and ERP software.

(B) **Hardware:** Square designs hardware that can process all major card payment forms, including magnetic stripe, EMV chip, and NFC (contactless). Sellers are able to accept cards issued by Visa, MasterCard, American Express, Discover, JCB, Interac Flash (in Canada), e-Money (in Japan), and eftpos (in Australia). Square hardware can be integrated with additional accessories such as cash drawers, receipt printers, and barcode scanners to provide sellers with a comprehensive POS solution. Square's hardware portfolio includes the following:

- Magstripe reader enables swiped transactions of magnetic stripe cards by connecting with an iOS or Android smartphone or tablet via the headphone jack or lightning connector. Available only in the US and Canada.
- Contactless and chip reader accepts EMV chip cards and NFC payments, enabling acceptance via Apple Pay, Google Pay, and other mobile wallets.
- Square Stand enables an iPad to be used as a payment terminal or full POS solution. It features an integrated magnetic stripe reader, provides power to a connected iPad, and can connect to the contactless and chip reader wirelessly or via USB.
- Square Register is an all-in-one offering that combines Square's hardware, POS software, and payments technology. The dedicated hardware consists of two screens: a seller display and a customer display with a built-in card reader that accepts tap, dip, and swipe payments.
- Square Terminal is a portable, all-in-one payments device and receipt printer to replace traditional keypad terminals. It accepts tap, dip, and swipe payments and has a battery that lasts all day, enabling payments anywhere in the store.

(C) **Financial services:** Square acts as both the merchant of record for the transaction as well as the PSP. As the merchant of record, Square is the party responsible for settling funds with the seller and helps manage transaction risk loss on behalf of the merchant. For example, Square can more efficiently onboard new sellers through its website, leveraging its risk assessment models, and it has insights into transaction-level data that it uses to inform sellers and launch new products. Square has negotiated terms and entered into contractual arrangements directly with the other service providers of transaction processing services, including the acquiring processors and card networks, and indirectly with the issuing banks. These contracts include negotiated terms, such as more favourable pricing, that are generally not available to sellers if they were to contract directly with these sub-service providers.

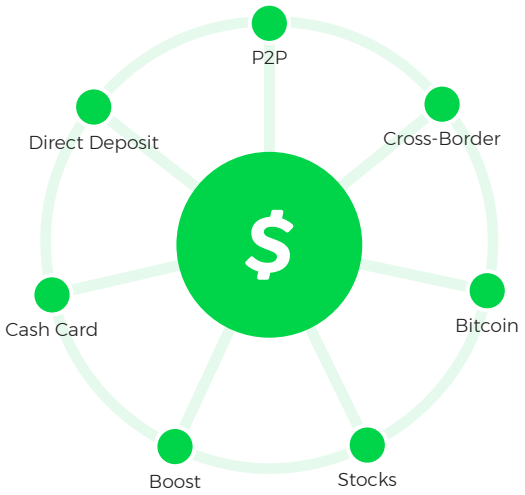
Square offers a growing number of accessible financial services that make it easier for sellers to manage cash flow and get faster access to funds. These include Square's Managed Payments, Business Banking, and Payroll products.

- Managed Payments includes next-day settlements, payment dispute management, data security, and PCI compliance. Sellers can onboard in minutes and, once onboarded, accept payments in person via swipe, dip, or tap of a card or online via a stored card on file or payment entry form. Sellers pay a transparent transaction fee.
- Risk Manager gives sellers insight into online payment fraud patterns and enables them to set custom rules and alerts to manage risk. Machine learning algorithms automatically identify fraud patterns and adapt to fit a seller's operations.
- Instant Transfer enables sellers to receive funds from their payments instantly or later that same day. Instant Transfer is an important tool for sellers that need faster access to their funds in order to better manage their cash flow or working capital.
- Square Card is a free business prepaid debit card that provides a way for sellers to spend and manage their funds, enabling sellers to spend their proceeds as soon as they make a sale. When a seller takes a payment, the proceeds immediately go into their Square stored balance and can be spent using their card or withdrawn from an ATM. Square earns interchange fees when sellers make purchases with Square Card.
- Square Savings is a high-yield business savings account, with no monthly fees or minimums, designed to make cash flow management easier for Square's sellers. With Square Savings, sellers can easily and automatically put aside a portion of their sales into their savings account while also organising their money within folders, streamlining the process of saving funds for specific goals and priorities, such as quarterly tax obligations.

For personal use only

- Square Checking provides sellers with a FDIC-insured account that gives them instant access to their sales and the ability to immediately use those funds via the Square Debit Card or ACH transfers, or for paying their team with Square Payroll.
- Square Loans facilitates loans to qualified Square sellers. It eliminates the lengthy and uncertain loan application process. Square is able to approve sellers for loans while facilitating prudent risk management by using its unique data set of a seller's Square transactions to help facilitate loan underwriting and collections. The terms are straightforward for sellers, and once approved, they get their funds quickly, often the next business day. Generally, for loans to Square sellers, loan repayment occurs automatically through a fixed percentage of every card transaction a seller takes. Loans are sized to be less than 20% of a seller's expected annual GPV and, by simply running their business, sellers historically have repaid their loan in less than nine months on average. Square currently funds a majority of these loans from arrangements with institutional third-party investors who purchase the loans on a forward-flow basis. This funding allows Square to mitigate its balance sheet and liquidity risk. Since its public launch in May 2014, Square Loans has facilitated more than 1.2 million loans and advances, representing more than US$8.1 billion. This includes approximately US$857 million in PPP loans, excluding cancelled loans, to more than 80,000 sellers, which Square Loans facilitated in 2020.
- Square Payroll is designed to assist sellers to hire and onboard employees, pay wages and associated employee taxes, and offer employee benefits. The Square ecosystem drives competitive differentiation for the Square Payroll product with the ability to use Square Payroll in conjunction with Square's POS products, Team Management, and Cash App.

(ii) Cash App ecosystem



Square's Cash App ecosystem provides financial products and services to help individuals manage their money. Cash App aims to redefine the world's relationship with money by making it more relatable, instantly available, and universally accessible. Cash App has a diverse set of customers across demographics and domestic regions. Cash App primarily serves customers in the United States with its breadth of products, and also provides certain services to customers in Europe, primarily the United Kingdom and Spain. While Cash App started with the single ability to send and receive money, it now provides an ecosystem of financial services that allows individuals to store, send, receive, spend, and invest their money in traditional stocks and bitcoin. In the three months and six months ended 30 June 2021, the Cash App ecosystem generated US$546 million and US$1,042 million of gross profit, respectively, and had 40 million monthly transacting active customers as of June 2021.

For personal use only

(A) **Storing, sending and receiving funds:** Customers can use Cash App to store funds by receiving money from another Cash App customer through the app's core peer-to-peer transfer service or by transferring money from a bank account. Square has worked to enhance the efficiency of peer-to-peer transfers by streamlining the onboarding process for new Cash App customers. Many Cash App accounts also have a routing number and a unique account number, which allows customers to deposit funds directly from their paychecks. These funds can then be sent to another customer through the app, spent anywhere that accepts cards or withdrawn from an ATM using the Cash Card, invested in stocks or ETFs, used to buy bitcoin, or transferred to a bank account (either instantly for a fee or for free in 1-3 days). Cash App is designed to make it easier for people to manage a business by enabling payments to their Cashtag, allowing higher weekly limits, and providing relevant tax reporting forms. As of 31 December 2020, Cash App had stored balances of approximately US$2.0 billion from its customers.

Cash App is focused on expanding globally to reach more customers. In the quarter ended 31 March 2020, Square launched cross-border payments between the United States and the United Kingdom, allowing customers to instantly transfer funds between these countries using real-time exchange rates with no fees.

(B) **Spending:** Cash Card is a prepaid debit card that is linked directly to a customer's Cash App balance. Customers can order a Cash Card for free and use their Cash Card anywhere that accepts Visa to make purchases, drawing down from the funds stored in their Cash App balance. Square earns interchange fees when individuals make purchases with Cash Card. Cash Card also offers customers discounts at certain businesses through the Cash Boost program. Cash Boost is a free and instant rewards program for Cash App customers, which offers a discount at a specific business or a discount at certain business types. Customers can select the Cash Boost they want to apply to their Cash Card through the Cash App, and the discount is instantly applied to their Cash App balance when customers make eligible transactions. Some Cash Boosts are selected and funded by Square, while others will be funded by Square's partners. Costs related to the Cash Boost rewards program that are funded by Square are recognised as reductions to revenue.

(C) **Investing:** Cash App makes investing more accessible by giving customers access to hundreds of listed stocks and ETFs, as well as the ability to buy and sell bitcoin. Stocks, ETFs, or bitcoin can be purchased using the funds in a customer's Cash App balance or from a linked debit card and once the order is filled, all investments are viewable through the Investing tab on the Cash App home screen. Cash App customers can buy fractional amounts of a stock, ETF, or bitcoin starting at $1, which expands access to investing to more people. Cash App recognises revenue when customers purchase or sell bitcoin within the app.

(D) **Tax preparation:** At the end of 2020, Square acquired Credit Karma Tax, which is intended to add a tax filing product for individuals to Cash App's ecosystem. Credit Karma Tax provides a seamless, mobile-first solution for individuals to file their taxes for free.

(iii) TIDAL

Square owns a majority ownership stake in TIDAL, a global music and entertainment platform that expands Square's purpose of economic empowerment to artists. TIDAL offers superior sound quality and an extensive catalogue of more than 70 million songs and 250,000 high-quality videos. TIDAL puts the fan experience at the centre of decisions, providing artists direct access to their audience and allowing fans deeper connections to their favourite artists through original, exclusive, and curated content and events. TIDAL has a global presence with listeners in more than 56 countries and relationships with more than 100 labels and distributors.

(iv) TBD

Square recently launched TBD, a bitcoin-focused ecosystem established to build an open developer platform with the sole goal of making it easy to create non-custodial, permissionless, and decentralised financial services.

(c) Product development and technology

Square designs its products and services with the intention that they be cohesive, fast, self-serve, and elegant, and Square organises its product teams accordingly, combining individuals from product management, engineering, data science, analytics, design, and product marketing. Square's products and services are platform-agnostic with most supporting iOS, Android, and web. Square frequently updates its software products and strives for a rapid software release schedule with improvements deployed regularly. Square's services are built on a scalable technology platform, and Square places a strong emphasis on data analytics and machine learning to maximise the efficacy, efficiency, and scalability of its services.

For personal use only

(d) Corporate structure

Square's business currently functions through a number of different entities. Square, Inc. is the parent company of the Square Group. The major subsidiaries of Square, Inc. as of 30 June 2021 are:

Subsidiary name	Jurisdiction of incorporation
Square Capital, LLC	Delaware, U.S.
Square Financial Services, Inc.	Utah, U.S.
Cash App Investing, LLC	Delaware, U.S.
Squareup International Limited	Ireland
Squareup Pte. Ltd.	Singapore
Square Canada, Inc.	Canada
Square Technologies, Inc.	Canada
Squareup Europe Ltd.	United Kingdom
Squareup (UK) Ltd.	United Kingdom
Decentralized Global Payments, S.L.U.	Spain
Verse Payments Lithuania UAB	Lithuania
Credit Karma Tax, Inc.	Delaware, U.S.
Aspiro AB	Sweden
Project Panther US, LLC	Delaware, U.S.
Tidal Music AS	Norway

(e) Operating structure

From 30 June 2020, Square changed the structure of its internal financial reporting to better align with how it manages its business. The new reportable operating segments are described as follows:

(i) Seller (50% of total gross profit in the six months ended 30 June 2021) – this segment provides the Seller ecosystem;

(ii) Cash App (49.5% of total gross profit in the six months ended 30 June 2021) – this segment provides the Cash App ecosystem; and

(iii) Corporate and Other (0.5% of total gross profit in the six months ended 30 June 2021) – this segment relates to products and services that are not assigned to a specific reportable segment.

(f) Geographical footprint

Square operates in multiple countries, including the United States, Canada, Japan, Australia, Ireland, Spain, Norway and the United Kingdom. Square's strongest presence is in the United States, which represented more than 97.6% of total net revenues in the six months ended 30 June 2021.

No individual country from the international markets contributed in excess of 10% of total net revenue for the six months ended 30 June 2021 and 2020.

For personal use only

(g) Customer overview

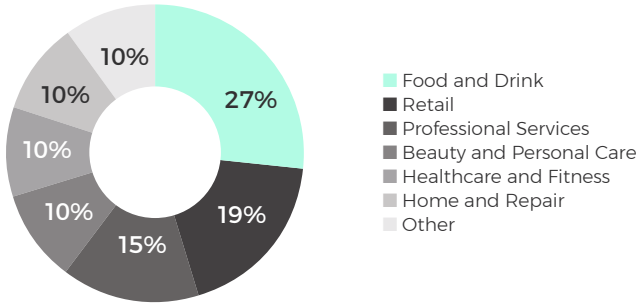
(i) Sellers

Square's sellers represent a diverse range of industries (including services, food-related, and retail businesses) and sizes, ranging from sole proprietors to multi-location businesses. These sellers also span geographies, including the United States, Canada, Japan, Australia, the United Kingdom, Ireland, France and Spain as of 30 September 2021.

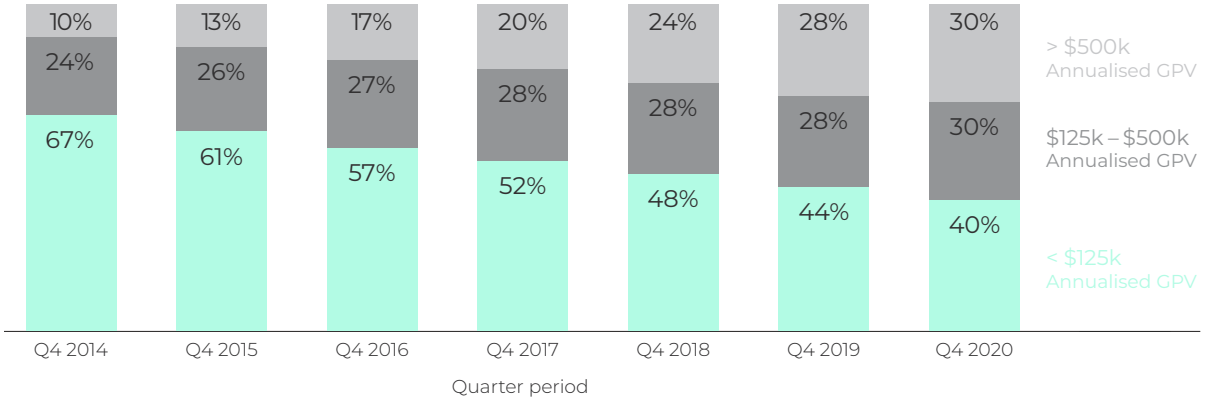
Square believes the diversity of its sellers underscores the accessibility and flexibility of Square's offerings. Square is also increasingly serving larger sellers, which Square defines as sellers that generate more than US$125,000 in annualised GPV. Square's ability to service larger sellers is due to its ability to offer more flexible and complex solutions as well as a growing product suite. GPV from larger sellers represented 60% of seller GPV in the quarter ending 31 December 2020, up from 56% in the prior year period. For the years ended 31 December 2020, 2019 and 2018, Square had no customer who accounted for greater than 5% of its GPV or its total net revenue.

The charts below show the percentage mix of Square's GPV by seller industry and seller size, excluding Cash App, for the year ended 31 December 2020:

% of GPV by industry



GPV mix by seller size



(ii) Cash App customers

As of June 2021, Cash App had 40 million monthly transacting active customers across the United States and Europe who had at least one financial transaction using any Cash App product or service during the specified period. In 2020, Cash App was the number one finance app in both the iOS App Store and Google Play, and was the number nine and number five app in the iOS App Store and Google Play, respectively, based on downloads in the United States. Cash App has a diverse mix of customers. In the United States, Cash App had transacting active customers in each of the 50 states and nearly every county as of December 2020.

For personal use only

(h) Revenue model

Broad portfolio of Seller products with multiple monetisation levers

		Transaction-based	Subscription and services	Hardware
Sidecar Payments	POS App with payments usage only	●		
Software and Integrated payments	Invoices, Virtual Terminal, Developer, APIs/SDKs, Third Party Apps	●		
	Square for Retail, Restaurants, Appointment, Square Online Store	●	●	
	Team Management, Marketing, Loyalty		●	
Financial Services	Square Card, Instant Transfer		●	
Capital	Core Flex Loans		●	
Hardware	Square Register, Terminal, Stand and Contactless and Chip Reader, Third Party Peripherals			●

Broad portfolio of Cash App products with multiple monetisation levers

	Engagement Drivers	Revenue Stream	Transaction-based	Subscription and services	Bitcoin
Sending Money	Peer-to-Peer (fiat and bitcoin)	Instant Deposit Cash for Business Credit Card funding	●	●	
Spending Money	Boost (rewards) Stored balance Direct Deposit	Cash Card interchange Cash Card Studio ATM withdrawals Interest income		●	
Investing Money	Bitcoin Stock Brokerage	Bitcoin			●

As further described in section 5.4(b), Square derives the majority of its revenue in the following forms:

(i) **Transaction based revenue:** Square charges its sellers a transaction fee generally based on a percentage of the total transaction amount processed. Custom pricing is also selectively offered for certain larger sellers. Cash App customers are also charged amounts for peer-to-peer transactions to business accounts and payments sent from a credit card.

(ii) **Subscription and services-based revenue:** Revenue from Cash App, Square Loans, and Instant Transfers for sellers currently comprise the majority of our subscription and services-based revenue. Cash App subscription and services-based revenue is primarily comprised of transaction fees from both Cash App Instant Deposit and Cash Card. Square Loans facilitates loans to sellers which are generally repaid through withholding a percentage of the collections of the seller's receivables processed by Square. Square sells certain loans to third-party investors for an upfront fee and is retained by those investors to service the loans and earn a servicing fee for facilitating the repayment of these receivables through Square's payments solutions. Other subscription and services-based products include Square Online and domain name registration services, Gift Cards, Square Appointments, Square Restaurants, Square Retail, Customer Engagement, Employee Management, Square Payroll, Square Card.

(iii) **Hardware revenue:** Hardware revenue includes revenue from sales of contactless and chip readers, Square Stand, Square Register, Square Terminal, and third-party peripherals.

For personal use only

(iv) **Bitcoin revenue:** Square recognises revenue when Cash App customers purchase bitcoin and it is transferred to their account. Square purchases bitcoin from private broker dealers or from Cash App customers and applies a small margin before selling it to customers.

(i) Key assets

(i) Human capital

Square's employees are a driving force in Square's business. Attracting, developing, and retaining top talent remain a focus in the development of Square's human capital programs. As of 30 June 2021, Square had 6,875 full-time employees worldwide with 1,057 full-time employees outside of the US. Square also engages temporary employees and consultants as needed to support its operations.

Square has a purpose-driven culture, with a focus on employee input and well-being, which Square believes enables it to attract and retain exceptional talent. While Square has always had distributed teams collaborating around the globe, the COVID-19 pandemic provided an unexpected experiment in remote work, as the vast majority of Square's employees pivoted to working from home starting in March 2020. In May 2020, Square announced that most employees would continue to have the option to work remotely even after Square's offices were reopened. Square management believes this flexible location policy has unlocked opportunities to source, connect, and hire talent in more locations.

A key focus of Square's human capital management approach is Square's commitment to improving inclusion and diversity, including by growing employee resource groups, equipping managers to build inclusive teams, and making diversity a central component of Square's recruiting strategy.

(ii) Intellectual property

Square seeks to protect its intellectual property rights by relying on a combination of federal, state, and common law rights in the United States and other countries, as well as on contractual measures. It is Square's practice to enter into confidentiality, non-disclosure, and invention assignment agreements with its employees and contractors, and into confidentiality and non-disclosure agreements with other third parties, in order to limit access to, and disclosure and use of Square's confidential information and proprietary technology. In addition to these contractual measures, Square also relies on a combination of trademarks, trade dress, copyrights, registered domain names, trade secrets, and patent rights to help protect its brand and its other intellectual property.

Square has developed a patent program and strategy to identify, apply for, and secure patents for innovative aspects of its products, services, and technologies where appropriate.

Square actively pursues registration of its trademarks, logos, service marks, trade dress, and domain names in the United States and in other jurisdictions. From time to time, Square also incorporates certain intellectual property licensed from third parties, including under certain open source licenses. However, even if any such third-party technology did not continue to be available to Square on commercially reasonable terms, Square management believes that alternative technologies would be available as needed in every case.

5.5. Strategy

Square's strategic plan emphasises the core areas that are intended to support future earnings growth in each business segment.

(a) Cash App ecosystem

Cash App has focused on strengthening its network, driving engagement and increasing inflows into the Cash App ecosystem.

(i) Strengthening the network

Cash App remains focused on the health of its network, including attracting and retaining engaged customers. Peer-to-peer payments have been a primary driver of customer acquisition. Based on evidence of increased frequency and volume of transactions through the Cash App network from existing and newer customers, Square believes customers have found increased utility across its ecosystem and peer-to-peer has continued to strengthen Cash App's customer base.

For personal use only

Cash App's marketing efforts are directed to attracting customers who could use more products and bring greater funds into the Cash App ecosystem. Cash App has increased its investment into new and existing paid marketing channels, brand awareness, bringing customers back into its ecosystem, and a number of creative marketing campaigns and partnerships to reach new audiences.

(ii) Driving engagement

Cash App is focused on increasing the number of active customers transacting on products in its ecosystem, including Cash Card, Cash Boost, Stock Brokerage, Bitcoin, Direct Deposit, and Cross-Border. Cash App has invested in product and feature enhancements to increase the utility of these products.

Cash App also intends to increase customer engagement of its ecosystem by launching new and differentiated products for its customers.

(iii) Increasing inflows into the ecosystem

A focus for Cash App has been attracting greater inflows into its ecosystem. Square intends to continue investing in Cash App's foundation by expanding its deposit and limit capabilities. As customers find value across the ecosystem, they have brought more money into Cash App, and growth in inflows has continued to be the primary driver of Cash App gross profit growth.

(b) Seller ecosystem

In relation to the Seller ecosystem, Square is continuing to enhance the ecosystem of products, grow upmarket and expand globally.

(i) Enhancing Square's Seller ecosystem of products

Square continues to strengthen its Seller ecosystem by launching new software, financial services, and hardware products and expanding features of its existing product set. Through this product innovation, the Seller ecosystem has focused on growing its omnichannel capabilities and expanding access to financial services. Recent launches for the Seller ecosystem include Square Banking for US sellers, which includes Square Savings, Square Checking, and Square Loans (formerly known as Square Capital), Square Messages, a new feature that helps sellers interact with their buyers more effectively through text message or email, an interactive kitchen display system (**KDS**) that helps sellers simplify and automate the complexities of running a restaurant, and self-serve ordering using QR codes.

(ii) Growing upmarket

Larger sellers showed strong momentum in the quarter ended 30 June 2021 as moving upmarket is a key focus for Square.

Square has focused on acquisition of larger sellers by increasing its sales and marketing investments, including performance marketing, awareness campaigns, and an increase in its sales team.

Square believes the breadth of its omnichannel software offerings is a primary reason that mid-market sellers join and stay with Square. The cohesive Seller ecosystem supports seamless integrations across online and in person channels. Square has continued to build software and integrated payments offerings, which have been the fastest-growing products in the Seller ecosystem and have improved seller retention.

(iii) Expanding globally

International expansion has remained a key priority for the Seller ecosystem. Square's international strategy is focused on investing further into brand and product awareness while improving product parity in new and existing markets. Square recently launched brand awareness campaigns in countries around the world with a focus on driving a broader understanding of its product capabilities.

Square is also launching in new markets, recently entering Ireland and France and will continue to explore expansion into new markets.

5.6. Dividend and Distribution Policy and History

Square has never declared nor paid any cash dividends on its capital stock. Square currently intends to retain all available funds and any future earnings for use in the operation of its business and does not expect to pay any dividends on its capital stock in the foreseeable future. Any future determination relating to Square's dividend policy will be at the discretion of the Square Board, subject to applicable laws, and will depend on Square's financial position, results of operations, capital requirements, general business conditions, and other factors the Square Board considers relevant.

For personal use only

5.7. Board and Executive Officers

(a) Board

As at the date of this Scheme Booklet, the Square Board comprises the following members:

Jack Dorsey
President, Chief Executive Officer and Chairman

Jack Dorsey is Square's co-founder and has served as Square's President and Chief Executive Officer and as a member of the Square Board since July 2009. From May 2007 to October 2008, Mr Dorsey served as President and Chief Executive Officer of Twitter, Inc. In July 2015, Mr Dorsey returned to Twitter and serves as Chief Executive Officer. He has served as a director of Twitter since May 2007. Mr Dorsey is committed to his chief executive officer roles at both Square and Twitter. Mr Dorsey also served as a member of the board of directors of The Walt Disney Company until March 2018.

Roelof Botha
Director

Roelof Botha has served as a member of the Square Board since January 2011. Since January 2003, Mr Botha has served in various positions at Sequoia Capital, a venture capital firm, including as a Managing Member of Sequoia Capital Operations, LLC. From 2000 to 2003, Mr Botha served in various positions at PayPal, Inc., including as Chief Financial Officer. Mr Botha currently serves on the boards of directors of Eventbrite, Inc., Natera, Inc., MongoDB, Inc., Unity Software, Inc., 23andme Inc. and a number of privately-held companies. Mr Botha holds a B.S. in Actuarial Science, Economics and Statistics from the University of Cape Town and an M.B.A. from the Stanford Graduate School of Business.

Amy Brooks
Director

Amy Brooks has served as a member of the Square Board since October 2019. Since November 2017, Ms Brooks has served as President, Team Marketing & Business Operations and Chief Innovation Officer at the National Basketball Association (the **NBA**), after serving as Executive Vice President from May 2014 to November 2017 and Senior Vice President from January 2010 to May 2014. She has served in roles of increasing responsibility at the NBA since January 2005. Ms Brooks also currently serves on the board of the Positive Coaching Alliance and on the board of directors of a privately-held company. Ms Brooks holds a B.A. in Political Science and Communication from Stanford University and an M.B.A. from the Stanford Graduate School of Business.

Shawn 'JAY-Z' Carter
Director

Shawn Carter, known professionally as JAY-Z, has served as a member of the Square Board since May 2021. Mr Carter is a musician, songwriter, record executive, producer, 22-time Grammy award-winner and entrepreneur. He has served as the co-founder and majority owner of Roc Nation LLC and founder of Marcy Media LLC, a full-service agency and entertainment company, since 2008 and co-founder and manager of Marcy Venture Partners, L.P., a venture capital and private equity firm, since March 2019. Since March 2015, he has been a founder, shareholder and artist of TIDAL, a global music and entertainment platform that brings artists and fans closer together through unique original content and exclusive events, which is currently majority owned by Square. Since 2014, Mr Carter has served as the co-founder, manager and board member of Ace of Spades Holdings, LLC, a luxury champagne company, and serves on the board of directors of a number of privately-held companies. Mr Carter has also served as the Chief Visionary Officer of TPCO Holdings Corp. since November 2020, and previously the Chief Brand Strategist of Caliva, from July 2019 until its acquisition by TPCO Holdings Corp. in November 2020. Since 2003, Mr Carter has served as the founder of the Shawn Carter Scholarship Foundation, a charitable organisation focused on education. He also currently serves on the board of directors of REFORM, a philanthropic organisation advocating for criminal justice reform.

For personal use only

Paul Deighton
Director

Paul Deighton has served as a member of the Square Board since May 2016. Mr Deighton has served as the non-executive chairman of The Economist Group since June 2018 and of Heathrow Airport Holdings Limited, the owner of Heathrow Airport in the United Kingdom, since June 2016. From December 2012 to May 2015, Mr Deighton served as Commercial Secretary to the Treasury and as a member of the House of Lords in the United Kingdom. Mr Deighton previously served as the Chief Executive Officer of the London Organising Committee of the Olympic and Paralympic Games and held various roles at The Goldman Sachs Group, an investment bank. Mr Deighton currently serves on the board of the Hakluyt Company Limited, an advisory firm, and as a member of the Parliamentary Committee overseeing the restoration of the Houses of Parliament. Mr Deighton holds a B.A. in Economics from Trinity College, Cambridge University.

Randy Garutti
Director

Randy Garutti has served as a member of the Square Board since July 2017. Since April 2012, Mr Garutti has served as Chief Executive Officer and on the board of directors of Shake Shack. Prior to becoming Chief Executive Officer, Mr Garutti served as Chief Operating Officer of Shake Shack since January 2010. Before Shake Shack, Mr Garutti was the Director of Operations for Union Square Hospitality Group, LLC, overseeing the operations for all its restaurants. Additionally, Mr Garutti currently serves on the board of directors of USHG Acquisition Corp., a company focused on the acquisition of hospitality and culture driven companies, and the Columbus Avenue Business Improvement District, a not-for-profit organisation. Mr Garutti holds a B.S. from Cornell University's School of Hotel Administration.

James 'Jim' McKelvey
Director

James McKelvey is Square's co-founder and has served as a member of the Square Board since July 2009. Since July 2013, Mr McKelvey has served as a Managing Director of SixThirty FinTech Accelerator, LLC, a financial technology accelerator. Since January 2018, Mr McKelvey has served as a General Partner of FinTop Capital, a venture capital firm. Since January 2017, Mr McKelvey has served as the Founder and CEO of Invisibly, Inc., a data publishing company. From March 2012 to December 2017, he served as a General Partner of Cultivation Capital, a venture capital firm. Since January 1990, Mr McKelvey has served in various positions at Mira Smart Conferencing, a digital conferencing company. Mr McKelvey currently serves on the boards of directors of a number of privately-held companies, as well as the Federal Reserve Bank of St. Louis. Mr McKelvey holds a B.S. in Computer Science and a B.A. in Economics from Washington University in St. Louis.

Mary Meeker
Director

Mary Meeker has served as a member of the Square Board since June 2011. Since January 2019, Ms Meeker has served as a General Partner of Bond Capital. From December 2010 to December 2018, Ms Meeker served as a General Partner of Kleiner Perkins Caufield & Byers. From 1991 to 2010, Ms Meeker worked at Morgan Stanley as a Managing Director and Research Analyst. Ms Meeker previously served on the boards of directors of LendingClub Corporation from June 2012 to June 2019 and DocuSign from June 2012 to June 2019, and currently serves on the boards of directors of a number of privately-held companies. Ms Meeker holds a B.A. in Psychology from DePauw University and an M.B.A. from Cornell University.

For personal use only

Anna Patterson
Director

Anna Patterson has served as a member of the Square Board since November 2017. Since April 2017, Ms Patterson has served as Founder and Managing Partner at Gradient Ventures, Google's artificial intelligence-focused venture fund, and since September 2010, as a Vice President of Engineering at Google. Prior to that, from January 2007 to September 2010, Ms Patterson served as Co-Founder and President at Cuil, and from February 2004 to January 2007, as Director of Engineering at Google. Ms Patterson also currently serves on the National Council at the School of Engineering and Applied Science at Washington University in St. Louis and on the boards of directors of a number of privately-held companies. Ms Patterson holds a B.S. in Computer Science and Electrical Engineering from Washington University in St. Louis and a Ph.D. in Computer Science from the University of Illinois at Urbana Champaign.

Lawrence Summers
Director

Dr Lawrence Summers has served as a member of the Square Board since June 2011. Since January 2011, Dr Summers has served as the Charles W. Eliot University Professor & President Emeritus of Harvard University and the Weil Director of the Mossavar-Rahmani Center for Business & Government at the Harvard Kennedy School. From January 2009 to December 2010, Dr Summers served as Director of the National Economic Council for President Obama. Dr Summers previously served as President of Harvard University, and he has also served in various other senior policy positions, including as Secretary of the Treasury and Vice President of Development Economics and Chief Economist of the World Bank. Dr Summers currently serves on the boards of directors of Doma Holdings, Inc. and Skillsoft Corp., as the Chairman of the International Advisory Board at Santander Bank and on the boards of directors of a number of privately-held companies. Dr Summers holds a B.S. in Economics from Massachusetts Institute of Technology and a Ph.D. in Economics from Harvard University.

David Viniar
Director

David Viniar has served as a member of the Square Board since October 2013. From August 1980 until his retirement in January 2013, Mr Viniar served in various positions at The Goldman Sachs Group, including as Chief Financial Officer, Executive Vice President and Head of the Operations, Technology, Finance and Services Division. Mr Viniar currently serves on the boards of directors of The Goldman Sachs Group and a number of privately-held companies. Mr Viniar holds a B.A. in Economics from Union College and an M.B.A. from Harvard Business School.

Darren Walker
Director

Darren Walker has served as a member of the Square Board since June 2020. Since 2013, Mr Walker has served as the President of the Ford Foundation, a philanthropic organisation. From 2010 to 2013, he served as Vice President for Education, Creativity and Free Expression at the Ford Foundation. Prior to the Ford Foundation, Mr Walker worked for the Rockefeller Foundation, a philanthropic organisation, and served as a Vice President responsible for foundation initiatives from 2005 to 2010. Mr Walker currently serves on the boards of directors of PepsiCo, Inc. and Ralph Lauren Corporation and on the boards of several non-profit organisations. Mr Walker is also a member of the Council on Foreign Relations and the American Academy of Arts and Sciences. Mr Walker holds B.A., B.S. and J.D. degrees from the University of Texas at Austin.

For personal use only

(b) Executive officers

Jack Dorsey
President, Chief Executive Officer and Chairman

See section 5.7(a).

Amrita Ahuja
Chief Financial Officer

Amrita Ahuja has served as Square's Chief Financial Officer since January 2019. From March 2018 to January 2019, Ms Ahuja served as the Chief Financial Officer of Blizzard Entertainment, Inc., a division of Activision Blizzard, Inc. Beginning in June 2010, she served in various positions at Activision Blizzard, Inc., including as Senior Vice President of Investor Relations from January 2015 to May 2018, Vice President, Finance and Operations from August 2012 to January 2015 and Vice President, Strategy and Business Development from June 2010 to August 2012. Prior to that, she was a Director of Business Development at Fox Networks Group, served in strategic planning at the Walt Disney Company from 2003 to 2005 and worked in investment banking at Morgan Stanley from 2001 to 2003. She holds an M.B.A. from Harvard Business School and an A.B. from Duke University.

Brian Grassadonia
Cash App Lead

Brian Grassadonia has served as Square's Cash App Lead since January 2013. From May 2012 to January 2013. Mr Grassadonia served as Square's Director of Product Development, as well as Square's Director of Growth from February 2011 to May 2012. He joined Square in September 2010 and served as Product Manager until February 2011. Mr Grassadonia currently serves on the board of directors of a privately-held company. Mr Grassadonia holds a Bachelor of Applied Science (BASc) in Management Science from the University of California, San Diego.

Alyssa Henry
Seller Lead

Alyssa Henry has served as Square's Seller Lead since October 2014. From May 2014 to October 2014, Ms Henry served as Square's Engineering Lead, Infrastructure. From April 2006 to April 2014, Ms Henry served in various positions at Amazon.com, Inc., including as Vice President, Amazon Web Services Storage Services, and as General Manager of Amazon S3. Prior to Amazon, Ms Henry held technical and leadership roles at Microsoft from 1994 to 2006. Ms Henry currently serves on the boards of directors of Confluent Inc., Intel Corporation and Unity Software, Inc. Ms Henry holds a B.S. in Mathematics-Applied Science with a Specialization in Computing from the University of California, Los Angeles.

Sivan Whiteley
General Counsel and Corporate Secretary

Sivan Whiteley has served as Square's General Counsel and Corporate Secretary since March 2018. From January 2016 to March 2018, Ms Whiteley served as Square's Associate General Counsel, as well as acting Co-General Counsel from September 2016 to December 2016. She joined Square as Counsel in March 2013 and was Director, Counsel from September 2013 to December 2015. Prior to that, Ms Whiteley served as Associate General Counsel at Better Place, Inc., as Commercial and Product Counsel at eBay Inc., and was a litigator at Bingham McCutchen LLC. Ms Whiteley holds a B.A., magna cum laude, in Political Science from the University of California, San Diego, and a J.D., cum laude, from Harvard Law School.

For personal use only

5.8. Interests of the Square Directors and Executive Officers

(a) Shareholding interests in Afterpay

Dr Lawrence Summers, a member of the Square Board, has served as a member of Afterpay's US Advisory Board (the **Advisory Board**) since September 2019 and in connection with his service as an Advisory Board member Dr Summers has received cash compensation of US$50,000 per quarter. The Advisory Board was not involved in the negotiation of the Scheme. Dr Summers was also granted an option to purchase 100,000 Afterpay ordinary shares at a weighted average exercise price of A$31.90. In connection with the Scheme, Dr Summers' options will be subject to the same treatment as other Afterpay options. In particular, any Afterpay ordinary shares issued to Dr Summers upon exercise of his options will be entitled to the same consideration as those held by other Afterpay Shareholders pursuant to the Scheme.

Mr Roelof Botha, a member of the Square Board, is a partner at Sequoia Capital, an investment firm whose related hedge fund Sequoia Capital Global Equities (**SCGE**) beneficially owns equity interests in Afterpay. SCGE and funds affiliated with Sequoia Capital also beneficially own equity interests in competitors of Afterpay. In addition to his beneficial ownership of and pecuniary interest in funds affiliated with Sequoia Capital, Mr Botha also has a passive investment in SCGE. Afterpay ordinary shares held by SCGE represent less than 1% of Afterpay ordinary shares outstanding, and Mr Botha has no investment discretion over SCGE or access to information about Afterpay or its competitors. Any Afterpay ordinary shares held by SCGE at the Record Date will be entitled to the same consideration as those held by other Afterpay Shareholders pursuant to the Scheme.

(b) Fees or benefits given or agreed to be given in connection with the Scheme

No fees or benefits have been given or agreed to be given to any Square Director or senior manager in connection with the Scheme.

(c) Material contracts with directors and executive officers

In July 2019, Square entered into a lease agreement to lease certain office space located in St. Louis, Missouri, from an affiliate of Mr Jim McKelvey. The term of the agreement is 15.5 years with total minimum lease payments over the term of approximately US$42.7 million. As of 30 June 2021, Square had recorded right-of-use assets of US$21.2 million and associated lease liabilities of US$33.4 million related to this lease arrangement.

On 30 April 2021, Square completed its acquisition of a majority stake in TIDAL pursuant to the Share Purchase Agreement (**TIDAL SPA**), dated 3 March 2021, between Vandutch Acquisition Corp., a direct wholly-owned subsidiary of Square (**Vandutch**), Project Panther, Ltd. (**Project Panther**), certain holders of equity interests in Project Panther (the **TIDAL Sellers**) and Mr Shawn Carter, as TIDAL Sellers' Representative. Pursuant to the TIDAL SPA, Vandutch purchased a majority interest in Project Panther in exchange for approximately US$302 million, which amount is subject to customary adjustments (the **TIDAL Transaction**). As part of the TIDAL Transaction, Mr Carter, directly and indirectly through entities affiliated with him, received approximately US$63.4 million, and a family member received approximately US$450,000, in each case in the form of cash and Square Class A Shares. The cash portion of this payment includes repayment of outstanding indebtedness owed by Project Panther and its subsidiaries to such affiliated entities. Mr Carter, the entities affiliated with him and the family member (collectively, the **TIDAL Related Parties**) may also be entitled to receive additional amounts from certain indemnification holdbacks in the future in connection with the TIDAL Transaction. Mr Carter was also reimbursed US$4.5 million in connection with certain insurance expenses related to the TIDAL Transaction which he previously paid on behalf of Project Panther. Following the TIDAL Transaction, the TIDAL Related Parties continue to retain a minority interest in Project Rising, LLC, TIDAL's new parent company and a direct subsidiary of Vandutch. In connection with the TIDAL Transaction, Square retains a call option to acquire this minority interest in the future.

Other than these arrangements relating to Mr McKelvey and Mr Carter, or as otherwise described in this section 5, no Square Director or executive officer has entered into a material contract with Square.

For personal use only

(d) Employment agreements with CFO and CEO

Square is party to employment letters (the **Employment Letters**) with each of Jack Dorsey and Amrita Ahuja. Mr Dorsey is the President and CEO of Square and reports to the Square Board. Ms Ahuja has served as CFO of Square since 14 January 2019.

Each employment letter has no specific term and provides for at-will employment. Mr Dorsey's annual base salary is a nominal US$2.75. Ms Ahuja is entitled to receive an annual base salary of US$475,000. Square executives, including Ms Ahuja, receive discretionary equity incentives through a mix of stock options and restricted stock-based awards. Ms Ahuja has received equity awards annually since commencing employment. Typically, Square's equity awards vest over four years, contingent on continued service, and Ms Ahuja's outstanding equity awards follow this practice, with her stock options vesting on a monthly basis and her restricted stock units vesting quarterly. Ms Ahuja's 2020 equity awards was granted in a mix of approximately 50% stock options and 50% restricted stock-based awards, with a grant date value of US$8,168,441. Mr Dorsey did not receive any equity awards in 2020 at his request, and because Square's Compensation Committee believed that his existing equity ownership position sufficiently aligned his interests with those of Square's shareholders.

Mr Dorsey and Ms Ahuja are each subject to a change of control and severance agreement (the **COC Agreements**). Under the COC Agreements, if, before a change of control, Square decides to terminate Mr Dorsey's or Ms Ahuja's (as relevant) employment with Square without cause, or due to his or her death or "disability" (as such terms are defined in his or her COC Agreement), outside the period commencing three months before, and ending 12 months after, a change of control (the **COC Period**):

(i) in the case of Ms Ahuja, Square may request that she continue to remain employed for a period of up to 180 days following that request (the **Transition Period**), during which Transition Period she would be expected to perform such transition and other duties as reasonably requested by Square and would continue to be paid her base salary, vest in her equity awards in accordance with their terms and be eligible to participate in Square's bonus and commission plans (if any) and employee benefit plans, each in accordance with their terms; and

(ii) in the case of either Mr Dorsey and Ms Ahuja, he or she will be eligible to receive the following payments and benefits if he or she timely signs and does not revoke a release of claims:

  (A) a lump-sum payment equal to: for Ms Ahuja, base salary for a number of days equal to (i) 180 minus (ii) the number of days in the entire Transition Period (or, if, during the Transition Period, Ms Ahuja's employment is terminated by Square without cause or due to his or her death or disability, the actual days worked during the Transition Period) (the Severance Period); and for Mr Dorsey, 75% of annual base salary;

  (B) a lump-sum payment equal to a pro rata portion of the annual bonus that Ms Ahuja and Mr Dorsey would have earned for the year of his or her termination if he or she had remained employed until eligible to receive the bonus;

  (C) a taxable lump-sum payment equal to the monthly COBRA premium required to continue health insurance coverage for: for Ms Ahuja and her eligible dependents, the Severance Period; and for Mr Dorsey, 9 months;

  (D) for Ms Ahuja, if the termination is due to reasons other than cause (excluding by reason of death or disability), each her then-outstanding time-based equity awards will immediately vest and become exercisable as to the number that were otherwise scheduled to vest and become exercisable had she remained employed with Square through the end of the Severance Period and no change of control occurred during the Severance Period; and

(iii) if the termination is due to death or disability, fully accelerated vesting and exercisability of all outstanding equity awards, and, with respect to equity awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels.

If , within the COC Period, Mr Dorsey's or Ms Ahuja's employment is terminated by Square without cause or due to death or disability or Mr Dorsey or Ms Ahuja resign for "good reason" (as defined in the relevant COC Agreement), and in the case of Ms Ahuja, she has completed any Square-requested Transition Period, Mr Dorsey and Ms Ahuja will be entitled to the following benefits if he or she signs and does not revoke a release of claims:

  (A) a lump-sum payment equal to 100% of his or her annual base salary as of immediately before termination (or, if termination is due to resignation for good reason based on material salary reduction then as of immediately before the reduction), or, if the amount is greater, as of immediately before the change of control;

  (B) a lump-sum payment equal to 100% of his or her target annual bonus (for the year of termination);

For personal use only

(C) a taxable lump-sum payment equal to 12 months of the monthly COBRA premium required to continue health insurance coverage for Ms Ahuja and Mr Dorsey and his or her eligible dependents; and

(D) 100% accelerated vesting of all outstanding equity awards, and, with respect to equity awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at the greater of actual performance or 100% of target levels.

None of Square's executive officers, including Mr Dorsey and Ms Ahuja, are expected to receive any severance or other compensation as a result of the transaction contemplated by the Scheme Implementation Deed, including the implementation of the Scheme.

Further information in relation to the remuneration of Square's executive officers can be found in Square's annual proxy statement, which is on file with the SEC. Square's annual proxy statement is not incorporated into this Scheme Booklet.

(e) Post-employment compensation

In addition to the COC Agreements described above, Square has also entered into change of control and severance agreements with Brian Grassadonia, Alyssa Henry and Sivan Whiteley that provide for certain specified payments and benefits if a termination of employment occurs under specified circumstances, including following a change of control of Square. Square believes that these protections are necessary to provide its valuable executives with incentives to forego other employment opportunities and remain employed with Square and to maintain continued focus and dedication to their responsibilities to maximise stockholder value, including if there is potential transaction that could involve a change of control. In addition, these protections are available only if a named executive officer executes and does not revoke a general release of claims in favour of Square. The terms of these agreements were determined by Square's Compensation Committee, with input from its management team, following a review of analysis of relevant market data for other companies with whom Square competes for executive talent. These agreements are reviewed annually by Square's Compensation Committee.

(f) Other director compensation

With the exception of the Employment Letter agreed with Mr Dorsey, Square is not party to any other employment contract with any of its directors. Square's non-employee directors participate in the Square Outside Director Compensation Policy, which provides that Square non-employee directors will receive compensation in the form of equity granted under the terms of Square's 2015 Equity Incentive Plan, as amended and restated (the **2015 Plan**), and cash, as described below.

Square's Compensation Committee periodically reviews Square's Outside Director Compensation Policy, including review of competitive practices provided by an independent compensation consulting firm.

(i) Director equity compensation

Square's 2015 Plan contains maximum limits on the size of the equity awards that can be granted to each of Square's non-employee directors in any fiscal year, but those maximum limits do not reflect the intended size of any potential grants or a commitment to make any equity award grants to Square's non-employee directors in the future. The only commitment to make equity award grants to Square's non-employee directors is under Square's Outside Director Compensation Policy, as it may be amended from time to time. The maximum limits under the 2015 Plan provide that no non-employee director may be granted, in any fiscal year, equity awards having a grant date fair value (determined in accordance with US generally accepted principles (**GAAP**)) of more than US$1 million, provided, that, the limit is US$2 million in connection with the director's initial service as a non-employee director. Equity awards granted to an individual while he or she was an employee or a consultant, but not a non-employee director, do not count for purposes of these limits.

Under the Outside Director Compensation Policy, Square Directors receive initial and annual awards as detailed below:

(A) Initial award: Subject to any limits in Square's 2015 Plan, each person who first becomes a non-employee director will receive an initial grant of RSUs on the date of his or her appointment having a grant date fair value (determined in accordance with GAAP) equal to the portion of US$250,000 multiplied by a fraction (i) the numerator of which is (x) 12 minus (y) the number of months between the date of the last annual meeting of stockholders and the date the non-employee director becomes a member of the Square Board and (ii) the denominator of which is 12.

For personal use only

(B) Annual award: On the date of each annual meeting of shareholders, and subject to any limits in Square's 2015 Plan, each of Square's non-employee directors is granted RSUs having a grant date fair value (determined in accordance with GAAP) equal to US$250,000.

David Viniar, as Square's Lead Independent Director, receives an annual grant of RSUs, in addition to the annual grant provided to all non-employee directors, on the date of each annual meeting of shareholders having a grant date fair value (determined in accordance with GAAP) of US$70,000, subject to any limits in Square's 2015 Plan.

The Square Class A Shares underlying the RSUs vest in full upon the earlier of (i) the first anniversary of the grant date or (ii) the date of the next annual meeting of shareholders, in each case subject to continued service through the vesting date.

The awards granted to a non-employee director under Square's Outside Director Compensation Policy will become fully vested upon a change in control.

(ii) Director cash compensation

Each of Square's non-employee directors also receives an annual cash retainer of US$40,000 for serving on the Square Board. In addition, each year, Square's non-employee directors are eligible to receive the following cash fees for service on the committees of the Square Board.

Board Committee	Chair Fee	Member Fee
Audit and Risk Committee	US$20,000	US$10,000
Compensation Committee	US$15,000	US$5,000
Nominating and Corporate Governance Committee	US$10,000	US$2,500

Subject to any limits under Square's 2015 Plan, each non-employee director may elect to convert any cash compensation that they would otherwise be entitled to receive under Square's Outside Director Compensation Policy into an award of RSUs under Square's 2015 Plan. If the non-employee director makes this election in accordance with the policy, each such award of RSUs will be granted on the first business day following the last day of the fiscal quarter for which the cash compensation otherwise would be paid under the policy, will be fully vested on the grant date and will cover a number of shares equal to (i) the aggregate amount of cash compensation otherwise payable to the non-employee director on that date, divided by (ii) the closing price per share as of the last day of the fiscal quarter for which the grant relates.

(iii) Director and executive officer indemnification

Square has entered into indemnification agreements with the Square Directors and Square's executive officers. The indemnification agreements, and Square's Certificate of Incorporation and Bylaws, require Square to indemnify the Square Directors and Square's executive officers to the fullest extent permitted by Delaware law.

5.9. Corporate Governance

(a) Overview

Square is incorporated under the laws of the State of Delaware and listed on NYSE. As such, Square's general corporate activities are not primarily regulated by the Corporations Act or by ASIC, but instead are regulated by the DGCL, U.S. Securities Act of 1933, as amended (the **Securities Act**), U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**), and the rules and regulations of the SEC and NYSE.

As Square is a US company which is listed on NYSE, the Square Board has adopted corporate governance guidelines and board committee charters reflecting NYSE listing standards. These documents can be found on Square's website at https://investors.squareup.com/governance/governance-documents/default.aspx.

Square has also agreed to establish a secondary listing for CDIs on ASX.

For personal use only

(b) Square Board

The business and affairs of Square are managed by or under the direction of the Square Board. The Square Board may exercise all powers of the company that are not required to be exercised by the company's stockholders.

The Square Board is responsible for electing, and may remove, the elected officers of the company, including the CEO, President and CFO.

(c) Square Board committees

The Square Board has established an audit and risk committee (**Square Audit and Risk Committee**), a compensation committee (**Square Compensation Committee**) and a nominating and corporate governance committee (**Square Nominating and Corporate Governance Committee**).

(i) Square Audit and Risk Committee

The Square Audit and Risk Committee is, among other things, responsible for the following:

- selecting and hiring a qualified independent registered public accounting firm to audit Square's financial statements;
- helping to ensure the independence and performance of the independent registered public accounting firm;
- reviewing Square's financial statements and discussing the scope and results of the independent audit and quarterly reviews with the independent registered public accounting firm, and reviewing, with management and the independent registered public accounting firm, Square's interim and year-end results of operations and the reports and certifications regarding internal controls over financial reporting and disclosure controls;
- preparing, reviewing and approving the audit and risk committee report that the SEC requires to be included in Square's annual proxy statement;
- reviewing the adequacy and effectiveness of Square's disclosure controls and procedures, and developing procedures for employees to submit concerns anonymously about questionable accounting or audit matters;
- reviewing Square's program and policies on risk assessment and risk management, including risks associated with data privacy and cybersecurity; reviewing and overseeing related party transactions for which review or oversight is required by applicable law or required to be disclosed in Square's financial statements or SEC filings; and
- approving or, as required, pre-approving, all audit and all permissible non-audit services and fees to be performed by the independent registered public accounting firm.

Each member of the Square Audit and Risk Committee meets the requirements for independence for audit committee members under the listing standards of the NYSE and SEC rules and regulations. The current members of the Square Audit and Risk Committee are David Viniar (Chair), Roelof Botha, Anna Patterson and Lawrence Summers.

(ii) Square Compensation Committee

The Square Compensation Committee is, among other things, responsible for the following:

- reviewing, approving and determining, or making recommendations to the Square Board regarding, the compensation of Square's executive officers;
- overseeing Square's overall compensation philosophy and compensation policies, plans and benefits programs, including those for Square's executive officers;
- administering Square's equity compensation plans; and
- reviewing, approving and making recommendations to the Square Board regarding incentive compensation and equity compensation plans.

Each member of the Square Compensation Committee meets the requirements for independence for compensation committee members under the listing standards of the NYSE and SEC rules and regulations. The current members of the Square Compensation Committee are Roelof Botha, Paul Deighton and Mary Meeker (Chair).

For personal use only

(iii) Square Nominating and Corporate Governance Committee

The Square Nominating and Corporate Governance Committee is, among other things, responsible for the following:

- identifying, evaluating and making recommendations to the Square Board regarding nominees for election to the Square Board and its committees;
- evaluating the performance of the Square Board, individual directors and Square's Chief Executive Officer;
- considering and making recommendations to the Square Board regarding the composition of the Square Board and its committees;
- overseeing, reviewing and making recommendations to the Square Board regarding Square's corporate governance practices, including Square's Corporate Governance Guidelines;
- overseeing Square's process for stockholder communications with the Square Board;
- conducting a periodic review of environmental, social and governance and other corporate responsibility matters of significance to Square;
- overseeing Square's commitment to inclusion and diversity (**Square I&D**), including the Square I&D policies and programs, and conducting a periodic review of the Square I&D efforts with Square's People Lead and Inclusion and Diversity Lead;
- reviewing and monitoring compliance with Square's Code of Business Conduct and Ethics and other actual and potential conflicts of interest, other than transactions with related parties reviewed by Square's Audit and Risk Committee; and
- reviewing the succession planning for Square's Chief Executive Officer, as well as each of Square's other members of Square's executive management team.

Each member of the Square Nominating and Corporate Governance Committee meets the requirements for independence for nominating and corporate governance committee members under the listing standards of the NYSE and SEC rules and regulations. The current members of the Square Nominating and Corporate Governance Committee are David Viniar, Amy Brooks, Randy Garutti (Chair) and Darren Walker.

(d) Insider Trading Policy and prohibitions on hedging and pledging transactions

Square's Insider Trading Policy among other things, prohibits Square's employees, including officers or directors from making short sales, engaging in transactions in publicly-traded options (such as puts and calls) and other derivative securities relating to Square's common stock, pledging any of Square's securities as collateral for a loan and holding any of Square's securities in a margin account, whether such securities are granted as compensation or are held, directly or indirectly, by the employee or director. This prohibition extends to any hedging or similar transaction designed to decrease the risks associated with holding Square securities.

(e) Code of Business Conduct and Ethics

The Square Board has adopted a written Code of Business Conduct and Ethics, which applies to all employees, officers and directors of Square.

The objectives of the Code of Business Conduct and Ethics are to ensure that high standards of corporate and individual behaviour are observed by all of Square's employees and that employees always act lawfully, honestly and ethically and in the best interest of Square.

5.10. Financial Information of Square

(a) Introduction

This section 5.10 contains the historical financial information of the **Square Group**, which is comprised of the **Square Historical Financial Information**, being:

(i) Square Group historical consolidated income statements for the years ended 31 December 2019 and 31 December 2020 and the six months ended 30 June 2021 (**Square Historical Income Statements**);

(ii) Square Group historical consolidated statement of financial position as at 30 June 2021 (**Square Historical Statement of Financial Position**); and

(iii) Square Group historical consolidated statements of cash flows for the years ended 31 December 2019 and 31 December 2020, and the six months ended 30 June 2021 (**Square Historical Cash Flow Statements**).

For personal use only

The Square Historical Financial Information has been reviewed by the Investigating Accountant, in accordance with the Australian Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information, as stated in its Independent Limited Assurance Report included in Attachment D. Afterpay Shareholders should note the scope and limitations of the Independent Limited Assurance Report.

Square Group's full year and quarterly consolidated financial statements, including all notes to those consolidated financial statements and a summary of Square Group's accounting policies can be found in:

(i) the Square 10-K Annual Reports for the year ended 31 December 2019 (filed with the SEC on 26 February 2020) and for the year ended 31 December 2020 (filed with the SEC on 23 February 2021); and

(ii) the Square 10-Q Quarterly Report for the quarter ended 30 June 2021 (filed with the SEC on 2 August 2021).

The complete versions of these reports are available from Square's website https://investors.squareup.com/ or the SEC's website, www.sec.gov.

This section 5.10 should be read in conjunction with the risks to which Square is subject and the risks associated with the Scheme, as set out in section 7.3.

(b) Basis of preparation

The Square Historical Financial Information included in this section 5.10 is intended to present Afterpay Shareholders with information to assist them in understanding the historical financial performance, financial position and cash flows of the Square Group. Square management is responsible for the preparation and presentation of the Square Historical Financial Information.

The Square Historical Financial Information has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Square Historical Financial Information has been prepared in a manner consistent with Square Group accounting policies applied by Square in preparing the Square Quarterly Report for the quarter ended 30 June 2021 and the Annual Report for the year ended 31 December 2020. The accounting principles used in the preparation of the Square Historical Financial Information are consistent with those set out in Square's Quarterly Report for the quarter ended 30 June 2021 and the Annual Report for the year ended 31 December 2020.

The Square Historical Financial Information for the years ended 31 December 2019 and 31 December 2020 has been derived from the Square Group's consolidated financial statements prepared for the Square 10-K Annual Reports for the respective years. These consolidated financial statements in Square's 10-K Annual Reports were prepared in accordance with U.S. GAAP.

The Square Historical Financial Information as at and for the six months ended 30 June 2021 has been derived from the Square Group's interim consolidated financial statements prepared for the Square 10-Q Quarterly Report for the quarter ended 30 June 2021. These interim consolidated financial statements in Square's 10-Q Quarterly Report were prepared in accordance with U.S. GAAP and the applicable rules and regulations of the SEC for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for full financial statements.

The Square Historical Financial Information, reported in USD thousands in the Square Group's 10-K Annual and 10-Q Quarterly Reports, has been converted into USD millions for the purposes of this Scheme Booklet. The Square Historical Financial Information is presented in USD as Square has determined USD as its functional currency and, unless otherwise noted, is rounded to the nearest USD hundred thousand.

Square Group's consolidated financial statements for the years ended 31 December 2019 and 31 December 2020 were audited by Ernst & Young LLP, Independent Registered Public Accounting Firm for Square, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Ernst & Young LLP issued unqualified audit opinions on these consolidated financial statements. Ernst & Young LLP performs reviews of Square's interim financial statements filed with the SEC in accordance with the standards of the Public Company Accounting Oversight Board (United States).

The Square Historical Financial Information contained in section 5.10 is presented in an abbreviated form as it does not include all the disclosures, statements or comparative information that are required by U.S. GAAP applicable to full financial statements or to financial statements prepared in accordance with the applicable rules and regulations of the SEC and Corporations Act.

For personal use only

(c) Square Historical Income Statements

Square Historical Income Statements for the years ended 31 December 2019 and 31 December 2020, and the six months ended 30 June 2021, are set out below.

Table 5.1: Square Historical Income Statements

(US$ millions)	Year ended 31 December 2019	Year ended 31 December 2020	Six months ended 30 June 2021[1]
Revenue			
Transaction-based revenue	3,081.1	3,295.0	2,187.2
Subscription and services-based revenue	1,031.5	1,539.4	1,242.9
Hardware revenue	84.5	91.7	72.5
Bitcoin revenue	516.5	4,571.5	6,235.4
Total net revenue	**4,713.6**	**9,497.6**	**9,738.0**
Cost of revenue			
Transaction-based costs[2]	1,938.0	1,911.9	1,206.6
Subscription and services-based costs[2]	234.3	222.7	209.4
Hardware costs	136.4	143.9	101.9
Bitcoin costs	508.2	4,474.5	6,105.8
Amortisation of acquired technology[2]	7.0	11.2	9.7
Total cost of revenue	**2,823.9**	**6,764.2**	**7,633.4**
Gross profit	**1,889.7**	**2,733.4**	**2,104.6**
Operating expenses			
Product development[3]	670.6	881.8	633.7
Sales and marketing[3]	624.8	1,109.7	723.9
General and administrative	436.3	579.2	416.9
Transaction and loan losses	127.0	177.7	68.6
Bitcoin impairment losses	–	–	65.1
Amortisation of acquired customer assets[3]	4.5	3.9	3.6
Total operating expenses	1,863.2	2,752.3	1,911.8
Operating income/(loss)	**26.5**	**(18.9)**	**192.8**
Gain on sale of asset group	(373.4)	–	–
Interest expense, net	21.5	56.9	6.7
Other expense/(income), net	0.3	(291.7)	(48.3)
Income before income tax	**378.1**	**215.9**	**234.4**
Provision/(benefit) for income taxes	2.8	2.9	(8.4)
Net income	**375.3**	**213.0**	**242.8**

Footnotes:

[1] The Square Group's 10-Q Quarterly Report for the 6 months ended 30 June 2021 is presented in condensed form and certain financial information line items have been reclassified in the above table to enable comparison with comparatives.

[2] Amortisation of acquired technology costs (US$9.7m) in the 6 months to 30 June 2021 10-Q Quarterly Report was condensed into Transaction-based costs (US$5.0m) and Subscription and service-based costs (US$4.7m). This has been reclassified in the above table to present Amortisation of acquired technology costs as a separate line item to align with the presentation Square will adopt going forward, which reverts to the 2019 and 2020 10-K Annual Report presentation.

[3] Amortisation of acquired customer assets (US$3.6m) in the 6 months to 30 June 2021 10-Q Quarterly Report was condensed into Product development (US$2.9m) and Sales and marketing (US$0.6m). This has been reclassified in the above table to present Amortisation of acquired customer assets as a separate line item to align with the presentation Square will adopt going forward, which reverts to the 2019 and 2020 10-K Annual Report presentation.

For personal use only

(d) Square Historical Statement of Financial Position

Square Historical Statement of Financial Position as at 30 June 2021 is set out below.

Table 5.2: Square Historical Statement of Financial Position

(US$ millions)	30 June 2021
ASSETS	
Current Assets	
Cash and cash equivalents	4,581.2
Investments in short-term debt securities	1,014.9
Settlements receivable	1,155.8
Customer funds	2,847.5
Loans held for sale	807.4
Other current assets	593.5
Total Current Assets	11,000.3
Property and equipment, net	260.9
Goodwill	501.4
Acquired intangible assets, net	262.2
Investments in long-term debt securities	947.1
Operating lease right-of-use assets	461.3
Other non-current assets	382.6
TOTAL ASSETS	13,815.8
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	
Customers payable	3,993.2
Settlements payable	257.0
Accrued expenses and other current liabilities	515.8
Operating lease liabilities, current	57.1
PPP Liquidity Facility advances	823.7
Total current liabilities	5,646.8
Long-term debt	4,841.3
Operating lease liabilities, non-current	404.6
Other non-current liabilities	186.4
TOTAL LIABILITIES	11,079.1
Stockholders' equity	
Additional paid-in capital	2,632.2
Accumulated other comprehensive income	7.8
Retained earnings	48.8
Total stockholders' equity attributable to common stockholders	2,688.8
Non-controlling interests	47.9
Total stockholders' equity	2,736.7
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	13,815.8

For personal use only

(e) Square Historical Cash Flow Statements

Square Historical Cash Flow Statements for the years ended 31 December 2019 and 31 December 2020, and the six months ended 30 June 2021, are presented below.

Table 5.3: Square Historical Cash Flow Statements

(US$ millions)	Year ended 31 December 2019	Year ended 31 December 2020	Six months ended 30 June 2021
Cash flows from operating activities			
Net income	375.3	213.0	242.8
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortisation	75.6	84.2	57.6
Non-cash interest and other[1]	33.5	76.1	11.3
Loss on extinguishment of long-term debt	–	6.7	–
Non-cash lease expense	29.7	70.3	41.0
Share-based compensation	297.9	397.8	265.0
Gain on sale of asset group	(373.4)	–	–
Loss (gain) on revaluation of equity investment	12.3	(295.3)	(47.8)
Bitcoin impairment losses	–	–	65.1
Transaction and loan losses	127.0	177.7	68.6
Change in deferred income taxes	(1.4)	(8.0)	(0.5)
Changes in operating assets and liabilities			
Settlements receivable[2]	(326.6)	(547.5)	(221.0)
Customer funds	(204.2)	(1,151.5)	(758.0)
Purchases and originations of loans	(2,266.7)	(1,837.1)	(1,664.0)
Sales, principal payments, and forgiveness of loans	2,168.7	1,505.4	1,284.1
Customers payable	523.8	1,733.1	985.3
Settlements payable	41.7	143.5	17.6
Other assets and liabilities	(47.5)	(186.8)	(49.3)
Net cash provided by operating activities	465.7	381.6	297.8
Cash flows from investing activities			
Net cash flows from/(used in) purchase and maturities of marketable debt securities[3]	(149.0)	(337.9)	(864.9)
Purchase of property and equipment	(62.5)	(138.4)	(66.6)
Purchase of bitcoin investments[4]	–	(50.0)	(170.0)
Purchase of other investments[4]	(15.3)	(1.3)	(45.4)
Proceeds from sale of equity investments	33.0	–	378.2
Proceeds from sale of asset group	309.3	–	–
Business combinations, net of cash acquired	(20.4)	(79.2)	(164.3)
Net cash provided by/(used in) investing activities	95.1	(606.8)	(933.0)

For personal use only

(US$ millions)	Year ended 31 December 2019	Year ended 31 December 2020	Six months ended 30 June 2021
Cash flows from financing activities			
Proceeds from issuance of convertible senior notes, net	–	2,116.5	–
Purchase of convertible senior note hedges	–	(338.1)	–
Proceeds from issuance of warrants	–	232.1	–
Proceeds from issuance of senior unsecured notes, net	–	–	1,971.8
Proceeds from PPP Liquidity Facility advances	–	464.1	681.5
Repayments of PPP Liquidity Facility advances	–	–	(322.0)
Payments for tax withholding related to vesting of restricted stock units	(212.3)	(314.0)	(292.2)
Proceeds from the exercise of stock options and purchases under the employee stock purchase plan	118.5	162.0	72.2
Other financing activities	(5.1)	(7.4)	–
Net cash provided by/(used in) financing activities	(98.9)	2,315.2	2,111.3
Effect of foreign exchange rate on cash and cash equivalents	3.8	13.0	(7.1)
Net increase in cash, cash equivalents and restricted cash	465.9	2,103.0	1,469.0

Footnotes:

[1] Non-cash interest and other for the year ended 31 December 2019 includes recovery of common stock in connection with indemnification settlement agreement (US$1.1m) which was presented as a separate line item in the 2019 10-K Annual Report. Square has reclassified this line item to Non-cash interest and other in the 2020 10-K Annual Report, and the 2019 historical comparative period has been restated in the above table to align with the presentation Square adopted for the year ended 31 December 2020. Square will continue to adopt this presentation going forward.

[2] Charge-offs to accrued transaction losses were presented as a separate line item in the 2019 (US$78.3m) and 2020 (US$73.6m) 10-K Annual Reports, this has been reclassified in the above table to Settlements receivables for the year ended 31 December 2019 and 31 December 2020 to align with the presentation Square adopted in the 10-Q Quarterly Report for the 6 months ended 30 June 2021. Square will adopt this presentation going forward.

[3] Net cash flows from/(used in) purchase and maturities of marketable debt securities is comprised of six separate line items that are individually reported in the 2019 and 2020 10-K Annual Reports and the 10-Q Quarterly Report for the 6 months ended 30 June 2021. These line items include purchase of marketable debt securities, proceeds from maturities of marketable debt securities, proceeds from sale of marketable debt securities, purchase of marketable debt securities from customer funds, proceeds from maturities of marketable debt securities from customer funds, and proceeds from sale of marketable debt securities from customer funds.

[4] Purchase of bitcoin investments were classified in the Purchase of other investments (US$51.3m) line item in the 2020 10-K Annual Report. This has been reclassified in the above table to Purchase of bitcoin investments (US$50m) for the year ended 31 December 2020 to align with the presentation Square adopted in its 10-Q Quarterly Report for the 6 months ended 30 June 2021. Square will adopt this presentation going forward.

(f) Material changes in financial position since 30 June 2021

Other than as disclosed in this Scheme Booklet, within the knowledge of Square as at the date of this Scheme Booklet, the financial position of the Square Group has not materially changed since 30 June 2021, being the latest date of the statement of financial position available for the Square Group as disclosed in its 10-Q Quarterly Report for the six months ended 30 June 2021.

For personal use only

(g) Financing

Long-term debt comprised the following as at 30 June 2021:

(i) Revolving Credit Facility

In May 2020, Square entered into a revolving credit agreement with certain lenders, which provided a US$500.0 million senior unsecured revolving credit facility (the **2020 Credit Facility**) maturing in May 2023.

On 28 May 2020, Square amended the credit agreement for the 2020 Credit Facility (the **Credit Agreement**) to permit Square's wholly owned subsidiary, Square Capital, LLC (**Square Capital**), to incur indebtedness in an aggregate principal amount of up to US$500.0 million pursuant to the PPPLF authorised under the Federal Reserve Act of 1913. In connection with its convertible debt offerings in November 2020, Square entered into a second amendment to the Credit Agreement on 9 November 2020 to permit convertible debt in an aggregate principal amount not to exceed US$3.6 billion. On 28 January 2021, Square entered into a third amendment to the Credit Agreement to increase the amount of indebtedness that Square Capital is permitted to incur pursuant to the PPPLF from an aggregate principal amount of up to US$500.0 million to an aggregate principal amount of up to US$1.0 billion. On 25 May 2021, Square entered into a fourth amendment to the Credit Agreement to, among other things, extend the maturity date of the loans advanced to 1 May 2024.

The Credit Agreement also contains a financial covenant that requires Square to maintain a quarterly minimum liquidity amount (consisting of the sum of Unrestricted cash and Cash Equivalents plus Marketable Securities, each as defined in the Credit Agreement) of at least US$250.0 million, tested on a quarterly basis. Square is obligated to pay customary fees for a credit facility of this size and type including an unused commitment fee of 0.15%. As of 30 June 2021, no funds had been drawn and no letters of credit have been issued under the 2020 Credit Facility. US$500.0 million remained available for draw. Square incurred US$0.2 million and US$0.4 million in unused commitment fees during the three and six months ended 30 June 2021, respectively, compared to US$0.1 million for the three and six months ended 30 June 2020, respectively. As of 30 June 2021, Square was in compliance with all financial covenants associated with the 2020 Credit Facility.

Loans under the 2020 Credit Facility bear interest at Square's option of (i) a base rate based on the highest of the prime rate, the federal funds rate plus 0.50%, and the adjusted LIBOR rate plus 1.00%, in each case, plus a margin ranging from 0.25% to 0.75% or (ii) an adjusted LIBOR rate plus a margin ranging from 1.25% to 1.75%. The Credit Agreement includes provisions allowing Square to replace or update LIBOR with a replacement rate. The margin is determined based on Square's total leverage ratio, as defined in the Credit Agreement. The Credit Agreement also contains customary affirmative and negative covenants typical for a financing of this type that, among other things, restricts Square and certain of its subsidiaries' ability to incur additional indebtedness, create liens, merge or consolidate or make certain dispositions, pay dividends and make distributions, enter into restrictive agreements, enter into agreements with affiliates, and make certain investments and acquisitions.

(ii) Paycheck Protection Program Liquidity Facility

On 2 June 2020, Square Capital was approved to borrow under the PPPLF with the Federal Reserve Bank of San Francisco (**First PPPLF Agreement**) at an annual interest rate of 0.35%. The PPPLF extends credit to eligible financial institutions that have originated or purchased PPP loans. Advances under the PPPLF are non-recourse and are secured by a pledge of PPP loans held by Square Capital. The maturity date of any PPPLF loan will be the maturity date of the PPP loans pledged to secure such PPPLF loan. The maturity date of any PPPLF loan will be accelerated on and to the extent of (i) the date of any loan forgiveness reimbursement by the SBA for any PPP loan securing such PPPLF loan; or (ii) the date of purchase by the SBA from Square Capital of any PPP loan securing such PPPLF loan to realise on the SBA's guarantee of such PPP loan.

The maturity date of all PPPLF loans shall be accelerated upon the occurrence of certain events of default by Square Capital, including but not limited to the failure to comply with a requirement of the PPPLF agreement or any representation, warranty, or covenant of Square Capital under the PPPLF agreement being inaccurate on or as of the date it is deemed to be made or on any date on which an PPPLF loan remains outstanding. Square can also at its option prepay the advances in full or in part without penalty. Square Capital also shall prepay PPPLF loans so that the amount of any PPPLF loans outstanding does not exceed the outstanding amount of PPP loans pledged to secure such PPPLF loans.

On 29 January 2021, Square Capital entered into a second PPPLF agreement with the Federal Reserve Bank of San Francisco (**Second PPPLF Agreement**) to secure additional credit collateralised by loans from the subsequent rounds of the PPP program in an aggregate principal amount of up to US$1.0 billion under both PPPLF agreements. As of 30 June 2021, US$823.7 million of PPPLF advances were outstanding and are, generally, collateralised by the same value of PPP loans. Any differences between the amounts are generally due to the timing of PPP loan repayment or forgiveness, and repayment of PPPLF advances.

For personal use only

(iii) Senior Unsecured Notes due in 2026 and 2031

On 20 May 2021, Square issued an aggregate principal amount of US$2.0 billion senior unsecured notes comprised of US$1.0 billion of senior unsecured notes due 2026 (**2026 Senior Notes**) and US$1.0 billion senior unsecured notes due 2031 (**2031 Senior Notes** and, together with the 2026 Senior Notes, the **Senior Notes**). The 2026 Senior Notes mature on June 1, 2026, unless earlier redeemed or repurchased, and bear interest at a rate of 2.75% payable semi-annually on 1 June and 1 December of each year. The 2031 Senior Notes mature on 1 June 2031, unless earlier redeemed or repurchased, and bear interest at a rate of 3.50% payable semi-annually on 1 June and 1 December of each year.

The Senior Notes are subject to optional redemption provisions. At any time prior to 1 May 2026, in the case of the 2026 Senior Notes, and 1 March 2031, in the case of the 2031 Senior Notes, Square may redeem the applicable series in whole or part at a price equal to 100% of the principal amount of the notes to be redeemed plus an applicable premium and accrued and unpaid interest, if any, to but excluding the redemption date. The applicable premium for any note is the greater of: (1) 1.0% of the principal amount of such note, and (2) the excess, if any, of (a) the present value at the redemption date of all scheduled payments of interest plus principal on such note (excluding accrued but unpaid interest, if any, to, but excluding, the redemption date) computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points, over (b) the principal amount of such note. At any time on or after 1 May 2026, in the case of the 2026 Senior Notes, and 1 March 2031, in the case of the 2031 Senior Notes, Square may redeem the notes of the applicable series in whole or part at a price of 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest, if any, to but excluding the redemption date.

If Square experiences a change of control triggering event (as defined in the applicable indenture governing the applicable Senior Notes), Square must offer to repurchase each series of Senior Notes at a repurchase price equal to 101% of the principal amount of the applicable notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the applicable repurchase date. In the event of default, the trustee or holders of at least 25% in aggregate principal amount of the applicable series of outstanding Senior Notes under the applicable indenture may declare all of the notes of the applicable series to be due and immediately payable. If the event of default is the result of specified events of bankruptcy, insolvency or reorganisation, all of the notes of the applicable series will become due without any declaration or action by the trustee or holders. If there is a default in the payment of interest, Square shall pay the defaulted interest plus, to the extent lawful, interest payable on the defaulted interest at the rate provided in the Senior Notes.

Debt issuance costs related to the 2026 Senior Notes and 2031 Senior Notes were comprised of discounts and commissions payable to the initial purchasers of US$22.5 million and third party offering costs of US$5.7 million. Issuance costs are amortised to interest expense using the effective interest method at an effective interest rate of 3.06% and 3.69% for each of the respective terms of the 2026 Senior Notes and 2031 Senior Notes, respectively.

(iv) Convertible Notes due in 2026 and 2027

On 13 November 2020, Square issued an aggregate principal amount of US$1.15 billion of convertible senior notes comprised of US$575.0 million of convertible senior notes due 2026 (**2026 Convertible Notes**) and US$575.0 million of convertible senior notes due 2027 (**2027 Convertible Notes**). The 2026 Convertible Notes mature on 1 May 2026, unless earlier converted or repurchased, and bears a zero rate of interest. The 2027 Convertible Notes mature on 1 November 2027, unless earlier converted or repurchased, and bear interest at a rate of 0.25% payable semi-annually on 1 May and 1 November of each year. Both the 2026 Convertible Notes and 2027 Convertible Notes are convertible at an initial conversion rate of 3.3430 Square Class A Shares per US$1,000 principal amount, which is equivalent to an initial conversion price of approximately US$299.13 per Square Class A Share.

Holders may convert their relevant series of notes at any time prior to the close of business on the business day immediately preceding 1 February 2026 and 1 August 2027 for the 2026 Convertible Notes and 2027 Convertible Notes, respectively, only under the following circumstances: (1) during any calendar quarter, commencing after the calendar quarter ending on 31 March 2021 (and only during such calendar quarter), if the last reported sale price of Square Class A Shares for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the indenture governing the 2026 Convertible Notes and 2027 Convertible Notes) per US$1,000 principal amount of 2026 Convertible Notes and 2027 Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of Square Class A Shares and the conversion rate on each such trading day; (3) if Square calls any or all of the 2026 Convertible Notes and 2027 Convertible Notes for redemption, such relevant series of notes called for redemption may be converted at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental change (as defined in the indenture governing the 2026 Convertible Notes and 2027 Convertible Notes) or a transaction resulting in Square Class A Shares converting into other securities or property or assets.

For personal use only

In addition, upon occurrence of the specified corporate events prior to the maturity date, Square would increase the conversion rate for a holder who elects to convert their relevant series of notes in connection with such an event in certain circumstances. On or after 1 February 2026 in the case of the 2026 Convertible Notes, and on or after 1 August 2027 in the case of the 2027 Convertible Notes, up until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder of the relevant series of notes may convert all or any portion of its 2026 Convertible Notes or 2027 Convertible Notes regardless of the foregoing circumstances. Upon conversion, Square will pay or deliver, as the case may be, cash, Square Class A Shares, or a combination of cash and Square Class A Shares, at Square's election. The circumstances required to allow the holders to convert their 2026 Convertible Notes and 2027 Convertible Notes were not met during the six months ended 30 June 2021. On or after 5 November 2023 for the 2026 Convertible Notes, and on or after 5 November 2024 for the 2027 Convertible Notes, Square may redeem all or a portion of each series of convertible notes for cash at its option, if the last reported sale price of Square Class A Shares has been at least 130% of the conversion price for the relevant series of notes then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which Square provides notice of redemption at a redemption price equal to 100% of the principal amount of the 2026 Convertible Notes and 2027 Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

As of 30 June 2021, the if-converted value of the 2026 Convertible Notes and 2027 Convertible Notes did not exceed the outstanding principal amount.

(v) Convertible Senior Notes due in 2025

On 5 March 2020, Square issued an aggregate principal amount of US$1.0 billion of convertible senior notes (**2025 Convertible Notes**). The 2025 Convertible Notes mature on 1 March 2025, unless earlier converted or repurchased, and bear interest at a rate of 0.1250% payable semi-annually on 1 March and 1 September of each year. The 2025 Convertible Notes are convertible at an initial conversion rate of 8.2641 Square Class A Shares per US$1,000 principal amount of 2025 Convertible Notes, which is equivalent to an initial conversion price of approximately US$121.01 per Square Class A Share.

Holders may convert their 2025 Convertible Notes at any time prior to the close of business on the business day immediately preceding 1 December 2024 only under the following circumstances: (1) during any calendar quarter, commencing after the calendar quarter ending on 30 June 2020 (and only during such calendar quarter), if the last reported sale price of Square Class A Shares for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the indenture governing the 2025 Convertible Notes) per US$1,000 principal amount of 2025 Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of Square Class A Shares and the conversion rate on each such trading day; (3) if Square calls any or all of the 2025 Convertible Notes for redemption, such 2025 Convertible Notes called for redemption may be converted at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental change (as defined in the indenture governing the 2025 Convertible Notes) or a transaction resulting in Square Class A Shares converting into other securities or property or assets.

In addition, upon occurrence of the specified corporate events prior to the maturity date, Square would increase the conversion rate for a holder who elects to convert their 2025 Convertible Notes in connection with such an event in certain circumstances. On or after 1 December 2024, up until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or any portion of its 2025 Convertible Notes regardless of the foregoing circumstances. Upon conversion, Square will pay or deliver, as the case may be, cash, Square Class A Shares, or a combination of cash and Square Class A Shares, at Square's election. Square may redeem for cash all or any part of the 2025 Convertible Notes, at its option, on or after 5 March 2023, if the last reported sale price of Square Class A Shares has been at least 130% of the conversion price for the 2025 Convertible Notes then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which Square provides notice of redemption at a redemption price equal to 100% of the principal amount of the 2025 Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. The circumstances to allow the holders to convert their 2025 Convertible Notes were met in the first quarter of 2021.

As of 30 June 2021, the if-converted value of the 2025 Convertible Notes exceeded the outstanding principal amount by US$1.0 billion.

For personal use only

(vi) Convertible Senior Notes due in 2023

On 25 May 2018, Square issued an aggregate principal amount of US$862.5 million of convertible senior notes (**2023 Convertible Notes**). The 2023 Convertible Notes mature on 15 May 2023, unless earlier converted or repurchased, and bear interest at a rate of 0.50% payable semi-annually on 15 May and 15 November of each year. The 2023 Convertible Notes are convertible at an initial conversion rate of 12.8456 shares of Square Class A Shares per US$1,000 principal amount of 2023 Convertible Notes, which is equivalent to an initial conversion price of approximately US$77.85 per Square Class A Share.

Holders may convert their 2023 Convertible Notes at any time prior to the close of business on the business day immediately preceding 15 February 2023 only under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter), if the last reported sale price of Square Class A Shares for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the indenture governing the 2023 Convertible Notes) per US$1,000 principal amount of 2023 Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of Square Class A Shares and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental change (as defined in the indenture governing the 2023 Convertible Notes) or a transaction resulting in Square Class A Shares converting into other securities or property or assets. On or after 15 February 2023, up until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or any portion of its 2023 Convertible Notes regardless of the foregoing circumstances. Upon conversion, Square will pay or deliver, as the case may be, cash, Square Class A Shares, or a combination of cash and Square Class A Shares, at Square's election. The circumstances to allow the holders to convert their 2023 Convertible Notes were met in the fourth quarter of 2020 and continued to be met through 30 June 2021. As of 30 June 2021, certain holders of the 2023 Convertible Notes have converted an aggregate principal amount of US$113.4 million of their 2023 Convertible Notes. Square has settled the conversions through the issuance of 1.5 million Square Class A Shares.

As of 30 June 2021, the if-converted value of the 2023 Convertible Notes exceeded the outstanding principal amount by US$1.6 billion.

(vii) Convertible Senior Notes due in 2022

On 6 March 2017, Square issued an aggregate principal amount of US$440.0 million of convertible senior notes (**2022 Convertible Notes**). The 2022 Convertible Notes mature on 1 March 2022, unless earlier converted or repurchased, and bear interest at a rate of 0.375% payable semi-annually on 1 March and 1 September of each year. The 2022 Convertible Notes are convertible at an initial conversion rate of 43.5749 Square Class A Shares per US$1,000 principal amount of 2022 Convertible Notes, which is equivalent to an initial conversion price of approximately US$22.95 per Square Class A Share.

Holders may convert their 2022 Convertible Notes at any time prior to the close of business on the business day immediately preceding 1 December 2021 only under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter), if the last reported sale price of Square Class A Shares for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the indenture governing the 2022 Convertible Notes) per US$1,000 principal amount of 2022 Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of Square Class A Shares and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental change (as defined in the indenture governing the 2022 Convertible Notes) or a transaction resulting in Square Class A Shares converting into other securities or property or assets. On or after 1 December 2021, up until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or any portion of its 2022 Convertible Notes regardless of the foregoing circumstances. Upon conversion, Square will pay or deliver, as the case may be, cash, Square Class A Shares, or a combination of cash and Square Class A Shares at Square's election. The circumstances required to allow the holders to convert their 2022 Convertible Notes were met in the fourth quarter of 2017 and continued to be met through 30 June 2021.

For personal use only

As of 30 June 2021, certain holders of the 2022 Convertible Notes have converted an aggregate principal amount of US$435.3 million of their 2022 Convertible Notes, of which US$3.8 million was converted during the six months ended 30 June 2021. Square has settled the conversions through a combination of US$219.4 million in cash and issuance of 16.3 million Square Class A Shares. The conversions during the six months ended 30 June 2021 were settled entirely in Square Class A Shares.

As of 30 June 2021, the if-converted value of the 2022 Convertible Notes exceeded the outstanding principal amount by US$45.4 million.

(viii) Convertible Note Hedge and Warrant Transactions

In connection with the offering of the 2027 Convertible Notes, Square entered into convertible note hedge transactions (**2027 convertible note hedges**) with certain financial institution counterparties (**2027 Convertible Notes Counterparties**) whereby Square has the option to purchase a total of approximately 1.92 million Square Class A Shares at a price of approximately US$299.13 per share. The total cost of the 2027 convertible note hedge transactions was US$104.3 million. In addition, Square sold warrants (**2027 warrants**) to the 2027 Convertible Notes Counterparties whereby the 2027 Convertible Notes Counterparties have the option to purchase a total of 1.92 million Square Class A Shares at a price of approximately US$414.18 per share for the 2027 warrants. Square received US$68.0 million in cash proceeds from the sale of the 2027 warrants. Taken together, the purchase of the 2027 convertible note hedges and sale of the 2027 warrants are intended to reduce dilution from the conversion of the 2027 Convertible Notes and/or offset any cash payments Square is required to make in excess of the principal amount of the converted 2027 Convertible Notes, as the case may be, and to effectively increase the overall conversion price from approximately US$299.13 per share to approximately US$414.18 per share for the 2027 warrants. As these instruments are considered indexed to Square's own stock and are considered equity classified, the 2027 convertible note hedges and 2027 warrants are recorded in stockholders' equity, are not accounted for as derivatives and are not re-measured each reporting period. The net costs incurred in connection with the 2027 convertible note hedges and 2027 warrant transactions were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets.

In connection with the offering of the 2026 Convertible Notes, Square entered into convertible note hedge transactions (**2026 convertible note hedges**) with certain financial institution counterparties (**2026 Convertible Notes Counterparties**) whereby Square has the option to purchase a total of approximately 1.92 million shares of Square Class A Shares at a price of approximately US$299.13 per share. The total cost of the 2026 convertible note hedges was US$84.6 million. In addition, Square sold warrants (**2026 warrants**) to the 2026 Convertible Notes Counterparties whereby the 2026 Convertible Notes Counterparties have the option to purchase a total of 1.92 million shares of Square Class A Shares at a price of approximately US$368.16 per share for the 2026 warrants. Square received US$64.6 million in cash proceeds from the sale of the 2026 warrants. Taken together, the purchase of the 2026 convertible note hedges and sale of the 2026 warrants are intended to reduce dilution from the conversion of the 2026 Convertible Notes and/or offset any cash payments Square is required to make in excess of the principal amount of the converted 2026 Convertible Notes, as the case may be, and to effectively increase the overall conversion price from approximately US$299.13 per share to approximately US$368.16 per share for the 2026 warrants. As these instruments are considered indexed to Square's own stock and are considered equity classified, the 2026 convertible note hedges and 2026 warrants are recorded in stockholders' equity, are not accounted for as derivatives and are not remeasured each reporting period. The net costs incurred in connection with the 2026 convertible note hedges and 2026 warrants were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets.

In connection with the offering of the 2025 Convertible Notes, Square entered into convertible note hedge transactions (**2025 convertible note hedges**) with certain financial institution counterparties (**2025 Convertible Notes Counterparties**) whereby Square has the option to purchase a total of approximately 8.26 million Square Class A Shares at a price of approximately US$121.01 per share. The total cost of the 2025 convertible note hedges was US$149.2 million. In addition, Square sold warrants (**2025 warrants**) to the 2025 Convertible Notes Counterparties whereby the 2025 Convertible Notes Counterparties have the option to purchase a total of 8.26 million Square Class A Shares at a price of approximately US$161.34 per share. Square received US$99.5 million in cash proceeds from the sale of the 2025 warrants. Taken together, the purchase of the 2025 convertible note hedges and sale of the 2025 warrants are intended to reduce dilution from the conversion of the 2025 Convertible Notes and/or offset any cash payments Square is required to make in excess of the principal amount of the converted 2025 Convertible Notes, as the case may be, and to effectively increase the overall conversion price from approximately US$121.01 per share to approximately US$161.34 per share. As these instruments are considered indexed to Square's own stock and are considered equity classified, the 2025 convertible note hedges and 2025 warrants are recorded in stockholders' equity, are not accounted for as derivatives and are not remeasured each reporting period. The net costs incurred in connection with the 2025 convertible note hedges and 2025 warrants were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets.

For personal use only

In connection with the offering of the 2023 Convertible Notes, Square entered into convertible note hedge transactions (**2023 convertible note hedges**) with certain financial institution counterparties (**2018 Counterparties**) whereby Square has the option to purchase a total of approximately 11.1 million Square Class A Shares at a price of approximately US$77.85 per share. The total cost of the 2023 convertible note hedges was US$172.6 million. In addition, Square sold warrants (**2023 warrants**) to the 2018 Counterparties whereby the 2018 Counterparties have the option to purchase a total of 11.1 million Square Class A Shares at a price of approximately US$109.26 per share. Square received US$112.1 million in cash proceeds from the sale of the 2023 warrants. Taken together, the purchase of the 2023 convertible note hedges and sale of the 2023 warrants are intended to reduce dilution from the conversion of the 2023 Convertible Notes and/or offset any cash payments Square is required to make in excess of the principal amount of the converted 2023 Convertible Notes, as the case may be, and to effectively increase the overall conversion price from approximately US$77.85 per share to approximately US$109.26 per share. As these instruments are considered indexed to Square's own stock and are considered equity classified, the 2023 convertible note hedges and 2023 warrants are recorded in stockholders' equity, are not accounted for as derivatives and are not remeasured each reporting period. The net costs incurred in connection with the 2023 convertible note hedges and 2023 warrants were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets. Square also exercised a pro-rata portion of the 2023 convertible note hedges, which were immaterial as of 30 June 2021.

In connection with the offering of the 2022 Convertible Notes, Square entered into convertible note hedge transactions (**2022 convertible note hedges**) with certain financial institution counterparties (**2017 Counterparties**) whereby Square has the option to purchase a total of approximately 19.2 million Square Class A Shares at a price of approximately US$22.95 per share. The total cost of the 2022 convertible note hedge transactions was US$92.1 million. In addition, Square sold warrants (**2022 warrants**) to the 2017 Counterparties whereby the 2017 Counterparties have the option to purchase a total of 19.2 million Square Class A Shares at a price of approximately US$31.18 per share. Square received US$57.2 million in cash proceeds from the sale of the 2022 warrants. Taken together, the purchase of the 2022 convertible note hedges and sale of the 2022 warrants are intended to reduce dilution from the conversion of the 2022 Convertible Notes and/or offset any cash payments Square is required to make in excess of the principal amount of the converted 2022 Convertible Notes, as the case may be, and to effectively increase the overall conversion price from approximately US$22.95 per share to approximately US$31.18 per share. As these instruments are considered indexed to Square's own stock and are considered equity classified, the 2022 convertible note hedges and 2022 warrants are recorded in stockholders' equity, are not accounted for as derivatives and are not remeasured each reporting period. The net costs incurred in connection with the 2022 convertible note hedges and 2022 warrants were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets. Square has exercised a pro-rata portion of the 2022 convertible note hedges to offset the Square Class A Shares issued to settle the conversion of the 2022 Convertible Notes discussed above. The 2022 convertible note hedges were net share settled, and as of 30 June 2021, Square has received 14.9 million Square Class A Shares from the 2017 Counterparties, of which 0.2 million was received in the quarter ended 30 June 2021.

5.11. Market Risk Position and Policy

Square financing arrangements as at 30 June 2021 are described at section 5.10(g). In addition to those arrangements, Square monitors, and considers the use of, a variety of techniques to mitigate the impact of market risks including credit risk, interest rate risk, currency risk and bitcoin market price risk.

(a) Credit risk

Financial instruments that potentially subject Square to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, marketable debt securities, settlements receivable, customer funds, reverse repurchase agreements, loans held for sale, and loans held for investment.

Square mitigates the associated risk of concentration for cash and cash equivalents and restricted cash by banking with creditworthy institutions. At certain times, amounts on deposit exceed federal deposit insurance limits. Square also mitigates the associated risk of concentration for marketable debt securities by holding a diversified portfolio of highly rated investments. Further, settlements receivable are amounts due from well-established payment processing companies and normally take one or two business days to settle, which mitigates the associated risk of concentration. The associated risk with reverse repurchase agreements is mitigated by the securities held as collateral and their short-term nature. The associated risk of concentration for loans held for sale and loans held for investment are partially mitigated by credit evaluations that are performed prior to facilitating the offering of and origination of loans and ongoing performance monitoring of Square's loan customers. Square considers the risk associated with the PPP loans to be low due to government guarantees on those loans.

For personal use only

For the three and six months ended 30 June 2021 and 30 June 2020, Square had no customer that accounted for greater than 10% of total net revenue. Square had two third-party payment processors that represented approximately 49% and 36% of settlements receivable as of 30 June 2021. As of 31 December 2020, there were two parties that represented approximately 59% and 27% of settlements receivable. All other third-party processors were insignificant.

(b) Interest rate risk

Square's cash and cash equivalents, and marketable debt securities as of 30 June 2021, were held primarily in cash deposits, money market funds, US government and agency securities, commercial paper, and corporate bonds. The fair value of Square's cash, cash equivalents, and marketable debt securities would not be significantly affected by either an increase or decrease in interest rates due mainly to the short-term nature of a majority of these instruments. Square also has the ability to hold these instruments until maturity if necessary to reduce its risk. Any future borrowings incurred under Square's credit facility would accrue interest at a floating rate based on a formula tied to certain market rates at the time of incurrence. A hypothetical 10% increase or decrease in interest rates would not have a material effect on Square's financial results.

(c) Currency risk

Most of Square's revenue is earned in US dollars and therefore Square's revenue is not currently subject to significant foreign currency risk. While Square's foreign operations are denominated in the currencies of the countries in which those operations are located, and may be subject to fluctuations due to changes in foreign currency exchange rates, a 10% increase or decrease in current exchange rates would not have a material impact on Square's financial results.

(d) Bitcoin market price risk

Square invested US$50.0 million and US$170.0 million in bitcoin in the fourth quarter of 2020 and first quarter of 2021, respectively. Bitcoin is accounted for as an indefinite lived intangible asset and is thus subject to impairment losses if the fair value of bitcoin decreases below the carrying value during the assessed reporting period. Impairment losses cannot be recovered for any subsequent increase in fair value until the sale of the asset. As of 30 June 2021, the fair value of the investment in bitcoin was US$281.4 million based on observable market prices resulting in US$126.5 million in unrecognised gains. Square recorded an impairment charge of US$45.3 million and US$65.1 million in the three and six months ended 30 June 2021 due to fluctuations in the market price of bitcoin observed during the period. A hypothetical 10% increase or decrease in the market price of bitcoin as of 30 June 2021 would have resulted in approximately US$15.5 million increase or decrease in the value of the bitcoin investment. Any decreases to the carrying value of bitcoin assets are recorded in operating expenses in Square's condensed consolidated statements of operations.

5.12. Capital Structure

As at the date of this Scheme Booklet, Square is authorised to issue 1,600,000,000 shares of capital stock comprising:

(a) 1,000,000,000 Square Class A Shares, par value US$0.0000001 per share;

(b) 500,000,000 shares of Square Class B Shares, par value US$0.0000001 per share; and

(c) 100,000,000 shares of preferred stock, par value US$0.0000001 per share.

As at 28 October 2021, Square had outstanding:

(a) 399,412,363 Square Class A Shares; and

(b) 62,100,770 Square Class B Shares.

Square does not have any equity compensation plans that are not approved by Square stockholders. Except with respect to voting rights and conversion rights, Square Class A Shares and Square Class B Shares are treated equally and identically.

See section 5.15 for a summary of the rights attaching to New Square Securities.

As at 28 October 2021, Square is party to obligations under which it has agreed to issue new Square Class A Shares in the future (not in connection with the Scheme) as set out in the table below and described in detail in section 5.15.

For personal use only

Square has also issued Square Convertible Notes and entered into related hedge and warrant transactions, which are described in detail in sections 5.10(g)(iv)–(viii).

Grant type	Maximum number of Square Shares underlying RSAs, RSUs and Options
Restricted Stock Awards	118,218
Restricted Stock Units	13,775,823
Options	9,379,446
Maximum total number of Square Shares underlying all RSAs, RSUs and Options	23,273,487

5.13. Substantial Holders

Based on public filings made by institutional investment managers and other holders of 5% or more of Square Class A Shares or Square Class B Shares, as well as information provided by Square Directors and executive officers, Square is aware that the following persons beneficially owned more than 5% of all Square Shares as of 31 July 2021:

	Number of Square shares		
Stockholder	Square Class A Shares	Square Class B Shares	Total voting power
Morgan Stanley[1]	6.11%	*	2.38%
The Vanguard Group[2]	6.06%	*	2.36%
BlackRock Inc.[3]	5.26%	*	2.05%
Jack Dorsey[4]	*	78.40%	47.84%
James McKelvey[5]	*	20.60%	12.58%

* Represents beneficial ownership of less than one percent (1%) of the outstanding shares of Square common stock.

Footnotes:

[1] Based solely on a Schedule 13G/A, reporting beneficial ownership as of 31 December 2020, filed with the SEC on 12 February 2021, with sole dispositive power over 0 shares of Square Class A common stock, sole voting power over 0 shares of Square Class A common stock, shared dispositive power over 24,316,533 shares of Square Class A common stock and shared voting power over 18,958,700 shares of Square Class A common stock. The address for Morgan Stanley is 1585 Broadway, New York, NY 10036.

[2] Based solely on a Schedule 13G/A, reporting beneficial ownership as of 31 December 2020, filed with the SEC on 10 February 2021, with sole dispositive power over 23,237,356 shares of Square Class A common stock, sole voting power over 0 shares of Square Class A common stock, shared dispositive power over 895,398 shares of Square Class A common stock and shared voting power over 391,289 shares of Square Class A common stock. The address for The Vanguard Group is 100 Vanguard Blvd., Malvern, PA 19355.

[3] Based solely on a Schedule 13G/A, reporting beneficial ownership as of 31 December 2020, filed with the SEC on 5 February 2021, with sole dispositive power over 20,935,606 shares of Square Class A common stock, and sole voting power over 18,084,122 shares of Square Class A common stock. The address for BlackRock, Inc. is 55 East 52nd Street, New York, NY 10055.

[4] Consists of (i) 36,763,992 shares of Square Class B common stock held of record by the Jack Dorsey Revocable Trust u/a/d 12/8/10, for which Mr Dorsey serves as trustee, and (ii) 12,080,574 shares of Square Class B common stock held of record by Start Small LLC, which Mr Dorsey manages.

[5] Consists of (i) 2,768 shares of Square Class A common stock and 200,000 shares of Square Class B common stock held of record by Mr McKelvey, (ii) 12,631,216 shares of Square Class B common stock held of record by the James McKelvey, Jr. Revocable Trust dated 2 July 2014, for which Mr McKelvey serves as trustee, and (iii) 175,000 shares of Square Class A common stock held of record by the Anna Elefteria Ntenta Revocable Trust dated 30 November 2017.

For personal use only

5.14. Employee Incentive Schemes

Square sponsors two share-based employee compensation plans under which equity awards have been granted:

(a) the Square Inc. 2009 Stock Plan (**2009 Plan**); and

(b) the Square Inc. 2015 Equity Incentive Plan, as amended and restated (**2015 Plan**),

together the **Equity Plans**.

The 2015 Plan serves as the successor to the 2009 Plan. The 2015 Plan became effective as of 17 November 2015. Outstanding awards under the 2009 Plan continue to be subject to the terms and conditions of the 2009 Plan. Since 17 November 2015, no additional awards have been nor will be granted in the future under the 2009 Plan.

In addition, Square maintains the Square 2015 Employee Stock Purchase Plan (**ESPP**), under which awards may also be granted. The ESPP became effective on 17 November 2015.

The Equity Plans and ESPP are administered by the Square Board and its Compensation Committee.

(a) Equity Plans

Under the 2015 Plan, Square Class A Shares are reserved for the issuance of incentive and non-statutory stock options (**ISOs** and **NSOs**, respectively, together being **Options**), restricted stock awards (**RSAs**), restricted stock units (**RSUs**), performance shares (**PSs**), and stock bonuses (together with Options, RSAs, RSUs and PSs, **Awards**) to eligible participants. Under the 2009 Plan, shares of common stock are reserved for the issuance of Options to eligible participants.

(i) **Eligibility and transferability:** Employees, directors and consultants of Square are eligible to participate in the Equity Plans (collectively, the **Participants**). Awards are generally non-transferable; however, the plan administrator may permit transfers to family members in certain circumstances.

(ii) **Share limits and outstanding Awards:** Initially, 30,000,000 shares were reserved under the 2015 Plan and any shares subject to options or other similar awards granted under the 2009 Plan that expire, are forfeited, are repurchased by Square or otherwise terminate unexercised will become available under the 2015 Plan. The number of shares available for issuance under the 2015 Plan will be increased on the first day of each fiscal year, in an amount equal to the least of (i) 40,000,000 shares, (ii) 5% of the outstanding shares on the last day of the immediately preceding fiscal year, or (iii) such number of shares determined by the administrator of the Plan.

(iii) **Options:** Options under the Equity Plans must generally be granted at a price per share not less than the fair market value at the date of grant. Options granted generally vest over a 4-year term from the date of grant, at a rate of 25% after one year, then monthly on a straight-line basis thereafter.

The 2009 Plan allows for early exercise of Options whereby the Option holder is allowed to exercise prior to vesting. Any unvested shares are subject to repurchase by Square at their original exercise prices.

The Square Compensation Committee determines the number of shares of Square common stock subject to each Option, its exercise price, its duration and the manner and time of its exercise. The Square Compensation Committee may provide that any Option is subject to vesting limitations that make it exercisable during its entire duration or during any lesser period of time.

A summary of Option activity for the six months ended 30 June 2021 is as follows (in thousands, except share and per share data):

	Number of Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance at 31 December 2020	13,630,882	17.84	3.84	2,723,394
Granted	183,441	253.79		
Exercised	(2,941,086)	12.92		
Balance at 31 December 2020	10,873,237	23.16	4.03	2,400,927
Options exercisable as of 30 June 2021	9,415,552	13.51	3.32	2,168,406

For personal use only

Aggregate intrinsic value represents the difference between Square's estimated fair value of its common stock and the exercise price of outstanding, "in-the-money" Options. Aggregate intrinsic value for Options exercised for the years ended 31 December 2020, 2019, and 2018 was US$1.2 billion, US$616.3 million, and US$720.1 million, respectively.

The total weighted average grant-date fair value of options granted was US$27.04, US$30.58 and US$16.25 per share for the years ended 31 December 2020, 2019 and 2018, respectively.

(iv) **RSAs, RSUs and PSs:** The Square Compensation Committee may grant RSAs and RSUs, being rights to receive shares of Square common stock at a specified future time, and PSs, being rights to receive shares of Square common stock at a specified future time and based on satisfaction of applicable performance goals. The Compensation Committee may also establish certain conditions and restrictions, including the period of restriction, purchase price, and with respect to PSs, the performance periods and goals. Subject to the satisfaction of applicable restrictions or performance goals during the applicable performance period, shares of common stock are generally delivered at settlement of the RSA, RSU or PS.

Payment of RSUs and PSs may be in cash, shares of Square common stock or some combination thereof, but generally such payment has been in shares of Square common stock.

Square issues RSAs and RSUs under the 2015 Plan, which typically vest over a term of 4 years.

Activity related to RSAs and RSUs during the six months ended 30 June 2021 is set out below:

	Number of shares	Weighted Average Grant Date Fair Value
Unvested as of 31 December 2020	15,622,645	71.71
Granted	3,344,454	241.35
Vested	(3,561,075)	58.31
Forfeited	(463,928)	85.96
Unvested as of 30 June 2021	14,942,096	112.43

The total fair value of shares vested in the year ended 31 December 2020, 2019, and 2018 were US$817.5 million, US$552.9 million, and US$489.3 million, respectively.

(b) Square Employee Stock Purchase Plan (ESPP)

The ESPP allows eligible employees of Square to purchase shares of Square's common stock at a discount through payroll deductions of up to 15% of their eligible compensation (or 25% for offering periods that commence after 1 November 2019), subject to any plan limitations.

The ESPP provides for 12-month offering periods, scheduled to start on the first trading day on or after 15 May and 15 November of each year. Each offering period includes two purchase periods, which begin on the first trading day on or after 15 November and 15 May, and ending on the last trading day on or before 15 May and 15 November, respectively. Employees are able to purchase shares at 85% of the lower of the fair market value of Square's common stock on the first trading day of the offering period or the last trading day of the purchase period.

The number of shares available for sale under the ESPP is to be increased annually on the first day of each fiscal year, equal to the least of (i) 8,400,000 shares, (ii) 1% of the outstanding shares of Square's common stock as of the last day of the immediately preceding fiscal year, or (iii) such other amount as determined by the administrator.

As of 31 December 2020, 5,829,106 shares had been purchased under the ESPP and 17,816,248 shares were available for future issuance under the ESPP.

At the end of each offering, options issued will be exercised and the accumulated payroll deductions are also required to be retained by Square as full payment of the option price unless the Participant elects prior to the exercise date to receive a cash payout of the accumulated payroll deductions instead. Each Participant is entitled to receive a number of whole shares of Square common stock equal to the accumulated payroll deductions credited to the Participant's account as of the exercise date divided by the option price.

Prior to the exercise date, a Participant may withdraw and request payment of an amount in cash equal to the accumulated payroll deductions credited to the Participant's account. Cash payments will also be made if the Participant is terminated or dies prior to the exercise date.

For personal use only

5.15. Rights Attaching to Square Issued Securities

(a) Common stock

(i) Voting rights

Holders of Square Class A Shares are entitled to one vote per share and holders of Square Class B Shares are entitled to ten votes per share on all matters to be voted upon by the stockholders. The holders of Square Class A Shares and Class B Shares will generally vote together as a single class on all matters submitted to a vote of its stockholders, unless otherwise required by US Delaware law or Square's amended and restated certificate of incorporation. The holders of Square's common stock do not have cumulative voting rights in the election of directors.

(ii) Dividends

Holders of Square's common stock are entitled to rateably receive dividends if, as, and when declared from time to time by the Square Board, after payment of any dividends required to be paid on preferred stock. Under US Delaware law, Square can only pay dividends either out of "surplus" or out of the current or the immediately preceding year's net profits. Surplus is defined as the excess, if any, at any given time, of the total assets of a corporation over its total liabilities and statutory capital. The value of a corporation's assets can be measured in a number of ways and may not necessarily equal its book value.

(iii) Right to receive liquidation distributions

Upon Square's dissolution, liquidation, or winding-up, the assets legally available for distribution to its stockholders are distributable rateably among the holders of its common stock, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights and payment of liquidation preferences, if any, on any shares of preferred stock.

(iv) Conversion

Each Square Class B Share is convertible at any time at the option of the holder into one Square Class A Share. In addition, subject to certain exceptions, each share of Square's Class B Shares will convert automatically into one Square Class A Share upon any transfer, whether or not for value. All outstanding Square Class B Shares will convert into Square Class A Shares when the Square Class B Shares represent less than 5% of the combined voting power of Class A and Class B Shares.

(v) Other matters

Square's common stock has no pre-emptive rights and no redemption or sinking fund provisions apply to it.

(b) New Square Securities

There are no differences between the rights attaching to the New Square Shares and the rights of other outstanding Square Class A Shares. There are certain differences between the New Square CDIs and New Square Shares, and thus by extension other outstanding Square Class A Shares. A summary of these differences is set out in section 3.4(a). There are also a number of differences between US/Delaware law and Australian law, a summary of which is set out in section 9.

5.16. Recent Square Class A Share price performance

The below chart shows the performance of Square Shares on NYSE over the last 2 years.

As at the close of trading on NYSE on 29 October 2021, being the last practicable day before the date of this Scheme Booklet:

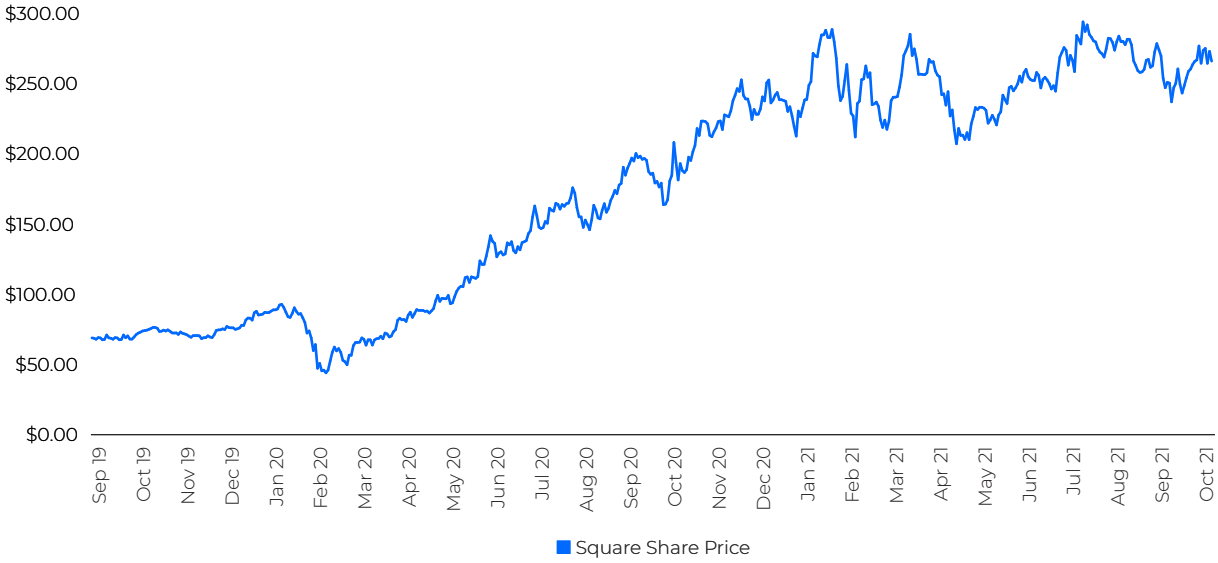
(a) the last recorded trading price of Square Class A Shares on NYSE was US$254.50; and

(b) the lowest and highest closing prices of Square Class A Shares during the previous 3 months were US$226.25 and US$281.81,

respectively.

For personal use only

As at 30 July 2021, being the last trading day before Afterpay and Square announced that they had entered into the Scheme Implementation Deed, the closing price of Square Class A Shares on NYSE was US$247.26.



5.17. Litigation

Square is currently subject to, and may in the future be involved in, various litigation matters, legal claims, and investigations. Square is subject to various legal matters and disputes arising in the ordinary course of business. Square cannot at this time fairly estimate a reasonable range of exposure, if any, of the potential liability with respect to these matters.

Although occasional adverse decisions or settlements may occur, Square does not believe that the final disposition of any of these matters will have a material adverse effect on its results of operations, financial position, or liquidity. Square cannot give any assurance regarding the ultimate outcome of these matters, and their resolution could be material to Square's operating results for any particular period.

5.18. No Pre-Transaction Benefits

Except as provided in this Scheme Booklet, during the period of 4 months before the date of this Scheme Booklet, neither Square nor any associate of Square gave, or offered to give, a benefit to another person which was likely to induce the other person, or an associate of the other person, to:

(a) vote in favour of the Scheme; or

(b) dispose of Afterpay Shares,

and which will not be provided to all Scheme Shareholders under the Scheme.

5.19. Existing Interests in Afterpay Shares

With the exception of the interests of Mr Summers and Mr Botha which are detailed above in section 5.8(a), neither Square nor any of its associates has a Relevant Interest in Afterpay Shares as at the date of this Scheme Booklet.

5.20. Dealing in Afterpay Shares in Previous 4 Months

Except for the consideration to be provided under the Scheme, and the arrangements involving Mr Summers and Mr Botha which are detailed above in section 5.8(a) neither Square nor any of its associates has provided, or agreed to provide, consideration for any Afterpay Shares under any purchase or agreement during the period of four months before the date of this Scheme Booklet.

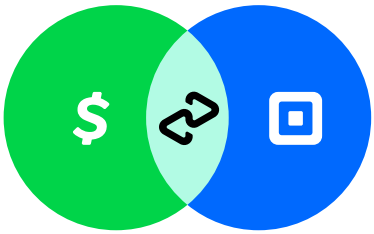
5.21. Further Information

Square files annual, quarterly and current reports, proxy statements and other information with the SEC. Square's SEC filings are available to the public at the SEC's website at www.sec.gov or at Square's website at www.squareup.com.

For personal use only

Section 6

Overview of the Combined Group



This section of the Scheme Booklet contains information in relation to the Combined Group that will be created if the Scheme is implemented.

6.1. Overview of the Combined Group

(a) Overview

Square and Afterpay are each industry leaders with best-in-class products and have a strong cultural alignment.

A shared vision and culture

Vision

Shared focus on empowering merchants and consumers

Our common purpose

"Economic empowerment"
– Square

"Power an economy in which everyone wins"
– Afterpay

Culture

Founder-led, entrepreneurial management teams with shared purpose, vision, and strong collaboration between leadership teams to guide integration and synergies

For personal use only

Through the business combination of Square and Afterpay, the Combined Group aims to create a leading global fintech provider to advance a shared mission of economic empowerment and financial inclusion, with an exceptional product mix and the potential for expansion into new geographies and verticals.

The acquisition of Afterpay's BNPL platform aims to enable the Combined Group to better deliver compelling financial products and services that will provide merchants with access to more customers and drive incremental revenue for merchants of all sizes. The Combined Group intends to utilise Afterpay's BNPL platform to strengthen the integration between Square's Seller and Cash App ecosystems, helping to drive more commerce between Seller and Cash App and broaden each ecosystem's capabilities and services. The Combined Group will accelerate Square's strategic priorities for its Seller and Cash App ecosystems as well as Afterpay's strategic priorities.

LTM basis as of 30 June 2021 unless otherwise stated	**16m** Consumers	**>70m** Consumers
Products	BNPL	P2P, Banking, Stocks, Bitcoin, Taxes
Consumer Base	Global Millennial/Gen Z, higher-income Coastal U.S.	Primarily U.S. Millennial/Gen Z South and southeast U.S.
Commerce	In-app **shopping discovery** **$975** in average GMV per consumer as of FY21 (AUD$1.3K)	**>10m** monthly Cash Card actives Growing **Boost rewards** platform
Engagement	Multiple purchases per month on avg, with **repeat buying**	**18** transactions per month on avg for monthly actives, up **40%** YoY

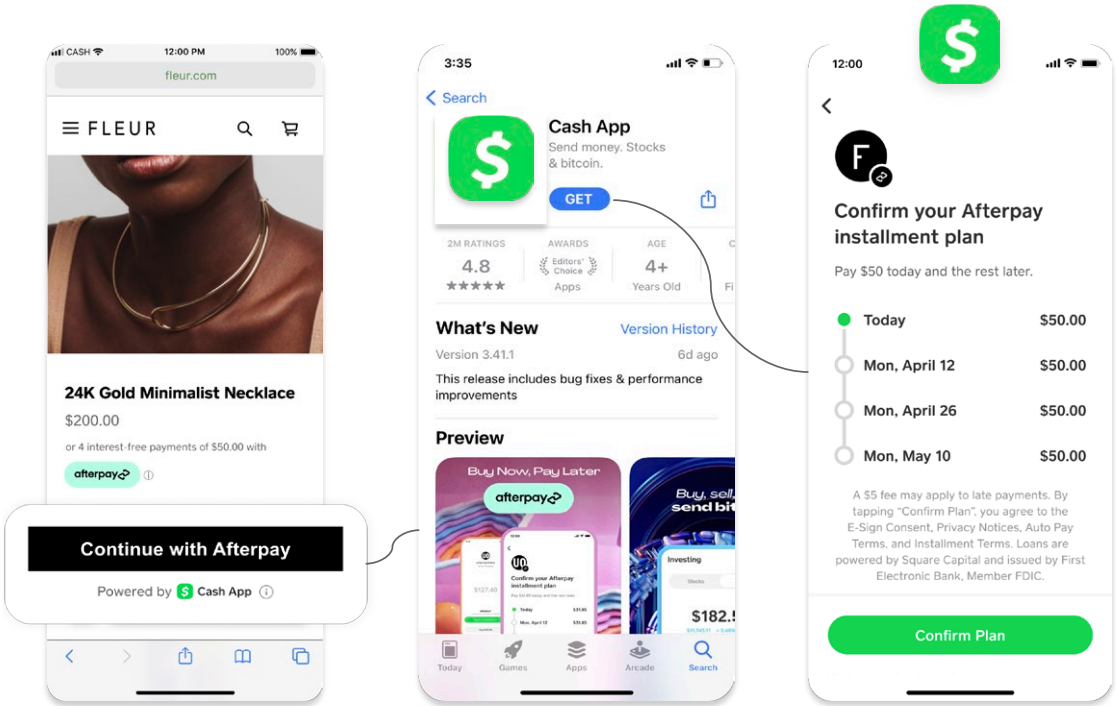
Last twelve months (LTM) basis as of 30 June 2021	**~100k** Merchants	**Millions** of Merchants
Products	BNPL	**30+ products including** Point of Sale, Managed Payments, CRM, Business Banking, Online, Hardware, Developer Platform, more
Channels	**$16B** of GMV ($21B AUD) **>85%** Online	**$140B** of GPV **~45%** In-person
Seller Size	**Enterprise merchants** generated majority of GMV	Moving upmarket: **Mid-market merchant** segment drove strongest GPV growth
Verticals	Primarily **retail**	**Diverse mix** of verticals
Geographies	**>50%** GMV from outside U.S.	**>85%** GPV from U.S.

For personal use only

The Combined Group is aiming to achieve the following benefits for customers:

(i) strengthen Afterpay's customer base by providing access to 70 million annual active Cash App customers, supporting more customers with flexible and responsible repayment options;

(ii) allow Afterpay customers to manage their instalments and repayments directly within Cash App, helping to encourage repeat engagement; and



(iii) integrate commerce discovery from Afterpay App into Cash App helping drive lead generation and commerce for merchants and customer engagement for Cash App.

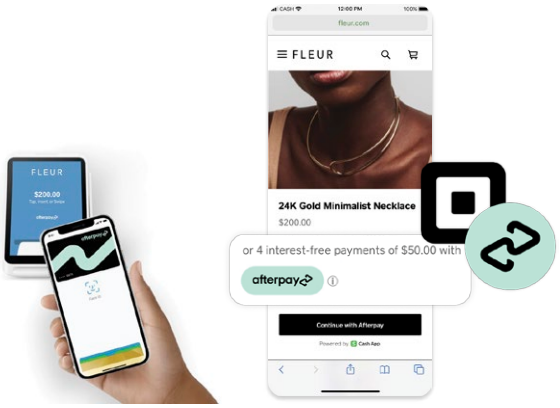
The Combined Group is aiming to achieve the following benefits for merchants:

(i) strengthen Afterpay's merchant base with millions of Square sellers;

(ii) attract new sellers to Square with BNPL as an acquisition tool;

(iii) integrate Afterpay into Square's online and in-person checkout solutions, strengthening Square's omnichannel platform for sellers; and

(iv) grow Afterpay's presence with small and midsize businesses, in person commerce and new verticals.



Upon implementation of the Scheme, the Combined Group will continue to be listed on NYSE under Square's existing symbol, SQ. Following implementation of the Scheme, Square will also establish a secondary listing on ASX, to allow New Square Shares to trade on ASX via CDIs under a symbol to be advised before implementation of the Scheme.

For personal use only

(b) Geographical footprint

The Combined Group is expected to operate across key markets including the United States, Australia, New Zealand, Canada, United Kingdom, Spain, Japan, Ireland and France.

Square and Afterpay have complementary geographical presences. On the customer side, Cash App has a strong customer base predominantly in the US, while Afterpay has a global customer base.

On the merchant side, more than 50% of Afterpay's gross merchandise value came from outside the US during the fiscal year ended 30 June 2021, while more than 85% of the gross payment volume from Square's Seller ecosystem came from within the US during the fiscal year ended 31 December 2020.

6.2. Synergies

(a) Overview

As outlined above, Square believes the Combined Group has the potential to achieve revenue synergies in the medium to longer term through multiple strategic levers. The Combined Group has the potential to expand the customer base of the Combined Group, expand the merchant base of the Combined Group, launch new products for customers and merchants, and strengthen existing products for customers and merchants.

(b) Key areas of potential synergies

Following implementation of the Scheme, the Combined Group plans to commence integration to seek potential synergies. Further details of the key areas of potential synergies are set out below:

(i) Estimated revenue synergies

Square believes incremental revenue could be driven by the following synergies:

Expanding the customer base	• Strengthen Afterpay's customer base of 16 million by providing access to 70 million annual active Cash App customers • Bring Afterpay's merchant base more customers through Cash App • Reach new Cash App audiences in global geographies
Expanding the merchant base	• Strengthen Afterpay's merchant base with millions of Square sellers • Attract new sellers to Square with BNPL as an acquisition tool • Grow upmarket with larger sellers and in new geographies together
Strengthen customer products and build connections	• Add Afterpay BNPL to the Cash App ecosystem • Integrate commerce discovery from Afterpay App into Cash App to drive engagement • Provide Afterpay customers access to the benefits of the Cash App ecosystem, including peer-to-peer transfer, stock, bitcoin, Cash Card, Boost and more
Strengthen merchant products and build connections	• Enable Afterpay BNPL for Square sellers, supporting their growth with the possibility of higher transaction sizes and conversion rates • Introduce the Seller ecosystem to Afterpay's merchants • Grow Afterpay's presence with SMBs, In-person commerce, and new verticals

(ii) Estimated cost synergies

Square does not expect that the Combined Group will realise material cost synergies from the transaction and expects synergies will be focused primarily on revenue growth opportunities, as outlined above.

(c) Long-term profitable growth

Square aims to, over time and following implementation of the Scheme, drive strong performance of the Combined Group through the integration of Afterpay into the Seller and Cash App ecosystems. Square intends to invest behind the strong cohort economics of Afterpay's existing business and invest behind the expected areas of synergies described above. Over the long term, Square believes the estimated revenue synergies will generate long term profitable growth for the Combined Group.

For personal use only

6.3. Square's Intentions

(a) Overview

This section 6.3 sets out certain of Square's intentions in relation to Afterpay and the Combined Group, including Square's intentions regarding:

(i) the continuation of the business of Afterpay and how Afterpay's existing business will be conducted;

(ii) any major changes to be made to the business of Afterpay; and

(iii) the future employment of the present employees of Afterpay,

in each case, after the Scheme is implemented.

The information contained in this section 6.3 and the intentions of the Combined Group have been formed on the basis of facts and information concerning Afterpay and the general business environment which are known to Square as at the date of this Scheme Booklet.

Square will review and make determinations regarding the matters set out below in light of all such material information, facts and circumstances at the relevant time. Accordingly, it is important to recognise that the statements set out in this section 6.3 are statements of current intentions only, which may change as new information becomes available or circumstances change.

The intentions of other members of the Square Group are the same as Square's intentions.

(b) Corporate structure

Square will be the parent company of the Combined Group upon the implementation of the Scheme, and Afterpay will be an indirect wholly-owned Australian subsidiary of Square following implementation of the Scheme.

(c) Operating structure

Following implementation of the Scheme, Square will undertake a review of the operating structure of the Afterpay Group which may result in Square implementing changes to the operating structure of either or both of the Afterpay Group and the Square Group.

While it is currently expected that the operating structure of the Combined Group will largely follow the Square Group's operating structure, as described in section 5, until Square undertakes its review of the Afterpay Group's operating structure, Square is unable to provide any detailed information regarding any potential changes to the Afterpay Group's operating structure, other than that described below.

(d) Restructure

Square intends, following implementation of the Scheme, to undertake a wide range of actions to assist with the integration of the Afterpay Group into the Square Group. As at the date of this Scheme Booklet, Square considers such actions may include the following:

(i) certain tax elections for US federal and state income tax purposes and Australian income tax purposes (e.g. consolidated tax group filings);

(ii) transfers and/or combination of entities and assets within the Combined Group;

(iii) actions affecting the capital structure of Afterpay Group Members and Square Members, including distributions of shares and receivables; and

(iv) conversions of members of the Combined Group into different types of legal entities.

(e) Strategy

Square intends that its strategic plan as outlined in sections 5.5, 6.1 and 6.2 will be applied to the Combined Group.

For the Combined Group, BNPL presents an attractive opportunity supported by shifting customer preferences away from traditional credit, especially among younger customers, consistent demand from merchants for new ways to grow their sales, and the global growth in omnichannel commerce.

For personal use only

In particular, the Combined Group and its complementary business, presents the following potential strategic opportunities:

(i) **Enhance both the Seller and Cash App ecosystems:** Afterpay's global merchant base will accelerate Square's growth with larger sellers and expansion into new geographies, while helping to drive further acquisition of new Square sellers. The integration of Afterpay will expand Cash App's growing product offerings, enable customers to manage their Afterpay repayments, and help customers discover new merchants when the Afterpay App is integrated into Cash App.

(ii) **Bring added value, differentiation and scale to Afterpay:** Afterpay will benefit from Square's large customer base of more than 70 million annual transacting active Cash App customers and millions of sellers, which will expand Afterpay's reach and growth both online and in-person. Afterpay customers will receive the benefits of Cash App's financial tools, including peer-to-peer transfers, stock and bitcoin purchases, Cash Card, Boost and more.

(iii) **Drive long-term growth with meaningful revenue synergy opportunities:** Square sees an opportunity to invest behind Afterpay's strong unit economics as well as attractive revenue synergies, including the opportunity to introduce offerings and drive incremental growth for sellers and increased engagement for Cash App customers.

(f) Continuation of business

Square intends that the Afterpay Group will operate in accordance with the strategy and direction of the Combined Group, as described in section 5.

Over time and following implementation of the Scheme, Square will further consider opportunities to further accelerate performance of the Combined Group through operational improvements and the realisation of synergies, as discussed above in section 6.2.

(g) Dividend Policy

Neither Afterpay nor Square has ever declared or paid any cash dividends on its capital stock.

It is expected that Square's current dividend policy, as outlined in section 5.6, will be the dividend policy of the Combined Group, following implementation of the Scheme.

(h) Future employment of the present employees of Afterpay

Afterpay's management and employees are expected to join Square's management team and employees following implementation of the Scheme.

During the 12-month period following implementation of the Scheme, each employee of Afterpay who continues employment with Square will continue to receive (i) an annual total target compensation opportunity that is no less favourable than the annual total target compensation opportunity in effect for such employee immediately prior to the Implementation Date, and (ii) other benefits that are, in the aggregate, substantially comparable to the aggregate other benefits provided to such employee immediately prior to the Implementation Date (excluding any defined benefit pension benefits or any one-time non-recurring compensation or benefits).

In addition, following implementation of the Scheme, each employee of Afterpay who continues employment with Square will receive service credit under any plan, program, policy or arrangement maintained by Square, including any vacation, paid time off and severance plans, for such employee's service with or otherwise credited by Afterpay; provided that such service shall not be recognised to the extent that such recognition would result in any duplication of benefits or for purposes of benefit accruals under any defined benefit pension plan.

Square intends that the Scheme will offer benefits for Afterpay's employees, by bringing together the businesses of the Afterpay Group and the Square Group which is expected to create exciting growth opportunities across the Combined Group and a leading global fintech company with an exceptional product mix.

As there are similarities and overlap of Afterpay's service offering to those of Square, as well as overlap of the geographies in which each of Afterpay and Square operate, some redundancies of Combined Group employees may result from the integration of Afterpay into Square. It is not possible for Square to currently predict the extent and timing of such redundancies, if they occur, but any such redundancies are not expected to be material.

For personal use only

(i) Employee incentive arrangements

Afterpay's existing employee incentive plans will no longer be applicable following implementation of the Scheme. Upon implementation of the Scheme, any outstanding equity awards of Afterpay and its subsidiaries held by employees will be generally be treated as follows:

(i) a portion of each Afterpay award will vest immediately following the Scheme becoming Effective so that the vested portion of the award equals the number of months of the total applicable vesting period that have elapsed through to the Scheme becoming Effective divided by the total number of months in the vesting period;

(ii) the vested portion of each Afterpay award will receive New Square Shares (less any exercise price in the case of Afterpay stock options); and

(iii) on implementation of the Scheme, the unvested portion of each Afterpay award will be converted into a Square award of the same character in a manner that preserves its value and generally on the same terms and conditions except that the award will vest on a quarterly basis from the Scheme becoming Effective through the last vesting date of the corresponding Afterpay award.

(j) Delisting of Afterpay from ASX

If the Scheme is implemented, Afterpay will request ASX to remove it from ASX's official list and such delisting is expected to occur shortly following such request.

Following delisting, Afterpay Shareholders will no longer be able to acquire or trade in Afterpay Shares on ASX. Afterpay Shareholders will, however, be able to trade in New Square Shares on NYSE or New Square CDIs on ASX.

(k) Headquarters

As of the date of this Scheme Booklet, no decisions have been made with respect to Afterpay's current headquarters.

6.4. Foreign Exempt Listing

Square will apply for admission to the official list of ASX as a Foreign Exempt Listing, conditional on the Scheme being implemented.

Once listed on ASX as a Foreign Exempt Listing, Square (as the parent company of the Combined Group) will be exempt from complying with most of the Listing Rules. However, Square must comply with ASX Listing Rules with regard to a Foreign Exempt Listing on ASX. These include the following:

(a) providing to ASX a copy of each public filing Square makes with SEC;

(b) continuing to comply with the listing rules of NYSE;

(c) registering as a foreign company carrying on business in Australia under the Corporations Act;

(d) complying with some Listing Rules relating to transfers and registers of Square CDIs; and

(e) complying with some Listing Rules relating to certain procedural and administrative matters, including the manner of lodgement of announcements and trading halts, suspension and removal.

The Listing Rules provide a list of the requirements Square will need to meet in order to qualify for admission as a Foreign Exempt Listing, but these requirements are not exhaustive and ASX retains the discretion to prescribe additional Listing Rules with which Square, as a Foreign Exempt Listing, must comply.

Further details on Square's corporate governance are set out in section 5.9, and a comparison of relevant Australian and US laws is set out in section 9.

For personal use only

6.5. Board and Management

(a) Board

(i) Existing Square Directors

It is expected that each of the existing 12 Square Directors will continue as directors following the implementation of the Scheme. Profiles for each of the existing Square Directors are set out in section 5.7.

(ii) Afterpay Director appointed to Combined Group Board

In accordance with the terms of the Scheme Implementation Deed, Square shall appoint one Afterpay Director to the Square Board, such appointment to be effective immediately following the Implementation Date. The appointed director shall be selected by Square in consultation with Afterpay, and Square will consider in good faith the recommendation of Afterpay with respect to that appointment.

(b) Afterpay's senior management

Anthony Eisen and Nick Molnar will join Square upon implementation of the Scheme. The respective Afterpay businesses will be integrated into Cash App and Seller, led by Brian Grassadonia and Alyssa Henry, respectively.

6.6. Financing

Square's financing arrangements prior to implementation of the Scheme are detailed in sections 5.10(g) and 5.11. Square expects that the financing sources outlined in sections 5.10(g) and 5.11, will remain in place following implementation of the Scheme.

Square will consider whether Afterpay's existing facilities or any part of them will be repaid on or following implementation of the Scheme. Those options are being explored as part of a broader review of Afterpay's financing structure in the context of Afterpay's integration into the Combined Group and as part of the Combined Group's overall financing strategy. Square also intends to discuss Afterpay's current finance facilities with the lenders in order to determine the treatment of such finance facilities in connection with implementation of the Scheme and its role in the Combined Group's overall financing strategy.

6.7. Capital Structure

It is anticipated that upon implementation of the Scheme, the Afterpay Shareholders will beneficially own approximately 18.4% of the fully diluted shares of Square common stock, based on the number of Square shares outstanding as of 16 September 2021 and giving effect to Square's outstanding stock options, restricted stock, employee stock purchase plan, convertible senior notes, and warrants. The actual number of shares of Square common stock that will be issued pursuant to the Scheme will depend on, among other factors, the number of Afterpay Shares, equity awards and other dilutive instruments outstanding on the Record Date, and the actual relative ownership levels of Square common stock will also depend on the number of shares of Square common stock outstanding upon implementation of the Scheme.

As part of the transfer of Afterpay Shares to Square Acquirer, Afterpay Shareholders on the Record Date will have the right to receive, for each Afterpay Share they hold, either of the following:

(a) 0.375 New Square Share; or

(b) 0.375 New Square CDIs.

Whether an Afterpay Shareholder receives a New Square Share or a New Square CDI will depend on the registered address of the Afterpay Shareholder. If an Afterpay Shareholder has a registered address in Australia or New Zealand, that Afterpay Shareholder will receive New Square CDIs but may elect to receive New Square Shares. However, where an Afterpay Shareholder's registered address is outside of Australia and New Zealand, that Afterpay Shareholder will receive New Square Shares but may elect to receive New Square CDIs.

If certain foreign Afterpay Shareholders are deemed ineligible to receive New Square Shares or New Square CDIs they will instead have the New Square Shares to which they are entitled issued to a Sale Agent, who will sell New Square Shares on NYSE and remit the sale proceeds (net of certain costs) to Square Acquirer (or to Square) to arrange for payment to the Ineligible Foreign Shareholders.

At any time prior to the lodgement of a draft of this Scheme Booklet with ASIC pursuant to the Corporations Act, Square Acquirer had the option to make the Cash Election, whereby Afterpay Shareholders would have received, upon implementation of the Scheme, approximately 1% of the original Scheme Consideration in Australian Dollars. Square Acquirer did not make the Cash Election.

For personal use only

6.8. Pro Forma Historical Financial Information of the Combined Group

(a) Overview

This section 6.8 contains the pro forma historical financial information of the Combined Group (**Combined Group Pro Forma Historical Financial Information**) comprising the:

(i) Combined Group pro forma historical income statements for the year ended 31 December 2020 and the six months ended 30 June 2021 (**Combined Group Pro Forma Historical Income Statements**), as set out in Table 6.1;

(ii) Combined Group pro forma historical statement of financial position as at 30 June 2021 (**Combined Group Pro Forma Historical Statement of Financial Position**), as set out in Table 6.4; and

(iii) Combined Group pro forma historical cash flows for the year ended 31 December 2020 and the six months ended 30 June 2021 (**Combined Group Pro Forma Historical Cash Flows**), as set out in Table 6.5.

The Combined Group Pro Forma Historical Financial Information has been reviewed by the Investigating Accountant, in accordance with the Australian Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, as stated in its Independent Limited Assurance Report included in Attachment D. Afterpay Shareholders should note the scope and limitations of the Independent Limited Assurance Report.

The Combined Group Pro Forma Historical Financial Information is based on and should be read in conjunction with:

(i) the Square Historical Financial Information presented in section 5.10 of this Scheme Booklet; and

(ii) the Afterpay Historical Financial Information presented in section 4.6 of this Scheme Booklet.

This section 6.8 should also be read in conjunction with the risks to which Square and the Combined Group are subject and the risks associated with the Scheme, as set out in section 7.

(b) Basis of preparation

The Combined Group Pro Forma Historical Financial Information included in this section 6.8 is intended to present Afterpay Shareholders with information to assist them in understanding the pro forma historical financial performance, financial position and cash flows of the Combined Group. Square management is responsible for the preparation and presentation of the Combined Group Pro Forma Historical Financial Information.

The Combined Group Historical Financial Information has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Combined Group Pro Forma Historical Financial Information has been prepared in a manner consistent with Square Group accounting policies applied by Square in preparing the Square Quarterly Report for the quarter ended 30 June 2021 and the Annual Report for the year ended 31 December 2020, using the assumptions set out in section 6.8(d) "Notes to the Combined Group Pro Forma Historic Financial Information".

The accounting principles used in the preparation of the Combined Group Pro Forma Historical Financial Information are consistent with those set out in the Square Quarterly Report for the quarter ended 30 June 2021 and the Square Annual Report for the year ended 31 December 2020.

The Combined Group Pro Forma Historical Financial Information presents the combination of the Square Historical Financial Information and the Afterpay Historical Financial Information after giving effect to the Scheme which is assumed to have occurred on 1 January 2020 for the Combined Group Pro Forma Historical Income Statements and the Combined Group Pro Forma Historical Cash Flows and as at 30 June 2021 for the Combined Group Pro Forma Historical Statement of Financial Position.

As discussed in section 4.6, the consolidated financial statements for Afterpay for the years ended 30 June 2020 and 30 June 2021 have been audited by Afterpay's auditor, Ernst & Young. Ernst & Young also performed a review of Afterpay's interim consolidated financial statements for the six months ended 31 December 2020 and 31 December 2019 and on which unqualified limited assurance conclusions were issued. As further discussed in section 5.10, the consolidated financial statements for Square for the year ended 31 December 2020 were audited by Ernst & Young LLP, Independent Registered Public Accounting Firm for Square. Ernst & Young LLP performs reviews of Square's interim financial statements filed with the SEC in accordance with standards of the Public Company Accounting Oversight Board (United States).

For personal use only

The Combined Group Pro Forma Historical Income Statements and Combined Group Pro Forma Historical Cash Flows for the year ended 31 December 2020 has been derived from the:

(i) Square Historical Financial Information for the year ended 31 December 2020 as outlined in section 5.10;

(ii) Afterpay Historical Financial Information for the year ended 30 June 2020 as outlined in section 4.6 adjusted to exclude the financial performance for the six months from 1 July 2019 to 31 December 2019 and include the financial performance for the six months from 1 July 2020 to 31 December 2020 based on the information in the Afterpay half year financial reports for the six months ended 31 December 2019 and 31 December 2020 respectively;

(iii) Afterpay Historical Financial Information for the year ended 30 June 2020 as outlined in section 4.6 adjusted to exclude the cash flows for the six months from 1 July 2019 to 31 December 2019 and include the cash flows for the six months from 1 July 2020 to 31 December 2020 based on the information in the Afterpay half year financial reports and unaudited management accounts for the six months ended 31 December 2019 and 31 December 2020 respectively;

(iv) Afterpay Historical Financial Information for the year ended 31 December 2020 as derived in (ii) and (iii) above further adjusted for reclassifications, U.S. GAAP conversion and presentation currency adjustments, as detailed in Notes 1, 2 and 3 of section 6.8.(d); and

(v) adjusted for the effects of pro forma adjustments described in Notes 4 to 7 of section 6.8(d).

The Combined Group Pro Forma Historical Financial Information as at and for the six months ended 30 June 2021 has been derived from the:

(i) Square Historical Financial Information as at and for the six months ended 30 June 2021 as outlined in section 5.10;

(ii) Afterpay Historical Financial Information as at and for the year ended 30 June 2021 as outlined in section 4.6 and for the purposes of the Combined Group Pro Forma Historical Income Statement adjusted to exclude the financial performance for the six months from 1 July 2020 to 31 December 2020 based on the information in Afterpay half year financial report for the six months ended 31 December 2020;

(iii) Afterpay Historical Financial Information for the year ended 30 June 2021 as outlined in section 4.6 and for the purposes of the Combined Group Pro Forma Historical Cash Flows adjusted to exclude the cash flows for the six months from 1 July 2020 to 31 December 2020 based on the information in the Afterpay half year financial report and unaudited management accounts for the six months ended 31 December 2020;

(iv) Afterpay Historical Financial Information for the six months ended 30 June 2021 as derived in (ii) and (iii) respectively, further adjusted for reclassifications, U.S. GAAP conversion and presentation currency adjustments, as detailed in Notes 1, 2 and 3 of section 6.8.(d); and

(v) adjusted for the effects of pro forma adjustments described in Notes 4 to 7 of section 6.8.(d).

The consummation of the Scheme remains subject to the satisfaction of various Conditions Precedent, including Afterpay Shareholder approval, Court, regulatory and other approvals. Square notes that the Scheme has not been consummated, and may never be consummated, including due to reasons outside of Square's control.

The Combined Group Pro Forma Historical Financial Information is presented for informational purposes only and is not intended to present or be indicative of what the results from operations or financial position would have been had the events actually occurred on the dates indicated, nor is it meant to be indicative of future results from operations or financial position for any future period or as of any future date. The Combined Group Pro Forma Historical Financial Information does not give effect to the potential impact of current financial conditions, or any anticipated revenue enhancements, cost savings or operating synergies that may result from the implementation of the Scheme and the integration of the two businesses.

The pro forma adjustments are based upon currently available information and certain assumptions that Square believes are reasonable. Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the Combined Group Pro Forma Historical Financial Information. The actual adjustments to the Square Group's financial statements will depend upon a number of factors and additional information that will be available on or after the implementation of the Scheme. Accordingly, the actual adjustments that will appear in the Square Group's financial statements will differ from these pro forma adjustments, and those differences may be material.

For personal use only

The Square Group conducted an initial review of the financial statements, which comply with IFRS, and the accounting policies of Afterpay, to determine material differences in accounting policies and financial statement presentation between Square and Afterpay that may require alignment or reclassification to conform to Square's accounting policies and financial statement presentations. Afterpay's historical financial information has been adjusted, in accordance with the SEC's Rule 11-02 of Regulation S-X, for differences between IFRS and U.S. GAAP. The assessment of differences between IFRS and U.S. GAAP is based on Square management's best estimates which remain subject to change as additional information becomes available.

Square prepares its financial statements on the basis of a fiscal year ended 31 December and its functional currency is US$. The financial statements of Afterpay Group have historically been prepared on the basis of a fiscal year ended 30 June and Afterpay's functional currency is A$. The Combined Group Pro Forma Historical Financial Information is presented in US$ and, unless otherwise noted, is rounded to the nearest US$ hundred thousand. Square Group and Afterpay Group present numbers in thousands in their historical financial statements. For the purpose of this Scheme Booklet, numbers have been converted to millions. This may result in rounding differences in tables presented in this section.

Due to its nature, the Combined Group Pro Forma Historical Financial Information does not represent the Combined Group's actual or prospective financial position, financial performance, and cash flows.

The Combined Group Pro Forma Historical Financial Information contained in section 6.8 is presented in an abbreviated form as it does not include all the disclosures, statements or comparative information that are required by U.S. GAAP applicable to full financial statements or to financial statements prepared in accordance with the applicable rules and regulations of the SEC and the Corporations Act.

(c) Combined Group Pro Forma Historical Financial Information

The Combined Group Pro Forma Historical Financial Information included in this section 6.8(c) is comprised of:

- the pro forma historical financial performance of the Combined Group, being the Combined Group Pro Forma Historical Income Statements for the year ended 31 December 2020 and for the six months ended 30 June 2021 (Table 6.1), supported by a reconciliation between the Square and Afterpay historical consolidated income statements to the Combined Group Pro Forma Historical Income Statements for each respective period end (Table 6.2 to 6.3);
- the pro forma historical financial position of the Combined Group, being the Combined Group Pro Forma Historical Statement of Financial Position as at 30 June 2021 (Table 6.4); and
- the pro forma historical cash flows of the Combined Group, being the Combined Group Pro Forma Historical Cash Flows for the year ended 31 December 2020 and for the six months ended 30 June 2021 (Table 6.5), supported by a reconciliation between the Square and Afterpay historical consolidated cash flows to the Combined Group Pro Forma Historical Cash Flows for each respective period end (Table 6.6 to 6.7).

This section 6.8(c) should be read in conjunction with the accompanying notes in section 6.8(d) "Notes to the Combined Group Pro Forma Historical Financial Information", which is comprised of:

Alignment, Translation and Reclassification Adjustments

- Note 1 – Conforming Accounting Policies (section 6.8(d)(i));
- Note 2 – Financial year end alignment, U.S. GAAP conversion and foreign currency translation (section 6.8(d)(ii));
- Note 3 – Historical financial information reclassification (section 6.8(d)(iii));

Scheme Adjustments

- Note 4 – Preliminary purchase accounting (section 6.8(d)(iv));
- Note 5 – Adjustments to the Combined Group Pro Forma Historical Income Statements (section 6.8(d)(v));
- Note 6 – Adjustments to the Combined Group Pro Forma Historical Statement of Financial Position as at 30 June 2021 (section 6.8(d)(vi)); and
- Note 7 – Adjustments to the Combined Group Pro Forma Historical Cash Flows (section 6.8(d)(vii)).

These notes are referenced in the tables presented in section 6.8(c).

For personal use only

Combined Group Pro Forma Historical Income Statements

Table 6.1: Combined Group Pro Forma Historical Income Statements

(US$ millions)	**Twelve months ended 31 December 2020**	**Six months ended 30 June 2021**
Revenue		
Transaction-based revenue	3,295.0	2,187.2
Subscription and services-based revenue	2,020.1	1,624.4
Hardware revenue	91.7	72.5
Bitcoin revenue	4,571.5	6,235.4
Total net revenue	9,978.3	10,119.5
Cost of revenue		
Transaction-based costs	1,911.9	1,206.6
Subscription and services-based costs	339.7	306.9
Hardware costs	143.9	101.9
Bitcoin costs	4,474.5	6,105.8
Amortisation of acquired technology	35.8	21.5
Total cost of revenue	6,905.8	7,742.7
Gross profit	3,072.5	2,376.8
Operating expenses		
Product development	979.4	669.6
Sales and marketing	1,267.7	832.7
General and administrative	1,046.7	505.7
Transaction and loan receivable losses	259.7	163.4
Bitcoin impairment losses	–	65.1
Amortisation of acquired customer assets	183.5	93.9
Total operating expenses	3,737.0	2,330.4
Operating income/(loss)	(664.5)	46.4
Gain on sale of asset group	–	–
Interest expense, net	56.9	6.7
Other expense/(income), net	(286.7)	(52.7)
Income/(loss) before income tax	(434.7)	92.4
Benefit for income taxes	(132.7)	(59.1)
Net income/(loss)	(302.0)	151.5

For personal use only

Table 6.2: Reconciliation of the Combined Group Pro Forma Historical Income Statement for the six months ended 30 June 2021

The following table reconciles the Combined Group Pro Forma Historical Income Statement presented in Table 6.1 with Square and Afterpay historical consolidated income statements for the six months ended 30 June 2021.

(US$ millions)	Square	Afterpay Adjusted, Translated and Reclassified (Note 2 and 3)	Scheme Adjustments	Notes	Combined Group Pro Forma Historical
Revenue					
Transaction-based revenue	2,187.2	–	–		2,187.2
Subscription and services-based revenue	1,242.9	381.5	–		1,624.4
Hardware revenue	72.5	–	–		72.5
Bitcoin revenue	6,235.4	–	–		6,235.4
Total net revenue	**9,738.0**	**381.5**	**–**		**10,119.5**
Cost of revenue					
Transaction-based costs	1,206.6	–	–		1,206.6
Subscription and services-based costs	209.4	97.5	–		306.9
Hardware costs	101.9	–	–		101.9
Bitcoin costs	6,105.8	–	–		6,105.8
Amortisation of acquired technology	9.7	10.6	1.2	5(A)	21.5
Total cost of revenue	**7,633.4**	**108.1**	**1.2**		**7,742.7**
Gross profit	**2,104.6**	**273.4**	**(1.2)**		**2,376.8**
Operating expenses					
Product development	633.7	35.6	0.3	5(B)	669.6
Sales and marketing	723.9	108.6	0.2	5(B)	832.7
General and administrative	416.9	91.9	(3.1)	5(B), 5(D)	505.7
Transaction and loan receivable losses	68.6	94.8	–		163.4
Bitcoin impairment losses	65.1	–	–		65.1
Amortisation of acquired customer assets	3.6	2.2	88.1	5(A)	93.9
Total operating expenses	**1,911.8**	**333.1**	**85.5**		**2,330.4**
Operating income/(loss)	**192.8**	**(59.7)**	**(86.7)**		**46.4**
Interest expense, net	6.7	–	–		6.7
Other expense/(income), net	(48.3)	31.4	(35.8)	5(C),5(D)	(52.7)
Income/(loss) before income tax	234.4	(91.1)	(50.9)		92.4
Benefit for income taxes	(8.4)	(29.2)	(21.5)	5(E)	(59.1)
Net income/(loss)	**242.8**	**(61.9)**	**(29.4)**		**151.5**

In the above table, the figures reported in the 'Square' column contain certain financial information line items which have been reclassified to align with the presentation Square will adopt going forward. Refer to Table 5.1 Square Historical Income Statements for a breakdown of these items. Afterpay figures reported in column 'Afterpay Adjusted, Translated and Reclassified (Note 2 and 3) ' are the figures obtained after any (i) U.S. GAAP adjustments and presentation currency translation, as detailed in *Note 2 Financial year end alignment, U.S. GAAP conversion and foreign currency translation (refer to Table 6.8),* and (ii) reclassification adjustments, as detailed in *Note 3 Historical financial information reclassification (refer to Table 6.13).*

For personal use only

Table 6.3: Reconciliation of Combined Group Pro Forma Historical Income Statement for the year ended 31 December 2020

The following table reconciles the Combined Group Pro Forma Historical Income Statement presented in Table 6.1 with Square and Afterpay historical consolidated income statements for the year ended 31 December 2020.

(US$ millions)	Square	Afterpay Adjusted, Translated and Reclassified (Note 2 and 3)	Scheme Adjustments	Notes	Combined Group Pro Forma Historical
Revenue					
Transaction-based revenue	3,295.0	–	–		3,295.0
Subscription and services-based revenue	1,539.4	480.7	–		2,020.1
Hardware revenue	91.7	–	–		91.7
Bitcoin revenue	4,571.5	–	–		4,571.5
Total net revenue	**9,497.6**	**480.7**	**–**		**9,978.3**
Cost of revenue					
Transaction-based costs	1,911.9	–	–		1,911.9
Subscription and services-based costs	222.7	117.0	–		339.7
Hardware costs	143.9	–	–		143.9
Bitcoin costs	4,474.5	–	–		4,474.5
Amortisation of acquired technology	11.2	15.1	9.5	5(A)	35.8
Total cost of revenue	**6,764.2**	**132.1**	**9.5**		**6,905.8**
Gross profit	**2,733.4**	**348.6**	**(9.5)**		**3,072.5**
Operating expenses					
Product development	881.8	43.5	54.1	5(B)	979.4
Sales and marketing	1,109.7	112.4	45.6	5(B)	1,267.7
General and administrative	579.2	103.9	363.6	5(B), 5(F), 5(G)	1,046.7
Transaction and loan receivable losses	177.7	82.0	–		259.7
Amortisation of acquired customer assets	3.9	2.1	177.5	5(A)	183.5
Total operating expenses	**2,752.3**	**343.9**	**640.8**		**3,737.0**
Operating income/(loss)	**(18.9)**	**4.7**	**(650.3)**		**(664.5)**
Gain on sale of asset group	–	–	–		–
Interest expense, net	56.9	–	–		56.9
Other expense/(income), net	(291.7)	51.1	(46.1)	5(C)	(286.7)
Income/(loss) before income tax	**215.9**	**(46.4)**	**(604.2)**		**(434.7)**
Provision/(benefit) for income taxes	2.9	2.3	(137.9)	5(E)	(132.7)
Net income/(loss)	**213.0**	**(48.7)**	**(466.3)**		**(302.0)**

In the above table, the Afterpay figures reported in column 'Afterpay Adjusted, Translate and Reclassified (Note 2 and Note 3)' are the figures obtained after any (i) U.S. GAAP adjustments and presentation currency translation, as detailed in *Note 2 Financial year end alignment, U.S. GAAP conversion and foreign currency translation (refer to Table 6.9),* and (ii) reclassification adjustments, as detailed in *Note 3 Historical financial information reclassification (refer to Table 6.14).*

For personal use only

Combined Group Pro Forma Historical Statement of Financial Position

Table 6.4: Combined Group Pro Forma Historical Statement of Financial Position as at 30 June 2021

(US$ millions)	**Square**	**Afterpay Adjusted, Translated and Reclassified (Note 2 and 3)**	**Scheme Adjustments**	**Notes**	**Combined Group Pro Forma Historical**
Assets					
Current assets:					
Cash and cash equivalents	4,581.2	861.8	(1,174.3)	6(A)	4,268.7
Investments in short-term debt securities	1,014.9	–	–		1,014.9
Settlements receivable	1,155.8	–	–		1,155.8
Customer funds	2,847.5	–	–		2,847.5
Consumer receivables, net	–	1,109.2	–		1,109.2
Loans held for sale	807.4	–	–		807.4
Other current assets	593.5	48.0	–		641.5
Total current assets	11,000.3	2,019.0	(1,174.3)		11,845.0
Property and equipment, net	260.9	6.1	–		267.0
Goodwill	501.4	84.4	25,842.7	6(B)	26,428.5
Acquired intangible assets, net	262.2	86.6	2,498.4	6(C)	2,847.2
Investments in long-term debt securities	947.1	–	–		947.1
Operating lease right-of-use assets	461.3	25.5	–		486.8
Other non-current assets	382.6	136.4	(117.3)	6(D)	401.7
Total assets	**13,815.8**	**2,358.0**	**27,049.5**		**43,223.3**
Liabilities and stockholders' equity					
Current liabilities:	–	–	–		–
Customers payable	3,993.2	119.8	–		4,113.0
Settlements payable	257.0	–	–		257.0
Accrued expenses and other current liabilities	515.8	140.0	162.7	6(G)	818.5
Operating lease liabilities, current	57.1	–	–		57.1
PPP Liquidity Facility advances	823.7	–	–		823.7
Total current liabilities	5,646.8	259.8	162.7		6,069.3
Long-term debt	4,841.3	941.2	(941.0)	6(F)	4,841.5
Operating lease liabilities, non-current	404.6	25.7	–		430.3
Other non-current liabilities	186.4	151.7	295.0	6(D), 6(H)	633.1
Total liabilities	**11,079.1**	**1,378.4**	**(483.3)**		**11,974.2**

(US$ millions)	Square	Afterpay Adjusted, Translated and Reclassified (Note 2 and 3)	Scheme Adjustments	Notes	Combined Group Pro Forma Historical
Stockholders' equity					
Additional paid-in capital	2,632.2	1,656.1	27,047.8	6(I)	31,336.1
Accumulated other comprehensive income	7.8	(491.8)	491.8	6(E)	7.8
Retained earnings/ (accumulated deficit)	48.8	(185.3)	(6.2)	6(E)	(142.7)
Total stockholders' equity attributable to common stockholders	2,688.8	979.0	27,533.4		31,201.2
Non-controlling interests	47.9	0.6	(0.6)	6(E)	47.9
Total stockholders' equity	2,736.7	979.6	27,532.8		31,249.1
Total liabilities and shareholders' equity	**13,815.8**	**2,358.0**	**27,049.5**		**43,223.3**

See accompanying section 6.8(d) "Notes to the Combined Group Pro Forma Historical Financial Information". In the above table, the Afterpay figures reported in column 'Afterpay Adjusted, Translated and Reclassified (Note 2 and Note 3)' are the figures obtained after (i) U.S. GAAP adjustments and presentation currency translation *(refer to Table 6.10)*, as detailed in *Note 2 Financial year end alignment, U.S. GAAP conversion and foreign currency translation*, and (ii) reclassification adjustments, as detailed in *Note 3 Historical financial information reclassification (refer to Table 6.15)*.

For personal use only

For personal use only

Combined Group Pro Forma Historical Cash Flows

Table 6.5: Combined Group Pro Forma Historical Cash Flows

(US$ in millions)	**Twelve months ended 31 December 2020**	**Six months ended 30 June 2021**
Net income/(loss)	(302.0)	151.6
Adjustments to reconcile net income/(loss) to net cash provided by operating activities		
Depreciation and amortisation	294.7	163.3
Non-cash interest and other	68.4	4.0
Loss on extinguishment of long-term debt	6.7	–
Non-cash lease expense	70.3	41.0
Share-based compensation	727.6	291.6
Gain on sale of asset group	–	–
Loss/(gain) on revaluation of equity investment	(295.3)	(47.8)
Net loss on financial liabilities at fair value	–	–
Bitcoin Impairment Losses	–	65.1
Transaction and loan losses	259.7	163.4
Change in deferred income taxes	(165.5)	(67.3)
Changes in operating assets and liabilities		
Settlements receivable	(1,019.6)	(419.6)
Customer funds	(1,151.5)	(758.0)
Purchase of loans held for sale	(1,837.1)	(1,664.0)
Sales and principal payments of loans held for sale	1,505.4	1,284.1
Customers payable	1,781.4	1,031.6
Settlements payable	143.5	17.6
Other assets and liabilities	(5.7)	4.2
Net cash flows from operating activities	81.0	260.8
Cash Flows from Investing Activities		
Net cash flows from/(used in) purchase and maturities of marketable debt securities	(337.9)	(864.9)
Purchase of property and equipment	(176.3)	(93.7)
Purchase of other investments	(19.3)	(50.1)
Proceeds from sale of equity investment	–	378.2
Purchase of intangible assets	(0.9)	(4.2)
Purchase of bitcoin investments	(50.0)	(170.0)
Business combinations, net of cash acquired	(126.7)	(174.6)
Net cash flows from/(used in) investing activities	(711.1)	(979.3)
Net cash flows from/(used in) operating and investing activities	(630.1)	(718.5)

For personal use only

Table 6.6: Reconciliation of Combined Group Pro Forma Historical Cash Flows for the six months ended 30 June 2021

The following table reconciles the Combined Group Pro Forma Historical Cash Flows presented in Table 6.5 with Square and Afterpay historical consolidated cash flows for the six months ended 30 June 2021.

(US$ in millions)	Square	Afterpay Adjusted, Translated and Reclassified (Note 2 and 3)	Scheme Adjustments	Notes	Combined Group Pro Forma Historical
Net income/(loss)	242.8	(61.8)	(29.4)	7(A) -7(G)	151.6
Adjustments to reconcile net income/(loss) to net cash provided by operating activities					
Depreciation and amortisation	57.6	16.4	89.3	7(A)	163.3
Non-cash interest and other	11.3	2.8	(10.1)		4.0
Loss on extinguishment of long-term debt	–	–	–		–
Non-cash lease expense	41.0	–	–		41.0
Share-based compensation	265.0	25.8	0.8	7(B), 7(F)	291.6
Gain on sale of asset group	–	–	–		–
Loss/(gain) on revaluation of equity investment	(47.8)	–	–		(47.8)
Net loss on financial liabilities at fair value	–	24.7	(24.7)	7(C)	–
Bitcoin Impairment Losses	65.1	–	–		65.1
Transaction and loan losses	68.6	94.8	–		163.4
Change in deferred income taxes	(0.5)	(45.3)	(21.5)	7(E)	(67.3)
Changes in operating assets and liabilities					
Settlements receivable	(221.0)	(198.6)	–		(419.6)
Customer funds	(758.0)	–	–		(758.0)
Purchase of loans held for sale	(1,664.0)	–	–		(1,664.0)
Sales and principal payments of loans held for sale	1,284.1	–	–		1,284.1
Customers payable	985.3	46.3	–		1,031.6
Settlements payable	17.6	–	–		17.6
Other assets and liabilities	(49.3)	53.5	–		4.2
Net cash flows from/(used in) operating activities	297.8	(41.4)	4.4		260.8
Cash Flows from Investing Activities					
Net cash flows from/(used in) purchase and maturities of marketable debt securities[1]	(864.9)	–	–		(864.9)
Purchase of property and equipment	(66.6)	(27.1)	–		(93.7)
Purchase of other investments	(45.4)	(4.7)	–		(50.1)
Proceeds from sale of equity investment	378.2	–	–		378.2
Purchase of intangible assets	–	(4.2)	–		(4.2)
Purchase of bitcoin investments	(170.0)	–	–		(170.0)
Business combinations, net of cash acquired	(164.3)	(10.3)	–	7(H)	(174.6)
Net cash flows from/(used in) investing activities	(933.0)	(46.3)	–		(979.3)
Net cash flows from/(used in) operating and investing activities	(635.2)	(87.7)	4.4		(718.5)

For personal use only

Footnote:

[1] Net cash flows from/(used in) purchase and maturities of marketable debt securities is comprised of six separate line items that are individually reported the 10–Q Quarterly Report for the 6 months ended 30 June 2021. These line items include purchase of marketable debt securities, proceeds from maturities of marketable debt securities, proceeds from sale of marketable debt securities, purchase of marketable debt securities from customer funds, proceeds from maturities of marketable debt securities from customer funds, and proceeds from sale of marketable debt securities from customer funds.

See accompanying section 6.8(d) "Notes to the Combined Group Pro Forma Historical Financial Information". In the above table, the Afterpay figures reported in column 'Afterpay Adjusted, Translated and Reclassified (Note 2 and Note 3)' are the figures obtained after (i) U.S. GAAP adjustments and presentation currency translation, as detailed in *Note 2 Financial year end alignment, U.S. GAAP conversion and foreign currency translation (refer to Table 6.11,* and (ii) reclassification adjustments, as detailed in *Note 3 Historical financial information reclassification (refer to Table 6.16).*

Table 6.7: Reconciliation of Combined Group Pro Forma Historical Cash Flows for the year ended 31 December 2020

The following table reconciles the Combined Group Pro Forma Cash Flows presented in Table 6.5 with Square and Afterpay historical consolidated cash flows for the year ended 31 December 2020.

(US$ in millions)	**Square**	**Afterpay Adjusted, Translated and Reclassified (Note 2 and Note 3)**	**Scheme Adjustments**	**Notes**	**Combined Group Pro Forma Historical**
Net income/(loss)	213.0	(48.7)	(466.3)	7(A) -7(G)	(302.0)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities					
Depreciation and amortisation	84.2	23.5	187.0	7(A)	294.7
Non-cash interest and other	76.1	(7.7)	–		68.4
Loss on extinguishment of long-term debt	6.7	–	–		6.7
Non-cash lease expense	70.3	–	–		70.3
Share-based compensation	397.8	29.2	300.6	7(B), 7(F)	727.6
Gain on sale of asset group	–	–	–		–
Loss/(gain) on revaluation of equity investment	(295.3)	–	–		(295.3)
Net loss on financial liabilities at fair value	–	46.1	(46.1)	7(C)	–
Bitcoin Impairment Losses	–	–	–		–
Transaction and loan losses	177.7	82.0	–		259.7
Change in deferred income taxes	(8.0)	(19.6)	(137.9)	7(E)	(165.5)
Changes in operating assets and liabilities					
Settlements receivable	(547.5)	(472.1)	–		(1,019.6)
Customer funds	(1,151.5)	–	–		(1,151.5)
Purchase of loans held for sale	(1,837.1)	–	–		(1,837.1)
Sales and principal payments of loans held for sale	1,505.4	–	–		1,505.4
Customers payable	1,733.1	48.3	–		1,781.4
Settlements payable	143.5	–	–		143.5
Other assets and liabilities	(186.8)	18.4	162.7		(5.7)
Net cash flows from/(used in) operating activities	381.6	(300.6)	-		81.0

(US$ in millions)	Square	Afterpay Adjusted, Translated and Reclassified (Note 2 and Note 3)	Scheme Adjustments	Notes	Combined Group Pro Forma Historical
Cash Flows from Investing Activities					
Net cash flows from/(used in) purchase and maturities of marketable debt securities[1]	(337.9)	–	–		(337.9)
Purchase of property and equipment	(138.4)	(37.9)	–		(176.3)
Purchase of other investments	(1.3)	(18.0)	–		(19.3)
Proceeds from sale of equity investment	–	–	–		–
Purchase of intangible assets	–	(0.9)	–		(0.9)
Purchase of bitcoin investments	(50.0)	–	–		(50.0)
Business combinations, net of cash acquired	(79.2)	(0.1)	(47.4)	7(H)	(126.7)
Net cash flows from/(used in) investing activities	**(606.8)**	**(56.9)**	**(47.4)**		**(711.1)**
Net cash flows from/(used in) operating and investing activities	**(225.2)**	**(357.5)**	**(47.4)**		**(630.1)**

Footnote:

[1] Net cash flows from/(used in) purchase and maturities of marketable debt securities is comprised of six separate line items that are individually reported in the 2020 10-K Annual Reports. These line items include purchase of marketable debt securities, proceeds from maturities of marketable debt securities, proceeds from sale of marketable debt securities, purchase of marketable debt securities from customer funds, proceeds from maturities of marketable debt securities from customer funds, and proceeds from sale of marketable debt securities from customer funds.

See accompanying section 6.8(d) "Notes to the Combined Group Pro Forma Historical Financial Information". In the above table, the Afterpay figures reported in column 'Afterpay Adjusted, Translated and Reclassified (Note 2 and Note 3)' are the figures obtained after (i) U.S. GAAP adjustments and presentation currency translation *(refer to Table 6.12,* as detailed in *Note 2 Financial year end alignment, U.S. GAAP conversion and foreign currency translation,* and (ii) reclassification adjustments, as detailed in *Note 3 Historical financial information reclassification (refer to Table 6.17).*

For personal use only

For personal use only

(d) Notes to the Combined Group Pro Forma Historical Financial Information

(i) Note 1 – Conforming accounting policies

Square Group's management performed an initial review of the accounting policies of Afterpay Group to determine if differences in accounting policies require reclassification or adjustment to the Combined Group Pro Forma Historical Financial Information. As a result of that preliminary review, Square Group's management did not identify any material differences in accounting policy, other than IFRS to U.S. GAAP adjustments which have been considered in Note 2 below and Note 5 in section 6.8(d)(v).

When Square Group's management completes a final review of Afterpay's accounting policies, additional differences may be identified that, when conformed, could have a material impact on the Combined Group Pro Forma Historical Financial Information.

(ii) Note 2 – Financial year end alignment, U.S. GAAP conversion and foreign currency translation

Afterpay's historical financial information has been adjusted to align the financial reporting period to Square Group's 31 December period end.

Afterpay's historical financial information has been adjusted, in accordance with the SEC's Rule 11-02 of Regulation S-X, for differences between IFRS and U.S. GAAP. These adjustments are based on the preliminary analysis of Square Group's management. When Square Group's management completes a final review, additional differences may be identified that, when confirmed, could have a material impact on the Combined Group Pro Forma Historical Financial Information.

Additionally, Afterpay's historical financial information and any pro forma adjustments based on Afterpay's historical financial information have been translated from its functional currency of A$ to be presented in Square's reporting currency of US$ using the following exchange rates:

	A$/US$
Income statement and cash flows – average exchange rate for the year ended 31 December 2020	0.6904
Income statement and cash flows – average exchange rate for the six months ended 30 June 2021	0.7712
Statement of financial position – spot rate at 30 June 2021	0.7512

For personal use only

Table 6.8: Reconciliation of Afterpay Historical Income Statement for the six months ended 30 June 2021

The following table reflects the impact of the above adjustments on Afterpay's historical consolidated income statement as presented in the Combined Group Pro Forma Historical Income Statement for the six months ended 30 June 2021:

(millions)	Annual Report Twelve months ended 30 June 2021 (A$)	Half-year Report Six months ended 31 December 2020 (A$)	Afterpay Historical for Six months ended 30 June 2021 (A$)	Note 2 Adjust-ments (A$)	Afterpay Adjusted (Note 2) (A$)	Afterpay Adjusted and Translated (Note 2) (US$)
	(A)	(B)	(A) – (B)			
Afterpay income	822.3	374.2	448.0	12.9[1]	435.1	335.6
Pay Now revenue	13.8	7.8	6.0	–	6.0	4.6
Other income	88.6	35.1	53.5	–	53.5	41.3
Total Income	**924.7**	**417.1**	**507.5**	**(12.9)**	**494.6**	**381.5**
Cost of sales	(249.6)	(110.3)	(139.3)	12.9[1]	(126.4)	(97.5)
Gross Profit	**675.1**	**306.8**	**368.2**	**–**	**368.3**	**284.0**
Depreciation and amortisation expenses	(39.0)	(17.7)	(21.3)	–	(21.2)	(16.4)
Employment expenses	(150.9)	(62.6)	(88.3)	–	(88.3)	(68.1)
Share-based payment expenses	(59.0)	(25.5)	(33.5)	–	(33.5)	(25.8)
Receivables impairment expenses	(195.1)	(72.1)	(122.9)	–	(122.9)	(94.8)
Net loss on financial liabilities at fair value	(96.8)	(64.8)	(32.0)	–	(32.0)	(24.7)
Operating expenses	(298.6)	(130.4)	(168.2)	–	(168.3)	(129.8)
Operating income/ (loss)	**(164.3)**	**(66.3)**	**(98.0)**	**–**	**(98.0)**	**(75.6)**
Share of loss of associate	(2.3)	(0.6)	(1.7)	–	(1.7)	(1.3)
Gain on dilution of shareholding in associate	5.7	–	5.7	–	5.7	4.4
Finance income	1.0	0.6	0.3	–	0.3	0.3
Finance costs	(34.3)	(9.9)	(24.4)	–	(24.4)	(18.8)
Loss before tax	**(194.2)**	**(76.2)**	**(118.1)**	**–**	**(118.1)**	**(91.0)**
Income tax benefit/ (expense)	34.8	(3.0)	37.9	–	37.9	29.1
Loss for the year	**(159.4)**	**(79.2)**	**(80.2)**	**–**	**(80.2)**	**(61.9)**

Footnote:

[1] Represents an adjustment to decrease Afterpay income and Cost of sales due to certain costs qualifying as direct loan origination costs under U.S. GAAP and such costs are recognised within revenues based upon ASC 310.

In this table, 'Afterpay Historical for Six months ended 30 June 2021 (A$)' column is the historical consolidated income statement for the Afterpay Group, calculated as the difference between (i) Afterpay's historical consolidated income statement for the year ended 30 June 2021 and (ii) Afterpay's historical consolidated income statement for the six months ended 31 December 2020, which have been derived from Afterpay's Annual Report for the year ended 30 June 2021 and Half-year Report for the six months ended 31 December 2020 respectively.

For personal use only

Table 6.9: Reconciliation of Afterpay Historical Income Statement for the year ended 31 December 2020

The following table reflects the impact of the above adjustments on Afterpay historical consolidated income statement as presented in the Combined Group Pro Forma Historical Income Statement for the year ended 31 December 2020.

(millions)	Annual Report Twelve months ended 30 June 2020 (A$)	Half-year Report Six months ended 31 December 2020 (A$)	Half-year Six months ended 31 December 2019 (A$)	Afterpay Historical for the Year ended 31 December 2020 (A$)	Note 2 Adjust-ments (A$)	Afterpay Adjusted (Note 2) (A$)	Afterpay Adjusted and Translated (Note 2) (US$)
	(A)	(B)	(C)	(A)+(B)-(C)			
Afterpay income	433.8	374.2	179.6	628.4	19.8[1]	608.6	420.2
Pay Now revenue	16.5	7.8	8.1	16.2	–	16.2	11.2
Other income	68.8	35.1	32.6	71.3	–	71.3	49.3
Total Income	519.1	417.1	220.3	715.9	(19.8)	696.1	480.7
Cost of sales	(134.3)	(110.3)	(55.4)	(189.2)	19.8[1]	(169.4)	(117.0)
Gross Profit	384.8	306.8	164.9	526.7	–	526.7	363.7
Depreciation and amortisation expenses	(30.0)	(17.7)	(13.8)	(33.9)	–	(33.9)	(23.5)
Employment expenses	(86.1)	(62.6)	(36.0)	(112.7)	–	(112.7)	(77.8)
Share-based payment expenses	(30.5)	(25.5)	(13.6)	(42.4)	–	(42.4)	(29.2)
Receivables impairment expenses	(94.5)	(72.1)	(47.8)	(118.8)	–	(118.8)	(82.0)
Net loss on financial liabilities at fair value	(2.0)	(64.8)	(0.9)	(65.9)	–	(65.9)	(45.5)
Operating expenses	(146.3)	(130.4)	(80.6)	(196.1)	–	(196.1)	(135.4)
Operating loss	(4.6)	(66.3)	(27.8)	(43.1)	–	(43.1)	(29.7)
Share of loss of associate	(1.1)	(0.6)	–	(1.7)	–	(1.7)	(1.1)
Finance income	1.4	0.6	0.7	1.3	–	1.3	0.9
Finance costs	(22.5)	(9.9)	(8.6)	(23.8)	–	(23.8)	(16.5)
Loss before tax	(26.8)	(76.2)	(35.7)	(67.3)	–	(67.3)	(46.4)
Income tax benefit/ (expense)	3.9	(3.0)	4.2	(3.3)	–	(3.3)	(2.3)
Loss for the year	(22.9)	(79.2)	(31.5)	(70.6)	–	(70.6)	(48.7)

Footnote:

[1] Represents an adjustment to decrease Afterpay income and Cost of sales due to certain costs qualifying as direct loan origination costs under U.S. GAAP and such costs are recognised within revenues based upon ASC 310.

In the above table, 'Afterpay Historical for the Year Ended 31 December 2020 (A$)' is the historical consolidated income statement for the Afterpay Group, calculated as the sum of (i) Afterpay's historical consolidated income statement for the six months ended 31 December 2020 and (ii) the difference between Afterpay's historical consolidated income statement for the year ended 30 June 2020 and Afterpay's historical consolidated income statement for the six months ended 31 December 2019, which have been derived from Afterpay's Half-year Report for the six months ended 31 December 2020, Annual Report for the year ended 30 June 2020, and Half-year Report for the six months ended 31 December 2019 respectively.

Table 6.10: Reconciliation of Afterpay Historical Statement of Financial Position as at 30 June 2021

	As at 30 June 2021	
(millions)	**Afterpay (A$)**	**Afterpay Adjusted and Translated (Note 2) (US$)**
ASSETS		
Current assets		
Cash and cash equivalents	1,147.1	861.8
Receivables	1,454.1	1,092.4
Other financial assets	26.8	20.1
Other assets	18.8	14.1
Income tax receivable	11.0	8.2
Total current assets	2,657.8	1,996.6
Non-Current Assets		
Property, plant and equipment	8.1	6.1
Right-of-use assets	34.0	25.5
Intangible assets[1]	227.5	170.9
Deferred tax assets	156.1	117.3
Investment in associate	23.6	17.7
Other financial assets	3.2	2.4
Other assets	6.0	4.5
Total Non-Current Assets	458.5	344.4
TOTAL ASSETS	3,116.3	2,341.0
LIABILITIES		
Current liabilities		
Trade and other payables	306.3	230.1
Employee benefit provision	10.3	7.8
Other provisions	0.5	0.4
Contract liabilities	3.6	2.7
Lease liabilities	2.2	1.7
Income tax payable	2.5	1.9
Total current liabilities	325.4	244.5

For personal use only

For personal use only

(millions)	As at 30 June 2021 Afterpay (A$)	Afterpay Adjusted and Translated (Note 2) (US$)
Non-Current Liabilities		
Employee benefit provision	0.7	0.5
Other provisions	1.2	0.9
Lease liabilities	32.0	24.0
Borrowings[2]	1,286.4	966.4
Other financial liabilities	166.7	125.2
Total Non-Current Liabilities	1,487.0	1,117.0
Total Liabilities	1,812.4	1,361.5
NET ASSETS	1,303.9	979.5
EQUITY		
Issued capital	2,204.5	1,656.1
Accumulated losses[3]	(246.7)	(185.3)
Reserves	(654.7)	(491.8)
Equity attributable to the owners of Afterpay Limited	1,303.1	978.9
Non-controlling interests	0.8	0.6
TOTAL EQUITY	1,303.9	979.5
Total Liabilities and Equity	3,116.3	2,341.0

Footnotes:

[1] Intangible assets will be revalued at their acquisition date fair values under U.S. GAAP as part of the accounting for the Scheme as described in section 6.8(d)(vi) Note 6 – Adjustments to the Combined Group Pro Forma Historical Statement of Financial Position as at 30 June 2021. No other differences have been identified from an IFRS to U.S. GAAP perspective with respect to the Combined Group Pro Forma Historical Statement of Financial Position.

[2] Borrowings comprise mostly of the SGX Convertible Notes (A$1.3 billion) partially offset by the associated capitalised borrowing costs (A$23.3 million), both of which have not been adjusted for the impact of IFRS to U.S. GAAP adjustments as the SGX Convertible Notes are assumed to be fully repaid as described in section 6.8(d)(iv) to (vi), Notes 4, 5 and 6 further in this section.

[3] Historical equity accounts were not reclassified into different categories (i.e. Retained earnings or Additional paid-in capital) or adjusted for any impact of IFRS to U.S. GAAP adjustments as equity will be changed upon the application of purchase accounting under U.S. GAAP.

For personal use only

Table 6.11: Reconciliation of Afterpay Historical Cash Flows for the six months ended 30 June 2021

(in millions)	**Annual Report Twelve months ended 30 June 2021 (A$)**	**Unaudited Management Accounts Six months ended 31 December 2020 (A$)**	**Afterpay Historical for Six months ended 30 June 2021 (A$)**	**Afterpay Adjusted and Translated (Note 2) (US$)**
	(A)	(B)	(A) – (B)	
Loss before tax	(194.2)	(76.2)	(118.0)	(91.0)
Adjustments for				
Depreciation and amortisation expenses	39.0	17.7	21.3	16.4
Share-based payment expenses	59.0	25.5	33.5	25.8
Net loss on financial liabilities at fair value	96.8	64.8	32.0	24.7
Share of loss of associate	2.3	0.6	1.7	1.3
Gain on dilution of shareholding in associate	(5.7)	(1.9)	(3.8)	(2.9)
Finance costs	34.3	9.9	24.4	18.8
Finance income	(1.0)	(0.6)	(0.4)	(0.3)
Foreign currency gains	(9.9)	1.5	(11.4)	(8.8)
Impairment	4.8	2.4	2.4	1.9
Changes in assets and liabilities				
Increase in total receivables	(672.2)	(532.2)	(140.0)	(108.0)
Increase in other working capital assets	(11.4)	(8.4)	(3.0)	(2.3)
Increase in working capital liabilities	93.1	(29.8)	122.9	94.8
Acquired net working capital	(4.3)	–	(4.3)	(3.3)
Tax paid	(1.9)	(0.2)	(1.7)	(1.3)
Net cash flows used in operating activities	(571.3)	(526.9)	(44.4)	(34.2)
Cash flows from investing activities				
Interest received	0.9	0.5	0.4	0.3
(Increase)/decrease in short-term deposits	(12.7)	(6.5)	(6.2)	(4.7)
Payments for development of intangible assets	(60.7)	(28.6)	(32.1)	(24.8)
Purchase of intangibles	(5.5)	(0.1)	(5.4)	(4.2)
Purchase of plant and equipment	(4.4)	(1.3)	(3.1)	(2.3)
Acquisition of subsidiaries, net of cash acquired	(13.6)	(0.2)	(13.4)	(10.3)
Contributions to associate	(15.0)	(15.0)	–	–
Net cash flows used in investing activities	(111.0)	(51.2)	(59.8)	(46.0)
Net cash flows used in operating and investing activities	(682.3)	(578.1)	(104.2)	(80.2)

In this table, the 'Afterpay Historical for Six months ended 30 June 2021 (A$)' column is the historical consolidated cash flows for the Afterpay Group, calculated as the difference between (i) Afterpay's historical consolidated cash flows for the year ended 30 June 2021 and (ii) Afterpay's historical consolidated cash flows

For personal use only

for the six months ended 31 December 2020, which have been derived from the historical consolidated cash flows in Afterpay's Annual Report for the year ended 30 June 2021; and Half-year unaudited management accounts for the six months ended 31 December 2020 respectively.

Table 6.12: Reconciliation of Afterpay Historical Cash Flows for the year ended 31 December 2020

(in millions)	Annual Report Twelve months ended 30 June 2020 (A$)	Unaudited Management Accounts Six months ended 31 December 2020 (A$)	Unaudited Management Accounts Six months ended 31 December 2019 (A$)	Afterpay Historical for the Year ended 31 December 2020 (A$)	Afterpay Adjusted and Translated (Note 2) (US$)
	(A)	(B)	(C)	(A) + (B) - (C)	
Loss before tax	(26.8)	(76.2)	(35.8)	(67.2)	(46.4)
Adjustments for					
Depreciation and amortisation expenses	30.0	17.7	13.8	33.9	23.5
Share-based payment expenses	30.5	25.5	13.6	42.4	29.2
Net loss on financial liabilities at fair value	2.0	64.8	0.9	65.9	46.1
Share of loss of associate	1.1	0.6	–	1.7	1.1
Gain on dilution of shareholding in associate	–	(1.9)	–	(1.9)	(1.3)
Finance costs	22.5	9.9	8.6	23.8	16.5
Finance income	(1.4)	(0.6)	(0.7)	(1.3)	(0.9)
Foreign currency gains	(19.9)	1.5	1.0	(19.4)	(13.4)
Impairment	–	2.4	–	2.4	1.6
Changes in assets and liabilities					
Increase in total receivables	(329.2)	(532.2)	(308.3)	(553.1)	(381.8)
Increase in other working capital assets	(12.0)	(8.4)	(15.0)	(5.4)	(3.7)
Increase in working capital liabilities	73.5	(29.8)	(15.9)	59.6	40.5
Acquired net working capital	–	–	–	–	–
Tax paid	(4.3)	(0.2)	(4.3)	(0.2)	(0.2)
Net cash flows used in operating activities	(234.0)	(526.9)	(342.1)	(418.8)	(289.2)
Cash flows from investing activities					
Interest received	1.5	0.5	0.7	1.3	0.9
(Increase)/decrease in short-term deposits	0.6	(6.5)	–	(5.9)	(4.1)
Payments for development of intangible assets	(40.8)	(28.6)	(18.4)	(51.0)	(35.2)
Purchase of intangibles	(1.5)	(0.1)	(0.2)	(1.4)	(0.9)
Purchase of plant and equipment	(3.4)	(1.3)	(0.8)	(3.9)	(2.7)
Acquisition of subsidiaries, net of cash acquired	–	(0.2)	–	(0.2)	(0.1)
Contributions to associate	(5.1)	(15.0)	–	(20.1)	(13.9)
Net cash flows used in investing activities	(48.7)	(51.2)	(18.7)	(81.2)	(56.0)
Net cash flows used in operating and investing activities	(282.7)	(578.0)	(360.8)	(500.0)	(345.2)

For personal use only

In the above table, the 'Afterpay Historical for the Year Ended 31 December 2020 (A$)' is the historical consolidated cash flows for the Afterpay Group, calculated as the sum of (i) Afterpay's historical consolidated cash flows for the six months ended 31 December 2020 and (ii) the difference between Afterpay's historical consolidated cash flows for the year ended 30 June 2020 and Afterpay's historical consolidated cash flows for the six months ended 31 December 2019, which have been derived from the historical consolidated cash flows in Afterpay's Half-year unaudited management accounts for the six months ended 31 December 2020, Annual Report for the year ended 30 June 2020 and Half-year unaudited management accounts for the six months ended 31 December 2019 respectively.

(iii) Note 3 – Historical financial information reclassification

Certain reclassification adjustments have been made to conform the Afterpay Group's historical financial information presentation to that of the Square Group's as indicated in the tables below.

For personal use only

Income Statement reclassifications

The reclassification adjustments to conform the Afterpay Group's historical consolidated income statement presentation to that of the Square Group's have no impact on the net loss for the six months ended 30 June 2021 and the year ended 31 December 2020 and are summarised in the tables below.

Table 6.13: Reconciliation of Afterpay Historical Income Statement for Reclassification Adjustments for the six months ended 30 June 2021

	Six Months Ended 30 June 2021			
(US$ millions)	**Afterpay Adjusted and Translated (Note 2) (Table 6.8)**	**Reclassification Adjustments (Note 3)**	**Footnotes**	**Afterpay Adjusted, Translated and Reclassified (Note 2 and 3)**
Revenue				
Afterpay income	335.6	(335.6)	[1]	–
Pay Now revenue	4.6	(4.6)	[1]	–
Subscription and services-based revenue	–	381.5	[1], [2]	381.5
Other income	41.3	(41.3)	[2]	–
Total net revenue	381.5	–		381.5
Cost of revenue				
Cost of sales	97.5	(97.5)	[3]	–
Subscription and services-based costs	–	97.5	[3]	97.5
Amortisation of acquired technology	–	10.6	[4]	10.6
Total cost of revenue	97.5	10.6		108.1
Gross profit	284.0	(10.6)		273.4
Operating expenses				
Depreciation and amortisation expenses	16.4	(16.4)	[4]	–
Employment expenses	68.1	(68.1)	[5]	–
Share-based payment expenses	25.8	(25.8)	[6]	–
Net loss on financial liabilities at fair value	24.7	(24.7)	[7]	–
Operating expenses	129.8	(129.8)	[8]	–
Transaction and loan receivable losses	–	94.8	[9]	94.8
Receivables impairment expenses	94.8	(94.8)	[9]	–
Amortisation of acquired customer assets	–	2.2	[4]	2.2
Sales and marketing	–	108.6	[5], [6], [8]	108.6
General and administrative	–	91.9	[5], [6], [8]	91.9
Product development	–	35.6	[4], [5], [6], [8]	35.6
Total operating expenses	359.6	(26.5)		333.1
Operating income/(loss)	(75.6)	15.9		(59.7)
Other expense/(income), net	–	31.3	[7], [8], [10], [11], [12], [13]	31.3
Share of loss of associate	1.3	(1.3)	[12]	–
Finance income	(0.3)	0.3	[11]	–
Finance costs	18.8	(18.8)	[10]	–
Gain on dilution of shareholding in associate	(4.4)	4.4	[13]	–
Income/(loss) before income tax	(91.0)	–		(91.0)
Benefit for income taxes	(29.2)	–		(29.2)
Net income/(loss)	(61.8)	–		(61.8)

For personal use only

Footnotes:

[1] Represents a US$335.6 million reclassification from Afterpay Group's Afterpay income and US$4.6 million reclassification from Afterpay Group's Pay Now revenue to Square Group's Subscription and services-based revenue.

[2] Represents a US$41.3 million reclassification from Afterpay Group's Other income to Square Group's Subscription and services-based revenue.

[3] Represents a US$97.5 million reclassification from Afterpay Group's Cost of sales to Square Group's Subscription and services-based costs.

[4] Represents a US$16.4 million reclassification from Afterpay Group's Depreciation and amortisation expenses to Square Group's Product and development expense for US$3.6 million, Amortisation of acquired technology for US$10.6 million, and Amortisation of acquired customer assets for US$2.2 million.

[5] Represents a US$68.1 million reclassification from Afterpay Group's Employment expenses to Square Group's Product development for US$10.3 million, Sales and marketing, for US$24.7 million, and General and administrative expenses for US$33.2 million. Allocation to Square Group's expense line items above was based on Afterpay Group's headcount, the primary method Square Group uses to allocate employment related expenses that are not directly mapped to a specific functional expense line item.

[6] Represents a US$25.8 million reclassification from Afterpay Group's Share-based payment expenses, to Square Group's Product development for US$9.1 million, Sales and marketing for US$6.9 million, and General and administrative expenses US$9.8 million. Allocation to Square Group's expense line items above was based on Afterpay Group's headcount, the primary method Square Group uses to allocate employment related expenses that are not directly mapped to a specific functional expense line item.

[7] Represents a US$24.7 million reclassification from Afterpay Group's Net loss on financial liabilities at fair value to Square Group's Other expense/(income), net.

[8] Represents a US$129.8 million reclassification from Afterpay Group's Operating expenses, to Square Group's Other expense/(income), net for US$(8.8) million, Product development for US$12.6 million, Sales and marketing for US$77 million, and General and administrative expenses for US$48.9 million. Allocation to Square Group's expense line items above was based on Afterpay Group's headcount, the primary method Square Group uses to allocate employment related expenses that are not directly mapped to a specific functional expense line item.

[9] Represents a US$94.8 million reclassification from Afterpay Group's Receivables impairment expense to Square Group's transaction and loan receivable losses.

[10] Represents a US$18.8 million reclassification from Afterpay Group's Finance costs to Square Group's Other expense/(income), net.

[11] Represents a US$(0.3) million reclassification from Afterpay Group's Finance income to Square Group's Other expense/(income), net.

[12] Represents a US$1.3 million reclassification from Afterpay Group's Share of loss of associate to Square Group's Other expense/(income), net.

[13] Represents a US$(4.4) million reclassification from Afterpay Group's Gain on dilution of shareholding in associate to Square Group's Other expense/(income), net.

For personal use only

Table 6.14: Reconciliation of Afterpay Historical Income Statement for Reclassification Adjustments for the year ended 31 December 2020

	Year Ended 31 December 2020			
(US$ millions)	**Afterpay Adjusted and Translated (Note 2) (Table 6.9)**	**Reclassification Adjustments (Note 3)**	**Footnotes**	**Afterpay Adjusted, Translated and Reclassified (Note 2 and 3)**
Revenue				
Afterpay income	420.2	(420.2)	[1]	–
Pay Now revenue	11.2	(11.2)	[1]	–
Subscription and services-based revenue	–	480.7	[1], [2]	480.7
Other income	49.3	(49.3)	[2]	–
Total net revenue	480.7	–		480.7
Cost of revenue				
Cost of sales	117.0	(117.0)	[3]	–
Subscription and services-based costs	–	117.0	[3]	117.0
Amortisation of acquired technology	–	15.1	[4]	15.1
Total cost of revenue	117.0	15.1		132.1
Gross profit	363.7	(15.1)		348.6
Operating expenses				
Depreciation and amortisation expenses	23.5	(23.5)	[4]	–
Employment expenses	77.8	(77.8)	[5]	–
Share-based payment expenses	29.2	(29.2)	[6]	–
Net loss on financial liabilities at fair value	45.5	(45.5)	[7]	–
Operating expenses	135.4	(135.4)	[8]	–
Transaction and loan receivable losses	–	82.0	[9]	82.0
Receivables impairment expenses	82.0	(82.0)	[9]	–
Amortisation of acquired customer assets	–	2.1	[4]	2.1
Sales and marketing	–	112.4	[5], [6], [8]	112.4
General and administrative	–	103.8	[5], [6], [8]	103.8
Product development	–	43.5	[4], [5], [6], [8]	43.5
Total operating expenses	393.4	(49.6)		343.8
Operating income/(loss)	(29.7)	34.5		4.8
Other expense/(income), net		51.2	[7], [8], [10], [11], [12]	51.2
Share of loss of associate	1.2	(1.2)	[12]	
Finance income	(0.9)	0.9	[11]	
Finance costs	16.5	(16.5)	[10]	
Income/(loss) before income tax	(46.5)	–		(46.4)
Provision/(benefit) for income taxes	2.3	–		2.3
Net income/(loss)	(48.8)	–		(48.7)

For personal use only

Footnotes:

[1] Represents a US$420.2 million reclassification from Afterpay Group's Afterpay income and a US$11.2 million reclassification from Afterpay Group's Pay Now revenue to Square Group's Subscription and services-based revenue.

[2] Represents a US$49.3 million reclassification from Afterpay Group's Other income to Square Group's Subscription and services-based revenue.

[3] Represents a US$117.0 reclassification from Afterpay Group's Cost of sales to Square Group's Subscription and services-based costs.

[4] Represents a US$23.5 million reclassification from Afterpay Group's Depreciation and amortisation expenses to Square Group's Product and development expense for US$6.2 million, Amortisation of acquired technology for US$15.1 million, and Amortisation of acquired customer assets for US$2.1 million.

[5] Represents a US$77.8 million reclassification from Afterpay Group's Employment expenses to Square Group's Product development for US$8.2 million, Sales and marketing for US$29.6 million, and General and administrative expenses for US$40.0 million. Allocation to Square Group's expense line items above was based on Afterpay Group's headcount, the primary method Square Group uses to allocate employment related expenses that are not directly mapped to a specific functional expense line item.

[6] Represents a US$29.2 million reclassification from Afterpay Group's Share-based payment expenses to Square Group's Product development for US$9.6 million, Sales and marketing for US$8.1 million, and General and administrative expenses for US$11.5 million. Allocation to Square Group's expense line items above was based on Afterpay Group's headcount, the primary method Square Group uses to allocate employment related expenses that are not directly mapped to a specific functional expense line item.

[7] Represents a US$45.5 million reclassification from Afterpay Group's Net loss on financial liabilities at fair value to Square Group's Other expense/(income), net.

[8] Represents a US$135.4 million reclassification from Afterpay Group's Operating expenses to Square Group's Other expense/(income), net for US$(11.1) million, Product development for US$19.5 million, Sales and marketing for US$74.7 million, and General and administrative expenses for US$52.3 million. Allocation to Square Group's expense line items above was based on Afterpay Group's headcount, the primary method Square Group uses to allocate employment related expenses that are not directly mapped to a specific functional expense line item.

[9] Represents a US$82.2 million reclassification from Afterpay's Receivables impairment expense to Square Group's transaction and loan receivable losses.

[10] Represents a US$16.5 million reclassification from Afterpay Group's Finance costs to Square Group's Other expense/(income), net.

[11] Represents a US$(0.9) million reclassification from Afterpay Group's Finance income to Square Group's Other expense/(income), net.

[12] Represents a US$1.2 million reclassification from Afterpay's Share of loss of associate to Square Group's Other expense/(income), net.

For personal use only

Statement of financial position reclassifications

The reclassification adjustments to conform the Afterpay Group's historical consolidated statement of financial position presentation to that of the Square Group's has no material impact on net assets as at 30 June 2021 and are summarised below.

Table 6.15: Reconciliation of Afterpay Historical Statement of Financial Position for Reclassification Adjustments as at 30 June 2021

	As at 30 June 2021			
(US$ millions)	**Afterpay Adjusted and Translated (Note 2) (Table 6.10)**	**Reclassification Adjustments (Note 3)**	**Footnotes**	**Afterpay Adjusted, Translated and Reclassified (Note 2 and 3)**
Assets				
Cash and cash equivalents	861.8	–		861.8
Receivables	1,092.4	(1,092.4)	[1]	–
Consumer receivables, net	–	1,109.2	[1]	1,109.2
Other financial assets	22.5	(22.5)	[2]	–
Other current assets	–	47.9	[2], [3], [4]	47.9
Income tax receivable	8.2	(8.2)	[4]	–
Property and equipment, net	6.1	–		6.1
Right-of-use assets	25.5	(25.5)	[5]	–
Goodwill	–	84.4	[6]	84.4
Intangible assets	170.9	(170.9)	[6]	–
Acquired intangible assets, net	–	86.6	[6]	86.6
Deferred tax asset	117.3	(117.3)	[7]	–
Investment in associate	17.7	(17.7)	[8]	–
Operating lease right-of-use assets	–	25.5	[5]	25.5
Other assets	18.6	(18.6)	[3]	–
Other non-current assets	–	136.4	[3], [7], [8]	136.4
Total assets	2,341.0	16.9		2,358.0
Liabilities and stockholders' equity				
Trade and other payables	230.1	(230.1)	[9]	–
Customers payable	–	119.8	[9]	119.8
Employee benefit provision	8.3	(8.3)	[10]	–
Other provisions	1.3	(1.3)	[11]	–
Contract liabilities	2.7	(2.7)	[12]	–
Operating lease liabilities, non-current	–	25.7	[13]	25.7
Lease liabilities	25.7	(25.7)	[13]	–
Borrowings	966.4	(966.4)	[14]	–
Accrued expenses and other current liabilities	0	140.0	[1], [9], [10], [12], [15]	140.0
Other financial liabilities	125.2	(125.2)	[16]	–
Income tax payable	1.9	(1.9)	[15]	–
Long-term debt	–	941.2	[14]	941.2
Other non-current liabilities	–	151.7	[11], [14], [16]	151.7
Total liabilities	1,361.5	16.9		1,378.4

For personal use only

	As at 30 June 2021			
(US$ millions)	**Afterpay Adjusted and Translated (Note 2) (Table 6.10)**	**Reclassification Adjustments (Note 3)**	**Footnotes**	**Afterpay Adjusted, Translated and Reclassified (Note 2 and 3)**
Stockholders' equity:				
Additional paid-in capital	–	1,656.1	[17]	1,656.1
Issued capital	1,656.1	(1,656.1)	[17]	–
Accumulated other comprehensive income	–	(491.8)	[17]	(491.8)
Accumulated losses	(185.3)	185.3	[17]	–
Reserves	(491.8)	491.8	[17]	–
Retained earnings/(accumulated deficit)	–	(185.3)	[17]	(185.3)
Equity attributable to Afterpay	978.9	–		978.9
Non-controlling interest	0.6	–		0.6
Total stockholders' equity	979.5	–		979.5
Total liabilities and shareholders' equity	2,341.0	16.9		2,358.0

Footnotes:

[1] Represents a US$1,092.4 million reclassification from Afterpay Group's Receivables to Square Group's Consumer receivables, net for US$1,109.2 million and Accrued expenses and other current liabilities for US$16.8 million. Reclassification to Square Group's Consumer receivables, net consists of Afterpay Group's receivables, late fees, provision for doubtful debt related to receivables and late fees, control receivables account, merchant receivables, and accrued receivables historically included in Receivables. Reclassification to Square Group's Accrued expenses and other current liabilities consists of Afterpay Group's deferred revenue balance historically included in Receivables.

[2] Represents a US$22.5 million reclassification from Afterpay Group's Other financial assets to Square Group's Other current assets.

[3] Represents a US$18.6 million reclassification from Afterpay Group's Other assets to Square Group's Other current assets for US$17.2 million and Other non-current assets for US$1.4 million. Reclassification to Square Group's Other current assets consists of Afterpay Group's prepaid expenses, sales clearing, and other assets, historically included in Other assets. Reclassification to Square Group's Other non-current assets consists of Afterpay Group's capitalised borrowing costs historically included in Other assets.

[4] Represents a US$8.2 million reclassification from Afterpay Group's Income tax receivable to Square Group's Other current assets.

[5] Represents a US$25.5 million reclassification from Afterpay Group's Right-of-use assets to Square Group's Operating lease right-of-use assets.

[6] Represents a US$170.9 million reclassification from Afterpay Group's Intangible assets to Acquired intangible assets, net for US$86.6 million, and Goodwill for US$ 84.4 million. Reclassification to Square Group's Acquired intangible assets, net consists of Afterpay Group's intangible assets and M&A assets net of amortisation historically included in Intangible assets. Reclassification to Square Group's Goodwill consists of Afterpay Group's goodwill historically included in Intangible assets.

[7] Represents a US$117.3 million reclassification from Afterpay Group's Deferred tax asset to Square Group's Other non-current assets.

[8] Represents a US$17.7 million reclassification from Afterpay Group's Investment in associate to Square Group's Other non-current assets.

[9] Represents a US$230.1 million reclassification from Afterpay Group's Trade and other payables to Square Group's Customers payables for US$119.8 million and Accrued expenses and other current liabilities for US$110.3 million.

[10] Represents a US$8.3 million reclassification from Afterpay Group's Employee benefit provision to Square Group's Accrued expenses and other current liabilities.

[11] Represents a US$1.3 million reclassification from Afterpay Group's Other provisions to Square Group's Other non-current liabilities.

[12] Represents a US$2.7 million reclassification from Afterpay Group's Contract liabilities to Square Group's Accrued expenses and other current liabilities.

[13] Represents a US$25.7 million reclassification from Afterpay Group's Lease liabilities to Square Group's Operating lease liabilities, non-current.

[14] Represents a US$966.4 million reclassification from Afterpay Group's Borrowings to Square Group's Other non-current liabilities for US$25.2 million and Long-term debt for US$941.2 million. Reclassification to Square Group's Long-term debt consists of Afterpay Group's SGX Convertible Notes and capitalised borrowing costs historically included in Borrowings. Reclassification to Square Group's Other non-current liabilities consists of secured interest-bearing loans and the accrued interest on secured interest-bearing loans historically included in Borrowings.

[15] Represents a US$1.9 million reclassification from Afterpay Group's Income tax payable to Square Group's Accrued expenses and other current liabilities.

[16] Represents a US$125.2 million reclassification from Afterpay Group's Other financial liabilities to Square Group's Other non-current liabilities.

[17] Represents a US$1,656.1 million reclassification from Afterpay Group's Issued capital to Square's Group Additional paid-in capital, a US$(491.8) million reclassification from Afterpay Group's Reserves to Square Group's Accumulated other comprehensive income, and a US$(185.3) million reclassification from Afterpay Group's Accumulated losses to Square Group's Retained earnings/(accumulated deficit).

For personal use only

Cash Flow reclassifications

The reclassification adjustments to conform the Afterpay Group's historical consolidated cash flows presentation to that of the Square Group's historical consolidated cash flows have a net impact on net cash flows from operating and investing activities of US$7.5 million, and US$12.3 million for the six months ended 30 June 2021 and the year ended 31 December 2020 respectively, and are summarised below.

Table 6.16: Reconciliation of Afterpay Historical Cash Flows for Reclassification Adjustments for the six months ended 30 June 2021

(US$ in millions)	**Afterpay Adjusted and Translated (Note 2) (Table 6.11)**	**Reclassific -ation Adjustments (Note 3)**	**Footnotes**	**Afterpay Adjusted, Translated and Reclassified (Note 2 and 3)**
Loss before tax	(91.0)	91.0	[1]	–
Net income/(loss)		(61.8)	[1]	(61.8)
Adjustments for				
Depreciation and amortisation expenses	16.4	–		16.4
Share-based compensation	25.8	–		25.8
Net loss on financial liabilities at fair value	24.7	–		24.7
Share of loss of associate	1.3	(1.3)	[2]	–
Gain on dilution of shareholding in associate	(2.9)	2.9	[3]	–
Finance costs	18.8	(18.8)	[4]	–
Finance income	(0.3)	0.3	[4]	–
Foreign currency gains	(8.8)	8.8	[5]	–
Impairment	1.9	(1.9)	[6]	–
Non-cash interest and other		2.8	[2, 3, 4, 5, 6]	2.8
Transaction and loan losses	–	94.8	[7]	94.8
Change in deferred income taxes	–	(45.3)	[1]	(45.3)
Changes in assets and liabilities				
Increase in total receivables	(108.0)	108.0	[7]	–
Increase in other working capital assets	(2.3)	2.3	[8]	–
Increase in working capital liabilities	94.8	(94.8)	[8]	–
Acquired net working capital	(3.3)	3.3	[8]	–
Tax paid	(1.3)	1.3	[1]	–
Settlements receivable		(198.6)	[7]	(198.6)
Other assets and liabilities		53.5	[1], [7], [8]	53.5
Customers payable		46.3	[8]	46.3
Net cash flows from/(used in) operating activities	(34.2)	(7.2)		(41.4)
Cash flows from investing activities				
Interest received	0.3	(0.3)	[4]	–
(Increase)/decrease in short-term deposits	(4.7)	4.7	[9]	–
Payments for development of intangible assets	(24.8)	24.8	[10]	–
Purchase of intangibles	(4.2)	–		(4.2)
Purchase of plant and equipment	(2.3)	2.3	[11]	–
Acquisition of subsidiaries, net of cash acquired	(10.3)	10.3	[12]	–
Contributions to associate	–	–	[13]	–
Purchase of other investments	–	(4.7)	[9], [13]	(4.7)
Purchase of property and equipment		(27.1)	[10], [11]	(27.1)
Business combinations, net of cash acquired		(10.3)	[12]	(10.3)
Net cash flows from/(used in) investing activities	(46.0)	(0.3)		(46.3)
Net cash flows from/(used in) operating and investing activities	(80.2)	(7.5)		(87.7)

For personal use only

Footnotes:

[1] Represents a US$29.2 million reclassification from Afterpay Group's income tax benefit/(expense) to Square Group's Net income/(loss) to present the cash flows after income tax expense on a consistent basis. The reclassification is offset by a US$(45.3) million movement in deferred tax which has been reclassified to Square Group's Change in deferred income tax (along with Afterpay Group's tax paid of USD$1.3 million), and a US$14.8 million movement in current tax balances which has been reclassified to Square Group's Other assets and liabilities.

[2] Represents a US$1.3 million reclassification to Square Group's Non-cash interest and other from Afterpay Group's Share of loss in associate.

[3] Represents a US$(2.9) million reclassification to Square Group's Non-cash interest and other from Afterpay Group's Gain on dilution of shareholding in associate.

[4] Represents a US$11.4 million reclassification to Square Group's Non-cash interest and other from Afterpay Group's Finance costs of US$18.8 million, Finance Income of US$(0.3) million, Interest received of US$0.3 million, and Interest and bank fees paid of US$(7.5) million. Interest and bank fees are classified as cash flows from financing activities within the Afterpay Group's cash flows which are excluded from the table above. This reclassification from financing activities to operating activities results in the net reclassification adjustment of US$(7.5) million.

[5] Represents a US$(8.8) million reclassification to Square Group's Non-cash interest and other, from Afterpay Group's Foreign currency gains.

[6] Represents a US$1.9 million reclassification to Square Group's Non-cash interest and other, from Afterpay Group's Impairment.

[7] Represents a reclassification to Square Group's Settlements receivable of US$(198.6) million, Transaction and loan losses of US$94.8 million, and other assets and liabilities of US$(4.2) million from Afterpay Group's Increase in total receivables.

[8] Represents a reclassification to Square Group's Other assets and liabilities of US$42.9 million, and Customers payable of US$46.3 million from Afterpay Group's Increase in other working capital assets of US$(2.3) million, Increase in working capital liabilities of US$94.8 million, and Acquired net working capital of US$(3.3) million.

[9] Represents a US$(4.7) million reclassification to Square Group's Purchase of other investments, from Afterpay Group's (Increase)/decrease in short-term deposits.

[10] Represents a US$(24.8) million reclassification to Square Group's Purchase of property and equipment, from Afterpay Group's Payments for development of intangible assets.

[11] Represents US$(2.3) million a reclassification to Square Group's Purchase of property and equipment, from Afterpay Group's Purchase of plant and equipment.

[12] Represents a US$(10.3) million reclassification to Square Group's Business combinations, net of cash acquired, from Afterpay Group's Acquisition of subsidiaries, net of cash acquired.

[13] Represents a reclassification to Square Group's Purchase of other investments (nil), from Afterpay Group's Contributions to associate.

For personal use only

Table 6.17: Reconciliation of Afterpay Historical Cash Flows for Reclassification Adjustments for the year ended 31 December 2020

(US$ in millions)	Afterpay Adjusted and Translated (Note 2) (Table 6.12)	Reclassification Adjustments (Note 3)	Footnotes	Afterpay Adjusted, Translated and Reclassified (Note 2 and 3)
Loss before tax	(46.4)	46.4	[1]	–
Net income/(loss)		(48.7)	[1]	(48.7)
Adjustments for				
Depreciation and amortisation expenses	23.5	–		23.5
Share-based compensation	29.2	–		29.2
Net loss on financial liabilities at fair value	46.1	–		46.1
Share of loss of associate	1.1	(1.1)	[2]	–
Gain on dilution of shareholding in associate	(1.3)	1.3	[3]	–
Finance costs	16.5	(16.5)	[4]	–
Finance income	(0.9)	0.9	[4]	–
Foreign currency gains	(13.4)	13.4	[5]	–
Impairment	1.6	(1.6)	[6]	–
Non-cash interest and other		(7.7)	[2], [3], [4], [5], [6]	(7.7)
Transaction and loan losses	–	82.0	[7]	82.0
Change in deferred income taxes	–	(19.6)	[1]	(19.6)
Changes in assets and liabilities				
Increase in total receivables	(381.8)	381.8	[7]	–
Increase in other working capital assets	(3.7)	3.7	[8]	–
Increase in working capital liabilities	40.5	(40.5)	[8]	–
Acquired net working capital	–	–	[8]	–
Tax paid	(0.2)	0.2	[1]	–
Settlements receivable	–	(472.1)	[7]	(472.1)
Other assets and liabilities		18.4	[1], [7], [8]	18.4
Customers payable	–	48.3	[8]	48.3
Net cash flows from/(used in) operating activities	(289.2)	(11.4)		(300.6)
Cash flows from investing activities				
Interest received	0.9	(0.9)	[4]	–
(Increase)/decrease in short-term deposits	(4.1)	4.1	[9]	–
Payments for development of intangible assets	(35.2)	35.2	[10]	–
Purchase of intangible assets	(0.9)	–		(0.9)
Purchase of plant and equipment	(2.7)	2.7	[11]	–
Acquisition of subsidiaries, net of cash acquired	(0.1)	0.1	[12]	–
Contributions to associate	(13.9)	13.9	[13]	–
Purchase of other investments	–	(18.0)	[9], [13]	(18.0)
Purchase of property and equipment	–	(37.9)	[10], [11]	(37.9)
Business combinations, net of cash acquired	–	(0.1)	[12]	(0.1)
Net cash flows from/(used in) investing activities	(56.0)	(0.9)		(56.9)
Net cash flows from/(used in) operating and investing activities	(345.2)	(12.3)		(357.5)

For personal use only

Footnotes:

[1] Represents a US$(2.3) million reclassification from Afterpay Group's income tax/benefit/(expense) to Square Group's Net income/(loss) to present the cash flows after on a consistent basis. The reclassification is offset by US$(19.6) million movement in deferred tax which has been reclassified to Square Group's Change in deferred income tax (along with Afterpay Group's tax paid of US$0.2 million); and a US$21.8 million movement in current tax balances which has been reclassified to Square Group's Other assets and liabilities.

[2] Represents a US$1.1 million reclassification to Square Group's Non-cash interest and other from Afterpay Group's Share of loss in associate.

[3] Represents a US$(1.3) million reclassification to Square Group's Non-cash interest and other from Afterpay Group's Gain on dilution of shareholding in associate.

[4] Represents a US$4.1 million reclassification to Square Group's Non-cash interest and other from Afterpay Group's Finance costs of US$16.5 million, Finance Income of US$(0.9) million, Interest received of US$0.9 million, and Interest and bank fees paid of US$(12.3) million. Interest and bank fees are classified as cash flows from financing activities within the Afterpay Group's cash flows which are excluded from the table above. This reclassification from financing activities to operating activities results in the net reclassification adjustment of US$(12.3) million.

[5] Represents a US$(13.4) million reclassification to Square Group's Non-cash interest and other, from Afterpay Group's Foreign currency gains.

[6] Represents a US$1.6 million reclassification to Square Group's Non-cash interest and other, from Afterpay Group's Impairment.

[7] Represents a reclassification to Square Group's Settlements receivable of US$(472.1) million, Transaction and loan losses of US$82.0 million, and other assets and liabilities of US$8.2 million from Afterpay Group's Increase in total receivables.

[8] Represents a reclassification to Square Group's Other assets and liabilities of US$11.6 million, and Customers payable of US$48.3 million from Afterpay Group's Increase in other working capital assets of US$(3.7) million, and Increase in working capital liabilities of US$40.5 million).

[9] Represents a US$(4.1) million reclassification to Square Group's Purchase of other investments, from Afterpay Group's (Increase)/ decrease in short-term deposits.

[10] Represents a US$(35.2) million reclassification to Square Group's Purchase of property and equipment, from Afterpay Group's Payments for development of intangible assets.

[11] Represents US$(2.7) million a reclassification to Square Group's Purchase of property and equipment, from Afterpay Group's Purchase of plant and equipment.

[12] Represents a US$(0.1) million reclassification to Square Group's Business combinations, net of cash acquired, from Afterpay Group's Acquisition of subsidiaries, net of cash acquired.

[13] Represents a reclassification to Square Group's Purchase of other investments of US$(13.9) million, from Afterpay Group's Contributions to associate.

(iv) Note 4 – Preliminary purchase accounting

The Scheme will be accounted for as a business combination using the acquisition method of accounting, as prescribed in *Accounting Standards Codification 805, Business Combinations*, ("ASC 805"), under U.S. GAAP. Square Group will be treated as the acquirer for accounting purposes. Square Group will record the assets acquired, including identifiable intangible assets, and the liabilities assumed from the Afterpay Group at their respective estimated fair values at the date of implementation of the Scheme. Any excess of the purchase price over the net fair value of such assets and liabilities will be recorded as goodwill.

For purposes of the Combined Group Pro Forma Historical Financial Information, the fair values of Afterpay's identifiable assets acquired and liabilities assumed have been based on preliminary estimates. Definitive valuations and allocation of purchase price will be performed by Square Group with the services of outside valuation specialists after the implementation of the Scheme. Accordingly, the acquisition adjustments included in the Combined Group Pro Forma Historical Financial Information are preliminary, have been made solely for the purpose of the Scheme Booklet and are subject to revision based on a final determination of fair value upon the implementation of the Scheme.

For personal use only

Calculation of the purchase consideration

The following summarises the preliminary calculation of the purchase consideration transferred as if the Scheme had been completed on 16 September 2021 (consistent with the date used in Square's definitive proxy statement relating to the Scheme filed with the SEC on 5 October 2021), based upon the number of outstanding shares and shares to be issued.

	Footnotes		
Preliminary calculation of purchase consideration			
Share consideration			
Ordinary shares of Afterpay outstanding *(number of shares)*		289,392,911	
Additional shares of Afterpay to be issued due to settlement of Pagantis Convertible Note, Clearpay Call Option and Matrix Convertible Notes *(number of shares)*	[1] [2] [3]	5,060,045	
Employee Stock Plans:			
Additional ordinary shares of Afterpay issued for vested US ESOP (common shares) *(number of shares)*	[5]	1,095,431	
Additional ordinary shares of Afterpay issued for settlement of RSUs and RSAs *(number of shares)*	[6]	661,609	
Total ordinary shares of Afterpay to be exchanged (*number of shares*)		**296,209,996**	
Exchange ratio		0.375	
Square common stock to be issued (*number of shares*)		**111,078,748**	
Share price of Square as of 16 September 2021 *(US$)*		255.09	
Preliminary share consideration *(US$ millions)*			28,335.1
Estimated cash repayment of Afterpay's SGX Convertible Notes *(US$ millions)*	[4]		1,126.9
Estimated cash repayment of Afterpay's Pagantis deferred consideration *(US$ millions)*	[1]		47.4
Estimated fair value of replacement equity awards attributable to the pre-combination period *(US$ millions)*	[7]		232.8
Preliminary Purchase Consideration *(US$ millions)*			**29,742.2**

Footnotes:

As set out in section 4.12, Afterpay Group has commenced discussions with the applicable counterparties in relation to the early exercise of the Clearpay Call Option and the early conversion of both the Pagantis Convertible Note and the Matrix Convertible Notes, but no agreement has yet been reached as to the consideration to be paid based upon the original underlying agreements for each instrument. The Clearpay Call Option, the Pagantis Convertible Note, and the Matrix Convertible Notes can only be settled with Afterpay Shares while Afterpay remains listed on ASX; otherwise, such instruments must be settled in cash.

Outlined below are the assumptions made for the purpose of preparing the Combined Group Pro Forma Historical Financial Information and is pursuant to the Scheme and the respective agreements underlying each instrument. Square Group's management believes that the settlement of the instruments associated with such adjustments is reasonable based on information available at the date of this Scheme Booklet.

An estimated aggregate of 5,060,045 Afterpay Shares are expected to be issued based upon the following, which Square Group management believes to be probable of occurring:

[1] ***Pagantis Convertible Note*** – The Scheme qualifies as a change of control event, and accordingly, Afterpay has the ability (directly or through its subsidiaries, at its discretion) to execute an early exercise of the Pagantis Convertible Note. A portion of the consideration required to settle Afterpay's outstanding Pagantis Convertible Note relates to the repayment of the principal amount of the Pagantis Convertible Note in cash (i.e., the Pagantis deferred purchase consideration) and the remainder relates to the settlement of the Pagantis contingent consideration in Afterpay Shares. The payment of cash consideration of US$47.4 million represents the settlement of the deferred purchase consideration portion of the Pagantis Convertible Note. The value of Afterpay Shares issued upon conversion of the contingent consideration portion of the Pagantis Convertible Note is dependent on the enterprise value of Pagantis and PMT Technology S.L.U., as determined by the terms of the underlying agreement of the Pagantis Convertible Note and is subject to change as the estimate of' Pagantis' and PMT's value changes.

For personal use only

[2] *Clearpay Call Option* – The Scheme qualifies as a change of control event, and accordingly Afterpay has the ability (directly or through its subsidiaries, at its discretion) to early exercise its right to the Clearpay Call Option, of which 6.5% is held by ThinkSmart Europe Limited ("ThinkSmart") and 3.5% is held by participants in the Afterpay UK Employee Stock Ownership Plan. Afterpay may elect, at its discretion, subject to Square's consent and consultation rights under the Scheme Implementation Deed, to purchase the non-controlling interest in Clearpay (i) in cash, (ii) in Afterpay Shares or (iii) a combination thereof. Afterpay intends to settle its purchase of the remaining non-controlling interest in Clearpay by issuing Afterpay Shares. The value of Afterpay Shares issued upon the exercise of the Clearpay Call Option is dependent on the enterprise value of Clearpay as determined by the terms of the underlying agreement of the Clearpay Call Option and is subject to change as the estimate of Clearpay's enterprise value changes.

[3] *Matrix Convertible Notes* – The Scheme qualifies as a change of control event and accordingly, Afterpay Group has the option, at its discretion, to early convert the Matrix Convertible Notes. The holders of the Matrix Convertible Notes hold the right to convert the Matrix Convertible Notes between five and seven years from the date of issuance of the Matrix Convertible Notes in January 2018. The Matrix Convertible Notes have been recorded as an expense in Afterpay's historical income statements as it was issued in exchange for advisory services provided to Afterpay. Afterpay intends to early exercise the settlement of these convertible promissory notes by issuing Afterpay Shares. The amount included in the table above represents the portion of the settlement amount attributable to pre-combination services. The value of Afterpay Shares issued upon conversion of the Matrix Convertible Notes is dependent on the enterprise value of Afterpay US, Inc. as determined by the terms of the underlying agreement of the Matrix Convertible Notes, and is subject to change as the estimate of Afterpay US, Inc.'s enterprise value changes.

Settlement of the Clearpay Call Option, Pagantis Convertible Note, Matrix Convertible Note, or the SGX Convertible Notes (described below) is dependent on third parties and the final resolution of the settlement of the Afterpay Minority Interests is not known at the date of this Scheme Booklet. Accordingly, the assumptions made, including the Afterpay Minority Interests presented in the Combined Group Pro Forma Historical Financial Information, are subject to change.

The above table also includes the following:

[4] SGX Convertible Notes – Reflects the settlement of the principal amount of the A$1.5 billion SGX-listed convertible notes, issued by Afterpay on 12 March 2021. Upon a change of control event, noteholders have the option to (i) convert their SGX Convertible Notes into Afterpay Shares at a reduced conversion price, which is dependent on the date of the change of control event, or (ii) redeem the SGX-listed Convertible Notes at their principal value.

As the election of the noteholders (and therefore, the settlement outcome) cannot be determined prior to the date of this Scheme Booklet, for the purposes of the Combined Group Pro Forma Historical Financial Information Square has assumed that the noteholders will elect to redeem the SGX Convertible Notes at their principal value. The payment of cash consideration represents the settlement of the A$1.5 billion (US$1.1 billion) principal amount of the SGX Convertible Notes.

If the price of Afterpay Shares was above A$141.43, the conversion option would be in-the-money, and the Afterpay Shares issued in connection with this conversion option would then be exchanged for 3.98 million Square Class A Shares. This is based on the assumption that the noteholders will elect to convert their notes into Afterpay Shares when the conversion option is considered in-the-money (i.e., the conversion price is less than the implied value) and the conversion price is reduced assuming a change of control date of 31 December 2021.

[5] Represents vested US ESOP (common shares) that will be converted into Afterpay Shares and settled in converted Square Class A Shares at the implementation of the Scheme.

[6] Represents the RSUs and RSAs that will immediately vest based upon the implementation of the Scheme, which are based upon the computation of the pro rata number of RSUs and RSAs, defined as the number of months satisfied in the service period as of the transaction date, compared to the required vesting period based upon the terms of the RSUs and RSAs.

[7] Represents the additional fair value of stock-based compensation awards attributable to pre-combination services related to vested options and restricted stock units/awards described in [6] above.

For personal use only

Purchase price allocation and goodwill calculation

The table below represents the preliminary purchase price allocation based on estimates, assumptions, valuations and other analyses as at 30 June 2021, that have not been finalised in order to make a definitive allocation. Accordingly, the pro forma adjustments to allocate the purchase consideration will remain preliminary until Square's management finalises the fair values of assets acquired and liabilities assumed. The final amounts allocated to assets acquired and liabilities assumed are dependent upon certain valuations and other analysis that have not yet been completed, and as previously stated could differ materially from the amounts presented in the Combined Group Pro Forma Historical Financial Information.

The total preliminary estimated purchase consideration as calculated in the table above is allocated to the tangible and intangible assets acquired and liabilities assumed of Afterpay based on their estimated fair values as if the Scheme had occurred on 30 June 2021, which is the assumed acquisition date for the purposes of the Combined Group Pro Forma Historical Statement of Financial Position. Goodwill represents the excess of acquisition consideration over the fair value of the underlying net assets acquired. In accordance with ASC 350, *Goodwill and Other Intangible Assets*, goodwill is not amortised, but instead is reviewed for impairment at least annually, in the absence of any indicators of impairment. Goodwill recorded as a result of the Scheme is not expected to be deductible for tax purposes.

	(US$ millions)
Preliminary Purchase Consideration	29,742.2
Assets acquired	
Cash and cash equivalents	861.8
Consumer receivables, net	1,109.2
Other current assets	48.0
Property and equipment, net	6.1
Acquired intangible assets	2,585.0
Operating lease right-of-use assets	25.5
Other non-current assets	19.1
Total assets	4,654.7
Liabilities assumed	
Customers payable	119.8
Accrued expenses and other current liabilities	247.2
Operating lease liabilities, non-current	25.7
Long-term debt	0.2
Other non-current liabilities	446.7
Total liabilities	839.6
Net assets acquired	3,815.1
Goodwill	25,927.0

For the purposes of determining the consideration transferred, Square's Class A Share price from 16 September 2021 has been utilised. A sensitivity analysis has been performed to estimate the impact changes to the Square Class A Share price would have on the Combined Group Pro Forma Historical Financial Information. An increase or decrease of 10% would increase or decrease the total consideration by US$2.8 billion. Management expect these sensitivities to impact goodwill from purchase price accounting, stock-based compensation expense, transaction costs, settlement of the Matrix Convertible Notes attributable to post-combination services and, in the case of a 10% increase to the Square Class A Share price, settlement of the SGX Notes (being in-the-money, thus equity settled versus cash settled).

As at the close of trading on NYSE on 29 October 2021, the Square Class A Share price was US$254.50 which represents a 0.2% decrease from the 16 September 2021 share price of $255.09 used as the Scheme Booklet reference price. The actual purchase price will fluctuate until the closing of the implementation of the Scheme.

For personal use only

(v) Note 5 – Adjustments to the Combined Group Pro Forma Historical Income Statements

(A) Amortisation of acquired technology and Amortisation of acquired customer assets

The estimated incremental amortisation expense related to the finite-lived intangible assets identified in connection with the Scheme is recorded within two accounts. The incremental amortisation related to Developed Technology of US$1.2 million and US$9.5 million is included within Amortisation of acquired technology for the six months ended 30 June 2021 and the year ended 31 December 2020, respectively.

The incremental amortisation related to Customer Relationships and Trade Name of US$88.1 million and US$177.5 million is included within Amortisation of acquired customer assets for the six months ended 30 June 2021 and the year ended 31 December 2020, respectively.

Identifiable intangible assets (millions)	Estimated Fair Value (US$) as at 30 June 2021	Estimated Useful Life (in years)	Classification within Combined Group Pro Forma Historical Income Statement	Six months ended 30 June 2021 Amortisation Expense (US$)	Year ended 31 December 2020 Amortisation Expense (US$)
Developed Technology	122.0	5	Amortisation of acquired technology	12.2	24.4
Less: Historical Amortisation Expense	–			(11.0)	(14.9)
Increase/(Decrease) in Amortisation Expense	–			1.2	9.5
Customer Relationships	2,112.0	15	Amortisation of acquired customer assets	70.4	140.8
Trade Name	351.0	9	Amortisation of acquired customer assets	19.5	39.0
Subtotal	2,585.0			89.9	179.8
Less: Historical Amortisation Expense				(1.8)	(2.3)
Increase/(Decrease) in Amortisation Expense				88.1	177.5

A 10% change in the valuation of intangible assets would cause a corresponding increase or decrease in the balance of goodwill and annual amortisation expense of approximately US$20.4 million per year, assuming an overall weighted-average useful life of 13.71 years.

For personal use only

(B) Stock based compensation expense

Reflects the stock based compensation expense expected to be incurred in connection with the replacement equity awards, net of historical stock compensation expense incurred by Afterpay Group. The stock based compensation expense is calculated using a 16 September 2021 cut-off date, consistent with the date utilised in Note 4 above. The aggregate stock based compensation expenses for the six months ended 30 June 2021 and the year ended 31 December 2020 is calculated as follows (note that the stock based compensation expense was allocated to Product development, Sales and marketing, and General and administrative based on headcount):

(US$ millions)	**Classification within Combined Group Pro Forma Historical Income Statement**	**Six months ended 30 June 2021**	**Year ended 31 December 2020**
Anticipated stock compensation expense due to vesting of replacement equity awards	Product and development	9.4	63.7
Less: Historical stock compensation expense		(9.1)	(9.6)
Net adjustment related to stock based compensation expense		**0.3**	**54.1**
Anticipated stock compensation expense due to vesting of replacement equity awards	Sales and marketing	7.1	53.7
Less: Historical stock compensation expense		(6.9)	(8.1)
Net adjustment related to stock based compensation expense		**0.2**	**45.6**
Anticipated stock compensation expense due to vesting of replacement equity awards	General and administrative	10.1	76.5
Less: Historical stock compensation expense		(9.8)	(11.5)
Net adjustment related to stock based compensation expense		**0.3**	**65.0**

(C) Clearpay Call Option

Reflects the reversal of historical periodic mark-to-market expense of US$24.7 million and US$46.1 million for the six months ended 30 June 2021 and year ended 31 December 2020 respectively in relation to the Clearpay Call Option. Refer to Note 4 Footnote [2] and Note 6 (H) for further details.

(D) SGX Convertible Notes interest expense and borrowing costs

Reflects the reversal of US$14.5 million in interest expense and borrowing costs on the SGX Convertible Notes incurred by Afterpay in its historical consolidated income statement for the six months ended 30 June 2021, of which US$3.4 million is reversed from general and administrative expense and US$11.1 million is reversed from other expense. Refer to Note 4 Footnote 4 above for further information.

For personal use only

(E) Income tax expense/(benefit)

The net increase in pro forma historical income tax expense/(benefit) reflects the estimated tax effect of the pro forma adjustments using the blended statutory US federal and state tax rate and statutory tax rates of the respective foreign jurisdictions in which Afterpay operates. The statutory tax rates range from 19% to 30%, which are in effect for the periods of the Combined Group Pro Forma Historical Income Statements. The actual effective tax rate, of the Combined Group, could be materially different (either higher or lower) from the rate presented in the Combined Group Pro Forma Historical Income Statements.

(US$ millions)	Six months ended 30 June 2021	Year ended 31 December 2020
Historical Square income tax expense/(benefit)	(8.4)	2.9
Historical Afterpay income tax expense/(benefit)	(29.2)	2.3
Income tax expense/(benefit) resulting from acquisition adjustments	(21.5)	(137.9)
Total adjustment for income tax expense/(benefit)	**(59.1)**	**(132.7)**

(F) Matrix Convertible Notes day one post-combination charge

The increase in general and administrative expense of US$136.0 million for the year ended 31 December 2020 reflects the portion of the settlement amount of the Matrix Convertible Notes attributable to post-combination services that will be recognised as a post-combination day one expense recognised through the income statement. Refer to Note 4 Footnote 3 above for further information.

(G) Transaction costs

The increase in general and administrative expense of US$162.7 million for the year ended 31 December 2020 reflects the estimated costs that are directly attributable to the Scheme of Square and Afterpay.

(vi) Note 6 – Adjustments to the Combined Group Pro Forma Historical Statement of Financial Position as at 30 June 2021

(A) Cash and cash equivalents

The decrease in cash and cash equivalents of US$1.2 billion, was determined as follows:

	Footnotes	*(US$ millions)*
Settlement of SGX Convertible Notes	[1]	(1,126.9)
Settlement of Pagantis deferred consideration	[2]	(47.4)
Pro forma net adjustment to cash and cash equivalents		**(1,174.3)**

Footnotes:

[1] Settlement of SGX Convertible Notes – Reflects the settlement of the principal amount of the SGX Convertible Notes. Refer to Note 4 Footnote [4] above for further information.

[2] Settlement of Pagantis deferred consideration – Reflects the settlement of the deferred consideration portion of the Pagantis Convertible Note. Refer to Note 4 Footnote [1] above for further information.

(B) Goodwill

Represents an increase of US$25.9 billion related to goodwill, inclusive of historical Afterpay goodwill of US$84.4 million which was calculated as the excess of the estimated purchase price of US$29.7 billion over the US$3.8 billion in net assets acquired. Refer to Note 4 – Preliminary Purchase Price Allocation for details on Square's calculation of goodwill.

For personal use only

(C) Acquired intangibles, net

The net increase in Acquired intangible assets, net of US$2.5 billion represents the change from Afterpay's historical net book value to preliminary estimated fair value as follows:

	(US$ millions)
Fair value of intangible assets acquired	2,585.0
Less: Carrying value of Afterpay's historical acquired intangible assets	(86.6)
Pro forma net adjustment to acquired intangible assets, net	**2,498.4**

(D) Deferred tax liabilities

The increase in deferred tax liabilities ("DTL") of US$420.2 million reflects the net deferred tax impact of the fair value adjustments discussed above equal to US$537.5 million offset by pre-transaction deferred tax assets ("DTA") equal to US$117.3 million. Pre-transaction, jurisdictions were in net deferred tax asset positions. Due to the deferred tax liabilities recorded in acquisition accounting, jurisdictions that are now in net deferred tax liability positions and the pre-transaction deferred tax assets have been reclassified to the liability account for proper jurisdictional netting presentation.

	(US$ millions)
Historical Square DTA	7.8
Afterpay Opening Statement of Financial Position DTA	117.3
Reclass from DTA to DTL	(117.3)
Subtotal DTA	**7.8**
Reclass Historical DTAs	117.3
Afterpay PPA Opening Statement of Financial Position DTL	(537.5)
Net deferred tax asset/(liability)	**(420.2)**
DTL attributable to Afterpay	(420.2)
DTA attributable to Historical Square	7.8
Net deferred tax asset/(liability)	**(412.4)**

Preliminary deferred taxes have been estimated based on a blended statutory U.S. federal and state tax rate and statutory tax rates of the respective foreign jurisdictions in which Afterpay operates. The statutory tax rates range from 19% to 30%, which are in effect as at 30 June 2021. The actual effective tax rate, of the Combined Group, could be materially different (either higher or lower) from the rate presented in the Combined Group Pro Forma Historical Statement of Financial Position. Preliminary deferred taxes have been estimated based on the assumption Square and Afterpay U.S. entities are not able to file consolidated US tax filings, immediately following the Scheme. The deferred tax liabilities have not been considered as a source of taxable income for Square's historical deferred tax assets and no unrecognised tax benefits have been recorded in the preliminary income tax calculations. These assumptions could change depending on pre and post acquisition activities, the geographical mix of income, changes in tax law, as well as the final determination of the fair value of the identifiable intangible assets and liabilities.

For personal use only

(E) Stockholders equity

The increase in equity balances consists of the following:

	Footnotes	*(US$ millions)*
Fair value of common stock issued to the Afterpay Shareholders	[1]	27,683.0
Capital issued in settlement of Pagantis contingent consideration; Clearpay Call Option; Matrix Convertible Notes	[2]	484.0
Estimated value of replacement equity awards attributable to the pre-combination period	[3]	232.8
Additional ordinary shares of Afterpay issued for settlement of RSUs and RSAs at Close	[4]	63.3
Additional ordinary shares of Afterpay issued for vested US ESOP (common shares)	[5]	104.8
Non-controlling interest	[6]	(0.6)
Removal of Afterpay's historical shareholders' equity – Additional paid-in capital		(1,656.1)
Removal of Afterpay's historical shareholders' equity – Accumulated other comprehensive income		491.8
Removal of Afterpay's historical shareholders' equity – Accumulated losses		185.3
Square's estimated transaction costs and other one-time charges	[7]	(191.5)
Increase in Afterpay's additional paid-in capital from one-time charge	[7]	136.0
Pro forma net adjustment to total equity		$27,532.8

Footnotes:

[1] Value was determined as follows: (a) Ordinary shares of Afterpay as of close on 16 September 2021, multiplied by (b) the Exchange ratio, multiplied by (c) Share price of Square as of close on 16 September 2021.

[2] Capital issued for settlement – Represents the issuance of ordinary shares for early exercise of the Pagantis Convertible Note, Clearpay Call Option, and Matrix Convertible Note, given the Scheme qualifies as a change of control event. Refer to Note 4 for further detail.

[3] Replacement equity awards – Represents the issuance of replacement equity awards for which service was provided in the pre-combination period and thus is included in the calculation of purchase consideration. Replacement awards with an aggregate estimated fair value of US$505.6 million are expected to be issued at close on 16 September 2021, US$232.8 million relates to service provided in the pre-combination period and is included within additional paid-in capital.

[4] Vested RSUs and RSAs – Represents the issuance of vested RSUs and RSAs as of close on 16 September 2021 as a result of pro-rata vesting.

[5] Vested US ESOP (common shares) - Represents the conversion of vested US ESOP into Afterpay Shares and settlement in Square Class A Shares as part of the Scheme. Value was determined as follows: (a) vested US ESOP (common shares), multiplied by (b) the Exchange ratio, multiplied by (c) Square Class A Share price as of close on 16 September 2021.

[6] Non-controlling interest – The decrease in non-controlling interest of US$0.6 million reflects the early exercise of the Clearpay Call Option (refer to Note 4(ii) above for further details) and the exchange of equity awards held by Afterpay employees and exercisable into certain Afterpay subsidiaries' equity (i.e., US ESOP and UK ESOP) for replacement equity awards exercisable into Square shares as part of the Scheme. Historically, Afterpay recognised such awards issued to employees as non-controlling interest. The pro forma impact to net loss attributable to NCI on the income statement would be a reversal of US$0.3 million and US$2.2 million for the six months ended 30 June 2021 and year ended 31 December 2020 respectively.

[7] Transaction costs and other one-time charges – A decrease in retained earnings of US$191.5 million reflects the impact of Square's portion of estimated transaction costs (US$55.5 million) and other one-time charges (Matrix Convertible Note – Day 1 Post-combination US$136.0 million), which are not recurring in nature. The US$136.0 million increase in equity reflects the issuance of ordinary shares for the early exercise of the Matrix Convertible Note. Refer to Note 4(iii) for further detail.

For personal use only

(F) Long-term debt

The decrease in long-term debt of US$941.0 million reflects the settlement of the SGX Convertible Notes.

(G) Accrued expenses and other current liabilities

The increase in accrued expenses and other current liabilities of US$162.7 million reflects the accrual for estimated transactions costs directly attributable to the Scheme, of which US$55.5 million is attributed to Square and US$107.2 million is attributed to Afterpay. The US$55.5 million is also reflected in retained earnings and US$107.2 million is reflected in goodwill.

(H) Other non-current liabilities

The decrease in other non-current liabilities of US$125.2 million is attributed to the following:

	Footnotes	***(US$ millions)***
Removal of Pagantis contingent consideration	[1]	(4.8)
Removal of Pagantis deferred consideration	[2]	(45.4)
Removal of Clearpay Call Option	[3]	(75.0)
Pro forma net adjustment to other non-current liabilities		**(125.2)**

Footnotes:

[1] Pagantis contingent consideration – Reflects the settlement of the Pagantis contingent consideration of US$4.8 million.

[2] Pagantis deferred consideration – Reflects the settlement of Pagantis deferred consideration of US$45.4 million.

[3] Clearpay Call Option – Reflects the removal of the put option on the remaining 6.5% non-controlling interest in Clearpay held by ThinkSmart of US $75.0 million. The Clearpay Call Option is only exercisable by ThinkSmart in the event Afterpay does not exercise its Call Option. As it has been assumed as part of the pro forma adjustments that Afterpay will early exercise its Call Option, the Put Option is eliminated.

(vii) Note 7 – Adjustments to the Combined Group Pro Forma Historical Cash Flows

Where an adjustment in the Combined Group Pro Forma Historical Income Statements or Combined Group Pro Forma Historical Statement of Financial Position results in a change in the net operating or investing cash flows, the amount of the inflow or outflow has been taken to be equal to the corresponding increase or decrease in Net income/(loss).

(A) Amortisation of acquired technology and Amortisation of acquired customer assets

Relates to the adjustment in the Combined Group Pro Forma Historical Income Statements described in Note 5(A) where an estimated incremental amortisation expense was recorded in relation to finite-lived intangible assets. The adjustment relates to a non-cash item so has no impact on the net operating cash flows.

(B) Stock based compensation expense

Relates to the adjustment in the Combined Group Pro Forma Historical Income Statements described in Note 5(B) and reflects the stock based compensation expense expected to be incurred in connection with the replacement equity awards, net of historical stock compensation expense incurred by Afterpay. The adjustment has no impact on the net operating cash flows.

(C) Clearpay Call Option

Relates to the adjustment in the Combined Group Pro Forma Historical Income Statements described in Note 5(C) and reflects the reversal of historical periodic mark-to-market expense. The adjustment relates to a non-cash item so has no impact on the net operating cash flows.

For personal use only

(D) SGX Convertible Notes interest expense and borrowing costs

Relates to the adjustment in the Combined Group Pro Forma Historical Income Statements described in Note 5(D) and reflects the reversal of the interest expense and borrowing costs on the SGX Convertible Notes incurred by Afterpay. The finance costs of US$10.1 million were non-cash and US$4.6 million were cash outflows, so the impact of the pro forma adjustment is an increase in net operating cash flows of US$4.6 million.

(E) Income tax expense/(benefit)

Relates to the adjustment in the Combined Group Pro Forma Historical Income Statements described in Note 5(E) and reflects the estimated tax effect of the pro forma adjustments using the blended statutory US federal and state tax rate and statutory tax rates of the respective foreign jurisdictions in which Afterpay operates. The adjustment has no impact on the net operating cash flows as it results in an increase in deferred income taxes.

(F) Matrix Convertible Notes day one post-combination charge

Relates to the adjustment in the Combined Group Pro Forma Historical Income Statements described in Note 5(F) and reflects the portion of the settlement amount of the Matrix Convertible Notes attributable to post-combination services that will be recognised as a post-combination day one expense. The Matrix Convertible Notes will be equity settled so has no impact on the net operating cash flows.

(G) Transaction costs

Relates to the adjustment in the Combined Group Pro Forma Historical Income Statements described in Note 5(G) and reflects the additional estimated costs that are directly attributable to the Scheme. The increase in general and administrative expense results has been recorded under Accrued expenses and other current liabilities on the Combined Group Pro Forma Historical Statement of Financial Position as at 30 June 2021.

(H) Pagantis deferred consideration

Relates to the adjustment in the Combined Group Pro Forma Historical Statement of Financial Position described in Note 6(H) and reflects the settlement of the deferred consideration of the Pagantis Convertible Note. The settlement of the deferred consideration results in an increase in the net investing cash outflow of US$47.4 million for the year ended 31 December 2020.

For personal use only

Section 7

Key Risks

7.1. Overview

In considering the Scheme you should be aware that there are a number of risk factors, both general and specific, associated with the Scheme. This section describes a number of key risks associated with:

- the business and operations of Afterpay, including your current investment in Afterpay Shares;
- implementation of the Scheme;
- operations of the Combined Group;
- trading;
- New Square Securities; and
- share ownership.

A significant number of these risks are, or will be, risks to which Afterpay Shareholders are already exposed. However, as the nature of the Combined Group's business will differ from that of Afterpay as a standalone business, Afterpay Shareholders will be potentially exposed to additional risks in respect of the Combined Group.

The information set out in this section is a summary only, should be considered in conjunction with other information contained in this Scheme Booklet and is not, and should not be relied on as, an exhaustive list of the risks that Afterpay Shareholders may face or to which you may be exposed.

These risks are general in nature and have been prepared without reference to the investment objectives, financial and taxation situation or particular needs of any Afterpay Shareholder or any other person.

Additional risks and uncertainties that Afterpay and Square are currently unaware of, or that may currently be considered immaterial, may also become important factors that can adversely affect the Combined Group's operating and financial performance.

7.2. Risks Relating to the Business and Operations of Afterpay

Risk factors in respect of the Afterpay business that Shareholders will remain exposed to if the Scheme does not proceed are described below.

(a) Compliance with laws, regulations and industry standards

Afterpay operates in a range of jurisdictions including Australia, New Zealand, North America, Spain, Italy, France and the UK. Afterpay's business principally consists of providing financial services to consumers and is therefore subject to significant regulation and different regulatory frameworks in the various jurisdictions in which Afterpay operates.

For personal use only

Afterpay is also exposed to a number of regulatory risks including risks associated with anti-money laundering, counter-terrorism financing, anti-bribery and corruption and sanctions laws, payment system regulation, privacy laws, compliance costs, product design and conduct. Furthermore, with the geographic expansion of Afterpay's business, Afterpay may become subject to additional legal, regulatory, tax, licensing, compliance requirements and industry standards.

Afterpay must maintain robust internal systems, processes and controls to ensure that Afterpay and its employees and representatives comply with these legal obligations. Failure to comply with any applicable laws and regulations in Australia, New Zealand, North America, Spain, Italy, France or the UK may result in legal or regulatory sanctions or enforcement action.

Regulators have become increasingly focussed on the BNPL industry as it continues to grow, and such increased regulatory interest may lead to new or modified laws or regulations or regulatory guidance which may adversely affect Afterpay's business and operations. In addition, existing laws or regulations may be subject to differing or new interpretations by regulators and others over time.

(b) Changing laws, regulations and industry standards

Afterpay operates within a changing regulatory landscape. This changing regulatory landscape, and the increased scrutiny of industry participants' compliance with regulatory requirements and recent proposed regulation relating to the BNPL industry, may lead to new or modified laws or regulations which may adversely affect Afterpay's business and operations. There is a risk that such changes in laws, regulations or industry standards may impose significant compliance costs, or even make it uneconomic for Afterpay to continue to operate in its current markets, or to expand in accordance with its strategy. This may materially and adversely impact Afterpay's ability to achieve its strategic goals, and negatively impact its revenue and profitability by preventing its business from reaching sufficient scale in particular markets. Afterpay's inability, or perceived inability, to comply with new compliance obligations could lead to a regulator investigating Afterpay, which could result in administrative or enforcement action, such as fines, penalties, and/or enforceable undertakings. This could also damage Afterpay's reputation. New and stricter laws and regulations or changing interpretations of existing laws and regulations, or industry standards to which Afterpay may become subject, could require the implementation of new or more demanding procedures that may carry higher compliance costs, and/or impact on Afterpay's ability to execute its strategy.

(c) Loss of key contracts and relationships

Afterpay's business depends on its contracts and relationships with significant merchants, strategic partners (including strategic payment partners) and end customers. There can be no guarantee that these contracts and relationships will continue or, if they do continue, that they remain successful. Afterpay's contracts with merchants and strategic payment partners can generally be terminated on short notice. Any loss of Afterpay's key merchants, strategic partners and end customers or a failure to secure new merchants, strategic partners or customers on favourable terms, may materially and adversely impact Afterpay's results from operations and profitability, and also have a negative impact on Afterpay's reputation and prospects.

(d) Competitors and new entrants

Afterpay operates in the highly competitive consumer finance sector. This sector includes the provision of a range of products that enable customers to purchase goods and services for no (or nominal) upfront costs, such as personal loans, credit cards, and BNPL products. There are a number of different competitors in the BNPL space, ranging from start-ups to established financial institutions and global payments providers, who currently offer, have announced an intention to offer, or who have the capability to offer in the future, BNPL services in Australia and/or in Afterpay's other key markets. Afterpay also competes more broadly with financial institutions and other payments providers in the broader payments space. Existing competitors and new competitors both in Australia and elsewhere, may engage in aggressive customer and/or merchant acquisition campaigns, develop superior technology offerings or consolidate with other entities to deliver enhanced scale benefits. Such competitive pressures may materially erode Afterpay's share and revenue, or prevent or limit its growth, and may materially and adversely impact Afterpay's results from operations, profitability and prospects.

(e) Exposure to Afterpay's end customer bad debts

A major part of Afterpay's operations and earnings depends on Afterpay's revenue generated from BNPL services used by customers and Afterpay's ability to recoup the purchase value of those services. Afterpay relies on its technology to assess end customers' repayment capability for each transaction. Prolonged miscalculation of customers' repayment ability, or a material increase in repayment failures due to job losses or other adverse events, such as events consequential to the COVID-19 outbreak and related containment measures taken in response to the pandemic, or other macroeconomic events, may cause Afterpay's

For personal use only

business to be overly exposed to bad debts due to increased customers' failure to meet their repayment obligations to Afterpay. Afterpay also has exposure, to the potential insolvency of a merchant to which Afterpay has advanced funds. This may materially and adversely impact Afterpay's results from operations, profitability and prospects.

(f) Funding

Afterpay has receivables financing arrangements in Australia, New Zealand, the United States and the United Kingdom (**Warehouse Facilities**) to support Afterpay's funding of purchases by customers. If repayments are not made or certain terms and conditions are not satisfied under the Warehouse Facilities, lenders may terminate their respective financing arrangements. In these circumstances, Afterpay's capacity to pay merchants in advance of collecting purchase price instalments from customers may be diminished if Afterpay is unable to secure financing from other lenders on equivalent terms or at all. This would significantly slow down Afterpay's growth and may impair Afterpay's ability to finance its business.

(g) Failures or disruptions to technology systems and communication networks

Afterpay relies on technology and third-party communication networks to assess customer repayment capabilities. There is a risk that these systems may fail to perform as expected or be adversely impacted by a number of factors outside of Afterpay's control.

This includes damage, equipment faults, power failure, fire, natural disasters, computer viruses and external malicious interventions such as hacking, ransomware or denial-of-service attacks. This may cause part or all of Afterpay's technology system and/or the communication networks to become unavailable.

There is a risk that repeated failures to keep Afterpay's technology available may result in reduced customers or merchants cancelling their contracts with Afterpay. This may materially and adversely impact Afterpay's business, results from operations, profitability, as well as negatively impacting Afterpay's reputation and prospects.

(h) Banking and payment processing performance

Afterpay relies on online payment gateways, banking and financial and other institutions, and POS devices for the validation of payment methods (such as bank cards), processing and settlement of payments. As a result of these interdependent and complex systems, any technology failures, cyber attacks, information security breaches or other disruptions to such platforms and technology may affect Afterpay's ability to effect transactions or service its clients and have an adverse impact on its business, results from operations, profitability and prospects.

(i) Third-party network infrastructure providers

Afterpay relies on third-party service providers to maintain its network infrastructure for software application offerings. Such network infrastructure involves major risks including, (i) any breakdown or system failures resulting in a sustained shutdown of all or a material part of Afterpay's servers, including failures which may be attributable to power shutdowns, or loss or corruption of data or malfunctions of software or hardware; and (ii) any disruption or failure in the national backbone telecommunication network. Afterpay has no control over the cost of the services provided by these third-party service providers, and may be required to pay for any additional costs, which may affect Afterpay's business, financial position and operations.

(j) Exposure to potential security breaches, cyber-attacks and data protection issues

Through the ordinary course of business, Afterpay collects, processes and stores a wide range of confidential and personal data and information. The measures Afterpay takes to protect such information and data may be insufficient to prevent security breaches from arising, or other unauthorised access or disclosure of such information and data. Any data security breaches or Afterpay's failure to protect private personal or confidential information could result in a significant disruption to Afterpay's systems, reputational damage, loss of system integrity and breaches of Afterpay's obligations under applicable laws, each of which may materially and adversely impact Afterpay's business, results from operations, profitability, reputation and prospects. Further, laws relating to data privacy are evolving across all jurisdictions and any changes to standards may adversely impact Afterpay's current systems and operating procedures.

Security breaches may also involve unauthorised access to Afterpay's networks, systems and databases and the deployment of malicious software designed to create system and service disruptions, exposing financial, proprietary and/or personal information. Any systemic failure or sustained disruption to the effective operation of Afterpay's technology (e.g. through cyber-attacks) could severely damage Afterpay's reputation and its ability to generate new business or retain existing business, directly impair Afterpay's operations or require increased expenditure on technology or generally across the business.

For personal use only

(k) Activities of fraudulent parties

Afterpay may be exposed to fraud attempts, including risks from the potential collusion between internal and external parties, large scale attempts to impersonate existing customers or take over existing customer accounts, and end customers attempting to circumvent Afterpay's systems (such as Afterpay's repayment capability assessments). Fraud attempts may potentially result in damage to Afterpay's reputation, a higher than budgeted cost of fraud to rectify and safeguard business operations or result in bad debt that cannot be collected and must be written off, which may materially adversely impact Afterpay's results from operations, profitability, reputation and prospects.

(l) Protection and ownership of technology and intellectual property

Unauthorised use or copying of any of Afterpay's software, data, specialised technology or platforms may occur and the validity, ownership or authorised use of intellectual property relevant to Afterpay's business may be successfully challenged by third parties. This could result in significant expense and the inability to use the intellectual property in question, which may materially and adversely impact Afterpay's business, results of operations, profitability and prospects. Such disputes (whether or not successful) may also temporarily and adversely impact Afterpay's ability to integrate new systems or develop new services, and could involve significant costs of litigation and diversion of management attention, all of which may adversely impact Afterpay's results from operations, profitability and prospects.

There is also a risk that Afterpay will be unable to register or otherwise protect new intellectual property it develops in the future. Afterpay's competitors may then be able to offer identical or very similar services or services that are otherwise competitive against those provided by Afterpay, which could adversely affect Afterpay's business, results from operations and prospects.

(m) Ability of Afterpay's technology to integrate with third party platforms

The success of Afterpay's services, and the ability to attract additional end customers and merchants, will depend on the ability of Afterpay's technology and systems to integrate into and operate with various third party systems and platforms, particularly websites, POS systems and other merchant systems. In addition, as these systems and platforms are regularly updated, it is possible that when such updates occur it could cause Afterpay's services to not operate as efficiently as previously or not at all. This will require Afterpay to change the way some of its systems operate, and may disrupt the provision of services permanently or temporarily, which may take time and expense to remedy, and could adversely affect Afterpay's business, results from operations and prospects.

(n) Afterpay's technology may be superseded by other technology or changes in business practice

Afterpay's success will in part depend on its ability to offer services and systems that remain current with the continuing changes in technology, evolving industry standards and changing customer preferences. Afterpay may not be successful in addressing these developments in a timely manner, or expenses may be greater than expected. In addition, new products or technologies (or alternative systems) developed by third parties may supersede Afterpay's technology. This may materially and adversely impact Afterpay's results from operations and profitability.

(o) Loss of or failure to attract key personnel

Afterpay's ability to effectively execute its growth strategies depends on the performance and expertise of its key personnel. The market for talented personnel in the BNPL space and fintech industry more broadly is extremely competitive. The loss of key personnel or any delay in their replacement, may adversely affect Afterpay's future financial performance. Further, Afterpay requires skilled personnel for entry into new markets that may be in short supply or that may be sought after by competitors and new entrants. An inability to attract and retain skilled personnel would inhibit the success of new market entry and may adversely affect Afterpay's future financial performance.

(p) Capacity constraints

Continued increases in transaction volumes may require Afterpay to expand and adapt its network and applications infrastructure to avoid interruptions to its systems. Any unprecedented transaction volumes may interrupt Afterpay's systems, reduce the number of completed transactions, increase expenses, and reduce the level of customer service, and these factors may adversely impact Afterpay's business, results from operations and profitability. Expansions into new offshore markets may require additional data centre capacity in those markets due to data security requirements or capacity constraints. An inability to obtain such capacity in a timely manner may adversely impact Afterpay's business, results from operations and profitability.

For personal use only

(q) Inability to identify suitable targets or successfully integrate acquisitions

Afterpay's strategy may involve the acquisition of additional businesses that are aligned with Afterpay's Core Business. Acquisition transactions involve inherent risks, including accurately assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of a business, integration risks, excessive diversion of management attention from the operations of the existing business, potential loss of key personnel and key clients of the acquired business, unanticipated changes in the industry or general economic and regulatory conditions that affect the assumptions underlying the acquisition and decline in the value of, and unanticipated costs, problems or liabilities associated with the acquired business.

Any of these or similar risks could cause Afterpay to not realise the benefits and synergies anticipated from any acquisition of a new business and could have a material adverse impact on its results from operations, profitability, financial position and prospects.

(r) Exposure of earnings to fluctuating foreign exchange rates

Afterpay has operations in many jurisdictions. Therefore, it will be exposed to foreign earnings, expenses and borrowings affecting the value of transactions when translated back to the functional currency on a transaction basis. As Afterpay may hold some borrowings denominated in a foreign currency, it will therefore be exposed to this risk in the absence of effective hedging.

To the extent Afterpay does not hedge effectively, or at all, against movements in the exchange rate of these currencies, such exchange rate movements may adversely affect its earnings and/or statement of financial position.

(s) International operations

Afterpay conducts operations in a number of geographies and countries. The future operating results in the countries or regions in which Afterpay will operate, or may in the future operate, could be negatively affected by a variety of factors beyond the control of Afterpay, including political instability, economic conditions, legal and regulatory constraints, trade policies, currency regulations, and risks associated with having facilities located in countries which have historically been subject to volatility in one or more of these areas. Additional risks inherent in Afterpay's global operations generally include, among other things, the costs and difficulties of managing international operations, adverse tax consequences arising from carrying on operations in a large number of countries and the conduct of cross-border transactions and greater difficulty in enforcing intellectual property rights in certain countries.

(t) Accounting standards and judgements

Afterpay's accounting policies are fundamental to how it records and reports its financial position and results from operations. These policies require the use of estimates, assumptions and judgements that affect the reported value of Afterpay's assets, liabilities, bad and doubtful debts and results from operations. Afterpay's management is required to determine estimates and apply subjective and complex assumptions and judgements about accounting matters that are inherently uncertain.

In addition, changes in interpretations by accounting standard setting bodies, regulators, or Afterpay's external auditor may also arise from time to time. The timing and nature of these changes may be difficult to predict. The application of these changes in accounting standards, policies, interpretations, estimates, assumptions and judgments could have a material impact on the financial results of Afterpay. In some cases, Afterpay may be required to apply a new or revised standard or change in interpretation retrospectively, which may require Afterpay to re-present its previously reported financial information.

(u) COVID-19

The events relating to COVID-19 have caused significant market volatility, including in the prices of securities trading on ASX and on other foreign securities exchanges. While there has been significant economic recovery since March 2020, there is continued uncertainty as to the further impact of COVID-19 including in relation to governmental action, vaccine hesitancy and efficacy, work stoppages, lockdown, quarantines, travel restrictions and the impact on the Australian and global economy and share markets. In light of recent Australian and global macroeconomic events, including though not limited to the impact of COVID-19 and other factors, Australia and other international economies could experience a further recession or downturn of uncertain severity and duration which could further affect spending by consumers, impact on the operating and financial performance and prospects of Afterpay. Afterpay may not be able to renew contracts with existing merchants or develop business relationships with new merchants as a result of any negative economic and retail conditions associated with COVID-19. Any future outbreak of public health epidemics may restrict economic activities, reduce business volume or

For personal use only

disrupt Afterpay's business operations. While governments around the world have implemented stimulus and liquidity measures, it is unclear whether these, or any future, actions taken by governments will be successful in mitigating the economic disruption. If these measures are unsuccessful or the COVID-19 pandemic is prolonged, the negative impact on macroeconomic conditions may be amplified and adversely affect Afterpay's business, reputation, prospects and operating and financial performance.

7.3. Risks Associated with the Implementation of the Scheme

(a) Market value of the Scheme Consideration

Because the Scheme Consideration is based on a fixed exchange ratio, if the Scheme is implemented, Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive the Scheme Consideration, comprising 0.375 New Square Securities for each Scheme Share. Ineligible Foreign Shareholders will not be entitled to receive any New Square Shares and will instead receive cash under the Sale Facility for any New Square Shares that they would otherwise have been entitled to receive. As at the close of trading on NYSE on 29 October 2021, the implied value of the Scheme Consideration was A$126.39 per Afterpay Share.[1]

The implied value of the Scheme Consideration will vary over time depending on the prevailing Square Share Price and the AUD/USD exchange rate. As a result of changes in these factors, the implied value of the Scheme Consideration is likely to change, including between the date of this Scheme Booklet, the date of the Scheme Meeting, the Election Date and the Implementation Date (being the date on which the Scheme Consideration is received). The exchange ratio will not be adjusted in the event of changes in the value of Square Class A Shares or Afterpay Shares or the implied value of the Scheme Consideration, which changes may be material. Accordingly, you will not know the implied value of the Scheme Consideration you will receive on the Implementation Date at the time you vote.

Following implementation of the Scheme, the price of any New Square Securities received will continue to rise or fall based on market conditions and the Combined Group's financial and operating performance.

(b) Conditions Precedent

The implementation of the Scheme is subject to a number of Conditions Precedent which are summarised in section 3.11(a). These Conditions Precedent include obtaining all the relevant Regulatory Approvals. Certain Conditions Precedent are beyond the control of Square and Afterpay. There can be no guarantee that the Conditions Precedent will be satisfied or waived in a timely fashion or at all. Any failure or delay in satisfying the Conditions Precedent could prevent or delay the completion of the Scheme, which could reduce the benefits that Square and Afterpay expect to obtain from the Scheme, increase the costs associated with the Scheme and impede successful integration of Square and Afterpay's businesses.

The Scheme will not be implemented unless all of the Conditions Precedent have been satisfied or waived. In particular, if the Regulatory Approvals have not been obtained, or the Condition Precedent waived, before the Second Court Hearing (currently scheduled for Friday, 10 December 2021), the Second Court Hearing will be delayed, which may in turn delay the Implementation Date.

In addition, the Scheme will not proceed if the Regulatory Approvals are not obtained by the End Date.

As such, a failure to satisfy any of the Conditions Precedent (including the Regulatory Approvals) or a delay in satisfaction of the Conditions Precedent could prevent or delay the implementation of the Scheme and may adversely affect the price of Afterpay Shares or Square Class A Shares.

(c) Court approval

There is a risk that the Court may not approve the Scheme or that the approval of the Court is delayed. In particular, if there is a material change in circumstances between the Scheme Meeting and the Second Court Date, then the Court will have regard to that change in deciding how it should proceed. If such changes are so important that they materially alter the Scheme, there is a risk that the Court may not approve the Scheme at the Second Court Hearing. If the Scheme is not approved by the Court, then unrecoverable transaction costs already paid by Afterpay are estimated to be approximately A$25 million.

For personal use only

(d) Change in risk and investment profile

After implementation of the Scheme, Scheme Shareholders (other than Ineligible Foreign Shareholders) will be exposed to additional risks relating to Square, and to certain additional risks relating to the Combined Group and the integration of the two businesses as set out in section 7.4. In some cases, those risks are different from or additional to those related to Afterpay and you may prefer the risks and the investment profile of the Afterpay business as a standalone entity.

Whilst the operations of Afterpay and Square are similar in a number of ways, the business mix, portfolio of merchant clients and customers, capital structure and size of the Combined Group will be different from that of Afterpay currently.

(e) Risks for Shareholders if the Scheme does not proceed

If the Scheme does not proceed and no other acceptable proposal is received, Afterpay will continue to operate on a stand-alone basis and Afterpay Shareholders will retain their Afterpay Shares. In these circumstances the price at which Afterpay Shares may trade on ASX is uncertain. Afterpay Shareholders will continue to be exposed to the risks of holding Afterpay Shares set out in section 7.2.

(f) Taxation consequences for Scheme Shareholders

If the Scheme is successfully implemented, there may be tax consequences for Scheme Shareholders. The tax consequences for Scheme Shareholders will vary depending on a number of factors, including their place of residence for tax purposes and their individual tax circumstances.

A summary of the general Australian income tax, stamp duty and GST consequences for Scheme Shareholders participating in the Scheme is set out in section 8.

For US federal income tax purposes, the receipt of New Square Securities in exchange for Afterpay Shares pursuant to the Scheme will be a taxable transaction. Subject to the application of the "passive foreign investment company" or "PFIC" rules (see below), a US holder generally will recognise gain or loss for US federal income tax purposes equal to the difference, if any, between (i) the sum of the fair market value of the New Square Securities received pursuant to the Scheme and (ii) the US holder's adjusted tax basis in its Afterpay Shares surrendered in exchange therefore.

Afterpay believes that it (i) was not a PFIC during any taxable year prior to the taxable year ended June 30, 2021 (however, there can be no assurance that the US Internal Revenue Service will not successfully challenge this position), (ii) likely was a PFIC for the taxable year ended June 30, 2021, and (iii) will likely remain a PFIC through the taxable year that includes the Implementation Date. Whether Afterpay is a PFIC for a particular taxable year is a factual determination made annually after the close of that taxable year.

If Afterpay is or has been a PFIC for any taxable year during which a US holder held Afterpay Shares, such US holder generally will be subject to special rules, which could result in adverse tax consequences (see section 8.8 "Material United States Federal Income Tax Consequences of the "Scheme" for a more detailed discussion).

The rules dealing with PFICs are very complex and affected by various factors. Afterpay Shareholders are encouraged to consult with their own tax advisors regarding the tax consequences applicable to them, including the impact of Afterpay being a PFIC for any taxable year in which you held Afterpay Shares.

(g) Differing disclosure requirements

Square is a US issuer that is required to prepare and file its periodic and other filings in accordance with US securities laws. As a result, certain information about Square that is contained in this Scheme Booklet was prepared in accordance with US disclosure regulations, rather than the requirements that would apply to Afterpay or other issuers in Australia. Because US disclosure requirements are different from Australian requirements, the information about Square contained in this Scheme Booklet may not be comparable to similar information available about Afterpay or other Australian issuers.

(h) Pro forma financial information

The Combined Group Pro Forma Historical Financial Information contained in this Scheme Booklet is presented for illustrative purposes only and may not be an indication of Square's financial condition or results of operations following the Scheme for several reasons. For example, the Combined Group Pro Forma Historical Financial Information has been derived from the historical financial statements of Square and Afterpay and certain adjustments and assumptions have been made regarding Square after giving effect to the Scheme. The information upon which these adjustments and assumptions have been made is preliminary, and these kinds of adjustments and assumptions are difficult to make with complete

For personal use only

accuracy. Moreover, the Combined Group Pro Forma Historical Financial Information does not reflect all costs that are expected to be incurred by Square in connection with the Scheme. For example, the impact of any incremental costs incurred in integrating Square and Afterpay is not reflected in the Combined Group Pro Forma Historical Financial Information. Additionally, certain assumptions were made in the Combined Group Pro Forma Historical Financial Information with regard to the timing, form and amounts of settlement of the Afterpay Minority Interests, whose eventual outcome may differ depending on Afterpay's discussions with applicable counterparties. As a result, the actual financial condition and results of operations of Square following the Scheme may not be consistent with, or evident from, the Combined Group Pro Forma Historical Financial Information. Additionally, the purchase price used in preparing the Combined Group Pro Forma Historical Financial Information is based on the closing market price of Square Class A common stock, as well as the exchange rate between the US dollar and the Australian dollar, as of 16 September, 2021, which may be materially different from the closing price of Square Class A Shares and the exchange rate between the US dollar and the Australian dollar on the Implementation Date. The assumptions used in preparing the Combined Group Pro Forma Historical Financial Information may not prove to be accurate, and other factors may affect Square's financial condition or results of operations following the Scheme. Square's stock price may be adversely affected if the actual results of Square fall short of the historical results reflected in the Combined Group Pro Forma Historical Financial Information contained in this Scheme Booklet.

7.4. Risks Associated with the Operations of the Combined Group

(a) Integration risk

The success of the Scheme will depend, amongst other things, on the ability of the Combined Group to realise the anticipated benefits from combining the businesses of Square and Afterpay. The Combined Group's ability to realise these anticipated benefits depends on the successful integration of the businesses of Square and Afterpay, which will be complex and time-consuming.

Potential difficulties that may be encountered in the integration process include the following:

- challenges and difficulties associated with managing the larger, more complex, combined company;
- conforming standards, controls, procedures and policies, and compensation structures between the companies;
- integrating personnel from the two companies while maintaining focus on developing, producing and delivering consistent, high quality products and services;
- consolidating corporate and administrative infrastructures;
- coordinating geographically dispersed organisations;
- addressing possible differences in business backgrounds, corporate cultures and management philosophies;
- potential unknown liabilities and unforeseen expenses, delays or regulatory conditions associated with the Scheme;
- effecting potential actions that may be required in connection with obtaining regulatory approvals;
- performance shortfalls at one or both of the companies as a result of the diversion of management's attention caused by implementing the Scheme and integrating the companies' operations; and
- the ability of the Combined Group to deliver on its strategy, including the ability of the Scheme to accelerate growth and to strengthen the integration between Square's Seller and Cash App ecosystems.

(b) Business disruption

Parties with which Square and Afterpay do business may experience uncertainty associated with the Scheme, including with respect to current or future business relationships with Square, Afterpay or the Combined Group following the implementation of the Scheme. Square's and Afterpay's relationships may be subject to disruption as merchants, customers, suppliers and other persons with whom Square and Afterpay have a business relationship may delay or defer certain business decisions or might decide to seek to terminate, change or renegotiate their relationships with Square or Afterpay, as applicable, or consider entering into business relationships with parties other than Square or Afterpay. These disruptions could have an adverse effect on the results of operations, cash flows and financial position of Square, Afterpay or the Combined Group following the implementation of the Scheme, including an adverse effect on Square's ability to realise the expected synergies and other benefits of the Scheme. The risk, and adverse effect, of any disruption could be exacerbated by a delay in the implementation of the Scheme or the termination of the Scheme Implementation Deed.

For personal use only

(c) Transaction costs

Square and Afterpay expect to incur significant costs associated with the Scheme and combining the operations of the two companies. The Combined Group's fees and expenses related to the Scheme include financial adviser fees, filing fees, legal and accounting fees and regulatory fees, some of which will be paid regardless of whether the Scheme is implemented. The Combined Group's costs in connection with the integration of Square and Afterpay are difficult to predict before the integration process begins, and the Combined Group may incur unanticipated costs as a consequence of difficulties arising from its integration efforts.

(d) Currency risk

Square is currently subject to some foreign currency exchange risk because it conducts business operations in several foreign countries through its foreign subsidiaries or affiliates, which conduct business in their respective local currencies. Afterpay conducts a significant portion of its operations outside of the United States through its subsidiaries or affiliates, which also operate in their respective local currencies. Therefore, following the implementation of the Scheme, the Combined Group's international operations will account for a more significant portion of its overall operations than they do presently and the Combined Group's exposure to fluctuations in foreign currency exchange rates will increase. Because the Combined Group's financial statements will continue to be presented in US dollars subsequent to the implementation of the Scheme, the local currencies will be translated into US dollars at the applicable exchange rates for inclusion in the Combined Group's consolidated financial statements, thereby increasing the foreign exchange translation risk.

(e) Due diligence

Before executing the Scheme Implementation Deed, Square and Afterpay undertook a period of mutual due diligence for the purpose of evaluating the merits and negotiating the terms of the Scheme. Although Square and Afterpay decided to proceed with the Scheme following that due diligence exercise, there is a risk that the due diligence undertaken was insufficient or failed to identify or appreciate the impact of key issues or identify all liabilities of either Afterpay or Square. These liabilities, and any additional risks and uncertainties related to the Scheme not currently known to Square or that Square may currently deem immaterial or unlikely to occur, could negatively impact the Combined Group's business, financial position and results from operations.

(f) Potential liabilities

The Scheme and the integration of Afterpay with Square may pose special risks, including write-offs or restructuring charges, unanticipated costs, and the loss of key employees. There can be no assurance that the integration will be accomplished effectively or in a timely manner. In addition, the Scheme and the integration of Afterpay will subject Square to liabilities (including potential tax liabilities) that may exist at Afterpay or may arise in connection with the completion of the Scheme, some of which may be unknown. Although Square and its advisers have conducted due diligence on the operations of Afterpay, there can be no guarantee that Square is aware of all liabilities of Afterpay. These liabilities, and any additional risks and uncertainties related to the Scheme not currently known to Square or that Square may currently deem immaterial or unlikely to occur, could negatively impact the Combined Group's business, financial condition and results of operations.

(g) Risks related to Square's business and industry

Square is subject to numerous risks and uncertainties related to its business and industry, including those outside of Square's control, that could cause Square's actual results to be harmed, including the following risks:

- The ongoing COVID-19 pandemic and measures intended to prevent its spread may have a material and adverse effect on Square's business and results from operations.
- Square's participation in government relief programs set up in response to the COVID-19 pandemic, such as facilitating loans to businesses under the Paycheck Protection Program or unemployment benefits and stimulus payments to individuals through Cash App, may subject Square to new risks and uncertainties.
- Square's business depends on a strong and trusted brand, and any failure to maintain, protect, and enhance Square's brand would adversely affect Square's business.
- As Square's revenue has increased, Square's growth rate has slowed at times in the past and may slow or decline in the future, and Square's growth rates in each of Square's reporting segments may vary. Future revenue growth depends on Square's ability to retain existing sellers, attract new sellers, and increase sales to both new and existing sellers, as well as Square's ability to attract and retain Cash App customers and grow their use of Cash App services.

For personal use only

- Square has generated significant net losses in the past, and Square intends to continue to invest substantially in Square's business. Thus, Square may not be able to maintain profitability.
- Square's efforts to expand Square's product portfolio and market reach may not succeed and may reduce Square's revenue growth.
- Square's long-term success depends on Square's ability to develop products and services to address the rapidly evolving market for payments and financial services, and, if Square is not able to implement successful enhancements and new features for Square's products and services, Square's business could be materially and adversely affected.
- Substantial and increasingly intense competition in Square's industry may harm Square's business.
- Expanding Square's business globally could subject Square to new challenges and risks.
- Any acquisitions, strategic investments, entries into new businesses, joint ventures, divestitures, and other transactions could fail to achieve strategic objectives, disrupt Square's ongoing operations or result in operating difficulties, liabilities and expenses, harm Square's business, and negatively impact Square's results from operations.
- Square's recent acquisition of a majority interest in TIDAL represents a new line of business for Square and subjects Square to new risks and uncertainties.
- Square Banking subjects Square to risks related to bank partnerships and FDIC and other regulatory obligations.
- Square Loans are subject to additional risks related to availability of capital, seller payments, interest rate, deposit insurance premiums, and general macroeconomic conditions.

(h) Square operational risks

Square is subject to numerous risks and uncertainties related to its operations, including those outside of Square's control, that could cause Square's actual results to be harmed, including the following risks:

- Square, Square's sellers, Square's partners, and others who use Square's services obtain and process a large amount of sensitive data. Any real or perceived improper or unauthorised use of, disclosure of, or access to such data could harm Square's reputation as a trusted brand, as well as have a material and adverse effect on Square's business.
- Square's products and services may not function as intended due to errors in Square's software, hardware, and systems, product defects, or due to security breaches or human error in administering these systems, which could materially and adversely affect Square's business.
- Systems failures, interruptions, delays in service, catastrophic events, and resulting interruptions in the availability of Square's products or services, or those of Square's sellers, could harm Square's business and Square's brand, and subject Square to substantial liability.
- The loss or destruction of a private key required to access Square's bitcoin may be irreversible. If Square is unable to access Square's private keys or if Square experiences a hack or other data loss relating to the bitcoins Square holds on behalf of Square and Square's customers, Square and Square's customers may be unable to access such bitcoins and it could harm customer trust in Square and Square's products.
- Square's risk management efforts may not be effective, which could expose Square to losses and liability and otherwise harm Square's business.
- Square is dependent on payment card networks and acquiring processors, and any changes to their rules or practices could harm Square's business.
- Square relies on third parties and their systems for a variety of services, including the processing of transaction data and settlement of funds to Square and Square's sellers, and these third parties' failure to perform these services adequately could materially and adversely affect Square's business.
- Square depends on key management, as well as Square's experienced and capable employees, and any failure to attract, motivate, and retain Square's employees could harm Square's ability to maintain and grow Square's business.
- If Square does not continue to improve its operational, financial, and other internal controls and systems to manage growth effectively, Square's business could be harmed.
- Square's services must integrate with a variety of operating systems, and the hardware that enables merchants to accept payment cards must interoperate with third-party mobile devices utilising those operating systems. If Square is unable to ensure that Square's services or hardware interoperate with such operating systems and devices, Square's business may be materially and adversely affected.
- Many of Square's key components are procured from a single or limited number of suppliers. Thus, Square is at risk of shortage, price increases, tariffs, changes, delay, or discontinuation of key components, which could disrupt and materially and adversely affect Square's business.
- Square's business could be harmed if Square is unable to accurately forecast demand for Square's products and to adequately manage Square's product inventory.

For personal use only

- Square's TIDAL services depend upon maintaining complex licenses with copyright owners, and it is difficult to estimate the amount payable under Square's license agreements.
- Square's TIDAL business is at risk of artificial manipulation of stream counts and failure to effectively manage and remediate such fraudulent streams could have an adverse impact on TIDAL's business, operating results, and financial position.

(i) Economic, financial, and tax risks

Square is subject to numerous economic, financial, and tax risks and uncertainties, including those outside of Square's control, that could cause Square's actual results to be harmed, including the following risks:

- A deterioration of general macroeconomic conditions could materially and adversely affect Square's business and financial results.
- Square may have exposure to greater-than-anticipated tax liabilities, which may materially and adversely affect Square's business.
- Square has in the past recorded, and may in the future record, significant valuation allowances on Square's deferred tax assets, which may have a material impact on Square's results from operations and cause fluctuations in such results.
- Square may not be able to secure financing on favourable terms, or at all, to meet its future capital needs, and Square's existing credit facility and Square's senior unsecured notes contain, and any future debt financing may contain, covenants that impact the operation of Square's business and pursuit of business opportunities.
- Servicing the Square Convertible Notes and Senior Notes may require a significant amount of cash, and Square may not have sufficient cash or the ability to raise the funds necessary to settle conversions of the Square Convertible Notes in cash, repay the Square Convertible Notes and Senior Notes at maturity, or repurchase the Square Convertible Notes and Senior Notes as required following a fundamental change.
- Square is subject to counterparty risk with respect to the convertible note hedge transactions.
- Square's investments in bitcoin may be subject to volatile market prices, impairment, and other risks of loss.

(j) Legal, regulatory, and compliance risks

Square is subject to numerous legal, regulatory, and compliance risks and uncertainties, including those outside of Square's control, that could cause Square's actual results to be harmed, including the following risks:

- Square's business is subject to extensive regulation and oversight in a variety of areas, all of which are subject to change and uncertain interpretation. Laws, regulations, and standards are subject to changes and evolving interpretations and application, including by means of legislative changes and executive orders, and it can be difficult to predict how they may be applied to Square's business and the way Square conducts its operations, particularly as Square introduces new products and services and expands into new jurisdictions.
- Square's business is subject to complex and evolving regulations and oversight related to privacy and data protection.
- As a licensed money transmitter, Square is subject to important obligations and restrictions.
- Square's subsidiary SFS is a Utah state-chartered industrial bank, which requires that Square serve as a source of financial strength to it and subjects Square to potential regulatory sanctions.
- SFS is subject to extensive supervision and regulation, including the Dodd-Frank Act and its related regulations, which are subject to change and could involve material costs or affect operations.
- Square's subsidiary Cash App Investing is a broker-dealer registered with the SEC and a member of FINRA, and therefore is subject to extensive regulation and scrutiny.
- Cash App Investing is subject to net capital and other regulatory capital requirements; failure to comply with these rules could harm Square's business.
- It is possible that FINRA will require changes to Square's business practices based on Square's ownership of Cash App Investing, which could impose additional costs or disrupt Square's business.
- Square is subject to risks related to litigation, including intellectual property claims, government investigations or inquiries, and regulatory matters or disputes.
- Intellectual property rights are valuable, and any inability to protect them could reduce the value of Square's products, services, and brand.
- Assertions by third parties of infringement or other violation by TIDAL of their intellectual property rights could harm Square's business.

For personal use only

The outline of risks in sections 7.4(g), (h), (i), and (j) is a summary only. More detailed information in relation to risk factors relating to the business and operations of Square can be found in Square's Annual Report on Form 10-K for the year ended 31 December 2020, filed with the SEC on 23 February 2021, and Square's Quarterly Report on Form 10-Q for the quarter ended 30 June 2021, filed with the SEC on 2 August 2021. Square's SEC filings are available to the public at the SEC's website at www.sec.gov or at Square's website at www.squareup.com.

7.5. Trading Risks

(a) Flowback

If a large number of Afterpay Shareholders do not intend to continue to hold the New Square Securities received as Scheme Consideration and instead choose to sell, there is a risk that the trading price of New Square Securities will be adversely impacted by selling.

In addition, the Sale Agent will be issued New Square Shares attributable to certain Ineligible Foreign Shareholders and will be seeking to sell those securities on NYSE as soon as reasonably practicable, which may also contribute to any potential adverse impact on the trading price of the New Square Shares.

(b) Liquidity of New Square CDIs

The market for New Square CDIs may be less liquid than the market for Square Class A Shares. This may have the effect of reducing the volume of New Square CDIs that can be bought and sold on ASX and the speed with which they can be bought and sold. This reduced liquidity may also result in New Square CDIs trading at a discount to New Square Shares on NYSE.

As set out in section 3.4(ix), holders of New Square CDIs can convert their New Square CDIs into Square Class A Shares. If Scheme Shareholders that receive their New Square Securities as New Square CDIs subsequently convert their New Square CDIs into Square Class A Shares, this may further reduce the liquidity in the market for New Square CDIs, and increase the likelihood of New Square CDIs trading at a discount to New Square Shares.

(c) Volatility of New Square CDIs

New Square CDIs will be quoted and traded on ASX in Australian dollars. The price of New Square CDIs will therefore reflect movements in both the Square Class A Share Price and the AUD/USD exchange rate. The combination of movements may cause the New Square CDIs to be more volatile than the historical volatility of Afterpay Shares.

(d) Trading of New Square CDIs during deferred settlement trading period

Scheme Shareholders will not necessarily know the exact number of New Square CDIs that they will receive (if any) until a number of days after those securities can be traded on ASX on a deferred settlement basis. Scheme Shareholders who trade New Square CDIs on a deferred settlement basis without knowing the number of New Square CDIs they will receive as Scheme Consideration may risk adverse financial consequences if they purport to sell more New Square CDIs than they receive.

7.6. Risks associated with Square Securities

(a) The rights attaching to New Square Securities will be different than those attaching to Afterpay Shares

If the Scheme is implemented, the rights attaching to New Square Shares will be primarily governed by the DGCL, the US federal securities laws, NYSE listing rules and Square's Certificate of Incorporation and Bylaws.

(b) The rights attaching to New Square CDIs are different than those attaching to New Square Shares

The holder of a New Square CDI has, through the CDI Nominee, an indirect, beneficial interest in the New Square Share underlying their New Square CDI instead of directly owning that New Square Share. This means that the holder of the New Square CDI is not the registered holder of the underlying New Square Share and therefore:

- cannot directly trade the underlying New Square Share; and
- is a beneficial holder (rather than registered legal holder) of the underlying New Square Share.

The differences between the New Square Shares and New Square CDIs are summarised in section 3.4(d).

For personal use only

(c) The dual class structure of Square's common stock

Square Class B Shares have ten votes per share, and Square Class A Shares have one vote per share. Certain of Square's executive officers and directors, and their affiliates, held approximately 61.77% of the voting power of Square's combined outstanding capital stock as of 31 July 2021. Because of the ten-to-one voting ratio between Square Class B Shares and Square Class A Shares, the holders of Square Class B Shares, including certain of Square's directors, executive officers and their affiliates, collectively hold more than a majority of the combined voting power of its common stock, and therefore such holders are able to control all matters submitted to Square's stockholders for approval. When Square Class B Shares represent less than 5% of the combined voting power of Square Class A Shares and Square Class B Shares, the then-outstanding shares of Square Class B Shares will automatically convert into Square Class A Shares.

Transfers by holders of Square Class B Shares will generally result in those shares converting to Square Class A Shares, subject to certain exceptions. Such conversions of Square Class B Shares to Square Class A Shares upon transfer will have the effect, over time, of increasing the relative voting power of those holders of Square Class B Shares who retain their shares in the long term. If, for example, the holders of Square Class B Shares retain Square Class B Shares constituting as little as 10% of all outstanding Square Class A Shares and Square Class B Shares combined, they will continue to control a majority of the combined voting power of Square's outstanding capital stock.

(d) Volatility of the market price of Square Class A Shares

The market price of Square's Class A Shares has been and may continue to be subject to wide fluctuations in response to various factors, some of which are beyond Square's control and may not be related to Square's operating performance. In addition to the factors discussed in this "Key Risks" section and elsewhere in this Scheme Booklet, factors that could cause fluctuations in the market price of Square Class A Shares include the following:

- general economic, regulatory, and market conditions, in particular conditions that adversely affect Square's sellers' business and the amount of transactions they are processing;
- public health crises and related measures to protect public health;
- sales of Square Shares by Square or its stockholders;
- issuance of Square Class A Shares, whether in connection with an acquisition or upon conversion of some or all of the outstanding Square Convertible Notes;
- short selling of Square's Class A Shares or related derivative securities;
- from time to time Square makes investments in equity that is, or may become, publicly held, and it may experience volatility due to changes in the market prices of such equity investments;
- fluctuations in the price of bitcoin, and potentially any impairment charges in connection with Square's investments in bitcoin;
- reports by securities or industry analysts that are interpreted either negatively or positively by investors, failure of securities analysts to maintain coverage and/or to provide accurate consensus results of Square, changes in financial estimates by securities analysts who follow Square, or Square's failure to meet these estimates or the expectations of investors;
- the financial or other projections Square may provide to the public, any changes in those projections, or its failure to meet those projections;
- announcements by Square or its competitors of new products or services;
- rumours and market speculation involving Square or other companies in its industry;
- actual or perceived data security incidents that Square or its service providers may suffer; and
- actual or anticipated developments in Square's business, its competitors' businesses, or the competitive landscape generally.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. Such litigation, if instituted against Square, could result in substantial costs and a diversion of its management's attention and resources.

(e) Square's convertible note hedge and warrant transactions

In connection with the issuance of each series of Square Convertible Notes, Square entered into convertible note hedge transactions with the option counterparties. Square also entered into warrant transactions with the option counterparties pursuant to which it sold warrants for the purchase of its Square Class A Shares. The convertible note hedge transactions are expected generally to reduce the potential dilution to Square Class A Shares upon any conversion of the Square Convertible Notes and/or offset any cash payments

For personal use only

Square is required to make in excess of the principal amount of converted Square Convertible Notes, as the case may be. The warrant transactions would separately have a dilutive effect to the extent that the market price per Square Class A Share exceeds the strike price of any warrants unless, subject to the terms of the warrant transactions, Square elects to cash settle the warrants.

From time to time, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to Square Class A Shares and/or purchasing or selling its Square Class A Shares or other securities of Square in secondary market transactions prior to the maturity of the Square Convertible Notes. This activity could cause or avoid an increase or a decrease in the market price of Square Class A Shares.

(f) The anti-takeover provisions contained in Square's Certificate of Incorporation, Bylaws, and provisions of Delaware law

Square's Certificate of Incorporation, Bylaws, and Delaware law contain provisions that could have the effect of rendering more difficult, delaying, or preventing an acquisition deemed undesirable by the Square Board and therefore depress the trading price of Square Class A Shares.

Among other things, Square's dual-class common stock structure provides its holders of Square Class B Shares with the ability to significantly influence the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the shares of its outstanding shares of common stock. Further, Square's Certificate of Incorporation and Bylaws include provisions (i) creating a classified board of directors whose members serve staggered three-year terms; (ii) authorising "blank check" preferred stock, which could be issued by its board of directors without stockholder approval and may contain voting, liquidation, dividend, and other rights superior to Square's common stock; (iii) limiting the ability of its stockholders to call special meetings; (iv) eliminating the ability of its stockholders to act by written consent without a meeting or to remove directors without cause; and (v) requiring advance notice of stockholder proposals for business to be conducted at meetings of its stockholders and for nominations of candidates for election to its board of directors. These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in Square's management.

As a Delaware corporation, Square is also subject to provisions of Delaware law, including section 203 of the DGCL, which prevents certain stockholders holding more than 15% of its outstanding capital stock from engaging in certain business combinations without the approval of its board of directors or the holders of at least two-thirds of its outstanding capital stock not held by such stockholder.

Any provision of Square's Certificate of Incorporation, Bylaws, or Delaware law that has the effect of delaying or preventing a change in control could limit the opportunity for its stockholders to receive a premium for their shares of Square's capital stock and could also affect the price that some investors are willing to pay for Square Class A Shares.

(g) The exclusive forum provisions in Square's Bylaws

Square's Bylaws provide that, unless it consents to the selection of an alternative forum, a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware) is the sole and exclusive forum for (i) any derivative action or proceeding brought on Square's behalf; (ii) any action asserting a claim of breach of fiduciary duty owed by any of its directors, officers, or other employees to Square or its stockholders; (iii) any action asserting a claim arising pursuant to the DGCL, Certificate of Incorporation or Bylaws; or (iv) any action asserting a claim governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favourable for disputes with Square or its directors, officers, or other employees, which may discourage such lawsuits against Square and its directors, officers, and other employees. Alternatively, if a court were to find the choice of forum provision contained in Square's Bylaws to be inapplicable or unenforceable in an action, it may incur additional costs associated with resolving such action in other jurisdictions, which could have a material and adverse impact on its business.

For personal use only

Section 8

Taxation Considerations for Scheme Shareholders

This section 8 provides a general overview of certain tax considerations that may be applicable to Scheme Shareholders on implementation of the Scheme. This general overview has been prepared for informational purposes only. It is not intended to provide tax advice in relation to individual circumstances, and should not be relied on for tax advice. You should consult your own professional tax advisor in relation to your personal circumstances.

Australian Taxation Considerations for Scheme Shareholders

8.1. Scope and Tax Comments

This is a general overview of the Australian income tax (including CGT), GST and stamp duty implications for certain Australian and foreign resident Scheme Shareholders on implementation of the Scheme.

The categories of Scheme Shareholders considered in this summary are limited to individuals, companies (other than life insurance companies), trusts and complying superannuation funds that hold their Scheme Shares on capital account for Australian income tax purposes. The tax comments outlined in this summary are not applicable to all Scheme Shareholders and do not cover Scheme Shareholders who:

(a) hold their Scheme Shares as a revenue asset (i.e. trading entities or entities who acquired their Scheme Shares for the purposes of resale at a profit) or as trading stock;

(b) hold or are entitled to acquire, either alone or together with associates, 10% or more of the Scheme Shares;

(c) are partnerships or individuals who are partners of such partnerships;

(d) hold their shares as an asset in a business that is carried on through a permanent establishment in Australia;

(e) acquired their Scheme Shares pursuant to an employee share plan;

(f) are under a legal disability;

(g) are exempt from Australian income tax;

(h) are Ineligible Foreign Shareholders;

(i) are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their Scheme Shares;

(j) are subject to the Investment Manager Regime under Subdivision 842-I of the *Income Tax Assessment Act 1997* (Cth) in respect of their Scheme Shares;

(k) may be subject to special rules, such as banks, insurance companies, tax exempt organisations, certain trusts, superannuation funds (unless otherwise stated) or dealers in securities;

(l) are 'temporary residents' as that term is defined in section 995-1(1) of the *Income Tax Assessment Act 1997* (Cth); or

(m) change their tax residence whilst holding Scheme Shares.

For personal use only

This summary is based on the Australian tax law, and the practice of the tax authorities, at the time of issue of this Scheme Booklet. The laws are complex and subject to change periodically as is their interpretation by the Courts and the tax authorities. This summary is general in nature and is not intended to be an authoritative or complete statement of the applicable law. This summary does not take into account the tax law of countries other than Australia. The precise implications of ownership or disposal of their Scheme Shares will depend upon each Scheme Shareholder's specific circumstances.

These comments should not be a substitute for advice from an appropriate professional advisor having regard to each Scheme Shareholder's individual circumstances. All Scheme Shareholders are strongly advised to obtain and rely only on their own professional advice on the tax implications based on their own specific circumstances.

Afterpay is in the process of applying for a class ruling from the ATO regarding the income tax implications for Scheme Shareholders participating in the Scheme, and the availability of CGT scrip-for-scrip roll-over relief in respect of the Scheme Consideration to be received by Scheme Shareholders, if the Scheme is implemented. The income tax comments provided below are consistent with the positions taken in the class ruling application lodged with the ATO.

The class ruling is not expected to be issued by the ATO until after the Implementation Date, which is currently estimated to be early 2022. However, Afterpay expects to receive a draft of the class ruling prior to the Scheme Meeting which is currently estimated to be held on Friday, 10 December 2021.

Scheme Shareholders should refer to the final class ruling once it is published on www.ato.gov.au and on the Afterpay website, www.afterpay.com.

8.2. Australian Resident Shareholders

This section applies to Scheme Shareholders who are residents of Australia for income tax purposes and hold their Scheme Shares on capital account.

(a) CGT Event on disposal of Scheme Shares to Square Acquirer

Under the Scheme, Scheme Shareholders will dispose of their Scheme Shares to Square Acquirer in exchange for the Scheme Consideration, comprising 0.375 New Square Securities in respect of each Scheme Share held by a Scheme Shareholder. Depending on whether a Scheme Shareholder makes a Share Election or a CDI Election, a Scheme Shareholder may receive Square Securities in the form of either New Square Shares or New Square CDIs. These tax comments, and those that follow, apply equally to New Square Shares or New Square CDIs.

The disposal of the Scheme Shares to Square Acquirer under the Scheme will give rise to a CGT event for Scheme Shareholders. The timing of the CGT event for the Scheme Shareholders should be the date the Scheme Shares are disposed of under the Scheme, being the Implementation Date.

In the absence of CGT roll-over relief (discussed below), the following tax consequences are expected to arise for the Scheme Shareholders that acquired (or are deemed to have acquired) their Scheme Shares on or after 20 September 1985:

(i) a capital gain will be realised to the extent the capital proceeds received by the Scheme Shareholder from the disposal of their Scheme Shares exceed the cost base of those shares; or

(ii) a capital loss will be realised to the extent the capital proceeds received by the Scheme Shareholder from the disposal of their Scheme Shares are less than the reduced cost base of those shares.

Capital losses can only be offset against capital gains derived in the same income year or later income years. Specific loss recoupment rules apply to companies which must be satisfied if those carry forward tax losses are to be used in future years. Scheme Shareholders should seek their own tax advice in relation to the operation of these rules.

(b) Capital proceeds received by Scheme Shareholders

The capital proceeds on disposal of the Scheme Shares should be equal to the Scheme Consideration received by the Scheme Shareholders. Therefore, the capital proceeds for Scheme Shares disposed of by the Scheme Shareholders should be equal to the market value of New Square Securities received by the Scheme Shareholders under the Scheme.

For personal use only

(c) Cost base and reduced cost base of a Scheme Share

The cost base of a Scheme Share will generally be equal to the cost of acquiring that Scheme Share, plus any incidental costs of acquisition and disposal, such as brokerage fees and legal costs.

The reduced cost base of a Scheme Share is determined in a manner similar to the cost base although some differences in the calculation of reduced cost base do exist depending on the Scheme Shareholder's individual circumstances. The cost base and reduced cost base of each Scheme Share will depend on the individual circumstances of each Scheme Shareholder.

(d) CGT discount

The CGT discount may apply to Scheme Shareholders that are individuals, complying superannuation funds or trusts, who have held, or are taken to have held, their Scheme Shares for at least 12 months (not including the date of acquisition or the date of disposal) at the time of the disposal of their Scheme Shares to Square Acquirer. The CGT discount is:

(i) 50% if the Scheme Shareholder is an individual or trustee: meaning only 50% of the capital gain will be included in assessable income; and

(ii) 33$^{1}/_{3}$% if the Scheme Shareholder is a trustee of a complying superannuation entity: meaning only two-thirds of the capital gain will be included in assessable income.

The CGT discount is not available to Scheme Shareholders that are companies.

If a Scheme Shareholder makes a discounted capital gain, any current year and/or carried forward capital losses may be applied to reduce the undiscounted capital gain before the relevant CGT discount is applied. The resulting amount is then included in the Scheme Shareholder's net capital gain for the income year and included in assessable income.

The CGT discount rules relating to trusts are complex. We recommend trustees seek their own independent advice on how the CGT discount applies to them and the trust's beneficiaries.

(e) CGT scrip-for-scrip roll-over relief

Scheme Shareholders who make a capital gain from the disposal of their Scheme Shares may be eligible to choose CGT scrip-for-scrip roll-over relief (provided certain conditions are met). Broadly, CGT scrip-for-scrip roll-over relief enables Scheme Shareholders to disregard the capital gain they make from the disposal of their Scheme Shares under the Scheme.

If a capital loss arises, CGT scrip-for-scrip roll-over relief is not available.

Scheme Shareholders do not need to inform the ATO, or document their choice to claim CGT scrip-for-scrip roll-over relief in any particular way, other than to complete their income tax return in a manner consistent with their choice.

A Scheme Shareholder should be eligible to choose CGT scrip-for-scrip roll-over relief regardless of whether they receive a New Square Share or a New Square CDI.

(f) Consequences for choosing CGT scrip-for-scrip roll-over relief

If a Scheme Shareholder chooses to obtain CGT scrip-for-scrip roll-over relief, the capital gain arising on the disposal of their Scheme Shares under the Scheme should be disregarded.

The first element of the cost base for their New Square Securities is then determined by attributing, on a reasonable basis, the existing cost base of the Scheme Shares exchanged under the Scheme. The first element of the reduced cost base is determined similarly.

For the purposes of determining future eligibility for the CGT discount, the acquisition date of the New Square Securities is taken to be the date when the Scheme Shareholder originally acquired their Scheme Shares.

(g) Consequences if CGT scrip-for-scrip roll-over relief is not available or is not chosen

If a Scheme Shareholder does not qualify for CGT scrip-for-scrip roll-over relief, or the Scheme Shareholder chooses not to obtain CGT scrip-for-scrip roll-over relief, the general CGT treatment outlined at paragraph 8.2(a) will apply.

If a Scheme Shareholder makes a capital loss from the disposal of their Scheme shares, this loss may be used to offset capital gains in the same or subsequent years of income (subject to satisfying certain conditions). The capital loss cannot be offset against ordinary income or carried back to offset net capital gains arising in earlier income years.

For personal use only

(h) Consequences if a Scheme Shareholder converts a Square CDI into a Square Class A Share

As a Scheme Shareholder holding a Square CDI is already absolutely entitled to the underlying Square Class A Share, the conversion of a Square CDI should not have any CGT consequences for the Scheme Shareholder.

(i) Consequences if a Scheme Shareholder receives a dividend on a Square Security

A dividend received by a Scheme Shareholder on a Square Security (grossed up for any withholding tax that may have been withheld) will be assessable to the Scheme Shareholder in the income year in which the dividend is paid. As Square is not an Australian resident, such dividends cannot be franked.

If US withholding tax is withheld on a dividend, a Scheme Shareholder may be entitled to a foreign income tax offset.

8.3. Foreign Tax Resident Shareholders

This section applies to Scheme Shareholders that are not residents of Australia for Australian income tax purposes (i.e. foreign tax residents) and that hold their Scheme Shares on capital account and have not held their Scheme Shares at any time in carrying on a business at or through a permanent establishment in Australia.

Foreign tax resident Scheme Shareholders who hold their Scheme Shares on capital account should not be subject to the CGT rules in Australia on the disposal of their Scheme Shares on the basis that they and their associates hold, or are entitled to acquire, less than 10% of the Scheme Shares.

A dividend received by a Scheme Shareholder that is a foreign tax resident on a Square Security should not be assessable in Australia.

8.4. Foreign Resident CGT Withholding Rules

Australia's foreign resident capital gains withholding tax regime applies to transactions involving the acquisition of certain indirect interests in Australian real property from relevant foreign residents. The withholding rate is 12.5%.

On the basis that the Scheme Shares held by Scheme Shareholders should not be considered 'taxable Australian property', the foreign resident capital gains withholding tax regime should not apply. Accordingly, the regime should not operate to require Square Acquirer to withhold an amount of the Scheme Consideration that is to be paid to the Scheme Shareholders that are non-residents of Australia. Square has confirmed based on current information it does not intend to withhold under the regime.

8.5. Stamp Duty

No stamp duty should be payable by the Scheme Shareholders on the acquisition by Square Acquirer of their Scheme Shares under the Scheme or on the receipt by Scheme Shareholders of the New Square Securities as Scheme Consideration.

8.6. GST

No GST should be payable by Scheme Shareholders on the acquisition by Square Acquirer of their Scheme Shares under the Scheme, or on the receipt by Scheme Shareholders of the New Square Securities as Scheme Consideration.

Scheme Shareholders who are registered for GST may not be entitled to input tax credits (or only entitled to reduced input tax credits) for any GST incurred on costs associated with the disposal of their Scheme Shares.

8.7. Disclaimer

To persons receiving this document in Australia: the information contained in this section does not constitute 'financial product advice' within the meaning of the Corporations Act. To the extent that this document contains any information about a 'financial product' within the meaning of the Corporations Act, taxation is only one of the matters that must be considered when making a decision about the relevant financial product. This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before

For personal use only

acting on this material, consider taking advice from a person who is licensed to provide financial product advice under the Corporations Act. Any recipient should, before acting on this material, also consider the appropriateness of this material having regard to their objectives, financial situation and needs and consider obtaining independent financial advice. For completeness, PricewaterhouseCoopers partnership which is providing advice in relation to this section is not licensed to provide financial product advice under the Corporations Act.

8.8. Material United States Federal Income Tax Consequences of the Scheme

The following discussion summarises the material US federal income tax consequences of the receipt of New Square Securities in exchange for Afterpay Shares pursuant to the Scheme and of the ownership and disposition of New Square Securities. It is not intended to be a complete analysis or description of all potential US federal income tax consequences of the Scheme. This discussion is based upon the provisions of the US Internal Revenue Code of 1986, as amended (the "Code"), the US Treasury Regulations promulgated thereunder and judicial and administrative rulings, all as in effect as of the date of this Scheme Booklet and all of which are subject to change or varying interpretation, possibly with retroactive effect. Any such changes could affect the accuracy of the statements and conclusions set forth herein. The Internal Revenue Service may not agree with the tax consequences described in this discussion.

This discussion assumes that holders of Afterpay Shares hold their Afterpay Shares as capital assets within the meaning of section 1221 of the Code (generally, property held for investment). This discussion does not address all aspects of US federal income taxation that may be relevant to a holder of Afterpay Shares in light of such holder's particular circumstances, nor does it discuss the special considerations applicable to holders of Afterpay Shares subject to special treatment under the US federal income tax laws, such as, for example, financial institutions or broker-dealers, mutual funds, tax-exempt organisations, retirement or other tax-deferred accounts, insurance companies, dealers in securities or non-US currencies, traders in securities who elect the mark-to-market method of accounting, controlled foreign corporations, passive foreign investment companies, holders subject to the alternative minimum tax, holders who hold their Afterpay Shares as part of a hedge, straddle, constructive sale or conversion transaction, US holders (as defined below) whose functional currency is not the US dollar, accrual method holders who prepare an "applicable financial statement" (as defined in section 451 of the Code) and holders who own or have owned (directly, indirectly or constructively) 10% or more of the Afterpay Shares (by vote or value). In addition, this discussion does not address any tax consequences arising under the laws of any state, local or non-US jurisdiction, the application of the Medicare tax on net investment income under section 1411 of the Code, or US federal non-income tax consequences (for example, the federal estate or gift tax).

If an entity or arrangement treated as a partnership for US federal income tax purposes holds Afterpay Shares, the tax treatment of a partner in such a partnership generally will depend on the status of the partner and activities of the partnership. If you are a partner of a partnership holding Afterpay Shares, you should consult your own tax advisor.

All holders should consult their own tax advisor to determine the particular tax consequences to them (including the application and effect of any state, local or non-US income and other tax laws) of the receipt of New Square Securities in exchange for Afterpay Shares pursuant to the Scheme and of the ownership and disposition of New Square Securities.

For purposes of this discussion, the term "US holder" means a beneficial owner of Afterpay Shares that is, for US federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (including any entity treated as a corporation for US federal income tax purposes) created or organised in or under the laws of the United States, any state thereof or the District of Columbia;
- a trust if (1) its administration is subject to the primary supervision of a court within the United States and one or more US persons, within the meaning of section 7701(a)(30) of the Code, have the authority to control all substantial decisions of the trust or (2) it has a valid election in effect under applicable US Treasury Regulations to be treated as a US person for US federal income tax purposes; or
- an estate the income of which is subject to US federal income tax regardless of its source.

A "non-US holder" is a beneficial owner (other than a partnership or an entity classified as a partnership for US federal income tax purposes) of Afterpay Shares that is not a US holder.

In general, for US federal income tax purposes, a holder of New Square CDIs will be treated as the beneficial owner of the underlying New Square Shares represented by the CDIs.

For personal use only

Holders that are Ineligible Foreign Shareholders generally will be treated as having received New Square Shares in exchange for Afterpay Shares pursuant to the Scheme (which will be taxed as described below under " – Material US Federal Income Tax Consequences to US Holders – Consequences of the Scheme" or " – Material US Federal Income Tax Consequences to Non-US Holders – Consequences of the Scheme", as applicable) and then having received cash in AUD in exchange for such New Square Shares (which will be taxed as described below under " – Material US Federal Income Tax Consequences to US Holders – Consequences of Holding and Disposing of New Square Securities – Sale or Other Taxable Disposition" or " – Material US Federal Income Tax Consequences to Non-US Holders – Consequences of Holding and Disposing of New Square Securities – Sale or Other Taxable Disposition").

(a) Material US Federal Income Tax Consequences to US Holders

(i) Consequences of the Scheme

(A) Receipt of Scheme Consideration in General

The receipt of New Square Securities in exchange for Afterpay Shares pursuant to the Scheme will be a taxable transaction for US federal income tax purposes. Subject to the application of the passive foreign investment company rules, discussed below, a US holder generally will recognise gain or loss for US federal income tax purposes equal to the difference, if any, between (i) the sum of the fair market value of the New Square Securities received pursuant to the Scheme and (ii) such US holder's adjusted tax basis in the Afterpay Shares surrendered in exchange therefor, as applicable.

If Afterpay neither is, nor has been, a PFIC (as defined below) for any taxable year during which a US holder held Afterpay Shares, such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if the holder's holding period for such Afterpay Shares exceeds one year as of the date of the Scheme. If a US holder acquired different blocks of Afterpay Shares at different times or at different prices, such US holder must determine its tax basis, holding period, and gain or loss separately with respect to each block of Afterpay Shares.

A US holder's tax basis in the New Square Securities received in the Scheme will equal the New Square Securities' fair market value as of the Implementation Date . A US holder's holding period for the New Square Securities received in the Scheme will begin on the day following the Effective Time.

(B) Passive Foreign Investment Company Rules

A non-US corporation, such as Afterpay, is generally classified as a "passive foreign investment company" (**PFIC**) for any taxable year if, after the application of certain "look-through" rules, (a) at least 75% of its gross income is "passive income" as that term is defined in the relevant provisions of the Code (for example, dividends, interest, royalties, or gains on the disposition of certain property), or (b) at least 50% of the average value of its assets consists of assets that produce, or are held for the production of, "passive income". The determination of whether any non-US corporation is a PFIC for any taxable year is a fact-intensive determination and depends on the application of complex US federal income tax rules, which are subject to differing interpretations and may change.

Afterpay believes that it (i) was not a PFIC during any taxable year prior to the taxable year ended June 30, 2021 (however, there can be no assurance that the US Internal Revenue Service will not successfully challenge this position), (ii) likely was a PFIC for the taxable year ended June 30, 2021, and (iii) will likely remain a PFIC through the taxable year that includes the Implementation Date. Whether Afterpay is a PFIC for a particular taxable year is a factual determination made annually after the close of that taxable year.

This determination is fact intensive and also depends in part on the application of the "active financing exception" for income derived in the active conduct of a banking, financing or similar business to treat income from certain of Afterpay's activities as income that is not "passive income" under the PFIC rules. The availability of the active financing exception under the PFIC rules and its application to Afterpay is uncertain. There can be no assurance that the US Internal Revenue Service will not successfully challenge the position that the exception is available under the PFIC rules or its application to Afterpay.

There is uncertainty with respect to whether the active financing exception is available under the PFIC rules based on recently finalized US Treasury Regulations or if such exception can be relied upon until recently proposed US Treasury Regulations are finalized. The taxable year to which the final and proposed US Treasury Regulations apply is generally based on the shareholder's taxable year rather than Afterpay's taxable year.

US holders should consult their own tax advisors regarding the tax consequences applicable to them with respect to this Scheme, including the likely treatment of Afterpay as a PFIC and the effective date of the US Treasury Regulations discussed above.

For personal use only

If Afterpay is or has been a PFIC for any taxable year during which a US holder held Afterpay Shares, such US holder generally will be subject to special rules with respect to any gain recognised on the receipt of New Square Securities pursuant to the Scheme, which could result in adverse tax consequences to such US holder. Under these special rules, any gain will generally be allocated ratably over the US holder's holding period for the Afterpay Shares. The amount of gain allocated to the taxable year in which the Scheme is implemented, and any taxable year prior to the first taxable year in which Afterpay became a PFIC, will be treated as ordinary income for the taxable year in which the Scheme is implemented. The amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

A US holder that owns an equity interest in a PFIC may have to file an Internal Revenue Service Form 8621 and such other information as may be required by the US Treasury Department.

The rules dealing with PFICs are very complex and affected by various factors in addition to those described above. Accordingly, US holders are strongly urged to contact their own tax advisors regarding Afterpay's likely status as a PFIC for any taxable year in which such US holder held Afterpay Shares and the application of the PFIC rules in light of such US holder's particular circumstances (which may result in different tax consequences from the above), including the applicability of any exceptions, and certain elections (e.g., "mark-to-market" election or "qualified electing fund" election).

(ii) Consequences of Holding and Disposing of New Square Securities

(A) Distributions

Distributions with respect to New Square Securities will be treated as a dividend to US holders to the extent that they are paid out of Square's current or accumulated earnings and profits, as determined under US federal income tax principles. To the extent that the amount of any distribution exceeds Square's current and accumulated earnings and profits for a taxable year, the excess will first be treated as a tax-free return of capital, causing a reduction in the US holder's adjusted tax basis in such US holder's New Square Securities. The balance of the excess, if any, will be treated as gain from the sale of such US holder's New Square Securities, as described below under " – Sale or Other Taxable Disposition".

If a US holder is an individual, dividends received by such holder may be subject to a reduced maximum tax rate provided that certain holding period and other requirements are met. US holders should consult their own tax advisors regarding the availability of such reduced tax rate.

(B) Sale or Other Taxable Disposition

A US holder will generally recognise capital gain or loss on a sale or other taxable disposition of New Square Securities. The US holder's gain or loss will equal the difference between the amount realised by the US holder and the US holder's adjusted tax basis in the New Square Securities. The amount realised by the US holder will include the amount of any cash and the fair market value of any other property received for the New Square Securities. Gain or loss recognised by a US holder on a sale or other taxable disposition of New Square Securities will be long-term capital gain or loss if the US Holder's holding period in the New Square Securities is more than one year at the time of the sale, exchange or other taxable disposition. Long-term capital gains for certain non-corporate US holders, including individuals, are currently generally eligible for a reduced rate of US federal income taxation. The deductibility of capital losses is subject to limitations.

(b) Material US Federal Income Tax Consequences to Non-US Holders

(i) Consequences of the Scheme

Subject to the discussion below under " – Information Reporting and Backup Withholding", any gain recognised on the receipt of New Square Securities pursuant to the Scheme by a non-US holder generally will not be subject to US federal income tax unless:

- the gain is effectively connected with a US trade or business of such non-US holder (and, if required by an applicable income tax treaty, is also attributable to a permanent establishment or, in the case of an individual, a fixed base in the United States maintained by such non-US holder), in which case the non-US holder generally will be subject to tax on such gain in the same manner as a US holder and, if the non-US holder is a non-US corporation, such corporation may be subject to branch profits tax at the rate of 30% on the effectively connected gain (or such lower rate as may be specified by an applicable income tax treaty); or

For personal use only

- the non-US holder is a non-resident alien individual who is present in the United States for 183 days or more in the taxable year of the Scheme and certain other conditions are met, in which case the non-US holder generally will be subject to tax at a 30% rate (or a lower applicable income tax treaty rate) on any such gain (other than gain effectively connected with a US trade or business).

Non-US holders should consult their own tax advisors as to the particular US federal income tax consequences of the Scheme to them.

(ii) Consequences of Holding and Disposing of New Square Securities

(A) Distributions

Distributions with respect to New Square Securities will be treated as a dividend to non-US holders to the extent that they are paid out of Square's current or accumulated earnings and profits, as determined under US federal income tax principles. To the extent that the amount of any distribution exceeds Square's current and accumulated earnings and profits for a taxable year, the excess will first be treated as a tax-free return of capital, causing a reduction in the non-US holder's adjusted tax basis in such non-US holder's New Square Securities. The balance of the excess, if any, will be treated as gain from the sale of such non-US holder's New Square Securities, as described below under " – Sale or Other Taxable Disposition".

Dividends paid to a non-US holder generally will be subject to US federal withholding tax at a 30% rate, or a reduced rate specified by an applicable income tax treaty, subject to the discussion below under "—FATCA Withholding". To obtain a reduced rate of withholding under an applicable income tax treaty, a non-US holder generally will be required to provide a properly executed Internal Revenue Service Form W-8BEN or Internal Revenue Service Form W-8BEN-E, as applicable, certifying its entitlement to benefits under the income tax treaty.

Dividends paid to a non-US holder that are effectively connected with a US trade or business of such non-US holder (and, if required by an applicable income tax treaty, are also attributable to a permanent establishment or, in the case of an individual, a fixed base in the United States maintained by such non-US holder) will not be subject to US federal withholding tax if the non-US holder provides a properly executed Internal Revenue Service Form W-8ECI. Instead, the non-US holder will generally be subject to tax on such income in the same manner as a US holder and, if the non-US holder is a non-US corporation, such corporation may be subject to branch profits tax at the rate of 30% on the effectively connected gain (or such lower rate as may be specified by an applicable income tax treaty).

A non-US holder eligible for a reduced rate of US federal withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the Internal Revenue Service.

(B) Sale or Other Taxable Disposition

Subject to the discussion below under " – Information Reporting and Backup Withholding", a non-US holder generally will not be subject to US federal income tax on gain realised on a sale or other taxable disposition of New Square Securities unless:

- the gain is effectively connected with a US trade or business of such non-US holder (and, if required by an applicable income tax treaty, is also attributable to a permanent establishment or, in the case of an individual, a fixed base in the United States maintained by such non-US holder), in which case the non-US holder generally will be subject to tax on such gain in the same manner as effectively connected dividend income as described above;
- the non-US holder is a non-resident alien individual who is present in the United States for 183 days or more in the taxable year of disposition and certain other conditions are met, in which case the non-US holder generally will be subject to tax at a 30% rate (or a lower applicable income tax treaty rate) on any such gain (other than gain effectively connected with a US trade or business); or
- Square is or has been a "United States real property holding corporation" (as described below) at any time within the five-year period preceding the disposition or the non-US holder's holding period, whichever period is shorter, and either (a) Square Shares are not regularly traded on an established securities market or (b) the non-US holder has owned or is deemed to have owned, at any time within the five-year period preceding the disposition or the non-US holder's holding period, whichever period is shorter, more than 5% of Square Shares.

Square would be a United States real property holding corporation if at any time the fair market value of Square's "United States real property interests", as defined in the Code and applicable US Treasury Regulations, equals or exceeds 50% of the aggregate fair market value of Square's worldwide real property interests and Square's other assets used or held for use in a trade or business (all as determined for US federal income tax purposes). Square believes that, at the time of the Scheme, it will not be a United States real property holding corporation, and it does not anticipate that it will become a United States real property holding corporation in the foreseeable future.

Non-US holders should consult their own tax advisors as to the particular US federal income tax consequences of the Scheme to them.

(c) Information Reporting and Backup Withholding

Holders may, under certain circumstances, be subject to information reporting and backup withholding (currently at a rate of 24%) with respect to any dividends paid with respect to New Square Securities and any proceeds received on the disposition of New Square Securities, in each case unless such holder properly establishes an exemption (including by establishing its status as a non-US holder) or provides its correct taxpayer identification number and otherwise complies with the applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules can be refunded or credited against a holder's US federal income tax liability, if any, provided that such holder furnishes the required information to the Internal Revenue Service in a timely manner.

Holders should consult their own tax advisors regarding the information reporting and backup withholding requirements in connection with their ongoing ownership of New Square Securities.

(d) FATCA Withholding

Under sections 1471 through 1474 of the Code (such sections commonly referred to as the Foreign Account Tax Compliance Act, or "FATCA"), payments of dividends on New Square Securities paid to (a) a "foreign financial institution" (as specifically defined in the Code) or (b) a "non-financial foreign entity" (as specifically defined in the Code) will be subject to a withholding tax (separate and apart from, but without duplication of, the withholding tax described above) at a rate of 30%, unless various US information reporting and due diligence requirements (generally relating to ownership by US persons of interests in or accounts with those entities) have been satisfied or an exemption from these rules applies. An intergovernmental agreement between the United States and an applicable foreign country may modify these requirements. If a dividend payment is both subject to withholding under FATCA and subject to the withholding tax discussed above under "—Material US Federal Income Tax Consequences to Non-US Holders—Consequences of Holding and Disposing of New Square Securities—Distributions", the withholding under FATCA may be credited against, and therefore reduce, such other withholding tax. Non-US holders are urged to consult their own tax advisors regarding how FATCA may apply to them as a result of the receipt of the Scheme Consideration and their ongoing ownership of New Square Securities.

THE PRECEDING DISCUSSION OF U.S. FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT LEGAL OR TAX ADVICE. EACH HOLDER IS ENCOURAGED TO CONSULT ITS OWN TAX ADVISOR AS TO PARTICULAR TAX CONSEQUENCES RELATING TO THE ARRANGEMENT, INCLUDING THE APPLICABILITY AND EFFECT OF ANY U.S. FEDERAL, STATE, LOCAL OR FOREIGN TAX LAWS.

For personal use only

For personal use only

Section 9

Comparison of Relevant Australian and US Laws

9.1. Background

Afterpay is a public company limited by shares and registered in Victoria under Australian law. Afterpay Shares are quoted on ASX.

Square is incorporated in the United States, under the laws of the State of Delaware. Square Class A Shares are listed on NYSE.

If the Scheme is implemented, the rights of Afterpay Shareholders in respect of New Square Shares or New Square CDIs will be primarily governed by the DGCL, US federal securities laws, NYSE listing standards and Square's Certificate of Incorporation and Bylaws.

In addition, Square will apply for admission to the ASX Official List as a Foreign Exempt Listing, conditional on the Scheme being implemented. Once Square is listed on ASX as a Foreign Exempt Listing, the rights of Afterpay Shareholders who receive New Square CDIs will also be governed by the terms of the New Square CDIs and the ASX Listing Rules relating to transfers and issues of securities and certain other procedural and administrative matters. However, once listed on ASX as a Foreign Exempt Listing, Square (as the parent company of the Combined Group) will be exempt from complying with most of the ASX Listing Rules (see section 6.4 for more information).

A comparison of some of the material provisions of Australian law and Delaware law as they relate to Afterpayand Square respectively is set out below, along with a description of certain securities laws and stock exchange rules where applicable.

References to Australian law where they appear in this section 9 are references to the Corporations Act, ASX Listing Rules, ASX Settlement Operating Rules and Australian common law, as applicable.

The terms of Square's Certificate of Incorporation and Bylaws and Delaware law are more detailed than the general information provided below. As such, you should rely on the actual provisions of those documents and laws. If you would like to read Square's Certificate of Incorporation or Bylaws, these documents are filed with the SEC.

The information in this section of the Scheme Booklet concerning Square has been prepared by Square and is the responsibility of Square.

The comparison below is not an exhaustive statement of all relevant laws, rules and regulations and is intended as a general guide only. You should seek your own independent professional legal advice if you require further information.

For personal use only

Afterpay	Square

9.2. Shareholders Meetings

(a) Requirement of annual meetings; ability to call special meetings

Afterpay	Square
Under Australian law, the annual general meeting of Afterpay is required to be held at least once in each calendar year, and within five months after the end of its financial year. A general meeting of Afterpay Shareholders may be called from time to time by the Afterpay Board, individual directors or by shareholders in the circumstances set out below: • when requested to do so by Afterpay Shareholders holding at least 5% of the votes that may be cast at the meeting, Afterpay Directors must call a general meeting within 21 days after the request is given to Afterpay, and the meeting must be held not later than two months after the request is given; or • alternatively, Afterpay Shareholders holding at least 5% of the votes that may be cast at the meeting may themselves call, and arrange to hold, a general meeting of Afterpay at their own cost.	Square is required by NYSE listing rules to hold an annual stockholders' meeting during each fiscal year. Under Square's Certificate of Incorporation and Bylaws, special meetings of stockholders may only be called by an officer at the request of a majority of the Square Board, by the Chairman of the Square Board, by the Chief Executive Officer, or by the President in the absence of a Chief Executive Officer, except as otherwise required by law and subject to the rights of preferred stockholders. Under the DGCL, a director or stockholder may petition the Delaware Court of Chancery for an order compelling an annual meeting if there has been no annual meeting (and no action by written consent to elect directors) for 30 days after the date designated for the annual meeting, or if no date for an annual meeting has been designated, for 13 months after the latest of the corporation's incorporation or last annual meeting (or last action by written consent to elect directors).

(b) Notice of meeting

Afterpay	Square
As Afterpay is listed on ASX, notice of a general meeting of Afterpay must be given at least 28 days before the date of the meeting. Afterpay is required to give notice only to Afterpay Shareholders entitled to vote at the meeting, as well as Afterpay Directors and Afterpay's auditor(s).	Square's Bylaws provide that notice of a stockholders' meeting must be given not less than 10 days nor more than 60 days before the meeting to each stockholder of record entitled to vote at such meeting. The notice must state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

(c) Quorum requirements

Afterpay	Square
The quorum for a meeting under the Afterpay Constitution is three Afterpay Shareholders who are present at the meeting and entitled to vote on resolutions at the meeting. If within 30 minutes after the time appointed for a meeting, a quorum is not present, the meeting: • if convened on a requisition of Afterpay Shareholders, is dissolved; and • in any other case, stands adjourned to the same day in the next week and the same time and place or to such other day, time and place as the Afterpay Directors appoint by notice to the Afterpay Shareholders. At any adjournment meeting, three Afterpay Shareholders is still a quorum. If no quorum is present at any adjourned meeting within 30 minutes after the time appointed for the adjourned meeting, those Afterpay Shareholders who are present in person are deemed to be a quorum and may transact the business for which the meeting was called.	Square's Bylaws provide that except as otherwise provided by law or by its Certificate of Incorporation, the presence (in person or by proxy) of holders of a majority of the voting power of Square Shares entitled to vote in the election of directors constitutes a quorum at a stockholders' meeting, except that when specified business is to be voted on by a class or series of stock, the holders of a majority of the shares of such class or series will constitute a quorum.

For personal use only

Afterpay	Square
(d) Voting requirements	
Under the Corporations Act, a special resolution may be passed by Afterpay Shareholders if not less than 28 days' notice of a general meeting is given, specifying the intention to propose the special resolution and stating the resolution. In order to pass, a special resolution requires approval of at least 75% of the votes cast by shareholders entitled to vote. The Corporations Act requires certain matters to be resolved by a company by special resolution, including: • amendment to the company's constitution; • the change of name of the company; • a selective reduction of capital or selective share buy back; • the conversion of ordinary shares into preference shares; and • a decision to wind up the company voluntarily. The Afterpay Constitution stipulates the following matters be resolved by special resolution: • matters relating to the winding-up of Afterpay, including distribution of assets and power of the liquidator to vest property; and • variation or cancellation of rights attaching to any class of shares on issue. Each Afterpay Share confers a right to vote at all general meetings. On a show of hands, each Afterpay Shareholder present in person, or by proxy, attorney or body corporate representative, has one vote. If a poll is held, Afterpay Shareholders present in person or by their proxy, attorney or body corporate representative will have: • one vote for every fully paid Afterpay Share held at the voting record date; and • a fraction of a vote for each party paid Afterpay Share, equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) for that Afterpay Share (or, where applicable, a fraction of a Share), held at the voting record date.	Pursuant to Square's Certificate of Incorporation holders of Square Class A Shares and Square Class B Shares will generally vote together as one class on all matters submitted to a stockholder vote, with each Square Class A Share entitled to 1 vote and each Square Class B Share entitled to 10 votes, except as otherwise required by applicable law. Square's Certificate of Incorporation provides that, except with respect to voting rights and conversion rights, Square Class A Shares and Square Class B Shares are treated equally and identically. Square's Bylaws provide that a plurality of the voting power (in person or by proxy) entitled to vote at any meeting for the election of directors at which a quorum is present will elect directors, subject to the rights of preferred stockholders to elect directors under specified circumstances. No stockholder is entitled to exercise any right of cumulative voting under Square's Certificate of Incorporation. All matters other than the election of directors will be determined by a majority of the voting power of shares represented in person or by proxy at the stockholders' meeting and entitled to vote on the matter, except as otherwise provided by law, Square's Certificate of Incorporation or NYSE listing rules.

For personal use only

Afterpay	Square
(e) Shareholders' rights to bring a resolution before a meeting	
Under the Corporations Act, Afterpay Shareholders holding at least 5% of the votes that may be cast at a general meeting may by written notice to Afterpay propose a resolution for consideration at the next general meeting occurring more than two months after the date of the notice.	Under Square's Bylaws, a stockholder must give timely written notice to Square's Secretary to bring before an annual meeting any nomination or other proper matter for stockholder action (other than stockholder proposals included in the proxy materials pursuant to the rules and regulations of the SEC, including Rule 14a-8 promulgated under the Exchange Act). The stockholder's notice must be delivered to the Secretary not less than 90 nor more than 120 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, the stockholder's notice must be delivered not less than 90 nor more than 120 days prior to the date of such annual meeting or, if the first public announcement of the date of such annual meeting is less than 100 days prior to the date of such annual meeting, the 10th day following such public announcement. In the event that the number of directors to be elected to the Square Board is increased by the Square Board, and there is no public announcement by Square naming all of the nominees for director or specifying the size of the increased board at least 100 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice will be considered timely with respect to nominees for any new positions created by such increase if it is delivered to the Secretary by the close of business on the 10th day following the day of the public announcement first made by Square. If a special meeting of stockholders is called to elect directors, a stockholder nominating individual(s) for election must deliver timely written notice to the Secretary not less than 90 nor more than 120 days prior to the date of such special meeting or, if the first public announcement of the date of such special meeting is less than 100 days prior to the date of such special meeting, the 10th day following such public announcement.

For personal use only

Afterpay	Square
9.3. Directors	
(a) **Management of the business of the company**	
Under the Afterpay Constitution, the directors of Afterpay will manage or cause the management of the business of Afterpay. The Afterpay Directors may exercise all the powers of the company except any powers that the Corporations Act or the Afterpay Constitution requires the company to exercise in a general meeting.	Under Square's Certificate of Incorporation and Bylaws, (i) Square's business and affairs will be managed by or under the direction of the Square Board and (ii) Square Directors are empowered to exercise all such powers and do all such acts and things as may be exercised or done by Square, subject to the DGCL, the Certificate of Incorporation or Bylaws. In addition, Square's Bylaws allow the Square Board to exercise all such powers of Square and do all such lawful acts and things as are not required by statute or by the Certificate of Incorporation or Bylaws to be exercised or done by the stockholders.
(b) **Number and election of directors**	
Under the Afterpay Constitution, Afterpay must have no less than three nor more than the number determined by the Directors from time to time, which until otherwise determined by the directors is ten. The Afterpay Directors may, at any time, appoint any person as a Afterpay Director, either to fill a casual vacancy or as an addition to the existing Afterpay Directors (provided the total number of Afterpay Directors does not at any time exceed the maximum number of directors described above). An Afterpay Director may not hold office, without re-election: • for a continuous period in excess of three years; or • past the third annual general meeting following the director's appointment or last election, whichever is the longer. Afterpay's managing director is exempt from the retirement and election by rotation procedures under the Afterpay Constitution.	Square's Certificate of Incorporation and Bylaws provide that the number of directors will be fixed from time to time by resolution of the Square Board, subject to the rights of preferred stockholders to elect directors under specified circumstances. No decrease in the number of directors will shorten the term of any incumbent director. The Square Board is divided into three classes, as nearly equal in number as possible. Each director will hold office until the third annual meeting following his or her election and until his or her successor is elected and qualified, or otherwise until his or her earlier death, resignation or removal. Square's Bylaws provide that vacancies resulting from death, retirement, removal or other cause, and newly created directorships may be filled only by a majority of the remaining directors, though less than a quorum, or by a sole remaining director. A director so chosen shall hold office until the annual stockholders' meeting at which the term of his or her class expires and until his or her successor is duly elected and qualified.
(c) **Removal of directors**	
The shareholders of a public company such as Afterpay may remove an Afterpay Director before their period of office ends by passing a resolution to do so at a general meeting. The resolution must be passed by a majority of the votes cast by Afterpay Shareholders present and voting. Under the Corporations Act, Afterpay Directors cannot themselves remove an Afterpay Director from their office or require an Afterpay Director to vacate their office.	Square's Certificate of Incorporation and Bylaws provide that subject to the rights of preferred stockholders, any director or the entire Square Board may be removed at any time, but only for cause and only by holders of a majority of the voting power of shares entitled to vote in the election of directors, represented in person or by proxy at a meeting for the election of directors duly called.

For personal use only

Afterpay	Square

9.4. Amendments to Constituent Documents

Afterpay	Square
Any amendment to the Afterpay Constitution must be approved by a special resolution passed by Afterpay Shareholders present and voting on the resolution. A special resolution requires approval of at least 75% of the votes cast by shareholders entitled to vote.	Under the DGCL, unless the certificate of incorporation requires a greater vote or otherwise specified in the DGCL, an amendment to the certificate of incorporation requires: (i) the approval and recommendation of the board; (ii) the affirmative vote of a majority of the outstanding stock entitled to vote on the amendment; and (iii) the affirmative vote of a majority of the outstanding stock of each class entitled to vote on the amendment as a class. Square's Certificate of Incorporation provides that notwithstanding any provision of law that might permit a lesser vote, and in addition to any vote of any class or series of stock required, the affirmative vote of at least 2/3 of the voting power of outstanding shares entitled to vote in the election of directors, voting as a single class, is required to amend or repeal, or adopt any provision inconsistent with certain articles of the Certificate of Incorporation. Subject to Delaware law, the Square Board has the power to adopt, amend, alter or repeal the Bylaws by a majority vote. The Bylaws may also be altered, amended or repealed, or new bylaws enacted, at any special meeting of stockholders duly called for that purpose or at any annual meeting, by a majority of the voting power of shares entitled to vote in the election of directors; provided, however, that any amendment of, or adoption of any provision inconsistent with certain sections of the Bylaws requires 2/3 of such voting power.

9.5. Issue of New Shares

Afterpay	Square
Subject to specified exceptions, the ASX Listing Rules apply to restrict Afterpay from issuing, or agreeing to issue, more equity securities (including shares and options), than the number calculated as follows in any 12 month period without the approval of Afterpay Shareholders: 15% of the total of: • the number of Afterpay Shares on issue 12 months before the date of the issue or agreement; plus • the number of Afterpay Shares issued in the 12 months under a specified exception; plus • the number of partly paid ordinary Afterpay Shares that became fully paid in the 12 months; plus • the number of Afterpay Shares issued in the 12 months with Afterpay Shareholder approval; less	Square is authorised under its Certificate of Incorporation to issue 1.6 billion shares of capital stock, consisting of 1 billion Square Class A Shares, 500 million Square Class B Shares and 100 million shares of preferred stock. Except under certain circumstances, Square will not issue any additional Square Class B Shares after incorporation, unless such issuance is approved by a majority of outstanding Square Class B Shares, voting separately as a single class. Under NYSE listing rules, stockholder approval is required for certain significant issuances of securities, including issuances (in each case subject to certain exceptions): • in connection with new or materially amended equity compensation plans; • to a related party (including directors, officers, substantial security holders and their affiliates); or

For personal use only

Afterpay	Square
• the number of Afterpay Shares cancelled in the 12 months; less • the number of equity securities issued or agreed to be issued in the 12 months before the date of issue or agreement to issue but not under a specified exception or with Afterpay Shareholder approval. Subject to certain exceptions, the ASX Listing Rules require the approval of Afterpay Shareholders by ordinary resolution in order for Afterpay to issue shares or options to Afterpay Directors. Under the Afterpay Constitution, the Afterpay Directors may allot, issue, cancel or otherwise dispose of shares to any persons on any terms and conditions at that issue price and at those times as the Directors think fit, subject to the Corporations Act, the ASX Listing Rules.	• in any transaction if the number of shares or voting power of common stock issued is, or will be upon issuance, equal to or in excess of 20% of the number of shares or voting power of common stock outstanding before the issuance or of securities convertible into or exercisable for common stock.

9.6. Variation of Class Rights

Under the Afterpay Constitution, rights attaching to a share in Afterpay may only be varied or cancelled: • by a special resolution passed at a meeting of the preference shareholders entitled to vote and holding shares in that class; or • with the written consent of Afterpay Shareholders with at least 75% of the votes in the class.	Under the DGCL, the holders of the outstanding shares of a class are entitled to vote as a class upon any proposed amendment to the certificate of incorporation that will: • increase or decrease the number of authorised shares of the class; • increase or decrease the par value of the shares of the class; or • alter or change the powers, preferences or special rights of the shares of the class so as to affect them adversely. Such a proposed amendment requires approval of a majority of the outstanding shares of each class entitled to vote thereon. Under Square's Certificate of Incorporation, the number of authorised shares of Square Class A Shares, Square Class B Shares, or preferred stock may be increased or decreased (but not below the number of shares thereof outstanding) by a majority of the voting power of all outstanding shares entitled to vote thereon, irrespective of the DGCL provision requiring a class vote and without a separate class vote of preferred stockholders, unless required by the terms of preferred stock. Square's Certificate of Incorporation provides that Square Class B Shares will be converted into Square Class A Shares under certain circumstances, including upon certain transfers of Square Class B Shares.

For personal use only

Afterpay	Square

9.7. Protection of Minority Shareholders

Under the Corporations Act, any Afterpay Shareholder can bring an action in cases of conduct which is contrary to the interests of Afterpay Shareholders as a whole, or oppressive to, unfairly prejudicial to, or unfairly discriminatory against, any Afterpay Shareholder(s), whether in their capacity as a shareholder or in any other capacity. Former Afterpay Shareholders can also bring an action if it relates to the circumstances in which they ceased to be an Afterpay Shareholder.

A statutory derivative action may also be instituted by a shareholder, former shareholder or person entitled to be registered as a shareholder of Afterpay. In all cases, leave of the Court is required. Such leave will be granted if the Court is satisfied that:

- it is probable that Afterpay will not itself bring the proceedings or properly take responsibility for them or for the steps in them;
- the applicant is acting in good faith;
- it is in the best interests of Afterpay that the applicant be granted leave;
- if the applicant is applying for leave to bring proceedings, there is a serious question to be tried; and
- either,
  - at least 14 days before making the application, the applicant gave written notice to Afterpay of the intention to apply for leave or the reasons for applying; or
  - it is otherwise appropriate to grant leave.

Under Delaware law, a stockholder may bring a derivative action on behalf of the corporation under certain circumstances where those in control of the corporation have failed to assert a claim belonging to the corporation (and to the stockholders collectively).

Under the DGCL, a stockholder who wishes to bring a derivative action must meet certain requirements, including that the plaintiff was a stockholder of the corporation at the time of the transaction of which such stockholder complains or that such stockholder's shares thereafter devolved upon such stockholder by operation of law. In addition, a derivative plaintiff must make a demand on the directors of the corporation to assert the corporate claim, unless that demand would be futile.

9.8. Payment of Dividends and Distributions

Under the Corporations Act, Afterpay must not pay a dividend unless:

- Afterpay's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
- the payment of the dividend is fair and reasonable to Afterpay Shareholders as a whole; and
- the payment of the dividend does not materially prejudice Afterpay's ability to pay creditors.

Subject to the Corporations Act, the Afterpay Constitution and the terms of issue or rights of any shares with special rights to dividends, the Afterpay Directors may declare or determine that a dividend is payable, fix the amount and the time for payment and the method of payment of the dividend.

Holders of Square's common stock are entitled to ratably receive dividends if, as, and when declared from time to time by the Square Board, after payment of any dividends required to be paid on preferred stock.

Under the DGCL, Square can only pay dividends either out of surplus (as determined under the DGCL) or out of the current or the immediately preceding year's net profits.

For personal use only

Afterpay	Square
9.9. Remuneration of Directors and Officers	
Under the ASX Listing Rules, the maximum amount to be paid to Afterpay Directors for their services as Afterpay Directors (other than the salary of an executive director) is not to exceed the amount approved by Afterpay Shareholders in a general meeting. As at the date of this Scheme Booklet, the latest approval was at Afterpay's 2019 annual general meeting, at which Afterpay Shareholders approved aggregate remuneration for non-executive directors of $1,800,000 per annum. Afterpay's annual report includes a remuneration report within the directors' report. This remuneration report is required to include a discussion of the Afterpay Board's policy in relation to remuneration of key management personnel of Afterpay. Under the Corporations Act, a listed company (such as Afterpay) must put its remuneration report to a shareholder vote at its annual general meeting. If in two consecutive annual general meetings, 25% or more of the votes cast on the resolution vote against adopting the remuneration report, a 'spill resolution' must then be put to shareholders. A spill resolution is a resolution that a spill meeting be held and all directors (other than a managing director who is exempt from the retirement by rotation requirements) cease to hold office immediately before the end of the spill meeting. If the spill resolution is approved by the majority of votes cast on the resolution, a spill meeting will be held within 90 days at which directors wishing to remain directors must stand for re-election.	Under the DGCL, unless otherwise restricted by the Certificate of Incorporation or Bylaws, the board of directors have the authority to fix the compensation of directors. Under US securities laws, Square is required to disclose certain information about its policies and practices related to compensation for directors and executive officers. US publicly traded companies are also required to hold advisory (i.e., non-binding) shareholder votes on (i) executive compensation ("say-on-pay votes") at least once every three years and (ii) the frequency of such say-on-pay votes at least once every six years, in order to allow shareholders to express their views on a company's compensation decisions. Square currently holds the say-on-pay vote every year.
9.10. Retirement Benefits	
The Corporations Act provides that, in respect of termination benefits payable to a company director, senior executive or key management personnel under employment contracts entered into, renewed or varied on or after 24 November 2009, shareholder approval is required if the total value of the benefits exceed one year of that person's base salary.	There is no limit on, or requirement of stockholder approval for, the payment of any termination or retirement benefits to directors and officers in the DGCL, Square's Certificate of Incorporation or Bylaws, or NYSE listing standards. Under US securities laws, Square is required to disclose certain information about its retirement and other post-employment compensation for directors and executive officers.

For personal use only

Afterpay	Square
9.11. Release from Liability and Indemnification of Directors and Officers	
Under Australian law, Afterpay cannot: • exempt an officer or auditor from liability to Afterpay incurred in their capacity as an officer or auditor; • indemnify an officer or auditor against a liability owed to Afterpay or a Related Body Corporate; or • indemnify an officer or auditor against the legal costs incurred in defending certain legal proceedings, including proceedings in which the person is found liable to Afterpay or a Related Body Corporate. The Afterpay Constitution contains a provision permitting Afterpay (to the maximum extent permitted by law) to indemnify any current or former Afterpay Director or secretary or officer of Afterpay or a subsidiary of Afterpay, against, among other things, against any liability (other than legal costs) incurred in acting as a Director, Secretary, or other Officer of the Company, or as a director or secretary of another company at the request of the Company.	The DGCL provides that a corporation may eliminate or limit a director's personal liability for monetary damages to the corporation or its stockholders for breach of fiduciary duty as a director, except for liability for: (i) breach of the duty of loyalty; (ii) acts or omissions not in good faith or involving intentional misconduct or a knowing violation of law; (iii) unlawful payments of dividends, or unlawful share repurchases or redemptions; or (iv) any transaction from which the director derived an improper personal benefit. Square's Certificate of Incorporation provides that no Square Director will be personally liable to Square or Square stockholders for monetary damages for breach of fiduciary duty as a director, to the fullest extent permitted by the DGCL. Square's Certificate of Incorporation and Bylaws provide that Square will indemnify to the fullest extent permitted by applicable law, any person made, or threatened to be made a party, to any action, suit or proceeding by reason of the fact that such person was a director, officer, employee or agent of Square, or serving as a director, officer, employee or agent of another entity at Square's request, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection therewith, if the person acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of Square, and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. Square's Bylaws further provide that to the extent authorised by the DGCL, expenses (including attorneys' fees) incurred by a person potentially eligible for indemnification (as specified above) in defending any proceeding will be paid by Square in advance of the final disposition of such proceeding; provided that, if required by the DGCL, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer will be made only upon delivery to Square of an undertaking by or on behalf of such director or officer to repay all amounts advanced if it is ultimately determined that he or she is not entitled to be indemnified.

For personal use only

Afterpay	Square

9.12. Fiduciary Duties of Directors and Officers

Under Australian law, the directors and officers of a company such as Afterpay are subject to a range of duties including duties to:

- act in good faith in the best interests of the company;
- act for a proper purpose;
- not fetter their discretion (in the case of directors only);
- exercise care and diligence in the performance of their duties;
- avoid conflicts of interest;
- not use their position to gain advantage for themselves or someone else, or to cause detriment to the company;
- not misuse information which they have gained through their position to gain advantage for themselves or someone else, or to cause detriment to the company; and
- otherwise act in accordance with the Corporations Act and, subject to the provisions of the Corporations Act, Afterpay's constitution.

Under Delaware law, directors have fiduciary duties including the duty of care and the duty of loyalty. The duty of care generally requires directors to inform themselves of all reasonably available information before making business decisions on behalf of the corporation and to act with requisite care in discharging their duties to the corporation. The duty of loyalty generally requires directors to act in good faith and in the corporation's best interests.

9.13. Transactions Involving Directors, Officers or Other Related Parties

The Corporations Act prohibits a public company such as Afterpay from giving a related party a financial benefit unless it:

- obtains the approval of shareholders and gives the benefit within 15 months after receipt of such approval; or
- the financial benefit is exempt.

A related party is defined by the Corporations Act to include any entity which controls the public company, directors of the public company, directors of any entity which controls the public company and, in each case, spouses and certain relatives of such persons.

Exempt financial benefits include indemnities, insurance premiums and payments for legal costs which are not otherwise prohibited by the Corporations Act and benefits given on arm's length terms.

The ASX Listing Rules prohibit a listed entity such as Afterpay from acquiring a substantial asset (an asset the value or consideration for which is 5% or more of the entity's equity interests) from, or disposing of a substantial asset to, certain related parties of the entity, unless it obtains the approval of shareholders. The related parties include directors, persons who have or have had (in aggregate with any of their associates) in the prior six month period an interest in 10% or more of the shares in the company and, in each case, any of their associates. The provisions apply even where the transaction may be on arm's length terms.

The DGCL provides that a contract or transaction between a corporation and one or more of its directors or officers will not be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board or committee which authorises the contract or transaction, or solely because any such director's or officer's votes are counted for such purpose, if:

- material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board or committee in good faith authorises the contract or transaction by a majority of the disinterested directors, even though the disinterested directors be less than a quorum;
- material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or
- the contract or transaction is fair as to the corporation as of the time it is authorised, approved or ratified by the board of directors, a committee of the board of directors or the stockholders.

For personal use only

Afterpay	Square
The ASX Listing Rules also prohibit a listed entity such as Afterpay from issuing or agreeing to issue shares to a director unless it obtains the approval of shareholders or the share issue is exempt. Exempt share issues include issues made pro rata to all shareholders, under an underwriting agreement in relation to a pro rata issue, under certain dividend or distribution plans or under an approved employee incentive plan. The Corporations Act generally requires an Afterpay Director who has a material personal interest in a matter that relates to the affairs of Afterpay to give the other Afterpay Directors notice of that interest. That Afterpay Director must not be present at a meeting where the matter is being considered or vote on the matter unless the other Afterpay Directors or ASIC approve, or the matter is not one which requires disclosure under the Corporations Act. Under the Corporations Act, failure of an Afterpay Director to disclose a material personal interest, or voting despite a material personal interest, does not affect the validity of a contract in which the Afterpay Director has an interest. Afterpay Directors, when entering into transactions with Afterpay, are subject to the common law and statutory duties to avoid conflicts of interest.	The DGCL further provides that interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorises the contract or transaction. Under US securities laws, Square is required to disclose certain information about certain recent or proposed transactions in which (i) the amount involved exceeds US$120,000 and (ii) any related person (including any director, officer or beneficial owner of more than 5% of any class of voting securities of Square) had or will have a direct or indirect material interest, including the related person's interest in the transaction, the approximate dollar value of such interest and other material information. Square is also required to disclose its policies and procedures for the review and approval of such transactions.

9.14. Disclosure of Substantial Shareholdings

A person who obtains voting power in 5% or more of an ASX listed company is required to publicly disclose that fact within two business days after becoming aware of that fact via the filing of a substantial holding notice. A person's voting power consists of their own 'relevant interest' in shares plus the relevant interests of their associates. A further notice must be filed within two business days after each subsequent voting power change of 1% or more, and after the person ceases to have voting power of 5% or more. The notice must attach all documents which contributed to the voting power the person obtained or provide a written description of arrangements which are not in writing.	A person or group of persons who acquires beneficial ownership of more than 5% of a voting class of a company's equity securities registered under section 12 of the Exchange Act, is required to file a Schedule 13D with the SEC within 10 days after the acquisition. However, depending upon the facts and circumstances, including whether or not the person or group has acquired the security with the intent of influencing control of the issuer, the person or group of persons may be eligible to file the more abbreviated Schedule 13G in lieu of Schedule 13D. Any material changes in the facts contained in the schedule (including a material increase or decrease in the percentage of the class of equity securities that are beneficially owned by the person making the filing) require a prompt amendment.

For personal use only

Afterpay	Square
9.15. Takeovers	
(a) Takeover requirements	
Australian law imposes restrictions on a person acquiring interests in the voting shares of Afterpay where, as a result of the acquisition, that person's or someone else's voting power in the company increases from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%. Exceptions to this restriction include an acquisition of no more than 3% of the voting shares in the company within a six month period, an acquisition made with shareholder approval, an acquisition made under a takeover bid conducted in accordance with Australian law or an acquisition that results from a Court-approved compromise or arrangement (such as the Scheme). Takeover bids must treat all shareholders alike and must not involve any collateral benefits. Various restrictions about conditional offers exist and there are also restrictions concerning the withdrawal and suspension of offers.	The DGCL provides that, if a person acquires 15% or more of a corporation's voting shares, then the corporation may not engage in certain business combinations with such interested stockholder for three years following the time the stockholder became an interested stockholder unless: • the board of directors had approved either the business combination or the transaction that resulted in the person becoming an interested stockholder; • upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the corporation's voting shares (with certain exceptions); or • the business combination is approved by the board of directors and by 2/3 of the outstanding voting shares not owned by the interested stockholder. Certain provisions of Square's Certificate of Incorporation and Bylaws may have the effect of restricting takeovers, such as provisions: • providing for a dual class common stock structure; • designating a classified board structure; • authorising the Square Board to issue any series of preferred stock and to fix designations, powers, preferences and rights thereof; • requiring advance notice of a stockholder's intention to nominate directors or submit proposals at a stockholders' meeting; • prohibiting stockholders from calling a special meeting of stockholders; and • prohibiting stockholders from acting by written consent.
(b) Takeover defence mechanisms	
Under Australian takeovers legislation and policy, boards of target companies are limited in the defensive mechanisms that they can put in place to discourage or defeat a takeover bid. For example, it is likely that the adoption of a shareholders' rights plan (or so-called 'poison pill') would give rise to a declaration of unacceptable circumstances by the Australian Takeovers Panel if it had that effect.	Under Delaware law, there are a number of defensive mechanisms available to protect the corporation and its stockholders against hostile takeover bids. In particular, shareholder rights plans, which have been generally upheld by the Delaware courts, can protect a corporation and its stockholders from non-negotiated hostile takeover attempts made at unfair or inadequate prices or by coercive or unfair tactics.

For personal use only

Afterpay	Square
9.16. Right to Inspect Corporate Books and Records	
Under the Corporations Act, a shareholder must obtain a court order to obtain access to the corporate books. The applicant must be acting in good faith and be making the inspection for a proper purpose. The Afterpay Constitution provides that Afterpay Directors may determine whether and to what extent Afterpay's documents and records will be open to inspection by any person.	Square's Certificate of Incorporation and Bylaws are on file with the SEC. The DGCL provides that any stockholder will, upon written demand under oath stating the purpose thereof, have the right during usual business hours to inspect for any proper purpose the corporation's stock ledger, stockholder list and certain books and records, and to make copies and extracts from those documents. If the corporation refuses to permit the stockholder's inspection or does not reply to the stockholder's written demand within five business days, the stockholder may seek remedy in the Delaware Court of Chancery.
9.17. Right to Inspect Register of Shareholders	
Under Australian law, the register of shareholders of a company is usually kept at the registered office or principal place of business in Australia and must be available for inspection to shareholders free of charge at all times when the registered office is open to the public. If a person asks Afterpay for a copy of the Afterpay Share Register (or any part of the Afterpay Share Register) and pays the requested fee (up to a prescribed amount), Afterpay must give that person the copy within seven days of the date on which Afterpay receives such payment.	The DGCL provides that, for at least 10 days before every stockholder meeting, a complete list of the stockholders entitled to vote at the meeting must be made and be open to examination by any stockholder. The list must also be produced at the meeting and be subject at all times during the meeting to the inspection of any stockholder present.

For personal use only

Afterpay	Square
9.18. Winding-Up	
Under Australian law, an insolvent company may be wound up by a liquidator appointed either by creditors or the court. Directors cannot use their powers after a liquidator has been appointed. If there are funds left over after payment of the costs of the liquidation, and payments to other priority creditors, including employees, the liquidator will pay these to unsecured creditors as a dividend. The shareholders rank behind the creditors and are, therefore, unlikely to receive any dividend in an insolvent liquidation. Under Australian law, shareholders of a solvent company may decide to wind up the company if the directors are able to form the view that the company will be able to pay its debts in full within 12 months after the commencement of the winding-up. A meeting at which a decision is made to wind up a solvent company requires at least 75% of votes cast by the shareholders present and voting. The Afterpay Constitution provides that on winding-up, the liquidator may, with the sanction of a special resolution of Afterpay Shareholders, divide among Afterpay Shareholders in kind the whole or any part of Afterpay's assets and may set the value as the liquidator considers fair and reasonable on any property to be so divided and may determine how the division is to be carried out.	Under the DGCL, a corporation may be dissolved if: • a majority of the board adopts a resolution to approve dissolution at a board meeting called for that purpose and thereafter notice of a stockholder meeting to take action on the matter is given to each stockholder entitled to vote thereon; • a majority of outstanding shares entitled to vote on the matter votes for the proposed dissolution at the stockholders' meeting called for that purpose; and • a certification of dissolution is thereafter filed with the Delaware Secretary of State. The DGCL also permits stockholders to authorise the dissolution of the corporation without board action if all stockholders entitled to vote on the matter provide written consent to dissolution and a certificate of dissolution is filed with the Delaware Secretary of State.
9.19. Exclusive Forum	
N/A	Square's Bylaws provide that unless Square consents to the selection of an alternative forum, a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware) will be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of Square; (ii) any action asserting a claim of breach of fiduciary duty owed by any of Square's directors, officers, or other employees to Square or to its stockholders; (iii) any action asserting a claim arising pursuant to the DGCL, Certificate of Incorporation or Bylaws; or (iv) any action asserting a claim governed by the internal affairs doctrine.

For personal use only

Afterpay	Square
9.20. Disclosure	
Afterpay is a 'disclosing entity' for the purposes of section 111AC(1) of the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules. See section 4.16 for further information.	As outlined in section 6.4, Square will apply for admission to the official list of ASX as a Foreign Exempt Listing, conditional on the Scheme being implemented. Once listed on ASX as a Foreign Exempt Listing, Square (as the parent company of the Combined Group) will be exempt from complying with most of the Listing Rules, including the Australian continuous disclosure regime set out in ASX Listing Rule 3.1. However, Square must provide to ASX a copy of each public filing it makes with the SEC. Under US securities laws, Square is required to file with the SEC certain documents periodically or upon the occurrence of certain events, including: • annual reports on Form 10-K, containing, among other things, Square's financial statements, management's discussion and analysis of financial condition and results of operation, and disclosures about certain risks; • quarterly reports on Form 10-Q, containing, among other things, Square's financial statements, management's discussion and analysis of financial condition and results of operation, and disclosures about certain risks; and • current reports on Form 8-K, upon the occurrence of certain specified events (generally within four business days of a specified event).

For personal use only

Section 10

Additional Information

10.1. Afterpay Securities held by Afterpay Directors

The table below lists the Relevant Interests of Afterpay Directors in Afterpay Shares as at the date of this Scheme Booklet.

Afterpay Director	Position	Relevant Interest in Afterpay Shares	Number of unlisted options
Elana Rubin	Chair, Independent Non-Executive Director	65,151	Nil
Anthony Eisen	Co-CEO and Managing Director	19,408,463	125,000 with an exercise price of $37.31 per option and an expiry date of 1 July 2024 40,203 with an exercise price of $98.97 per option and an expiry date of 1 July 2025[1]
Nick Molnar	Co-CEO and Managing Director	19,408,463	125,000, with an exercise price of $37.31 per option and an expiry date of 1 July 2024 40,203 with an exercise price of $98.97 per option and an expiry date of 1 July 2025[1]
Gary Briggs	Independent Non-Executive Director	2,630^	Nil
Pat O'Sullivan	Independent Non-Executive Director	7,473	Nil

1. The Co-CEOs, Anthony Eisen and Nick Molnar, each hold 165,203 Afterpay Options (together the **Co-CEO Options**). Consistent with the manner in which each other Afterpay Option will be treated (as set out in section 4.11(b) of this Scheme Booklet), the Co-CEO Options held by Anthony Eisen and Nick Molnar will vest immediately following the Effective Date on a "pro rata basis" based on the proportion of the then-current vesting period that has elapsed at the Effective Date (measured based on the number of completed months). Assuming the Effective Date is 10 December 2021, this means that approximately 242,654 Co-CEO Options in aggregate will vest and become exercisable into Afterpay Shares. Based on the implied value of the Scheme Consideration as at 29 October 2021, being A$126.39 per Afterpay Share, and taking into account the exercise price of the Co-CEO Options, Anthony Eisen and Nick Molnar would each receive approximately $9,612,242 worth of Afterpay Shares issued as a result of the exercise of the Co-CEO Options. Any unvested Co-CEO Options remaining will be forfeited and, on the Implementation Date, Square will grant Square Options of comparable value to the forfeited Afterpay Options. For more information on the treatment of Afterpay Options refer to section 4.11(b) of the Scheme Booklet.

Afterpay Director	Position	Relevant Interest in Afterpay Shares	Number of unlisted options
Sharon Rothstein	Independent Non-Executive Director	3,350^	Nil
Dana Stalder	Independent Non-Executive Director	19,300	Nil

^ ATFPF (OTC US) – US traded depositary receipt shares that were purchased on the over the counter market in the US.

Afterpay Directors who hold Afterpay Shares will be entitled to vote at the Scheme Meeting and receive the Scheme Consideration along with all other Afterpay Shareholders.

Each Afterpay Director states that he or she intends to vote, or cause to be voted, all Afterpay Shares held or controlled by them, or on their behalf, in favour of the Scheme, in the absence of a Superior Proposal.[2]

10.2. Interests in Square held by Afterpay Directors

No Afterpay Director holds any interest in a Square Member.

No Afterpay Director acquired or disposed of a Relevant Interest in any shares in a Square Member in the 4 month period ending on the date immediately before the date of this Scheme Booklet.

10.3. Interests held by Afterpay Directors in Contracts of a Square Member

No Afterpay Director has an interest in any contract entered into by a Square Member.

10.4. Other Interests of Afterpay Directors

Save as noted above and as set out in section 10.5 below, no Afterpay Director has any other interest, whether as a director, member or creditor of Afterpay or otherwise, which is material to the Scheme, other than in their capacity as a holder of Afterpay Securities.

10.5. Agreements or Arrangements with Afterpay Directors

Save as noted above, there is no agreement or arrangement made between any Afterpay Director and any other person, including a Square Member, in connection with or conditional upon the outcome of the Scheme.

2. You should note that when considering this recommendation that the two of the Afterpay Directors (being Co-CEOs and Managing Directors, Anthony Eisen and Nick Molnar) have previously been issued options under the Afterpay equity incentive plan. As contemplated by the terms of the Scheme Implementation Deed, Mr Eisen and Mr Molnar will each be receiving a benefit if the Scheme proceeds. A pro rata portion of the unvested options they hold will be accelerated and the balance will be forfeited and converted into a Square award as contemplated in Section 4.11 of this Scheme Booklet. These arrangements are described in more detail in Sections 4.10, 4.11 and 10.1. The benefit to each of Anthony Eisen and Nick Molnar in respect of their Co-CEO Options is estimated to be approximately $9,612,242. See footnote 1 in section 10.1 for further information.

   Despite this interest in the outcome of the Scheme, each of Anthony Eisen and Nick Molnar, considers that, given the importance of the Scheme, and their role as directors of Afterpay, it is important and appropriate for them to provide a recommendation to shareholders in relation to voting on the Scheme. The Afterpay Board (excluding Anthony Eisen and Nick Molnar) also considers that it is appropriate for them to make a recommendation on the Scheme given their role in the management and operation of Afterpay.

For personal use only

For personal use only

10.6. Payments and other Benefits to Directors, Secretaries or Executive Officers of Afterpay

The table below lists the payments and other benefits of Afterpay Directors, secretaries or executive officers as at the date of this Scheme Booklet.

Name	Position	Number and type of security
Rebecca Lowde	CFO	4,282 CFO Options^ 16,580 RSUs (unvested) 814 RSUs (vested)
Amanda Street	Company Secretary	2,106 RSUs

^ $78.87 each for the 4,282 CFO Options. The exercise price for the CFO Options was calculated based on the market value of Afterpay Shares equal to the 10 day VWAP in the period up to and including the date Rebecca Lowde commenced as CFO. The expiry date is 1 July 2025.

10.7. Top 20 Afterpay Shareholders

As at 29 October 2021, the top 20 Afterpay Shareholders in the Afterpay Share Register held approximately 86.19% of all issued Afterpay Shares.

Name	Number of Afterpay Shares	Percentage of issued Afterpay Shares
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	71,380,783	24.58
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	49,375,936	17.00
CITICORP NOMINEES PTY LIMITED	38,570,296	13.28
ANTHONY MATHEW EISEN	18,505,963	6.37
NICHOLAS MOLNAR PTY LTD <NICHOLAS DAVID FAMILY A/C>	17,005,963	5.86
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	11,827,622	4.07
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	6,322,115	2.18
CLEEVECORP PTY LTD	5,267,000	1.81
NATIONAL NOMINEES LIMITED	5,203,151	1.79
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	4,251,397	1.46
CITICORP NOMINEES PTY LIMITED <CITIBANK NY ADR DEP A/C>	3,593,196	1.24
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <GSCO CUSTOMERS A/C>	2,806,498	0.97
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	2,511,786	0.86
BNP PARIBAS NOMS PTY LTD <DRP>	2,395,398	0..82
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	2,224,616	0.77
BNP PARIBAS NOMS PTY LTD BP2S PROPLEND ASSETS <DRP A/C>	1,972,868	0.68
NATIONAL NOMINEES LIMITED <N A/C>	1,917,597	0.66
ATC CAPITAL PTY LTD	1,892,304	0.65
BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C>	1,757,549	0.61
BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	1,523,941	0.52

For personal use only

10.8. Afterpay's Substantial Holders

The substantial holders of Afterpay Shares as at 15 October 2021 are as follows:

Name	Number of Afterpay Shares	Voting interest at time of notice %
Anthony Eisen	19,408,463	6.69
Nicholas Molnar	19,408,463	6.69
Vanguard Group	18,658,783	6.43
Blackrock Group	15,165,738	5.23

The shareholdings listed in this section 10.8 are as disclosed to Afterpay by the shareholders in substantial holding notices or otherwise. Information in regard to substantial holdings arising, changing or ceasing after this time or in respect of which the relevant announcement is not available on ASX website is not included above.

10.9. Warranty by Scheme Shareholders about their Afterpay Shares

The effect of clause 5.6 of the Scheme is that all Scheme Shareholders, including those who vote against the Scheme and those who do not vote, will be deemed to have warranted to Square on the Implementation Date that:

(a) all their Scheme Shares (including any rights and entitlements attaching to their Scheme Shares) transferred to Square Acquirer under the Scheme will, as at the date of the transfer, be fully paid and free from all:

  (i) security for the payment of money or performance of obligations, including mortgages, charges, liens, pledges, trusts, powers or title retentions or flawed deposit arrangements and any security interests (including any 'security interests' within the meaning of section 12(1) or (2) of the Personal Properties Securities Act 2009 (Cth)), right of first refusals, pre-emptive rights; and

  (ii) any similar restrictions, or any agreements to create any of them or allow them to exist; and

(b) they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those shares) to Square Acquirer under this Scheme.

Clause 5.6 of the Scheme is set out in Attachment A to this Scheme Booklet.

For personal use only

10.10. Consents and Disclaimers

The following parties have given, and have not withdrawn before the date of this Scheme Booklet, their consent to:

- be named in this Scheme Booklet in the form and context in which they are named;
- the inclusion of their respective reports or statements noted next to their names or the references to those reports or statements in the form and context in which they are included in this Scheme Booklet; and
- the inclusion of other statements in this Scheme Booklet which are based on or referable to other statements made by those persons in the form and context in which they are included:

Name of person	Named as	Reports or Statements
Square, Inc.	Square	Square Information
Gilbert + Tobin	Australian legal adviser to Afterpay	–
Cravath, Swaine & Moore LLP	US legal adviser to Afterpay	–
Goldman Sachs	Financial adviser to Afterpay	–
Qatalyst Partners	Financial adviser to Afterpay	–
Highbury Partnership	Financial adviser to Afterpay's Board	–
Lonergan Edwards & Associates	Independent Expert	Independent Expert's Report set out in Attachment C
Computershare Investor Services Pty Limited	Afterpay Share Registry	–
PwC	Australian tax adviser to Afterpay	–
Ernst & Young Strategy and Transactions Limited	Investigating Accountant	Independent Limited Assurance Report set out in Attachment D
Ernst & Young	Provider of financial due diligence services and auditor of Afterpay	–
Ernst & Young LLP	Independent Registered Public Accounting Firm for Square	–

Each of the above persons:

- does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than a statement or report included in this Scheme Booklet with the consent of that party; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Scheme Booklet, other than, in the case of:
  - Square;
  - the Independent Expert; or
  - Ernst & Young Strategy and Transactions Limited in respect of its Independent Limited Assurance Report set out in Attachment D,

  a statement or report included in this Scheme Booklet with the consent of that party as listed in the table above.

Square has given, and has not withdrawn before the date of this Scheme Booklet, its consent to be named in this Scheme Booklet in the form and context in which it is named and to the inclusion of the Square Information, on the basis set out in the 'Responsibility for Information' statement contained in the 'Important Notices and Disclaimers' included at the start of this Scheme Booklet.

For personal use only

10.11. Adviser Fees

Each of the persons named in this section as performing a function in a professional, advisory or other capacity in connection with the Scheme or the preparation or distribution of this Scheme Booklet will be entitled to receive professional fees charged in accordance with their normal basis of charging.

If the Scheme is implemented, Afterpay expects to pay an aggregate of approximately A$155 million (excluding GST) in transaction costs, which includes:

- fees and expenses for professional services paid or payable to:
  - Goldman Sachs for acting as financial adviser to Afterpay;
  - Qatalyst Partners for acting as financial adviser to Afterpay;
  - Highbury Partnership for acting as financial adviser to Afterpay's board;
  - Gilbert + Tobin for acting as legal adviser to Afterpay;
  - Cravath, Swaine & Moore LLP for acting as US legal adviser to Afterpay;
  - PwC for acting as Australian tax adviser to Afterpay;
  - Ernst & Young Strategy and Transactions Limited for acting as Investigating Accountant;
  - Ernst & Young for acting as provider of financial due diligence services;
  - Computershare Investor Services Pty Limited for acting as the Afterpay Share Registry; and
  - Lonergan Edwards & Associates Limited for acting as Independent Expert;
- other fees and expenses associated with the Court proceedings, Scheme Booklet design, printing and distribution, convening and holding the Scheme Meeting and other general and administrative expenses.

If the Scheme is not implemented, Afterpay expects to pay an aggregate of approximately A$25 million (excluding GST) in transaction costs, being costs that have already been incurred as at the date of this Scheme Booklet or will be incurred even if the Scheme is not implemented (but excluding any break fee that may be payable).

10.12. Regulatory Consents – ASX Relief

Afterpay has applied for, and ASX has granted, confirmations and waivers in relation to the following Listing Rules as they apply to Afterpay:

- confirmation under Listing Rule 15.1.3 that ASX does not object to the draft Scheme Booklet;
- a waiver from ASX Listing Rule 6.23.2 to enable the Afterpay Group to cancel the unvested portion of each Afterpay Equity Award in consideration for a Square award of the same character and comparable value to the forfeited corresponding Afterpay Equity Award; and
- a waiver from ASX Listing Rule 7.40 in relation to the timetable for the implementation of the Scheme.

Square intends to submit an application for admission to the official list of ASX as a Foreign Exempt Listing on or around the date of this Scheme Booklet, with such listing to be conditional on the Scheme being implemented.

10.13. Documents Available

An electronic version of this Scheme Booklet including the Independent Expert's Report and the Scheme Implementation Deed are available for viewing and downloading online at Afterpay's website at https://corporate.afterpay.com/.

10.14. Continuous Disclosure

Afterpay is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules. Afterpay has an obligation (subject to limited exceptions) to notify ASX immediately upon becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of Afterpay Shares.

Copies of documents filed with ASX may be obtained from ASX's website (www.asx.com.au).

In addition, Afterpay is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC in relation to Afterpay may be obtained from, or inspected at, an ASIC office.

For personal use only

10.15. Directors' Statements

The issue of this Scheme Booklet has been unanimously authorised by the Afterpay Board.

The Afterpay Board has given (and not withdrawn) its consent to lodgement of this Scheme Booklet with ASIC.

10.16. Supplementary Information

If Afterpay becomes aware of any of the following between the date of lodgement of this Scheme Booklet for registration with ASIC and the Court Approval Date:

- a material statement in this Scheme Booklet is false or misleading in a material respect;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter in this Scheme Booklet has occurred; or
- a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if known about at the date of lodgement with ASIC,
- depending on the nature and timing of the changed circumstances, and subject to obtaining any relevant approvals, Afterpay may circulate and publish any supplementary document by:
- making an announcement to ASX;
- posting the supplementary document to Afterpay Shareholders at their registered address as shown in the Register; or
- posting a statement on Afterpay's website at https://corporate.afterpay.com/,

as Afterpay in its absolute discretion considers it appropriate.

ASIC will be provided with an opportunity to review and comment on any supplementary documents prior to their issue by Afterpay.

10.17. No Unacceptable Circumstances

The Afterpay Board believes that the Scheme does not involve any circumstances in relation to the affairs of Afterpay that could reasonably be characterised as constituting unacceptable circumstances for the purposes of section 657A of the Corporations Act.

10.18. Other

(a) Lodgement of Scheme Booklet with ASIC

A draft copy of this Scheme Booklet was lodged with ASIC on 11 October 2021 in accordance with section 411(2)(b) of the Corporations Act.

(b) Other material information

Otherwise than as contained or referred to in this Scheme Booklet, including the Independent Expert's Report and the information that is contained in the Attachments to this Scheme Booklet, there is no other information that is material to the making of a decision by a Afterpay Shareholder whether or not to vote in favour of the Scheme Resolution to approve the Scheme, being information that is known to any Afterpay Director and which has not previously been disclosed to Afterpay Shareholders.

For personal use only

Section 11

Glossary

In this Scheme Booklet unless the context otherwise requires:

£ means Great Britain Pound.

2009 Plan means the Square 2009 Stock Plan.

2015 Plan means the Square 2015 Equity Incentive Plan, as amended and restated.

AASB means the Australian Accounting Standards Board.

ACCC means the Australian Competition and Consumer Commission.

Active customers means customers who have transacted at least once in the last 12 months.

Active merchants means merchants who have transacted at least once in the last 12 months.

Advisory Board means the Afterpay US Advisory Board.

AFSL means Australian Financial Services Licence.

Afterpay means Afterpay Limited (ACN 618 280 649).

Afterpay App means the mobile application produced by Afterpay.

Afterpay Board means the board of directors of Afterpay.

Afterpay Competing Transaction means an offer, proposal, transaction or arrangement (whether by way of stock purchase, tender offer, exchange offer, merger, consolidation, share exchange, business combination, joint venture, reorganisation, recapitalisation, takeover bid, scheme of arrangement, capital reduction, buy back, sale, lease or assignment of assets, sale or issue of securities, reverse takeover bid, dual listed company structure (or other synthetic merger), deed of company arrangement, debt for equity arrangement or otherwise), or a series of any of the foregoing (other than the Scheme), which, if completed, would mean:

(a) the Afterpay Shareholders immediately prior to such transaction do not own more than 80% of the voting power of securities of the resulting entity or its ultimate parent;

(b) a person (other than Square or its Related Bodies Corporate), whether alone or together with its associates, would:

  (i) directly or indirectly acquire a Relevant Interest in or become the holder of 20% or more of the Afterpay Shares (other than as custodian, nominee or bare trustee);

  (ii) acquire control of Afterpay, within the meaning of section 50AA of the Corporations Act; or

  (iii) directly or indirectly acquire, obtain a right to acquire, or otherwise obtain an interest in (including through any license arrangement) 20% or more of the consolidated assets of the Afterpay Group; or

(c) Square would be required to abandon, or otherwise fail to proceed with, the Scheme.

For personal use only

Afterpay Constitution means the constitution of Afterpay.

Afterpay Director or **your director** means a director of Afterpay as at the date of this Scheme Booklet.

Afterpay Employee Incentive means an Afterpay Security issued under an Afterpay Employee Incentive Plan.

Afterpay Employee Option means an option to purchase Afterpay Shares issued under an Afterpay Employee Incentive Plan operated by the Afterpay Group.

Afterpay Employee Plan means any plan, program, policy, contract, agreement or other arrangement providing for compensation (except salaries and hourly wages), bonus pay, severance, benefits, termination pay, change in control pay, deferred compensation, performance awards, stock or stock-related awards, phantom stock, commission, vacation, profit sharing, pension benefits, welfare benefits, fringe benefits or other employee benefits (except salaries and hourly wages) of any kind, funded or unfunded, including each "employee benefit plan," within the meaning of section 3(3) of ERISA (whether or not subject to ERISA) which is maintained, contributed to, or required to be contributed to, by the Afterpay Group for the benefit of any current or former Afterpay director, officer, employee or other service provider or with respect to which the Afterpay Group has any direct or indirect liability; provided, however, that the term "Afterpay Employee Plan" shall not include any plans, programs, policies, contracts, agreements or other arrangements sponsored or maintained by a Governmental Authority.

Afterpay Group means Afterpay and its Subsidiaries, and **Afterpay Group Member** means any of those entities comprising the Afterpay Group.

Afterpay Historical Financial Information has the meaning given in section 4.6.

Afterpay Historical Income Statements has the meaning given in section 4.6.

Afterpay Historical Statement of Financial Position has the meaning given in section 4.6.

Afterpay Historical Cash Flow Statements has the meaning given in section 4.6.

Afterpay Information means all information contained in this Scheme Booklet (other than the Square Information, the Independent Expert's Report and the Independent Limited Assurance Report).

Afterpay Material Adverse Effect means any event, matter or circumstance which has, or would be reasonably likely to have, either individually or when aggregated with any other events, matters or circumstances, a material adverse effect on the assets and liabilities (taken as a whole), financial condition, business or results of operations of the Afterpay Group (taken as a whole) but does not include events, matters or circumstances to the extent resulting from or arising out of:

(a) any matter Disclosed to Square;

(b) changes in general economic, industry, regulatory or political conditions, the securities or other capital markets in general or law;

(c) any epidemic, pandemic (including COVID-19 or COVID-19 Measures), hurricane, earthquake, flood, weather conditions, calamity or other natural disaster, act of God or other force majeure event (or any worsening of or recovery from any of the foregoing);

(d) geopolitical conditions, hostilities, civil or political unrest, any acts of war, sabotage, cyberattack or terrorism (including any outbreak, escalation or worsening of any of the foregoing);

(e) any change in taxation rates, interest rates or exchange rates;

(f) any change in generally accepted accounting principles or the authoritative interpretation of them;

(g) the taking of any action required under the Scheme Implementation Deed, the Scheme or the transactions contemplated by them (other than, to the extent not excluded by another clause of this definition, Afterpay's compliance with its obligations pursuant to clause 8 of the Scheme Implementation Deed);

(h) any change in the market price or trading volume of Afterpay Shares (but this exception will not prevent the underlying cause or contributing factor of any such change, if not falling within any other exception in this definition, from being taken into account in determining whether there has been an Afterpay Material Adverse Effect);

(i) any failure, in and of itself, by Afterpay or a member of the Afterpay Group to meet any internal or published projections, forecasts, estimates or predictions of revenues, earnings or other financial or operating metrics for any period (but this exception will not prevent the underlying cause or contributing factor of any such failure, if not falling within any other exception in this definition, from being taken into account in determining whether there has been an Afterpay Material Adverse Effect);

For personal use only

(j) the execution, delivery or performance of the Scheme Implementation Deed, the announcement or pendency of the Scheme or the other transactions contemplated by the Scheme Implementation Deed (including the impact of any of the foregoing on the relationship of Afterpay or a member of the Afterpay Group with their respective employees, customers, creditors, suppliers or contractual counterparties), provided that this clause (j) shall not apply with respect to any representation or warranty that addresses the consequences of the execution, delivery or performance of the Scheme Implementation Deed or the announcement or pendency of the Scheme or the other transactions contemplated by the Scheme Implementation Deed or with respect to the Conditions Precedent that relate to such representations or warranties;

(k) the identity of, or any facts or circumstances relating to, Square or any member of the Square Group;

(l) any actions, suits or claims arising from allegations of a breach of fiduciary duty or violation of securities laws, in each case relating to the Scheme Implementation Deed, the Scheme or the transactions contemplated by the Scheme Implementation Deed; or

(m) any action (or the failure to take any action) with the written consent or at the written request of Square;

except, in the case of each of the foregoing clauses (b), (c), (d), (e) and (f), if the effects of such events, matters or circumstances are disproportionately adverse to the Afterpay Group as compared to the effects on other companies in the industry in which the Afterpay Group operates, and then solely to the extent of such disproportionate effect.

Afterpay Minority Interests means the Matrix Convertible Notes, the Clearpay Call Option, SGX Convertible Notes and the Pagantis Convertible Note.

Afterpay Prescribed Event means, except to the extent contemplated by the Scheme Implementation Deed or the Scheme, any of the following events:

(a) **(conversion) Afterpay** converts all or any of its shares into a larger or smaller number of shares;

(b) **(reduction of share capital)** Afterpay or another member of the Afterpay Group (other than a wholly owned Subsidiary of Afterpay) resolves to reduce its share capital in any way or resolves to reclassify, combine, split or redeem or repurchase directly or indirectly any of its shares, other than (i) any actions taken to comply with clause 4.8(a) of the Scheme Implementation Deed or as required pursuant to an Afterpay Employee Plan, (ii) as a result of the forfeiture or exercise of any Employee Share Rights (including the withholding of shares to satisfy any exercise price or Tax liability), or (iii) to the extent required by a Minority Interest in accordance with its terms or actions taken in compliance with clause 5.10 of the Scheme Implementation Deed;

(c) **(buy-back)** Afterpay or another member of the Afterpay Group (other than a wholly owned Subsidiary of Afterpay):

  (i) enters into a buy-back agreement; or

  (ii) resolves to approve the terms of a buy-back agreement under the Corporations Act;

(d) **(distribution)** Afterpay makes or declares, or announces an intention to make or declare, any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie);

(e) **(issuing or granting shares or options)** any member of the Afterpay Group:

  (i) issues shares;

  (ii) grants an option over its shares; or

  (iii) agrees to make an issue of or grant an option over shares,

  in each case to a person that is not Afterpay or a wholly owned Subsidiary of Afterpay other than (A) actions taken to comply with clause 4.8(a) of the Scheme Implementation Deed, required pursuant to an Afterpay Employee Plan or in accordance with clause 7.9 of the Scheme Implementation Deed, (B) the issuance of shares in connection with the exercise or vesting of any Employee Share Rights in the ordinary course in accordance with their terms as of the date of the Scheme Implementation Deed or as modified not in breach of the Scheme Implementation Deed, (C) the issuance of securities in connection with employee incentives that are not in breach of clause 8.3(h) of the Scheme Implementation Deed, or (D) to the extent required by a Minority Interest in accordance with its terms or actions taken in compliance with clause 5.10 of the Scheme Implementation Deed;

For personal use only

(f) **(securities or other instruments)** any member of the Afterpay Group issues or agrees to issue securities or other instruments convertible into shares in each case to a person that is not Afterpay or a wholly owned Subsidiary of Afterpay other than (i) actions taken to comply with clause 4.8(a) of the Scheme Implementation Deed, required pursuant to an Afterpay Employee Plan or in accordance with clause 7.9 of the Scheme Implementation Deed, (ii) the issuance of securities in connection with employee incentives that are not in breach of clause 8.3(h) of the Scheme Implementation Deed, or (iii) of the Scheme Implementation Deed to the extent required by a Minority Interest in accordance with its terms or actions taken in compliance with clause 5.10 of the Scheme Implementation Deed;

(g) **(constitution)** Afterpay or any non-wholly owned Subsidiary of Afterpay adopts a new constitution or modifies or repeals its constitution or a provision of it;

(h) **(acquisitions, disposals or tenders)** any member of the Afterpay Group:

(i) acquires or disposes of;

(ii) agrees to acquire or dispose of; or

(iii) offers, proposes, announces a bid or tenders for,

any business, entity or undertaking or assets comprising a business (A) (x) in the case of disposals, the value of which exceeds A$20 million individually or in the aggregate or (y) in the case of acquisitions, bids or tenders, the value of which exceeds A$20 million individually or in the aggregate, or (B) where that acquisition, disposal, bid or tender will or is reasonably likely to have a material adverse effect on the Timetable or the prospects of obtaining any Regulatory Approval;

(i) **(encumbrances)** any member of the Afterpay Group creates, or agrees to create, any Encumbrance over or declares itself the trustee of all or a material part of the Afterpay Group's business or property;

(j) **(merger)** (i) Afterpay or (ii) any material member of the Afterpay Group merges or consolidates with any other person (other than, in the case of clause (ii) Afterpay or a wholly owned Subsidiary of Afterpay) or restructures, reorganises or completely or partially liquidates or dissolves;

(k) [reserved];

(l) **(Insolvency)** Afterpay or any of its material Related Bodies Corporate becomes Insolvent,

provided that an Afterpay Prescribed Event will not include any matter:

(i) Disclosed to Square;

(ii) required by law, regulation, changes in generally accepted accounting principles in Australia or by an order of a court or Governmental Authority;

(iii) made at the written request of Square; or

(iv) the undertaking of which Square has approved in writing (which approval will not be unreasonably withheld, delayed or conditioned, and will not be withheld if to do so would contravene competition laws).

Afterpay RSU Award each restricted stock unit or performance right corresponding to Afterpay Shares issued under an Afterpay Employee Incentive Plan.

Afterpay Securities means any securities issued by the Afterpay Group, including Afterpay Shares, Afterpay Employee Options, Afterpay UK Options, Afterpay US Employee Options, and Afterpay US Shares.

Afterpay Share means a fully paid ordinary share issued in the capital of Afterpay.

Afterpay Share Price means the price of Afterpay Shares as quoted on ASX in AUD.

Afterpay Shareholder Information Line means the information line set up for the purpose of answering enquiries from Afterpay Shareholders in relation to the Scheme, being on 1300 229 418 (within Australia) or +61 2 9066 4051 (outside Australia) Monday to Friday (excluding public holidays in Australia) between 9.00am and 5.00pm (AEDT)

Afterpay Shareholders means each person who is registered in the Register of Afterpay as the holder of Afterpay Shares.

Afterpay Share Register means the register of the members of Afterpay maintained in accordance with the Corporations Act.

Afterpay Share Registry means Computershare Investor Services Pty Limited.

Afterpay UK Option means an option to acquire a share in Clearpay issued under an Afterpay Employee Incentive Plan.

For personal use only

Afterpay US Employee Option means an option to purchase Afterpay US Shares issued under an Afterpay Employee Incentive Plan.

Afterpay US Share means a share in the capital of Afterpay US.

Afterpay US means Afterpay US, Inc.

AML means anti-money laundering.

API means application programming interface.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691 or, as the context requires, the financial market operated by it.

ASX Listing Rules means the official listing rules, from time to time, of ASX.

ASX Official List means the official list of the entities that ASX has admitted and not removed.

ASX Settlement Operating Rules means the operating rules of the clearing and settlement facility provided by ASX Settlement Pty Limited (ABN 49 008 504 532).

Attachment means an attachment to this Scheme Booklet.

ATO means the Australian Taxation Office.

AUD, A$ means Australian dollars.

Australian Admission means the admission of Square to the ASX Official List as an ASX foreign exempt listing and the official quotation of all New Square CDIs on ASX.

BNPL means buy now, pay later.

BNZ means Bank of New Zealand.

Break Fee means an amount equal to A$385 million.

Business Day means a business day as defined in the Listing Rules; provided that such day is neither:

(a) a day on which the banks in Sydney, New South Wales, Australia, are authorised or required to close, nor

(b) a day on which the Banks in San Francisco, California, United States of America, are authorised or required to close.

Bylaws means the Amended and Restated Bylaws of Square.

CAGR means compound annual growth rate.

Cash App means each of:

(a) the Cash App mobile application produced by Square;

(b) Square's Cash App operating and reportable business segment; and

(c) relating to the provision by Square of financial services to support individuals in managing their money through Cash App (the Cash App ecosystem), as described in section 5.2.

Cash App Investing means Cash App Investing LLC.

Cash Boost means Square's rewards program for Cash App customers, as described in section 5.4(b)(ii)(B).

Cash Card means a debit card linked directly to a customer's Cash App balance.

Cash Election means the change in Scheme Consideration to the Cash Election Payment for each Afterpay Share; plus either:

(a) where that Scheme Participant is a Share Elected Shareholder, 0.37125 New Square Shares; or

(b) where that Scheme Participant is a CDI Elected Shareholder, 0.37125 New Square CDIs.

Cash Election Payment means an amount in cash, in Australian dollars (rounded to the nearest whole cent), equal to the product of (w) 0.01, (x) the Square VWAP, (y) 0.375 and (z) the exchange rate of 1 US dollar into 1 Australian dollar as of 4:00 p.m. New York time on the Determination Date, as calculated by Bloomberg L.P. or, if not reported therein, another authoritative source mutually selected by the parties.

CDI means a CHESS Depositary Interest, being a unit of beneficial interest in shares of a foreign registered company, registered in the name of the CDI Nominee, or held in the form of beneficial ownership.

For personal use only

CDI Election means a valid election for New Square CDIs made by a Scheme Shareholder whose registered address on the Afterpay Register as at the Record Date is not in Australia or New Zealand (other than an Ineligible Foreign Shareholder) pursuant to the terms of the Scheme.

CDI Election Form means an Election Form for a CDI Election.

CDI Nominee means CHESS Depositary Nominees Pty Limited (ACN 071 346 506).

Certificate of Incorporation means the Amended and Restated Certificate of Incorporation of Square.

CGT means capital gains tax.

CHESS means the Clearing House Electronic Subregister System or share transfers operated by ASX Settlement and Transfer Corporation Pty Ltd.

Clearpay means Clearpay Finance Limited.

Clearpay Call Option has the meaning given to that term in section 4.13(b).

Computershare means Computershare Investor Services Pty Limited (ABN 48 078 279 277)

Combined Group means the combined Afterpay Group and Square Group following implementation of this Scheme.

Combined Group Pro Forma Historical Financial Information has the meaning given in section 6.8(a).

Combined Group Pro Forma Historical Income Statements has the meaning given in section 6.8(a).

Combined Group Pro Forma Historical Cash Flows has the meaning given in section 6.8(a).

Combined Group Pro Forma Historical Statement of Financial Position has the meaning given in section 6.8(a).

Conditions Precedent means the conditions precedent to the Scheme as set out in section 3.11(a).

Core Business means customer finance, retail and retail purchase financing.

Corporations Act means the *Corporations Act 2001* (Cth), as amended from time to time.

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

Court means the Supreme Court of New South Wales or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Afterpay and Square.

Court Approval Date means the date when the Court grants its approval to the Scheme under section 411(4) of the Corporations Act.

COVID-19 means SARS-CoV-2 or COVID-19, and any evolutions or mutations thereof (including any subsequent waves or outbreaks thereof).

COVID-19 Measures means any quarantine, "shelter in place", "stay at home", workforce reduction, social distancing, shut down, closure, sequester, safety or similar laws, rules, regulations, directives, guidelines or recommendations promulgated by any Governmental Authority of competent jurisdiction, including the US Centres for Disease Control and Prevention, the Australian Government Department of Health and the World Health Organization in connection with or in response to COVID-19.

CRM means customer relationship management.

Deed Poll means the deed poll in the form of Attachment B to this Scheme Booklet, executed by Square and Square Acquirer in favour of Scheme Shareholders.

Determination Date means the trading day on NYSE determined in good faith by the parties such that the time period from the Determination Date to the Implementation Date is minimised to the extent reasonably practicable, provided that the Determination Date shall be no earlier than the fifteenth trading day and no later than the fourth trading day immediately preceding the Implementation Date.

DGCL means the Delaware General Corporation Law.

For personal use only

Disclosed means fully and fairly disclosed, with sufficient detail and context as to enable a sophisticated investor entering into a transaction of the nature contemplated by the Scheme Implementation Deed to understand the nature, scope and financial significance of the relevant matter, event or circumstance:

(a) in the case of Afterpay:
  (i) in the Afterpay Disclosure Materials; or
  (ii) in any announcement made by Afterpay on ASX prior to the date of the Scheme Implementation Deed (other than any forward looking, projected or hypothetical information); and

(b) in the case of Square:
  (i) in the Square Disclosure Materials; or
  (ii) in any statement, prospectus, report, schedule or another form filed with or furnished to the SEC by Square pursuant to the Securities Act or the Exchange Act prior to the date of the Scheme Implementation Deed (other than any forward looking, projected or hypothetical information).

DRS means the Direct Registration System, which allows registered securities to be held in electronic book-entry form without having a physical security certificate issued as evidence of ownership.

Duty means any stamp, transaction or registration duty or similar charge which is imposed by any Governmental Authority and includes any associated interest, penalty, charge or other amount which is imposed.

Effective, when used in relation to the Scheme, means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

Effective Date means the date on which the Scheme becomes Effective.

Election Date means the 4th Business Day before the Record Date or such other date as agreed in writing by Afterpay and Square.

Election Form means the CDI Election Form or Share Election Form to be completed by a Scheme Shareholder (other than an Ineligible Foreign Shareholder) who wishes to make a CDI Election or Share Election (as applicable).

Election Withdrawal Form means the form to be completed by Scheme Shareholders (excluding Ineligible Foreign Shareholders) who have made a Share Election or CDI Election (as applicable) who wishes to withdraw that Share Election or CDI Election (as applicable).

Employee Share Right means a share, a right to acquire a share or a right, the value of which corresponds to a share, issued under an employee incentive plan operated by the Afterpay Group.

EMV means Europay, Mastercard and Visa.

End Date means the date that is 12 months after the date of the Scheme Implementation Deed (2 August 2021) or any other date agreed in writing by Square and Afterpay.

ERISA means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

Ernst & Young Strategy and Transactions means Ernst & Young Strategy and Transactions Limited.

ERP means enterprise relationship management.

ESPP means the Square 2015 Employee Stock Purchase Plan.

ETF means exchange-traded fund.

Exchange Act means the US Securities Exchange Act of 1934, as amended.

Exclusivity Period means the period from and including the date of the Scheme Implementation Deed to the termination of the Scheme Implementation Deed.

FDIC means Federal Deposit Insurance Corporation.

FINRA means Financial Industry Regulatory Authority.

FIRB means the Foreign Investment Review Board.

Foreign Exempt Listing means the admission of a company to the official list of ASX as an 'ASX Foreign Exempt Listing' pursuant to Listing Rule 1.11.

FY19 means the 12 months ended 30 June 2019.

For personal use only

FY20 means the 12 months ended 30 June 2020.

FY21 means the 12 months ended 30 June 2021.

GPV means Gross Payment Volume.

Governmental Authority means:

(a) any supranational, national, federal, state, county, municipal, local, provincial or foreign government or any entity exercising executive, legislative, judicial, arbitral, regulatory, taxing, or administrative functions of or pertaining to government;

(b) any public international governmental organisation;

(c) any agency, division, bureau, department, committee, or other political subdivision of any government, entity or organisation described in the foregoing clauses (a) or (b) of this definition (including patent and trademark offices); or (d) quasi-governmental, self-regulatory agency, commission or authority, including any national securities exchange or national quotation system,

and includes ASX, ACCC, ASIC, the Takeovers Panel, FIRB, OIO, the Australian Taxation Office, Bank of Spain, Spain FDI Authority, Department of Justice, US Federal Trade Commission and any state or territory revenue offices.

GST means a goods and services tax or similar value added tax levied or imposed under the GST Law.

GST Law has the meaning given to it in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

Headcount Test has the meaning given to it in section 3.3(b) of this Scheme Booklet.

HIN means Holder Identification Number.

HSR Act means the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

IFRS means International Financial Reporting Standards issued by the International Accounting Standards Board.

Implementation Date means the fifth Business Day after the Record Date or such other date as Afterpay and Square may agree in writing.

Independent Expert means the expert appointed by Afterpay, being Lonergan Edwards & Associates Limited.

Independent Expert's Report means the report prepared by the Independent Expert, a copy of which is set out in Attachment C to this Scheme Booklet.

Independent Limited Assurance Report means the report prepared by the Investigating Accountant, a copy of which is set out in Attachment D to this Scheme Booklet.

Ineligible Foreign Shareholder means an Afterpay Shareholder whose address shown in the Register is a place outside Australia and its external territories, Canada, Hong Kong, New Zealand, Singapore, Switzerland, United Kingdom and the United States or who is acting on behalf of such a person, unless Square or Square Acquirer determines that:

(a) it is lawful and not unduly onerous or unduly impracticable to issue that Afterpay Shareholder with the New Square Shares or New Square CDIs on implementation of the Scheme; and

(b) it is lawful for that Afterpay Shareholder to participate in the Scheme by the law of the relevant place outside Australia and its external territories, Canada, Hong Kong, New Zealand, Singapore, Switzerland, United Kingdom and the United States.

Intervening Event means an event, matter or circumstance that is material to the Square Group (taken as a whole) and that (a) was not known or reasonably foreseeable to the Square Board as of or prior to the date of the Scheme Implementation Deed and (b) does not relate to or involve (i) any Square Competing Transaction or any inquiry or communications relating thereto or any matter relating thereto or consequence thereof or (ii) any change in the price or trading volume of the Afterpay Shares, Square Shares or any other securities of Afterpay, Square or any of their respective Subsidiaries (provided that the underlying causes of such changes may constitute, or be taken into account in determining whether there has been, an Intervening Event).

For personal use only

A person is **Insolvent** if:

(a) it is (or states that it is) an insolvent under administration or insolvent (each as defined in the Corporations Act);

(b) it is in liquidation, in provisional liquidation, under administration or wound up or has had a Controller appointed to any part of its property;

(c) it is subject to any arrangement (including a deed of company arrangement or scheme of arrangement), assignment, moratorium, compromise or composition, protected from creditors under any statute or dissolved (in each case, other than to carry out a reconstruction or amalgamation while solvent on terms approved by the other parties to the Scheme Implementation Deed);

(d) an application or order has been made (and in the case of an application which is disputed by the person, it is not stayed, withdrawn or dismissed within 14 days), resolution passed, proposal put forward, or any other action taken, in each case in connection with that person, which is preparatory to or could result in any of the things described in any of the above paragraphs;

(e) it is taken (under section 459F(1) of the Corporations Act) to have failed to comply with a statutory demand;

(f) it is the subject of an event described in section 459C(2)(b) or section 585 of the Corporations Act (or it makes a statement from which another party to the Scheme Implementation Deed reasonably deduces it is so subject);

(g) it is otherwise unable to pay its debts when they fall due; or

(h) something having a substantially similar effect to any of the things described in the above paragraphs happens in connection with that person under the law of any jurisdiction.

Instant Transfer has the meaning given in section 5.4(a)(ii)(F).

Investigating Accountant means Ernst & Young Strategy and Transactions Limited.

ISO means incentive stock options.

Listing Rules means:

(a) in respect of Afterpay, the Listing Rules of ASX and any other applicable rules of ASX modified to the extent of any express written waiver by ASX; or

(a) in respect of Square, the applicable rules contained in the NYSE Listed Company Manual,

as the context requires.

Matrix Convertible Notes has the meaning given in section 4.13(a).

NAB means National Australia Bank.

New Square CDI means a CDI in respect of a New Square Share registered in the name of the CDI Nominee to be issued under the Scheme as Scheme Consideration.

New Square Securities means New Square Shares or New Square CDIs (as applicable) to be issued as Scheme Consideration.

New Square Share means a fully paid Square Class A Share to be issued under the terms of the Scheme as Scheme Consideration.

NFC means near-field communication.

Notice of Scheme Meeting means the notice set out in Attachment E to convene the Scheme Meeting.

NSO means non-statutory stock options.

NZ means New Zealand.

NZ$ means New Zealand dollars.

NZ OIO means New Zealand Overseas Investment Office.

NYSE means the New York Stock Exchange.

Officer has the meaning given to that term in section 9 of the Corporations Act.

Pagantis Convertible Note has the meaning given in section 4.13(c).

POS means point of sale.

PPP means the Paycheck Protection Program.

PPPLF means Paycheck Protection Program Liquidity Facility.

For personal use only

Proxy Form means the proxy form which accompanies this Scheme Booklet.

PS means performance share.

PSP means payment service provider.

PwC means PricewaterhouseCoopers.

Record Date means 7.00pm (AEDT) on the 25th Business Day following the Effective Date or any other date as agreed by Afterpay and Square.

Register means the register of Afterpay Shareholders kept by Afterpay and **Registry** means the manager from time to time of the Register (currently Computershare Investor Services Pty Limited).

Regulatory Approval means any approval of or notification to a Governmental Authority to the Scheme or any aspect of it, or the expiration of any waiting period required by the HSR Act or another applicable law, which Square and Afterpay agree is necessary or desirable to implement the Scheme.

Related Body Corporate has the meaning it has in the Corporations Act.

Relevant Interest has the same meaning as given by sections 608 and 609 of the Corporations Act.

Representatives means, in relation to a party:

(a) a Related Body Corporate;

(b) a director, officer or employee of the party or any of the party's Related Bodies Corporate; or

(c) an adviser or consultant to the party or any of the party's Related Bodies Corporate.

Requisite Majorities means the threshold for approval of the Scheme Resolution set out in section 3.3(b) of this Scheme Booklet, being votes in favour of the resolution received from:

(a) a majority in number (more than 50%) of Afterpay Shareholders present and voting at the Scheme Meeting (whether in person, by proxy, by attorney or, in the case of corporate Afterpay Shareholders, by a corporate representative); and

(b) at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting.

Risk Manager has the meaning given in section 5.4(b)(i)(C).

RSA means restricted stock awards.

RSU means restricted stock unit.

Sale Agent means an entity or person appointed by Square (after consultation with Afterpay and with Afterpay's approval, not to be unreasonably withheld) to sell New Square Shares under the Sale Facility that are attributable to Ineligible Foreign Shareholders.

Sale Facility means a facility established to sell New Square Shares that would otherwise be issued to Ineligible Foreign Shareholders, as described in section 3.5 of this Scheme Booklet.

Sale Facility Proceeds has the meaning given in section 3.5(a).

Scheme means a members' scheme of arrangement pursuant to Part 5.1 of the Corporations Act between Afterpay and Scheme Shareholders, on the terms described in Attachment A to this Scheme Booklet, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act.

Scheme Booklet means this scheme booklet in relation to the Scheme.

Scheme Consideration means the consideration to be provided by Square Acquirer (or by Square on behalf of and at the direction of Square Acquirer) to Scheme Shareholders under the Scheme for the transfer of each Afterpay Share held by a Scheme Shareholder on the Record Date, as more fully described in section 3.1.

Scheme Implementation Deed means the Scheme Implementation Deed dated 2 August 2021 between Afterpay, Square and Square Acquirer, a copy of which was released in full to ASX on 2 August 2021.

Scheme Meeting means the meeting of Afterpay Shareholders ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act at which Afterpay Shareholders will vote on this Scheme. The Scheme Meeting will be held virtually through an online platform, details of which are set out in the Notice of Scheme Meeting in Attachment E.

Scheme Resolution means a resolution of Afterpay Shareholders to approve the Scheme, the form of which is set out in the Notice of Scheme Meeting in Attachment E to this Scheme Booklet.

Scheme Share means an Afterpay Share held by a Scheme Shareholder as at the Record Date.

For personal use only

Scheme Shareholder means a holder of Afterpay Shares on the Record Date.

SDK means software development kit.

SEC means the United States Securities and Exchange Commission.

Second Court Date means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard (or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard), with such hearing being the **Second Court Hearing**.

Second Court Hearing means the hearing of an application made to the Court for orders approving the Scheme pursuant to section 411(4)(b) of the Corporations Act.

Securities Act means US Securities Act of 1933, as amended.

Seller means each of:

(a) Square's seller operating and reportable business segment; and

(b) where applicable, the Seller ecosystem and related products and services provided by Square, as described in section 5.2.

(c) **Senior Notes** means Square's 2026 Senior Notes and 2031 Senior Notes, which are described in section 5.10(g)(iii).

SFS means Square Financial Services, Inc.

SGX Convertible Notes has the meaning given in section 4.13(d).

Share Election means a valid election for New Square Shares made by a Scheme Shareholder whose registered address on the Register as at the Record Date is in Australia or New Zealand pursuant to the terms of the Scheme.

Share Election Form means an Election Form for a Share Election.

SMB means small and midsize business.

Spain FDI Authority means the Spanish Council of Ministers (Consejo de Ministros), or any other competent public authority.

Square means Square, Inc.

Square Acquirer means Lanai (AU) 2 Pty Ltd.

Square Appointments has the meaning given in section 5.4(b)(i)(A).

Square Board means the board of directors of Square.

Square Class A Share means a share of Class A common stock of Square.

Square CDI means a CDI in respect of a Square Class A Share.

Square Capital means Square Capital, LLC.

Square Class B Share means a share of Class B common stock of Square.

Square Competing Acquisition means any acquisition by any member of the Square Group of a business, entity or undertaking or assets comprising a business (whether by way of stock purchase, tender offer, exchange offer, merger, consolidation, share exchange, business combination, joint venture, reorganisation, recapitalisation or similar transaction) or joint venture or other transaction, or a series of any of the foregoing (other than the Scheme) where:

(a) such target is material to the Combined Group (provided that, for this purpose, the Combined Group, taken as a whole, shall be deemed a consolidated group of entities the same size as the Afterpay Group) and derives a material portion of its revenues from BNPL products and/or services; or

(b) the target operates in the BNPL space in North America, the United Kingdom, New Zealand, Europe or Australia and such acquisition or other transaction would likely materially delay or create substantial risk of any Regulatory Approval not being obtained.

For personal use only

Square Competing Transaction means an offer, proposal, transaction or arrangement (whether by way of stock purchase, tender offer, exchange offer, merger, consolidation, share exchange, business combination, joint venture, reorganisation, recapitalisation, takeover bid, scheme of arrangement, capital reduction, buy back, sale, lease or assignment of assets, sale or issue of securities, reverse takeover bid, dual listed company structure (or other synthetic merger), deed of company arrangement, debt for equity arrangement or otherwise), or a series of any of the foregoing (other than the Scheme) which, if completed, would mean:

(a) the Square shareholders immediately prior to such transaction do not own more than 80% of the voting power of securities of the resulting entity or its ultimate parent; or

(b) a person (other than Square, its Related Bodies Corporate, or holders of Square Class B Shares as of the date of the Scheme Implementation Deed), whether alone or together with its Associates, would:

  (i) directly or indirectly acquire a Relevant Interest in or become the holder of securities representing 20% or more of the total outstanding voting power of Square (other than as a custodian, nominee or bare trustee); or

  (ii) directly or indirectly acquire, obtain a right to acquire, or otherwise obtain an interest in (including through any license arrangement) 20% or more of the consolidated assets of the Square Group.

Square Convertible Notes means, collectively, the 2022 Convertible Notes, 2023 Convertible Notes, 2025 Convertible Notes, 2026 Convertible Notes and 2027 Convertible Notes, as each is defined in section 5.10(g).

Square Director means a director of Square as at the date of this Scheme Booklet.

Square Disclosure Materials means:

(a) the information disclosed on behalf of the Square Group in written responses (including by email) to requests for information to Afterpay or any of its Representatives prior to the date of the Scheme Implementation Deed, except any information redacted; and

(b) the Square Disclosure Letter.

Square Group means Square and each of its Subsidiaries, and **Square Member** means any of those entities comprising the Square Group.

Square Historical Cash Flows has the meaning given in section 5.10(a).

Square Historical Financial Information has the meaning given in section 5.10(a).

Square Historical Income Statements has the meaning given in section 5.10(a).

Square Historical Statement of Financial Position has the meaning given in section 5.10(a).

Square Information means the information provided by Square to Afterpay in writing for inclusion in this Scheme Booklet regarding:

(a) the Square Group;

(b) the Combined Group;

(c) the Scheme Consideration; and

(d) Square's intentions in relation to Afterpay's business, assets and employees,

which includes the information contained in the Letter from Square's CEO and Chairman, questions 3, 4, 19 – 22, 25, 30 – 32, 49 – 53 of the Frequently Asked Questions and sections 3.1(b), 3.2, 3.4 – 3.6, 3.8, 3.10, the acknowledgement from Square in 3.11(b), 5, 6, 7.1, 7.3(a), 7.3(d), 7.3(g), 7.3(h), 7.4 – 7.6 and 9 (as it relates to US laws and Square's Certificate of Incorporation and Bylaws), but excludes the Afterpay Information, information provided by Afterpay to Square (or otherwise obtained from Afterpay's public filings on ASX and ASIC) contained in, or used for the preparation of, the information regarding the Combined Group and the Independent Expert's Report or the Independent Limited Assurance Report.

For personal use only

Square Material Adverse Effect means any event, matter or circumstance which has, or would be reasonably likely to have, either individually or when aggregated with any other events, matters or circumstances, a material adverse effect on the assets and liabilities (taken as a whole), financial condition, business or results of operations of the Square Group (taken as a whole) but does not include events, matters or circumstances to the extent resulting from or arising out of:

(a) any matter Disclosed to Afterpay;

(b) changes in general economic, industry, regulatory or political conditions, the securities or other capital markets in general or law;

(c) any epidemic, pandemic (including COVID-19 or COVID-19 Measures), hurricane, earthquake, flood, weather conditions, calamity or other natural disaster, act of God or other force majeure event (or any worsening of or recovery from any of the foregoing);

(d) geopolitical conditions, hostilities, civil or political unrest, any acts of war, sabotage, cyberattack or terrorism (including any outbreak, escalation or worsening of any of the foregoing);

(e) any change in taxation rates, interest rates or exchange rates;

(f) any change in generally accepted accounting principles or the authoritative interpretation of them;

(g) the taking of any action required under the Scheme Implementation Deed, the Scheme or the transactions contemplated by them (other than, to the extent not excluded by another clause of this definition, Square's compliance with its obligations pursuant to clause 8 of the Scheme Implementation Deed);

(h) any change in the market price or trading volume of Square Shares (but this exception will not prevent the underlying cause or contributing factor of any such change, if not falling within any other exception in this definition, from being taken into account in determining whether there has been a Square Material Adverse Effect);

(i) any failure, in and of itself, by Square or a member of the Square Group to meet any internal or published projections, forecasts, estimates or predictions of revenues, earnings or other financial or operating metrics for any period (but this exception will not prevent the underlying cause or contributing factor of any such failure, if not falling within any other exception in this definition, from being taken into account in determining whether there has been a Square Material Adverse Effect);

(j) the execution, delivery or performance of the Scheme Implementation Deed, the announcement or pendency of the Scheme or the other transactions contemplated by the Scheme Implementation Deed (including in the impact of any of the foregoing on the relationship of Square or a member of the Square Group with their respective employees, customers, creditors, suppliers or contractual counterparties), provided that this clause (j) shall not apply with respect to any representation or warranty that addresses the consequences of the execution, delivery or performance of the Scheme Implementation Deed or the announcement or pendency of the Scheme or the other transactions contemplated by the Scheme Implementation Deed or with respect to the Conditions Precedent that relate to such representations or warranties;

(k) the identity of, or any facts or circumstances relating to, Afterpay or any member of the Afterpay Group;

(l) any actions, suits or claims arising from allegations of a breach of fiduciary duty or violation of securities laws, in each case relating to the Scheme Implementation Deed, the Scheme or the transactions contemplated by the Scheme Implementation Deed; or

(m) any action (or the failure to take any action) with the written consent or at the written request of Afterpay;

except, in the case of each of the foregoing clauses (b), (c), (d), (e) and (f), if the effects of such events, matters or circumstances are disproportionately adverse to the Square Group as compared to the effects on other companies in the industry in which the Square Group operates, and then solely to the extent of such disproportionate effect.

Square Member means each of Square and its Subsidiaries.

Square Prescribed Event means, except to the extent contemplated by the Scheme Implementation Deed of the Scheme, any of the following events:

(a) **(conversion) Square** converts all or any of its shares into a larger or smaller number of shares, other than a conversion of Square Class B Shares to Square Class A Shares pursuant to the terms of Square's Certificate of Incorporation;

(b) **(reduction of share capital)** Square or another member of the Square Group (other than a wholly owned Subsidiary of Square) resolves to reduce its share capital in any way or resolves to reclassify, combine or split directly or indirectly any of its shares, other than any actions under Square executive or employee share plans in the ordinary course of business;

For personal use only

(c) **(buy-back)** Square or another member of the Square Group (other than a wholly owned Subsidiary of Square) repurchases, redeems or otherwise acquires any shares of capital stock of Square, or agrees to do any of the foregoing, except (i) for acquisitions of Square A shares tendered by holders of equity awards under Square executive or employee share plans in the ordinary course of business as such awards are in effect on the date of the Scheme Implementation Deed in order to satisfy obligations to pay the exercise price or Tax withholding obligations with respect thereto or (ii) transactions solely between Square and a wholly owned Subsidiary of Square or wholly owned Subsidiaries of Square;

(d) **(issuing of securities)** any member of the Square Group issues or agrees to issue Square Class A Shares or other instruments convertible into Square Class A Shares to a person outside the Square Group other than (i) under Square executive or employee share plans in the ordinary course of business, (ii) under Square's convertible notes outstanding as of the date of the Scheme Implementation Deed or (iii) issuance of Square Class A Shares or other instruments convertible into Square Class A Shares in an amount of up to 15% of outstanding Square Shares as of the date of the Scheme Implementation Deed;

(e) **(distribution)** Square makes or declares, or announces an intention to make or declare, any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie);

(f) **(charter)** Square adopts a new charter or modifies or repeals its charter or a provision of it, in each case in a manner that would materially and adversely impact the rights of the Afterpay Shareholders or would prevent, materially delay or materially impair the ability of the parties to perform their obligations under the Scheme Implementation Deed or to consummate the Scheme;

(g) **(encumbrances)** any member of the Square Group creates, or agrees to create, any Encumbrance over or declares itself the trustee of all or a material part of the Square Group's business or property;

(h) **(Square Competing Acquisition)** any member of the Square Group undertakes or agrees to undertake a Square Competing Acquisition;

(i) **(merger)** Square merges or consolidates with any other person, or restructures, reorganises or completely or partially liquidates or dissolves itself; or

(j) **(Insolvency)** Square or any of its material Related Bodies Corporate becomes Insolvent,

provided that a Square Prescribed Event will not include any matter:

(i) Disclosed to Afterpay;

(ii) required by law, regulation, changes in generally accepted accounting principles or by an order of a court or Governmental Authority;

(iii) made at the written request of Afterpay; or

(iv) the undertaking of which Afterpay has approved in writing (which approval must not be unreasonably withheld, delayed or conditioned).

Square Shares means Square Class A Shares and Square Class B Shares.

Square Shareholder Approval means the approval of Square shareholders referred to in clause 3.1(f) of the Scheme Implementation Deed which is required under the Listing Rules of NYSE to approve the issue of New Square Shares and Square Class A Shares underlying New Square CDIs.

Square Shareholder Meeting means a special meeting of the Square Shareholder to obtain the Square Shareholder Approval.

Square Share Price means the price of Square Class A Shares as quoted on NYSE in USD.

Square Superior Proposal means a genuine Square Competing Transaction which the Square Board, acting in good faith, and after taking advice from its outside legal adviser and financial adviser of nationally recognized reputation, determines is:

(a) reasonably likely of being completed on a reasonable timeline; and

(b) of a higher financial value and more favourable to Square shareholders than the Scheme,

in each case taking into account all aspects of the Square Competing Transaction, including the terms of the Square Competing Transaction, the price and/or value of the Square Competing Transaction, any conditions, timing considerations and any other matters affecting the probability of the Square Competing Transaction being completed in accordance with its terms, the identity, expertise, reputation and financial condition of the person making the proposal, and legal, regulatory and financial matters.

SRN means Securityholder Reference Number.

For personal use only

Subsidiary of an entity means another entity which:

(a) is a subsidiary of the first entity within the meaning of the Corporations Act; and

(b) is part of a consolidated entity constituted by the first entity and the entities it is required to include in the consolidated financial statements it prepares, or would be if the first entity was required to prepare consolidated financial statements.

Superior Proposal means a genuine Afterpay Competing Transaction (other than an Afterpay Competing Transaction which has resulted from a material breach of Afterpay's obligations under clause 9 of the Scheme Implementation Deed), which the Afterpay Board, acting in good faith, and after taking advice from its outside legal adviser and financial adviser of nationally recognised reputation, determines is:

(a) reasonably likely of being completed on a reasonable timeline; and

(b) of a higher financial value and more favourable to Afterpay Shareholders than the Scheme (as may be revised in accordance with clause 9.8 of the Scheme Implementation Deed, if applicable),

in each case taking into account all aspects of the Afterpay Competing Transaction, including the terms of the Afterpay Competing Transaction, the price and/or value of the Afterpay Competing Transaction, any conditions, timing considerations and any other matters affecting the probability of the Afterpay Competing Transaction being completed in accordance with its terms, the identity, expertise, reputation and financial condition of the person making the proposal, and legal, regulatory and financial matters.

Takeovers Panel means the Takeovers Panel constituted under the *Australian Securities and Investments Commission Act 2001* (Cth).

Tax means any tax, levy, charge, excise, GST, impost, rates, Duty, fee, deduction, compulsory loan or withholding, which is assessed, levied, imposed or collected by any fiscal Governmental Authority and includes any interest, fine, penalty, charge, fee, expenses or other statutory charges or any other such amount imposed by any fiscal Governmental Authority on or in respect of any of the above.

TIDAL has the meaning given in section 5.2(a)(iii).

Transition Period has the meaning given in section 5.8(d)(i).

UK means United Kingdom.

Underlying Sales means underlying value of customer orders processed through the Afterpay platform (otherwise referred to as gross merchant value).

US means United States of America.

USD, US$ means US dollars.

U.S. GAAP means the generally accepted accounting principles in the United States of America.

Voting Record Date means 7.00pm on Saturday, 4 December 2021, being the time and date for determining eligibility to vote at the Scheme Meeting.

VWAP means the volume weighted average trading price of the relevant securities, calculated by dividing the total value by the total volume of securities traded for the relevant period.

Warehouse Facilities has the meaning given in section 7.2(f).

For personal use only

Attachment A

Scheme of Arrangement made under Section 411 of the Corporations Act

For personal use only

KING&WOOD MALLESONS
金杜律师事务所

Scheme of Arrangement

Dated 2021

Afterpay Limited ("**Afterpay**")

Scheme Participants

King & Wood Mallesons
Level 61
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia
T +61 2 9296 2000
F +61 2 9296 3999
DX 113 Sydney
www.kwm.com

For personal use only

Scheme of Arrangement
Contents

Details		**1**
General terms		**2**
1	**Definitions and interpretation**	**2**
1.1	Definitions	2
1.2	General interpretation	6
2	**Preliminary**	**7**
2.1	Afterpay	7
2.2	Square	7
2.3	Square Acquirer	7
2.4	If Scheme becomes Effective	8
2.5	Scheme Implementation Deed	8
2.6	Deed Poll	8
3	**Conditions precedent**	**8**
3.1	Conditions precedent to Scheme	8
3.2	Conditions precedent and operation of clause 5	8
3.3	Certificate in relation to conditions precedent	9
4	**Scheme**	**9**
4.1	Effective Date	9
4.2	End Date	9
5	**Implementation of Scheme**	**9**
5.1	Elections	9
5.2	Lodgement of Court orders with ASIC	10
5.3	Transfer and registration of Afterpay Shares	10
5.4	Entitlement to Scheme Consideration	11
5.5	Title and rights in Afterpay Shares	11
5.6	Warranty by Scheme Participants	11
5.7	Transfer free of Encumbrances	11
5.8	Appointment of Square Acquirer as sole proxy	11
6	**Scheme Consideration**	**12**
6.1	Consideration under this Scheme	12
6.2	Scheme Consideration	12
6.3	Provision of Scheme Consideration	12
6.4	Fractional entitlements	13
6.5	Scheme Participants' agreements	14
6.6	Ineligible Foreign Shareholder Sale Facility	14
6.7	Orders of a Court or Governmental Authority	15
6.8	Shares to rank equally	16
6.9	Joint holders	17

For personal use only

7	**Dealings in Scheme Shares**	**17**
7.1	Determination of Scheme Participants	17
7.2	Register	17
7.3	No disposals after Effective Date	17
7.4	Maintenance of Afterpay Register	17
7.5	Effect of certificates and holding statements	17
7.6	Details of Scheme Participants	18
7.7	Quotation of Afterpay Shares	18
7.8	Termination of quotation of Afterpay Shares	18
8	**Instructions and notification**	**18**
9	**Power of attorney**	**18**
10	**Notices**	**19**
10.1	No deemed receipt	19
10.2	Accidental omission	19
11	**General**	**19**
11.1	Variations, alterations and conditions	19
11.2	Further action by Afterpay	19
11.3	Authority and acknowledgement	19
11.4	No liability when acting in good faith	20
11.5	Enforcement of Deed Poll	20
11.6	Stamp duty	20
12	**Governing law**	**20**
12.1	Governing law and jurisdiction	20
12.2	Serving documents	20

For personal use only

Scheme of Arrangement

Details

Parties		
Afterpay	Name	**Afterpay Limited**
	ACN	618 280 649
	Formed in	Victoria
	Address	Level 23, 2 Freshwater Place Melbourne VIC 3006, Australia
	Email	legal@afterpay.com.au
	Attention	General Counsel
Scheme Participants	Each person who is an Afterpay Shareholder as at the Record Date.	
Governing law	Victoria	

For personal use only

General terms

1 Definitions and interpretation

1.1 Definitions

Unless the contrary intention appears, these meanings apply:

ACCC means the Australian Competition and Consumer Commission.

Afterpay Share means a fully paid ordinary share in the capital of Afterpay.

Afterpay Shareholder means each person who is registered in the Register of Afterpay as a holder of Afterpay Shares.

ASIC means the Australian Securities & Investments Commission.

ASX means ASX Limited ACN 008 624 691 or the market operated by it, as the context requires.

ASX Official List means the official list of the entities that ASX has admitted and not removed.

ASX Settlement means ASX Settlement Pty Limited (ABN 49 008 504 532) as the holder of a licence to operate a clearing and settlement facility.

ASX Settlement Operating Rules means the operating rules of the clearing and settlement facility operated by ASX Settlement from time to time as modified by any express written waiver or exemption given by ASX or ASX Settlement.

ATO means the Australian Taxation Office.

Australian Admission means the admission of Square to the ASX Official List as an ASX foreign exempt listing and the official quotation of all New Square CDIs on ASX.

Business Day means a business day as defined in the Listing Rules, provided that such day is neither:

(a) a day on which the banks in Sydney, New South Wales, Australia, are authorised or required to close, nor

(b) a day on which the banks in San Francisco, California, United States of America, are authorised or required to close.

CDI means CHESS depository interest, being a unit of beneficial interest in shares of a foreign registered company, registered in the name of the CDN, or held in the form of beneficial ownership.

CDI Elected Shareholder means each of:

(a) an Eligible AUSNZ Shareholder who has not made a Share Election; and

(b) an Eligible Non-AUSNZ Shareholder who has made a CDI Election.

For personal use only

CDI Election means a valid election for New Square CDIs made by an Eligible Non-AUSNZ Shareholder pursuant to the terms of this Scheme.

CDI Election Form means the form to be completed by an Eligible Non-AUSNZ Shareholder who wishes to make a CDI Election.

CDN means CHESS Depositary Nominees Pty Limited (ACN 071 346 506).

CHESS means Clearing House Electronic Subregister System or share transfers operated by ASX Settlement and Transfer Corporation Pty Ltd.

Corporations Act means the *Corporations Act 2001* (Cth), as amended from time to time.

Court means the Supreme Court of New South Wales, or another court of competent jurisdiction under the Corporations Act agreed in writing by Square and Afterpay.

Deed Poll means the deed poll executed by Square and Square Acquirer substantially in the form of Annexure C of the Scheme Implementation Deed or as otherwise agreed by Square, Square Acquirer and Afterpay under which Square and Square Acquirer covenant in favour of each Scheme Participant to perform the obligations attributed to Square and Square Acquirer under this Scheme.

Details means the section of this agreement headed “Details”.

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

Effective Date means the date on which this Scheme becomes Effective.

Election Date means the 4th Business Day before the Record Date or such other date as agreed in writing by Afterpay and Square.

Election Withdrawal Form means the form to be completed by Eligible AUSNZ Shareholders or Eligible Non-AUSNZ Shareholders who have made a Share Election or CDI Election (as applicable) who wishes to withdraw that Share Election or CDI Election (as applicable).

Eligible AUSNZ Shareholder means a Scheme Participant whose Registered Address as at the Record Date is in Australia or New Zealand.

Eligible Non-AUSNZ Shareholder means a Scheme Participant whose Registered Address as at the Record Date is not in Australia or New Zealand (other than an Ineligible Foreign Shareholder).

Encumbrance means any security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention or flawed deposit arrangement and any “security interest” as defined in sections 12(1) or (2) of the PPSA, right of first refusal, preemptive right, any similar restriction, or any agreement to create any of them or allow them to exist.

End Date means the date that is 12 months after the date of the Scheme Implementation Deed or such other date as is agreed in writing by Square and Afterpay.

FIRB means the Australian Foreign Investment Review Board.

For personal use only

Governmental Authority means:

(a) any supranational, national, federal, state, county, municipal, local, provincial or foreign government or any entity exercising executive, legislative, judicial, arbitral, regulatory, taxing, or administrative functions of or pertaining to government;

(b) any public international governmental organisation;

(c) any agency, division, bureau, department, committee, or other political subdivision of any government, entity or organisation described in the foregoing clauses (a) or (b) of this definition (including patent and trademark offices); or

(d) quasi-governmental, self-regulatory agency, commission or authority, including any national securities exchange or national quotation system,

and includes ASX, ACCC, ASIC, the Takeovers Panel, FIRB, OIO, ATO, Bank of Spain, Spain FDI Authority, Department of Justice, US Federal Trade Commission and any state or territory revenue offices.

Implementation Date means the 5th Business Day following the Record Date or such other date after the Record Date as is agreed in writing by Square and Afterpay.

Ineligible Foreign Shareholder means an Afterpay Shareholder whose address shown in the Register is a place outside Australia and its external territories, Canada, Hong Kong, New Zealand, Singapore, Switzerland, United Kingdom and the United States or who is acting on behalf of such a person, unless Square determines that:

(a) it is lawful and not unduly onerous or unduly impracticable to issue that Afterpay Shareholder with the New Square Shares or New Square CDIs on implementation of this Scheme; and

(b) it is lawful for that Afterpay Shareholder to participate in this Scheme by the law of the relevant place outside Australia and its external territories, Canada, Hong Kong, New Zealand, Singapore, Switzerland, United Kingdom and the United States.

Ineligible Foreign Shareholder Sale Facility means the facility to be conducted in accordance with clause 6.6.

Listing Rules means the Listing Rules of ASX.

New Square CDIs means the Square CDIs to be issued to Scheme Participants as Scheme Consideration under this Scheme.

New Square Shares means the fully paid Square Class A Shares to be issued to Scheme Participants as Scheme Consideration under this Scheme.

Nominee Holder has the meaning given in clause 5.1(f).

NYSE means the New York Stock Exchange.

OIO means the New Zealand Overseas Investment Office.

PPSA means the *Personal Property Securities Act 2009* (Cth).

Record Date means 7.00pm (AEDT) on Monday 10 January 2022 or any other date as agreed between Afterpay and Square.

For personal use only

Register means the register of members of Afterpay maintained by or on behalf of Afterpay in accordance with section 168(1) of the Corporations Act.

Registered Address means, in relation to an Afterpay Shareholder, the address shown in the Register.

Registry means Computershare Investor Services or such other person nominated by Afterpay to maintain the Register.

Sale Agent means an entity or person appointed by Square (after consultation with Afterpay and with Afterpay's approval, not to be unreasonably withheld) to sell New Square Shares under the Sale Facility that are attributable to Ineligible Foreign Shareholders.

Scheme means this scheme of arrangement between Afterpay and Scheme Participants under which all of the Scheme Shares will be transferred to Square Acquirer under Part 5.1 of the Corporations Act as described in clause 6 of this Scheme, in consideration for the Scheme Consideration, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act to the extent they are approved in writing by Afterpay and Square in accordance with clause 11 of this Scheme.

Scheme Consideration means the consideration payable by Square Acquirer (or by Square on behalf of and at the direction of Square Acquirer) for the transfer of Afterpay Shares held by a Scheme Participant to Square Acquirer, being, in respect of each Afterpay Share:

(a) where the Scheme Participant is a Share Elected Shareholder, 0.375 New Square Shares; and

(b) where the Scheme Participant is a CDI Elected Shareholder, 0.375 New Square CDIs.

Scheme Implementation Deed means the Scheme Implementation Deed dated 2 August 2021 between Afterpay, Square and Square Acquirer under which, amongst other things, Afterpay has agreed to propose this Scheme to Afterpay Shareholders, and each of Square, Square Acquirer and Afterpay have agreed to take certain steps to give effect to this Scheme, a copy of which was released in full to ASX on 2 August 2021.

Scheme Meeting means the meeting of Afterpay Shareholders ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act at which Afterpay Shareholders will vote on this Scheme.

Scheme Participant means each person who is an Afterpay Shareholder as at the Record Date.

Scheme Share means an Afterpay Share held by a Scheme Participant as at the Record Date and, for the avoidance of doubt, includes any Afterpay Shares issued on or before the Record Date.

Second Court Date means the first day on which an application made to the Court under section 411(4)(b) of the Corporations Act approving the Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, the date on which the adjourned application is heard or scheduled to be heard.

Share Elected Shareholder means:

(a) an Eligible AUSNZ Shareholder who has made a valid Share Election;

For personal use only

(b) an Eligible Non-AUSNZ Shareholder who has not made a valid CDI Election.

Share Election means a valid election for New Square Shares made by an Eligible AUSNZ Shareholder pursuant to the terms of this Scheme.

Share Election Form means the form to be completed by an Eligible AUSNZ Shareholder who wishes to make a Share Election.

Share Scheme Transfer means, for each Scheme Participant, a duly completed and executed proper instrument of transfer of the Scheme Shares held by that Scheme Participant for the purposes of section 1071B of the Corporations Act, which may be a master transfer of all Scheme Shares.

Spain FDI Authority means the Spanish Council of Ministers (Consejo de Ministros), or any other competent public authority.

Square means Square, Inc.

Square Acquirer means Lanai (AU) 2 Pty Ltd (ACN 652 352 451).

Square CDI means a unit of beneficial ownership in a Square Class A Share (in the form of a CDI) that is registered in the name of CDN in accordance with the ASX Settlement Operating Rules, for the purpose of enabling the securities to be recorded and transferred in accordance with those operating rules.

Square Class A Share means a share of Class A common stock of Square.

Square Class B Share means a share of Class B common stock of Square.

Square Register means the register of shareholders maintained by Square or its agent.

Square Share means a Square Class A Share or Square Class B Share, as applicable.

Subsidiary of an entity means another entity which:

(a) is a subsidiary of the first entity within the meaning of the Corporations Act; and

(b) is part of a consolidated entity constituted by the first entity and the entities it is required to include in the consolidated financial statements it prepares, or would be if the first entity was required to prepare consolidated financial statement.

Takeovers Panel means the Australian Takeovers Panel.

1.2 General interpretation

Headings and labels used for definitions are for convenience only and do not affect interpretation. Unless the contrary intention appears, in this document:

(a) the singular includes the plural and vice versa;

(b) the meaning of general words is not limited by specific examples introduced by “including”, “for example”, “such as” or similar expressions;

(c) a reference to “**person**” includes an individual, a body corporate, a partnership, a joint venture, an unincorporated association and an authority or any other entity or organisation;

For personal use only

(d) a reference to a particular person includes the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;

(e) a reference to a time of day is a reference to the time in Melbourne, Australia;

(f) a reference to dollars, $ or A$ is a reference to the currency of Australia;

(g) a reference to any legislation includes regulations under it and any consolidations, amendments, re-enactments or replacements of any of them;

(h) a reference to a group of persons is a reference to any 2 or more of them jointly and to each of them individually;

(i) a period of time starting from a given day or the day of an act or event, is to be calculated exclusive of that day;

(j) if a party must do something under this document on or by a given day and it is done after 5.00pm on that day, it is taken to be done on the next day; and

(k) if the day on which a party must do something under this document is not a Business Day, the party must do it on the next Business Day.

2 Preliminary

2.1 Afterpay

Afterpay is:

(a) a public company limited by shares;

(b) incorporated in Australia and registered in Victoria; and

(c) admitted to the official list of ASX and Afterpay Shares are officially quoted on the stock market conducted by ASX.

As at 2 August 2021, Afterpay had on issue 290,073,416 Afterpay Shares.

2.2 Square

Square is:

(a) a corporation incorporated under the laws of the State of Delaware; and

(b) Square Shares are officially listed on the NYSE.

2.3 Square Acquirer

Square Acquirer is:

(a) a proprietary company limited by shares; and

(b) incorporated in Australia and registered in Victoria.

For personal use only

2.4 If Scheme becomes Effective

If this Scheme becomes Effective:

(a) in consideration of the transfer of each Scheme Share to Square Acquirer, Square Acquirer will provide or procure the provision of the Scheme Consideration to each Scheme Participant in accordance with the terms of this Scheme;

(b) all Scheme Shares will be transferred to Square Acquirer on the Implementation Date; and

(c) Afterpay will enter the name of Square Acquirer in the Register in respect of all Scheme Shares transferred to Square Acquirer in accordance with the terms of this Scheme.

2.5 Scheme Implementation Deed

Afterpay, Square and Square Acquirer have agreed by executing the Scheme Implementation Deed to implement the terms of this Scheme.

2.6 Deed Poll

Square and Square Acquirer have executed the Deed Poll for the purpose of covenanting in favour of the Scheme Participants to perform (or procure the performance of) the obligations attributable to Square and Square Acquirer as contemplated by this Scheme, including to provide the Scheme Consideration to the Scheme Participants.

3 Conditions precedent

3.1 Conditions precedent to Scheme

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

(a) as at 8.00am on the Second Court Date, the Scheme Implementation Deed and Deed Poll not having been terminated;

(b) all of the conditions precedent in clause 3.1 of the Scheme Implementation Deed having been satisfied or waived (other than the conditions precedent relating to Court approval set out in item 3.1(h) of the Scheme Implementation Deed) in accordance with the terms of the Scheme Implementation Deed;

(c) the Court having approved this Scheme, with or without any modification or condition, pursuant to section 411(4)(b) of the Corporations Act, and if applicable, Afterpay and Square having accepted in writing any modification or condition made or required by the Court under section 411(6) of the Corporations Act; and

(d) the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

3.2 Conditions precedent and operation of clause 5

The satisfaction of each condition of clause 3.1 of this Scheme is a condition precedent to the operation of clause 5 of this Scheme.

For personal use only

3.3 Certificate in relation to conditions precedent

Afterpay and Square must provide to the Court on the Second Court Date a certificate, or such other evidence as the Court requests, confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent set out in clause 3.1 of this Scheme (other than the conditions precedent in clauses 3.1(c) and 3.1(d) of this Scheme) have been satisfied or waived as at 8.00am on the Second Court Date.

The certificate referred to in this clause 3.3 will constitute conclusive evidence of whether the conditions precedent referred to in clause 3.1 of this Scheme (other than the condition precedent in clauses 3.1(c) and 3.1(d) of this Scheme) have been satisfied or waived as at 8.00am on the Second Court Date.

4 Scheme

4.1 Effective Date

Subject to clause 4.2, this Scheme will come into effect pursuant to section 411(10) of the Corporations Act on and from the Effective Date.

4.2 End Date

This Scheme will lapse and be of no further force or effect if:

(a) the Effective Date does not occur on or before the End Date; or

(b) the Scheme Implementation Deed or Deed Poll is terminated in accordance with its terms.

5 Implementation of Scheme

5.1 Elections

(a) A Scheme Participant who is an Eligible AUSNZ Shareholder may make a Share Election to receive New Square Shares instead of New Square CDIs by completing a Share Election Form and returning it to the address specified in the Share Election Form so that it is received by the Registry (and not withdrawn) by no later than 5.00pm on the Election Date.

(b) Subject to clause 5.1(c), a Scheme Participant who is an Eligible Non-AUSNZ Shareholder may make a CDI Election to receive New Square CDIs instead of New Square Shares by completing a CDI Election Form and returning it to the address specified in the CDI Election Form so that it is received by the Registry (and not withdrawn) by no later than 5.00pm on the Election Date.

(c) In the event that ASX does not grant approval for Australian Admission on or before the Business Day after the Effective Date, and Square and Afterpay both provide written consent in accordance with clause 4.4 of the Scheme Implementation Deed, all CDI Elections will be disregarded and the entitlements of all Scheme Participants (including those who made a CDI Election) will be satisfied by the distribution of New Square Shares in the manner described in clause 6.2(a).

(d) A Scheme Participant may withdraw their Share Election under clause 5.1(a) or their CDI Election under clause 5.1(b) by lodging an Election

For personal use only

Withdrawal Form provided that it is received by the Registry by no later than 5.00pm on the Election Date.

(e) Subject to clause 5.1(f), a Share Election under clause 5.1(a) or a CDI Election under clause 5.1(b) may only be made in respect of all and not part of the Afterpay Shares held by the relevant Scheme Participant.

(f) A Scheme Participant who holds one or more parcels of Afterpay Shares as trustee or nominee for, or otherwise on account of, another person ("**Nominee Holder**"):

(i) subject to clause 5.1(f)(ii), may make separate elections in accordance with clauses 5.1(a) or 5.1(b) in relation to each of those parcels of Afterpay Shares by lodging a separate election form for each separate holding in accordance with clauses 5.1(a) or 5.1(b), and in each case in accordance with clause 5.1(e); and

(ii) for the purposes of determining entitlements under this Scheme, will be treated as if they were a separate CDI Elected Shareholder or Share Elected Shareholder (as relevant) in respect of each parcel of Afterpay Shares in respect of which an election has been made.

(g) Square Acquirer will determine, in its sole discretion, all questions as to the correct completion of a CDI Election Form, Share Election Form or Election Withdrawal Form, and time of receipt of such form. Square Acquirer is not required to communicate with any Scheme Participant prior to making this determination. The determination of Square Acquirer will be final and binding on the Scheme Participant.

5.2 Lodgement of Court orders with ASIC

If the conditions precedent set out in clause 3.1 of this Scheme (other than the condition precedent in clause 3.1(d) of this Scheme) are satisfied, Afterpay must lodge with ASIC, in accordance with section 411(10) of the Corporations Act, an office copy of the Court order approving this Scheme as soon as possible, and in any event by no later than 4.00pm on the first Business Day after the day on which the Court approves this Scheme or such later time as Square and Afterpay agree in writing.

5.3 Transfer and registration of Afterpay Shares

On the Implementation Date, but subject to the provision of the Scheme Consideration for the Scheme Shares in accordance with clause 6 of this Scheme and Square Acquirer having provided Afterpay with written confirmation of the provision of the Scheme Consideration:

(a) the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, will be transferred to Square Acquirer, without the need for any further act by any Scheme Participant (other than acts performed by Afterpay as attorney and agent for Scheme Participants under clause 9 of this Scheme), by:

(i) Afterpay delivering to Square Acquirer a duly completed and executed Share Scheme Transfer executed on behalf of the Scheme Participants by Afterpay, for registration; and

(ii) Square Acquirer duly executing the Share Scheme Transfer and delivering it to Afterpay for registration; and

For personal use only

(b) as soon as practicable after receipt of the duly executed Share Scheme Transfer, Afterpay must enter, or procure the entry of, the name of Square Acquirer in the Register in respect of all Scheme Shares transferred to Square Acquirer in accordance with the terms of this Scheme.

5.4 Entitlement to Scheme Consideration

On the Implementation Date, in consideration for the transfer to Square Acquirer of the Scheme Shares, each Scheme Participant will be entitled to receive the Scheme Consideration in respect of each of their Scheme Shares in accordance with clause 6 of this Scheme.

5.5 Title and rights in Afterpay Shares

Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by clause 6 of this Scheme, on and from the Implementation Date, Square Acquirer will be beneficially entitled to the Scheme Shares transferred to it under the Scheme, pending registration by Afterpay of Square Acquirer in the Register as the holder of the Scheme Shares.

5.6 Warranty by Scheme Participants

Each Scheme Participant warrants to and is deemed to have authorised Afterpay to warrant to Square Acquirer as agent and attorney for the Scheme Participant by virtue of this clause 5.6, that:

(a) all their Scheme Shares (including any rights and entitlements attaching to those shares) transferred to Square Acquirer under the Scheme will, as at the date of the transfer, be fully paid and free from all Encumbrances; and

(b) they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those shares) to Square Acquirer under this Scheme.

5.7 Transfer free of Encumbrances

To the extent permitted by law, all Afterpay Shares (including any rights and entitlements attaching to those shares) which are transferred to Square Acquirer under this Scheme will, at the date of the transfer of them to Square Acquirer, vest in Square Acquirer free from all Encumbrances and interests of third parties of any kind, whether legal or otherwise, and free from any restrictions on transfer of any kind not referred to in this Scheme.

5.8 Appointment of Square Acquirer as sole proxy

Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by clauses 5.3 and 6 of this Scheme, on and from the Implementation Date until Afterpay registers Square Acquirer as the holder of all of the Afterpay Shares in the Register, each Scheme Participant:

(a) irrevocably appoints Afterpay as attorney and agent (and directs Afterpay in such capacity) to appoint Square Acquirer and each of its directors from time to time (jointly and each of them individually) as its sole proxy, and where applicable corporate representative, to attend shareholders' meetings, exercise the votes attaching to Afterpay Shares registered in its name and sign any shareholders resolution, and no Scheme Participant may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to this clause 5.8(a));

For personal use only

(b) must take all other actions in the capacity of the registered holder of Afterpay Shares as Square Acquirer directs; and

(c) acknowledges and agrees that in exercising the powers referred to in clause 5.8(a), Square Acquirer and any director or corporate representative nominated by Square Acquirer under clause 5.8(a) may act in the best interests of Square Acquirer as the intended registered holder of the Scheme Shares.

Afterpay undertakes in favour of each Scheme Participant that it will appoint Square Acquirer and each of its directors from time to time (jointly and each of them individually) as that Scheme Participant's proxy or, where applicable, corporate representative in accordance with clause 5.8(a) of this Scheme.

6 Scheme Consideration

6.1 Consideration under this Scheme

On the Implementation Date, Square Acquirer:

(a) must provide or procure as set forth in clause 6.1(b), in consideration for the transfer to Square Acquirer of the Afterpay Shares, the Scheme Consideration is issued to the Scheme Participants (or to the Sale Agent in accordance with clause 6.6) in accordance with this clause 6; and

(b) agrees to cause Square to, and Square will at the direction of and on behalf of Square Acquirer (in satisfaction of Square Acquirer's obligation to provide such Scheme Consideration under clause 6.1(a)), issue the Scheme Consideration in accordance with this clause 6. If Square Acquirer fails to provide direction to Square as contemplated by this clause 6.1(b) (or to have otherwise procured the provision of the Scheme Consideration) within 1 Business Day following the Effective Date, Square Acquirer will be deemed to have provided such direction to Square and Square agrees that it will take the actions required by this clause 6.1(b).

6.2 Scheme Consideration

Subject to the terms and conditions of this Scheme (including clause 6.6 in relation to Ineligible Foreign Shareholders and clause 6.4 in relation to fractional elements), the Scheme Consideration to be provided to each Scheme Participant will be provided:

(a) in respect of a Share Elected Shareholder, by the issue by Square (on behalf of and at the direction of Square Acquirer) of the Scheme Consideration comprising New Square Shares to that Scheme Participant on the Implementation Date; and

(b) in respect of a CDI Elected Shareholder, by the issue by Square (on behalf of and at the direction of Square Acquirer) of Scheme Consideration comprising New Square CDIs to that Scheme Participant on the Implementation Date.

6.3 Provision of Scheme Consideration

Subject to the other provisions of this clause 6, the obligations of Square Acquirer to provide (or procure the provision of) the Scheme Consideration to the Scheme Participants will be satisfied:

For personal use only

(a) in the case of Scheme Consideration that is required to be provided to Scheme Participants in the form of New Square Shares, by Square procuring that:

(i) the name and address of each such Scheme Participant is entered into the Square Register on the Implementation Date in respect of the New Square Shares to which it is entitled under this clause 6; and

(ii) a share certificate or holding statement (or equivalent document) is sent to the Registered Address of each such Scheme Participant representing the number of New Square Shares issued to the Scheme Participant pursuant to this Scheme;

(b) in the case of Scheme Consideration that is required to be provided to Scheme Participants in the form of New Square CDIs, by Square:

(i) issuing to CDN to be held on trust that number of New Square Shares that will enable CDN to issue New Square CDIs as envisaged by this clause 6 on the Implementation Date;

(ii) procuring that the name and address of CDN is entered into the Square Register in respect of those New Square Shares on the Implementation Date and that a share certificate or holding statement (or equivalent document) in the name of CDN representing those New Square Shares is sent to CDN;

(iii) procuring that on the Implementation Date, CDN issues to each such Scheme Participant the number of New Square CDIs to which it is entitled under this clause 6;

(iv) procuring that on the Implementation Date, the name of each such Scheme Participant is entered in the records maintained by CDN as the holder of the New Square CDIs issued to that Scheme Participant on the Implementation Date;

(v) in the case of each such Scheme Participant who held Scheme Shares on the CHESS subregister – procuring that the CDIs are held on the CHESS subregister on the Implementation Date and sending or procuring the sending of an allotment advice that sets out the number of New Square CDIs issued and procuring that ASX Settlement and Transfer Corporation Pty Ltd will provide at the end of the month of allotment a CDI holding statement confirming the number of New Square CDIs held on the CHESS subregister by that Scheme Participant; and

(vi) in the case of each such Scheme Participant who held Scheme Shares on the issuer sponsored subregister – procuring that the New Square CDIs are held on the issuer sponsored subregister on the Implementation Date and sending or procuring the sending of a CDI holding statement to each such Scheme Participant which sets out the number of New Square CDIs held on the issuer sponsored subregister by that Scheme Participant.

6.4 Fractional entitlements

(a) If the number of Afterpay Shares held by a Scheme Participant at the Record Date is such that the aggregate entitlement of the Scheme Participant to Scheme Consideration comprising New Square Shares or New Square CDIs includes a fractional entitlement to a New Square Share or New Square CDI, the entitlement will be rounded as follows:

For personal use only

(i) if the fractional entitlement is less than 0.5, it will be rounded down to zero New Square Shares or New Square CDIs; and

(ii) if the fractional entitlement is equal to or more than 0.5, it will be rounded up to one New Square Share or New Square CDI.

(b) If a Nominee Holder makes separate elections in relation to parcels of Afterpay Shares it holds as trustee or nominee for, or otherwise on account of, another person, then for the purposes of this clause 6.4 the Scheme Consideration of the Nominee Holder will be calculated and rounded based on each nominated parcel of Afterpay Shares held by the Nominee Holder as trustee or nominee for, or otherwise on account of, another person.

(c) If a Nominee Holder does not make separate elections in relation to parcels of Afterpay Shares it holds as trustee or nominee for, or otherwise on account of, another person, then for the purposes of this clause 6.4, the Scheme Consideration for the Nominee Holder will be calculated and rounded based on the aggregate number of Afterpay Shares held by the Nominee Holder in those parcels as trustee or nominee for, or otherwise on account of, other persons.

6.5 Scheme Participants' agreements

Under this Scheme, each Scheme Participant (and the Sale Agent) irrevocably:

(a) agrees to the transfer of their Afterpay Shares together with all rights and entitlements attaching to those Afterpay Shares in accordance with this Scheme;

(b) agrees to the variation, cancellation or modification of the rights attached to their Afterpay Shares constituted by or resulting from this Scheme;

(c) agrees to, on the direction of Square Acquirer, destroy any holding statements or share certificates relating to their Afterpay Shares;

(d) agrees to become a shareholder of Square, to have their name entered in the Square Register, accepts the New Square Shares or New Square CDIs (as relevant) issued to them and agrees to be bound by Square's Amended and Restated Certificate of Incorporation;

(e) agrees and acknowledges that the issue of New Square Shares or New Square CDIs (as applicable) in accordance with clause 6.1 constitutes satisfaction of all that person's entitlements under this Scheme;

(f) acknowledges that this Scheme binds Afterpay and all of the Scheme Participants from time to time (including those who do not attend the Scheme Meeting and those who do not vote, or vote against this Scheme, at the Scheme Meeting); and

(g) consents to Afterpay, Square and Square Acquirer doing all things and executing all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to this Scheme and the transactions contemplated by it.

6.6 Ineligible Foreign Shareholder Sale Facility

Where a Scheme Participant is an Ineligible Foreign Shareholder, each Ineligible Foreign Shareholder authorises Square Acquirer (or Square at the direction of

For personal use only

and on behalf of Square Acquirer) to:

(a) issue to the Sale Agent any New Square Shares to which an Ineligible Foreign Shareholder would otherwise be entitled to (**Relevant Square Shares**);

(b) procure, as soon as reasonably practicable after the Implementation Date, and in no event no more than 30 days after the Implementation Date, that the Sale Agent:

(i) sells or procures the sale of all of the Relevant Square Shares issued to the Sale Agent pursuant to clause 6.6(a) (including on an aggregated or partially aggregate basis), in the ordinary course of trading on NYSE at such price as the Sale Agent determines in good faith; and

(ii) remits to Square Acquirer (or Square at the direction of and on behalf of Square Acquirer) the proceeds of sale (net of any applicable brokerage, stamp duty and other selling costs, taxes and charges) (**Proceeds**); and

(c) as soon as reasonably practicable after the last sale of the Relevant Square Shares in accordance with clause 6.6(b)(i), pay to each Ineligible Foreign Shareholder an amount equal to the proportion of the net proceeds of sale received by Square under clause 6.6(b)(ii) to which that Ineligible Foreign Shareholder is entitled, in full satisfaction of their entitlement to the Relevant Square Shares, in accordance with the following formula:

$$A = (B/C) \times D$$

Where

A is the amount to be paid to the Ineligible Foreign Shareholder;

B is the number of Relevant Square Shares attributable to, and that would otherwise have been issued to, that Ineligible Foreign Shareholder had it not been an Ineligible Foreign Shareholder and which are instead issued to the Sale Agent;

C is the total number of Relevant Square Shares attributable to, and which would otherwise have been issued to, all Ineligible Foreign Shareholders collectively and which are instead issued to the Sale Agent; and

D is the Proceeds (as defined in clause 6.6(b)(ii)).

(d) None of Afterpay, Square or Square Acquirer make any representation as to the amount of proceeds of sale to be received by Ineligible Foreign Shareholders under the Ineligible Foreign Shareholder Sale Facility. Each of Afterpay, Square and Square Acquirer expressly disclaim any fiduciary duty to the Ineligible Foreign Shareholders which may arise in connection with the Ineligible Foreign Shareholder Sale Facility.

6.7 Orders of a Court or Governmental Authority

(a) Afterpay may deduct and withhold from any consideration which would otherwise be provided to a Scheme Participant in accordance with this clause 6, any amount which Afterpay, Square and Square Acquirer determine is required to be deducted and withheld from that consideration under any applicable law, including any order, direction or

For personal use only

notice made or given by a court of competent jurisdiction or by another Governmental Authority.

(b) To the extent that amounts are so deducted or withheld, such deducted or withheld amounts will be treated for all purposes under this Scheme as having been paid to the person in respect of which such deduction and withholding was made, provided that such deducted or withheld amounts are actually remitted to the appropriate taxing agency.

(c) If written notice is given to Afterpay of an order, direction or notice made or given by a court of competent jurisdiction or by another Governmental Authority that:

(i) requires consideration which would otherwise be provided to a Scheme Participant in accordance with this clause 6 to instead be paid or provided to a Governmental Authority or other third party (either through payment of a sum or the issuance of a security), then Afterpay shall be entitled to procure that provision of that consideration is made in accordance with that order, direction or notice (and payment or provision of that consideration in accordance with that order, direction or notice will be treated for all purposes under this Scheme as having been paid or provided to that Scheme Participant); or

(ii) prevents consideration being provided to any particular Scheme Participant in accordance with this clause 6, or the payment or provision of such consideration is otherwise prohibited by applicable law, Afterpay shall be entitled to (as applicable) direct Square not to issue (or procure the issue of), or to issue or provide to a trustee or nominee, such number of New Square Shares or New Square CDIs as that Scheme Participant would otherwise be entitled to under this clause 6, until such time as payment or provision of the consideration in accordance with this clause 6 is permitted by that order or direction or otherwise by law.

6.8 Shares to rank equally

Square covenants in favour of Afterpay (in its own right and on behalf of the Scheme Participants) that:

(a) the New Square Shares and Square Class A Shares underlying New Square CDIs will rank equally in all respects with all existing Square Class A Shares (but not Square Class B Shares);

(b) it will do everything reasonably necessary to ensure that trading in the New Square Shares and the New Square CDIs commences by the first Business Day after the Implementation Date;

(c) the New Square Shares and New Square CDIs will be duly and validly issued in accordance with applicable laws and Square's certificate of incorporation and bylaws; and

(d) on issue, each New Square Share and New Square CDI will be fully paid and free from any Encumbrance.

For personal use only

6.9 Joint holders

In the case of Afterpay Shares held in joint names:

(a) any New Square Shares or New Square CDIs (as applicable) to be issued under this Scheme must be issued and registered in the names of the joint holders and entry in the Square Register must take place in the same order as the holders' names appear in the Register; and

(b) any document required to be sent under this Scheme, will be forwarded to either, at the sole discretion of Afterpay, the holder whose name appears first in the Register as at the Record Date or to the joint holders.

7 Dealings in Scheme Shares

7.1 Determination of Scheme Participants

To establish the identity of the Scheme Participants, dealings in Scheme Shares or other alterations to the Register will only be recognised by Afterpay if:

(a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant Scheme Shares on or before the Record Date; and

(b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before the Record Date at the place where the Register is kept.

7.2 Register

Afterpay must register any registrable transmission applications or transfers of the Scheme Shares received in accordance with clause 7.1(b) of this Scheme on or before the Record Date.

7.3 No disposals after Effective Date

If this Scheme becomes Effective, a holder of Scheme Shares (and any person claiming through that holder) must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after the Record Date in any way except as set out in this Scheme and any such disposal will be void and of no legal effect whatsoever.

Afterpay will not accept for registration or recognise for any purpose any transmission, application or transfer in respect of Scheme Shares received after the Record Date (except a transfer to Square Acquirer pursuant to this Scheme and any subsequent transfer by Square Acquirer or its successors in title).

7.4 Maintenance of Afterpay Register

For the purpose of determining entitlements to the Scheme Consideration, Afterpay will maintain the Register in accordance with the provisions of this clause 7.4 until the Scheme Consideration has been issued to the Scheme Participants and Square Acquirer has been entered in the Register as the holder of all the Scheme Shares. The Register in this form will solely determine entitlements to the Scheme Consideration.

7.5 Effect of certificates and holding statements

Subject to provision of the Scheme Consideration and registration of the transfer to Square Acquirer contemplated in clauses 5.3 and 7.4 of this Scheme, any

For personal use only

statements of holding in respect of Scheme Shares will cease to have effect after the Record Date as documents of title in respect of those shares (other than statements of holding in favour of Square Acquirer and its successors in title). After the Record Date, each entry current on the Register as at the Record Date (other than entries in respect of Square Acquirer or its successors in title) will cease to have effect except as evidence of entitlement to the Scheme Consideration.

7.6 Details of Scheme Participants

Within 3 Business Days after the Record Date, Afterpay will ensure that details of the names, Registered Addresses and holdings of Scheme Shares for each Scheme Participant, as shown in the Register at the Record Date are available to Square Acquirer in such form as Square Acquirer reasonably requires.

7.7 Quotation of Afterpay Shares

Suspension of trading on ASX in Afterpay Shares will occur from the close of trading on ASX on the 2nd Business Day prior to the Record Date.

7.8 Termination of quotation of Afterpay Shares

After this Scheme has been fully implemented (including after the Register and the Square Register have been updated in accordance with clauses 5.3(b) and 6.3(a)(i)), Afterpay will apply:

(a) for termination of the official quotation of Afterpay Shares on ASX; and

(b) to have itself removed from the official list of ASX.

8 Instructions and notification

If not prohibited by law (and including where permitted or facilitated by relief granted by a Governmental Authority), all instructions, notifications or elections by a Scheme Participant to Afterpay that are binding or deemed binding between the Scheme Participant and Afterpay relating to Afterpay or Afterpay Shares, including instructions, notifications or elections relating to:

(a) whether dividends are to be paid by cheque or into a specific bank account;

(b) payments of dividends on Afterpay Shares; and

(c) notices or other communications from Afterpay (including by email),

will be deemed from the Implementation Date (except to the extent determined otherwise by Square Acquirer in its sole discretion), by reason of this Scheme, to be made by the Scheme Participant to Square Acquirer and to be a binding instruction, notification or election to, and accepted by, Square Acquirer until that instruction, notification or election is revoked or amended in writing addressed to Square Acquirer at its registry.

9 Power of attorney

Each Scheme Participant, without the need for any further act by any Scheme Participant, irrevocably appoints Afterpay and each of its directors and

For personal use only

secretaries (jointly and each of them individually) as its attorney and agent for the purpose of:

(a) executing any document necessary or expedient to give effect to this Scheme including the Share Scheme Transfer;

(b) enforcing the Deed Poll against Square and Square Acquirer,

and Afterpay accepts such appointment.

10 Notices

10.1 No deemed receipt

If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Afterpay, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Afterpay's registered office or at the office of the registrar of Afterpay Shares.

10.2 Accidental omission

The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Afterpay Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

11 General

11.1 Variations, alterations and conditions

(a) Afterpay may, with the consent of Square, by its counsel or solicitor consent on behalf of all persons concerned to any variations, alterations or conditions to this Scheme which the Court thinks fit to impose.

(b) Each Scheme Participant agrees to any such alterations or conditions which Afterpay has consented to pursuant to clause 11.1(a).

11.2 Further action by Afterpay

Afterpay will execute all documents and do all things (on its own behalf and on behalf of each Scheme Participant) necessary or expedient to implement, and perform its obligations under, this Scheme.

11.3 Authority and acknowledgement

Each of the Scheme Participants:

(a) irrevocably consents to Afterpay, Square and Square Acquirer doing all things necessary or expedient for or incidental to the implementation of this Scheme; and

(b) acknowledges that this Scheme binds Afterpay and all Scheme Participants (including those who do not attend the Scheme Meeting or do not vote at that meeting or vote against the Scheme at that Scheme Meeting) and, to the extent of any inconsistency and to the extent permitted by law, overrides the constitution of Afterpay.

For personal use only

11.4 No liability when acting in good faith

Without prejudice to the parties' rights under the Scheme Implementation Deed, neither Afterpay nor Square nor Square Acquirer, nor any of their respective officers, will be liable for anything done or omitted to be done in the performance of this Scheme in good faith.

11.5 Enforcement of Deed Poll

Afterpay undertakes in favour of each Scheme Participant to enforce the Deed Poll against Square and Square Acquirer on behalf of and as agent and attorney for the Scheme Participants.

11.6 Stamp duty

Square or Square Acquirer will pay all stamp duty (including any fines, penalties and interest) payable in connection with this Scheme.

12 Governing law

12.1 Governing law and jurisdiction

The law in force in the place specified in the Details governs this document. The parties submit to the non-exclusive jurisdiction of the courts of that place.

12.2 Serving documents

Without preventing any other method of service, any document in an action in connection with this document may be served on a party by being delivered or left at that party's address set out in the Details.

For personal use only

Attachment B

Deed Poll

For personal use only

KING&WOOD MALLESONS
金杜律师事务所

Deed Poll

Dated 28 October 2021

Given by Square, Inc. ("**Square**") and Lanai (AU) 2 Pty Ltd ("**Square Acquirer**")

In favour of each registered holder of fully paid ordinary shares in Afterpay Limited ("**Afterpay**") as at the Record Date ("**Scheme Participants**")

King & Wood Mallesons
Level 61
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia
T + 61 2 9296 2000
F + 61 2 9296 3999
DX 113 Sydney
www.kwm.com
Ref: DLF:NC:MS

For personal use only

Deed Poll
Contents

Details		**1**
General terms		**3**
1	**Definitions and interpretation**	**3**
1.1	Definitions	3
1.2	General interpretation	3
1.3	Nature of deed poll	3
2	**Conditions precedent and termination**	**3**
2.1	Conditions precedent	3
2.2	Termination	3
2.3	Consequences of termination	4
3	**Performance of obligations generally**	**4**
4	**Scheme Consideration**	**4**
4.1	Scheme Consideration	4
4.2	New Square Shares to rank equally	4
5	**Representations and warranties**	**5**
6	**Continuing obligations**	**5**
7	**Costs**	**5**
7.1	Costs	5
7.2	Stamp duty and registration fees	6
8	**Notices**	**6**
9	**General**	**6**
9.1	Variation	6
9.2	Partial exercising of rights	6
9.3	Remedies cumulative	6
9.4	Assignment or other dealings	6
9.5	Further steps	7
10	**Governing law and jurisdiction**	**7**
10.1	Governing law and jurisdiction	7
10.2	Serving documents	7
10.3	Appointment of process agent	7
Signing page		**8**
Annexure A – Scheme		**10**

For personal use only

Deed Poll

Details

Parties		
Square	Name	**Square, Inc.**
	Formed in	State of Delaware
	Address	1455 Market Street, Unit 600 San Francisco, CA 94103
	Email	Legal-Notices@squareup.com
	Attention	Legal
Square Acquirer	Name	**Lanai (AU) 2 Pty Ltd**
	ACN	652 352 451
	Formed in	Victoria
	Address	C/- King & Wood Mallesons Level 61, Governor Phillip Tower, 1 Farrer Place Sydney NSW 2000, Australia
	Email	Legal-Notices@squareup.com
	Attention	Legal
In favour of	Each registered holder of fully paid ordinary shares in Afterpay as at the Record Date.	
Governing law	Victoria	
Recitals	**A**	The directors of Afterpay have resolved that Afterpay should propose the Scheme.
	B	The effect of the Scheme will be that all Scheme Shares will be transferred to Square Acquirer.
	C	Afterpay, Square and Square Acquirer have entered into the Scheme Implementation Deed.
	D	In the Scheme Implementation Deed, Square Acquirer agreed (amongst other things) to provide (or procure the provision of) the Scheme Consideration to the Scheme Participants, subject to the satisfaction of certain conditions.
	E	Square and Square Acquirer are entering into this deed poll for the purpose of covenanting in favour of Scheme

For personal use only

Participants to perform the obligations attributed to Square and Square Acquirer in relation to the Scheme.

For personal use only

Deed Poll

General terms

1 Definitions and interpretation

1.1 Definitions

Unless the contrary intention appears, these meanings apply:

Scheme means the proposed scheme of arrangement between Afterpay and Scheme Participants under which all the Scheme Shares will be transferred to Square Acquirer under Part 5.1 of the Corporations Act, substantially in the form of Annexure A to this document, or as otherwise agreed by Square and Afterpay, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act, to the extent they are approved in writing by Afterpay and Square in accordance with clause 11 of the Scheme.

Scheme Implementation Deed means the scheme implementation deed dated 2 August 2021 between Afterpay, Square and Square Acquirer under which, amongst other things, Afterpay has agreed to propose the Scheme to Afterpay Shareholders, and each of Square, Square Acquirer and Afterpay has agreed to take certain steps to give effect to the Scheme.

All other words and phrases used in this document have the same meaning as given to them in the Scheme.

1.2 General interpretation

Clause 1.2 of the Scheme applies to this document.

1.3 Nature of deed poll

Square and Square Acquirer each acknowledge that this document may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participants are not a party to it.

2 Conditions precedent and termination

2.1 Conditions precedent

The obligations of Square and Square Acquirer under clause 4 are subject to the Scheme becoming Effective.

2.2 Termination

The obligations of Square and Square Acquirer under this document will automatically terminate and the terms of this document will be of no further force or effect if:

(a) the Scheme has not become Effective on or before the End Date; or

(b) the Scheme Implementation Deed is terminated in accordance with its terms.

For personal use only

2.3 Consequences of termination

If this document is terminated under clause 2.2, then, in addition and without prejudice to any other rights, powers or remedies available to Scheme Participants:

(a) Square and Square Acquirer are each released from their obligations to further perform this document except those obligations contained in clause 7; and

(b) each Scheme Participant retains the rights, powers or remedies they have against Square and Square Acquirer in respect of any breach of this document which occurs before it is terminated.

3 Performance of obligations generally

Square and Square Acquirer must comply with the obligations attributed to Square and Square Acquirer under the Scheme Implementation Deed and do all acts necessary or desirable on its part to give full effect to the Scheme.

4 Scheme Consideration

4.1 Scheme Consideration

Subject to clause 2:

(a) Square Acquirer undertakes in favour of each Scheme Participant to provide or procure as set forth in clause 4.1(b) the provision of the Scheme Consideration to each Scheme Participant;

(b) Square Acquirer undertakes in favour of each Scheme Participant to cause Square to, and Square will at the direction of and on behalf of Square Acquirer (in satisfaction of Square Acquirer's obligation to provide such Scheme Consideration to the Scheme Participants under clause 4.1(a)), issue the Scheme Consideration to each Scheme Participant; and

(c) Square and Square Acquirer undertake to perform all other actions attributed to it under the Scheme,

in accordance with the Scheme.

Subject to clause 2, if Square Acquirer fails to provide direction to Square as contemplated by clause 4.1(b) (or to have otherwise procured the provision of the Scheme Consideration) within 1 Business Day following the Effective Date, Square Acquirer will be deemed to have provided such direction to Square and Square agrees that it will take the actions required by clause 4.1(b).

4.2 New Square Shares to rank equally

Square undertakes in favour of each Scheme Participant that all New Square Shares issued as Scheme Consideration (including those issued to CDN in connection with the New Square CDIs) to each Scheme Participant in accordance with the Scheme will, upon their issue:

(a) rank equally with all other Square Class A Shares then on issue; and

(b) be fully paid and free from Encumbrance.

For personal use only

5 Representations and warranties

Square and Square Acquirer each represent and warrant that:

(a) **(status)** it has been incorporated or formed in accordance with the laws of its place of incorporation and remains in good standing thereunder;

(b) (**power**) it has power to enter into this document, to comply with its obligations under it and exercise its rights under it;

(c) **(no contravention)** the entry by it into, its compliance with its obligations and the exercise of its rights under, this document does not and will not breach:

(i) its constituent documents or cause a limitation on its powers or the powers of its directors to be exceeded;

(ii) any law binding or applicable to it or its assets, except where any conflict would not, individually or in the aggregate, reasonably be expected to have a Square Material Adverse Effect (as defined in the Scheme Implementation Deed); or

(iii) any other document or agreement that is binding on any it, except where any conflict or breach would not, individually or in the aggregate, reasonably be expected to have a Square Material Adverse Effect (as defined in the Scheme Implementation Deed);

(d) **(authorisations)** other than the approvals contemplated by clause 3.1 of the Scheme Implementation Deed, it has in full force and effect each authorisation necessary for it to enter into this document, to comply with its obligations and exercise its rights under it, and to allow them to be enforced;

(e) **(validity of obligations)** its obligations under this document are valid and binding and are enforceable against it in accordance with its terms; and

(f) **(solvency)** it is not Insolvent (as defined in the Scheme Implementation Deed).

6 Continuing obligations

This document is irrevocable and, subject to clause 2, remains in full force and effect until:

(a) Square and Square Acquirer have fully performed their obligations under this document; or

(b) the earlier termination of this document under clause 2.2.

7 Costs

7.1 Costs

Square and Square Acquirer agree to pay all costs in respect of the Scheme (including in connection with the transfer of Afterpay Shares to Square Acquirer

For personal use only

in accordance with the terms of the Scheme) except for amounts covered by clause 7.2.

7.2 Stamp duty and registration fees

Square and Square Acquirer:

(a) agree to pay or reimburse all stamp duty, registration fees and similar taxes payable or assessed as being payable in connection with this document or any other transaction contemplated by this document (including any fees, fines, penalties and interest in connection with any of these amounts); and

(b) indemnify each Scheme Participant against, and agrees to reimburse and compensate it for, any liability in respect of stamp duty under clause 7.2(a).

8 Notices

Notices and other communications in connection with this document must be in writing. They must be sent to the address or email address referred to in the Details and (except in the case of email) marked for the attention of the person referred to in the Details. If the intended recipient has notified changed contact details, then communications must be sent to the changed contact details.

9 General

9.1 Variation

A provision of this document or any right created under it may not be varied, altered or otherwise amended unless:

(a) the variation is agreed to by Afterpay and Square in writing; and

(b) the Court indicates that the variation, alteration or amendment would not itself preclude approval of the Scheme,

in which event Square and Square Acquirer must enter into a further deed poll in favour of the Scheme Participants giving effect to the variation, alteration or amendment.

9.2 Partial exercising of rights

Unless this document expressly states otherwise, if Square or Square Acquirer do not exercise a right, power or remedy in connection with this document fully or at a given time, they may still exercise it later.

9.3 Remedies cumulative

The rights, powers and remedies in connection with this document are in addition to other rights, powers and remedies given by law independently of this document.

9.4 Assignment or other dealings

Square and each Scheme Participant may not assign or otherwise deal with its rights under this document or allow any interest in them to arise or be varied without the consent of Square and Afterpay.

For personal use only

9.5 Further steps

Square and Square Acquirer agree to do anything including executing all documents and do all things (on its own behalf or on behalf of each Scheme Participant) necessary to give full effect to this document and the transactions contemplated by it.

10 Governing law and jurisdiction

10.1 Governing law and jurisdiction

The law in force in the place specified in the Details governs this document. Square and Square Acquirer each submit to the non-exclusive jurisdiction of the courts of that place.

10.2 Serving documents

Without preventing any other method of service, any document in an action in connection with this document may be served on Square or Square Acquirer by being delivered or left at the corresponding address set out in the Details or, in the case of Square, with its process agent.

10.3 Appointment of process agent

Without preventing any method of service allowed under any relevant law, Square:

(a) irrevocably appoints King & Wood Mallesons as its process agent to receive any document in an action in connection with this document, and agrees that any such document may be served on Square by being delivered to or left for Square at the following address:

King & Wood Mallesons
Level 61
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia

(b) agrees that failure by a process agent to notify King & Wood Mallesons of any document in an action in connection with this document does not invalidate the action concerned.

If for any reason King & Wood Mallesons ceases to be able to act as process agent, Square agrees to appoint another person as its process agent in the place referred to in clause 10.1 and ensure that the replacement process agent accepts its appointment and confirms its appointment to Afterpay on behalf of Scheme Participants.

Square agrees that service of documents on its process agent is sufficient service on it.

EXECUTED as a deed poll

For personal use only

Deed Poll

Signing page

DATED: 28 October 2021

SIGNED, SEALED AND DELIVERED)
by **SQUARE, INC.**)

Signature of witness

Philip Michael Seabrose

Name of witness
Witnessed by audio-visual link

Signature of authorised signatory

AMRITA AHUJA

Name of authorised signatory

For personal use only

SIGNED, SEALED AND DELIVERED by **LANAI (AU) 2 PTY LTD (ACN 652 352 451)** in accordance with section 127(1) of the *Corporations Act 2001* (Cth) by authority of its directors:

Signature of director

SAMINA HUSSAIN-LETCH

Name of director (block letters)

Signature of director/company secretary*
*delete whichever is not applicable

Philip Michael Seabrease

Name of director/company secretary* (block letters)
*delete whichever is not applicable

For personal use only

Attachment C

Independent Expert's Report

For personal use only

LONERGAN EDWARDS
& ASSOCIATES LIMITED

ABN 53 095 445 560
AFS Licence No 246532
Level 7, 64 Castlereagh Street
Sydney NSW 2000 Australia
GPO Box 1640, Sydney NSW 2001

Telephone: [61 2] 8235 7500
www.lonerganedwards.com.au

The Directors
Afterpay Limited
Level 5
406 Collins Street
Melbourne VIC 3000

1 November 2021

Subject: Proposed acquisition by way of Scheme

Dear Directors

Introduction

1 On 2 August 2021, Afterpay Limited (Afterpay or the Company) announced that it had entered into a Scheme Implementation Deed (the SID) with Square, Inc. (Square) and Lanai (AU) 2 Pty Ltd[1] under which Square has agreed to acquire all of the issued shares in Afterpay by way of scrip consideration.

2 The proposed acquisition of the shares is to be implemented via a scheme of arrangement between Afterpay and its shareholders (the Scheme) and is subject to a number of conditions precedent (as summarised in Section I of our report).

3 If the Scheme is approved and implemented, Afterpay shareholders (excluding ineligible foreign shareholders) will receive a fixed exchange ratio of 0.375 Square Class A common stock or 0.375 CHESS Depository Interests (CDIs) representing an ownership interest in shares of Square Class A common stock for each Afterpay ordinary share they hold on the Scheme Record Date[2] (Scheme Consideration).

4 Square has agreed to establish a secondary listing on the Australian Securities Exchange (ASX) to allow Afterpay shareholders to trade Square shares via CDIs on the ASX. Depending on whether Afterpay shareholders' registered address on the Record Date is within or outside Australia or New Zealand, Afterpay shareholders may be able to elect whether to receive the Scheme Consideration in New York Stock Exchange (NYSE) listed Square Class A common stock or CDIs[3].

---

1 Lanai (AU) 2 Pty Ltd is an indirect wholly owned subsidiary of Square.

2 The Scheme Record Date is presently expected to be 7:00pm on the 25th business day after the Scheme becomes effective.

3 The CDIs listed on the ASX are expected to be eligible for S&P index inclusion in Australia.

Authorised Representatives:
Wayne Lonergan • Craig Edwards* • Hung Chu • Martin Hall • Martin Holt* • Grant Kepler* • Julie Planinic* • Nathan Toscan • Jorge Resende

* Members of Chartered Accountants Australia and New Zealand and holders of Certificate of Public Practice.
Liability limited by a scheme approved under Professional Standards Legislation

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

5 Afterpay has applied for a class ruling from the Australian Taxation Office (ATO) in relation to the availability of scrip-for-scrip capital gains tax rollover relief in regards to the Scheme for qualifying Australian resident Afterpay shareholders[4].

Afterpay

6 Founded in 2014, Afterpay is a technology driven payments company that provides service and software infrastructure to enable retail merchants to offer the ability for customers to buy goods and services online and in-store on a "buy now, pay later" (BNPL) basis. As at 30 June 2021, the Company's BNPL platform had over 16.2 million Active Customers[5] and was offered by almost 100,000 merchants globally. Afterpay's BNPL platform is available in Australia, New Zealand (NZ), the United States of America (US) and Canada, and in the United Kingdom (UK), France, Italy and Spain, where it operates under the Clearpay brand.

Square

7 Square is a financial services and digital payments company that enables businesses and individuals to manage money. The company operates through two segments, being Seller, which enables businesses to accept card and contactless payments, provide reporting, analytics and next-day settlement, and Cash App, which provides an ecosystem of financial products and services to allow individuals to manage their money. Square is listed on the NYSE and had a market capitalisation of approximately US$110 billion as at 30 September 2021.

Purpose of report

8 The Scheme is subject to a number of conditions precedent, including an independent expert concluding and continuing to conclude that the Scheme is in the best interests of Afterpay shareholders. In addition:

(a) the Directors' recommendation of the Scheme is subject to no superior proposal and an independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of Afterpay shareholders

(b) as the Scheme is considered a change of control transaction, the Australian Securities & Investments Commission's (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) also requires any appointed independent expert to provide an opinion on whether the Scheme is fair and reasonable.

9 Accordingly, the Directors of Afterpay have requested Lonergan Edwards & Associates Limited (LEA) to prepare an independent expert's report (IER) stating whether, in our opinion, the Scheme is fair and reasonable and in the best interests of Afterpay shareholders and the reasons for that opinion.

10 LEA is independent of Afterpay and Square and has no other involvement or interest in the proposed Scheme.

---

4 Receipt of confirmation of such ruling is a condition precedent to the Scheme.

5 Active Customers are those that have transacted at least once in the last 12 months.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Summary of opinion

11 In our opinion, the Scheme is fair and reasonable and in the best interests of Afterpay shareholders in the absence of a superior proposal. We have formed this opinion for the reasons set out below.

Value of Afterpay

12 We have assessed the market value of Afterpay having regard to the following valuation approaches:

(a) **Market approach** – as there are a number of publicly listed companies operating in the BNPL sector, we have considered the valuation of Afterpay by reference to the listed market values of these companies and recent transaction evidence. As these BNPL companies are not currently profitable (as they are generally focusing on customer and GMV growth rather than short term profitability) we have instead considered value as a multiple of Underlying Sales[6], merchant revenue, Active Customers and Net Transaction Margin[7] (NTM)

(b) **Income approach** – under the income approach the value of a business is determined by reference to the future earnings and/or cash flows expected to be generated by the business. Our income approach therefore considers the value of Afterpay based on discounted cash flow (DCF) analysis

(c) **Listed market price** – Afterpay shares are highly liquid, with A$3.1 billion and A$11.3 billion worth of shares traded in the one month and three month periods (respectively) immediately prior to the announcement of the Scheme. In our opinion, it is therefore appropriate to consider the value of Afterpay based on the undisturbed Afterpay share price prior to the announcement of the Scheme, adjusted for a premium for control (which recognises that the quoted market prices of listed securities may not reflect their value on a 100% controlling interest basis)

(d) **Investment analyst valuations** – as Afterpay is well researched by investment analysts, we have also considered (as a cross-check on the above valuation approaches) the valuations of Afterpay shares prepared by investment analysts.

13 The valuation range for Afterpay shares (on a 100% controlling interest basis) under each approach is summarised below (and is set out in detail in the subsequent sections of this report):

Afterpay – valuation summary (A$/share)

Methodology	Section	Valuation range Low	High
Market approach	VII	114	133
Income approach (DCF)	VIII	121	136
Listed market price(1)	IX	130	149
Investment analyst valuations(2)	IX	123	139
Adopted range		**115**	**135**

6 The value of merchandise sold through the Afterpay BNPL platform, often also referred to as gross merchandise value (GMV).

7 During FY21 Afterpay Net Margin replaced Afterpay NTM as a key performance metric for current and future reporting periods. In addition to merchant margin earned directly from Underlying Sales, Afterpay Net Margin includes other income and margin associated with the Afterpay platform (such as Money by Afterpay).

For personal use only

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Note:
1 Adjusted for a control premium.
2 The median and average investment analyst valuation was $127 per share and $130 per share respectively.

14 In relation to the above we note that:

(a) high valuations are currently being ascribed to the BNPL sector generally, reflecting (inter-alia):

(i) expectations for continued strong growth in revenue, as the BNPL share of the total online payments market is expected to increase substantially (particularly in the North American market); and

(ii) the potential for additional revenue streams (e.g. from selling advertising on the Afterpay app, providing banking solutions via a separate Money by Afterpay app and monetising lead referrals via affiliate arrangements etc.)

(b) the valuation range adopted under the "listed market price" approach has been derived by applying a 30% to 35% control premium to the volume weighted average price (VWAP) of Afterpay shares in the 10 trading days, one month and three month periods prior to the announcement of the Scheme

(c) whilst we consider the VWAP of Afterpay shares to be more reliable than the share price on a particular day, we note that the Afterpay share price was trending down over the VWAP periods and last traded before the Scheme announcement at A$96.66 per share (some 12% below the one month VWAP).

15 Having regard to the above, for the purposes of our report we have adopted a valuation range for Afterpay shares (on a 100% controlling interest basis) of A$115 to A$135 per share. This reflects a greater weighting towards the market and income approaches.

Value of Scheme Consideration

16 As noted above, the Scheme Consideration comprises a fixed exchange ratio of 0.375 Square shares for each Afterpay ordinary share.

17 We have assessed the value of Square shares offered as consideration pursuant to the Scheme at between US$230 and US$265 per share. This range is consistent with the trading range in Square shares following the announcement of the Scheme up to 29 October 2021.

18 We note that the Square share price subsequent to the announcement of the Scheme implicitly incorporates the market's view of the combined value of the two entities based on the terms of the Scheme, as well as the value attributable to the related synergies that are expected to be realised.

19 In this regard we note that a key benefit of the proposed transaction is that Afterpay will be integrated into Square's product offerings (Seller and Cash App), strengthening the connection between the respective platforms and increasing cross-selling opportunities between merchants and consumers. More specifically, based on statements made at the time of the Scheme announcement, we understand that:

For personal use only

(a) Afterpay will be integrated into Square's online and in-person checkout solutions, strengthening Square's omni-channel platform

(b) Afterpay consumers will be able to manage their instalments and repayments directly within Cash App, helping to drive repeat engagement

(c) Square intends to integrate the Afterpay app into the Cash App to help drive lead generation for merchants and consumer engagement

(d) the combination of Afterpay and Square creates opportunities to introduce new merchants to both platforms

(e) the combination of Afterpay and Square creates opportunities to give Afterpay consumers access to Cash App's broad suite of financial services products, and introduces Afterpay merchants to Cash App's extensive consumer base

(f) the combination of Afterpay and Square expands the geographical reach of Square, whilst enhancing the established position of Square in the North American market.

20 The commercial benefits associated with the above opportunities are expected to enhance Square's growth potential (particularly over the longer term) post implementation of the Scheme. This view also appears consistent with the opinions set out in investment analyst reports prepared following the announcement of the Scheme.

21 For the purpose of our report we have adopted a foreign currency exchange ratio of A$1.00 = US$0.73 having regard to the average exchange rate prevailing since the announcement of the Scheme. Accordingly the A$ equivalent of our assessed value of Square shares offered as consideration pursuant to the Scheme is between A$315 and A$363 per share.

22 We have therefore assessed the value of the Scheme Consideration to be received by Afterpay shareholders pursuant to the Scheme as set out below:

Value of Scheme Consideration	Low $	High $
Value of Square post transaction – per share (A$)	315	363
Exchange ratio	0.375	0.375
Value of Scheme Consideration	118	136

Fair and reasonable opinion

23 Pursuant to RG 111 a scheme is "fair" if the value of the scheme consideration is equal to or greater than the value of the securities the subject of the scheme.

24 This comparison for Afterpay shares is shown below:

Position of Afterpay shareholders	Low $ per share	High $ per share	Mid-point $ per share
Value of Scheme Consideration	118	136	127
Value of 100% of Afterpay	115	135	125
Extent to which the Scheme Consideration exceeds the value of Afterpay	3	1	2

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

25 As the value of the Scheme Consideration is consistent with our assessed valuation range for Afterpay shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is fair to Afterpay shareholders when assessed based on the guidelines set out in RG 111.

26 Pursuant to RG 111, a transaction is reasonable if it is fair. Consequently, in our opinion, the Scheme is also "reasonable".

In the best interests

27 There is no legal definition of the expression "in the best interests". However, RG 111 notes that if an expert concludes that a scheme is "fair and reasonable", or "not fair but reasonable", then the expert will also be able to conclude that the scheme is "in the best interests" of members of the company.

28 In our experience, if a transaction is "fair" and "reasonable" under RG 111 it will also be "in the best interests" of shareholders. This is because if the consideration payable pursuant to a scheme is fair, shareholders are implicitly receiving consideration for their shares which is consistent with the full underlying value of those shares.

29 We therefore consider that the Scheme is also "in the best interests" of Afterpay shareholders in the absence of a superior proposal.

Assessment of the Scheme

30 We summarise below the likely advantages and disadvantages of the Scheme for Afterpay shareholders.

Advantages

31 In our opinion, the Scheme has the following benefits for Afterpay shareholders:

(a) the value of the Scheme Consideration is consistent with our assessed value range for Afterpay shares on a 100% controlling interest basis. Thus, in our view, Afterpay shareholders are being paid an appropriate price to compensate them for the fact that control of Afterpay will pass to Square if the Scheme is approved and implemented

(b) the Scheme Consideration represents a significant premium to the recent market prices of Afterpay shares prior to the announcement of the Scheme on 2 August 2021

(c) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of Afterpay shares is likely to trade at a significant discount to our valuation and the Scheme Consideration due to the portfolio nature of individual shareholdings.

Disadvantages

32 In our opinion the Scheme has the following disadvantages for Afterpay shareholders:

(a) Afterpay shareholders will be diluted pursuant to the Scheme and will hold an aggregate interest of around 18.0%[8] in the combined entities (compared to 100% of Afterpay prior

[8] Our calculation differs slightly from the interest of 18.5% stated in the ASX announcement of the Scheme (on 2 August 2021), which assumed that Afterpay shares were issued as consideration for the acquisition of the respective minority interests and that these additional shares were then subject to the Scheme.

For personal use only

to the Scheme). However they will be shareholders in a significantly larger group with increased scale and diversification

(b) Afterpay shareholders will receive Class A shares in Square (or CDIs) as consideration. Due to the super voting rights of the Class B shares[9], Afterpay shareholders should note that the Class B shareholders are expected to continue to have voting control of Square

(c) Afterpay shareholders who elect to receive Square CDIs listed on the ASX as consideration should note that the liquidity in these CDIs is likely to be lower than the historical level of trading in Afterpay shares.

Conclusion

33 Given the above, we consider that the advantages of the Scheme significantly outweigh the disadvantages (particularly from a value perspective). Consequently, in our view, the acquisition of Afterpay shares under the Scheme is fair and reasonable and in the best interests of Afterpay shareholders in the absence of a superior proposal.

Other considerations

34 Afterpay shareholders should be aware that the listed market price of Square shares has exhibited significant volatility over recent years. The price at which Square shares may be sold may therefore be greater or less than our assessed realisable value of Square shares of US$230 to US$265 per share.

35 Further, given this high share price volatility and the relatively high revenue and gross profit multiples at which Square shares trade, any material decline in global equity markets (or technology stocks in particular) could potentially result in a relatively larger decline in the listed market price of Square shares[10].

36 Afterpay shareholders should also note that any decision to hold Square shares beyond the short term is a separate investment decision. As it is not possible to accurately predict future share price movements, any decision to hold Square shares should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions.

General

37 In preparing this report we have considered the interests of Afterpay shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

38 The impact of approving the Scheme on the tax position of Afterpay shareholders depends on the individual circumstances of each investor. Afterpay shareholders should read the Scheme

---

9 Class B shares carry ten votes per share, whereas Class A shares have one vote per share.

10 In our opinion, it is reasonable to assume that any potential adverse market movements that result in a material decline in the listed market price of Square shares are likely to also have a similar adverse impact on the listed market price of Afterpay shares in the absence of the Scheme. In this regard, we note that the table in paragraph 396 indicates that the ratio of the Afterpay share price relative to the Square share price (in Australian dollars) has been broadly consistent in the 6 month period prior to the announcement of the Scheme.

For personal use only

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Booklet and consult their own professional advisers if in doubt as to the taxation consequences of the Scheme.

39 The ultimate decision whether to approve the Scheme should be based on each Afterpay shareholder's assessment of their own circumstances. If Afterpay shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.

40 For our full opinion on the Scheme and the reasoning behind our opinion, we recommend that Afterpay shareholders read the remainder of our report.

Yours faithfully

Craig Edwards
Authorised Representative

Jorge Resende
Authorised Representative

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Table of contents

Section		Page
I	**Key terms of the Scheme**	**12**
	Terms	12
	Conditions	12
	Resolution	13
II	**Scope of our report**	**14**
	Purpose	14
	Basis of assessment	14
	Limitations and reliance on information	16
III	**Profile of Afterpay**	**18**
	Overview	18
	History	18
	Current operations	19
	Financial performance	27
	Financial position	31
	Share capital and performance	37
IV	**Profile of Square**	**41**
	Overview	41
	History	41
	Current operations	42
	Financial performance	47
	Financial position	50
	Share capital and performance	55
V	**BNPL industry overview**	**58**
	BNPL arrangements	58
	Consumer payment trends in Australia	60
	Addressable market	62
	Online payments	63
	Market participants	65
	BNPL and growth	68
	BNPL regulatory considerations	69
VI	**Valuation of Afterpay**	**70**
	Valuation methodologies	70
	Valuation summary	70

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Section		Page
VII	**Valuation of Afterpay under the market approach**	**72**
	Methodology	72
	Current operations by geographic region	73
	Valuation metrics implied by publicly listed BNPL companies	77
	Valuation metrics implied from BNPL transaction evidence	84
	Summary of adopted market multiples and implied values	88
	Valuation conclusion	90
	Allowance for minority interests and deferred and contingent consideration	91
	Valuation of Pay Now	92
	Net debt	93
	Share capital	93
	Valuation summary – market approach	93
VIII	**Valuation of Afterpay under the income approach**	**95**
	Methodology	95
	Present value of free cash flows over the Forecast Period	95
	Discount rate	96
	Terminal value	96
	Valuation summary – income approach	103
IX	**Valuation of Afterpay based on other evidence**	**104**
	Valuation based on listed market price	104
	Investment analyst valuations	104
X	**Valuation of Scheme Consideration**	**106**
	Approach	106
	Recent share prices	106
	Potential synergies	110
	Dilution	112
	Value placed on Square by investment analysts	112
	Number of Square shares to be issued as consideration	113
	Assessed value of Scheme Consideration	115
XI	**Evaluation of the Scheme**	**117**
	Assessment of the Scheme	117
	Other considerations	118
	Extent to which a control premium is being paid	118
	Extent to which Afterpay shareholders are being paid a share of synergies	120
	Exchange ratio implied by recent share trading	120
	Share price volatility	121
	Share liquidity	121
	Voting rights	122
	Recent share prices subsequent to the announcement of the Scheme	122
	Likely price of Afterpay shares if the Scheme is not implemented	123
	Likelihood of a superior proposal	123
	Summary of opinion on the Scheme	123

For personal use only

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Appendices

A	**Financial Services Guide**
B	**Qualifications, declarations and consents**
C	**Assessment of discount rate**
D	**BNPL regulatory considerations**
E	**Glossary**

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

I Key terms of the Scheme

Terms

41 An overview and key terms of the Scheme is set out at paragraphs 1 to 5.

Conditions

42 The Scheme is subject to the satisfaction or waiver of a number of conditions precedent, including the following which are outlined in the SID between Afterpay, Square and Lanai (AU) 2 Pty Ltd[11] dated 2 August 2021:

(a) respective regulatory approvals from, inter-alia, the following authorities:

(i) Foreign Investment Review Board and the NZ Overseas Investment Office before 5.00pm on the business day before the Second Court Date

(ii) ATO (in relation to the availability of scrip-for-scrip rollover relief for qualifying Australian resident Afterpay shareholders) before 8.00am on the Second Court Date

(iii) NYSE and ASX in respect of quotation of the new Square shares or CDIs to be issued as consideration under the Scheme before 8.00am on the Second Court Date

(iv) Spanish Council of Ministers and the Bank of Spain (in relation to the indirect transfer of Clearpay, S.A.U. and Clearpay, Technology S.L.U to Square) before 8.00am on the Second Court Date

(b) any waiting period applicable to the Scheme under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 in respect of Square has expired or been terminated

(c) approval of the Scheme by the Court in accordance with s411(4)(b) of the *Corporations Act 2001* (Cth) (Corporations Act)

(d) Afterpay and Square shareholder approval by the requisite majorities under the Corporations Act and NYSE listing rules respectively, and filing of the registration statement (Form S-4) by Square with the United States Securities Exchange Commission (SEC) if Square determines that such registration statement is required under the United States Securities Act of 1933 (Securities Act)

(e) Afterpay and Square have both performed or complied with all obligations, covenants and agreements required under the SID prior to 8.00am on the Second Court Date

(f) all representations and warranties of both Afterpay and Square under the SID are true and correct as at the date of the SID and, in relation to a number of representations and warranties, as at 8.00am on the Second Court Date, subject to certain materiality qualifiers

(g) no "Afterpay Prescribed Event" or "Square Prescribed Event" (as defined in clause 1.1 of the SID) occurs between the date of the SID and 8.00am on the Second Court Date

(h) no "Afterpay Material Adverse Effect" or "Square Material Adverse Effect" (as defined in clause 1.1 of the SID) occurs between the date of the SID and 8.00am on the Second Court Date

11 Lanai (AU) 2 Pty Ltd is an indirect wholly owned subsidiary of Square.

For personal use only

(i) no governmental authority has issued a temporary restraining order, preliminary or permanent injunction, decree, ruling or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the transaction and none of those things is in effect as at 8.00am on the Second Court Date

(j) other regulatory approvals which Square and Afterpay agree are necessary or desirable have been obtained and those approvals have not been withdrawn or revoked by 8.00am on the Second Court Date

(k) an independent expert issues a report which concludes that the Scheme is in the best interests of Afterpay shareholders before the date on which the Scheme Booklet is lodged with ASIC.

43 The SID contains customary exclusivity provisions in favour of Square, including no shop, no talk, no due diligence, notification of a competing proposal and a matching right[12].

44 Afterpay's no talk and no due diligence obligations do not apply to the extent they restrict Afterpay or its Board from taking or refusing to take any action with respect to a genuine competing transaction that did not result from a material breach of Afterpay's no shop, no talk or no due diligence obligations, provided that Afterpay's Board has determined in good faith after receiving advice from its financial and external legal advisers that:

(a) the proposed competing transaction is or would reasonably be expected to become a superior proposal; and

(b) failing to respond to the competing transaction would constitute a breach of the Afterpay Board's fiduciary or statutory obligations.

45 A break fee of A$385 million (equivalent to 1% of the equity value of Afterpay implied by the Scheme Consideration) is payable by either Afterpay to Square or Square to Afterpay in certain circumstances as specified in the SID.

Resolution

46 Afterpay shareholders will be asked to vote on the Scheme in accordance with the resolution contained in the notice of meeting accompanying the Scheme Booklet.

47 If the resolution is passed by the requisite majorities, Afterpay must apply to the Court for orders approving the Scheme, and if that approval is given, lodge the orders with ASIC and do all things necessary to give effect to the Scheme. Once the Court approves the Scheme it will become binding on all Afterpay shareholders who hold Afterpay shares as at the Scheme Record Date, whether or not they voted for the Scheme (and even if they voted against the Scheme).

12 Subject to any potential breach of fiduciary duties, Afterpay must notify Square if it receives a superior competing proposal and give Square at least five business days to match that competing proposal.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

II Scope of our report

Purpose

48 The Scheme is to be effected pursuant to Part 5.1 of the Corporations Act, which governs schemes of arrangement. Part 3 of Schedule 8 of the Corporations Regulations prescribes information to be sent to shareholders in relation to a member's scheme of arrangement pursuant to s411 of the Corporations Act.

49 Paragraph 8303 of Schedule 8 of the Corporations Regulations provides that, where the other party to the transaction holds not less than 30% of the voting shares in the company the subject of the scheme, or where a director of the other party to the transaction is also a director of the company the subject of the scheme, the explanatory statement must be accompanied by an IER assessing whether the proposed scheme is in the best interests of shareholders and state reasons for that opinion.

50 Square has no current shareholding in Afterpay and has no representation on the Afterpay Board. Accordingly, there is no regulatory requirement for an IER to be prepared for Afterpay shareholders pursuant to the Corporations Act or the ASX Listing Rules.

51 However, the Scheme is subject to a number of conditions precedent, including an independent expert concluding and continuing to conclude that the Scheme is in the best interests of Afterpay shareholders. In addition:

(a) the Directors' recommendation of the Scheme is subject to an independent expert concluding, and continuing to conclude, that the Scheme is in the best interests of Afterpay shareholders in the absence of a superior proposal

(b) as the Scheme is considered a change of control transaction, RG 111 also requires any appointed independent expert to provide an opinion on whether the Scheme is fair and reasonable.

52 The Directors of Afterpay have therefore requested LEA to prepare an IER stating whether the proposed acquisition of the shares in Afterpay by Square under the Scheme is fair and reasonable and in the best interests of Afterpay shareholders and the reasons for that opinion.

53 This report has been prepared by LEA for the benefit of Afterpay shareholders to assist them in considering the resolution to approve the Scheme. Our report will accompany the Notice of Meeting and Scheme Booklet to be sent to Afterpay shareholders. The sole purpose of our report is to determine whether, in our opinion, the Scheme is fair and reasonable and in the best interests of Afterpay shareholders.

54 The ultimate decision whether to approve the Scheme should be based on each Afterpay shareholder's assessment of their own circumstances. If in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

55 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC including, in particular, RG 111, which, inter-alia, provides guidance as to how an expert should assess the merits of a transaction.

For personal use only

56 When an IER is prepared for a scheme that involves a change of control (like the proposed Scheme concerning Afterpay)[13], ASIC expects the form of the analysis undertaken by the expert to be substantially the same as for a takeover bid. That is, the expert is required to assess and provide an opinion on whether the scheme is "fair" and "reasonable" to the shareholders of the company which is the subject of the scheme (in addition to the inclusion of a statement as to whether the scheme is "in the best interests" of shareholders, being the opinion required under Part 3 of Schedule 8 of the Corporations Regulations).

57 Fairness involves the application of a strict quantitative test that compares the value of the consideration offered against the value of the shares that are the subject of the scheme (assuming 100% ownership of the target company and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length, noting that any special value that may be derived by a particular "bidder" should not be taken into account[14]). A scheme is "fair" if the value of the scheme consideration is equal to, or greater than the value of the shares that are the subject of the scheme. Fairness effectively measures whether shareholders (in the company the subject of the scheme) are being compensated for the actual (or deemed) change of "control" in ownership.

58 Reasonableness involves the consideration of other significant quantitative and qualitative factors that shareholders might consider prior to accepting a proposal (e.g. the bidder's existing shareholding in the company, the likely market price of the company's shares if the scheme is unsuccessful, the likelihood of a superior alternative offer emerging etc.). A scheme is considered "reasonable" if it is "fair". A scheme may also be considered "reasonable" if, despite being "not fair", the expert believes there are sufficient reasons for shareholders to vote in favour of the scheme, in the absence of a superior proposal.

59 There is no legal definition of the expression "in the best interests". However, RG 111 notes that if an expert concludes that a scheme is "fair and reasonable", or "not fair but reasonable", then the expert will also be able to conclude that the scheme is "in the best interests" of members of the company.

60 Similarly, RG 111 notes that if an expert concludes that a scheme is "not fair and not reasonable", then the expert would need to conclude that the scheme is "not in the best interests" of members of the company.

61 Having regard to the above, our report has therefore considered:

Fairness

(a) the market value of 100% of the shares in Afterpay

(b) the value of the consideration offered by Square (based on the minority interest value of Square shares post implementation of the Scheme)

(c) the extent to which (a) and (b) differ (in order to assess whether the Scheme is fair under RG 111)

---

13 A transaction where a person's voting power increases from below 20% to more than 20%, or from a starting point that is above 20% and below 90%.

14 Synergies that are not available to other bidders.

For personal use only

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Reasonableness

(d) the extent to which a control premium is being paid to Afterpay shareholders

(e) the extent to which Afterpay shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction

(f) the listed market price of Afterpay shares, both prior to and subsequent to the announcement of the proposed Scheme

(g) the likely market price of Afterpay shares if the Scheme is not approved

(h) the value of Afterpay to an alternative offeror and the likelihood of a higher alternative offer being made for Afterpay prior to the date of the Scheme meeting

(i) the advantages and disadvantages of the Scheme from the perspective of Afterpay shareholders

(j) other qualitative and strategic issues associated with the Scheme.

Limitations and reliance on information

62 Our opinions are based on the economic, share market, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

63 Our report is also based upon financial and other information provided by Afterpay and Square and their respective advisers. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

64 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Scheme from the perspective of Afterpay shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.

65 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together, could create a misleading or incorrect view or opinion. This report is a result of a complex valuation process that does not lend itself to a partial analysis or summary.

66 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

For personal use only

67 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

68 In forming our opinion, we have also assumed that:

(a) the information set out in the Scheme Booklet is complete, accurate and fairly presented in all material respects

(b) if the Scheme becomes legally effective, it will be implemented in accordance with the terms set out in the SID and the terms of the Scheme itself.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

III Profile of Afterpay

Overview

69 Founded in 2014, Afterpay is a technology driven payments company that provides service and software infrastructure to enable retail merchants to offer the ability for customers to buy goods and services online and in-store on a BNPL basis. As at 30 June 2021, the Company's BNPL platform had over 16.2 million Active Customers[15] and was offered by almost 100,000 merchants globally. Afterpay's BNPL platform is available in Australia, NZ, the US and Canada and in the UK, France, Italy and Spain, where it operates under the Clearpay brand.

History

70 A summary of the key historical developments of Afterpay is set out below:

Afterpay – history	
Date	**Key development**
2014	• Afterpay was founded by Mr Nick Molnar and Mr Anthony Eisen with technology developed and maintained by Touchcorp Limited (Touchcorp)
2015	• Fashion group Princess Polly was Afterpay's first retail merchant
2016	• On 4 May 2016, Afterpay listed on the ASX, raising A$25 million. At the time of the initial public offering (IPO), Afterpay had 100 retail merchant clients and revenue of A$0.1 million
2017	• Afterpay reached 1.0 million Active Customers and commenced operations in NZ • In June 2017, the Afterpay Touch Group was formed following the merger of Afterpay and Touchcorp
2018	• On 16 January 2018, Afterpay announced a strategic partnership with the US based venture capital firm Matrix Partners (Matrix) who invested A$18.9 million in Afterpay • Afterpay entered the US market through the incorporation of Afterpay US Inc (Afterpay US). Under this arrangement: – Afterpay US issued convertible notes to Matrix which provided Matrix with an entitlement to Afterpay shares based on up to 10% of the future value of Afterpay US in excess of A$50 million (Matrix Convertible Notes) – a future entitlement of up to 10% of Afterpay was also granted to employees of Afterpay US through its 2018 Equity Incentive Plan (US ESOP) • Afterpay expanded into the UK market via the acquisition of 90% of Clearpay Finance Limited (Clearpay) in August 2018 for 1.0 million Afterpay shares (with an option to purchase the remaining shares in the future based on agreed valuation principles). 3.5% of the remaining 10% of Clearpay shares not owned by Afterpay was used to establish an employee share plan for certain Clearpay employees
2019	• On 12 June 2019, Afterpay successfully raised A$317.2 million via a fully underwritten institutional placement to support Afterpay's international growth and expansion
2020	• On 21 August 2020, Afterpay accelerated its planned expansion into Europe, entering into an agreement to acquire 100% of Pagantis SAU and PMT Technology SLA (Pagantis) for minimum consideration of €50 million (excluding contingent consideration). At the time of the acquisition, Pagantis provided a range of BNPL and traditional credit services in Spain, France and Italy and had regulatory approval to also operate in Portugal and a pending application to passport its payment institution licence into Germany • On 26 August 2020, Afterpay launched into the Canadian market

15 Active Customers are those that have transacted at least once in the last 12 months.

For personal use only

Afterpay – history	
Date	**Key development**
2021	• On 25 February 2021, Afterpay announced an offering of A$1.25 billion unsecured zero coupon convertible notes due in 2026, with an option to increase this amount by up to A$0.25 billion. On 26 February 2021 Afterpay successfully priced A$1.5 billion of convertible notes. The proceeds of the convertible notes were used for the: – Matrix Transaction – Afterpay entered into an agreement to extinguish 35% of the 10% underlying interest Matrix held in Afterpay US (i.e. 3.5% of Afterpay US) under the Matrix Convertible Notes for A$373 million. Following completion of the transaction the number of Afterpay shares that may be issued upon conversion of the Matrix Convertible Notes was reduced to 6.5% of the future value of Afterpay US in excess of US$50 million – Tender Offer – Afterpay offered eligible US ESOP participants the ability to exchange their vested and unvested shares in Afterpay US at the same implied valuation as the Matrix Transaction. The Tender Offer resulted in the purchase of 2.0 million vested shares and vested options from US ESOP participants for A$202.6 million. The remaining 4.7 million vested shares and vested options were converted to Afterpay shares at a conversion rate of 0.7186 – additional capital to support Underlying Sales growth • In March 2021, Afterpay completed the acquisition of Pagantis and progressed with the launch of its Clearpay service in Europe (with Spain, France and Italy the first countries to go live with Clearpay)

Current operations

71 Afterpay is headquartered in Melbourne, Australia and employs more than 1,300 staff globally. The Company has grown to be an integrated e-commerce platform focused on BNPL products and marketing lead generation capabilities. As at 30 June 2021, the Company had over 16.2 million Active Customers and almost 100,000 merchants. Its primary markets of focus are Australia and New Zealand (ANZ), North America (US and Canada) and the UK and Europe[16].

Business model

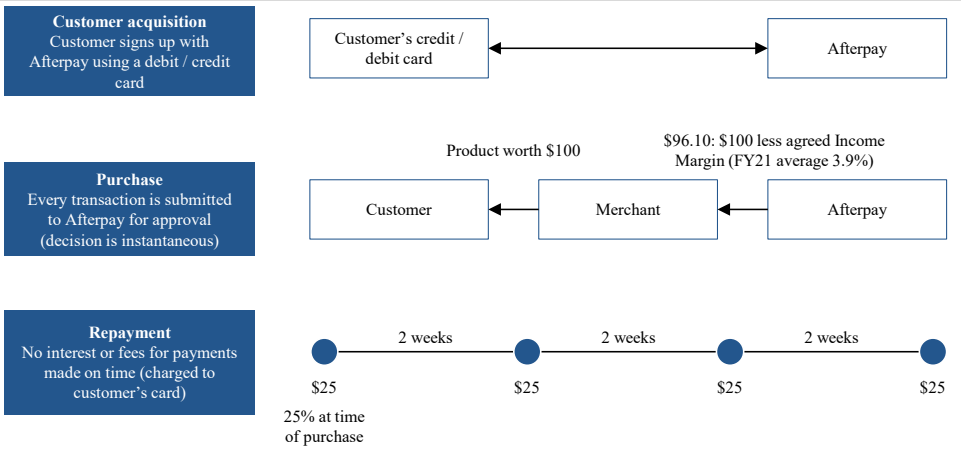
72 The Afterpay business model is built around a core BNPL product, an overview of which is set out below:

16 Notwithstanding that Afterpay expanded into Europe during March 2021, the contribution from Afterpay's European operations were relatively immaterial during FY21. Accordingly, for the purposes of this section historical references to the UK region in FY21 (which include Afterpay's European operations) are referred to as the UK region only.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Afterpay – BNPL arrangement[1]



Note:
1 Illustrative BNPL arrangement only. Afterpay allows some customers to undertake purchases without an upfront payment at the time of transaction. Repayments for these purchases are made over eight weeks via four equal instalments (the first being two weeks after the purchase date). Afterpay also enables select customers to make an upfront variable payment at the time of purchase.

73 A summary of the BNPL arrangement from a merchant's perspective is as follows:

(a) Afterpay integrates directly into a merchant's website or point-of-sale software

(b) merchants can then offer products to end-customers on a BNPL basis

(c) when a customer elects to pay for the merchant's product on a BNPL basis using Afterpay, Afterpay typically settles the order value (minus the merchant fee) with the merchant the following day. Afterpay is then repaid by the end-customer in four equal instalments.

74 Afterpay has made significant investment in its online and mobile platforms, which is enabling the business to evolve from a BNPL focused provider into a more integrated e-commerce and marketing lead generation platform. During the second half of FY21, lead referrals from Afterpay's online shop directory grew to approximately 1.0 million leads per day, which highlights one of the benefits available to merchants who integrate with the Afterpay platform and utilise its core BNPL offering.

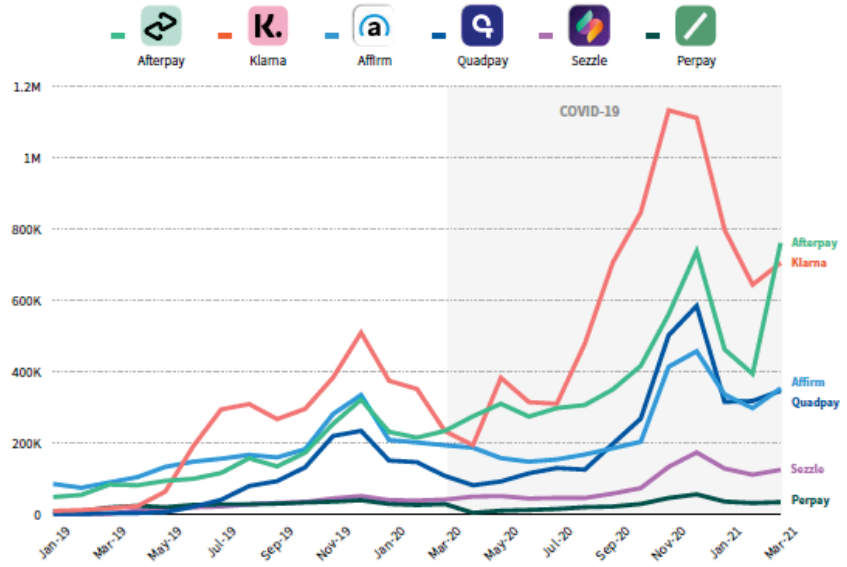
75 In addition, Afterpay has recently announced the development of new products and services aimed at creating further value for merchants and customers. These include a one-time use in-app payment flow via virtual card, in-app advertising options, the Afterpay iQ data analytics tool to optimise consumer engagement and generate revenue from integrated merchant and affiliate advertising expenditure and a separate money and lifestyle app developed with Westpac (Money by Afterpay). Further details of these initiatives are set out in paragraph 95 below.

76 As at 30 June 2021, the Afterpay app had been downloaded by more than 6.2 million customers in ANZ, 10.5 million customers in North America and 1.4 million customers in the UK (as the Clearpay app). As indicated below, Afterpay's app has been one of the most

For personal use only

downloaded payment solution apps in the US and has exceeded the rate of downloads for most of its BNPL peers:

Monthly US downloads of top payment solution apps



Source: Sensor Tower Inc (2021): *The State of Payment Apps: An Analysis of Payment App Market Trends and Top Apps in the U.S.*, page 27.

77 Afterpay's revenue model is based on fees levied to merchants as a percentage of the Underlying Sales processed through its BNPL platform (during FY21 Afterpay's Income Margin was sustained at 3.9% of Underlying Sales). Customers who pay on time do not incur any fees (or interest) during the BNPL arrangement, whilst those who do not meet repayment obligations incur capped late fees. Fees levied for late repayments vary across each jurisdiction but are capped and do not accumulate over time.

78 Afterpay also operates the Pay Now business, which comprises the Mobility and Health platforms[17]. Pay Now is not related to the Afterpay BNPL platform and generates revenues via transaction fees for delivery of completed transactions and integration fees to connect new, or grant existing customers access to additional service models.

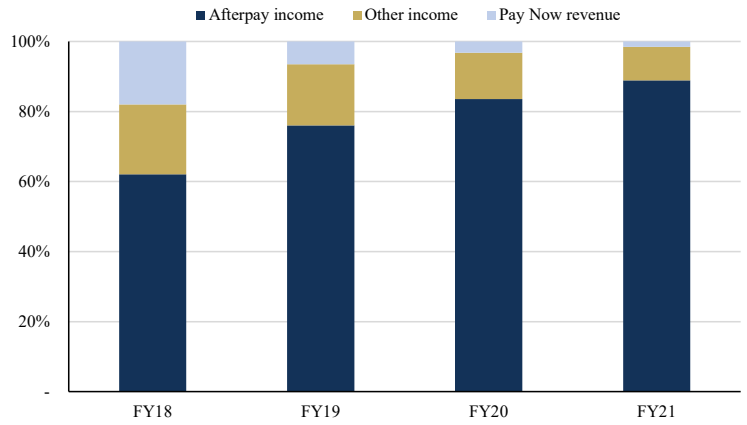
79 A breakdown of Afterpay's revenue by source over the four years to 30 June 2021 (FY21) is set out below:

17 During FY21 Afterpay wound down the e-Services Australia business unit.

For personal use only

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Afterpay – revenue by source



80 As indicated above, Afterpay income (i.e. income from merchants[18]) has increased in recent periods and currently accounts for approximately 89% of Afterpay's revenue. Other income (which primarily relates to late fees[19]) has decreased to represent less than 10% of Afterpay's total revenue. As the BNPL business has grown significantly, Pay Now revenue as a proportion of total revenue has decreased to less than 2% of total sales. Pay Now revenue has also declined in dollar terms since FY18, which is primarily attributable to the divestment of the European e-Services business unit in FY19 and the wind down of the e-Services Australia business unit during FY21.

81 Afterpay doesn't seek to make money and profit from late fees, noting the low and capped late fees charged to customers are generally less than the transaction losses and collection costs incurred from late payments (i.e. Afterpay generally loses rather than makes money when customers pay late). Accordingly, the Afterpay platform is designed to encourage responsible spending behaviour. For example, if a customer misses a payment, they are unable to undertake further purchases using Afterpay until payments are up-to-date. In addition, customers commence on low limits, which only increase over time and as they demonstrate positive repayment behaviour.

82 Afterpay's BNPL business model provides tangible benefits to both its retail merchant clients and their end-customers. A summary of the key benefits is set out below:

18 In FY21 Afterpay income also included affiliate fees and interchange earned from the US virtual one-time use card.

19 In FY21 Other Income also included contributions associated with Money by Afterpay and newly acquired non-core international products that will be discontinued.

For personal use only

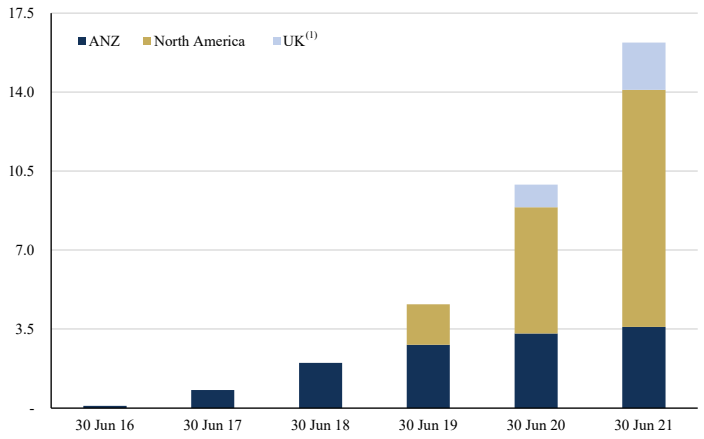
Afterpay BNPL platform	
User of	**Benefits**
Merchants	Afterpay's BNPL platform provides merchants with the potential for: • higher sales and shopping cart sizes • lower abandonment of shopping carts online • better integration of payments and conversion due to lower payment failures (particularly for online e-commerce sales) • increased brand relevance and customer engagement • increase in repeat purchasing
End-customer	Afterpay's BNPL platform provides end-customers with the following benefits: • provided repayments are made on time, customers can take the product home / have it delivered instantly, while repaying the purchase price over six to eight weeks (depending on whether the first instalment is required at the time of purchase) without incurring fees or interest • is more intuitive and user friendly and less information intensive compared to a traditional loan or credit card product, which may cause a delay or failure to complete a purchase

83 The financial performance of Afterpay is underpinned by a number of key drivers, including the number of Active Customers and Active Merchants and the level of Underlying Sales.

Active Customers

84 Over the five years to 30 June 2021, the number of Active Customers using Afterpay's BNPL platform has grown significantly year on year, to more than 16.2 million globally[20]:

Afterpay – Active Customers (millions)



Note:
1 Notwithstanding that Afterpay expanded into Europe during March 2021, the contribution from Afterpay's European operations was relatively immaterial during FY21.

85 Recent growth in Afterpay's Active Customer base has been primarily driven by expansion into the North American market, which accounted for some 10.5 million customers (or 65%) of the total as at 30 June 2021. Growth in Active Customers has also been attributable to the

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

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

acquisition and subsequent expansion of the Clearpay business in the UK. Notwithstanding the impressive growth to date in these markets, Afterpay's penetration rates in the US and UK remain relatively low when compared to the experience in the ANZ region, as shown below:

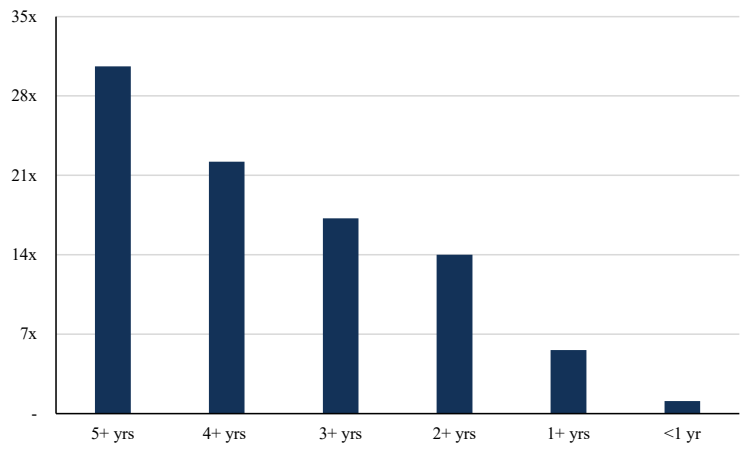
Afterpay – Active Customers by region

	ANZ	North America	UK
Active Customers as at 30 June 21 (million)	3.6	10.5	2.1
Combined / total country population[(1)] (million)	30.8	370.4	66.1
Percentage of population	11.7%	2.8%	3.2%

Note:
1 As at 1 July 2021. Comprising populations for Australia and NZ of 25.8 million and 5.0 million respectively. Comprising populations for the US and Canada of 332.5 million and 37.9 million respectively.
Source: US Census Bureau.

86 While growth in Active Customers is a key driver, the number of annual purchases per Active Customer (Customer Frequency) is also important to Afterpay's growth. From experience to date, Afterpay has noted that customers who have been using the platform for longer generally transact more frequently. For example, ANZ customers that have been using Afterpay for five or more years transact on average 31 times per annum. This is substantially higher than customers who have used Afterpay for less time, as shown below:

Afterpay – annual transactions by customer cohort (ANZ region)



87 Afterpay's BNPL platform is primarily used by Millennial and Gen Z demographics, with these demographic cohorts collectively accounting for over 70% of Afterpay's Active Customer base[21]. The weighted average age of Afterpay's Active Customers as at 30 June 2021 was approximately 34 years.

21 Millennial customers are those born between 1980 and 1994. Gen Z customers are those born between 1995 and 2015.

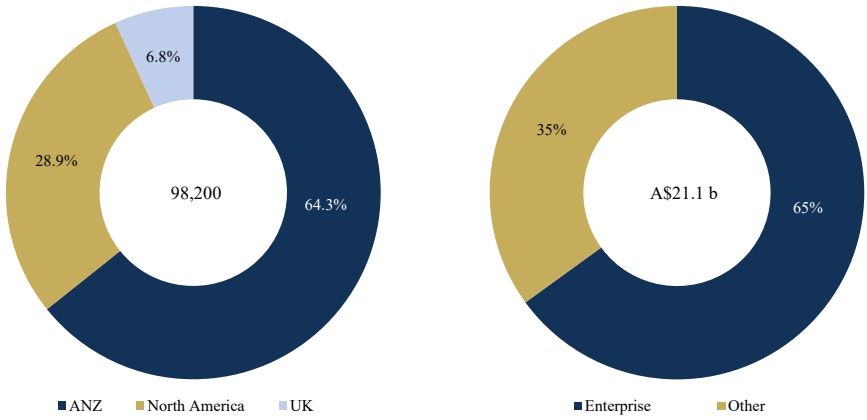
For personal use only

Active Merchants

88 As at 30 June 2021, Afterpay had almost 100,000 Active Merchants[22] using its BNPL platform, comprising a range of merchants from small to medium size businesses to large enterprise merchants. An overview of the composition of Afterpay's Active Merchants is set out below:

Afterpay – Active Merchants and tier mix

Active Merchants by region 30 June 21	Company merchant tier mix (% FY21 Underlying Sales)



89 During the year to 30 June 2021, Afterpay added over 42,000 new merchants, of which approximately half were located in the ANZ region. While Afterpay's merchants comprise a number of small and medium size businesses, enterprise merchants (essentially large merchants) continue to account for a greater proportion of BNPL Underlying Sales generated by Afterpay.

90 Afterpay has continued to integrate merchants to both its in-store and online offering, with in-store purchases supported by the recent rollout of Afterpay's in-store card across Australia, NZ and the US. Afterpay's in-store card can be added to a customer's digital wallet via the Afterpay App and enables the customer to seamlessly purchase products from Afterpay merchants in-store. As at 30 June 2021, Afterpay's in-store card had been added to the digital wallet of more than 1.4 million customers in Australia and is scheduled to be rolled out to UK customers in the December 2021 quarter.

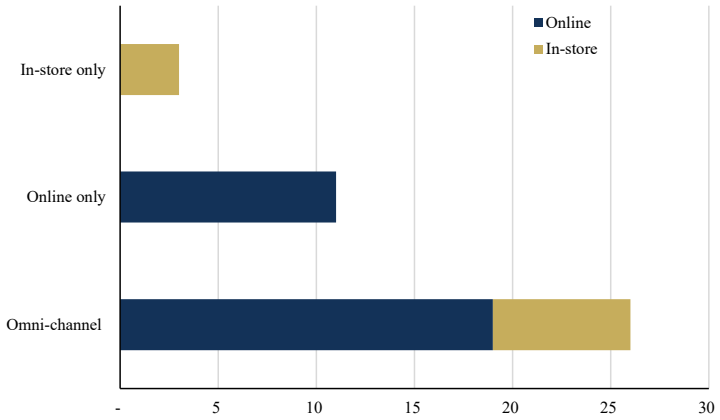
91 Afterpay's omni-channel approach has been proven to drive higher Customer Frequency than single channel customers, as shown below:

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

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Afterpay – Customer Frequency by purchase channel and customer channel (FY21)

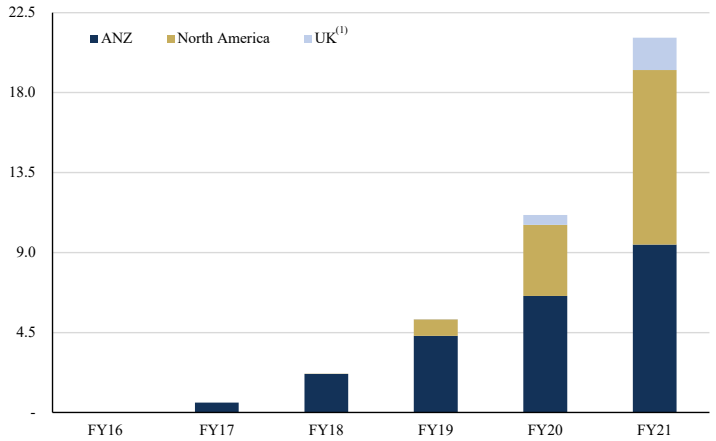


92 Given the above, and as a greater number of merchants sign up for omni-channel partnerships with Afterpay, there is increased potential for higher levels of Customer Frequency. In addition, the rollout of Afterpay's in-store card (as outlined above) has the potential to increase in-store sales.

Underlying Sales

93 Underlying Sales represents the value of merchandise sold through the Afterpay BNPL platform. Afterpay's Underlying Sales have increased significantly in recent years, attributable to a combination of growth in the number of Active Merchants and growth in the Company's Active Customer base, as well as the frequency at which these customers transact:

Afterpay – Underlying Sales
A$b



Note:
1 Notwithstanding that Afterpay expanded into Europe during March 2021, the contribution from Afterpay's European operations was relatively immaterial during FY21.

For personal use only

94 Following the significant increase in Afterpay's Active Customer base in North America in FY21, Underlying Sales for this region increased above the ANZ region for the first time. However, growth in Underlying Sales for the ANZ region is now less reliant on increases in Active Customer numbers and more reliant on increases in Customer Frequency. Customer Frequency in the ANZ region has also been supported by the continued growth in the number of Active Merchants and expansion into new verticals.

New products / innovation

95 In FY21 Afterpay announced the development of a range of new products and enhancement of existing services that leverage the success of its BNPL platform and provide further value to its customers and merchants. These also offer new revenue stream potential, and include:

(a) Afterpay Ads – this assists retailers with advertising on the Afterpay app. Afterpay ads offers merchants a way to promote their offers, products, and collections to Afterpay's audience. Merchants can choose the products they would like to promote via sponsored listings formats such as sponsored deals, products, and collections and pay when users engage with those merchants enabling Afterpay to derive affiliate commissions and advertising fees

(b) Afterpay iQ – a data analytics service that will provide merchants with consumer insights to optimise marketing investment. The launch of Afterpay iQ is also expected to further enhance the value proposition of Afterpay's in-app advertising services

(c) Cross Border Trade – was expanded across all operating regions during FY21 and enables consumers to shop globally integrated merchants. During FY21 several new Global Channel Partnerships went live including Cybersource, Wix, Stripe, Squarespace and Adyen

(d) One-time use virtual card – Afterpay introduced a new payment flow in the US that enables consumers to shop with merchants that are not directly integrated with Afterpay by using a one-time virtual card to facilitate the purchase. The payment details are automatically populated at checkout, ensuring a seamless checkout experience

(e) Money by Afterpay – a separate money and lifestyle app designed for customers that builds financial confidence and provides money management experience. During FY21, Afterpay trialled the application ahead of a full launch and generated revenue of A$0.9 million from this service.

Financial performance

96 The financial performance of Afterpay for the four years ended 30 June 2021 (FY21) is set out below:

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Afterpay – statement of financial performance[1]	FY18 A$m	FY19 A$m	FY20 A$m	FY21 A$m
Afterpay income	88.3	200.9	433.8	822.3
Pay Now revenue	25.6	17.1	16.5	13.8
Other income	28.4	46.1	68.8	88.6
Total income	142.3	264.1	519.2	924.7
Cost of sales	(28.2)	(59.6)	(134.3)	(249.6)
Gross profit	114.1	204.6	384.9	675.1
Operating expenses	(79.0)	(178.8)	(340.5)	(636.4)
EBITDA[2] before significant items	35.2	25.7	44.4	38.7
Depreciation and amortisation	(17.3)	(22.4)	(30.0)	(39.0)
Share based payments	(16.4)	(30.5)	(30.5)	(59.0)
Significant items[3]	(3.0)	(4.5)	10.4	(101.6)
Net finance income / (expense)	(6.1)	(11.1)	(21.1)	(33.3)
Loss before tax	(7.6)	(42.8)	(26.8)	(194.2)
Income tax benefit / (expense)	(1.4)	(1.0)	3.9	34.8
Loss after tax	(9.0)	(43.8)	(22.9)	(159.4)
Underlying Sales ($b)	*2,185*	*5,247*	*11,114*	*21,087*
Afterpay income (% Underlying Sales)	*4.0%*	*3.8%*	*3.9%*	*3.9%*
Active Customers at period end (million)	*2.0*	*4.6*	*9.9*	*16.2*
Underlying Sales per Active Customer ($)	*1,092*	*1,141*	*1,123*	*1,302*

Note:

1 Rounding differences exist.

2 Earnings before interest, tax, depreciation and amortisation (EBITDA).

3 Significant items comprise the following

Foreign currency gains	-[4]	3.0	19.9	9.9
Business combination / expansion costs	(3.0)	(7.6)	(2.7)	(13.4)
Net loss on financial liabilities at fair value	-	-	(2.0)	(96.8)
Share of loss of associate	-	-	(1.1)	(2.3)
Gain on dilution of shareholding in associate	-	-	-	5.7
Other	-	0.2	(3.7)	(4.7)
Total significant items	(3.0)	(4.5)	10.4	(101.6)

4 Afterpay's reported EBITDA before significant items for FY18 did not classify the A$1.4 million foreign currency gain as a non-recurring (or significant) item.

97 The following also provides a breakdown of Afterpay's financial performance by geographical segment:

For personal use only

Afterpay – segment results	FY18 A$m	FY19 A$m	FY20 A$m	FY21 A$m
Asia Pacific[1]	116.3	207.9	313.7	427.4
North America	0.5	39.0	162.7	390.8
Clearpay[2]	-	0.1	26.2	92.7
Pay Now	25.6	17.1	16.5	13.8
Total revenue	142.3	264.1	519.2	924.7
Asia Pacific[1]	43.7	87.9	142.2	195.2
North America	(2.7)	(24.6)	(47.0)	(101.1)
Clearpay[2]	-	(4.4)	(12.9)	13.6
Pay Now	7.2	4.9	6.5	8.8
Corporate	(13.1)	(38.1)	(44.4)	(77.8)
EBITDA before significant items	35.2	25.7	44.4	38.7
EBITDA before significant items margin				
Asia Pacific[1]	*37.6%*	*42.3%*	*45.3%*	*45.7%*
North America	*nm*	*(63.0%)*	*(28.9%)*	*(25.9%)*
Clearpay[2]	*n/a*	*nm*	*(49.2%)*	*14.6%*
Total	*24.7%*	*9.7%*	*8.6%*	*4.2%*

Note:
1 Essentially the Australia and New Zealand operations.
2 Notwithstanding that Afterpay expanded into Europe during March 2021, the contribution from Afterpay's European operations was relatively immaterial during FY21 (i.e. Clearpay primarily relates to the UK).
n/a – not applicable. nm – not meaningful.

98 Services provided between operating segments are on an arm's length basis and are eliminated on consolidation. Segment EBITDA (excluding significant items) does not include an allocation of operating costs related to the group functions (e.g. legal, human resources, finance, information technology etc.).

99 Afterpay's Net Margin[23] is a key financial metric for the Company and represents Afterpay's gross profit inclusive of losses and funding costs on consumer receivables plus the margin associated with the Afterpay platform. The table below sets out a breakdown of Afterpay's Net Margin for the four years to FY21:

23 During FY21 Afterpay Net Margin replaced Afterpay NTM as a key performance metric for current and future reporting periods. In addition to merchant margin earned directly from Underlying Sales, Afterpay Net Margin includes other income and margin associated with the Afterpay platform (such as Money by Afterpay).

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Afterpay – Net Margin	FY18 A$m	FY19 A$m	FY20 A$m	FY21 A$m
Afterpay income	88.3	200.9	433.8	822.3
Net transaction loss[1]	(9.3)	(22.2)	(42.8)	(132.6)
Other variable transaction costs	(23.3)	(52.8)	(128.9)	(244.8)
Finance costs	-	(6.5)	(11.9)	(12.0)
Other margin	-	-	-	1.2[2]
Afterpay Net Margin	55.7	119.3	250.2	434.1
Pay Now margin	10.4	10.4	11.1	9.2
Group Net Margin	66.1	129.7	261.3	443.3
Underlying Sales ($b)	*2,185*	*5,247*	*11,114*	*21,087*
Afterpay Income / Underlying Sales)	*4.0%*	*3.8%*	*3.9%*	*3.9%*
Afterpay Net Margin (% Underlying Sales)	*2.6%*	*2.3%*	*2.3%*	*2.1%*

Note:

1 Net transaction loss calculated as follows

Late fees	28.4	46.1	68.8	87.3
Receivables impairment expenses	(32.6)	(58.7)	(94.5)	(194.9)
Charges and debt recovery costs	(5.1)	(9.7)	(17.1)	(25.0)
Net transaction loss	(9.3)	(22.2)	(42.8)	(132.6)

2 Relates to Money by Afterpay and other margin.

Historical financial performance

100 During the period from FY18 to FY21, Afterpay has grown its BNPL Underlying Sales at a compound annual growth rate (CAGR) of 112.9% per annum from A$2.2 billion to A$21.1 billion. This was attributable to the significant increase in Active Customers as well as Customer Frequency, supported by the substantial increase in Active Merchants. We also note that over this period:

(a) Afterpay's Merchant Income Margin was maintained in FY21 at 3.9% notwithstanding the increased contribution from the North America region has grown to represent Afterpay's largest region in terms of Underlying Sales

(b) Afterpay has made a conscious decision to scale the Company internationally by expanding into new markets and by growing market share and Underlying Sales with current profitability a secondary focus. As a result, the Company's overall EBITDA margins have reduced

(c) Underlying Sales for all three of its major regions has grown significantly.

101 Further commentary regarding Afterpay's historical financial performance by segment is set out in Section VII.

FY22 outlook

102 Whilst Afterpay has not provided specific guidance for FY22, the Company has provided the following commentary as part of its FY21 Results Announcement:

For personal use only

"Afterpay will scale and unlock further global growth opportunities during FY22 by:

- *Consolidating our leadership across existing geographies*
- *Further enhancing the consumer experience and frequency with the launch of Money by Afterpay, expansion of new income streams, and the revamped Pulse Loyalty program*
- *Investing in our dual online and offline approach to merchant and customer-led growth*
- *Growing our digital marketing capabilities with the launch of Afterpay iQ, our new merchant insights platform*
- *Maintaining investment into our customer-aligned, low risk and self-reinforcing business model that is capital efficient and differentiated from traditional consumer lending businesses"*

Financial position

103 The financial position of Afterpay as at 30 June 2020 and 30 June 2021 is set out below:

Afterpay – statement of financial position[1]	30 Jun 20 A$m	30 Jun 21 A$m
Consumer receivables and other debtors (net of credit loss provision)	781.9	1,454.1
Other current assets	6.7	29.8
Creditors, accruals and provisions	(187.4)	(323.2)
Net working capital	601.2	1,160.6
Plant and equipment	5.1	8.1
Intangible assets / goodwill	106.6	227.5
Deferred tax assets	78.3	156.1
Investment in associate	5.2	23.6
Other assets	0.2	6.0
Provisions (non-current)	(0.8)	(1.9)
Right of use asset (net of lease liabilities)	(0.4)	(0.2)
Total funds employed	795.3	1,579.8
Cash and cash equivalents	606.0	1,147.1
Other financial assets[3]	11.6	30.0
Secured interest bearing borrowings[4]	(461.6)	(1,286.4)
Other financial liabilities	(4.9)	(166.6)
Net cash / (borrowings)	151.1	(275.9)
Net assets attributable to Afterpay shareholders	946.4	1,303.9

Note:

1 Rounding differences exist.

2 Under Australian Accounting Standard AASB 16 – *Leases*, the present value of operating lease liabilities is recognised as a liability and a corresponding "right of use" asset is recognised (and amortised over the life of the lease). Afterpay applied this standard for the first time on 1 July 2019.

3 Includes restricted cash of some A$1.5 million and A$13.8 million as at 30 June 2020 and 30 June 2021 respectively. Restricted Cash relates to cash held with banks and other financial service providers as collateral for daily cash settlements with merchants and payments to funding providers.

4 Net of capitalised borrowing costs of A$4.9 million and A$0.2 million as at 30 June 2020 and 30 June 2021 respectively.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Net working capital

104 Afterpay operates with a positive net working capital balance due to the nature of its BNPL business model. With each Afterpay transaction, the Company cash settles the purchase price of a customer sale (minus the merchant fee) to a retail merchant in exchange for a consumer receivable to be repaid over four equal fortnightly instalments. As a result of this, the level of creditors relative to customer receivables is significantly lower. In addition, Afterpay has a number of receivables warehouse funding facilities in place (details of which are set out below) to provide future funding for consumer receivables as required.

Intangible assets and goodwill

105 Intangible assets and goodwill comprise the following:

Afterpay – intangible assets and goodwill	30 Jun 20 A$m	30 Jun 21 A$m
Core technology	61.6	105.7
Goodwill[1]	39.8	112.3
Customer contracts	2.6	2.2
Other intangibles	2.6	7.3
Total intangible assets and goodwill	106.6	227.5

Note:

1 Goodwill comprises the following:		
Afterpay Australia	21.2	21.2
Clearpay UK	16.2	16.2
Clearpay Europe	-	74.8
Pay Now	2.4	-
Total goodwill	39.8	112.3

106 A description of the intangible assets held by Afterpay as at 30 June 2021 is as follows:

(a) core technology includes internally generated software being developed as research and development projects and is carried at cost less accumulated amortisation and impairment. Core technology is amortised over a useful life of three to five years using the straight line method

(b) goodwill has arisen historically in business combinations and primarily relates to the merger with Touchcorp in June 2017, the acquisition of Clearpay in August 2018 and the acquisition of Pagantis in March 2021. The carrying value of goodwill is tested at least annually for impairment using the DCF method. As at 30 June 2021, the respective cash flows for the Afterpay Australia and Clearpay UK cash generating units were discounted adopting a risk weighted pre-tax discount rate of 8.4% and 10.3% per annum respectively

(c) customer contracts and other intangible assets (which arose from acquisitions) are carried at cost less accumulated amortisation and impairment and are amortised using the straight line method with useful lives of between three to five and two to seven years respectively.

Net cash / (debt)

107 A summary of Afterpay's net cash / (debt) position is set out below:

For personal use only

Afterpay – net cash / (debt)[1]	30 Jun 20 A$m	30 Jun 21 A$m
Cash and cash equivalents	606.0	1,147.1
Other financial assets[1]	11.6	30.0
Secured interest bearing borrowings[2]	(461.4)	(33.3)
Afterpay Convertible Notes	-	(1,253.0)
Matrix Convertible Notes	(0.2)	(0.1)
Other financial liabilities[3]	(4.9)	(166.6)
Net cash / (debt)	151.1	(275.9)

Note:

1 Other financial assets include:		
Restricted cash	1.5	13.8
Short term deposits	3.4	16.1
Other	6.6	0.1
Total financial assets	11.6	30.0
2 Net of capitalised borrowing costs of A$4.9 million and A$0.2 million as at 30 June 2020 and 30 June 2021 respectively.		
3 Other financial liabilities include:		
Exercised options not yet settled	(1.7)	-
Clearpay put option	(3.0)	(99.9)
Pagantis contingent consideration	-	(6.4)
Pagantis deferred consideration		(60.4)
Other	(0.2)	-
Total financial liabilities	(4.9)	(166.6)

108 Further details for Afterpay's net debt as at 30 June 2021 are set out below.

Secured interest bearing liabilities

109 Afterpay has a number of receivables warehouse funding facilities to provide funding sources for the Company's consumer receivables[24]. A summary of these facilities as at 30 June 2021 is set out below:

Afterpay – receivables warehouse funding facilities				
Region	**Provider**	**Facility limit A$m**	**Maturity**	**Drawn 30 June 21 A$m**
Australia	Citi	200.0	Dec 23	-
Australia	NAB	300.0	Dec 23	-
NZ	BNZ	93.1	Jun 23	32.6
US	Goldman Sachs	266.5	Dec 22	-
US	Citi	266.5	May 24	-
UK	Citi	230.4	Feb 23	-
UK	NAB	92.2	Feb 23	-
Total		1,448.6		32.6
Capitalised interest				0.9
Capitalised borrowing costs				(0.2)
Total				33.3

24 As indicated above, if a customer chooses to pay for a merchant's product on a BNPL basis, in the majority of cases, Afterpay settles the purchase price (minus the merchant fee) with the merchant the following day, and is repaid by the end-customer over four equal fortnightly instalments.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

110 The combination of Afterpay's cash position and undrawn receivables warehouse funding facilities as at 30 June 2021 provide Afterpay with an estimated capacity to fund over A$40 billion in annualised Underlying Sales above the current annualised Underlying Sales run-rate of around A$24 billion[25].

Afterpay Convertible Notes

111 On 12 March 2021, Afterpay completed the settlement of A$1.5 billion of zero coupon convertible notes (Afterpay Convertible Notes). The Afterpay Convertible Notes are interest free, have a maximum term of five years and have conversion options (into Afterpay shares) at the noteholders election in certain circumstances prior to the maturity date (which is 12 March 2026). The conversion price as at 12 March 2021 was A$194.822 per Afterpay share, which is subject to an adjustment following certain events (e.g. a change of control).

112 The carrying value of the Afterpay Convertible Notes as at 30 June 2021 is set out below:

Afterpay – Convertible Notes	
	30 Jun 21 A$m
Face value of Afterpay Convertible Notes issued	1,500.0
Value of conversion rights recognised in equity	(236.9)
Capitalised borrowing costs	(23.3)
Finance costs(1)	13.2
Carrying value of Afterpay Convertible Notes	1,253.0

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

113 Upon a change of control, the holders of the Afterpay Convertible Notes are able to either:

(a) elect to have the Afterpay Convertible Notes redeemed for their face value (i.e. A$1.5 billion in total)

(b) convert their Afterpay Convertible Notes to Afterpay ordinary shares based on a formula which depends on the date of the change of control event. For example, the conversion price would reduce to A$141.43 per Afterpay share if a change of control event occurred on 31 December 2021

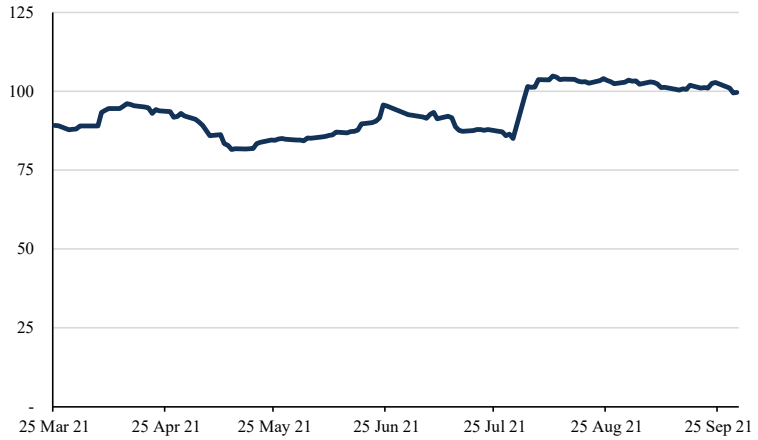
(c) continue to hold their Afterpay Convertible Notes (which will have the same terms as currently prevailing).

114 The holders of Afterpay Convertible Notes are able to sell the notes on-market as they are listed on the Singapore Exchange. Recent market prices for the Afterpay Convertible Notes are set out below:

25 Afterpay estimate based on the terms of Afterpay's existing warehouse funding facilities and historical performance of receivables. Underlying Sales run-rate based on Q4 FY21 annualised.

For personal use only

Afterpay Convertible Notes – market prices
A$



Source: Bloomberg.

Matrix Convertible Notes

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

116 On 25 February 2021, Afterpay entered into an agreement to extinguish 35% of the Matrix Convertible Notes for A$373 million in cash (Matrix Transaction). The Matrix Transaction implied an acquisition price that valued Afterpay US (on a 100% basis) at 28% of Afterpay's then total market capitalisation and was accretive to Afterpay shareholders across Underlying Sales, revenue and customer multiples.

117 The number of Afterpay shares which may be issued on conversion of the remaining Matrix Convertible Notes is determined by a conversion value calculated based on 6.5% of the future value of Afterpay US in excess of US$50 million[26] divided by the VWAP of Afterpay shares over the 30 trading days up to (but excluding) the date on which an exercise notice is delivered.

118 Upon a change of control, conversion of the Matrix Convertible Notes can be accelerated, at Afterpay's election. The conversion value of the Matrix Convertible Notes will be calculated based on 6.5% of the value of Afterpay US in excess of US$50 million.

26 To be determined by an independent valuation at the time of conversion.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

119 Subsequent to the Matrix Transaction, the maximum number of shares in Afterpay that may be issued in the future on conversion of the remaining Matrix Convertible Notes is capped at 14.155 million, being 6.5% of the number of Afterpay shares on issue at the date the Matrix Convertible Notes were issued.

Clearpay put and call option

120 On 23 August 2018, Afterpay acquired 90% of the issued shares in Clearpay from ThinkSmart Limited (ThinkSmart) for total scrip consideration of 1.0 million Afterpay shares. Afterpay has a call option to acquire the remaining Clearpay shares held by ThinkSmart, which is exercisable any time after August 2023 (being five years from the completion of the acquisition of 90% of Clearpay). If Afterpay does not exercise its call option within six months from that date, ThinkSmart has a put option to sell all the remaining shares it holds in Clearpay to Afterpay, exercisable any time after 5.5 years from August 2018. Afterpay has the right to exercise the call option earlier than five years in the event of a change of control of either Afterpay or ThinkSmart.

121 Consideration for the remaining Clearpay shares at the time of exercise of the put or call option will be determined by agreement, or failing agreement, by an independent expert valuation of Clearpay shares. Consideration may be paid in cash or Afterpay shares, at Afterpay's election. The number of Afterpay shares that may be issued as consideration for the remaining Clearpay shares will be based on the value of the remaining Clearpay shares divided by the VWAP of Afterpay shares over the five trading days up to the date of option exercise. The maximum number of Afterpay shares that may be issued is capped at 5% of Afterpay shares on issue at the time of exchange.

122 Afterpay may also exercise the call option early if certain default or insolvency events in relation to ThinkSmart occur, in which case the exercise price will be based on Clearpay's net tangible assets.

Pagantis contingent and deferred consideration

123 On 9 March 2021, Afterpay completed the acquisition of Pagantis for upfront consideration of €5 million. In addition, Afterpay will pay the Pagantis vendor deferred consideration of €45 million (subject to adjustment) in cash three years post completion of the transaction. Afterpay may also be required to pay a deferred contingent consideration component (contingent consideration) if the equity value of Pagantis three years post completion exceeds €45 million, with any excess to be calculated using a sliding scale payable in cash or Afterpay shares.

124 Pursuant to the related share purchase agreement, Afterpay issued a convertible note to the vendor with a face value of €45 million, subject to certain adjustments (Pagantis Convertible Note). The Pagantis Convertible Note recognises the obligation to pay the Pagantis deferred consideration and the Pagantis contingent consideration in three years (or, in certain circumstances, 3.5 years) subsequent to the Pagantis completion date. Conversion may also be accelerated, at the Company's election, in the event of a change in control of Afterpay.

125 The face value of the Pagantis Convertible Note will be settled in cash. The Pagantis contingent consideration may be settled in Afterpay shares or cash, at the Company's election. The number of Afterpay shares which may be issued on conversion is determined by the value of the Pagantis contingent consideration divided by the VWAP of Afterpay shares over the five trading days up to the date of conversion. The value of the Pagantis contingent

For personal use only

consideration is determined with reference to the equity value of Pagantis on the conversion date. If the equity value exceeds €45 million (subject to certain adjustments), the Pagantis contingent consideration is equal to:

(a) 50% of the equity value above €45 million (subject to certain adjustments), up to €100 million, plus

(b) 40% of the equity value above €100 million, up to €150 million, plus

(c) 10% of the equity value above €150 million.

126 Should Afterpay choose to settle a proportion of the Pagantis contingent consideration with Afterpay shares (as opposed to cash), the value of that proportion is increased by 1%. The maximum Pagantis deferred and contingent consideration is capped at 8,573,499 shares[27] multiplied by the VWAP of Afterpay shares over the five trading days up to the date of conversion.

Share capital and performance

127 As at 30 September 2021, Afterpay had 290.1 million fully paid ordinary shares on issue. In addition, the Company had the following other securities on issue:

Afterpay – other securities on issue	
Type	**Number**
Options	2,824,584
Restricted Stock Units (RSU)	1,154,252
Rights	3,749

128 Other securities on issue:

(a) Afterpay has 2.8 million options on issue with exercise prices ranging from A$5.83 to A$98.97 per share (the weighted average option exercise price is A$24.24)

(b) RSUs have been issued to key management personnel and other employees. The RSUs will vest subject to the participants remaining employed by or continuing to provide services to the Company as at each vesting date. Upon satisfaction of the vesting conditions, each RSU entitles the participant to one fully paid ordinary share in Afterpay. In the event of a change of control transaction, the Board has the discretion to determine the treatment of unvested RSUs

(c) Rights relate to shares granted under Afterpay's Share Matching Plan, which enables employees to contribute up to A$2,500 to acquire Afterpay shares in any plan year. On the first anniversary of each quarterly contribution, subject to meeting certain criteria, Afterpay will match the number of acquired shares.

US ESOP

129 The Afterpay US ESOP is a share option plan under which the Company may issue options to eligible participants to acquire shares in Afterpay US, the Company's US based subsidiary. The total US ESOP pool was limited to options over a maximum of 10% of the fully diluted shares on issue for Afterpay US and the Company has no intention to expand this pool.

27 Being 3% of the total number of Afterpay shares on issue on the Pagantis acquisition completion date.

For personal use only

Further, the US ESOP is now closed and new incentive awards made to US employees are being provided by way of awards over Afterpay equity to ensure consistency across the Company.

130 During FY21, eligible US ESOP participants were offered the ability to exchange their vested and unvested shares in Afterpay US for cash and shares in Afterpay (FY21 US ESOP Modification). Specifically, the FY21 US ESOP Modification resulted in:

(a) the purchase of 2,009,106 vested shares and vested options from US ESOP participants for A$202.6 million

(b) the exchange of 3,874,478 vested shares in Afterpay US for 2,784,186 Afterpay shares

(c) the exchange of 987,058 unvested shares in Afterpay US for 709,289 restricted Afterpay shares (restricted until the original vesting period concludes).

131 As a result of the FY21 US ESOP Modification the remaining US ESOP participants only have a maximum interest in shares and options over 2.5% of Afterpay US.

132 Upon a change of control, Afterpay has the right to purchase this 2.5% interest at a value equal to the price that is paid for Matrix's underlying 6.5% interest.

UK ESOP

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

134 On exercise of UK ESOP options, eligible participants will be allocated shares in Clearpay. In order to provide eligible participants with a mechanism to liquidate their exercised shares, it is intended that exercised shares may be exchanged for fully paid ordinary Afterpay shares or cash (at the Company's election) in specified circumstances. It is intended that exercised shares in Clearpay will be exchanged into Afterpay shares or cash at the same valuation of Clearpay shares as the Clearpay put and call option (refer paragraph 121).

135 After the UK ESOP pool has been fully allocated to UK employees, new incentive awards made to UK employees will be provided by way of awards over Afterpay equity to ensure consistency across the Company.

Significant shareholders

136 As at 30 September 2021, there were four substantial shareholders in Afterpay, detailed as follows:

Afterpay – substantial shareholders

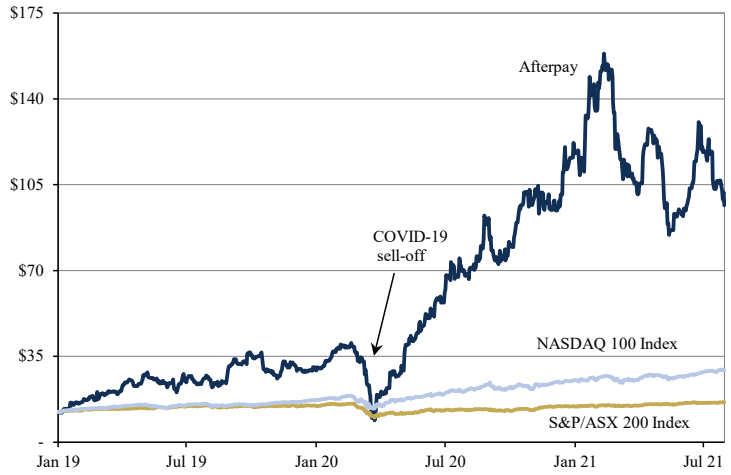
	Shares held	
	Million	**% interest**
Anthony Eisen	19.40	6.69
Nicholas Molnar	19.40	6.69
The Vanguard Group Inc. and related funds	19.38	6.68
BlackRock Inc. and related funds	17.52	6.04

For personal use only

Share price performance

137 The following chart illustrates the movement in the share price of Afterpay from 1 January 2019 to 30 July 2021[28]:

Afterpay – share price history[(1)]
1 January 2019 to 30 July 2021 (A$)



Note:
1 Based on closing prices. The NASDAQ 100 Index and S&P / ASX 200 Index has been rebased to Afterpay's last traded price on 1 January 2019.
Source: Bloomberg.

138 As indicated above, Afterpay shares significantly outperformed the NASDAQ 100 Index and the S&P / ASX 200 Index in the period following the COVID-19 related sell-off between February and March 2020. This was attributable to a combination of factors, including the upswing in e-commerce and online retail sales and the significant growth in Active Customers and Underlying Sales achieved, particularly in the US market.

Liquidity in Afterpay shares

139 The liquidity in Afterpay shares based on trading on the ASX over the 12 month period prior to 30 July 2021[29] is set out below:

Afterpay – liquidity in shares

Period	Start date	End date	No of shares traded 000	WANOS[(1)] outstanding 000	Implied level of liquidity Period[(2)] %	Annual[(3)] %
1 month	30 Jun 21	30 Jul 21	29,504	289,595	10.2	122.3
3 months	30 Apr 21	30 Jul 21	109,761	289,527	37.9	151.6
6 months	31 Jan 21	30 Jul 21	238,639	288,014	82.9	165.7
1 year	31 Jul 20	30 Jul 21	510,950	285,935	178.7	178.7

28 Being the last trading day prior to the announcement of the Scheme.
29 Being the last trading day prior to the announcement of the Scheme.

For personal use only

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Note:
1 Weighted average number of shares outstanding (WANOS) during the relevant period.
2 Number of shares traded during the period divided by WANOS.
3 Implied annualised figure based upon implied level of liquidity for the period.

140 As indicated above, shares in Afterpay are highly liquid with over A$27.2 billion of Afterpay shares traded over the six months prior to the announcement of the Scheme, and the implied level of annual liquidity exceeding 100% in each of the periods set out above.

For personal use only

IV Profile of Square

Overview

141 Square is a fintech company that enables businesses and individuals to manage money. The company has two reportable segments, being Seller, which enables businesses to accept card and contactless payments, provide reporting, analytics and next-day settlement, and Cash App, which provides an ecosystem of financial products and services to allow individuals to manage their money. Square is listed on the NYSE and had a market capitalisation of US$110 billion as at 30 September 2021.

History

142 Square was founded in 2009 in the US by Mr Jack Dorsey and Mr Jim McKelvey with the goal of allowing businesses (sellers) to accept card payments, a capability that was previously inaccessible to many small companies. On 19 November 2015, Square listed on the NYSE.

143 The company's first product was Square Reader, a device that connected to the audio jack of a smartphone, along with an app, to facilitate and process on-the-spot card transactions. This was followed by the release of a range of related innovative point-of-sale hardware products that integrate with Square's software solutions, including:

(a) Square Stand, released in May 2013, which enables an iPad to be used as a payment terminal or full point of sale solution. It features an integrated magnetic stripe reader, provides power to a connected iPad, and can connect to the contactless and chip reader wirelessly or via USB

(b) a contactless and chip reader, introduced in 2015, that accepts EMV[30] chip cards and NFC[31] payments, enabling acceptance via Apple Pay, Google Pay, and other mobile wallets

(c) Square Register, released in October 2017, which is an all-in-one offering that combines hardware, point-of-sale software, and payments technology. The dedicated hardware consists of two screens, a seller display and a customer display, with a built-in card reader that accepts tap, dip, and swipe payments; and

(d) Square Terminal, introduced in October 2018, which is a portable, all-in-one payments device and receipt printer to replace traditional keypad terminals. It accepts tap, dip, and swipe payments and has a battery that lasts all day, enabling payments anywhere in the seller's store.

144 The Seller business has been developed into a cohesive commerce ecosystem that helps its users (sellers) commence, operate and grow their businesses. The business operates a suite of cloud based software solutions to process payments in-person or online and has grown rapidly to serve millions of sellers from a diverse set of industries. Other products, such as Square Card (a business prepaid card) and Square Loans[32] (business loans) have also been integrated into the Seller offering.

---

30 EMV is a global standard for credit cards that uses computer chips to authenticate (and secure) chip-card transactions.

31 Near field communication.

32 Formerly Square Capital.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

145 Alongside the Seller business, Square has developed a separate ecosystem of financial services to assist individuals with money management, centred around Cash App. Cash App (formerly known as Square Cash) was launched in October 2013 and allows peer-to-peer money transfers via the mobile app or website. In 2017, Cash App started offering customers a free debit card called Cash Card, where customers can spend funds within their Cash App balance at any merchant that accepts Visa. In 2018, Cash App began allowing users to buy and sell bitcoin, and in 2019 the ability to buy publicly traded stocks and exchange traded funds was added. Following the acquisition of Credit Karma Tax in late 2020, a free do-it-yourself tax filing service is planned for integration into Cash App. The Cash App user base has grown significantly, reaching 40 million monthly transacting active customers in June 2021.

146 Square has also acquired a number of complementary businesses, including but not limited to:

(a) Caviar – a food delivery business that uses a fleet of couriers to provide delivery for popular restaurants that do not otherwise deliver. Caviar was acquired in 2014 for US$90 million and subsequently sold in 2019 to DoorDash for $US410 million (comprising cash of US$310 million and shares in DoorDash of US$100 million[33])

(b) Weebly – a technology company that provides customers with tools to easily build a professional website or online store, which was acquired in 2018 for US$365 million

(c) Credit Karma Tax – a free tax preparation service which is planned to be integrated into Cash App. This business was acquired in the fourth quarter of 2020 for US$50 million

(d) TIDAL – a global music and entertainment platform that brings fans and artists together through unique music, content, and experiences. In April 2021 Square acquired a majority ownership interest for US$297 million.

147 In July 2021, Square announced that it was creating a new business (joining Seller, Cash App and TIDAL) focused on building an open developer platform with the purpose of making it easy to create non-custodial, permission-less and decentralised financial services, with a primary focus on bitcoin. The name of the new business is TBD.

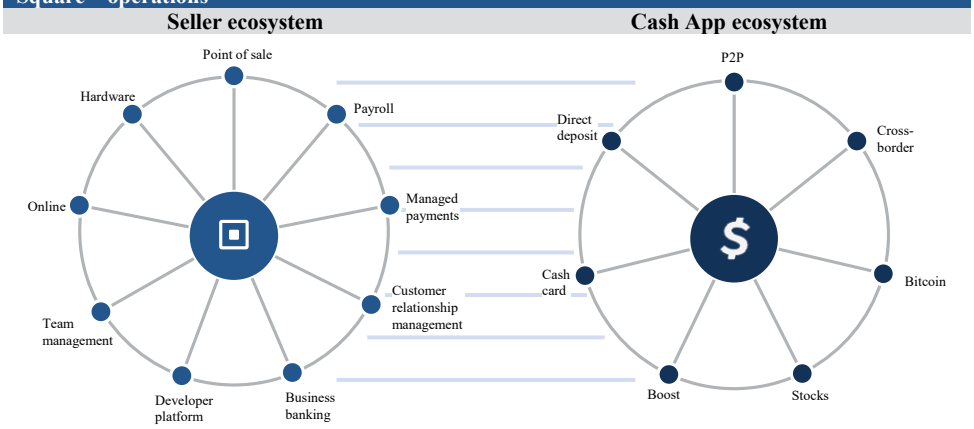
Current operations

148 Square operates from offices in the US, Canada, Japan, Australia, Ireland, the UK, Spain, Lithuania and Norway. It employed 5,477 full-time employees as of 31 December 2020. A diagrammatic overview of Square's Seller and Cash App business units is set out below:

33 DoorDash subsequently listed on the NYSE in December 2020. During the half year to 30 June 2021 (1H21), Square sold its remaining shares in DoorDash, which resulted in the company reporting a cumulative gain of US$320.7 million.

For personal use only

Square – operations

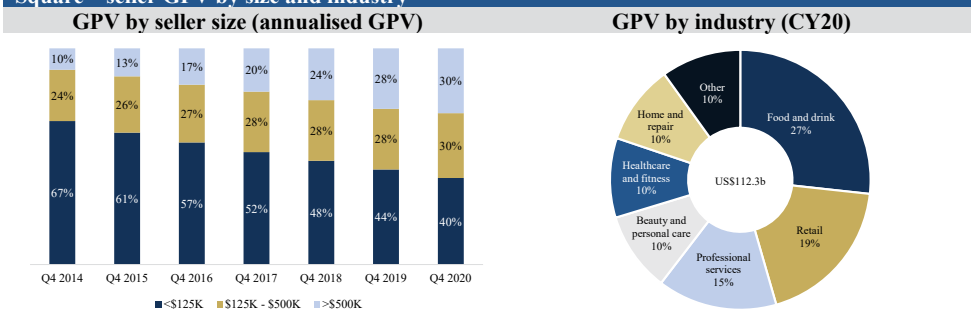


Seller

149 The Seller ecosystem consists of over 30 distinct software, hardware and financial services products. These products are monetised through a combination of transaction, subscription, and service fees. Square's point-of-sale system is available in most countries, with charges levied on a per transaction basis. Processing fees differ by country and the standard processing fee for in-person transactions in the US is 2.6% plus US$0.10 per transaction. Card payment acceptance with the Square app is currently available in the US, Canada, Japan, Australia, Ireland, France and the UK. For the year ended 31 December 2020 (CY20), Square processed US$103.7 billion of gross payment volume (GPV)[34] from more than 2 billion card payments through its Seller ecosystem.

150 Square's sellers represent a diverse range of industries (including services, food-related and retail businesses) and sizes, ranging from sole proprietors to multi-location businesses. Sellers also span geographies, including the US, Canada, Japan, Australia, the UK, France and Ireland. Over time, an increasing proportion of Square's GPV has been derived from larger sellers with higher levels of annualised GPV, as shown below:

Square – seller GPV by size and industry(1)



Note:
1 Rounding differences exist.

34 GPV measures the total dollar amount of all card payments processed by sellers using Square, net of refunds.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Cash App

151 Cash App provides users with a range of financial products and services for money management over an app and/or website. Currently Cash App primarily serves customers in the US with its full suite of products, and also provides certain services to customers in the UK. Cash App was initially developed to allow users to send and receive money and has since grown into an extensive personal financial management ecosystem that allows individuals to store, send, receive, spend and invest money:

(a) **storing, sending and receiving funds** – customers are able to receive money from other Cash App users through the app's core peer-to-peer transfer service or by transferring money from a bank account. Users are also able to store funds

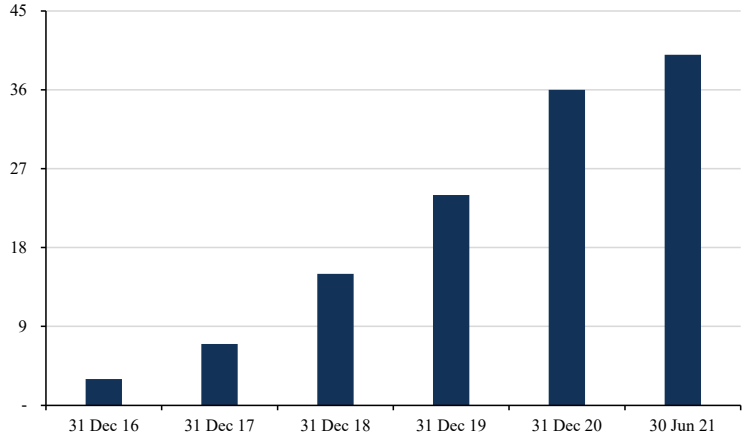
(b) **spending** – Cash Card is a prepaid debit card that is linked directly to a customer's Cash App balance. Customers can order a Cash Card for free and use it anywhere that accepts card payments to make purchases. Square derives interchange fees when individuals undertake purchases with Cash Card

(c) **investing** – Cash App gives customers commission-free access to hundreds of US listed stocks and exchange traded funds as well as the ability to buy and sell bitcoin. Stocks, exchange traded funds and bitcoin can be purchased using the funds in a customer's Cash App balance or from a linked debit card. Upon order completion, investments are shown in the investing tab on the Cash App home screen

(d) **tax preparation** – Square acquired Credit Karma Tax in the fourth quarter of 2020, which is being integrated into the Cash App to enable users to file their taxes for free.

152 Cash App's monthly transacting active customers has grown significantly over recent periods, as highlighted in the chart below:

Square – Cash App transacting active customer growth
Monthly transacting active customers at period end (millions)

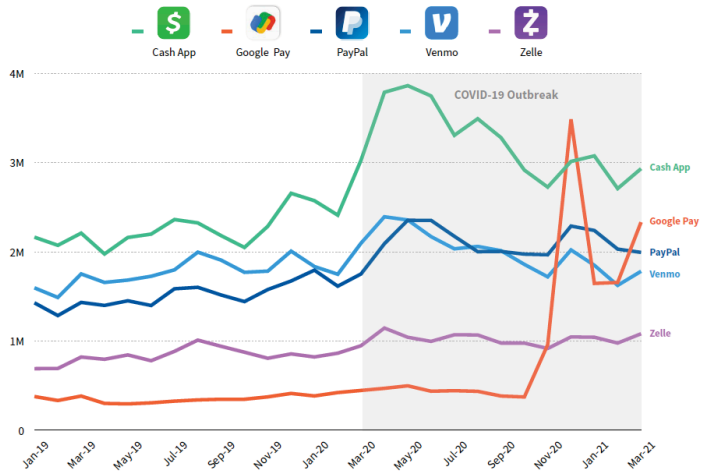


Note:
1 As at 30 June 2021, monthly transacting active customers were in excess of 40 million. The chart above shows 40 million.

153 Digital payment apps saw a significant increase in adoption at the beginning of the COVID-19 pandemic (based on downloads at the Google Play Store), as shown below:

For personal use only

Monthly US downloads of digital payment apps (Google Play Store)



Source: Sensor Tower Inc (2021): *The State of Payment Apps: An Analysis of Payment App Market Trends and Top Apps in the U.S.*, page 10.

154 Whilst growth in app downloads slowed around the middle of 2020, these remained above their pre-pandemic level. Based on downloads, Cash App is the market leading digital payments app in the US, and in the first quarter of 2021 it was downloaded 8.7 million times[35]. This is positive for the future growth of the Cash App business.

Revenue sources

155 Square's revenue is categorised into four categories for financial reporting purposes which are outlined below:

(a) **transaction-based** – sellers using Square's Seller ecosystem are charged a transaction fee that is generally calculated based on a percentage of the total transaction amount processed. Square collects the transaction amount from the seller's customer's bank, net of acquiring interchange and assessment fees, processing fees and bank settlement fees, retains its fees and remits the net amount to the sellers. Transaction-based revenue also includes amounts charged to Cash App business customers for receiving peer-to-peer transactions and payments sent from a credit card

(b) **subscription and services-based** – revenue from Cash App, Square Loans and Instant Transfers for sellers currently comprise the majority of subscription and services-based revenue:

(i) Cash App – subscription and services-based revenue primarily comprises transaction fees from Instant Deposit and Cash Card. Instant Deposit is a functionality within Cash App that enables customers to instantly deposit funds into their bank accounts, while Cash Card offers customers the ability to use their

35 Source: Sensor Tower Inc (2021): The State of Payment Apps: An Analysis of Payment App Market Trends and Top Apps in the U.S., page 10.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

stored funds via a Visa prepaid card that is linked to the customer's stored balance in Cash App

(ii) Square Loans – a loan offered through a partnership bank or Square Financial Services that is generally repaid through withholding a percentage of the collections of the seller's receivables processed by Square

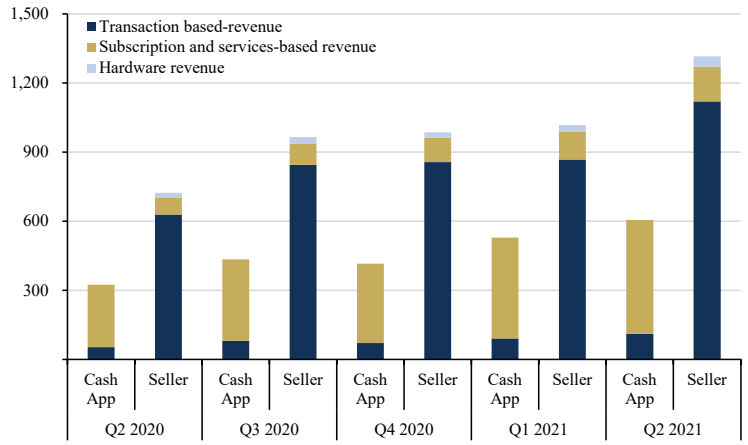
(iii) other subscription and services-based products – includes other fees on subscription software for sellers and financial services offerings such as Instant Transfer and Square Card[36]

(c) **hardware** – the sale of hardware including contactless and chip readers, Square Stand, Square Register, Square Terminal and third-party peripherals (cash drawers, receipt printers and barcode scanners etc.)

(d) **bitcoin** – Cash App customers have the ability to purchase bitcoin or sell existing bitcoin holdings. Square recognises revenue when customers purchase bitcoin and it is transferred to the customer's account. The company purchases bitcoin from private broker dealers or from Cash App customers and applies a small margin before selling it to its customers. As Square is the principal in the bitcoin sale transaction, the sale amounts received from its customers are recorded as revenue on a gross basis and the associated bitcoin cost as a cost of revenues.

156 Effective 30 June 2020, Square changed its financial reporting to show the Seller and Cash App businesses as two separate segments. A summary of revenue for these segments by revenue source is as follows (excluding bitcoin revenue)[37]:

Square – quarterly revenue by segment (excluding bitcoin)
US$m



36 Prior to 2020, subscriptions and services-based revenue also included revenue generated from Caviar, the food ordering and delivery platform business that was sold in the fourth quarter of 2019.

37 Bitcoin revenue is reported within the Cash App segment. Given Square acts as principal with its Cash App users for buying and selling bitcoin, reported revenue reflects the total purchase consideration, rather than the margin it derives from the arrangement. Accordingly, in our opinion, including revenue from bitcoin distorts the underlying sales performance for Square, and we have therefore excluded bitcoin sales from the chart.

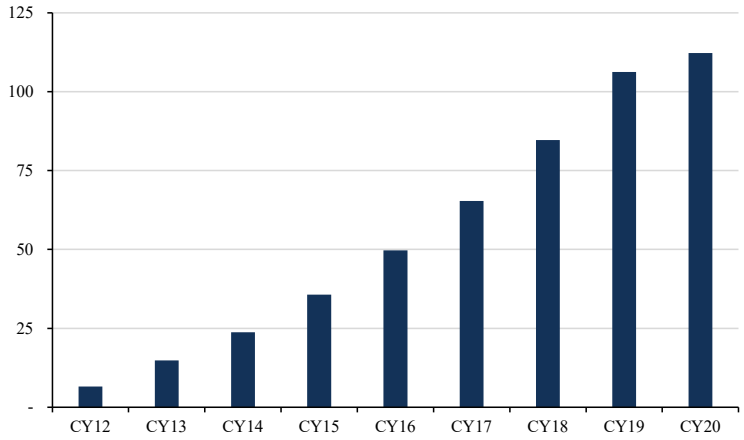
For personal use only

157 As shown above, Cash App revenue is primarily driven by subscription and services-based sources, whilst Seller revenue is primarily driven by transaction-based sources. Whilst quarterly revenue for both the Seller and Cash App segments has grown rapidly in recent periods, it is important to note that the second quarter of 2020 and subsequent quarters have been impacted by the COVID-19 pandemic.

Gross payment volume (GPV)

158 Over 90% of Square's GPV in CY20 was derived from the Seller business, with the remainder from the Cash App business. A summary of total GPV processed by Square in the nine years to CY20 is summarised in the graph below:

Square – GPV
US$ billion



159 From CY12 to CY19, GPV grew at a CAGR of 49%, due to both an increase in the number of sellers on the Square platform and an increase in the volume of transactions processed. However, in CY20 GPV growth slowed to 5.7%, a substantially lower rate than that shown in previous years. This primarily reflected the difficulties faced by sellers due to the impact of the COVID-19 pandemic.

Product development and technology

160 Square designs and develops both its Seller and Cash App products and services and enables them to be platform-agnostic, with most supporting iOS, Android and web functionality. Software products are updated frequently. Square places a strong emphasis on data analytics and machine learning to maximise the efficacy, efficiency and scalability of its services. Hardware is designed and developed in-house and third-party manufacturers are contracted for production.

Financial performance

161 The financial performance of Square for the three years to CY20 and the half year to 30 June 2021 (1H21) is set out below:

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Square – statement of financial performance[1]	CY18[2] US$m	CY19[2] US$m	CY20 US$m	1H21 US$m
Transaction-based revenue	2,471.5	3,081.1	3,295.0	2,187.2
Subscription and services-based revenue	591.7	1,031.5	1,539.4	1,242.9
Hardware revenue	68.5	84.5	91.7	72.5
Bitcoin revenue	166.5	516.5	4,571.5	6,235.4
Total revenue	3,298.2	4,713.5	9,497.6	9,737.9
Cost of revenue	(1,987.4)	(2,816.9)	(6,753.0)	(7,623.7)
Transaction-based gross profit	912.9	1,143.1	1,383.1	980.6
Subscription & services-based gross profit	421.8	797.2	1,316.7	1,033.5
Hardware gross profit	(25.6)	(51.9)	(52.2)	(29.4)
Bitcoin gross profit	1.7	8.2	97.0	129.6
Total gross profit[3]	1,310.8	1,896.6	2,744.6	2,114.3
Operating expenses[4]	(1,054.3)	(1,479.8)	(2,270.5)	(1,518.2)
EBITDA before significant items	256.5	416.9	474.1	596.1
Depreciation and amortisation	(61.0)	(75.6)	(84.2)	(57.6)
Share based payments	(216.9)	(297.9)	(397.5)	(265.0)
Significant items[5]	3.2	356.3	280.6	(32.5)
Net interest expenses	(18.0)	(21.5)	(56.9)	(6.7)
Profit / (loss) before tax	(36.1)	378.2	216.0	234.3
Income tax (expense) / benefit	(2.3)	(2.8)	(2.9)	8.4
Profit / (loss) after tax	(38.5)	375.4	213.1	242.7
Transaction-based gross profit	*36.9%*	*37.1%*	*42.0%*	*44.8%*
Subscription & services-based gross profit	*71.3%*	*77.3%*	*85.5%*	*83.2%*
Hardware gross profit	*nm*	*nm*	*nm*	*nm*
Bitcoin gross profit	*1.0%*	*1.6%*	*2.1%*	*2.1%*
Total gross profit	*39.7%*	*40.2%*	*28.9%*	*21.7%*
Total gross profit ex bitcoin	*41.8%*	*45.0%*	*53.7%*	*56.7%*

Note:

1 Rounding differences exist.

2 CY18 and CY19 includes a small contribution from the Caviar business which was sold in the fourth quarter of 2019.

3 This differs to the gross profit for Square reported in its financial statements due to the exclusion of amortisation of acquired technology costs, which we have reassigned to depreciation and amortisation. These amounts are relatively immaterial and were US$7.1 million, US$7.0 million, US$11.1 million and US$9.7 in CY18, CY19, CY20 and 1H21 respectively.

4 Calculated as the difference between gross profit and EBITDA before significant items.

5 Significant items comprise the following:

Gain on sale of Caviar	-	373.4	-	-
Gain on DoorDash investment / sale	-	-	276.3	44.4
Bitcoin impairment losses	-	-	-	(65.1)
Gain / (loss) on disposal of property and equipment	0.2	(1.0)	(2.6)	(1.0)
Net acquisition related adjustments	(15.5)	(15.8)	(8.6)	(14.6)
Other income (expense), net	18.5	(0.3)	15.4	3.9
Total significant items	3.2	356.3	280.6	(32.5)

nm – not meaningful.

162 Given the significant increase in bitcoin revenue from CY20 (and the low gross profit the company derives from this source), Square's total gross profit (in percentage terms) is significantly lower in CY20 and 1H21 than previous periods. As shown above, however,

For personal use only

excluding the bitcoin contribution, the gross profit for Square consistently increases over the above periods.

163 Since CY12[38], Square has grown its revenue (excluding bitcoin) at a CAGR of 48.9% per annum from US$203.4 million to US$4.9 billion. In recent periods the majority of this growth has been attributable to the Cash App segment as shown in the table below, which sets out Square's revenue and gross profit by its Seller and Cash App segments since CY18[39]:

Square – segment results[(1)]	CY18 US$m	CY19 US$m	CY20 US$m	1H21 US$m
Cash App[(2)]				
Transaction-based revenue	42.7	72.9	233.7	203.0
Subscription and services-based revenue	220.8	516.3	1,163.1	932.0
Cash App revenue excluding bitcoin	263.5	589.1	1,396.8	1,134.4
Cash App gross profit ex bitcoin[(3)]	193.1	449.4	1,128.6	912.0
Cash App gross profit (ex bitcoin)	*73.3%*	*76.3%*	*80.8%*	*80.4%*
Cash App revenue growth	*na*	*123.6%*	*137.1%*	*107.6%*
Cash App gross profit growth (ex bitcoin)	*na*	*132.7%*	*151.1%*	*107.4%*
Seller[(2)]				
Transaction-based revenue	2,428.7	3,008.2	3,061.2	1,984.3
Subscription and services-based revenue	222.3	369.3	376.3	272.3
Hardware revenue	68.5	84.5	91.7	72.5
Seller revenue	2,719.5	3,462.0	3,529.2	2,329.1
Seller gross profit[(3)]	1,072.5	1,390.4	1,507.8	1,053.2
Seller gross profit	*39.4%*	*40.2%*	*42.7%*	*45.2%*
Seller revenue growth	*na*	*27.3%*	*1.9%*	*47.7%*
Seller gross profit growth	*na*	*29.6%*	*8.4%*	*56.8%*

Note:
1 Rounding differences exist.
2 The above excludes revenue and gross profit from bitcoin, the Caviar business for CY18 and CY19 (sold in the fourth quarter of CY19) and some products and services that were not assigned to a specific reportable segment in 1H21.
3 Gross profits are also prior to allowance for the amortisation of acquired technology costs.
na – not available.

164 Regarding the revenue and gross profit data shown by segment we note that:

(a) growth for the Seller business in CY20 was low in comparison to previous periods for both transaction-based and subscription and services-based revenue, which was primarily due to the impact of the COVID-19 pandemic (see below)

38 This is the first historical data available.

39 As indicated above. Square changed its financial reporting to show the Seller and Cash App businesses as two separate segments from 30 June 2020, with retrospective segment results for the Cash App and Seller segments provided to CY18.

For personal use only

(b) since Cash App has been reported as a separate business segment it has reported rapid growth, along with a high gross profit as a percentage of revenue. This indicates, inter-alia, the high quality of this business (as also indicated by its leading market position for downloads at the Google Play Store)

(c) the COVID-19 pandemic had varying impacts on each of Square's segments:

(i) Seller – during CY20, the Seller business was negatively impacted as COVID-19 related restrictions and closures of non-essential businesses impacted its customers (sellers), many of which were forced to curtail operations in response to government restrictions. As a result, Square took measures to assist its customers, including refunding software subscription fees during the months of March and April 2020, as well as introducing options for sellers to temporarily pause and resume their subscriptions. This had a negative impact on the Seller business for CY20 and its related growth. However, as restrictions have subsequently been relaxed in many of the markets in which it operates, pent up demand emanating from the restriction periods has increased growth in 1H21 (noting growth for 1H21 has exceeded recent historical periods)

(ii) Cash App – this business was a beneficiary of the COVID-19 pandemic during CY20 and 1H21, given the noticeable increase in Cash App engagement due to customer adoption of multiple products and the increase in consumer spending power resulting from deposit of government stimulus funds and unemployment benefits into Cash App customer accounts.

Outlook for 2021

165 Square provided the following outlook in its second quarter 2021 shareholder letter:

"Looking ahead to the remainder of 2021, we believe two-year compound annual growth rates from 2019 through 2021 will help reflect underlying trends in each ecosystem. In the third quarter of 2021, Cash App will lap strong gross profit growth of 212% year over year in the third quarter of 2020. On the other hand, in the third quarter of 2021, Seller will lap only 12% year-over-year gross profit growth in the third quarter of 2020 due to regional restrictions affecting in-person activity."

"We believe our Cash App and Seller ecosystems are well-positioned to help our customers adapt in a very dynamic environment, based on trends we have observed during recent quarters. We intend to prioritize investments in our Cash App and Seller ecosystems that we believe will help drive attractive long-term returns."

Financial position

166 The financial position of Square as of 31 December 2020 and 30 June 2021 is set out below:

For personal use only

Square – statement of financial position[1]	31 Dec 20 US$m	30 Jun 21 US$m
Cash and cash equivalents	3,158.1	4,581.2
Investments in short term debt securities	695.1	1,014.9
Settlements receivable	1,024.9	1,155.8
Customer funds	2,037.8	2,847.5
Loans held for sale	462.7	807.4
Other current assets	383.1	593.5[2]
Total current assets	7,761.6	11,000.2
Property, plant and equipment	233.5	260.9
Goodwill	316.7	501.4
Acquired intangible assets	137.6	262.2
Investments in long-term debt securities	464.0	947.1
Operating lease (right-of-use assets)	456.9	461.3
Other non-current assets	499.3	382.6
Total non-current assets	2,107.9	2,815.5
Total assets	9,869.6	13,815.7
Customers payable	(3,009.1)	(3,993.2)
Settlements payable	(239.4)	(257.0)
Accrued expenses and other current liabilities	(360.9)	(515.8)
Operating lease liabilities, current	(52.7)	(57.1)
Paycheck Protection Program (PPP) Liquidity Facility advances	(464.1)	(823.7)
Total current liabilities	(4,126.1)	(5,646.8)
Long term debt	(2,586.9)	(4,841.3)
Operating lease liabilities, non-current	(389.7)	(404.6)
Other non-current liabilities	(85.3)	(186.4)
Total non-current liabilities	(3,061.9)	(5,432.2)
Total liabilities	(7,188.0)	(11,079.0)
Net assets	2,681.6	2,736.7

Note:
1 Rounding differences exist.
2 Includes US$33.1 million of loans held for investment.

Intangible assets and goodwill

167 Acquired intangible assets and goodwill as at 31 December 2020 and 30 June 2021 comprise the following:

Square – acquired intangible assets and goodwill	31 Dec 20 US$m	30 Jun 21 US$m
Goodwill[1]	316.7	501.4
Technology assets	76.4	95.9
Customer assets	47.8	113.1
Trade name	10.5	42.8
Other intangible assets	2.9	10.4
Total intangible assets and goodwill	454.3	763.6

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Note:
1 Goodwill comprises the following:

Cash App	128.8	128.7
Seller	187.9	187.9
Corporate and other(2)	-	184.8
Total goodwill	316.7	501.4

2 Corporate and other relates to the acquisition of 86.2% of music streaming platform TIDAL in April 2021.

168 A description of Square's intangible assets is as follows:

(a) goodwill is recorded when the consideration paid for the acquisition of a business exceeds the fair value of identifiable net tangible and intangible assets acquired. A significant proportion of Square's goodwill relates to the acquisitions of Weebly (US$193.2 million) and TIDAL (US$184.8 million)[40]. Square performs an annual goodwill impairment test at calendar year end and more frequently if events and circumstances indicate that the asset may be impaired

(b) technology assets, customer assets, trade name and other intangible assets are all acquired intangible assets, which are amortised over their estimated useful lives.

Bitcoin holding

169 Square purchased US$50 million and US$170 million of bitcoin in October 2020 and February 2021 respectively, which it expects to hold as investments for the long term. Bitcoin holdings are reported within "other non-current assets" on Square's balance sheet and had a carrying value of US$154.9 million as at 30 June 2021 (following reporting impairment charges of US$65.1 million in 1H21[41]). Notwithstanding this impairment, the fair value of the company's investment in bitcoin was US$281.4 million as at 30 June 2021.

Net settlements receivable and customer funds and customers payable

170 Square's net settlements receivable and customer funds and customers payable when viewed on a total (or net) basis is relatively low, as shown below:

Square – net settlements receivable and customer funds and customers payable

	31 Dec 20 US$m	30 Jun 21 US$m
Settlements receivable	1,024.9	1,155.8
Settlements payable	(239.4)	(257.0)
Settlements receivable (net)	785.5	898.7
Customer funds	2,037.8	2,847.5
Customers payable	(3,009.1)	(3,993.2)
Total	(185.8)	(247.0)

Note:
1 Rounding differences exist.

40 Refer paragraph 146 for further acquisition details.

41 Bitcoin is accounted for as an indefinite lived intangible asset, and thus is subject to impairment losses if the fair value of bitcoin decreases below the carrying value during the assessed reporting period. Impairment losses cannot be recovered for any subsequent increase in fair value until the sale of the asset.

For personal use only

171 A summary of the above items is as follows:

(a) settlements receivable represent amounts due to Square from third-party payment processors following customer transactions. These are typically received within one or two business days of the transaction date

(b) customer funds held in deposit represent customers' stored balances or customers' cash in transit. Square invests the majority of these stored balances in money market funds, reverse repurchase agreements and short term marketable debt securities

(c) customers payable represents the total value of a customer transaction owed to sellers or Cash App customers less the revenue that is earned by Square. This balance also includes the company's liability for customer funds held on deposit in Cash App.

Net cash

172 A summary of Square's net cash position, after allowance for investments in short term debt securities, loans held for sale, the PPP Liquidity Facility advances and long term debt as at 31 December 2020 and 30 June 2021 is set out below:

Square – net cash[1]

	31 Dec 20 US$m	30 Jun 21 US$m
Cash and cash equivalents	3,158.1	4,581.2
Investments in short term debt securities	695.1	1,014.9
Investments in long term debt securities	464.0	947.1
Loans held for sale[2]	462.7	807.4
Loans held for investment[3]	-	33.1
PPP Liquidity Facility advances	(464.1)	(823.7)
Current portion of long term debt[4]	-	(4.7)
Long term debt	(2,586.9)	(4,841.3)
Net cash	1,728.8	1,714.1

Note:
1 Rounding differences exist.
2 A significant proportion of these loans relate to the loans provided under the PPP.
3 Included in other current assets in the reported statement of financial position for Square.
4 Included in accrued expenses and other current liabilities in the reported statement of financial position for Square.

173 Regarding the above we note that:

(a) investments in short and long term debt securities are investments in marketable debt securities such as government and agency securities, corporate bonds, commercial paper and municipal securities

(b) Square classifies customer loans as held for sale upon purchase from an industrial bank partner, as there is an available market for such loans and it is Square's intent to sell all of its rights, title, and interest in these loans to third-party investors

(c) the PPP Liquidity Facility is an agreement with the Federal Reserve Bank of San Francisco to secure additional credit, collateralised by PPP loans. The PPP was established in response to the COVID-19 pandemic to enable small businesses to access

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

low-interest private loans in order to cover payroll and certain other costs. Square Capital is an approved participant under the program and is therefore able to extend these loans to its seller network

(d) long term debt is comprised of convertible and senior notes, a summary of which is set out below. As at 30 June 2021, the carrying value for these notes was US$4.841 billion, however, the fair value of these notes was US$7.841 billion[42].

Square – convertible and senior notes(1)

Date issued	Net carrying value US$m	Interest rate %	Maturity date	Conversion
Convertible notes				
6 Mar 17	4.7	0.375	1 Mar 22	43.5749 Class A shares per US$1,000 principal amount. Equivalent to an initial conversion price of approximately US$22.95 per share of Class A common stock
25 May 18	746.8	0.500	15 May 23	12.8456 Class A shares per US$1,000 principal amount. Equivalent to an initial conversion price of approximately US$77.85 per share of Class A common stock
5 Mar 20	988.8	0.125	1 Mar 25	8.2641 Class A shares per US$1,000 principal amount. Equivalent to an initial conversion price of approximately US$121.01 per share of Class A common stock
13 Nov 20	566.8	0.000	1 May 26	3.3430 Class A shares per US$1,000 principal amount. Equivalent to an initial conversion price of approximately US$299.13 per share of Class A common stock
13 Nov 20	566.5	0.250	1 Nov 27	3.3430 Class A shares per US$1,000 principal amount. Equivalent to an initial conversion price of approximately US$299.13 per share of Class A common stock
Senior notes				
20 May 21	986.2	2.750	1 Jun 26	Not applicable
20 May 21	986.1	3.500	1 Jun 31	Not applicable
Total	4,846.0			

Note:
1 Rounding differences exist.

Revolving credit facility

174 In May 2020, Square entered into a revolving credit agreement with a number of lenders which provided a US$500 million senior unsecured revolving credit facility maturing in May 2023. The credit agreement contains a financial covenant that requires the company to maintain a quarterly minimum liquidity amount (consisting of the sum of unrestricted cash and cash equivalents plus marketable securities) of at least US$250 million, tested on a quarterly basis. As at 30 June 2021 (whilst the minimum liquidity financial covenant was met) $500 million remained available for draw.

42 This is predominantly due to the conversion price for the convertible notes issued on 6 March 2017, 25 May 2018 and 5 March 2020 being significantly lower than the Square share price as at 30 June 2021.

For personal use only

Share capital and performance

175 As at 31 July 2021, Square had 460.3 million total shares outstanding, comprising 398.0 million Class A shares and 62.3 million Class B shares. Class A shares carry one vote per share, whereas Class B shares carry 10 votes per share. The Class A shares are traded on the NYSE whilst the Class B shares are not traded on the public market[43]. Additionally, as of 31 July 2021 a further 42.6 million shares are expected to be issued pursuant to the exercise of options and warrants, the vesting of RSUs, and the conversion of convertible notes.

176 Square listed on the NYSE in November 2015 with 334.9 million total ordinary shares on issue as at 31 December 2015[44]. The number of total shares outstanding has since increased to 460.3 million (as at 31 July 2021). The increase over this period is primarily the result of the number of shares issued as part of employee stock plans, as shown in the table below:

Square – ordinary shares on issue(1)

	Shares outstanding (millions)
Balance at 31 December 2015	334.9
Shares issued in connection with employee stock plans	128.9
Tax withholding related to vesting of RSUs	(11.7)
Common stock issued in connection with business combination	3.3
Repurchase of common stock	(0.1)
Common stock issued in conjunction with the conversion of convertible notes	17.8
Exercise of bond hedges in conjunction with the conversion of convertible notes	(14.9)
Recovery of common stock in connection with indemnification settlement agreement	(0.5)
Other items(2)	2.5
Balance at 31 July 2021	460.3

Note:
1 Rounding differences exist.
2 Detailed information as regards share movements post 30 June 2021 is not available. This amount therefore represents the movement between the number of Square shares on issue as at 30 June 2021 and 31 July 2021.

Significant shareholders

177 As at 31 July 2021:

(a) Square's Chief Executive Officer Mr Jack Dorsey held 49.0 million Class B shares[45] which carried total voting power over 47.8% of the total Square shares on issue[46]

(b) Square's co-founder Mr James McKelvey held 177,768 Class A shares and 12.8 million Class B shares which carried total voting power over 12.6% of the total Square shares on issue[46].

43 Of the total Class B shares outstanding as of 31 July 2021, 78.4% of these are owned by Square co-founder and Chief Executive Officer Mr Jack Dorsey.

44 Post the IPO, the first available information regarding the number of shares on issue was provided as at 31 December 2015.

45 Sourced from the Form 4 filed on 3 May 2021.

46 Noting that Class B shares carry voting entitlements of 10 votes per Class B share held.

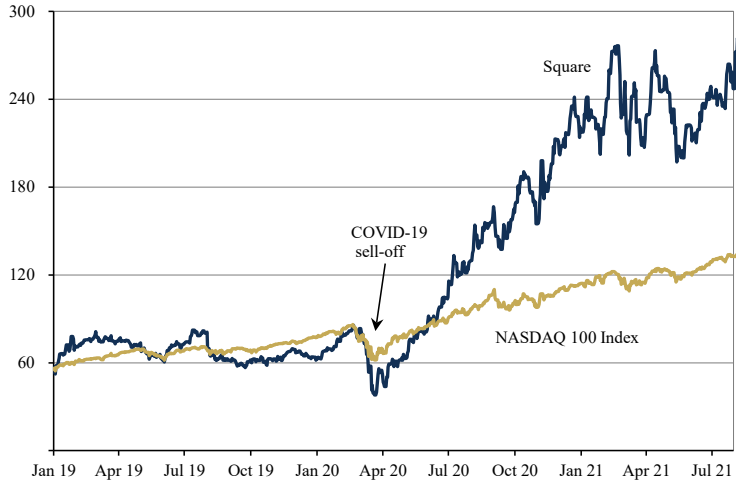
For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Share price performance

178 The following chart illustrates the movement in the share price of Square from 1 January 2019 to 30 July 2021[47]:

Square – share price history(1)
1 January 2019 to 30 July 2021 (US$)



Note:
1 Based on closing prices. The NASDAQ 100 Index has been rebased to Square's last traded price on 1 January 2019.
Source: Bloomberg and LEA analysis.

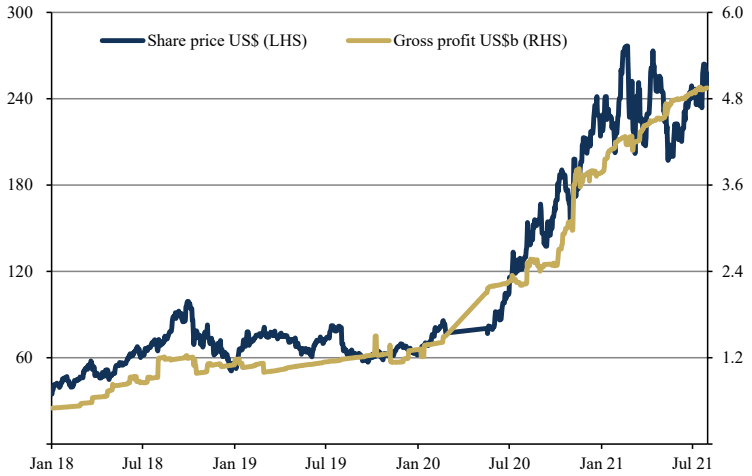
179 As indicated above, Square shares have significantly outperformed relative to the NASDAQ 100 Index despite being highly volatile in the period following the COVID-19 related sell-off between February and March 2020. This was attributable to a combination of factors, including the ability to help sellers pivot during COVID-19 to serve their buyers through online channels and contactless commerce, and increased engagement from Cash App customers driven by new product adoption and increased inflows from Cash App customers due in part to greater spending power and government disbursements.

180 Whilst the Square share price has been volatile (particularly in 2021) and has significantly outperformed the NASDAQ 100 Index since April 2020, this appears to have been driven by a significant increase in the gross profit expectations for the company. The following chart shows analysts' one-year gross profit expectations displayed alongside the Square share price:

47 Being the last trading day prior to the announcement of the Scheme.

For personal use only

Square – share price history and gross profit[1]



Source: Bloomberg and LEA analysis.

181 We note a reasonably high correlation over the period between the share price of Square and analysts' expectations of the company's future gross profit.

Liquidity in Square shares

182 The liquidity in Square shares based on trading on the NYSE over the 12 month period prior to 30 July 2021[48] is set out below:

Square – liquidity in shares

Period	Start date	End date	No of shares traded 000	WANOS outstanding 000	Implied level of liquidity Period[1] %	Annual[2] %
1 month	30 Jun 21	30 Jul 21	145,504	392,002	37.1	445.4
3 months	30 Apr 21	30 Jul 21	549,889	391,994	140.3	561.1
6 months	31 Jan 21	30 Jul 21	1,232,983	390,211	316.0	632.0
1 year	31 Jul 20	30 Jul 21	2,500,370	383,533	651.9	651.9

Note:
1 Number of shares traded during the period divided by WANOS.
2 Implied annualised figure based upon implied level of liquidity for the period.

183 As indicated above, shares in Square are highly liquid with the implied level of annual liquidity exceeding 400% (or four times the total number of shares on issue) in each of the periods set out above, whilst the value of shares traded over the one and three months to 30 July 2021 was US$35.9 billion and US$125.0 billion respectively.

48 Being the last trading day prior to the announcement of the Scheme.

For personal use only

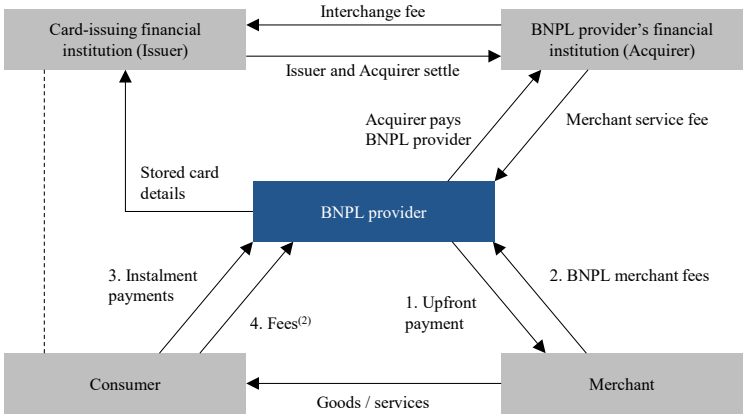
LONERGAN EDWARDS & ASSOCIATES LIMITED

V BNPL industry overview

BNPL arrangements

184 A BNPL arrangement typically involves a contract between the consumer and BNPL provider, a contract between the consumer and merchant, and a contract between the provider and the merchant. The customer typically pays a proportion of the sale value upfront at the time of purchase, with the remainder split into instalments and repaid over several subsequent periods. The BNPL provider pays the merchant the sale value, less a merchant fee, and collects repayments from the customer to recover the upfront payment over the specified period. The merchant is responsible for delivering the good or service to the customer. An overview of this arrangement is shown below:

Financial flows in a BNPL transaction[1]



Note:
1 When repayments are made from a linked debit or credit card.
2 Free to consumers for on-time repayments of smaller balances; missed payments typically attract late fees, and establishment and/or periodic fees may apply for larger balances.
Source: Reserve Bank of Australia (RBA) *Developments in the Buy Now, Pay Later Market*, dated 18 March 2021.

185 Whilst the above represents a typical BNPL arrangement, there are several variations offered by BNPL providers that differ around repayment terms, fee structure and maximum transaction value. For offerings such as Afterpay, capped late fees may be charged if the customer's repayments are not made on time. Some providers incorporate interest charges into their BNPL products, particularly those offering higher transaction limits and longer repayment terms. Afterpay does not charge interest.

186 The merchant benefits from BNPL products in a number of ways, including:

(a) higher sales, through increased average order value (due to the proportion of customers more inclined to increase spend given reduced upfront payment)

(b) a decrease in cart abandonment, given one of the reasons for cart abandonment is the amount due upfront at the time of sale

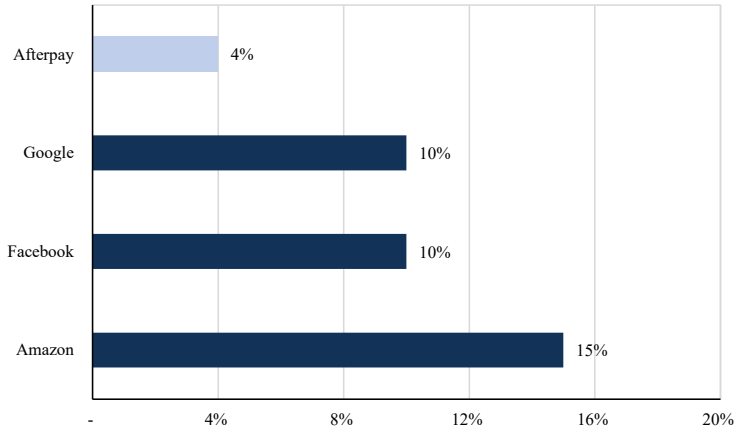
(c) receiving the full payment upfront; and

(d) transferring the risk of end-customer payment default to the BNPL provider.

For personal use only

187 Whilst BNPL services are typically higher cost to the merchant (compared to credit and debit card arrangements) on a per transaction basis, a less understood benefit to merchants is the traffic BNPL providers drive to merchants. This traffic is sourced via BNPL apps and websites (also through joint marketing campaigns) and is typically provided at no additional cost to the merchant. Acquiring traffic online is expensive and when factored into a merchant's cost of acceptance, the merchant fees charged by BNPL providers are significantly more attractive. For example, in Australia, Afterpay's average merchant fees are 6 percentage points lower than the average customer acquisition costs for Facebook and Google respectively and 11 percentage points lower than the fees charged by Amazon[49]:

Merchant fee by customer acquisition channel
% of transaction value (average)



Source: Accenture, *Afterpay Economic Impact Australia 2020,* updated 21 April 2021.

188 BNPL services allow customers to buy and receive goods and services immediately, and delay payment without having to enter into a traditional loan or pay additional fees (noting that in some countries there is also a lack of access to credit). As BNPL products are not treated as credit products in many countries (or some states in the US), a user's credit score will not be impacted if they fail to make repayments on time. Also, younger generations are using BNPL products to help manage money more responsibly. These advantages over traditional credit card arrangements have resulted in strong consumer uptake of BNPL products in recent years, particularly from the Millennial and Gen Z demographics.

189 Whilst BNPL products provide benefits to consumers, concerns have arisen around the influence of BNPL arrangements on consumer spending behaviour. ASIC's *Review of BNPL arrangements* report undertaken in November 2018 found that approximately 55% of BNPL users increased spending when using BNPL products[50]. Further, consumers that overcommit themselves to BNPL products (or multiple BNPL products) are at risk of incurring excessive late fees, and the proportion of users with multiple accounts is highest amongst lower income

49 As Afterpay, Google, Facebook and Amazon.com, Inc. (Amazon) offer different features, this affects a direct comparison between the channels. That said, Afterpay's merchant fees are relatively low compared to other similar services.

50 ASIC: *Review of buy now pay later arrangements* report, dated November 2018.

For personal use only

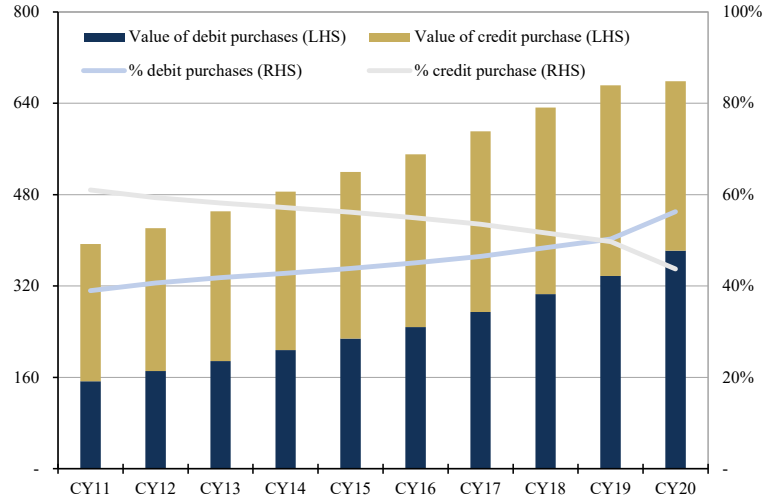
LONERGAN EDWARDS & ASSOCIATES LIMITED

groups[51]. That said, we note that several BNPL operators are committed to encouraging responsible spending. For example, Afterpay imposes low initial customer spending limits which only increase following an established history of on-time payments, and pauses a consumer's account if a repayment is missed until all repayments are up to date.

Consumer payment trends in Australia

190 The payments landscape in Australia has changed significantly over the last decade, led by the Millennial and Gen Z generations, who are less comfortable with traditional credit products compared to their predecessors and prefer to spend their own money. As a result, these generations are less likely to use credit cards in favour of debit cards and other payment options[52]. This is illustrated by the following chart, which shows Australian debit card and credit card usage over the 10 years to CY20:

Debit and credit card purchase value
A$ billion and % of total card purchases



Source: RBA: *C.1 Credit and Charge Cards and C.2 Debit Cards*, data series to 30 June 2021.

191 When choosing to pay with a card, Australian consumers are increasingly using debit cards (led by the Millennial and Gen Z demographics), with debit card payment values increasing at a CAGR of 10.9% over the 10 years to CY20. Total debit card purchase values exceeded credit card purchase values in CY19 for the first time, and in the same year debit cards also overtook cash as the single most frequently used payment method. This trend continued in CY20, with debit card purchase values increasing by 13.1% (to A$382 billion) and purchase values for credit cards decreasing by 11.1% (to A$297 million).[53]

51 National Australia Bank: *Consumer Insight report Buy Now Pay Later* June 2021.

52 A report commissioned by Afterpay in 2019 named *How Millennials Manage Money* found that 41% of Millennials owned a credit card in comparison to two-thirds of older generations (noting that the definition of Millennial in this report included Gen Z).

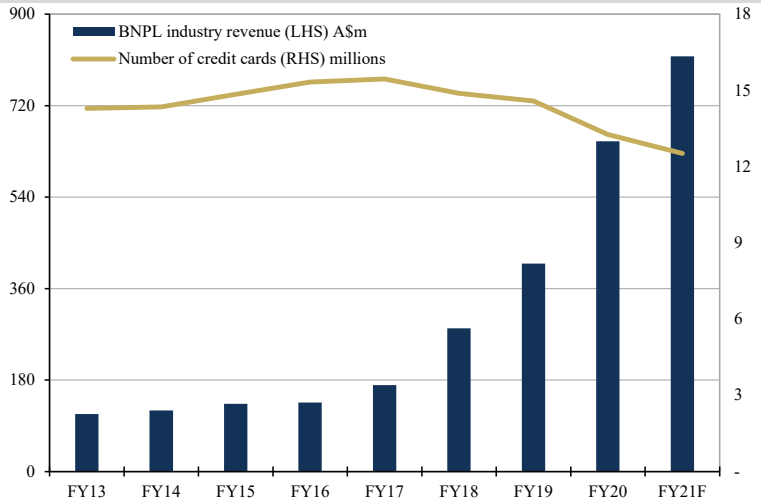
53 RBA: *Consumer Payment Behaviour in Australia: Evidence from the 2019 Consumer Payments Survey*, dated September 2020.

For personal use only

192 This was the first decline in credit card purchase values in Australia in 35 years and was initially driven by the impact of COVID-19, which resulted in a significant decrease in monthly purchase values in March and April 2020 (compared to the prior corresponding period). Credit card purchase values then continued to decline for the remainder of CY20. This compares to debit card purchase values, which declined in April 2020 (albeit to a lesser extent than credit card purchase values), before recovering in May 2020 and recording strong growth from June 2020 onwards.[53]

193 One of the key reasons for declining credit card purchase values is the reduction in the number of credit cards in use, which peaked at 15.5 million in June 2017 and by June 2021 had declined to 12.5 million (a reduction of 19%). Over the same period, based on estimates provided by IBISWorld[54], BNPL revenue for Australian providers increased by a factor of almost five times. This is no coincidence, as the *How Millennials Manage Money* report found that 69% of Millennials used credit cards less after signing up to the largest BNPL provider in Australia, Afterpay.

Australian BNPL revenue in comparison and the number of credit cards in use(1)



Note:
1 Actual BNPL industry revenue to FY20 and forecast for FY21. Credit card data is the number of active credit card accounts as at 30 June each year.
Source: IBISWorld: *Buy Now Pay Later Australia report,* dated April 2021 for industry revenue data and RBA: *Credit and Charge Cards* data series for credit card data to 30 June 2021.

194 While BNPL growth has been high and continues to gain traction, BNPL GMV[55] represented less than 2% of the total value of credit and debit card purchases in Australia in CY20[56]. However, BNPL GMV as a percentage of e-commerce sales was materially higher at 10% (refer chart at paragraph 202).

54 This data includes the three historical years to FY20 and a forecast for FY21. Source: IBISWorld: *Buy Now Pay Later Australia report*, dated April 2021.

55 The value of merchandise sold through the BNPL platform. Afterpay refers to this as Underlying Sales.

56 RBA: *Developments in the Buy Now, Pay Later Market* report, dated 18 March 2021.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

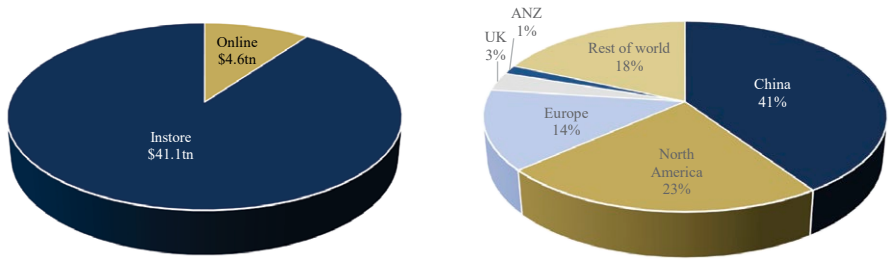
Addressable market

195 The addressable market for the BNPL segment can be measured in a number of ways, including against the size of the global retail market or the size of the global e-commerce market, noting that BNPL providers target both the online and in-store retail markets.

196 The Worldpay *2021 Global Payments Report* estimated that the annual global retail market was US$45.7 trillion in CY20, with online sales of US$4.6 trillion, or 10% of the total market, as shown below:

2020 global retail sales by region and channel

Sales by channel (US$ trillion)	Sales by region (% of total retail sales)



Source: Worldpay from FIS: *2021 Global Payments Report.*

197 Global e-commerce levels accelerated in CY20 to post the highest growth rate in five years (21.8%[57] year on year[58]) as consumers sought alternatives to shuttered brick-and-mortar stores and became more confident purchasing items online. This growth accelerated the rate of e-commerce penetration by almost three years, with total transactions rising from 8% of the global retail market in CY19 to 10% in CY20. Whilst some of the increase in online sales has since been shown to be temporary (given physical shops that were closed have reopened in many markets), e-commerce penetration levels are now expected to remain significantly higher than prior to the COVID-19 pandemic.

198 The Worldpay *2021 Global Payments Report* forecasts e-commerce sales (excluding China) to increase from US$2.7 trillion in CY20 to US$4.2 trillion over the four years to CY24, representing a CAGR of 11.3% per annum. Over the same period, online retail sales are expected to increase to 12.6% of global retail sales, as e-commerce continues to cannibalise in-store sales[59].

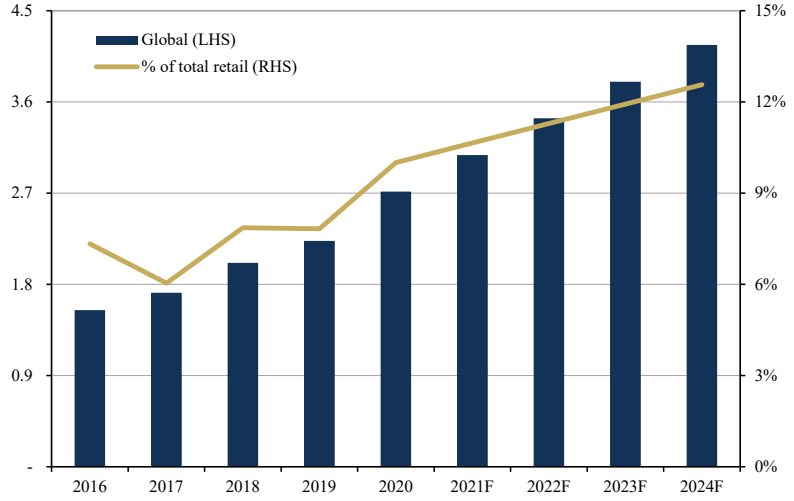
57 Excluding China, which is unlikely to be a significant focus for the major BNPL providers covered in this section.

58 Worldpay from FIS: *2021 Global Payments Report*.

59 Consistent with this chart, the general consensus is that e-commerce sales will continue to grow its share of global retail sales in the short to medium term.

For personal use only

Global e-commerce sales (excluding China)
US$ trillion



Source: Worldpay from FIS: 2017 to 2021 *Global Payments Reports*. Data for FY21F, FY22F and FY23F is based on data extrapolated from the FY20 and FY24F years.

199 In addition, rates of e-commerce adoption and penetration vary significantly between countries and tend to be above average for nations with higher rates of internet and technology penetration, and greater access to digital payment methods.

Online payments

200 Consumer payment preferences vary considerably around the world, reflecting the diversity of economic, regulatory and other factors. Alternative payment methods like digital wallets and bank transfers are now in the mainstream, whilst legacy methods like credit cards and cash continue to decline.[60]

201 BNPL levels as a proportion of global e-commerce payments are relatively low in comparison to the more established payment methods. However, the proportion of global e-commerce payments made using BNPL services is expected to increase significantly over the short to medium term.

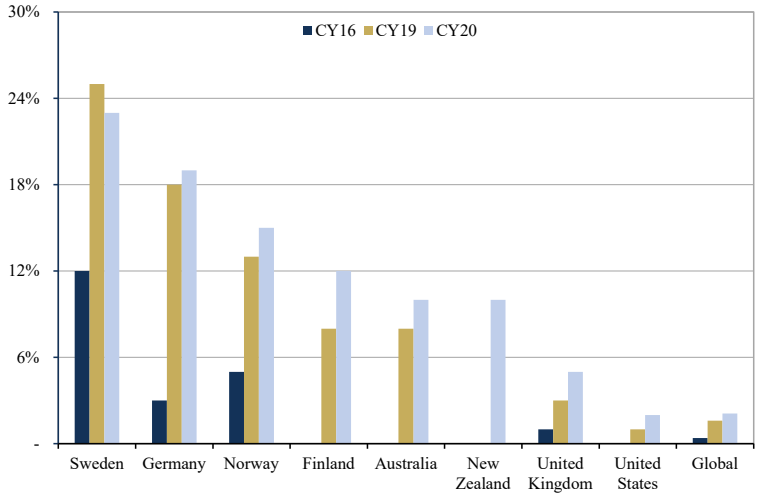
202 BNPL penetration rates as a proportion of total e-commerce payments for selected countries for CY16, CY19 and CY20 are set out below:

60 Worldpay from FIS: *2021 Global Payments Report*.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

BNPL penetration rates by country
% of total e-commerce payments



Source: Statista: *Market share of BNPL in domestic-commerce payments in 21 countries worldwide from 2016 to 2020.*

203 Sweden has the highest level of BNPL penetration in the world, with 23% of total e-commerce payments undertaken with this payment method[61]. This is due to the foundation of Klarna Bank AB (Klarna) in Stockholm, Sweden in 2005. Klarna is the largest BNPL company globally based on GMV, which in part reflects its longer period of operation, noting Klarna was established many years before its BNPL peers. It has expanded into its neighbouring Scandinavian countries such as Norway and Finland, which has led to relatively high BNPL penetration rates in these nations. There are also other, predominantly northern European countries (including Germany, the Netherlands, Denmark and Belgium), that have relatively high BNPL penetration levels, again primarily due to Klarna's expansion.

204 BNPL is well-developed in Australia and NZ, which is due to the relatively early establishment (at least in comparison to countries outside northern Europe) of a number of BNPL operators. In Australia BNPL providers include Afterpay, Zip Co Limited (Zip Co), Latitude, Klarna[62] and Humm, as well as a number of other smaller players that have established niche positions.

205 In the UK, and particularly in the US, the BNPL industry is still relatively nascent. However, growth across these two markets is accelerating, with Afterpay, Affirm, Inc. (Affirm) and Klarna growing customer numbers at a rapid rate in the US, whilst Afterpay's Clearpay business in the UK is also increasing customer numbers at a significant rate.

61 BNPL penetration declined by 2% in 2020 following new regulations introduced by the Swedish Consumer Agency which required that, inter-alia, online payment providers offer direct payment methods as the default payment option at checkout, rather than alternative options such as BNPL.

62 In a joint venture partnership with Commonwealth Bank of Australia.

For personal use only

Market participants

206 The market leading pure play global BNPL providers are Klarna, Afterpay and Affirm and there are numerous smaller BNPL operators such as Zip Co and Sezzle Inc (Sezzle). The market share of the major BNPL providers varies across each region, with Klarna representing a large proportion of underlying GMV on a global basis. However, the majority of Klarna's GMV is derived in Europe. Klarna, Affirm and Afterpay and global payments company PayPal Inc. (PayPal) comprise the majority of the market in North America, whilst Afterpay and Zip Co are the leading providers in Australia and NZ.

207 In addition to the pure play BNPL providers, the market has recently seen the entry of incumbent payment providers and technology companies looking to gain exposure to the fast growing segment. For example:

(a) on 30 January 2020, Commonwealth Bank of Australia announced that it had taken a 5.5% stake in Klarna, and that Klarna's BNPL product would be available to customers on the Commbank app

(b) PayPal launched its "Pay in 4" instalments product in August 2020 and achieved US$3.25 billion in GMV on its platform in the period to 30 June 2021

(c) on 14 July 2021, news media reported that Apple Inc. (Apple) had entered into an Apple Pay Later partnership with Goldman Sachs, allowing for instalment repayments through Apple Pay

(d) on 3 August 2021, Apple announced that it will launch a BNPL program in Canada (in conjunction with Affirm) which will allow people to pay for Apple devices over 12 to 24 months

(e) on 28 September 2021, Mastercard announced that it would introduce its Mastercard Installments BNPL program in the US, Australia and UK.

208 BNPL operators seek to differentiate themselves through variations in the products they offer, which range in the types of fees or interest charged, repayment terms, and maximum allowable transaction value. A summary of the product specifics for the largest pure play BNPL providers operating in the US is set out below:

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Summary of selected BNPL providers in the US

	Afterpay	Klarna	Affirm	Zip Co	Sezzle
Account limit	Around US$500 starting limit[1]	US$10 minimum	Up to US$17,500[2]	Subject to approval	No fixed limits
Merchant cost	Average of 3.9% of sales value	Up to US$0.3 + 5.99% (3.29% for financing) per transaction	2%-3% per transaction[3][4]	Not available	US$0.3 + 6% per transaction
Repayment term	4 instalments over 6 weeks	4 instalments over 6 weeks / Pay in 30 days[5] / Financing for larger purchases over 6-36 months	4 fortnightly payments[6] / Monthly instalments (3-36 months, with or without interest) for larger purchases	4 instalments over 6 weeks	4 instalments over 6 weeks
Interest free period	Full repayment period	4 instalments or pay in 30 days for full repayment / Financing at consumer APR from 0-29.99%	Depends on time period chosen by merchant	Full repayment period	Full repayment period
Customer fees	None	None	None	None / US$1 platform fee per instalment (total of US$4 per transaction)[7]	None
Late fees	Maximum of US$8 per instalment (capped at 25% of order value)	US$2.50-US$15 per instalment depending on order value	None	Up to US$7 per late payment (varies by US State)	US$10 late fee for payments more than 2 days delayed and US$5 fee for rescheduling of payments

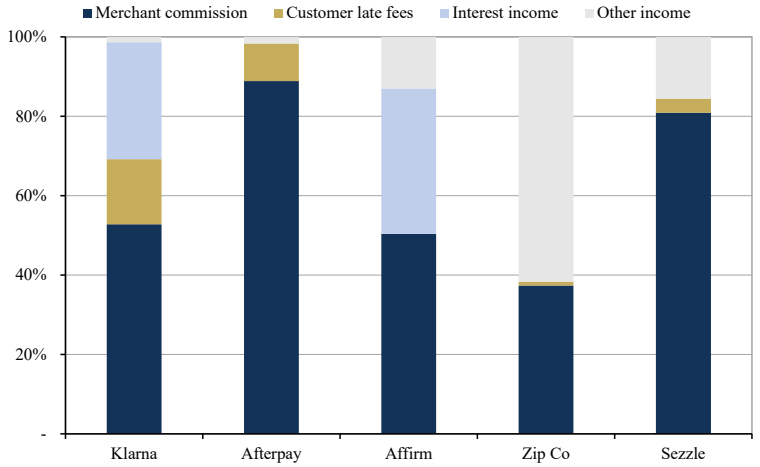
Note:
1 Account limit increases if the customer demonstrates responsible spending behaviour.
2 A down payment may be required.
3 Analyst estimates as the company does not publicly disclose this percentage.
4 Affirm generally derives larger merchant fees on annual percentage rate (APR) financing products than interest bearing financing products (as merchant fees are the main source of income for 0% APR products).
5 Customer is provided with 30 days to decide if they want to return the product.
6 Payments are interest-free and only available for smaller purchases.
7 For select merchants that do not pay merchant fees.
Source: Company websites, announcements and analyst reports.

209 Due to the differentiation of products offered by each provider, the fees charged and revenue models also vary by company, with some BNPL providers earning a proportion of revenue by charging interest to customers, while others (such as Afterpay) primarily generate revenue from merchant fees. For example, Klarna provides repayment options that range from a bullet 30-day repayment to longer term borrowing plans of up to three years that resemble traditional consumer loan products offered by banks. As a result, Klarna derives a high proportion of its revenue from interest income.

210 A breakdown of revenue sources across each of the major BNPL providers is shown below:

For personal use only

Selected BNPL provider revenue sources



Note:
1 Based on the latest full year results for each company.
2 Given Zip Co discloses the vast majority of its revenue as portfolio income, the above is for its ZipMoney product in FY19 sourced from an ASIC report named *Buy now pay later: an industry update*, dated November 2020.
3 Other income for Zip Co includes interest income and other income for Affirm is primarily comprised of virtual card network revenue, which relates to interchange fees earned on transactions made with Affirm's digital debit card product.
Source: Company annual reports, ASIC and LEA analysis.

211 Whilst the above represents the current fee structure for major industry operators, the competitive landscape for the BNPL sector is evolving rapidly, and there is potential for downward pressure on fees charged by market operators as new players enter the market. For instance, there have been a number of developments regarding the fee structures offered by new markets entrants, including:

(a) on 18 August 2021, PayPal announced that commencing 1 October 2021 customers would not be charged late fees for missed payments related to its BNPL products in the US, UK and France, which was an extension of its existing offering in Germany and Australia

(b) Visa has developed its Visa Instalments Solution, a product that allows its credit card issuing customers such as banks and credit unions to offer BNPL services to its Visa cardholders. The solution will allow institutions to create their own BNPL program and set their own plan attributes including interest and fees charged, repayment terms, and merchant partners. Visa has commenced the roll out of a pilot program for the offering to select customers in the US, Canada, Russia and Malaysia

(c) Barclays and Certegy are amongst other financial services and technology companies offering "white label" BNPL solutions to enable potential BNPL providers to offer their own merchant branded BNPL products.

212 In addition, on 27 August 2021, US listed BNPL provider Affirm and global e-commerce company Amazon announced a partnership that would allow Amazon's US customers to use Affirm's BNPL offering for purchases. Whilst this is the first BNPL partnership for Amazon

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

in the US it is not exclusive. Amazon also announced a similar partnership with Zip Co for its Australian customers in late 2019.

213 Increasing levels of competition is not necessarily negative for the pure play BNPL providers as it validates the industry, given that if established payment or technology companies are targeting the sector they believe in the market and the potential growth therein. The established payment companies will also target their existing customer bases (at least initially), which are not necessarily the same target markets as those for pure play BNPL providers (which typically target the Millennial and Gen Z demographics).

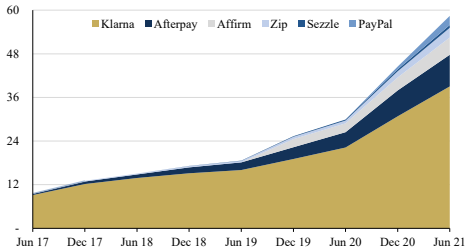
214 Further, the evolution of BNPL companies like Afterpay into integrated e-commerce and marketing lead generation platforms provides these companies with other potential revenue streams, including fees for marketing and data generation. In addition, the established and well known BNPL providers can leverage their brand names to expand into adjacent products, such as digital wallets or cash cards[63].

BNPL and growth

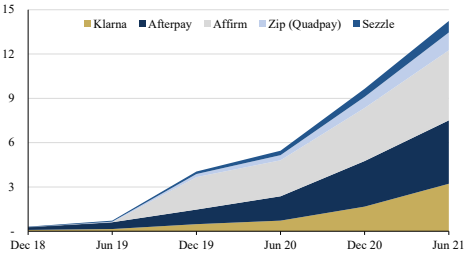
215 The following charts show growth of GMV both globally and in the US for the major BNPL providers on a half yearly basis:

GMV by half year

Major BNPL providers globally (US$ billion)



BNPL providers in the US (US$ billion)



Source: Company reports and announcements and LEA analysis.

216 As discussed above, Klarna has been in operation since 2005, which is many years before the commencement of operations for the other large BNPL providers. As a result, Klarna has established a leading market position in Europe (and particularly northern Europe) and this is reflected in the first chart above, whereby Klarna represents the majority of global GMV. However, it is noteworthy that Klarna's BNPL GMV is difficult to unpick from its reported numbers, which we understand may include more traditional payments such as its pay now product.

217 PayPal is not shown in the US chart because it does not split its BNPL GMV by region. PayPal entered the BNPL market in August 2020 and in the period to June 2021 reported BNPL GMV of US$3.25 billion. It initially launched in the US and UK and then added its BNPL service offering to a number of other countries. Given the market opportunity, a large proportion of PayPal's reported BNPL GMV is likely to be attributable to the US market.

63 Noting that Affirm has recently released an Affirm branded debit card that will have BNPL features.

For personal use only

218 GMV for the half year to 30 June 2021 (when annualised) for the major BNPL providers was almost US$120 billion globally and well over US$30 billion in the US (when allowing for PayPal). BNPL was non-existent in the US three years ago and has grown at extraordinary levels since then. As a result, and as stated above, major US payment and technology companies are now targeting this sector.

219 As set out above, there have been a number of factors that have contributed to the increased popularity and growth of BNPL products in recent years, including benefits for consumers (e.g. delayed payments) and merchants (e.g. increased sales), product appeal to the Millennial and Gen Z demographics (the key target demographics for Afterpay) given both changes in consumer attitudes towards financial products and a preference for an online, technology driven retail experience. In addition, there are a number of favourable trends that are expected to continue, including increasing levels of both online retail and BNPL penetration, and the continued evolution of BNPL products (for example Afterpay's ability to direct sales to merchants through its app).

BNPL regulatory considerations

220 Afterpay operates in a range of jurisdictions including Australia, NZ, North America, the UK and Europe, and the regulatory framework for BNPL arrangements is not uniform across all jurisdictions. As the Afterpay business principally consists of the provision of interest-free BNPL arrangements to consumers, it is subject to regulation in certain jurisdictions and in many cases not subject to all traditional consumer credit laws and regulations. However, with the continued expansion into new geographic locations, and the continued growth of the BNPL industry overall, the Company may become subject to additional legal, regulatory, tax, licensing and compliance requirements, and industry standards.

221 Due to the rapid growth of the BNPL sector globally, the industry has faced increased attention from regulators. Various regulators in Australia including ASIC, the Australian Transaction Reports and Analysis Centre (AUSTRAC), the RBA, as well as the Financial Conduct Authority (FCA) in the UK, have conducted reviews of the BNPL sector in recent years and as a result the regulatory environment in these geographies continues to evolve.

222 The Woolard Review[64], released in the UK in February 2021, recommended regulation of the BNPL industry as a matter of urgency. More recently (in July 2021), the European Union (EU) released proposed reforms of its Consumer Credit Directive to include BNPL arrangements within its scope. These proposed regulations also have the potential to encourage further regulatory inquiries or investigations in other jurisdictions.

223 At present, Afterpay has embedded consumer protection into business practices in a way that is intended to comply with consumer laws for the jurisdictions in which it operates. However, there is a risk that any increased regulatory requirements in the BNPL sector or differing interpretation of existing laws and regulations may impose significant compliance costs on Afterpay, thereby placing downward pressure on margins or potentially making it uneconomic for Afterpay to continue to operate in its current markets, or expand in accordance with its strategy (albeit we and Afterpay management consider this worst case outcome unlikely).

224 For further in depth commentary about BNPL regulatory considerations, including details by region, refer to Appendix D.

---

64 *The Woolard Review: A review of change and innovation in the unsecured credit market*, report to the FCA published 2 February 2021 (Woolard Review).

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

VI Valuation of Afterpay

Valuation methodologies

225 We have assessed the market value of Afterpay having regard to the following valuation approaches:

(a) **Market approach** – the market approach provides an indication of value by comparing the business with "comparable" or similar businesses for which price information is available. As there are a number of publicly listed companies operating in the BNPL sector we have considered the valuation of Afterpay by reference to the listed market values of these companies, as well as multiples of Underlying Sales[65], merchant revenue, active customers and NTM[66]. As these BNPL companies are not currently profitable (as they are generally focusing on customer and Underlying Sales growth rather than short term profitability) it is not possible to assess their value based on a capitalisation of earnings approach

(b) **Income approach** – under the income approach the value of a business is determined by reference to the future earnings and/or cash flows expected to be generated by the business. Accordingly, we have considered the value of Afterpay under a DCF approach, whereby the value of the business is equal to the net present value of the estimated future cash flows including a terminal value. In order to arrive at the net present value the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream

(c) **Listed market price** – Afterpay shares are highly liquid, with A$3.1 billion and A$11.3 billion worth of shares traded in the one month and three month periods immediately prior to the announcement of the Scheme. In our opinion, it is therefore appropriate to consider the value of Afterpay based on the share prices prior to the announcement of the Scheme adjusted for a premium for control (which recognises that the quoted market prices of listed securities may not reflect their value on a 100% controlling interest basis)

(d) **Investment analyst valuations** – as Afterpay is well researched by investment analysts, we have also considered (as a cross-check on the above valuation approaches) the valuations of Afterpay shares prepared by investment analysts.

Valuation summary

226 The valuation range for Afterpay shares (on a 100% controlling interest basis) under each approach is summarised below (and is set out in detail in the subsequent sections of this report):

65 Also referred to as GMV.

66 During FY21 Afterpay Net Margin replaced Afterpay NTM as a key performance metric for current and future reporting periods. Afterpay Net Margin represents the Afterpay gross profit inclusive of credit losses and funding costs on consumer receivables. In addition to merchant margin earned directly from Underlying Sales, Afterpay Net Margin includes other income and margin associated with the Afterpay platform (such as Money by Afterpay).

For personal use only

Afterpay – valuation summary (A$/share)

Methodology	Section	Valuation range Low	High
Market approach	VII	114	133
Income approach (DCF)	VIII	121	136
Listed market price[1]	IX	130	149
Investment analyst valuations[2]	IX	123	139
Adopted range		115	135

Note:
1 Adjusted for a control premium.
2 The median and average investment analyst valuation was $127 per share and $130 per share respectively.

227 In relation to the above we note that:

(a) high valuations are currently being ascribed to the BNPL sector generally, reflecting (inter-alia):

(i) expectations for continued strong growth in revenue, as the BNPL share of the total online payments market is expected to increase substantially (particularly in the North American market); and

(ii) the potential for additional revenue streams (e.g. from selling advertising on the Afterpay app, providing banking solutions via a separate Money by Afterpay app and monetising lead referrals via affiliate arrangements etc.)

(b) the valuation range adopted under the "listed market price" approach has been derived by applying a 30% to 35% control premium to the VWAP of Afterpay shares in the 10 trading days, one month and three month periods prior to the announcement of the Scheme (being around A$100 to A$110 per share)

(c) whilst we consider the VWAP of Afterpay shares to be more reliable than the share price on a particular day, we note that the Afterpay share price was trending down over the VWAP periods and last traded before the Scheme announcement at A$96.66 per share (some 12% below the one month VWAP).

228 Having regard to the above, for the purposes of our report we have adopted a valuation range for Afterpay shares (on a 100% controlling interest basis) of A$115 to A$135 per share. This reflects a greater weighting towards the market and income approaches.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

VII Valuation of Afterpay under the market approach

Methodology

229 As stated in Section VI, under the market approach we have considered the valuation of Afterpay by reference to the implied multiples of Underlying Sales (or GMV), merchant revenue, active customers and NTM[67] derived from the market values attributable to publicly listed companies operating in the BNPL sector in addition to a number of recent BNPL transactions.

230 Whilst Afterpay operates across the ANZ, North America and the UK / Europe[68] regions via a number of different legal entities, for the purposes of our report, we have had regard to the valuation of Afterpay under the market approach on a total business basis. We consider this appropriate for a number of reasons (inter-alia):

(a) Afterpay is a globally integrated business that leverages its core BNPL platform across multiple regions. For example, Cross Border Trade (which was expanded across all operating regions in FY21) enables Afterpay customers to shop with globally integrated merchants and customers and does not limit them to the merchants located in the geographic regions in which they are based

(b) a number of the publicly listed BNPL companies and recent BNPL transactions (from which the listed market values and key multiples are derived) relate to global businesses with operations spanning across multiple regions

(c) while Afterpay separately accounts for the ANZ, North America and UK / Europe regions for financial reporting purposes[69], cost allocations for financial reporting purposes are based on the region where costs are generated rather than the region where the related benefit is received. Further, Afterpay's reported segment results do not include any allocation of operating costs related to group functions (e.g. legal, human resources, finance, information technology, share based payment expenses etc.). This limits the appropriateness and reliability of any analysis at an individual segment or region basis.

231 Notwithstanding this, we consider it appropriate to have regard to individual market characteristics, including growth potential, that exists across the key regions in which Afterpay operates as we consider this relevant to the assessment of multiples for Afterpay.

232 In addition, we note that:

(a) Matrix and the US ESOP own a combined 9% minority interest in the legal entity which conducts Afterpay's North American business; and

---

67 As the listed companies operating in the BNPL sector are currently not profitable (as they are generally focusing on customer and GMV growth rather than short term profitability) it is not possible to assess the value of these companies based on a capitalisation of earnings approach (noting that the ANZ business of Afterpay is profitable before corporate cost allocations).

68 The European operations of Clearpay (which were acquired in March 2021) were not a significant contributor to Clearpay in FY21.

69 These are reflected under the Afterpay Asia Pacific, Afterpay North America and Clearpay segments respectively.

For personal use only

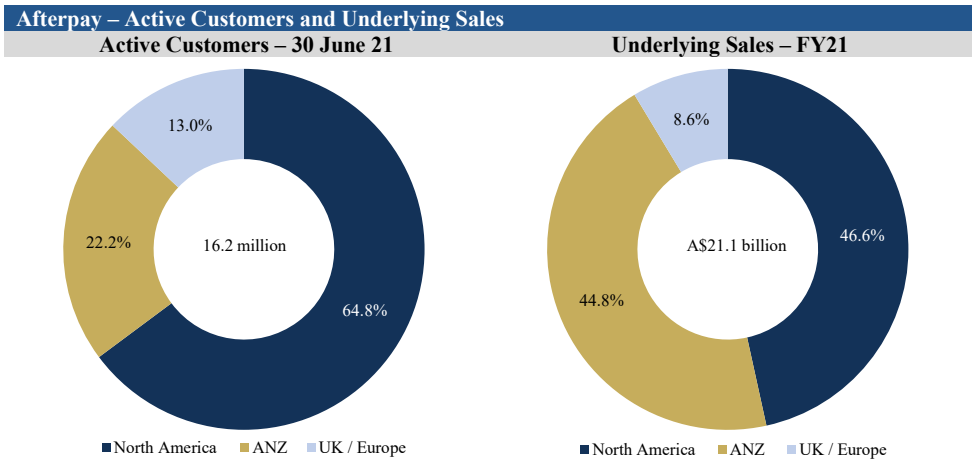
(b) ThinkSmart and the UK ESOP own a combined 10% minority interest in the legal entity from which the UK business is conducted.

233 Upon a change of control event (which will occur if the Scheme is implemented), Afterpay has the right to acquire the minority interests in these businesses[70]. Further, pursuant to the SID, Afterpay must use all reasonable endeavours to ensure that at the Record Date there are no outstanding minority interests in Afterpay. Accordingly, for the purposes of our report, we have determined the value attributable to these minority interests having regard to the valuation principles which underpin the buyout arrangements agreed between the parties. While we have not separately disclosed these individual minority interest values (as doing so may prejudice negotiations with these minority shareholders and any separate independent valuation process which is required), we note that relative to our assessed total business valuation, the values of these minority interest shareholdings are required to be assessed on a minority (not controlling) interest basis, as well as on a standalone basis (i.e. absent the synergistic and scale benefits attributable to Afterpay's globally integrated operations). That said, we have set out the value attributed to the combined minority interests below.

234 The remainder of this section sets out the key matters considered when determining the value of Afterpay under the market approach and our general conclusions.

Current operations by geographic region

235 As at 30 June 2021, North America accounted for the largest proportion of Afterpay's Active Customers and Underlying Sales:



236 A summary of the key performance metrics for Afterpay's geographical operating regions is set out below:

70 Accordingly, our valuation of the Company has been prepared on the basis that Afterpay exercises its rights to acquire these minority interests in the North American and UK businesses.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Afterpay – key performance metrics by region	North America	ANZ	UK / Europe[1]
Launch date	May 2018	2015	May 2019
Underlying Sales (A$b)			
Annualised three months to 30 June 2021	11.9	10.1	2.3
FY21	9.8	9.4	1.8
FY20	4.0	6.6	0.6
Annual change FY21 / FY20 (%)	*146.1%*	*43.9%*	*227.0%*
Active Customers (million)			
30 June 21	10.5	3.6	2.1
30 June 20	5.6	3.3	1.0
Annual change (%)	*87.5%*	*9.1%*	*110.0%*
Annualised Underlying Sales per Active Customer (A$)[2]	1,135	2,793	1,081
Estimated combined population as at 1 July 2021 (million)	370.4	30.8	66.1[3]
Active Customers (% of population)	*2.8%*	*11.7%*	*3.2%*
Total revenue[4] (A$m)			
FY21	390.8	427.4	92.7
FY20	162.7	313.7	26.2
Annual change (%)	*140.2%*	*36.2%*	*253.8%*
Active merchants (000s)			
30 June 21	28.4	63.1	6.7
30 June 20	11.5	42.8	1.1
Annual change (%)	*147.0%*	*47.4%*	*509.1%*

Note:

1 Afterpay acquired Clearpay in August 2018, however, the Afterpay product was only launched in the UK (under the Clearpay brand) in May 2019. To accelerate expansion into the European market, on 24 August 2020 Afterpay announced the acquisition of 100% of Pagantis. However, this acquisition did not complete until 10 March 2021, and was not a significant contributor to Clearpay's results in FY21.

2 Based on annualised Underlying Sales for the three months to 30 June 2021 divided by Active Customers as at 30 June 2021.

3 Based on the population of the UK only.

4 Includes late fees.

na – not applicable.

237 As noted above, Afterpay achieved significantly higher Underlying Sales and revenue growth in FY21 across the North American and UK / European regions relative to its ANZ operations. This primarily reflected, inter-alia:

(a) Afterpay's significant investment in marketing (particularly in North America) and personnel to focus on growth of customer and merchant numbers and Underlying Sales across these regions

(b) the relatively low levels of Afterpay's existing penetration in these regions, as compared to the more established ANZ region

(c) the significantly larger potential addressable market in the North American and UK / European markets relative to the ANZ business.

For personal use only

238 Further background with respect of Afterpay's operations in each of the abovementioned regions is set out below.

North American region

239 Afterpay launched in the US market in May 2018, having signed contracts or terms sheets at varying stages of integration with around 50 retail merchants at the time. Afterpay's North American business has since grown rapidly, amassing some 10.5 million Active Customers and over 28,000 Active Merchants as at 30 June 2021.

240 Given the positive market response from consumers and merchants to BNPL products, and the large potential size of the BNPL market in North America (see paragraph 243 below), the number of competitors in the North American BNPL market is increasing. However, Afterpay was an early mover in the North American market and has established itself as one of the major BNPL providers in this region.

241 Notwithstanding the strong growth in Underlying Sales and revenue achieved to date, the North American operations of Afterpay continue to generate significant losses. This principally reflects management's focus on Active Customer, Active Merchant and Underlying Sales growth rather than short term profits, given the substantial potential size of the BNPL market in the region. As a result, marketing expenses in the North American region (as a percentage of Underlying Sales) are above the levels incurred in the ANZ and UK regions.

242 Whilst merchant revenue as a percentage of Underlying Sales is broadly consistent across the ANZ, North American and UK / European regions, the Net Margin of the North American operations is lower (as a percentage of Underlying Sales) than the other regions. This primarily reflects:

(a) higher net transaction losses (as a percentage of Underlying Sales), which comprise late fees collected, net of debt recovery costs, charges and write-offs of consumer receivables

(b) higher variable transaction costs (as a percentage of Underlying Sales) in the North American region due to higher transaction processing fees.

243 In regard to the substantial potential size of the BNPL market in the region, we note that:

(a) the population of North America is more than 10 times the population of ANZ

(b) as set out in Section III, the North American BNPL market is at a much lower level of penetration than the ANZ market, with BNPL estimated to account for some 2.0% and 10.0% of total e-commerce payments during 2020 in North America and ANZ respectively

(c) Afterpay's North American operations, which delivered Underlying Sales and Active Customer growth of 146% and 88% in FY21 respectively, are growing substantially faster than the more established ANZ operations[71].

[71] During FY21 the ANZ region delivered GMV and Active Customer growth of 44% and 9% respectively.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

244 However, Net Margin (as a percentage of Underlying Sales) is currently lower in the North American region compared to both the ANZ and UK regions, and the North American market is becoming increasingly competitive.

ANZ region

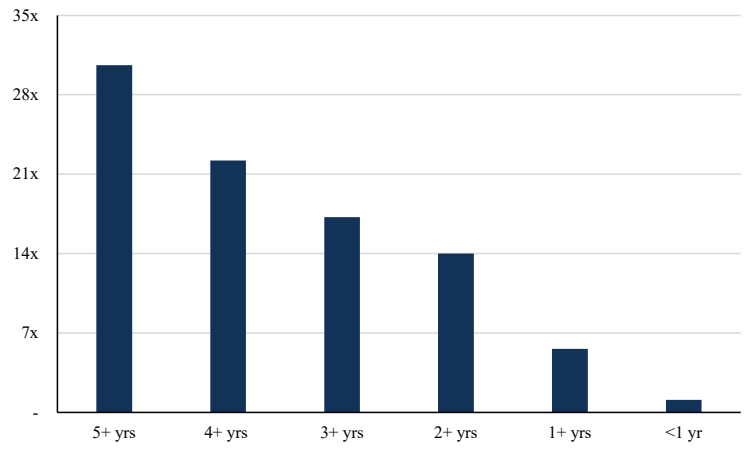
245 Afterpay is the market leader in the BNPL sector in the ANZ region, and has achieved rapid growth over recent years. Annual revenue has increased from A$1.4 million in FY16 to A$427.4 million in FY21. This significant growth reflects (inter-alia):

(a) Afterpay's high brand recognition, with the term "Afterpay" having now become synonymous with BNPL in the ANZ region

(b) the virtuous cycle of growth in Active Customers and Active Merchants, as the significant increase in Active Customers has led to increases in the number of merchants offering Afterpay, which then leads to further increases in Active Customers and Active Merchants

(c) growth in the average spend per Active Customer, which is attributed to increased purchase frequency by customers over time. As shown below, Active Customers who have been using Afterpay for five years or more typically transact around 31 times annually, whereas the number of annual purchases by newer Active Customers is much lower:

Afterpay – annual transactions by customer cohort (ANZ region)



(d) an increase in the number of in-store purchases, with in-store transactions representing some 23% of ANZ Underlying Sales. Omni-channel customers, being those who purchase merchant products using Afterpay's BNPL platform both online and in-store, exhibit greater purchase frequency than single channel customers.

UK / Europe region

246 Afterpay expanded into the UK market via the acquisition of 90% of Clearpay in August 2018, with the official launch of the Afterpay service (under the Clearpay brand) in

For personal use only

May 2019. Since that date the UK / Europe business has grown rapidly and had 2.1 million Active Customers as at 30 June 2021[72].

247 To accelerate expansion into the European market, on 24 August 2020 Afterpay announced the acquisition of 100% of Pagantis. Pagantis provides a range of BNPL and traditional credit services across Spain, France and Italy, with regulatory approval to also operate in Portugal and a pending application to passport its payment institution licence into Germany.

248 As identified by Afterpay in its 1H FY21 investor presentation, the potential addressable market opportunity for BNPL in Europe is very large. However, as stated above, Afterpay has only recently entered this market. Further, Klarna is the market leader in the European region (particularly northern Europe), with the large majority of its US$80 billion in annualised GMV[73] generated in the region.

Valuation metrics implied by publicly listed BNPL companies

249 We set out below a summary of the listed market values (and multiples) for the larger listed BNPL companies[74]:

Listed BNPL company values and multiples[1]	Affirm US$m	Zip Co US$m	Sezzle US$m
EV[2]	32,089	2,947	860
GMV[3]			
Annualised three months to 30 June 2021	9,936	5,364	1,644
FY21	8,292	4,259	1,335
FY20	4,637	1,410	481
FY19	1,300	na	97
FY18	639	na	5
FY21 GMV / Underlying Sales growth	*78.8%*	*na[6]*	*177.5%*
Active customers at period end (million)			
FY21	7.1	7.3	3.0
FY20	3.6	2.1	1.5
FY21 growth	*96.2%*	*na[6]*	*103.4%*
Underlying sales per active customer[4] (US$)	1,399[7]	735	548
Multiples			
EV / annualised GMV(times)	3.2	0.6	0.5
EV / merchant revenue (times)	na[8]	na[8]	11.5[8]
EV / active customer (US$)	$4,520	$404	$287
EV / NTM[5] (times)	74.4	20.7	48.7

72 Notwithstanding that Afterpay expanded into Europe during March 2021, the contribution from Afterpay's European operations was relatively immaterial during FY21.

73 However, Klarna's BNPL GMV is difficult to unpick from its reported numbers, which we understand may include more traditional payments such as its pay now product.

74 While we note there are a number of other ASX listed companies that offer BNPL services (e.g. Humm Group Ltd, Splitit Payments Ltd, Openpay Group Ltd, IOUPAY Ltd and LayBuy Group Holdings) these companies are significantly smaller, less geographically diversified and not considered relevant in the context of a valuation of Afterpay.

For personal use only

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Note:
1 Listed company values and multiples are based on share prices as at 30 September 2021.
2 As we consider that the net cash positions held by each company are required to support the expected growth in the businesses, the enterprise values (EV) are equal to the market capitalisation of each company (as at 30 September 2021) only, with the exception of Zip Co which takes into account recent convertible note issues and the level of cash invested in their funding vehicles which (in the absence of the convertible note issues) would otherwise have been drawn from their funding facility providers. Other than the Zip Co convertible notes, the listed companies did not have any material corporate debt and therefore held small net cash positions. Further, as the level of net cash held by each company was relatively low, had the net cash been deducted from the market capitalisation to derive the enterprise value, the above multiples would not be materially different to those shown above.
3 Both GMV and Underlying Sales represent the total value transacted through the platform. Whilst Afterpay refers to Underlying Sales the more common term used by the listed companies is GMV. For the remainder of this section we primarily refer to GMV.
4 Annualised GMV / Underlying Sales divided by active customers as at 30 June 2021.
5 NTM for Affirm calculated as total revenue less the following expenses: loss on loan purchase commitment, provision for credit losses, funding costs and processing and servicing expenses. NTM for Sezzle represents merchant fees and late payment fees less cost of income, net transaction loss (including credit losses) less net interest expenses. NTM for Zip Co is based on cash gross profit.
6 The organic growth in Zip Co's Underlying Sales and active customers cannot be reliably calculated due to the impact of Zip Co's acquisition of Quadpay (which completed on 31 August 2020).
7 The higher Underlying Sales per active customer for Affirm is explained below.
8 As stated below, Sezzle is the most "comparable" listed company to Afterpay in terms of its business model as merchant revenue is the main source of income. In contrast, Affirm and Zip have different revenue models. Accordingly, EV / merchant revenue can only be calculated for Sezzle (and Afterpay).
na – not available.

250 The above share prices, market capitalisation and multiples are based on each company's listed market value rather than their value on a 100% controlling interest basis. As stated above, research undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia generally ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover[75]), noting that these premiums can vary widely. Nonetheless, the controlling interest multiples for the above listed companies would generally be significantly higher than the multiples shown above.

251 In relation to the listed companies we also note that:

(a) each of the above listed companies operates in multiple regions and generally has further global expansion plans, albeit the level of geographical diversification varies between companies. For instance:

(i) Affirm currently generates the large majority of its revenue in the US and Canada

(ii) Zip Co primarily operates in ANZ and North America[76] and has recently made a number (albeit smaller) of investments / acquisitions to expand its international footprint into a number of different regions including Europe, the Middle East, Africa and India

75 Empirical studies in the US have also confirmed that similar control premiums to Australia have been observed (on average) in the US equity markets.

76 Zip Co's expansion into the North American BNPL market was via its acquisition of Quadpay on 31 August 2020.

For personal use only

(iii) Sezzle primarily operates in the US and has expanded into Canada (2019), India (2020) and a number of European countries (2020), and is currently in the early stages of expansion into Brazil

(b) the most "comparable" listed company to Afterpay in terms of its business model is Sezzle. However, Afterpay is significantly larger, with GMV in FY21 that was some 15.7 times the size of Sezzle's GMV

(c) the most "comparable" listed company to Afterpay's business in terms of scale is Affirm. For the three months to 30 June 2021, Afterpay generated annualised GMV[77] of A$24.2 billion (of which A$11.9 billion[78] was from North America), compared to Affirm which generated annualised GMV for the same period of US$9.9 billion. However, as noted below, there are a number of important differences between the business models of Affirm and Afterpay

(d) Affirm trades on higher implied multiples than the other listed BNPL companies and transaction evidence, which we primarily attribute to its market position, partnerships with Shopify Inc. (Shopify) and Amazon, and the outlook for growth in the North American BNPL market, all of which are central to Affirm's operations.

252 Further information on the abovementioned listed companies is set out below.

Affirm

253 Affirm is a payments technology company which allows consumers to pay for purchases over time rather than upfront. Two payment options are generally offered at checkout or point-of-sale:

(a) for purchases less than US$250 a customer can agree to a short term payment plan without incurring interest or other fees (referred to as a 0% APR loan). This payment option is broadly consistent with Afterpay's BNPL offering; and

(b) for other purchases (up to US$17,500) the customer can apply for a fixed rate instalment loan over a longer repayment term (referred to as instalment loans). Affirm generates a net interest margin on these loans, the substantial majority of which are funded by external bank partners. This component of the Affirm business model significantly differs from Afterpay, which does not currently provide such loans[79].

254 In the three months ended 30 June 2021 (i.e. Q4 FY21), 0% APR loans accounted for approximately 38% of Affirm's total GMV. As the balance of Affirm's GMV is funded via instalment loans, the composition of Affirm's revenue (which reflects a large proportion of interest income) varies significantly from Afterpay. Affirm is therefore not directly comparable to Afterpay.

77 Annualised GMV represents the annualised GMV achieved in the three months to 30 June 2021.

78 Which equates to US$9.2 billion.

79 This difference also explains why Affirm has a higher average GMV (or level of Underlying Sales) per Active Customer, as a large proportion of purchases with Affirm are for higher valued products.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

255 In addition, we note that Affirm has partnerships with both Shopify and Amazon (which provides Affirm with a significant competitive advantage in the North American market). Further information on these partnerships is discussed below:

(a) **Shopify** – in July 2020 Affirm entered into an agreement with Shopify, through which Affirm agreed to develop and service a Shopify-branded instalment payment solution available to eligible Shopify merchants in the US[80,81]. Shopify is a leading provider of essential internet infrastructure for commerce, offering trusted tools (such as websites, logistics and payments functionality) to start, grow, market, and manage a retail business of any size. Shopify services over 1.7 million businesses[82] in more than 175 countries. Importantly, it is estimated that 8.6% of US retail e-commerce sales in 2020 were facilitated through the Shopify platform[83]. Shopify also has a small equity interest in Affirm

(b) **Amazon** – on 27 August 2021 (after market close), Affirm announced a partnership with Amazon which is expected to result in Affirm's product offering being made available to Amazon customers at checkout. This is an important strategic relationship, given that Amazon is estimated to account for 39% of US retail e-commerce sales in 2020[83]. That said, this is a non-exclusive partnership and we understand from Afterpay management that Afterpay's customers can still use Afterpay to pay for purchases on Amazon Marketplace via the Afterpay app using its one-time use virtual card. Afterpay has also established affiliate agreements with Amazon to enable consumers to shop on Amazon Marketplace without Afterpay requiring a direct integration.

256 The Affirm share price has shown significant volatility since the company's IPO in January 2021 (which was priced at US$49 per share[84]), as shown below:

80 ShopPay Instalments is one of a number of BNPL services available to Shopify merchants (including Afterpay, Klarna and Sezzle).

81 In the quarter ended 30 June 2021, Shopify announced that it had rolled out Shop Pay Instalments to all of its merchants in the US.

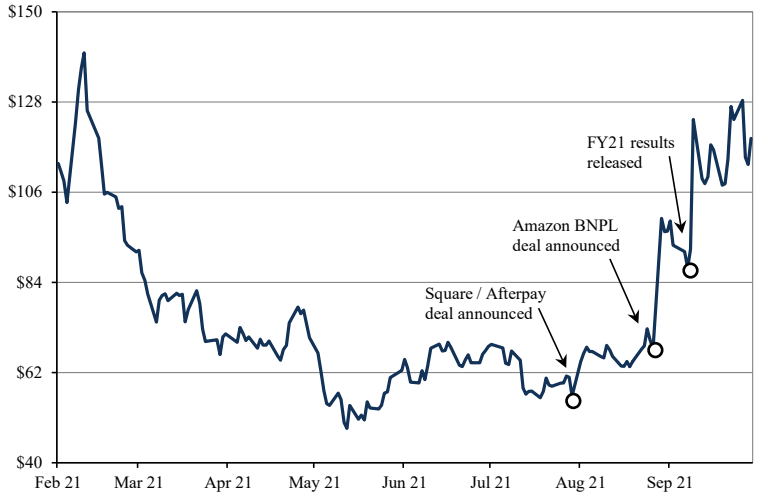
82 Shopify's large customer base is skewed towards small to medium sized businesses.

83 Source: Shopify Q2 2021 investor presentation, page 18.

84 As shown in the chart, Affirm shares traded at a significant premium to the IPO price on their first day of trading.

For personal use only

Affirm share price – 13 January 2021 to 30 September 2021
(US$)



257 In relation to the above share price trading we note that:

(a) Affirm shares initially traded well above the IPO price of US$49 per share, however, this positive investor sentiment (prima facie) gradually declined, with the share price reducing to levels below the IPO price in May 2021

(b) on 2 August 2021 (being the first day of trading post the announcement of the Scheme) the Affirm share price increased 14.9% from US$56.32 to US$64.71 per share. Market analysts attributed this increase to investor speculation that Affirm might also be an attractive takeover target

(c) following the announcement of the partnership with Amazon (on 27 August 2021), the Affirm share price increased by some 46% reflecting (inter-alia) the additional potential for Affirm given the significant market share of the e-commerce market held by Amazon

(d) Affirm announced its FY21 results on 9 September 2021. Following the announcement (on 10 September 2021) Affirm shares increased approximately 34% as Q4 FY21 revenue exceeded consensus analyst forecasts and the company provided strong revenue and Underlying Sales guidance for Q1 FY22 and FY22 generally. Affirm provided FY22 Underlying Sales guidance of between US$12.45 billion and US$12.75 billion, representing growth of between 50.1% and 53.8% above FY21. Further, this guidance excluded any potential contribution from the recently announced partnership with Amazon.

258 Given the significance of the Amazon announcement to Affirm (and the fact that the same value uplift cannot be attributed to Afterpay), we have sought to exclude the value uplift of the Amazon announcement from the Affirm share price and implied multiples. In the period following the Amazon announcement (up to 8 September 2021, being the last trading day before the announcement of Affirm's FY21 results) the price of Affirm shares increased by

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

around US$32 to US$43 per share. Excluding this impact would result in the following adjusted multiples for Affirm:

Adjusted multiples for Affirm (excluding Amazon partnership announcement impact)		
Adjusted EV	US$m	21,988
Annualised GMV	US$m	9,936
EV / annualised GMV	times	2.2x
Active customers (at 30 June 2021)	millions	7.1
EV / active customer	US$	$3,097
NTM (FY21)	US$m	431.4
EV / NTM	times	51.0x

259 As noted above, Affirm trades at significantly higher implied multiples (even after excluding the increase in the share price following the Amazon announcement) than the other listed BNPL companies and transaction evidence, which we primarily attribute to its market position, partnership with Shopify, and the outlook for growth in its core North American BNPL market.

260 Notwithstanding Afterpay is a global business, as shown below, relative to Affirm (which primarily operates in the US), Afterpay's North American operations have achieved a similar scale in terms of annualised GMV, and had a higher number of Active Customers as at 30 June 2021[85]. Afterpay's North American operations have also achieved significantly higher growth in GMV over recent years compared to Affirm:

Comparison of key metrics – Afterpay's North American operations and Affirm		Afterpay's North American business	Affirm
Annualised Underlying Sales / GMV (4Q FY21)	US$b	9.2	9.9
Active customers (at 30 June 2021)	millions	10.5	7.1
Active merchants (at 30 June 2021)	000s	28.4	29.0
FY21 growth in Underlying Sales / GMV		146.1%	78.8%
FY21 growth in active customers		87.5%	96.2%

261 Notwithstanding the above, the NTMs currently being achieved by Afterpay's North American business[86] are significantly lower than Affirm (although this largely reflects the difference in business models described above).

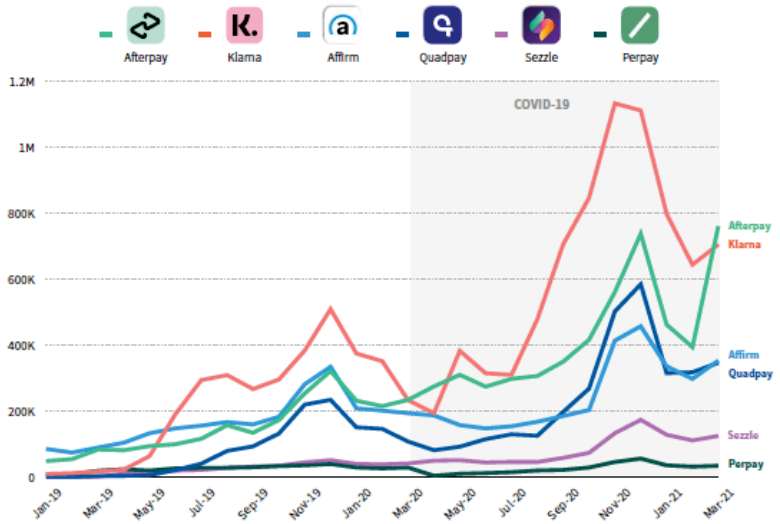
262 Further, as shown in the following chart, the Afterpay app continues to be a leading BNPL app in the US:

85 We also note that a high proportion of Affirm's revenue (20%) in Q3 FY21 was generated from a single merchant (i.e. Peloton).

86 As stated earlier, Afterpay now refers to NTM as Net Margin.

For personal use only

Monthly US downloads for top BNPL apps



Source: Sensor Tower Inc (2021): *The State of Payment Apps: An Analysis of Payment App Market Trends and Top Apps in the U.S.*, page 27.

Zip Co

263 While Zip Co offers similar services to customers and merchants as Afterpay (i.e. the ability to purchase goods on a BNPL basis), we note that Zip Co enables its customers to repay these amounts over a longer period via weekly, fortnightly or monthly instalments. Accordingly, Zip Co's revenue model is different to Afterpay in that Zip Co charges its customers with outstanding balances a monthly fee[87]. Based on Zip Co's 7.3 million customers as at 30 June 2021, we consider these monthly fees are likely to represent a substantial proportion of Zip Co's revenue.

264 Having regard to the above, whilst we have considered the implied multiples of Zip Co, we consider these multiples less comparable for our valuation of Afterpay.

Sezzle

265 Launched in 2017, Sezzle is a payments platform used by around 3.0 million active consumers and 41,800 merchants. Sezzle's core product is similar to Afterpay's BNPL offering, as it allows consumers to split purchases into four interest-free payments over six weeks. Sezzle's Underlying Sales of US$1.335 million in the 12 months to 30 June 2021 was predominantly generated in North America.

266 Recent market sensitive announcements by Sezzle include the following:

87 In Australia this monthly fee is A$6 per month.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

(a) 19 July 2021 – share issue to Discover Financial Services (Discover)[88] and proposed commercial agreement for use of Sezzle's BNPL solution on the Discover Global Network (as discussed below); and

(b) 3 August 2021 – BigCommerce Holdings Inc. (BigCommerce) selected Sezzle as its new preferred BNPL partner[89]. BigCommerce is an e-commerce platform (similar to Shopify) that empowers merchants to build, innovate and grow their businesses online. As at 30 June 2021, BigCommerce served around 58,000 online stores across industries in around 147 countries.

267 In our opinion, Afterpay should be valued on significantly higher multiples than Sezzle. This is principally because Afterpay's BNPL offering and brand-name has gained greater traction (particularly in Sezzle's core North American region). Notwithstanding entering the US market in May 2018, which was after Sezzle (which launched in 2017), Afterpay's North American operations have grown at a faster rate than Sezzle (and other competitors), and in FY21 had around 5.5 times Sezzle's GMV, as shown below:

GMV in North American BNPL market – by company(1)

	Afterpay's North American business US$m	Affirm US$m	Sezzle US$m	Klarna US$m
FY18	11	1,300	5	60
FY19	663	2,620	97	240
FY20	2,660	4,637	481	1,203
FY21	7,379	8,292	1,335	4,884

Note:
1 This analysis excludes PayPal which launched its BNPL offering in August 2020 and achieved US$3.25 billion in GMV in the 12 months to 30 June 2021. The majority of this is likely to have been generated in North America.
2 Zip Co only acquired Quadpay (a US BNPL company) on 31 August 2020. Accordingly, Zip Co's GMV growth over the FY18 to FY21 period is not meaningful.

Valuation metrics implied from BNPL transaction evidence

268 We set out below a summary of recent transaction evidence in the BNPL sector (including the Matrix Transaction referred to in Section III):

88 Discover is a credit card issuer and electronic payment services company.

89 Notwithstanding that Sezzle was announced as BigCommerce's preferred BNPL provider, the company will not be removing other BNPL providers from its platform as several of its merchants request specific BNPL providers.

For personal use only

BNPL sector transactions						
Date	**Matrix Transaction 25 Feb 21 US$m**	**Sezzle[1] 19 Jul 21 US$m**	**Quadpay 31 Aug 20 US$m**	**Paidy 7 Sep 21 US$m**	**Klarna 1 Mar 21 US$m**	**Klarna 10 Jun 21 US$m**
Primary region	US	US	US	Japan	Europe	Europe
Enterprise value (EV)[2]	8,494	1,371	694	2,700	31,000	45,600
GMV						
Annualised[3]	7,505	1,644	657	1,500	75,600	80,400
FY21	7,379	1,335	na	na	70,000	70,000
FY20	2,660	481	na	na	41,000	41,000
FY19	663	97	na	na	31,100	31,100
FY18	11	5	na	na	26,000	26,000
FY21 GMV growth	*177.4%*	*177.5%*	*na*	*na*	*70.7%*	*70.7%*
Active customers (million)[4]	8.1	3.0	1.5	6.0[7]	90.0	90.0
GMV per active customer[5] (US$)	927	548	600	250[6]	840	893
Multiples						
EV / annualised GMV (times)	1.1	0.8	1.1	1.8	0.4	0.6
EV / active customer (US$)	$1,049	$457	$463	$450[7]	$344	$507
EV / net transaction margin[6] (times)	-[8]	77.5	na	na	na	46.0

Note:

1 Relates to an acquisition of a small minority interest in Sezzle by Discover Financial Services.
2 Enterprise value (EV) as disclosed in transaction announcements and other related disclosures. For example, the Matrix Transaction value is based on Afterpay's ASX announcement dated 25 February 2021 and AUD:USD exchange rate prevailing on that date.
3 Being GMV / Underlying Sales for quarter prior to transaction date, annualised.
4 At or around the transaction date. Afterpay figure for Matrix Transaction is as at 31 December 2020.
5 Annualised GMV / Underlying Sales divided by number of Active Customers.
6 Afterpay's Net Margin (previously referred to as NTM) represents merchant fees and late payment fees less credit losses, debt recovery costs, variable transaction costs (such as interchange fees for processing the transaction) and funding costs on consumer receivables. Klarna's NTM has been derived by taking total operating revenues (including net interest income) less other operating income less credit losses.
7 Based on the number of registered customers rather than Active Customers.
8 We have been asked not to disclose Afterpay's Net Margin by region.

na – not available.

Matrix Transaction

269 On 25 February 2021, Afterpay announced that it had entered into an agreement with Matrix pursuant to which Matrix would waive 35% of the 10% underlying interest it held in the North American operations (representing a 3.5% interest in the North American operations) for A$373 million in cash[90] (Matrix Transaction). The Matrix Transaction implied a value

90 Pursuant to the rights set out in the Matrix Convertible Notes (refer Section III).

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

for the North American operations of A$10.7 billion[91]. In addition, Afterpay exchanged some of the US ESOP interests in the North American business for cash and shares in Afterpay at the same valuation implied by the Matrix Transaction.

270 In relation to this transaction it should be noted that:

(a) the conversion value of the Matrix Convertible Notes was based on the minority interest value of the North American business rather than its controlling interest value (consistent with the valuation principles agreed between the parties)

(b) Afterpay management has confirmed that, when negotiating the Matrix Transaction, they took into account the fact that the Matrix interest in the North American business was an illiquid minority interest

(c) the key focus of the Afterpay Board was that any transaction with Matrix needed to be accretive to Afterpay shareholders, given the early liquidity that was being offered to Matrix[92]

(d) negotiations primarily focused on the percentage contribution of the North American business at the time relative to Afterpay's market capitalisation rather than the absolute value of the North American business. In this regard, we note that the Matrix Transaction price represented 28% of Afterpay's market capitalisation at the time, which (as shown below) was below the contribution implied by Underlying Sales, Active Customers and revenue. Prima facie we consider this difference reflects the valuation principles on which the minority interests are required to be based (refer to paragraph 275)

Afterpay – relative contribution of regions to Afterpay key metrics

	1H21	2H21	FY21	1H21 %	2H21 %	FY21 %
ANZ (A$b)	4.8	4.7	9.4	48.7	41.4	44.8
North America (A$b)	4.2	5.6	9.8	43.3	49.4	46.6
Clearpay (A$b)	0.8	1.0	1.8	8.0	9.2	8.6
Underlying Sales (GMV) (A$b)	9.8	11.3	21.1	100.0	100.0	100.0
ANZ (million)	3.4	3.6	3.6	26.0	22.2	22.2
North America (million)	8.1	10.5	10.5	61.8	64.8	64.8
Clearpay (million)	1.6	2.1	2.1	12.2	13.0	13.0
Active Customers at end of period (million)	13.1	16.2	16.2	100.0	100.0	100.0
ANZ (000s)	53.6	63.1	63.1	71.7	64.3	64.3
North America (000s)	17.9	28.4	28.4	23.9	28.9	28.9
Clearpay (000s)	3.3	6.7	6.7	4.4	6.8	6.8
Active Merchants at end of period (000s)	74.8	98.2	98.2	100.0	100.0	100.0
ANZ (A$m)	208.6	218.8	427.4	51.0	43.6	46.9
North America (A$m)	163.4	227.5	390.8	39.9	45.4	42.9
Clearpay (A$m)	37.4	55.3	92.7	9.1	11.0	10.2
Total revenue (excluding Pay Now) (A$m)	409.4	501.5	910.9	100.0	100.0	100.0

91 Being A$373 million divided by 3.5%.

92 Conversion of the Matrix Convertible Notes was not expected to otherwise occur until between five and seven years from their date of issue (being 19 January 2018), with conversion at the noteholder's election.

For personal use only

Other transactions

271 In relation to the other transaction evidence we note the following:

(a) the Quadpay and Paidy transactions involved the acquisition of 100% of the business and therefore implicitly incorporate a premium for control. In comparison, the Matrix, Sezzle and Klarna transactions reflect the acquisition of minority interests in these businesses (and therefore exclude a premium for control). Accordingly, the controlling interest multiples for the Matrix, Sezzle and Klarna transactions set out above would generally be significantly higher than the implied minority interest multiples for these transactions

(b) as stated above, Zip Co's expansion into the North American BNPL market was via its acquisition of Quadpay on 31 August 2020. Accordingly, the transaction was strategically significant for Zip Co

(c) the Sezzle / Discover transaction refers to the issue of 4.559 million shares in Sezzle at an issue price of US$6.68 per share in July 2021 to Discover for US$30 million. At the same time as the transaction, Sezzle announced it was finalising a commercial agreement with Discover which included plans for a BNPL network solution to be provided by Sezzle on the Discover Global Network. The Discover Global Network had US$417 billion in payment volume in CY20, and is accepted at over 50 million locations. The transaction was broadly consistent with the Sezzle share price at the time (and did not reflect a premium for control given the small size of the shareholding acquired)

(d) on 7 September 2021 PayPal announced the acquisition of Paidy for US$2.7 billion. Paidy is described in PayPal's media release as Japan's pioneer and leading BNPL service. In the media release and accompanying investor presentation PayPal also noted that:

"Paidy has a two-sided network with more than six million registered users, more than 700K merchants, and acceptance at the top 10 Japan marketplaces"

"Acquisition significantly expands PayPal's capabilities, distribution and relevance in the domestic payments market in Japan, the third largest ecommerce market in the world"

"Rapid growth of Paidy solutions illustrates that consumers are seeking more seamless, secure and flexible ways to pay"

The higher EV / annualised Underlying Sales multiple inferred for Paidy (compared to the other transactions) would appear to reflect (inter-alia) the implicit control premium in addition to its leading market position in Japan, the outlook for continued strong growth (from a relatively low base), and the value of Paidy to PayPal (which has operated in Japan since 2010)

(e) the large majority of Klarna's GMV is generated in Europe, however the company is expanding globally and also operates in other markets including the US and Australia. Klarna's valuation based on private funding rounds has increased more than eight times in value since January 2020, as shown below:

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Klarna – funding rounds		
Date	Amount raised US$m	Post money valuation US$m
January 2020	200	5,500
September 2020	650	10,700
March 2021	1,000	31,000
June 2021	639	45,600

Klarna has indicated that it may look to list the company in future[93]. Subject to market conditions, we would expect that any such listing would occur at a higher valuation than the last funding round due (inter-alia) to the improved liquidity of listed investments relative to unlisted investments.

Summary of adopted market multiples and implied values

272 Having regard to the above, we have adopted the following market multiples of GMV, merchant revenue, NTM and Active Customers, resulting in the following values for Afterpay on a 100% controlling interest basis:

Adopted market multiples and implied values	Low	High
Valuation based on EV / annualised GMV		
Afterpay annualised GMV (4Q21) A$b	24.2	24.2
Adopted EV / GMV multiple (times)	1.5	1.7
Valuation of Afterpay's BNPL business (100% controlling interest) A$b	**36.3**	**41.1**
Valuation based on EV / merchant revenue		
Afterpay FY21 merchant revenue (A$m)	818.8	818.8
Adopted EV / merchant revenue multiple (times)	40.0	50.0
Valuation of Afterpay's BNPL business (100% controlling interest) A$b	**32.8**	**40.9**
Valuation based on EV / NTM		
Afterpay FY21 NTM (A$m)	434.1	434.1
Adopted EV / NTM multiple (times)	80.0	90.0
Valuation of Afterpay's BNPL business (100% controlling interest) A$b	**34.7**	**39.1**
Valuation based on EV / Active Customer		
Afterpay Active Customers as at 30 June 2021 (million)	16.2	16.2
EV / Active Customer ($)	2,000	2,500
Valuation of Afterpay's BNPL business (100% controlling interest) A$b	**32.4**	**40.5**

273 Set out below are the key reasons for the respective multiples adopted above:

93 Klarna is not yet listed but has indicated that it may do so from 2022.

For personal use only

Multiples – key reasons	
Metric	**Reason for multiples adopted**
Underlying Sales / GMV multiple	• As indicated above, the Matrix Transaction implied an EV / annualised GMV multiple of 1.1x as at February 2021. This transaction was negotiated having regard to the valuation principles agreed between the parties. In particular, the valuation principles required the value to be assessed on a standalone minority interest basis, having regard to (inter-alia) *"the same valuation metrics, multiples and methodologies that appear to be used by market participants to value Afterpay"*. That is, the valuation principles imply an overall Afterpay multiple should be applied (to which minority interest and other adjustments should be made) • Adjusting the Matrix Transaction multiple for a control premium of 30% to 35% implies an EV / GMV multiple of around 1.4x to 1.5x • Our adopted multiple range recognises that the Matrix Transaction also reflected the early liquidity that was being provided to Matrix • Other relevant transactions are Quadpay and Paidy which transacted at some 1.1x and 1.8x GMV respectively • The listed EV / GMV multiples for Sezzle and Zip Co are low (0.5x to 0.6x) before allowing for a control premium, however are considered less relevant, noting Afterpay has consistently traded at a premium EV / GMV multiple to these companies • Similarly, Klarna's EV / GMV multiple is also considered less relevant, noting Klarna has slower growth, operates in more mature regions, has a higher level of GMV and is based on private funding round valuations only
Merchant revenue multiple	• Afterpay and Sezzle are the only companies which primarily generate revenue from merchant fees (noting that Afterpay does not profit from late fees). For example, Affirm and Klarna also generate significant net interest income, unlike Afterpay which does not charge interest. As a result, EV / merchant revenue multiples can only really be compared to Sezzle • Sezzle's listed company multiple on 30 September 2021 was 11.5x FY21 merchant revenue, noting that Discover paid a significantly higher price for Sezzle in July 2021 to acquire a small minority holding. This transaction represented 18.3x FY21 merchant revenue • However, notwithstanding that Afterpay is a global business, we note that Afterpay's North American business has grown substantially faster since FY18 than Sezzle[94] (which principally operates in North America), and in FY21 had GMV that was more than 5.5x that of Sezzle (even though both businesses had a similar GMV in FY18). In our view, this significantly higher growth rate justifies a substantially higher merchant revenue multiple • Afterpay has also consistently traded on higher multiples than Sezzle • Whilst subjective, our valuation under this approach implies a merchant revenue multiple (prior to adding a premium for control) of around 30 to 38 times the level of merchant revenue achieved in FY21 • Adding a control premium results in a controlling interest merchant revenue multiple of around 40 to 50 • Whilst this is a high revenue multiple, it reflects the significant growth expected to be generated by the business

94 Refer paragraph 267 for a comparison of GMV growth since FY18.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Multiples – key reasons	
Metric	**Reason for multiples adopted**
NTM multiple	• EV / FY21 NTM multiples for BNPL companies are high: Klarna (46.0x), Sezzle (48.7x), Sezzle / Discover transaction (77.5x) and Affirm (51.0x on an adjusted basis excluding the Amazon announcement impact) • The EV / NTM multiple implied by the Matrix Transaction is commercially sensitive (but was also very high) • The above NTM multiples are on a minority interest basis and need to be adjusted for a control premium • Afterpay's FY21 growth in GMV was higher than Klarna and Affirm and lower than Sezzle (which is growing from a much smaller base). However, as stated above, Afterpay's growth has been substantially higher than Sezzle since FY18 • Further, Afterpay has consistently traded on higher multiples generally than Sezzle • Given the higher GMV growth rate achieved by Afterpay we have adopted a NTM multiple at the upper end of the multiples referred to above. Consequently, prior to adding a control premium we have adopted a NTM multiple range of 60 to 70 times FY21 NTM • After adding a control premium a NTM multiple range of 80 to 90 has been adopted
Value per Active Customer	• EV / Active Customer depends on (inter-alia) revenue per customer and net transaction margins • Due to differences in the revenue models and margins of the BNPL companies, a direct comparison of EV / Active Customer multiples with other BNPL companies is subject to significant limitations • The Matrix Transaction is therefore considered the best starting point upon which to consider a value of Afterpay on a value per Active Customer basis • The Matrix Transaction implied a value per Active Customer of around US$1,049 on a minority interest basis • Adding a control premium of 30% to 35% to the Matrix Transaction EV / Active Customer multiple would result in an EV / Active Customer of around US$1,400 (around A$1,900) • As stated above (refer paragraphs 270 and 276), an analysis of the key metrics of the Matrix Transaction indicates that it reflected substantial discounts, given the valuation principles agreed between the parties. We have therefore applied a further premium to derive our adopted multiple range • Affirm trades on significantly higher EV / Active Customer multiples than our adopted range. However, Affirm currently has higher GMV per customer and higher net transaction margins (reflective of its different business model)

Valuation conclusion

274 Whilst we have considered the market value of Afterpay under the market approach based on a number of different metrics, we consider that a greater weighting should be given to the EV / GMV approach. This is because the current revenues for each of the BNPL companies are primarily derived from GMV generated on their BNPL platforms, and thus the level of GMV is a key driver of their financial performance. Accordingly, for the purposes of our report we have adopted a value of Afterpay's BNPL operations on a 100% controlling interest basis at some $35 billion to $41 billion.

For personal use only

Allowance for minority interests and deferred and contingent consideration

Minority interests

275 As stated above:

(a) Matrix and the US ESOP have a combined 9% minority interest in the legal entity which conducts the North American business; and

(b) ThinkSmart and the UK ESOP have a combined 10% minority interest in the legal entity from which the UK business is conducted.

276 Upon a change of control event, Afterpay can acquire these minority interests for a price to be determined in accordance with specific valuation principles (which are set out in the respective agreements). These valuation principles require the value of the minority interests to be determined:

(a) on a minority interest basis, rather than on a 100% controlling interest basis (as assessed above); and

(b) on a standalone basis, with any independent expert appointed to determine such value required to make notional adjustments to the entity's costs and expenses (e.g. for group corporate costs), metrics, financial results and financial position to determine value on a standalone basis

(c) having regard to *"the same valuation metrics, multiples and methodologies that appear to be used by market participants to value Afterpay"*. That is, the valuation principles imply an overall Afterpay multiple should be applied (to which minority interest and other adjustments should be made).

Pagantis deferred and contingent consideration

277 In addition, Afterpay has an obligation to make the following payments in relation to its acquisition of Pagantis:

(a) deferred consideration – of €45 million in cash three years post completion of the transaction (subject to certain adjustments)[95]; and

(b) contingent consideration – if the equity value of Pagantis in three years[96] post completion of the transaction exceeds €45 million (subject to certain adjustments). Specifically, the Pagantis contingent consideration is equal to:

(i) 50% of the equity value above €45 million (subject to certain adjustments), up to €100 million, plus

(ii) 40% of the equity value above €100 million, up to €150 million, plus

(iii) 10% of the equity value above €150 million.

278 Payment of the Pagantis deferred and contingent consideration may also be accelerated, at Afterpay's election, in the event of a change in control of the Company.

---

95 Completion occurred on 9 March 2021.

96 Or, in certain circumstances, 3.5 years post completion of the transaction.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

279 As at 30 June 2021 Afterpay recognised a liability in relation to the Pagantis deferred and contingent consideration of A$66.8 million. This reflected Afterpay management's best estimate of the present value of the liability as at that date (in relation to which independent valuation advice was sought). Further, we note that this liability is distinct from the value of the potential European market opportunity for Afterpay, as the value of the deferred and contingent consideration must be assessed based on the relevant operations in the European countries where Pagantis operates at the relevant date. As noted above Pagantis currently operates in France, Italy and Spain only, and generated just A$3.1 million in revenue in the 12 months to 30 June 2021.

Allowance for minority interests and deferred and contingent consideration

280 Based on the above, we have deducted approximately A$1.1 billion to A$1.6 billion from our business values to allow for the costs of acquiring the minority interests in the North American and UK businesses, and the deferred and contingent consideration payable in relation to Pagantis. We have been asked not to disclose the composition of these amounts for the same reason we have been asked not to disclose the individual business values.

Valuation of Pay Now

281 Afterpay also operates the Pay Now business, which comprises the Mobility and Health platforms. Pay Now is not related to the Afterpay BNPL platform and generates revenues via transaction fees for delivery of completed transactions and integration fees to connect new, or grant existing customers access to additional service models.

282 The financial performance of Pay Now in FY20 and FY21 is summarised below:

Pay Now – financial performance

	FY20 $m	FY21 $m	Change %
Revenue			
Mobility	10.8	8.9	(18)
e-Services[1]	2.0	0.7	(67)
Health	3.7	4.2	15
Total income	16.5	13.8	(16)
Cost of sales	(5.4)	(4.6)	14
Gross margin	11.1	9.2	(18)
Other expenses	(4.6)	(0.4)	92
EBITDA	6.5	8.8	35

Note:
1 Revenue for the e-Services business reduces due to the wind down of the e-Services Australia business unit during FY21.
Source: Afterpay FY21 investor presentation.

283 Revenue, gross margin and expenses declined during FY21 due to the wind down of the e-Services business. Further, this business is not a key focus of management and is not expected to exhibit significant growth.

For personal use only

284 For valuation purposes we have adopted a value for Pay Now of around A$70 million, based on a capitalisation of earnings approach. We note that the relative value contribution from Pay Now is immaterial in the context of Afterpay's BNPL business valuation.

Net debt

285 We have adopted net debt of A$419 million. This includes corporate cash balances plus short term deposits less the liability on the Afterpay Convertible Notes (which were issued in March 2021)[97]. We have also allowed for the cash to be raised from the exercise of in-the-money options.

286 Receivable warehouse funding facilities (which are used to finance consumer receivables) have been treated as an operating item of the business and are reflected in Afterpay's Net Margin (i.e. we have not treated these facilities as corporate debt). As at 30 June 2021 the drawn balance on these facilities was A$33.5 million.

Share capital

287 As at 30 September 2021, Afterpay had 290.1 million fully paid ordinary shares on issue. In addition, the Company had the following other securities on issue[98]:

Afterpay – other securities on issue	
Type	**Number**
Options	2,824,584
RSUs	1,154,252
Rights	3,749

288 Based on the above, for valuation purposes we have assumed that:

(a) there are 294.1 million fully diluted shares on issue

(b) no Afterpay shares are issued in relation to the acquisition of the respective minority interests in the North American or UK businesses, the Pagantis deferred and contingent consideration, or the Afterpay Convertible Notes. This is because:

(i) we have assumed that the respective minority interests are acquired for cash consideration rather than Afterpay shares

(ii) we have assumed that the Pagantis deferred and contingent consideration is settled in cash

(iii) due to the high conversion price, for valuation purposes we have assumed that the Afterpay Convertible Notes will not be converted to ordinary shares.

Valuation summary – market approach

289 Based on the above we have assessed the market value of Afterpay shares (on a 100% controlling interest) under the "market approach" as follows:

97 Due to the high conversion price, for valuation purposes we have assumed that the Afterpay Convertible Notes will not be converted to ordinary shares.

98 Further detail on these other securities on issue is set out in Section III.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Valuation of Afterpay under Market approach	Low A$m	High A$m
Value of BNPL businesses (assuming 100% ownership)	35,000	41,000
Less minority interests and deferred and contingent consideration	(1,100)	(1,600)
Pay Now	70	70
Enterprise value	33,970	39,470
Net debt	(419)	(419)
Equity value	33,551	39,051
Fully diluted share capital	294.1	294.1
Value per share (A$)	**114**	**133**

For personal use only

VIII Valuation of Afterpay under the income approach

Methodology

290 Under the income approach the value of Afterpay has been assessed by reference to the future earnings and cash flows expected to be generated by the business. However, due to the difficulty associated with projecting the revenue, earnings and free cash flow of high growth businesses (such as Afterpay) over the long term to a high degree of accuracy[99], our assessed value under this approach has been derived by:

(a) estimating the earnings and free cash flows[100] expected to be generated by the BNPL business over the five year period to 30 June 2026 (Forecast Period). A five year Forecast Period has been adopted due to the difficulty in reliably estimating the financial performance of the business beyond this period

(b) assessing the value of the BNPL business at the end of the Forecast Period (referred to as the terminal value (TV)); and

(c) discounting both the free cash flows over the Forecast Period, together with the TV (which has been calculated based on a Underlying Sales (or GMV) multiple as at 30 June 2026) at an appropriate discount rate to derive the market value of the BNPL business (in present value terms) as at 30 September 2021.

Present value of free cash flows over the Forecast Period

291 The free cash flow projections for the Forecast Period have been derived by LEA having regard to (inter-alia) the historical results of the Afterpay business, management budgets and forecasts (by region), discussions with Afterpay management and investment analyst estimates.

292 A number of different scenarios have been developed and analysed to reflect the impact on value of various key assumptions. In this regard, we note that the value of Afterpay largely depends on:

(a) the level of Underlying Sales processed on the platform, which principally depends on the number of Active Customers, average order size and the frequency at which customers transact on the platform; and

(b) the net profit margin generated by the business on those transactions, which depends on the Afterpay Net Margin (being the merchant revenue less variable costs such as transaction processing fees, credit losses and funding costs and other revenue generated on the BNPL platform) and level of operating costs incurred (e.g. employee and marketing costs).

99 In part, this difficulty arises because small differences in the revenue and earnings growth rates applied can have material valuation impacts over the long term due to the compounding effect of these differences over long periods.

100 Free cash flow represents the nominal operating cash flows of the business (after NTM finance costs and before interest on corporate debt) less taxation payments, capital expenditure and working capital requirements.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

293 Consistent with other listed companies operating in the BNPL sector, Afterpay reported an operating loss in FY21 and is currently focused on customer and Underlying Sales growth rather than short term profitability. This reflects (inter-alia) the significant investments undertaken by Afterpay in sales and marketing[101] and platform improvements.

294 The effect of the above investments is that the free cash flow expected to be generated by Afterpay over the Forecast Period is relatively low. Accordingly, we have not set out these cash flow projections (noting the underlying assumptions for these projections are also commercially sensitive). The present value of these free cash flow forecasts is also low, generally ranging between A$1.0 billion and A$2.0 billion under our various scenarios (based on a discount rate of 10% per annum after tax)[102].

Discount rate

295 Given the nature of Afterpay's business and associated minimal corporate net debt level as at 30 June 2021, the discount rate for Afterpay has been evaluated using the cost of equity only. For the purposes of our analysis we have adopted a cost of equity of 10.0% for the reasons stated in Appendix C.

Terminal value

296 We have adopted an Underlying Sales range for the Afterpay business as at the terminal period having regard to a number of scenarios. Our TV has been calculated by applying a Underlying Sales (or GMV) multiple to this adopted Underlying Sales range. We have adopted a Underlying Sales (or GMV) multiple (rather than a free cash flow or earnings multiple) because the cash flow forecasts over the Forecast Period continue to reflect significant investments in sales and marketing and platform improvements (consistent with the current Afterpay business model)[103]. We also note that Afterpay's current revenue is primarily derived from GMV generated on the BNPL platform and thus, the level of Underlying Sales is a key driver of Afterpay's future financial performance[104].

297 The TV of the Afterpay business therefore depends on the likely annualised Underlying Sales as at 30 June 2026 and the appropriate Underlying Sales (or GMV) multiple. These matters are discussed below.

Annualised Underlying Sales as at 30 June 2026

298 As indicated above, the level of Underlying Sales processed on Afterpay's BNPL platform principally depends on the number of Active Customers, average order size and the frequency at which customers transact on the platform. As such, growth in Afterpay's Underlying Sales can be supported by an improvement in these key drivers, either individually or collectively.

---

101 Particularly in the North American and UK / European markets.

102 The present value of the free cash flows (and TV) is not particularly sensitive to our discount rate due to the short Forecast Period.

103 In addition, Underlying Sales (or GMV) multiples are preferred to revenue multiples due to the different revenue models adopted by some BNPL companies. For example, Affirm and Klarna generate significant net interest income in addition to merchant fees.

104 Notwithstanding the above, we note that Afterpay has recently announced a number of new revenue streams which are not directly generated from Underlying Sales (e.g. affiliate fees from in app advertising and Money by Afterpay etc.). While we have not explicitly modelled the revenue from these income streams, they are implicit in the observed GMV multiples on which our valuation is based.

For personal use only

299 Accordingly, LEA considers it appropriate to have regard to a number of different assumptions and scenarios for each of these key drivers to reflect a range of potential Underlying Sales outcomes. It should be noted that while we have considered a range of scenarios rather than a single outcome, these scenarios do not (nor do they purport to) represent the complete range of potential outcomes (i.e. there is a wide range of potential outcomes outside these scenarios). They are simply theoretical indicators of the sensitivity of the Underlying Sales to the alternative assumptions adopted.

300 Further details with respect to each of these key drivers and the range of assumptions adopted are set out below.

Number of Active Customers

301 Over the five years to 30 June 2021, the number of Active Customers using Afterpay's BNPL platform has grown at very high rates to over 16.2 million users:

Active Customers (million)					
As at year ended	**30 Jun 17**	**30 Jun 18**	**30 Jun 19**	**30 Jun 20**	**30 Jun 21**
ANZ	0.8	2.0	2.8	3.3	3.6
North America	-	-	1.8	5.6	10.5
UK / Europe[1]	-	-	-	1.0	2.1[1]
Total	0.8	2.0	4.6	9.9	16.2
Annual change					
ANZ	*nm*	*150.0%*	*40.0%*	*17.9%*	*9.1%*
North America	*na*	*na*	*na*	*211.1%*	*87.5%*
UK / Europe[1]	*na*	*na*	*na*	*na*	*110.0%*
Total	*nm*	*150.0%*	*130.0%*	*115.2%*	*63.6%*

Note:
1 Afterpay has only been operating in Europe since March 2021 and as a result the contribution from Afterpay's European operations was relatively immaterial as at 30 June 2021.
na – not available. nm – not meaningful.

302 Further comments regarding Active Customers for each region are set out below.

ANZ region

303 Afterpay is the leading BNPL provider in the ANZ region, with 3.6 million Active Customers as at 30 June 2021. As the combined population of Australia and NZ is around 30.8 million, Afterpay's active customer base currently represents around 11.7% of the total population.

304 Given the relatively high penetration rate achieved to date, the rate of growth in the ANZ active customer base is expected to slow. As noted in the above table, growth in the number of Active Customers during FY21 reduced to 9.1%, which is lower than the growth achieved in FY19 and FY20 of 40.0% and 17.9% respectively.

305 For the purposes of our analysis, we have assumed Active Customers for the ANZ region of between 4.5 million and 5.0 million customers as at 30 June 2026. This represents a CAGR in Active Customers of between 4.6% to 6.8% over the five years to 30 June 2026.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

North American region

306 Afterpay expanded into the North American market during the half year to 30 June 2019 and has achieved significant growth in its customer base, with some 10.5 million Active Customers as at 30 June 2021. Due to the relative infancy of Afterpay's North American operations, we set out below a summary of Afterpay's North American customer base by half year periods since inception:

North America – Active Customers (million)						
As at period ended	**31 Dec 18**	**30 Jun 19**	**31 Dec 19**	**30 Jun 20**	**31 Dec 20**	**30 Jun 21**
Active Customers	0.7	1.8	3.6	5.6	8.1	10.5
Half year change (%)	*n/a*	*157.1%*	*100.0%*	*55.6%*	*44.6%*	*29.6%*
Annual change (%)	*n/a*	*n/a*	*414.3%*	*211.1%*	*125.0%*	*87.5%*

n/a – not applicable.

307 As indicated above, growth in the North American customer base has slowed in each of the periods above (albeit the rate of growth remains high). For the purposes of our analysis, we have assumed Active Customers for the North American region of between 20.0 million and 30.0 million customers as at 30 June 2026. This represents a CAGR in Active Customers of between 13.8% to 23.4% over the five years to 30 June 2026.

UK / Europe region

308 Afterpay (under the Clearpay brand) launched in the UK during May 2019 and has grown Clearpay's customer base significantly since then, with some 2.1 million Active Customers as at 30 June 2021 (including customers in Europe). Due to the relative infancy of Afterpay's UK / Europe operations, we set out below a summary of Afterpay's UK customer base by half year periods[105]:

UK – Active Customers (million)				
As at period ended	**31 Dec 19**	**30 Jun 20**	**31 Dec 20**	**30 Jun 21**
Active Customers	0.6	1.0	1.6	2.1[(1)]
Half year change (%)	*n/a*	*66.7%*	*60.0%*	*31.3%*
Annual change (%)	*n/a*	*n/a*	*166.7%*	*110.0%*

Note:
1 Afterpay has only been operating in Europe since March 2021 and as a result the contribution from Afterpay's European operations was relatively immaterial as at 30 June 2021.
n/a – not applicable.

309 As indicated above, growth in the UK customer base has slowed in each of the periods above, notwithstanding that the rate of growth remains high. For the purposes of our analysis, we have assumed Active Customers for the UK of between 3.5 million and 4.5 million customers as at 30 June 2026. This represents a CAGR in Active Customers of between 10.8% to 16.5% over the five years to 30 June 2026. Due to the relative infancy of Afterpay's European operations as at 30 June 2021, we have not projected the number of Active Customers for this

105 As Afterpay only launched in the UK in May 2019, the customer base as at 30 June 2019 was not significant.

For personal use only

region and have factored the value of this region into the Underlying Sales (or GMV) multiple adopted for valuation purposes.

Average order size

310 The average order value during FY21 was A$153 across the group. While we have not disclosed the historical average order values by region (as the information is commercially sensitive) we note that the average A$ order values in the ANZ and North American regions are broadly consistent, while the average order values in NZ and the UK are slightly lower.

311 For the purposes of our analysis, we have assumed that the average A$ order value by region in FY21 grows at a CAGR range between 1.0% per annum and 3.0% per annum over the Forecast Period (which is broadly consistent with medium to long term inflation expectations).

Customer Frequency

312 Afterpay's historical data indicates that the number of annual purchases per Active Customer (i.e. Customer Frequency) increases over time across all regions as customers become more familiar with the platform. As set out in Section VII, Active Customers who have been using Afterpay in ANZ for five years or more typically transact around 31 times annually.

313 In this respect, we note that the North American and UK regions have followed a similar trajectory in Customer Frequency as the ANZ region[106], notwithstanding current average Customer Frequency is lower in these regions due to the less mature customer base.

314 For the purposes of our analysis, we have adopted the following Customer Frequency ranges for FY26 per region:

Customer Frequency assumptions

	Average Customer Frequency for FY26 (times)	
	Low	**High**
ANZ	25.0	30.0
North America	10.0	20.0
UK	15.0	25.0

315 While our adopted Customer Frequency assumptions are lower than that exhibited by early ANZ users of Afterpay's BNPL platform, we consider this appropriate as the average Active Customer base as at FY26 (particularly in the North America and UK regions) will be less mature than the early users in ANZ.

Combinations of June 2026 annualised Underlying Sales outcomes

316 For the purposes of our analysis we have considered the sensitivity of the Underlying Sales outcomes to a combination of the low, mid-point and high of our adopted Active Customer and Customer Frequency assumptions, in addition to the low and high of our adopted average

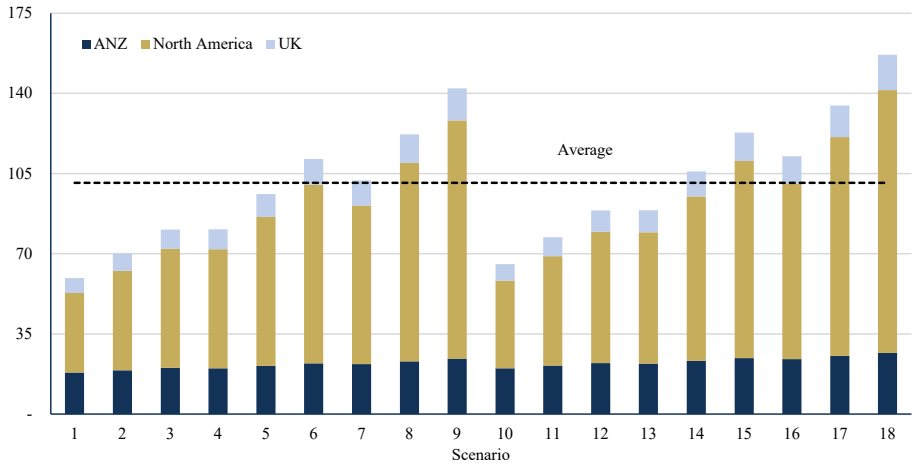
[106] North American customers have typically transacted at slightly lower frequencies than the UK customers. That said, the average order size (in Australian dollars) is highest in North America while the average order size in the UK is the lowest.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

order values[107]. This results in a total number of 18 combinations[108], the Underlying Sales outcomes of which are set out in the chart below:

June 2026 annualised Underlying Sales outcomes
A$b



317 As indicated above, there is a wide range of Underlying Sales outcomes depending on the combination of Active Customer, average order value and Customer Frequency assumptions adopted. That said, we note both the average and median of the combinations above is around A$100 billion.

Analyst Underlying Sales Forecasts

318 As Afterpay is well researched by a number of investment analysts, we have also considered the following investment analyst Underlying Sales forecasts for Afterpay:

Afterpay – investment analyst Underlying Sales forecasts (A$m)(1)

	FY22 A$m	FY23 A$m	FY24 A$m	FY25 A$m	FY26 A$m
Analyst 1	36,000	54,000	75,000	93,000	103,000
Analyst 2	31,400	42,250	53,372	64,773	75,336
Analyst 3	31,064	39,367	48,163	57,148	65,873
Analyst 4	38,400	59,400	79,500	na	na
Analyst 5	34,300	52,400	72,700	na	na
Analyst 6	35,890	52,326	71,356	na	na
Analyst 7	33,890	48,529	66,306	na	na
Average	34,421	49,753	66,628	71,640	81,403

Note:
1 Based on analyst estimates from reports dated 25 August 2021 and 26 August 2021.
na – not available.

107 As our adopted annual growth rate in average order values only ranges from 1.0% to 3.0% we do not consider it necessary to have regard to the mid-point of this growth range as the impact on Underlying Sales is relatively immaterial.

108 Being three multiplied by three multiplied by two.

For personal use only

319 In respect of the above, we note that:

(a) of the three investment analysts that provided FY26 Underlying Sales estimates, Analysts 2 and 3 have the lowest Underlying Sales estimates for each of the periods set out above

(b) the estimates of analyst one are generally consistent with the estimates of Analysts 4, 5, 6 and 7 across FY22 to FY24. Accordingly, we consider it reasonable to assume that had these investment analysts provided FY25 and FY26 Underlying Sales estimates they would have been closer to the estimates of Analyst 1 than Analysts 2 and 3

(c) the average Underlying Sales implied by our adopted scenarios for FY24 are broadly consistent with the range of analyst estimates indicated above.

Conclusion on Underlying Sales

320 Having regard to the above, for the purposes of our analysis we have adopted a June 2026 annualised Underlying Sales range of between A$90 billion and A$100 billion.

Underlying Sales (or GMV) multiple

321 As noted in Section VII, our valuation of Afterpay under the "market approach" (which is based on the values attributed to other listed companies in the BNPL sector and recent transaction evidence) implied a Underlying Sales (or GMV) multiple of 1.5 to 1.7 times the annualised Underlying Sales on Afterpay's platform in the three months ended 30 June 2021 of A$24.2 billion.

322 This Underlying Sales (or GMV) multiple reflects the significant Underlying Sales growth expected to be generated on the Afterpay platform (as evidenced by the significant Underlying Sales growth forecast over the Forecast Period).

323 Whilst further Underlying Sales growth is likely to be achieved beyond FY26, the rate of growth is expected to be significantly lower than that projected over the Forecast Period. Accordingly, in our opinion, the appropriate Underlying Sales (or GMV) multiple to apply in the TV calculation will be materially lower than the Underlying Sales (or GMV) multiple implied by Afterpay's current valuation.

324 As our Underlying Sales scenarios do not explicitly project the level of Underlying Sales for Europe (as Afterpay has only recently entered this market), the value of the European opportunity has been reflected in our adopted Underlying Sales (or GMV) multiple.

325 Having regard to the above we therefore consider that an Underlying Sales (or GMV) multiple of around 0.6 is appropriate for the purpose of our TV calculation. On this basis, we have adopted a TV for 100% of the Afterpay business of between A$54 billion to A$60 billion[109], as calculated below:

[109] As at 30 June 2026.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Terminal value	Low A$m	High A$m
June 2026 annualised Underling Sales	90,000	100,000
Underlying Sales (or GMV) multiple	0.6	0.6
Terminal value as at 30 June 2026	54,000	60,000

Cross-check based on merchant revenue

326 As a cross-check on our assessed TV, we have also considered the TV of the business as a multiple of annualised June 2026 merchant revenue, which is shown below:

Cross-check based on merchant revenue	Low A$m	High A$m
June 2026 annualised Underlying Sales	90,000	100,000
Merchant income, say	3.9%	3.9%
June 2026 annualised merchant fees	3,510	3,900
Implied merchant revenue multiple (times)	*15.4*	*15.4*

Note:

1 Notwithstanding the possibility that Afterpay's merchant income fees may face downward pressure due to increased competition in the BNPL sector, we note that there are additional income streams that have the potential to offset this. Accordingly, for the purposes of our cross-check, we consider it reasonable to assume that Afterpay's merchant income rates as at June 2026 are consistent with current rates.

327 We note that the merchant revenue multiple adopted in our current "market approach" valuation is some 40 to 50 times. This high revenue multiple reflects the very high Underlying Sales and revenue growth expected over the Forecast Period. However, as the TV excludes this growth (on the basis that it has been generated over the Forecast Period), and growth looking forward at that date is expected to be much lower, a substantially lower merchant revenue multiple implied by our adopted TV is appropriate. Whilst subjective, we therefore consider that the merchant revenue multiple implied by our TV is reasonable.

Total value of BNPL business

328 Discounting the above TV range at our 10.0% per annum discount rate results in the following present value for the Afterpay business:

Afterpay – total value of BNPL business under income approach	Paragraph	Low A$m	High A$m
Present value of free cash flows over Forecast Period	294	1,000	2,000
TV	325	54,000	60,000
Present value factor (midpoint basis)		0.667	0.667
Present value of terminal value		36,014	40,016
Value of Pay Now business[(1)]	284	70	70
Total business value (100% controlling interest basis)		**37,084**	**42,086**

For personal use only

Note:
1 Consistent with our adopted value for Pay Now under the market approach (refer paragraph 284).

Allowance for minority interests and deferred contingent consideration

329 The values above reflect the value of Afterpay's BNPL business (including Pay Now) on a 100% basis. As indicated in Section VII:

(a) Matrix and the US ESOP have a combined 9% minority interest in the North American business

(b) ThinkSmart and the UK ESOP have a combined 10% minority interest in the UK business

(c) Afterpay has an obligation to make deferred and contingent consideration payments to Pagantis in respect of the European business.

330 As set out in Section VII, upon a change of control event, Afterpay can acquire these minority interests for a price to be determined in accordance with specific valuation principles (which are set out in the respective agreements). For the purposes of our analysis, we have allowed for these minority interests on the same basis as that set out in paragraphs 275 to 280 of Section VII.

331 Based on the above, we have deducted approximately A$1.1 billion to A$1.6 billion from our business values to allow for the costs of acquiring the minority interests in the North American and UK businesses, and the deferred and contingent consideration payable in relation to Pagantis. We have been asked not to disclose the composition of these amounts for the same reason we have been asked not to disclose the individual business values.

Valuation summary – income approach

332 Based on the above we have assessed the market value of Afterpay shares (on a 100% controlling interest) under the income approach as follows:

Valuation of Afterpay under income approach	Low A$m	High A$m
Value of BNPL business (assuming 100% ownership)	37,084	42,086
Less minority interests and deferred and contingent consideration	(1,100)	(1,600)
Enterprise value	35,984	40,486
Net debt[1]	(419)	(419)
Equity value	**35,566**	**40,068**
Fully diluted share capital	294.1	294.1
Value per share (A$)	**A$121**	**A$136**

Note:
1 Refer to paragraph 285 of Section VII for further details in respect of Afterpay's net debt.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

IX Valuation of Afterpay based on other evidence

333 In this section, we also consider the value of Afterpay based on the listed market price of Afterpay shares prior to the announcement of Scheme, and investment analyst valuations.

Valuation based on listed market price

334 As stated above, Afterpay shares are highly liquid, with A$3.1 billion and A$11.3 billion worth of shares traded in the one month and three month periods immediately prior to the announcement of the Scheme. In our view, it is therefore appropriate to consider the value of Afterpay based on the share price prior to the announcement of the Scheme adjusted for a premium for control (which recognises that the quoted market prices of listed securities may not reflect their value on a 100% controlling interest basis).

335 As stated in Section VII, empirical evidence from research undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover)[110].

336 Recent trading in Afterpay shares prior to the announcement of the Scheme is set out below:

Afterpay – recent share trading prior to the Scheme

Time periods up to and including 30 July 21[(1)]	Low A$	High A$	VWAP A$	Number traded (m)	Value traded (A$m)
10 trading days	96.65	109.63	103.55	12.0	1,239
1 month	96.65	124.18	109.59	29.5	3,233
3 months	81.85	132.50	103.65	109.8	11,377

Note:
1 Being the last trading day prior to the announcement of the Scheme.
Source: Bloomberg.

337 As shown above, prior to the announcement of the Scheme, shares in Afterpay had generally traded at a VWAP of around A$100 to A$110. Adjusting these share prices for a 30% to 35% control premium would therefore result in a "theoretical" control value of approximately A$130 to A$149 per share.

Investment analyst valuations

338 As Afterpay is well researched by a number of investment analysts, we have also considered (as a cross-check on the above valuation approaches) the following investment analyst valuations of Afterpay shares:

110 LEA has analysed the control premiums paid in successful takeovers and other change in control transactions involving cash consideration in Australia over the period 2000 to 2020. LEA's study covered around 500 transactions in all sectors excluding real estate investment trusts, based on data sourced from Bloomberg, Connect4 and public company transaction documents and ASX announcements. Scrip transactions were excluded from the analysis because the value of the scrip consideration can vary materially depending on the date of measurement.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Afterpay – Broker valuations

Broker	Valuation A$/share	Methodology
Analyst 1	127	DCF
Analyst 2	133	DCF
Analyst 3	120	DCF
Analyst 4	113	DCF
Analyst 5	123	DCF and FY26 earnings multiple
Analyst 6	139	DCF
Analyst 7	123	DCF
Analyst 8	151	Not disclosed
Analyst 9	130	Not disclosed
Analyst 10	150	Lifetime customer value and revenue multiple
Analyst 11	125	DCF and revenue multiple
Average	130	
Median	127	
Range (excluding two lowest and highest)	123 – 139	

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

X Valuation of Scheme Consideration

Approach

339 As set out in Section I, if the Scheme is approved and implemented, Afterpay shareholders (excluding ineligible foreign shareholders) will receive Square scrip as consideration based on a fixed exchange ratio of 0.375 Square Class A common stock or 0.375 CDIs (representing an ownership interest in shares of Square Class A common stock) for each Afterpay ordinary share (the Scheme Consideration).

340 It is customary in transactions where scrip is offered as consideration to rely upon the listed market price of the bidder's shares[111] (in this case Square) as the reference point for estimating the realisable value of the consideration offered. This is principally because:

(a) the listed market prices of Square shares are likely to represent a reasonable proxy for the amount that Afterpay shareholders could expect to realise if they sold any Square shares received as consideration either immediately, or in the short term

(b) any decision to continue to hold Square shares beyond the immediate to short term is a separate investment decision which should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. It is also not possible to accurately predict future share price movements.

341 Accordingly, in our opinion, the recent market prices of Square shares (both pre and post the announcement of the Scheme) are the appropriate reference point for estimating the value of the Scheme Consideration. This analysis has also considered the potential synergies from the Scheme, dilution following the issue of shares in Square to Afterpay shareholders, the depth of the market for Square shares and the volatility of the Square share price.

342 In addition, in estimating the value of the Scheme Consideration we have also considered:

(a) the listed market value of Square shares as a multiple of revenue and gross profit

(b) the values attributable to other global payment companies

(c) the value placed on Square shares by investment analysts based on reports released subsequent to the announcement of the Scheme.

Recent share prices

Recent share trading history prior to the announcement of the Scheme

343 As set out below, the listed market price of Square shares has increased substantially since January 2018, although most of this share price increase has occurred since late March 2020. This was attributable to a combination of factors, including the ability to help sellers pivot during COVID-19 to serve their buyers through online channels and contactless commerce, and increased engagement from Cash App customers driven by new product adoption and

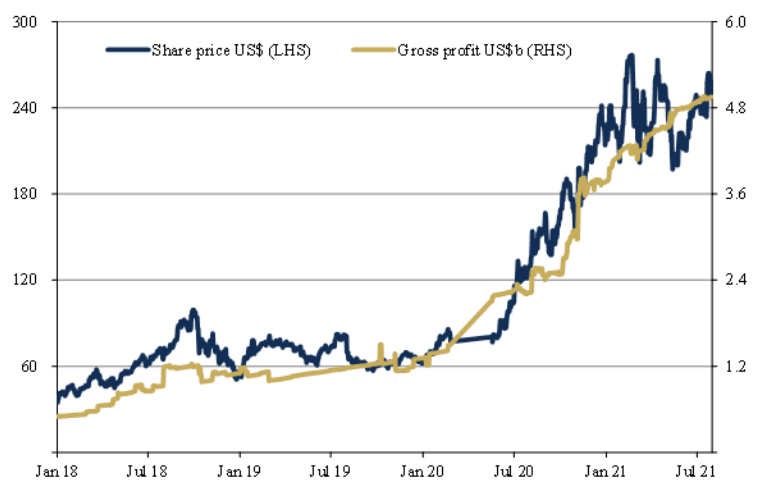
111 Provided there is sufficient liquidity in the bidder's shares.

For personal use only

increased inflows from Cash App customers due in part to greater spending power and government disbursements.

344 Importantly, the increase in the Square share price during this period has correlated with investment analysts' expectations for the company's gross profit, which have also increased substantially over the same period (as shown below):

Square – share price history and gross profit[1]



Source: Bloomberg and LEA analysis.

345 A summary of trading in Square shares for the six months prior to the announcement of the Scheme is shown below:

Square – share price history (pre announcement)

Periods up to and including 30 July 2021	Low US$	High US$	VWAP US$	Number traded (m)	Value traded US$m
1 month	225.28	267.77	246.52	139	34,229
3 months	192.21	267.77	227.16	544	123,509
6 months	191.36	283.19	234.89	1,233	289,617

Source: Bloomberg.

346 As indicated above, Square shares have generally traded at a VWAP around US$230 to US$250 per share in the one, three and six month periods prior to the announcement of the Scheme. In addition, the level of share trading over the period was very high, with some US$289 billion of Square shares traded in the six months prior to the announcement of the Scheme.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Implied multiples for Square

347 The trading range for Square shares based on the one, three and six month periods of around US$230 to US$250 per share implies the following revenue and gross profit multiples for Square on a standalone basis:

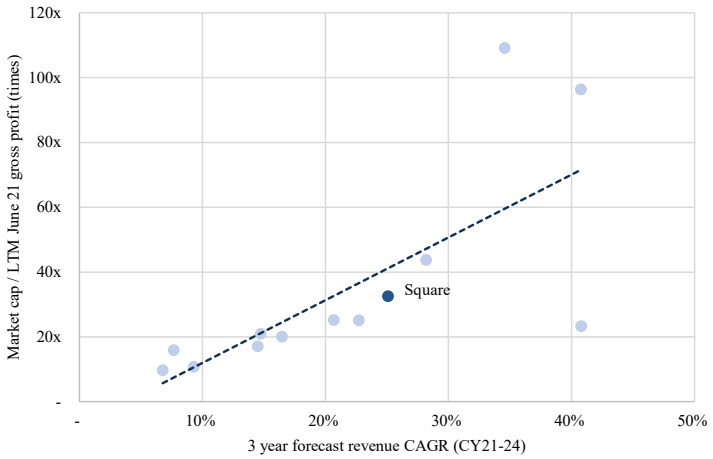
Square – implied multiples

		Low	High
Share price range	US$	230	250
Fully diluted number of shares[1]	million	503	503
Market capitalisation	US$m	**115,690**	**125,750**
Revenue excluding bitcoin[2] (last 12 months to 30 June 2021)	US$m	6,305	6,305
Market capitalisation / revenue	times	**18.3**	**19.9**
Gross profit (last 12 months to 30 June 2021)	US$m	3,703	3,703
Market capitalisation / gross profit	times	**31.2**	**34.0**

Note:
1 Based on 503 million fully diluted shares on issue (refer paragraph 362(b)).
2 Square generates low gross profits on bitcoin purchased by customers via its Cash App and is required to recognise the total transaction value as revenue. As this distorts the underlying sales performance of Square we have excluded bitcoin revenue from our calculation of the revenue multiple.

348 Whilst the above multiples are high, this reflects (inter-alia) the strong growth being achieved, noting that revenue (excluding bitcoin revenue) and gross profit increased by 65.0% and 85.4% respectively in the six months ended 30 June 2021. Further, we note that the implied gross profit multiple for Square appears reasonable when compared to other listed global payment companies having regard to the forecast revenue growth rate projected by investment analysts over the CY21 to CY24 period, as shown below:

Global payment company gross profit multiples[1][2]



For personal use only

Note:
1 Square's last 12 months gross profit multiple is based on the mid-point of the share price range set out at paragraph 347 (i.e. US$240 per share).
2 Multiples are based on the last 12 months gross profit multiple for the following global payment companies; Visa, Mastercard, PayPal, Square, Adyen, Fidelity National Information Services, Fiserv, Global Payments, Nexi, Nuvei, Pagseguro, Lightspeed and StoneCo.
Source: Bloomberg, LEA analysis.

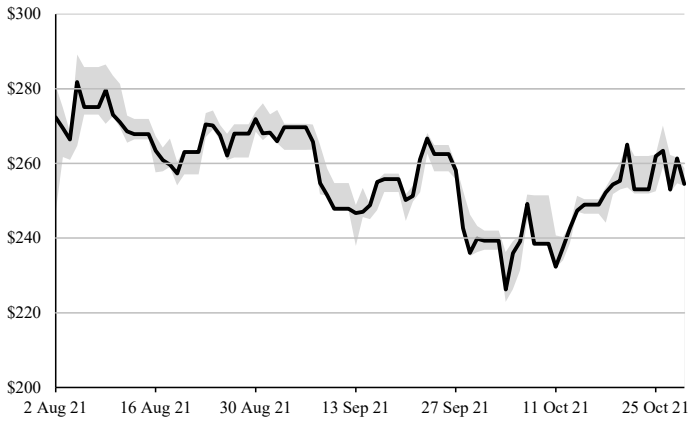
349 As indicated above, the global payment companies trading on higher gross profit multiples generally had higher forecast revenue growth rates projected by investment analysts over the CY21 to CY24 period.

Recent share trading history post the announcement of the Scheme

350 For the purpose of assessing the value of Square shares offered as consideration we believe more regard should be given to the price of Square shares since the Scheme was announced on 2 August 2021. This is because we consider the Square share prices subsequent to 30 July 2021 to be more representative of the share price assuming the Scheme is approved and implemented than the share prices before that date (as these share prices reflect the market's view[112] of the combined value of the two entities based on the terms of the Scheme, as well as the related synergies that are expected to be realised).

351 Share trading in Square subsequent to the announcement of the Scheme up to 29 October 2021 is shown below:

Square – post announcement trading ($US)(1)
2 August 2021 to 29 October 2021



Note:
1 The intraday high and low is represented by the grey shaded area.

352 The following table sets out the prices at which Square shares have traded in the period subsequent to the announcement of the Scheme up to 29 October 2021:

112 Albeit probability weighted for the chance of successful completion of the Scheme.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Square – share price history (post announcement of Scheme)					
Time periods	Low US$	High US$	VWAP US$	Number traded (m)	Value traded US$m
2 August 2021[(1)] to 29 October 2021	222.92	289.23	258.95	477.3	123,595
10 trading days to 29 October 2021	244.16	270.16	257.39	59.7	15,356

Note:
1 Being the first day of trading subsequent to the announcement of the Scheme.
Source: Bloomberg.

353 In relation to the post announcement trading we note that:

(a) the initial market reaction to the announcement of the Scheme and Square's results for the three months ended 30 June 2021[113] (which were announced at the same time) was positive, with the Square share price increasing by around 10%

(b) the Square share price reached a high of US$289.23 on 5 August 2021, before gradually declining. On 29 October 2021 the Square share price had reduced to US$254.50 per share which was broadly consistent with the VWAPs over the periods set out above. Further, we note that the Square share price (consistent with the Afterpay share price) tends to be highly volatile

(c) the level of trading in Square shares has remained high, with over US$15 billion of shares traded in the 10 trading days to 29 October 2021.

Potential synergies

354 A key benefit of the proposed transaction is that Afterpay will be integrated into Square's product offerings (Seller and Cash App), strengthening the connection between the respective platforms and increasing cross-selling opportunities between merchants and consumers. More specifically, based on statements made at the time of the Scheme announcement, we understand that:

(a) Afterpay will be integrated into Square's online and in-person checkout solutions, strengthening Square's omni-channel platform

(b) Afterpay consumers will be able to manage their instalments and repayments directly within Cash App, helping to drive repeat engagement

(c) Square intends to integrate the Afterpay app into the Cash App to help drive lead generation for merchants and consumer engagement

(d) the combination of Afterpay and Square creates opportunities to introduce new merchants to both platforms, as is evident from the comparison of the two platforms below:

113 Square's gross margin increased by 91% in the three months ended 30 June 2021 (compared to the three months ended 30 June 2020), which was ahead of analyst consensus forecasts.

For personal use only

Afterpay and Square – key metrics comparison (12 months to 30 June 2021)		
	Afterpay	**Square**
Products	• BNPL	• 30+ products including point of sale, managed payments, CRM, business banking, online, hardware, developer platform, more
Channels	• US$16 billion of GMV • > 85% online	• US$140 billion of GPV • ~ 45% in person
Seller size	• Enterprise merchants generated majority of GMV	• Moving upmarket: mid-market merchant segment drove strongest GPV growth
Verticals	• Primarily retail	• Diverse mix of verticals
Geographies	• > 50% GMV from outside the US	• > 85% GPV from the US

Source: Joint investor presentation dated 2 August 2021, page 17.

(e) the combination of Afterpay and Square creates opportunities to give Afterpay consumers access to Cash App's broad suite of financial services products, and introduces Afterpay merchants to Cash App's extensive consumer base, as evident from the comparison of the two platforms below:

Afterpay and Cash App – key metrics comparison (12 months to 30 June 2021)		
	Afterpay	**Cash App**
Products	• BNPL	• P2P, banking, stocks, bitcoin, taxes
Consumer base	• Global • Millennial / Gen Z, higher-income • Coastal US	• Primarily US • Millennial / Gen Z • South and southeast US
Commerce	• In-app shopping discovery • US$975 in average GMV per consumer as of FY21	• > $10 million monthly Cash Card actives • Growing Boost rewards platform
Engagement	• Multiple purchases per month on average, with repeat buying	• 18 transactions per month on average for monthly actives, up 40% year on year

Source: Joint investor presentation dated 2 August 2021, page 18.

(f) the combination of Afterpay and Square expands the geographical reach of Square, whilst enhancing the established position of Square in the North American market.

355 The commercial benefits associated with the above opportunities are expected to enhance Square's growth potential (particularly over the longer term) post implementation of the Scheme. We note that this view appears consistent with the opinions set out in investment analyst reports prepared following the announcement of the Scheme. We also note that Square issued a Preliminary Proxy Statement (Schedule 14A) with the Securities and Exchange Commission on 23 September 2021[114]. This document included free cash flow projections for Afterpay and Square (on a standalone basis) and potential synergies. Page 71

[114] The final proxy statement will be sent to Square shareholders in relation to the Square shareholder meeting to approve the issue of Square Class A common shares to Afterpay shareholders pursuant to the Scheme.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

of the Preliminary Proxy Statement estimated that the *"Levered free cash flow from synergies"* in CY35 could be US$714 million per annum. However, we note that:

(a) the levered free cash flow from synergies was not expected to be positive until CY27

(b) the Preliminary Proxy Statement noted that these projections were subject to significant risks and uncertainties, and should not be considered reliable.

Dilution

356 As noted in Section XI, we have formed the view that Square is paying a premium (above the listed market price) to acquire Afterpay. Accordingly, in the absence of synergies, there will be an implicit dilutive effect on the value of Square shares (should the Scheme be approved and implemented) because the listed market price of Square shares (post implementation of the Scheme) will reflect a portfolio rather than a controlling interest value of the enlarged entity. In the absence of synergies, prima facie, this dilution would be expected to result in a reduction in the share price of the bidder (in this case Square).

357 However, as noted above, shares in Square have generally traded above the levels at which Square shares traded prior to the announcement of the Scheme, which we have attributed to a recognition by share market investors in Square of the potential synergy benefits that are expected to arise from an acquisition of Afterpay.

358 Based on the market and investment analysts' response to the Scheme, in our opinion, it is therefore reasonable to conclude that the value of expected synergy benefits is likely to exceed the potential dilutive effect.

Value placed on Square by investment analysts

359 Square is well researched and analysed by investment analysts and institutional investors, with 42 investment analysts providing post announcement coverage of Square as of 26 August 2021[115]. In estimating the value of the Scheme Consideration we have therefore also had regard to the analysis of Square post announcement of the Scheme undertaken by these firms (with 24 of these investment analysts including an assessment of the value of Square shares).

360 We set out in the table below a summary of these investment analyst valuations, including the respective valuation methodologies adopted:

[115] Of the 53 analysts, 42 of the analysts have updated their reports for Square following the announcement of the proposed Scheme with Afterpay on 2 August 2021.

For personal use only

Square – investment analyst valuations			
Investment analyst	**Date**	**Valuation US$/share**	**Valuation methodology**
Analyst 1	17 Aug 21	300	DCF
Analyst 2	17 Aug 21	340	EBITDA multiple
Analyst 3	9 Aug 21	250	EBITDA multiple
Analyst 4	3 Aug 21	343	Price earnings (P/E) multiple
Analyst 5	3 Aug 21	281	DCF
Analyst 6	3 Aug 21	260	Sum of the parts – gross profit and EBITDA multiples
Analyst 7	3 Aug 21	270	Revenue multiple
Analyst 8	2 Aug 21	262	P/E multiple
Analyst 9	2 Aug 21	250	P/E multiple
Analyst 10	2 Aug 21	340	Blended – revenue multiple and DCF
Analyst 11	2 Aug 21	259	P/E multiple
Analyst 12	2 Aug 21	310	P/E multiple
Analyst 13	2 Aug 21	300	Revenue multiple
Analyst 14	2 Aug 21	330	Not reported
Analyst 15	2 Aug 21	361	Revenue multiple
Analyst 16	2 Aug 21	320	Revenue multiple
Analyst 17	2 Aug 21	300	EBITDA multiple
Analyst 18	2 Aug 21	325	DCF
Analyst 19	2 Aug 21	350	Revenue multiple
Analyst 20	2 Aug 21	312	Revenue multiple
Analyst 21	2 Aug 21	365	Sum of the parts – EBITDA multiples
Analyst 22	2 Aug 21	305	Gross profit multiple
Analyst 23	1 Aug 21	380	DCF
Analyst 24	1 Aug 21	250	Revenue multiple
Average		**307**	
Median		**308**	

361 In respect of the above we note:

(a) a number of valuation methodologies were adopted ranging from DCF to multiples of revenue and/or earnings[116]

(b) we have assumed (consistent with investment analyst valuations generally) that the values reflect portfolio interests in Square

(c) in the majority of cases the values exceed the prices at which Square shares have generally traded subsequent to the announcement of the Scheme[117]

(d) a number of the investment analysts identified benefits from the proposed combination of the two businesses consistent with those noted at paragraph 355 above.

Number of Square shares to be issued as consideration

362 Based on the fixed exchange ratio of 0.375 Square Class A common stock or 0.375 CDIs (representing an ownership interest in shares of Square Class A common stock) for every Afterpay share, we have calculated both the number of Square shares to be issued to Afterpay shareholders, together with the number of Square shares on issue subsequent to

116 We note the valuation methodologies adopted are consistent with the methodologies considered in our assessed valuation of Afterpay in Section VI.

117 This may reflect that some of the analyst valuations are more of a target rather than a current valuation.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

implementation of the Scheme. This calculation has been prepared on an assumed fully diluted basis (as shown in the table below) and reflects:

(a) Afterpay shares on issue as at 31 July 2021[118] of 290.1 million, together with the assumed issue of (in total) a further 4.0 million shares pursuant to the exercise of options and vesting of RSUs. In determining the number of Afterpay shares to be acquired pursuant to the Scheme we have assumed that no Afterpay shares are issued in relation to the acquisition of the respective minority interests[119], Pagantis contingent consideration or the Afterpay Convertible Notes on issue[120]

(b) Square shares on issue as at 31 July 2021 of 460.3 million (including 62.3 million Class B shares), together with the assumed issue of (in total) a further 42.6 million shares pursuant to the exercise of options and warrants, and the vesting of RSUs, and the conversion of convertible notes.

Square shares on issue (post implementation of Scheme) – fully diluted basis	
	million
Afterpay shares to be acquired pursuant to Scheme(1)	294.1
Exchange ratio	0.375
Square shares issued to Afterpay shareholders	110.3
Square shares on issue pre-transaction	502.9
Square shares on issue post-transaction	613.2

Note:
1 In determining the number of Afterpay shares to be acquired pursuant to the Scheme we have assumed that no Afterpay shares are issued in relation to the acquisition of the respective minority interests in the North American and UK businesses, Pagantis contingent consideration or the Afterpay Convertible Notes on issue (for the reasons stated above).

363 Based on the fixed exchange ratio pursuant to the Scheme, the number of shares to be issued by Square as consideration under the Scheme will therefore represent approximately 18.0% of the enlarged capital base of Square (on a fully diluted basis)[121].

118 We note that the number of Afterpay shares on issue as at 30 September 2021 was also 290.1 million.

119 As noted above, pursuant to the SID, Afterpay is to use all reasonable endeavours to ensure there are no outstanding minority interests at the Record Date. For the purpose of our report, we have assumed that the respective minority interests are acquired for cash consideration rather than Afterpay shares (which would then be subject to the Scheme). This differs from the approach adopted in the Scheme Booklet, which makes certain assumptions regarding the number of Afterpay shares to be issued to the minority shareholders in the North American and UK businesses, and in relation to the Pagantis deferred and contingent consideration. However, notwithstanding these assumptions differences, the pro-forma ownership interests in Square post implementation of the Scheme in the Scheme Booklet are not materially different than those calculated above.

120 As our assessed value range of Afterpay shares is lower than the price at which holders of Afterpay Convertible Notes are able to convert their notes to shares in Afterpay, for the purpose of assessing the number of Afterpay shares to be acquired pursuant to the Scheme, we have assumed that no Afterpay shares will be issued in relation to the A$1.5 billion Afterpay Convertible Notes on issue.

121 Our calculation differs slightly from the interest of 18.5% stated in the ASX announcement of the Scheme (on 2 August 2021), which assumed that Afterpay shares were issued as consideration for the acquisition of the respective minority interests and that these additional shares were then subject to the Scheme.

For personal use only

364 In this regard, if a large number of Afterpay shareholders elect to sell their Square shares received as consideration on market subsequent to implementation of the Scheme, this has the potential to result in a short-term adverse impact on the price at which Square shares trade due to an associated potential oversupply of Square shares. However, given the observed very high level of share trading in Square, we would expect any adverse short-term price impact to be modest.

Conclusion

365 In summary, in assessing the value of the Square shares offered as consideration under the Scheme we have had regard to:

(a) the recent trading range of Square shares, particularly subsequent to the announcement of the Scheme on 2 August 2021

(b) the listed market value of Square shares as a multiple of revenue and gross profit and the values attributable to other global payment companies

(c) the likely level of on-market trading in Square shares should the Scheme be successful, having regard to factors including:

(i) the value of the potential synergy benefits which are expected to arise from a combination of the business operations of Square and Afterpay

(ii) the dilution effect implicit in the control premium being paid by Square

(iii) the number of shares likely to be issued by Square under the Scheme, together with the related risk of a potential oversupply of Square shares from those shareholders in Afterpay that decide they do not wish to retain the Square shares received as consideration and thereby seek to sell on-market

(d) updated analysis by investment analysts providing coverage of Square subsequent to the announcement of the Scheme

(e) recent stock market conditions.

366 We have assessed the value of Square shares offered as consideration pursuant to the Scheme at between US$230 and US$265 per share. This range is consistent with the trading range in Square shares following the announcement of the Scheme up to 29 October 2021.

367 For the purpose of our report we have adopted a foreign currency exchange ratio of A$1.00 = US$0.73 having regard to the average exchange rate prevailing since the announcement of the Scheme. Accordingly, the A$ equivalent of our assessed value of Square shares offered as consideration pursuant to the Scheme is between A$315 and A$363 per share.

Assessed value of Scheme Consideration

368 We have therefore assessed the value of the Scheme Consideration to be received by Afterpay shareholders pursuant to the Scheme as set out below:

For personal use only

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Value of Scheme Consideration	Low A$	High A$
Value of Square post transaction – per share	315	363
Exchange ratio	0.375	0.375
Value of Scheme Consideration – per share	118	136

369 Afterpay shareholders should note that the listed market price of Square shares is subject to significant daily fluctuation and historical trading in Square shares has exhibited a high degree of price volatility. The price at which Square shares may be sold may therefore be greater or less than our assessed realisable value of Square shares of US$230 to US$265 per share.

370 Afterpay shareholders should also note that any decision to hold Square shares beyond the short term is a separate investment decision. As it is not possible to accurately predict future share price movements, any decision to hold Square shares should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions.

For personal use only

XI Evaluation of the Scheme

371 In our opinion, the Scheme is fair and reasonable and in the best interests of Afterpay shareholders in the absence of a superior proposal. We have formed this opinion for the following reasons.

Assessment of the Scheme

Value of Afterpay

372 As set out in Section VI we have assessed the value of Afterpay shares on a 100% controlling interest basis at A$115 to A$135 per share.

Value of Scheme Consideration

373 If the Scheme is approved and implemented the Scheme Consideration to be received by Afterpay shareholders comprises Square shares, based on a fixed exchange ratio of 0.375 Square Class A common stock or 0.375 CDIs (representing an ownership interest in shares of Square Class A common stock) for each Afterpay ordinary share. As set out in Section X we have assessed the value of the Scheme Consideration between A$118 and A$136 per share.

Fair and reasonable opinion

374 Pursuant to RG 111 a scheme is "fair" if the value of the scheme consideration is equal to or greater than the value of the securities subject of the scheme.

375 This comparison for Afterpay shares is shown below:

Position of Afterpay shareholders	Low A$ per share	High A$ per share	Mid-point A$ per share
Value of Scheme Consideration	118	136	127
Value of 100% of Afterpay	115	135	125
Extent to which the Scheme Consideration exceeds the value of Afterpay	3	1	2

376 As the value of the Scheme Consideration is consistent with our assessed valuation range for Afterpay shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is fair to Afterpay shareholders when assessed based on the guidelines set out in RG 111.

377 Pursuant to RG 111, a transaction is reasonable if it is fair. Consequently, in our opinion, the Scheme is also "reasonable".

In the best interests

378 There is no legal definition of the expression "in the best interests". However, RG 111 notes that if an expert concludes that a scheme is "fair and reasonable", or "not fair but reasonable", then the expert will also be able to conclude that the scheme is "in the best interests" of members of the company.

379 In our experience, if a transaction is "fair" and "reasonable" under RG 111 it will also be "in the best interests" of shareholders. This is because if the consideration payable pursuant to a

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

scheme is fair, shareholders are implicitly receiving consideration for their shares which is consistent with the full underlying value of those shares.

380 We therefore consider that the Scheme is also "in the best interests" of Afterpay shareholders in the absence of a superior proposal.

Other considerations

381 In assessing whether the Scheme is reasonable and in the best interests of Afterpay shareholders LEA has also considered, in particular:

(a) the extent to which a control premium is being paid to Afterpay shareholders

(b) the extent to which Afterpay shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction

(c) the comparative position of Afterpay shareholders both prior to and on the assumption the Scheme is implemented

(d) the listed market price of Afterpay shares, both prior to and subsequent to the announcement of the proposed Scheme

(e) the likely market price of Afterpay shares if the Scheme is not approved

(f) the value of Afterpay to an alternative offeror and the likelihood of a higher alternative offer being made for Afterpay prior to the date of the Scheme meeting

(g) the advantages and disadvantages of the Scheme from the perspective of Afterpay shareholders

(h) other qualitative and strategic issues associated with the Scheme.

382 These issues are discussed in detail below.

Extent to which a control premium is being paid

383 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares[122] three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price)[123]. This premium range reflects the fact that:

(a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder

(b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds

122 After adjusting the pre-bid market prices for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover.

123 LEA has analysed the control premiums paid in successful takeovers and other change in control transactions involving cash consideration in Australia over the period 2000 to 2020. LEA's study covered around 500 transactions in all sectors excluding real estate investment trusts, based on data sourced from Bloomberg, Connect4 and public company transaction documents and ASX announcements. Scrip transactions were excluded from the analysis because the value of the scrip consideration can vary materially depending on the date of measurement.

For personal use only

(c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company

(d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

384 We have calculated the premium implied by the Scheme Consideration by reference to the market prices of Afterpay shares (as traded on the ASX) for periods up to and including 30 July 2021 (being the last trading day prior to the announcement of the Scheme).

385 For implied premium calculation purposes we have taken the mid-point of our assessed valuation range of the Scheme Consideration of approximately A$127 per share.

386 The implied offer premium relative to Afterpay share prices up to 30 July 2021 is shown below:

Implied offer premium relative to recent Afterpay share prices

	Afterpay share price A$	Implied offer premium %
Scheme Consideration	127.00	
Closing share price on:		
30 July 2021 (the last trading day prior to the announcement of the proposed Scheme)	96.66	31.4
VWAP:		
1 month up to and including 30 July 2021	109.59	15.9
3 months up to and including 30 July 2021	103.65	22.5

387 In our opinion, more regard should be given to the VWAPs above rather than the share price on a single day. This is particularly the case for shares in companies such as Afterpay, where historical share market trading has reflected significant price volatility.

388 Based on the above VWAPs, we note that the Scheme Consideration provides Afterpay shareholders with a premium that is lower than observed premiums generally paid in comparable circumstances. In part, this reflects the fact that the market price of Afterpay shares was trending down over the VWAP periods (as evidenced by the fact that Afterpay shares last traded significantly below the VWAPs immediately before the Scheme announcement).

389 However, notwithstanding the lower premium based on the VWAPs, in our view:

(a) the Scheme Consideration implicitly provides Afterpay shareholders with an appropriate premium for control; and

(b) Afterpay shareholders are being compensated for the fact that 100% control of Afterpay will pass to Square if the Scheme is approved and implemented.

390 This view is consistent with our opinion that the Scheme is "fair" having regard to the value of Afterpay shares on a 100% controlling interest basis. As noted in Section VI, when forming our view on value we considered a number of different valuation approaches

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

(including the underlying value of Afterpay shares based on the value attributed to similar companies and implied by recent transaction evidence in the BNPL sector, and a DCF approach).

Extent to which Afterpay shareholders are being paid a share of synergies

391 As set out in Section X:

(a) there are a number of commercial synergy benefits which are expected to arise from a combination of the business operations of Square and Afterpay

(b) our analysis indicates that the value of these potential synergy benefits has been reflected in an increase in the price at which Square shares have traded subsequent to the announcement of the Scheme[124].

392 The Scheme Consideration to be received by Afterpay shareholders comprises shares in Square. Implicitly therefore the value of these potential synergy benefits is reflected in the Scheme Consideration.

393 As noted above, as the value of the Scheme Consideration is consistent with our assessed valuation range for Afterpay shares on a 100% controlling interest basis, we have assessed the Scheme Consideration as fair to Afterpay shareholders (when assessed based on the guidelines set out in RG 111).

394 We therefore consider that Afterpay shareholders are being paid an appropriate share of the synergy benefits that are expected to arise from a combination of the business operations of Square and Afterpay. Afterpay shareholders who retain their Square shares will benefit from the expected realisation of these synergy benefits over time due to their collective ownership interest in Square shares post implementation of the Scheme of around 18%[125].

Exchange ratio implied by recent share trading

395 We have also considered the trading in Square and Afterpay shares prior to the announcement of the Scheme in comparison with the fixed exchange ratio under the Scheme.

396 As indicated below, the exchange ratio implied by recent share trading in both companies is slightly less than the fixed exchange ratio under the Scheme of 0.375 Square shares for every Afterpay share. This is consistent with our view that Afterpay shareholders should expect and (prima facie) are receiving a premium for their shares under the Scheme:

Exchange ratio implied by recent share trading prior to announcement of Scheme

	Afterpay VWAP A$	Square VWAP(1) A$	Ratio
1 month to 30 July 2021	109.10	331.8	0.329
3 months to 30 July 2021	103.55	298.5	0.347
6 months to 30 July 2021	114.06	306.5	0.372

124 During this period, shares in Square have generally traded above the levels at which Square shares traded prior to the announcement of the Scheme.

125 Refer Section X, paragraph 363 for calculation.

For personal use only

Note:
1 Based on the VWAP of Square shares in the period converted into Australian dollars based on the average A$:US$ exchange rate prevailing during the period.

Share price volatility

397 Afterpay shareholders should be aware that the listed market price of Square shares has exhibited significant volatility over recent years. Further, given this high share price volatility and the relatively high revenue and gross profit multiples at which Square shares trade[126], any material decline in global equity markets (or technology stocks in particular) could potentially result in a relatively larger decline in the listed market price of Square shares.

398 Notwithstanding these risks, we note that the listed market price of Afterpay shares has historically also exhibited significant price volatility, as shown below:

Afterpay and Square – share price volatility from 1 January 2020 to 30 July 2021

	Afterpay A$	Square US$
Highest price	160.05	283.19
Lowest price	8.01	32.33
VWAP	64.12	150.46
Highest price relative to VWAP	250%	188%
Lowest price relative to VWAP	12%	21%
Value of shares traded ($b)	76.3	676.3

399 Further, the table at paragraph 396 indicates that Afterpay and Square shares have exhibited a high level of correlation over the six months prior to the announcement of the Scheme.

400 Accordingly, in our opinion, it is reasonable to assume that any potential adverse market movements that result in a material decline in the listed market price of Square shares would also have a similar adverse impact on the listed market price of Afterpay shares in the absence of the Scheme.

Share liquidity

401 As shown above, Square shares (which currently trade on the NYSE) are highly liquid with more than US$673.6 billion shares traded between 1 January 2020 and 30 July 2021. This is materially higher than the value of shares traded in Afterpay over the same period.

402 As a result, larger shareholders in Afterpay who elect to receive Square shares listed on the NYSE as consideration under the Scheme are likely to enjoy a level of market liquidity at least comparable with (and likely higher than) the historical level of market liquidity in Afterpay shares.

126 Refer Section X, paragraph 347.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

403 Afterpay shareholders can also elect to receive Square CDIs[127] which will be listed on the ASX. However, Afterpay shareholders who elect this alternative should note that the liquidity of these CDIs (in a relative sense) is expected to be lower.

Voting rights

404 As at 31 July 2021, Square had 460.3 million fully paid ordinary shares on issue, comprising 398.0 million Class A shares and 62.3 million Class B shares. Class A shares carry one vote entitlement per share, whereas Class B shares carry 10 votes per share. Of the total Class B shares on issue, 78.4% of these are owned by Square founder and Chief Executive Officer Mr Jack Dorsey.

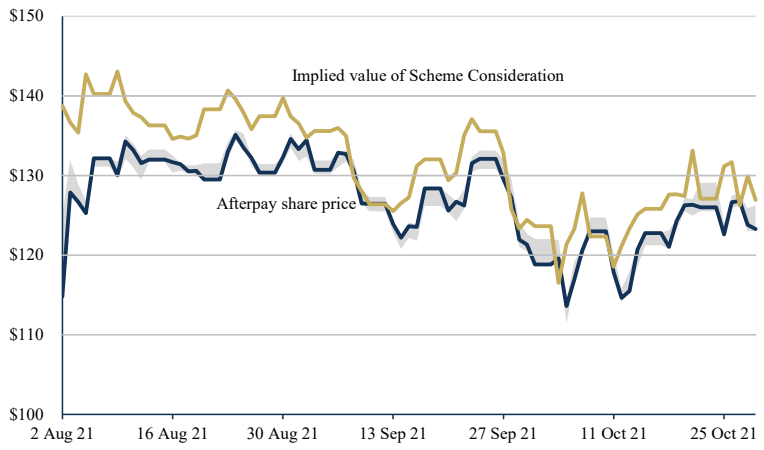
405 If the Scheme is implemented, Afterpay shareholders will receive Class A shares in Square (or CDIs) as consideration. Due to the super voting rights of the Class B shares, Afterpay shareholders should note that the Class B shareholders are expected to continue to have voting control of Square[128].

Recent share prices subsequent to the announcement of the Scheme

406 Shareholders should note that in the period since the Scheme was announced up to 29 October 2021, Afterpay shares have traded on the ASX in the range of A$111.41 to A$135.70 per share, with the VWAP for the period being A$127.24.

407 We have compared trading in Afterpay shares in this period with the corresponding trading in Square shares, adjusted for the fixed exchange ratio of 0.375 Square shares for each Afterpay ordinary share and converted Square shares to Australian dollars based on the prevailing daily exchange rate. This comparative trading is shown below:

Value of Scheme Consideration implied by post announcement share trading[(1)]
A$/share



Note:
1 The intraday high and low is represented by the grey shaded area.

127 CDIs give investors the same beneficial interest in foreign companies as holding these shares directly on the relevant foreign exchange.

128 We note that the super voting rights status of the Class B shares is implicitly reflected in the listed market price of the Class A shares.

For personal use only

408 As indicated above, since the announcement of the Scheme there has been a high degree of correlation between the share market trading in Afterpay and Square. In addition, we note that recent trading in Afterpay is slightly below the implied value of the Scheme Consideration (based on Square closing prices), suggesting that the market consensus view is that a superior offer or proposal is unlikely to emerge and that the Scheme will be approved and implemented.

409 Afterpay shareholders considering selling their Afterpay shares on the ASX will need to consider brokerage costs and should note that:

(a) the Afterpay share price on the ASX is subject to daily fluctuation

(b) Afterpay shareholders who sell their Afterpay shares on the ASX will not obtain the benefit of any superior proposal should this eventuate.

Likely price of Afterpay shares if the Scheme is not implemented

410 If the Scheme is not implemented and no alternative proposal emerges, we expect that, at least in the short term, Afterpay shares will trade at a significant discount to our valuation and the Scheme Consideration due to the difference between the value of Afterpay shares on a portfolio basis and their value on a 100% takeover basis. In this regard, we note Afterpay shares last traded at A$96.66 per share on 30 July 2021 (being the last trading day prior to the announcement of the Scheme).

411 If the Scheme is not implemented those Afterpay shareholders who wish to sell their Afterpay shares are therefore likely, at least in the short term, to realise a significantly lower price for their shares than will be payable under the Scheme.

Likelihood of a superior proposal

412 We have been advised by the Directors of Afterpay that no formal alternative offers or proposals have been received subsequent to the announcement of the Scheme on 2 August 2021.

413 Further, we note that investment analyst reports have generally indicated that they consider a competing bid for Afterpay unlikely.

414 Nonetheless, Afterpay shareholders should be aware that in late March 2021 Afterpay received an unsolicited inbound communication from a large, well-capitalised strategic party. Discussions with this party focused on a commercial partnership and a strategic investment in Afterpay (rather than an acquisition of 100% of Afterpay). Afterpay ultimately concluded that a transaction with this party was not as compelling as a potential transaction with Square. Further, we understand that no further discussions with this strategic party have occurred since mid-July 2021.

Summary of opinion on the Scheme

415 We summarise below the likely advantages and disadvantages of the Scheme for Afterpay shareholders.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Advantages

416 In our opinion, the Scheme has the following benefits for Afterpay shareholders:

(a) the value of the Scheme Consideration is consistent with our assessed value range for Afterpay shares on a 100% controlling interest basis. Thus, in our view, Afterpay shareholders are being paid an appropriate price to compensate them for the fact that control of Afterpay will pass to Square if the Scheme is approved and implemented

(b) the Scheme Consideration represents a significant premium to the recent market prices of Afterpay shares prior to the announcement of the Scheme on 2 August 2021

(c) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of Afterpay shares is likely to trade at a significant discount to our valuation and the Scheme Consideration due to the portfolio nature of individual shareholdings.

Disadvantages

417 In our opinion the Scheme has the following disadvantages for Afterpay shareholders:

(a) Afterpay shareholders will be diluted pursuant to the Scheme and will hold an aggregate interest of around 18.0%[129] in the combined entity. However they will be shareholders in a significantly larger group with increased scale and liquidity

(b) Afterpay shareholders will receive Class A shares in Square (or CDIs) as consideration. Due to the super voting rights of the Class B shares[130], Afterpay shareholders should note that the Class B shareholders are expected to continue to have voting control of Square

(c) Afterpay shareholders who elect to receive Square CDIs listed on the ASX as consideration should note that the liquidity in these CDIs is likely to be lower than the historical level of trading in Afterpay shares.

Conclusion

418 Given the above we consider that the advantages of the Scheme significantly outweigh the disadvantages (particularly from a value perspective). Consequently, in our view, the acquisition of Afterpay shares under the Scheme is fair and reasonable and in the best interests of Afterpay shareholders in the absence of a superior proposal.

---

129 Our calculation differs slightly from the interest of 18.5% stated in the ASX announcement of the Scheme (on 2 August 2021), which assumed that Afterpay shares were issued as consideration for the acquisition of the respective minority interests and that these additional shares were then subject to the Scheme.

130 Class B shares carry ten votes per share, whereas Class A shares have one vote per share.

For personal use only

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

3 The *Corporations Act 2001* (Cth) (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Scheme Booklet to be sent to Afterpay shareholders in connection with the Scheme.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at $650,000 plus GST.

9 Neither LEA nor its directors and officers receive any commissions or other benefits, except for the fees for services referred to above.

For personal use only

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Appendix A

10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

Contact details

14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

For personal use only

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Appendix B

Qualifications, declarations and consents

Qualifications

1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.

2 This report was prepared by Mr Craig Edwards and Mr Jorge Resende, who are each authorised representatives of LEA. Mr Edwards and Mr Resende have over 27 years and 20 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

3 This report has been prepared at the request of the Directors of Afterpay to accompany the Scheme Booklet to be sent to Afterpay shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Scheme is fair and reasonable and in the best interests of Afterpay shareholders.

Interests

4 At the date of this report, neither LEA, Mr Edwards nor Mr Resende have any interest in the outcome of the Scheme. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

5 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.

Indemnification

6 As a condition of LEA's agreement to prepare this report, Afterpay agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Afterpay which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

7 LEA consents to the inclusion of this report in the form and context in which it is included in the Scheme Booklet.

For personal use only

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Appendix C

Assessment of discount rate

Principles

8 The determination of the discount rate or cost of capital for an asset requires identification and consideration of the factors that affect the returns and risks of that asset, together with the application of widely accepted methodologies for determining the returns demanded by the debt and equity providers of the capital employed in the asset.

9 The discount rate applied to the projected cash flows from an asset or business represents the financial return that will be demanded before an investor would be prepared to acquire (or invest in) the asset or business. Discount rates for assets or businesses are frequently evaluated using the weighted average cost of capital (WACC) which is a function of the cost of equity and the cost of debt (and related debt to equity levels). Given the nature of Afterpay's business and associated minimal corporate net debt level as at 30 June 2021, the discount rate for Afterpay has been evaluated using the cost of equity only.

Cost of equity

10 We have used the capital asset pricing model to derive the cost of equity for Afterpay. The formula for deriving the cost of equity using the capital asset pricing model is as follows:

Cost of equity calculation

$$R_e = R_f + \beta_e[E(R_m) - R_f]$$

where:

R_e	=	expected equity investment return or cost of equity in nominal terms
R_f	=	risk-free rate of return
$E(R_m)$	=	expected market return
$E(R_m) - R_f$	=	market risk premium (MRP)
β_e	=	equity beta

11 We have assessed the cost of equity from the perspective of a US investor, due to the global nature of Afterpay's operations, with the US and European markets representing the major growth opportunities for Afterpay. The elements adopted in the calculation of the discount rate for Afterpay using the cost of equity are discussed below.

Discount rate for Afterpay

Risk-free rate

12 For the purpose of our valuation of Afterpay we have adopted a long-term risk-free rate of 2.0% per annum, which is broadly consistent with the average yield on the 30-year US Treasury Bond of 1.93% per annum over the month of September 2021.

Market risk premium

13 The MRP represents the additional return above the risk-free rate that investors require in order to invest in a well-diversified portfolio of equity securities (i.e. the equity market as a whole). Having regard to academic studies and empirical evidence, as well as the average market risk premium calculated over the longer term, we have adopted a long-term MRP of 5.5%.

For personal use only

Equity beta

14 In determining the appropriate equity beta for Afterpay, we have considered (inter-alia):

(a) the risks associated with the business of Afterpay

(b) the beta estimates for BNPL companies operating domestically and internationally, and fintech companies

(c) the beta estimates for Afterpay and relevant industry sectors.

Risk factors of Afterpay

15 We have considered the key business risks associated with Afterpay, which are (inter-alia) regulatory risk, potential defaults and associated rising bad debts, technology risks and disruption, securing adequate funding to drive growth, increasing competition, loss of key merchant relationships, reputational risk and associated brand damage.

Betas of comparable companies

16 The significant decline and dramatic recovery of equity markets precipitated by the COVID-19 pandemic distorted long-term risk measures and as such we have calculated equity betas of comparable companies on a pre-COVID basis. The equity betas for BNPL companies operating domestically and internationally, and fintech companies are as follows:

Listed company betas (pre-COVID)

Company / index	Market value[1] A$b	Gearing[2] %	Bloomberg beta[3]	RSQ[4]
Index				
BlueStar Fintech Index (net total return)	3,396.0	na	1.18	0.74
BNPL companies				
Afterpay Ltd	28.0[5]	(1.5)[6]	2.11	0.20
Affirm Holdings Inc	34.9	3.5	na	na
Zip Co Ltd	3.8	(25.8)	1.03	0.05
Sezzle Inc	1.3	4.3	0.80	0.03
Humm Group Ltd	0.5	(82.7)	0.93	0.06
Average			1.22	
Median			0.98	
Fintech companies				
PayPal Holdings Inc	463.6	0.8	1.21	0.37
Square Inc	168.4	0.2	1.64	0.18
Adyen NV	134.4	4.1	1.38	0.22
Worldline SA/France	34.1	(16.2)	0.91	0.14
Nexi SpA	29.5	(12.8)	0.86	0.20
Nuvei Corp	27.5	0.1	na	na
Pagseguro Digital Ltd	26.8	2.3	1.32	0.17
Lightspeed Commerce Inc	21.7	5.0	0.90	0.06
StoneCo Ltd	19.7	2.7	1.04	0.07
Average			1.16	
Median			1.13	
Total average			1.18	
Total median			1.04	

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix C

Note:
1 Market capitalisation obtained from Bloomberg as at 1 September 2021 (excluding Afterpay which is as at 30 July 2021 (i.e. prior to the announcement of the Scheme)).
2 Gearing equals net debt divided by EV. Negative levels indicate a net cash position.
3 Based on four years of weekly returns to 29 February 2020.
4 R-squared (RSQ) measures the reliability of the beta estimate. Industry sector betas generally have a higher RSQ value and are typically more reliable.
5 Based on the Afterpay closing share price of $96.66 and 290.1 million fully diluted shares on issue.
6 Based on our assessed net debt of $419 million (refer paragraph 285 of Section VII).
na – not available.

17 The above betas vary widely which reflects differences in size, leverage and operational risks. None of the other listed companies are directly comparable to Afterpay, and only Affirm is of a similar size. Individual stock betas are also generally less reliable than industry betas (as evidenced by their low RSQ). The BlueStar Fintech Index beta is therefore considered more reliable (due to its much higher RSQ).

Conclusion

18 Having regard to the above, we have adopted an equity beta of 1.4 to 1.5 for Afterpay. This is higher than the average and median betas noted above, and reflects (inter-alia) the significant revenue and earnings growth reflected in our DCF / income approach and the higher beta estimate for Afterpay[131].

Calculation of nominal WACC

19 Based on the above, the discount rate range for Afterpay is as follows:

Afterpay – assessment of discount rate		
Parameters	**Low %**	**High %**
Beta	1.4	1.5
MRP	5.5	5.5
Risk-free rate	2.0	2.0
Cost of equity	9.7	10.3

20 Accordingly, for the purposes of our DCF valuation approach we have adopted a (post-tax) discount rate of 10.0% per annum (the midpoint of the discount rate range calculated above). This discount rate is broadly consistent with (albeit slightly higher than) investment analysts as outlined in the table below:

[131] The beta for Afterpay suggests that a higher beta than the industry average is appropriate, notwithstanding that the actual beta estimate for Afterpay is significantly less reliable than the industry beta due to its relatively low RSQ value.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix C

Investment analyst WACC

Investment analysts	Date of report	Discount rate (%)
Analyst 1	2 Aug 21	7.1
Analyst 2	2 Aug 21	9.0
Analyst 3	2 Aug 21	9.4
Analyst 4	2 Aug 21	7.5
Analyst 5	2 Aug 21	9.0
Analyst 6	12 Aug 21	9.0
Analyst 7	1 Jul 21	10.7
Analyst 8	2 Aug 21	12.1
Average		9.2
Median		9.0

Source: Investment analyst reports.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix D

BNPL regulatory considerations

Overview

1 Afterpay operates in a range of jurisdictions including Australia, NZ, North America, the UK and Europe, and the regulatory framework for BNPL arrangements is not uniform across jurisdictions. As the Afterpay business principally consists of the provision of interest-free BNPL arrangements to consumers, it is subject to regulation in certain jurisdictions and in many cases not subject to all traditional consumer credit laws and regulations. However, with the continued expansion into new geographic locations, and the continued growth of the BNPL industry overall, the Company may become subject to additional legal, regulatory, tax, licensing and compliance requirements, and industry standards.

2 Due to the rapid growth of the BNPL sector globally, the industry has faced increased attention from regulators. Various regulators in Australia including ASIC, AUSTRAC, the RBA, as well as the FCA in the UK, have conducted reviews of the BNPL sector in recent years and as a result the regulatory environment in these geographies continues to evolve.

3 The Woolard Review[132], released in the UK in February 2021, recommended regulation of the BNPL industry as a matter of urgency. More recently (in July 2021), the EU released proposed reforms of its Consumer Credit Directive to include BNPL arrangements within its scope. These proposed regulations also have the potential to encourage further regulatory inquiries or investigations in other jurisdictions.

4 At present, Afterpay has embedded consumer protection into business practices in a way that is intended to comply with consumer laws for the jurisdictions in which it operates. However, there is a risk that any increased regulatory requirements in the BNPL sector or differing interpretation of existing laws and regulations may impose significant compliance costs on Afterpay, thereby placing downward pressure on margins or potentially making it uneconomic for Afterpay to continue to operate in its current markets, or expand in accordance with its strategy (albeit we and Afterpay management consider this worst case outcome unlikely).

Australia

5 Afterpay's BNPL arrangements in Australia do not meet the definition of credit under the *National Consumer Credit Protection Act 2009* (Cth) (the National Credit Act), given the absence of an interest (or other credit) charge. As a result, Afterpay is not bound by the National Credit Act. In particular, Afterpay[133] does not need to hold an Australian credit licence to operate its business, nor comply with the responsible lending obligations set out in

132 *The Woolard Review: A review of change and innovation in the unsecured credit market*", report to the FCA published 2 February 2021.

133 And other BNPL providers operating in Australia.

For personal use only

the National Credit Act[134], which prohibit credit licensees from providing credit that would be unsuitable for the consumer[135].

6 BNPL arrangements are however regulated as credit under the *Australian Securities and Investment Commission Act 2001* (Cth) (the ASIC Act), and the ASIC Act contains the general consumer protection provisions that apply across financial services, including prohibitions against misleading or deceptive conduct and unconscionable conduct[136].

7 In April 2019, legislation was passed empowering ASIC with regulatory oversight, and the ability to intervene, in relation to financial and credit products (including BNPL arrangements) where ASIC identifies a risk of significant detriment to customers. ASIC also has the ability to make orders prohibiting certain conduct relating to products offered to customers. Any such regulatory intervention has the potential to adversely affect one or more of Afterpay's businesses and/or increase compliance costs.

ASIC review of the BNPL industry

8 On 28 November 2018, ASIC released *Report 600: Review of buy now, pay later arrangements*, which summarised the findings from its review of the arrangements offered by six BNPL providers, including Afterpay. ASIC found (inter-alia) that while BNPL arrangements were working for the majority of users, some consumers were suffering harm.

9 On 16 November 2020, ASIC released *Report 672 Buy now pay later: An industry update* (ASIC Report 672) which noted the forthcoming BNPL Code of Practice, which Afterpay adopted as at 1 March 2021. In addition, ASIC Report 672 detailed the Design and Distribution Obligations (DDO) to come into effect from 5 October 2021.

BNPL Code of Practice

10 In response to both a Federal Senate committee recommendation in February 2019 and feedback by ASIC (contained within ASIC Report 600 dated November 2018), the BNPL Code of Practice was established. This was authored by the Australian Finance Industry Association (AFIA) in consultation with the major BNPL players in Australia[137] and implemented on 1 March 2021. The BNPL Code of Practice gives AFIA the power to "name and shame" those that contravene the code, sets out best practice standards for the sector and strengthens consumer protection, requiring participating providers to (inter-alia):

(a) take measures to ensure products are suitable for consumers

(b) conduct ongoing suitability assessments

(c) conduct a more detailed assessment of repayment capabilities for transactions in excess of A$2,000

---

134 That is, requiring the provider to assess the income and existing debt of the consumer prior to providing the BNPL arrangement.

135 Source: Paragraph 68 of ASIC *Report 600: Review of buy now, pay later arrangements,* dated November 2018.

136 Source: Paragraph 5.31 of *Credit and financial services targeted at Australians at risk of financial hardship* report dated 22 February 2019, by the Senate Standing Committees on Economics.

137 The BNPL providers who are accredited to the BNPL Code of Practice represent an estimated 95% of the BNPL market in Australia and include Afterpay, Brighte, Humm Group, Klarna, Latitude, Openpay, Payright and Zip Co.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix D

(d) commit to safeguards such as capping late fees

(e) provide more transparency on any terms and conditions applicable; and

(f) help consumers that find themselves in financial hardship[138].

11 In addition, BNPL providers have committed to not initiating bankruptcy proceedings against customers, combined with establishing processes to address customer complaints[139].

12 According to AFIA, the BNPL Code of Practice has the potential to change as the sector in Australia evolves (AFIA has stated that a regular review of the BNPL Code of Practice will occur, no later than two years from commencement).

13 Afterpay remains highly supportive of the BNPL Code of Practice, the obligations for which Afterpay already meets. Consequently, the code has not imposed any additional obligations or costs that would delay the on-boarding of new customers to Afterpay.

Design and Distribution Obligations

14 BNPL arrangements are subject to the forthcoming DDO, which come into effect from 5 October 2021. Such obligations (under Part 7.8A of the Corporations Act) require product issuers to identify in advance the class of consumers for whom their products are appropriate, and to direct distribution to that target market. In simple terms, the DDO require the BNPL industry to design fit-for-purpose products that meet consumer needs and to take steps to ensure their products are reaching the appropriate consumers.[140]

15 ASIC has reviewed Afterpay's implementation of DDO, and has provided feedback to Afterpay on its draft Target Market Determination (a public document required under DDO). Afterpay considers that it has met the spirit and intent of this outcomes-based regulatory framework, and is well positioned to comply.

Criticisms of self-regulation

16 Critics of the BNPL Code of Practice, and the self-regulation of the industry in Australia in general, state that (inter-alia) the code does not require existing BNPL providers to do more than they already do when deciding whether to take on a new customer for purchases under A$2,000. In addition, the code was criticised for the lack of penalties associated with breach of the code's provisions, on the basis that "name and shame" powers were an insufficient deterrent for some BNPL providers. Furthermore, consumer groups are pushing for BNPL providers to be recognised as credit providers for the purposes of consumer protection, which would give rise to BNPL providers being subject to regulation under the National Credit Act.

---

138 Afterpay offers a Financial Hardship Policy in all regions for any customers who present with financial difficulties.

139 Under the Australian BNPL Code of Practice, it is mandatory for all BNPL providers to be members of the external dispute resolution service (i.e. AFCA).

140 Source: ASIC Report 672, pages 20 and 21; ASIC media release dated 16 November 2020.

For personal use only

New Zealand

17 The NZ Government has recognised Afterpay's model as different to traditional credit, and in 2018 announced that it had chosen not to include BNPL products like Afterpay under local credit regulations for reasons including that there was very limited evidence of harm and that the products were already subject to the protections of the NZ *Fair Trading Act 1986*.

18 In December 2019, legislation was passed to provide the NZ Government with regulation-making power (if required in the future), enabling it to declare an arrangement or facility (such as a BNPL arrangement) to be a consumer credit contract[141]. However, to date BNPL arrangements in NZ have not been considered a credit contract and therefore have not fallen under the banner of regulation set out in the *Consumer Contracts and Credit Finance Act 2003*.

19 In or around June 2021, the NZ Minister of Commerce and Consumer Affairs, Mr David Clark, announced that he had commissioned a discussion document on the nature and extent of consumer harms caused by BNPL products, in order to determine whether any possible future intervention (including advice relating to the potential for regulation under the Consumer Contracts and Credit Finance Act) is required. This discussion document is to be released later this year.

20 In addition, a Code of Practice is currently being drafted as part of the self-regulation of the BNPL industry in NZ. The Code of Practice was drafted in Australia for Australian BNPL providers and has been adjusted to fit the NZ consumer credit regulatory landscape. BNPL providers in NZ have kept the NZ Government informed throughout the development of the code[142].

United States of America

21 In the US Afterpay's BNPL product is subject to some (but not all) federal laws regulating the extension of credit and is not subject to supervisory regulation at the federal level. Each state takes its own approach to licensing and supervisory regulation, depending on the structure of the product. In those US states that subject Afterpay's BNPL product to licensure, Afterpay has the necessary licenses.

22 BNPL arrangements in the US have been the subject of state regulatory attention. For example, during 2020, Afterpay, without admitting wrongdoing, entered into a voluntary consent order with the State of California to resolve allegations that its previous activities should have been conducted in California under a lending licence[143]. Similar consent orders were entered into with Afterpay competitors. Notwithstanding this, Afterpay's product in the US generally receives positive feedback from consumer and regulatory stakeholders, particularly in promotion of financial inclusion and providing safer access to credit and budgeting tools.

---

141 Source: ASIC Report 672, page 20.

142 Source: NZ Ministry of Business, Innovation and Employment event briefing papers for the meeting with representatives of the BNPL sector on 6 May 2021.

143 Source: Woolard Review, page 51.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix D

23 Afterpay monitors changes in legislation, regulations and regulatory guidance and proactively engages with regulators at the state and federal level in the US. Regulatory interest or investigations into the BNPL sector (or Afterpay itself) by state and/or federal regulators in the US may lead to changes in laws and the regulatory environment in which Afterpay operates in that jurisdiction. In addition, state and federal laws may be subject to multiple or changing interpretations. Any such changes may have an adverse impact on Afterpay's business model and operations and/or increase compliance costs for the Company.

Canada

24 Afterpay expanded into the Canadian market in August 2020. Afterpay is licensed as a lender in the provinces of Saskatchewan, New Brunswick and Nova Scotia. Further, Afterpay is subject to provincial consumer protection legislation in each Canadian jurisdiction. As the BNPL market continues to grow, there may be increased regulatory attention in Canada as to the consumer protections offered therein (specific to the sector).

United Kingdom

25 In the UK, the BNPL arrangements offered by the major players such as Afterpay are currently exempted from regulations for consumer credit lending given they are an interest free agreement with no more than 12 payments within 12 months[144]. However, given the rising popularity of the BNPL sector, the Woolard Review (released on 2 February 2021) recommended (inter-alia) regulation of the BNPL sector as a matter of urgency. As a result, the UK HM Treasury as the legislature and the FCA as the financial services regulator have been asked to issue separate consultations with a view to introducing legislation and regulation for unsecured BNPL credit agreements to protect consumers. Although the timing of this legislation remains unclear it is believed that HM Treasury will issue its consultation in October 2021, while the FCA has indicated it will issue its consultation following the conclusion of the HM Treasury consultation, which is likely to be early 2022.

26 The Woolard Review has suggested that legislation should bring BNPL products within the scope of consumer credit regulation in a proportionate manner, and that regulation will require BNPL lenders to:

(a) undertake affordability checks before lending

(b) ensure customers are treated fairly (particularly those who are vulnerable or struggling with repayments)

(c) provide additional contractual documents and other consumer information

(d) increase obligations around BNPL provider and merchant compliance with financial promotion laws and regulations; and

(e) allow complaints to be escalated to the UK's Financial Ombudsman Service.

144 Relying on the exemption in Article 60F(2) of *The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001*. Source: Woolard Review.

For personal use only

27 These changes may negatively impact customer acquisition rates where customers are found to be unsuitable for BNPL products, or where customers are prevented from using more than one BNPL provider. In addition, consideration is being given to whether (under a proportionate regulatory regime) British retailers will need to be authorised for credit broking once BNPL providers are included under consumer credit regulation[145]. Afterpay's early discussions with HM Treasury and the FCA indicate that officials are conscious of the disproportionate impact that would arise if British retailers were regulated in this way.

28 The UK Government has announced its intention to further consult with the BNPL sector to ensure its legislative response is "proportionate". Afterpay[146] continues to engage with HM Treasury and the UK Government regarding a proportionate regulatory framework for currently exempted BNPL products. At present, the nature and impact of this proposed legislation is uncertain. However, there is the possibility that BNPL providers will incur additional legal and compliance resources and expenses, or require a change in business practices, both of which have the potential to adversely affect Afterpay.

European Union

29 In March 2021 Afterpay completed the acquisition of Pagantis[147], which is licensed by Spain's central bank, the Bank of Spain. This acquisition provided Afterpay with the licence and therefore the regulatory structure to enable the company to operate across the member states of the EU. As noted previously in this report, Afterpay operates as Clearpay in the EU.

30 On 1 July 2021, the European Commission proposed an updated Directive on Consumer Credit (proposed to amend the current Consumer Credit Directive 2008/48/EC) which acknowledged the rapid growth of BNPL products and recognised product differentiation from traditional customer credit. This resulted in the proposed addition of a range of new rules to strengthen consumer protection. The proposed Directive is currently under review by both the European Parliament and the Council of the EU, and the proposed revisions that are relevant to the BNPL sector include (inter-alia):

(a) extending the scope of the Consumer Credit Directive (2008/48/EC) to cover loans of less than €200 provided via interest-free credit (that is, including BNPL arrangements)

(b) greater clarity in information related to credit offers

(c) banning practices that exploit consumer behaviour

(d) improving rules regarding the assessment of creditworthiness of a consumer using necessary and proportionate information on the consumer's income and expenses and other financial and economic circumstances

(e) a new enforcement system where serious breaches incur penalties of no less than 4% of a lender's national turnover.

145 With BNPL providers having responsibility for ensuring retailers comply with the relevant rules.

146 In particular, Clearpay, being Afterpay's trading name in the UK.

147 Pagantis provides BNPL products as well as traditional credit products throughout Spain, France and Italy and has regulatory approval to operate in Portugal.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix D

31 The revisions proposed by the Directive on Consumer Credit, as outlined above, follows a comprehensive process that takes considerable time to complete. As a result, the final drafting of the Directive may be 12 to 18 months away, and this would be followed by a lengthy process to transpose the directive into the national laws of EU member states.

32 Proposals designed to protect customers from exploitative high-interest credit products are welcomed by Afterpay. However, the above proposed reforms may increase the cost of doing business by BNPL providers in the EU.

Other regulation in Australia

Anti-Money Laundering and Counter-Terrorism Financing regulation

33 In 2019, AUSTRAC requested an independent audit to examine Afterpay's compliance with anti-money laundering and counter-terrorism financing laws. The audit confirmed that Afterpay's operations were aligned with the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) and concluded that Afterpay was a low-risk business in regards to its exposure to being used for the purposes of money laundering or terrorist financing. It was also noted in the audit that Afterpay had a strong culture of compliance. On 14 October 2020, AUSTRAC publicly stated that it would be taking no further regulatory action[148].

Payment system regulation

34 On 22 October 2021 the RBA released Conclusions Paper: *Review of Retail Payments Regulation*. In the paper, the RBA concluded that it would be in the public interest for BNPL providers to remove their no-surcharge rules[149], which if implemented would allow merchants to charge consumers a surcharge on Afterpay transactions should they wish to do so. As the RBA does not regulate the BNPL sector, legislative changes would need to be made to provide the RBA with the power to impose such changes. The Government has not indicated that such legislative change is a priority in its initial response to the RBA's paper, and any legislative change is likely to be at least 12 months away.

35 The removal of no-surcharge rules has the potential to reduce the attractiveness of BNPL options for consumers due to the imposition of a surcharge. However, any surcharge (if implemented by a merchant) is likely to be relatively modest and no more than the surcharge fees levied by some merchants on credit card transactions. Whilst merchants pay around 4% of GMV on BNPL transactions, this reflects the additional benefits obtained by merchants (e.g. customer leads and the removal of fraud and chargeback risks) which should not be able to be recouped through any surcharge.

148 https://www.austrac.gov.au/news-and-media/our-recent-work/austrac-finalises-external-audit-afterpay.

149 Afterpay does not currently allow merchants (other than airlines) to charge consumers a surcharge on Afterpay transactions.

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix E

Glossary

Term	Meaning
1H	Half year to 30 June
A$	Australian dollar
Active Customer	Afterpay customer who has transacted at least once in the last 12 months
Active Merchant	Afterpay merchant that has transacted at least once in the last 12 months
AFCA	Australian Financial Complaints Authority
Affirm	Affirm, Inc.
AFIA	Australian Finance Industry Association
Afterpay / Company	Afterpay Limited
Afterpay Convertible Notes	A$1.5 billion of zero coupon convertible notes settled on 12 March 2021
Afterpay Share Matching Plan	Enables employees to contribute up to A$2,500 to acquire Afterpay shares in any plan year
Afterpay US	Afterpay US Inc
Amazon	Amazon.com, Inc.
ANZ	Australia and NZ
Apple	Apple Inc.
APR	Annual percentage rate
ASIC	Australian Securities & Investments Commission
ASIC Act	*Australian Securities and Investments Commission Act 2001* (Cth)
ASIC Report 672	*Report 672 Buy now pay later: An industry update*
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AUSTRAC	Australian Transaction Reports and Analysis Centre
BigCommerce	BigCommerce Holdings Inc.
BNPL	Buy now pay later
Cash App	Square business segment
CDI	CHESS Depository Interest
Clearpay	Clearpay Finance Limited
Corporations Act	*Corporations Act 2001 (Cth)*
Corporations Regulations	*Corporations Regulations 2001*
Customer Frequency	Number of annual purchases per Active Customer
CY	Calendar year
DCF	Discounted cash flow
DDO	Design and Distribution Obligations
Discover	Discover Financial Services
EBITDA	Earnings before interest, tax depreciation and amortisation
EU	European Union
EV	Enterprise value
FCA	UK Financial Conduct Authority
Forecast Period	Five year period to 30 June 2026
FSG	Financial Services Guide
FY	Financial year
FY21 US ESOP Modification	Eligible US ESOP participants were offered an ability to exchange their vested and unvested shares in Afterpay US for cash and shares in Afterpay
Gen Z	Generation born between 1995 and 2015
GMV	Gross merchandise value, being the total value of merchandise sold through a platform over a given period of time. Note, Afterpay uses the term 'Underlying Sales' rather than GMV in its investor presentations and periodic reports

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix E

Term	Meaning
GPV	Gross payment volume
IER	Independent expert's report
Income Margin	The percentage of Underlying Sales that Afterpay receives as revenue
IPO	Initial public offering
Klarna	Klarna Bank AB
Lanai	Lanai (AU) 2 Pty Ltd
LEA	Lonergan Edwards & Associates Limited
Matrix	Matrix Partners X L.P and Weston & Co X LLC
Matrix Convertible Notes	Afterpay US issued convertible notes to Matrix which provided Matrix with an entitlement to 10% of the future value of Afterpay US in excess of A$50 million
Matrix Transaction	Afterpay entered into an agreement to extinguish 35% of the 10% underlying interest Matrix held in Afterpay US (i.e. 3.5% of Afterpay US) under the Matrix Convertible Notes for A$373 million
Merchant revenue	The level of fee income generated by Afterpay from merchants (who pay a percentage of the sale price to Afterpay in relation to sales transacted on the Afterpay platform)
Millennial	Customers born between 1980 and 1994
Money by Afterpay	A separate money and lifestyle app developed with Westpac
MRP	Market risk premium
National Credit Act	*National Consumer Credit Protection Act 2009* (Cth)
Net Margin	Key performance metric for Afterpay replacing NTM from FY21 which includes other income and margin associated with the Afterpay platform
North America	US and Canada
NTM	Net transaction margin (now referred to by Afterpay as Net Margin). Afterpay's Net Margin represents the Afterpay gross profit inclusive of credit losses and funding costs on consumer receivables. In addition to merchant margin earned directly from Underlying Sales, Afterpay Net Margin includes other income and margin associated with the Afterpay platform (such as Money by Afterpay).
NYSE	New York Stock Exchange
NZ	New Zealand
P/E	Price earnings
Pagantis	Pagantis SAU and PMT Technology SLA
Pagantis Convertible Note	Afterpay issued a convertible note to the vendor of Pagantis with a face value of €45 million, subject to certain adjustments, representing the Pagantis transaction deferred consideration
Pay Now	Afterpay business (not related to the BNPL platform) comprising the Mobility and Health platforms
PayPal	PayPal Inc.
PPP	Paycheck Protection Program
PPP Liquidity Facility	Paycheck Protection Program Liquidity Facility, an agreement with the Federal Reserve Bank of San Francisco to secure additional credit, collateralised by PPP loans
RBA	Reserve Bank of Australia
RG 111	Regulatory Guide 111 – *Content of expert reports*
RSQ	R-squared
RSU	Restricted Stock Units
Scheme	Scheme of arrangement between Afterpay and its shareholders to implement the SID

For personal use only

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix E

Term	Meaning
Scheme Consideration	Fixed exchange ratio of 0.375 shares of Square Class A common stock or 0.375 CDIs representing ownership interest in shares of Square Class A common stock for each Afterpay ordinary share held on the Scheme Record Date
SEC	US Securities Exchange Commission
Securities Act	United States Securities Act of 1933
Seller	Square business segment
Sezzle	Sezzle Inc
Shopify	Shopify Inc.
SID	Scheme Implementation Deed between Afterpay, Square and Lanai dated 2 August 2021
Square	Square, Inc.
Tender Offer	Afterpay offered eligible US ESOP participants the ability to exchange their vested and unvested shares in Afterpay US at the same implied valuation as the Matrix Transaction
ThinkSmart	ThinkSmart Limited
Touchcorp	Touchcorp Limited
TV	Terminal value
UK	United Kingdom
UK ESOP	Equity incentive plan comprising options over equity in Clearpay
Underlying Sales	Value of merchandise sold through the Afterpay BNPL platform
US	United States of America
US ESOP	Employee share option plan under which the Company may issue options to eligible participants to acquire shares in Afterpay US
US$ / USD	US dollar
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
WANOS	Weighted average number of shares outstanding
Woolard Review	*The Woolard Review: A review of change and innovation in the unsecured credit market*, report to the FCA published 2 February 2021
Zip Co	Zip Co Limited

For personal use only

Attachment D

Independent Limited Assurance Report

For personal use only

Ernst & Young Strategy and Transactions Limited
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Building a better working world

5 November 2021

The Board of Directors
Afterpay Limited
Level 5, 406 Collins Street
Melbourne, Victoria, 3000

The Board of Directors
Square, Inc.
1455 Market Street, Suite 600
San Francisco, CA 94103

Dear Directors

PART 1 – INDEPENDENT LIMITED ASSURANCE REPORT ON AFTERPAY HISTORICAL FINANCIAL INFORMATION, SQUARE HISTORICAL FINANCIAL INFORMATION AND COMBINED GROUP PRO FORMA HISTORICAL FINANCIAL INFORMATION

1. Introduction

We have been engaged by Afterpay Limited ("Afterpay" or the "Afterpay Group") and Square, Inc. ("Square" or the "Square Group") (together, the "Combined Group") to report on the historical financial information of Afterpay and Square and the pro forma historical financial information of the Combined Group for inclusion in the scheme booklet to be dated 5 November 2021 ("Scheme Booklet") and issued by Afterpay, in connection with a scheme of arrangement in relation to the proposed acquisition of Afterpay by Lanai (AU) 2 Pty Ltd, a wholly owned indirect subsidiary of Square (the "Scheme").

Expressions and terms defined in the Scheme Booklet have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian Financial Services Licence under the Corporations Act 2001. Ernst & Young Strategy and Transactions Limited ("Ernst & Young Strategy and Transactions") holds an appropriate Australian Financial Services Licence (AFS Licence Number 240585). Jo Barker is a Director and Representative of Ernst & Young Strategy and Transactions. We have included our Financial Services Guide as Part 2 of this report.

A member firm of Ernst & Young Global Limited
Ernst & Young Strategy and Transactions Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585
Liability limited by a scheme approved under Professional Standards Legislation

For personal use only

Building a better working world

2. Scope

Afterpay Historical Financial Information

You have requested Ernst & Young Strategy and Transactions to review the following historical financial information of Afterpay:

- the Afterpay historical consolidated income statements for the years ended 30 June 2019 ("FY19"), 30 June 2020 ("FY20") and 30 June 2021 ("FY21") as set out in Table 4.1 of Section 4.6(c) of the Scheme Booklet;
- the Afterpay historical consolidated statement of financial position as at 30 June 2021 as set out in Table 4.2 of Section 4.6(d) of the Scheme Booklet; and
- the Afterpay historical consolidated statements of cash flows for FY19, FY20 and FY21 as set out in Table 4.3 of Section 4.6(e) of the Scheme Booklet.

(Hereafter the "Afterpay Historical Financial Information").

The Afterpay Historical Financial Information has been derived from the Afterpay Group's consolidated financial statements for FY20 (which included comparative information for FY19) and FY21. Afterpay's consolidated financial statements for FY20 and FY21 were prepared in accordance with Australian Accounting Standards and were audited by Ernst & Young in accordance with Australian Auditing Standards. Ernst & Young issued unqualified audit opinions on these consolidated financial statements.

The Afterpay Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles of Australian Accounting Standards issued by the Australian Accounting Standards Board which are consistent with International Financial Reporting Standards issued by the International Accounting Standards Board.

Square Historical Financial Information

You have requested Ernst & Young Strategy and Transactions to review the following historical financial information of Square:

- the Square Group historical consolidated income statements for the years ended 31 December 2019 and 31 December 2020 and the six months ended 30 June 2021 as set out in Table 5.1 of Section 5.10(c) of the Scheme Booklet;
- the Square Group historical consolidated statement of financial position as at 30 June 2021 as set out in Table 5.2 of Section 5.10(d) of the Scheme Booklet; and
- the Square Group historical consolidated statements of cash flows for the years ended 31 December 2019 and 31 December 2020 and the six months ended 30 June 2021 as set out in Table 5.3 of Section 5.10(e) of the Scheme Booklet.

(Hereafter the "Square Historical Financial Information").

The Square Historical Financial Information for the years ended 31 December 2019 and 31 December 2020 has been derived from the Square Group's consolidated financial statements prepared for the

For personal use only

Building a better working world

Square 10-K Annual Reports for the respective years. These consolidated financial statements in Square's 10-K Annual Reports were prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The Square Historical Financial Information as at and for the six months ended 30 June 2021 has been derived from the Square Group's interim consolidated financial statements prepared for the Square 10-Q Quarterly Report for the quarter ended 30 June 2021. These interim consolidated financial statements in Square's 10-Q Quarterly Report were prepared in accordance with U.S GAAP and the applicable rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information.

Square Group's consolidated financial statements for the years ended 31 December 2019 and 31 December 2020 were audited by Ernst & Young LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States). Ernst & Young LLP issued unqualified audit opinions on these consolidated financial statements. Ernst & Young LLP performs reviews of Square's interim financial statements filed with the SEC in accordance with the standards of the Public Company Accounting Oversight Board (United States).

The Square Historical Financial Information has been prepared in accordance with the stated basis of preparation, being in a manner consistent with Square Group accounting policies applied by Square in preparing the Square Quarterly Report for the quarter ended 30 June 2021 and the Annual Report for the year ended 31 December 2020.

Combined Group Pro Forma Historical Financial Information

You have requested Ernst & Young Strategy and Transactions to review the following pro forma historical financial information of the Combined Group:

- the Combined Group pro forma historical income statements for the year ended 31 December 2020 and the six months ended 30 June 2021 as set out in Table 6.1 of Section 6.8(c) of the Scheme Booklet ("Combined Group Pro Forma Historical Income Statements");
- the Combined Group pro forma historical statement of financial position as at 30 June 2021 as set out in Table 6.4 of Section 6.8(c) of the Scheme Booklet ("Combined Group Pro Forma Historical Statement of Financial Position"); and
- the Combined Group pro forma historical cash flows for the year ended 31 December 2020 and the six months ended 30 June 2021 as set out in Table 6.5 of Section 6.8(c) of the Scheme Booklet ("Combined Group Pro Forma Historical Cash Flows").

(Hereafter the "Combined Group Pro Forma Historical Financial Information").

The Combined Group Pro Forma Historical Financial Information presents the combination of the Square Historical Financial Information and the Afterpay Historical Financial Information after giving effect to the Scheme which is assumed to have occurred on 1 January 2020 for the Combined Group Pro Forma Historical Income Statements and the Combined Group Pro Forma Historical Cash Flows and as at 30 June 2021 for the Combined Group Pro Forma Historical Statement of Financial Position.

A member firm of Ernst & Young Global Limited
Ernst & Young Strategy and Transactions Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585
Liability limited by a scheme approved under Professional Standards Legislation

For personal use only

The Combined Group Pro Forma Historical Income Statements and Combined Group Pro Forma Historical Cash Flows for the year ended 31 December 2020 has been derived from the:

(i) Square Historical Financial Information for the year ended 31 December 2020 as outlined in Section 5.10 of the Scheme Booklet;
(ii) Afterpay Historical Financial Information for the year ended 30 June 2020 as outlined in Section 4.6 of the Scheme Booklet, adjusted to exclude the financial performance for the six months from 1 July 2019 to 31 December 2019 and include the financial performance for the six months from 1 July 2020 to 31 December 2020 based on the information in the Afterpay half year financial reports for the six months ended 31 December 2019 and 31 December 2020 respectively;
(iii) Afterpay Historical Financial Information for the year ended 30 June 2020 as outlined in Section 4.6 of the Scheme Booklet, adjusted to exclude the cash flows for the six months from 1 July 2019 to 31 December 2019 and include the cash flows for the six months from 1 July 2020 to 31 December 2020 based on the information in the Afterpay half year financial reports and unaudited management accounts for the six months ended 31 December 2019 and 31 December 2020 respectively;
(iv) Afterpay Historical Financial Information for the year ended 31 December 2020 as derived in (ii) and (iii) above further adjusted for reclassifications, U.S. GAAP conversion and presentation currency adjustments, as detailed in Notes 1, 2 and 3 of Section 6.8(d) of the Scheme Booklet; and
(v) adjusted for the effects of pro forma adjustments described in Notes 4 to 7 of Section 6.8(d) of the Scheme Booklet.

The Combined Group Pro Forma Historical Financial Information as at and for the six months ended 30 June 2021 has been derived from the:

(i) Square Historical Financial Information as at and for the six months ended 30 June 2021 as outlined in Section 5.10 of the Scheme Booklet;
(i) Afterpay Historical Financial Information as at and for the year ended 30 June 2021 as outlined in Section 4.6 of the Scheme Booklet, and for the purposes of the Combined Group Pro Forma Historical Income Statement adjusted to exclude the financial performance for the six months from 1 July 2020 to 31 December 2020 based on the information in Afterpay half year financial report for the six months ended 31 December 2020;
(ii) Afterpay Historical Financial Information for the year ended 30 June 2021 as outlined in Section 4.6 of the Scheme Booklet, and for the purposes of the Combined Group Pro Forma Historical Cash Flows adjusted to exclude the cash flows for the six months from 1 July 2020 to 31 December 2020 based on the information in the Afterpay half year financial report and unaudited management accounts for the six months ended 31 December 2020;
(iii) Afterpay Historical Financial Information for the six months ended 30 June 2021 as derived in (ii) and (iii) respectively, further adjusted for reclassifications, U.S. GAAP conversion and

For personal use only

Building a better working world

presentation currency adjustments, as detailed in Notes 1, 2 and 3 of Section 6.8(d) of the Scheme Booklet; and

(iv) adjusted for the effects of pro forma adjustments described in Notes 4 to 7 of Section 6.8(d) of the Scheme Booklet.

Afterpay's interim consolidated financial statements for the six months ended 31 December 2020 and 31 December 2019 were reviewed by Ernst & Young and on which unqualified limited assurance conclusions were issued.

The Combined Group Pro Forma Historical Financial Information has been prepared in accordance with the stated basis of preparation, being in a manner consistent with Square Group accounting policies applied by Square in preparing the Square Quarterly Report for the quarter ended 30 June 2021 and the Annual Report for the year ended 31 December 2020, using the assumptions set out in Section 6.8(d) Notes to the Combined Group Pro Forma Historical Financial Information of the Scheme Booklet.

Due to its nature, the Combined Group Pro Forma Historical Financial Information does not represent the Combined Group's actual or prospective financial position, financial performance and cash flows.

The Afterpay Historical Financial Information, Square Historical Financial Information and the Combined Group Financial Information is presented in the Scheme Booklet in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by U.S. GAAP applicable to full financial statements of financial statements prepared in accordance with the applicable rules and regulations of the SEC and the *Corporations Act 2001*.

3. Directors' Responsibility

The directors of Afterpay are responsible for the preparation and presentation of the Afterpay Historical Financial Information and Square management is responsible for the preparation and presentation of the Square Historical Financial Information and Combined Group Pro Forma Historical Financial Information, including the basis of preparation, selection and determination of pro forma adjustments made to the Afterpay Historical Financial Information and the Square Historical Financial Information and included in the Combined Group Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the directors of Afterpay and Square management determine are necessary to enable the preparation of Afterpay Historical Financial Information, Square Historical Financial Information and Combined Group Pro Forma Historical Financial Information (as applicable) that are free from material misstatement, whether due to fraud or error.

A member firm of Ernst & Young Global Limited
Ernst & Young Strategy and Transactions Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585
Liability limited by a scheme approved under Professional Standards Legislation

For personal use only

Building a better working world

4. Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Afterpay Historical Financial Information, Square Historical Financial Information and Combined Group Pro Forma Historical Financial Information based on the procedures performed and the evidence we have obtained.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

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

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the Afterpay Historical Financial Information, Square Historical Financial Information and Combined Group Pro Forma Historical Financial Information.

5. Conclusions

Afterpay Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Afterpay Historical Financial Information comprising:

- the Afterpay historical consolidated income statements for FY19, FY20 and FY21 as set out in Table 4.1 of Section 4.6(c) of the Scheme Booklet;
- the Afterpay historical consolidated statement of financial position as at 30 June 2021 as set out in Table 4.2 of Section 4.6(d) of the Scheme Booklet; and
- the Afterpay historical consolidated statements of cash flows for FY19, FY20 and FY21 as set out in Table 4.3 of Section 4.6(e) of the Scheme Booklet,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 4.6(b) of the Scheme Booklet.

Square Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Square Historical Financial Information comprising:

- the Square Group historical consolidated income statements for the years ended 31 December 2019 and 31 December 2020 and the six months ended 30 June 2021 as set out in Table 5.1 of Section 5.10(c) of the Scheme Booklet;
- the Square Group historical consolidated statement of financial position as at 30 June 2021 as set out in Table 5.2 of Section 5.10(d) of the Scheme Booklet; and
- the Square Group historical consolidated statements of cash flows for the years ended 31 December 2019 and 31 December 2020 and the six months ended 30 June 2021 as set out in Table 5.3 of Section 5.10(e) of the Scheme Booklet,

A member firm of Ernst & Young Global Limited
Ernst & Young Strategy and Transactions Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585
Liability limited by a scheme approved under Professional Standards Legislation

For personal use only

Building a better working world

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 5.10(b) of the Scheme Booklet.

Combined Group Pro Forma Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Combined Group Pro Forma Historical Financial Information comprising:

- the Combined Group Pro Forma Historical Income Statements for the year ended 31 December 2020 and the six months ended 30 June 2021 as set out in Table 6.1 of Section 6.8(c) of the Scheme Booklet;
- the Combined Group Pro Forma Historical Statement of Financial Position as at 30 June 2021 as set out in Table 6.4 of Section 6.8(c) of the Scheme Booklet; and
- the Combined Group Pro Forma Historical Cash Flows for the year ended 31 December 2020 and the six months ended 30 June 2021 as set out in Table 6.5 of Section 6.8(c) of the Scheme Booklet,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 6.8(b) of the Scheme Booklet.

6. Restriction on Use

Without modifying our conclusions, we draw attention to Sections 4.6(b), 5.10(b) and 6.8(b) of the Scheme Booklet, which describes the purpose of the Afterpay Historical Financial Information, Square Historical Financial Information and Combined Group Pro Forma Historical Financial Information. As a result, the Afterpay Historical Financial Information, Square Historical Financial Information and Combined Group Pro Forma Historical Financial Information may not be suitable for use for another purpose.

7. Consent

Ernst & Young Strategy and Transactions has consented to the inclusion of this limited assurance report in the Scheme Booklet in the form and context in which it is included.

8. Independence or Disclosure of Interest

Ernst & Young Strategy and Transactions does not have any interests in the outcome of the Scheme other than in the preparation of this report for which normal professional fees will be received.

Yours faithfully

Ernst & Young Strategy and Transactions Limited

Jo Barker
Director and Representative

A member firm of Ernst & Young Global Limited
Ernst & Young Strategy and Transactions Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585
Liability limited by a scheme approved under Professional Standards Legislation

For personal use only

Ernst & Young Strategy and Transactions Limited
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

5 November 2021

THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT LIMITED ASSURANCE REPORT

PART 2 – FINANCIAL SERVICES GUIDE

1. Ernst & Young Strategy and Transactions

Ernst & Young **Strategy and Transactions Limited** ("Ernst & Young Strategy and Transactions" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Limited Assurance Report ("Report") in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

A member firm of Ernst & Young Global Limited
Ernst & Young Strategy and Transactions Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585
Liability limited by a scheme approved under Professional Standards Legislation

For personal use only

Building a better working world

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is $280,000 (exclusive of GST).

Ernst & Young Strategy and Transactions is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Strategy and Transactions, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Strategy and Transactions and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Strategy and Transactions, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or the Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Australian Financial Complaints Authority Limited.

9. Compensation Arrangements

Ernst & Young and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Ernst & Young's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Ernst & Young satisfy the requirements of section 912B of the Corporations Act 2001.

A member firm of Ernst & Young Global Limited
Ernst & Young Strategy and Transactions Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585
Liability limited by a scheme approved under Professional Standards Legislation

For personal use only

Contacting Ernst & Young Strategy and Transactions Limited	**Contacting the Independent Dispute Resolution Scheme:**
AFS Compliance Manager Ernst & Young 200 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Australian Financial Complaints Authority Limited GPO Box 3 Melbourne, VIC 3001 Telephone: 1800 931 678

This Financial Services Guide has been issued in accordance with ASIC Corporations (Financial Services Guides) Instrument 2015/541.

A member firm of Ernst & Young Global Limited
Ernst & Young Strategy and Transactions Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585
Liability limited by a scheme approved under Professional Standards Legislation

For personal use only

Attachment E

Notice of Scheme Meeting

afterpay

For personal use only

Friday, 5 November 2021

Afterpay Limited

NOTICE OF MEETING OF REGISTERED HOLDERS OF FULLY PAID ORDINARY SHARES IN AFTERPAY.

NOTICE IS HEREBY GIVEN, by an order of the Supreme Court of New South Wales made on Thursday, 4 November 2021, pursuant to subsection 411(1) of the Corporations Act, a Scheme Meeting of Afterpay Shareholders will be held virtually at 10.00am (AEDT) on Monday, 6 December 2021.

As a result of the potential health risks associated with large gatherings and the ongoing COVID-19 pandemic, the Scheme Meeting will be a virtual (online only) meeting. The health of Afterpay Shareholders, employees and other meeting attendees is of paramount importance and, therefore, there will not be a physical meeting where Afterpay Shareholders or their proxies, attorneys or corporate representatives can attend in person.

Instead, Afterpay Shareholders are invited to participate in the Scheme Meeting using an online platform. This online platform will enable participants to view the Scheme Meeting live, ask questions online and vote on the Scheme Resolution in real time.

Business

The purpose of the Scheme Meeting is to consider, and if thought fit, to agree (with or without amendment or any alterations or conditions required by the Court to which Afterpay and Square agree) to a scheme of arrangement proposed to be made between Afterpay and Afterpay Shareholders.

Scheme Resolution

To consider and, if thought fit pass (with or without amendment) the following resolution:

"That, pursuant to and in accordance with section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between Afterpay Limited ("Afterpay") and the holders of its fully paid ordinary shares, the terms of which are contained in and more particularly described in the Scheme Booklet of which the notice convening the Scheme Meeting forms part, is approved (with or without alteration or conditions as approved by the Supreme Court of New South Wales and agreed to by Afterpay and Square) and, subject to approval of the Scheme by the Court, the Afterpay Board is authorised to implement the Scheme with any such alterations or conditions."

Voting Exclusion Statement

Square and its associates (as defined in section 12 of the Corporations Act) are excluded from voting on the Scheme Resolution, unless:

- the vote is cast by the associate as proxy for a person who is not excluded from voting, in accordance with that person's directions on the Proxy Form; or
- the associate is acting solely as an investment manager, custodian, nominee, trustee, responsible entity or other fiduciary on behalf of a third party beneficiary or third party investor, who is not an associate of Square.

For personal use only

Afterpay Board Comment and Recommendations

For the reasons set out in the Scheme Booklet, the Afterpay Board unanimously recommends that eligible Afterpay Shareholders vote in favour of the Scheme Resolution in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Afterpay Shareholders and each Afterpay Director intends to vote all of the Afterpay Shares held or controlled by them in favour of the Scheme.[1]

Amanda Street
Company Secretary
Afterpay Limited

Explanatory Notes

These explanatory notes relate to the Scheme and should be read in conjunction with the Notice of Scheme Meeting and the information in the Scheme Booklet dated 5 November 2021 of which that notice forms part. Unless the context requires otherwise, terms used in the Notice of Scheme Meeting and in these notes have the same meaning as set out in section 11 (Glossary) of the Scheme Booklet.

Chair

The Court has directed that Elana Rubin, or failing her, Pat O'Sullivan act as chair of the meeting and has directed the chair to report the result of the meeting to the Court.

Requisite Majorities

For the proposed Scheme to be binding in accordance with section 411(4)(a)(ii) of the Corporations Act, the Scheme Resolution must be passed by:

- more than 50% in number (unless the Court orders otherwise) of eligible Afterpay Shareholders who are present and voting, either in person or by proxy, by attorney or, in the case of a corporation, by its duly appointed corporate representative at the Scheme Meeting; and
- at least 75% of the total number of votes cast on the Scheme Resolution by eligible Afterpay Shareholders.

Court approval

Under paragraph 411(4)(b) of the Corporations Act, the Scheme (with or without amendment or any alteration or condition required by the Court) is subject to the approval of the Court. If the Scheme Resolution is passed by the Requisite Majorities and the other conditions to the Scheme (other than approval by the Court) are satisfied or waived (if capable of waiver) by the time required under the Scheme, Afterpay intends to apply to the Court for the necessary orders to give effect to the Scheme.

In order for the Scheme to become Effective, it must be approved by the Court and an office copy of the orders of the Court approving the Scheme must be lodged with ASIC.

Entitlement to vote

The time for the purposes of determining voting entitlements pursuant to regulation 7.11.37 of the Corporations Regulations will be 7.00pm (AEDT) on Saturday, 4 December 2021 (being the Voting Record Date). Only those Afterpay Shareholders entered on the Afterpay Share Register at that time will be entitled to participate in and vote at the meeting, either online, by proxy or attorney, or in the case of a corporate Afterpay Shareholder, by a body corporate representative.

Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Scheme Meeting.

---

1. You should note that when considering this recommendation that two of the Afterpay Directors (being Co-CEOs and Managing Directors, Anthony Eisen and Nick Molnar) have previously been issued options under the Afterpay equity incentive plan. As contemplated by the terms of the Scheme Implementation Deed, Mr Eisen and Mr Molnar will each be receiving a benefit if the Scheme proceeds. A pro rata portion of the unvested options they hold will be accelerated and the balance will be forfeited and converted into a Square award as contemplated in section 4.11 of the Scheme Booklet. These arrangements are described in more detail in sections 4.10, 4.11 and 10.1. The benefit to each of Anthony Eisen and Nick Molnar in respect of their Co-CEO Options is estimated to be approximately $9,612,242. See footnote 1 in section 10.1 for further information.

   Despite this interest in the outcome of the Scheme, each of Anthony Eisen and Nick Molnar, considers that, given the importance of the Scheme, and their role as directors of Afterpay, it is important and appropriate for them to provide a recommendation to shareholders in relation to voting on the Scheme. The Afterpay Board (excluding Anthony Eisen and Nick Molnar) also considers that it is appropriate for them to make a recommendation on the Scheme given their role in the management and operation of Afterpay.

For personal use only

Voting at the Scheme Meeting

You can vote in either of the following ways:

- virtually by attending the Scheme Meeting scheduled to be held at 10.00am (AEDT) on Monday, 6 December 2021 through an online platform (details of which are set out below); or
- by appointing a proxy, attorney or, if you are a body corporate, a duly appointed corporate representative to virtually attend and vote at the Scheme Meeting on your behalf.

Voting will be conducted by poll.

Voting yourself

You will be able to attend and vote at the Scheme Meeting through an online platform by using a web browser at http://web.lumiagm.com/354553219 on your smartphone, tablet or computer. You will need the latest versions of Chrome, Safari, Edge or Firefox. Please ensure your browser is compatible.

The **meeting ID** for the online Scheme Meeting is: 354553219

Your **username** is your SRN/HIN.

Your **password** is the postcode of your registered address for your holding if you are an Australian shareholder. If you are an overseas shareholder, your password is your three-character country code.

Please refer to the online meeting user guide at www.computershare.com.au/virtualmeetingguide for further details. It is recommended that Afterpay Shareholders login to the online platform at least 15 minutes prior to the scheduled start time for the Scheme Meeting.

If you attend the online Scheme Meeting and vote in your capacity as an Afterpay Shareholder, any votes cast by your proxy or attorney (if any) will not be counted.

Proxies

If you are unable to attend the online Scheme Meeting, you are encouraged to appoint a proxy to attend online and vote on your behalf. If you wish to appoint a proxy, please complete the enclosed Proxy Form.

Afterpay Shareholders are notified that:

- a member who is entitled to attend and cast a vote at the meeting may appoint a proxy to attend and vote for the member;
- the appointment may specify the proportion or number of votes that the proxy may exercise;
- a member who is entitled to cast two or more votes at the meeting may appoint two proxies and may specify the proportion or number of votes each proxy is entitled to exercise. If you appoint two proxies and the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes; and
- a proxy may be an individual or a body corporate and need not be a member of Afterpay. If an eligible Afterpay Shareholder appoints a body corporate as a proxy, the body corporate will need to ensure that it appoints an individual as the corporate representative and provides satisfactory evidence of that appointment.

Voting by Proxy

You can direct your proxy to vote by following the instructions on the Proxy Form.

If the Chair of the meeting is appointed as your proxy (or is appointed your proxy by default), the Chair can be directed how to vote by ticking the relevant box next to the Scheme Resolution on the Proxy Form (i.e. 'for', 'against' or 'abstain'). The Chair of the Scheme Meeting is required to cast all votes as directed. TheChair of the Scheme Meeting intends to vote all undirected and available proxies in favour of the Scheme Resolution.

Any directed proxies that are not voted on a poll at the online Scheme Meeting by a Afterpay Shareholder's appointed proxy will automatically default to the Chair of the meeting, who is required to vote proxies as directed on a poll.

Lodging proxies

The Proxy Form must be received by Afterpay's Share Registry, Computershare, by 10.00am(AEDT on Saturday, 4 December 2021. The completed Proxy Form may be submitted:

- online to Afterpay's Share Registry by visiting the website, www.investorvote.com.au. You will need your Holder Identifier (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) and control number as shown on your Proxy Form). You will be taken to have signed the Proxy Form if you lodge in accordance with the instructions on the website;

For personal use only

- by mail (using the reply paid envelope included with the Scheme Booklet) to Afterpay Limited, C-Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, Vic 3001;
- by fax to Computershare Investor Services Pty Limited on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or
- by hand delivering them to Computershare Investor Services Pty Limited at Yarra Falls, 452 Johnston Street, Abbotsford, VIC, 3067 during business hours (Monday – Friday, 9.00am – 5.00pm (AEDT))

Afterpay Shareholders should contact the Afterpay Shareholder Information Line on 1300 229 418 (within Australia) or +61 2 9066 4051 (outside Australia) Monday to Friday (excluding public holidays in Australia) between 9.00am and 5.00pm (AEDT), with any queries regarding the number of Afterpay Shares they hold, how to vote at the online Scheme Meeting, how to lodge the Proxy Form or to request a replacement Proxy Form.

Further details in respect of the Scheme Resolution to be put to the online Scheme Meeting are set out in the accompanying Scheme Booklet.

Voting by corporate representative

If you are a body corporate, you can appoint a corporate representative to attend and vote at the online Scheme Meeting on your behalf. The appointment must comply with section 250D and 253B of the Corporations Act.

To vote by corporate representative, a corporate representative must provide written evidence of their appointment by obtaining and completing an 'Appointment of Corporate Representative' form from Computershare or online at www.investorcentre.com/au and select 'Printable Forms'. Corporate representative forms must be provided to the Afterpay Share Registry by no later than 10.00am (AEDT) on Saturday, 4 December 2021. A corporate representative form may be submitted in the same manner as a completed Proxy Form, as described above.

A validly appointed corporate representative wishing to attend and vote at the online Scheme Meeting will require the name, SRN and postcode of the body corporate that appointed it in order to access the online platform.

Voting by attorney

Certified copies of powers of attorney must be received by the Afterpay Share Registry by no later than 10.00am (AEDT) on Saturday, 4 December 2021. A certified copy of a power of attorney may be submitted in the same manner as a completed Proxy Form, as described above.

Questions

Afterpay Shareholders will have a reasonable opportunity to ask questions during the Scheme Meeting via the online platform.

Afterpay Shareholders who prefer to register questions in advance of the Scheme Meeting are also invited to do so by submitting questions online at company.secretary@afterpay.com. Questions must be submitted by 5pm (AEDT) on Monday, 29 November 2021.

The chair of the Scheme Meeting will endeavour to address as many of the more frequently raised relevant questions as possible during the course of the Scheme Meeting. However, there may not be sufficient time available during the Scheme Meeting to address all of the questions raised. Please note that individual responses will not be sent to Afterpay Shareholders.

Technical difficulties

Technical difficulties may arise during the course of the Scheme Meeting. The chair has discretion as to whether and how the Scheme Meeting should proceed in the event that a technical difficulty arises. In exercising this discretion, the chair will have regard to the number of Afterpay Shareholders impacted and the extent to which participation in the business of the meeting is affected. Where the chair considers it appropriate, the chair may continue to hold the Scheme Meeting and transact business, including conducting a poll and voting in accordance with valid proxy instructions.

Changes to the current arrangement

Due to the constantly evolving response to the COVID-19 pandemic and potentially unforeseen circumstances, Afterpay may be required to make changes to the arrangements for the Scheme Meeting. If there are any updates, Afterpay will ensure that Afterpay Shareholders are given as much notice as possible. Further information will also be made available at https://corporate.afterpay.com/investors.

For personal use only

Attachment F

Sample Proxy Form

afterpay

Need assistance?

Phone:
(within Australia) 1300 229 418
(outside Australia) +61 2 9066 4051

Online:
www.investorcentre.com/contact

APT
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

For personal use only

YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **10:00am (AEDT) on Saturday, 4 December 2021.**

Proxy form

How to vote on the item of business

All your shares will be voted in accordance with your directions.

APPOINTMENT OF PROXY

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite the item of business in Step 2 overleaf. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on the item your vote will be invalid on the item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the 'For', 'Against' or 'Abstain' box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: If you are entitled to cast two or more votes, you may appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the proportion or number of votes each proxy is appointed to exercise otherwise each proxy may exercise half of the votes on a poll. When appointing a second proxy write both names and the proportion of votes or number of votes for each in Step 1 overleaf.

A proxy need not be a shareholder of Afterpay.

Default to the Chair of the meeting
If you leave Step 1 blank, or if your appointed proxy does not vote on a poll in accordance with your directions or does not attend the meeting, then the proxy appointment will automatically default to the Chair of the meeting, who is required to vote the proxies as directed.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

Individual: Where the holding is in one name, the shareholder must sign.

Joint holding: Where the holding is in more than one name, either of the shareholders may sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

Lodge your proxy form: XX

Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is

Control Number: 999999
SRN/HIN: I9999999999
PIN: 99999

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

PARTICIPATING IN THE MEETING

Corporate representative
If a representative of a corporate shareholder or proxy is to participate in the meeting you will need to provide the appropriate "Appointment of Corporate Representative". A form may be obtained from Computershare or online at www.investorcentre.com/au under the help tab, "Printable Forms".

SAMPLE

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Shareholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 I ND

Proxy form

Please mark ☒ to indicate your directions

Step 1 Appoint a proxy to vote on your behalf

XX

I/We being a member/s of Afterpay Limited hereby appoint

☐ **the Chair of the meeting** **OR** ☐

PLEASE NOTE: Leave this box blank if you have selected the Chair of the meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Scheme Meeting of Afterpay Limited to be held as a virtual meeting on **Monday, 6 December 2021 at 10:00am (AEDT)** and at any adjournment or postponement of that meeting.

Step 2 Item of business

PLEASE NOTE: If you mark the **Abstain** box for the item, you are directing your proxy not to vote on your behalf on a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
Resolution 1	That, pursuant to and in accordance with section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between Afterpay Limited ("Afterpay") and the holders of its fully paid ordinary shares, the terms of which are contained in and more particularly described in the Scheme Booklet of which the notice convening the Scheme Meeting forms part, is approved (with or without alteration or conditions as approved by the Supreme Court of New South Wales and agreed to by Afterpay and Square) and, subject to approval of the Scheme by the Court, the Afterpay Board is authorised to implement the Scheme with any such alterations or conditions.	☐	☐	☐

The Chair of the meeting intends to vote undirected proxies in favour of the item of business. In exceptional circumstances, the Chair of the meeting may change her voting intention on the resolution, in which case an ASX announcement will be made.

Step 3 Signature of shareholder(s)

This section must be completed.

Individual or Shareholder 1	Shareholder 2	Shareholder 3	
			/ /
Sole Director & Sole Company Secretary	Director	Director/Company Secretary	Date

Update your communication details *(Optional)*

By providing your email address, you consent to receive future notices of meeting and proxy communications electronically

Mobile number **Email address**

APT 280561A

computershare

For personal use only

SAMPLE

Corporate Directory

For personal use only

Afterpay Limited
Level 5
406 Collins Street
Melbourne VIC 3000

Legal Adviser

Gilbert + Tobin
Level 35, Tower Two
International Towers
200 Barangaroo Avenue
Sydney NSW 2000

Financial advisers

Goldman Sachs Australia Pty Ltd
Level 46, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Highbury Partnership Pty Limited
Level 12 The Chifley Tower
2 Chifley Square
Sydney NSW 2000

Qatalyst Partners LP
One Maritime Plaza 24th Floor
San Francisco, CA 94111

Auditor

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia

Investigating Accountant

Ernst & Young Strategy and Transactions Limited
8 Exhibition Street
Melbourne VIC 3000

Tax adviser

PricewaterhouseCoopers
Riverside Quay
Southbank VIC 3006

Independent Expert

Lonergan Edwards & Associates Limited
Level 7
64 Castlereagh Street
Sydney NSW 2000

Afterpay Share Registry

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

Company Website

https://www.afterpay.com/en-AU

Investor Website

https://corporate.afterpay.com/investors

For personal use only

afterpay