Zip Co Limited

APPENDIX 4E:

Preliminary Final Report

Year Ended 30 June 2022

Results for Announcement to the Market

NAME OF ENTITY	ZIP CO LIMITED
ACN	139 546 428
Reporting period	Year ended 30 June 2022
Previous corresponding period	Year ended 30 June 2021

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Zip Co Limited and its controlled entities (also referred to as the Group or Zip) results for announcement to the market are detailed below:

		30 JUNE 2022 $'000	30 JUNE 2021 RESTATED[3] $'000
Revenue from ordinary activities[1]	Up 57%	620,003	393,919
Loss from ordinary activities after income tax attributable to members	Up 63%	(1,105,093)	(678,148)
Total comprehensive loss attributable to members	Up 46%	(1,015,468)	(697,439)

		30 JUNE 2022	30 JUNE 2021 RESTATED
Net tangible asset backing per ordinary share[2]	Down 87%	3.29 cents	26.09 cents

1. Revenue from ordinary activities reported for the financial year ended 2021 included other income of $0.4 million. Other income was subtracted from revenue for financial year 2021 to align with the financial results presentation for financial year ended 2022.
2. Net tangible assets include right-of-use assets which are recognised by the Group in accordance with AASB16. Net tangible asset backing per ordinary share at 30 June 2021 was reported 30.55 cents in the Group's 2021 Appendix 4E and has been restated to 26.09 cents.
3. Restated numbers are explained in Note 19 of this Preliminary Final Report.

BRIEF EXPLANATION OF THE ABOVE FIGURES

Please refer to the Review of Operations for an explanation of the results.

DETAILS OF ENTITIES WHICH CONTROL HAS BEEN GAINED OR LOST

On 18 October 2021, Zip completed the acquisition of Spotii, a leading technology-enabled payments platform operating in the Middle East, acquiring the 80% of the company's shares that it did not already own.

On 12 November 2021, following shareholder approval at Zip's Annual General Meeting, Zip completed the acquisition of Central European BNPL (Buy Now Pay Later) provider Twisto, acquiring the 87.63% of the company's shares that it did not already own.

On 3 January 2022, Zip completed the acquisition of Payflex, a provider of BNPL services to consumers in South Africa, acquiring the 73.75% of the company's shares that it did not already own.

On 16 June 2022, Zip invested $1.4 million to acquire 60% of the shares in Hemenal Finansman A.Ş., a consumer financing licensed firm based in Turkey. On investing, Zip has control over the Hemenal Finansman A.Ş.

Detailed information in relation to these acquisitions and their contributions to the Group's financial performance since acquisition are contained in the 30 June 2022 Preliminary Final Report.

Results for Announcement to the Market continued

ASSOCIATES/JOINT VENTURE ENTITIES

In September 2021, Zip invested $69.2 million (US$50.0 million) to acquire an 11.1% interest in ZestMoney, a leading Indian BNPL operator. The Group's shareholding for ZestMoney diluted from 11.1% to 10.2% at 30 June 2022, mainly due to the additional capital raising from other investors. Zip has accounted for the investment in ZestMoney as an associate.

During the financial year 2022, Zip increased its interest in its associate TendoPay by 10% to 35%.

Further information in relation to investments in associates is contained in the 30 June 2022 Preliminary Final Report.

AUDIT STATUS

This report is based on accounts which are in the process of being audited.

DIVIDENDS

No dividends have been declared for the year ended 30 June 2022 or for the previous corresponding period.

Review of Operations

Zip is a leading player in the digital retail finance and payments industry. Established in 2013, the Group is headquartered in Sydney, Australia with operations spanning 13 countries around the world providing services in Australia, Canada, Czech Republic, Mexico, New Zealand, Poland, Saudi Arabia, Singapore, South Africa, Turkey, UAE, the United Kingdom and the United States.

The Group provides products to both consumers and small and medium sized merchants (SMEs).

CONSUMERS

Zip provides BNPL services to consumers, both online and in-store, through the provision of line of credit and instalment products. Revenue is generated from merchants (merchant fees), consumers (predominantly account fees, establishment fees, instalment fees, late fees and interest) and transaction fees (affiliate fees and interchange).

SMALL AND MEDIUM SIZED MERCHANTS (SMEs)

Zip provides SMEs unsecured loans of up to $500,000 through its Zip Business Capital product.

During the financial year Zip offered its Zip Business Trade and Trade Plus products to SMEs which provided interest free lines of credit of up to $150,000. Zip no longer offers these products and has narrowed its offering to the Zip Business Capital product.

REVIEW OF PERFORMANCE

During the current financial year, in response to changing market conditions globally, and more specifically within the BNPL Industry, Zip reviewed and revised its strategic priorities to increase its focus on sustainable growth and profitability in core markets. The revision included an assessment of the availability and allocation of capital, an evaluation to ensure capital was being deployed to the most significant global opportunities for profitable and sustainable growth, and a review of Zip's global presence and opportunities to right size its global cost base.

The review, which is ongoing, has resulted in the decision to close the Singapore and the United Kingdom operations, the discontinuance of the Group's Pocketbook, Trade and Trade Plus products, and the recording of an impairment charge as set out in this report.

OPERATIONAL PERFORMANCE

Consumers

KEY METRIC	2022	2021	%
Transaction Volumes ('$M)	8,589.7	5,716.4	50.3%
Consumers ('M)	11.4	7.3	56.2%
Merchants ('K)	90.7	51.3	76.8%

Zip's performance is driven by a number of key operating metrics including Transaction Volumes, the number of consumer accounts and integrated merchants. Zip has grown significantly across all key operating metrics during the year, growing both organically and by acquisition.

Transaction Volumes

FOR THE YEAR ENDED 30 JUNE	2022 $'M	2021 $'M	MOVEMENT %
APAC	4,041.2	3,241.3	24.7%
AMERICAS	4,123.5	2449.9	68.3%
EMEA	425.0	25.2	1,586.5%
	8,589.7	5,716.4	50.3%

Review of Operations continued

Transaction volumes generated by consumers have grown to $8.6 billion for the financial year, an increase of 50.3%. This includes transaction volumes of $242.2 million generated by Twisto, $56.4 million generated by Spotii, and $48.9 million generated by Payflex in the period from the date of acquisition, reported in the EMEA segment. The Group generated 47.0% of volumes in APAC, compared to 56.7% in the previous financial year, and 48.0% in the America's compared to 42.9% in the previous financial year.

Consumers

FOR THE YEAR ENDED 30 JUNE	2022 M	2021 M	MOVEMENT %
APAC	3.2	2.8	14.3%
AMERICAS	6.4	4.4	45.5%
EMEA	1.8	0.1	NM
	11.4	7.3	56.2%

The number of consumer accounts has increased to 11.4 million globally at 30 June 2022, including 1.2 million added on the acquisition of Spotii, Twisto and Payflex, an increase of 4.1 million from the 7.3 million reported at 30 June 2021.

Merchants

FOR THE YEAR ENDED 30 JUNE	2022 K	2021 K	MOVEMENT
APAC	43.2	35.5	21.7%
AMERICAS	22.0	15.6	41.0%
EMEA	25.5	0.2	NM
	90.7	51.3	76.8%

Merchant numbers increased by 39,400 over the prior financial year, including 24,000 added on the acquisition of Spotii, Twisto and Payflex. Enterprise merchants and SMEs continue to join Zip's platform as they recognise that providing their consumers with Zip's alternative payment method at point of sale and at checkout increases sales volumes and order values, delivers acquisition of new customers and drives repeat purchases.

SMEs (Business Financing)

FOR THE YEAR ENDED 30 JUNE	2022 $'M	2021 $'M	MOVEMENT
Originations	152.3	81.6	86.6%

Originations generated by Zip Business have increased 86.6% compared to the previous corresponding period to $152.3 million, including $72.7 million from the Trade and Trade Plus product that are no longer offered by the Group. The Zip Business Capital product generated originations of $79.6 million across Australia and New Zealand, a 30.1% increase on the prior financial year.

FINANCIAL PERFORMANCE

GROUP RESULTS

Revenue grew by 57.4% to $620.0 million in the financial year to 30 June 2022 when compared to the prior financial year, driven predominantly by growth in transaction volumes and originations of 50.8% generated by Zip's Consumer and SME operations to $8,742.0 million (underlying volumes), and include the results of Spotii, Twisto and Payflex from the dates of acquisition.

Review of Operations continued

Reported Gross Profit as a percentage of underlying volumes fell to 1.7% compared to 2.2% in the previous corresponding period. An increase in revenue, and reduction in interest as a percentage of underlying volumes, offsetting a 0.9% increase in bad debts and expected credit losses as a percentage of underlying volumes.

Excluding the movement in the bad debt provision and the amortisation of funding costs, cash gross profit as a percentage of underlying volumes fell from 3.1% in the previous corresponding period to 2.3%.

FOR THE YEAR ENDED 30 JUNE	2022 $'M	2021 RESTATED* $'M	MOVEMENT %
Revenue	620.0	393.9	57.4%
Cost of sales[1]	(469.0)	(266.8)	75.8%
Gross profit	151.0	127.1	18.8%
Expenditure	(1,257.8)	(870.9)	44.4%
Loss before income tax	(1,105.4)	(743.4)	48.7%

1. Cost of sales includes interest expense (including $5.5 million of amortisation of funding costs for FY22, and $5.1 million for FY21), bad debts and expected credit losses, and bank fees and data costs.

* Restated numbers are explained in Note 19 of this Preliminary Final Report.

ADJUSTED GROUP RESULTS

The Group's result for the year to 30 June 2022 includes a number of non-recurring items and items that have had a significant impact on the result. The Group's adjusted loss before tax (which is non-IFRS information) is as follows:

Reported loss before tax	($1,105.4) million	
Add back:		
Acquisition of business costs	$17.5 million	On acquisitions made or announced in the period
Fair value gains relating to acquisitions	($10.0) million	Revaluation of pre-existing investments
One-off re-branding costs	$20.3 million	Global re-branding project costs
Impairment charge	$821.1 million	Impairment of goodwill and intangibles
Adjusted loss before income tax	($256.5) million	

REVENUE

FOR THE YEAR ENDED 30 JUNE	2022 $'M	2021 RESTATED* $'M	MOVEMENT %
Revenue	620.0	393.9	57.4%
% of underlying volumes	7.1%	6.8%	0.3%

* Restated numbers are explained in Note 19 of this Preliminary Final Report.

Revenue has increased by 57.4% compared to the prior financial year reflecting a 50.8% increase in underlying volumes. Reported revenue as a percentage of underlying volumes was 7.1% compared to 6.8% in the prior financial year.

Review of Operations continued

COST OF SALES

FOR THE YEAR ENDED 30 JUNE	2022 $'M	2021 RESTATED* $'M	MOVEMENT %
Interest expense	78.6	63.8	23.2%
% of underlying volumes	0.9%	1.1%	(0.2%)
Bad debts and expected credit losses	276.1	131.5	110.0%
% of underlying volumes	3.2%	2.3%	0.9%
Bank fees and data costs	114.3	71.5	59.9%
% of underlying volumes	1.3%	1.2%	0.1%
Total cost of sales	469.0	266.8	75.8%
% of underlying volumes	5.4%	4.6%	0.8%

* Restated numbers are explained in Note 19 of this Preliminary Final Report.

Cost of sales increased to 5.4% of underlying volumes in the financial period primarily due to a 0.9% increase in reported bad debts and expected credit losses.

Interest costs as a percentage of underlying volumes fell 0.2%, reflecting both reduced interest margins in Australia and the Group now turning over capital more rapidly on a blended basis than in the previous financial year. Greater volumes are being transacted on Zip's instalment product globally which recycles capital faster than the line of credit products.

Excluding the movement in the provision for expected credit losses, net bad debts written off totalled 2.6% of underlying volumes compared to 1.4% in the previous corresponding period. The Group is above its medium-term target of net bad debts written off of under 2% of underlying volumes, and accordingly has adjusted risk settings and implemented portfolio management activities to reduce the level of write-offs to move towards those targets. As demonstrated on the onset of COVID-19 in 2020 the Group is able to manage the level of net write-offs through the adjustment of the risk settings in its underwriting models together with a tightening of its portfolio management activities whilst maintaining top line growth.

Bank fees and data costs increased by 0.1% as a percentage of underlying volumes as the higher cost of processing in the US, compared to ANZ, were included for the full financial year, compared to ten months in the previous corresponding period.

EXPENDITURE

The Group incurs expenses that have a direct cash impact when incurred and also reports a number of expense items that either have no cash impact, a minor cash impact, or are the result of cash outflows in previous reporting periods.

DIRECT CASH EXPENSES

FOR THE YEAR ENDED 30 JUNE	2022 $'M	2021 RESTATED* $'M	MOVEMENT %
Salaries and employee benefits expense	184.4	97.7	88.7%
% of underlying volumes	2.1%	1.7%	0.4%
Marketing expenses	120.1	73.8	62.7%
% of underlying volumes	1.4%	1.3%	0.1%
Information technology expenses	47.1	24.0	96.3%
% of underlying volumes	0.5%	0.4%	0.1%
Other operating expenses	75.2	45.5	65.3%
% of underlying volumes	0.9%	0.8%	0.1%

* Restated numbers are explained in Note 19 of this Preliminary Final Report.

Review of Operations continued

Including 261 employees added on the acquisitions of Spotii, Twisto and Payflex, the Group's headcount has increased from 1,048 at 30 June 2021 to 1,498 at 30 June 2022 following the headcount reduction announced in April 2022. As a percentage of underlying volumes salary and employee benefits have increased by 0.4% as compared to 30 June 2021, reflecting the Group's previous strategic priority of investment in growth and geographic expansion.

The Group successfully completed a global re-branding project in the twelve months to 30 June 2022 including the re-branding of QuadPay in the US to Zip. Excluding the one-off re-branding costs of $20.3 million, marketing costs, which comprise customer marketing initiatives, including rewards programs, rebates, co-marketing projects with enterprise merchants, and direct integration costs, have increased to $99.8 million and represent 1.1% of underlying volumes.

Additional hosting costs relating to acquisitions made during the year, together with increased software costs to monitor, manage and operate the Group's IT infrastructure, have led to a marginal increase in information technology costs as a percentage of underlying volumes.

Other operating costs include acquisition of business costs of $17.5 million, as well as professional services, general administration, and other costs associated with the operation and management of the Group globally.

OTHER EXPENSES

FOR THE YEAR ENDED 30 JUNE	2022 $'M	2021 $'M	MOVEMENT $'M
Depreciation and amortisation expenses	68.6	91.8	(23.2)
Corporate financing costs	31.0	10.8	20.2
Share-based payments	30.9	142.8	(111.9)
Fair value (gain)/loss on financial instruments	(129.0)	77.6	(206.6)
Net adjustment relating to the acquisition of QuadPay	–	306.2	(306.2)
Impairment of goodwill and intangibles	821.1	–	821.1

The movement in depreciation and amortisation costs reflects an increase in the amortisation of intangibles following the acquisition of QuadPay, Spotii, Twisto and Payflex since the respective acquisition dates, an increase in the amortisation of internally generated IT development and software, offset by the write-off of the QuadPay brand name in the previous financial year totalling $42.6 million.

Effective interest charged on convertible notes issued in September 2020 and April 2021 for the full financial year 2022, as compared to the period since issuance in the prior financial year, resulted in an increase of $19.8 million in corporate financing costs in the year to 30 June 2022 compared to the financial year 2021.

To attract, retain and reward Zipsters, Zip offers a combination of short and long-term incentives that are delivered through equity. The share-based payments expense relating to the provision of retention and performance incentives, arising on the acquisition of QuadPay, approved by shareholders at the Extraordinary General Meeting (EGM) in August 2020, reduced to $5.4 million in the year ended 30 June 2022, a $97.3 million reduction compared to the prior financial year. Excluding this movement, the increase reflects the accrual for both short-term and long-term employee incentives resulting from the increased headcount across the Group.

The revaluation of the embedded derivative in the convertible notes and warrants issued to CVI Investments Inc., for which their fair value is largely driven by Zip's share price to reflect their fair value, resulted in a fair value gain of $119.0 million being reported in the year to 30 June 2022, compared to a fair value loss of $77.6 million in the previous financial year, a $196.6 million movement year on year.

In the financial year ended 30 June 2021, Zip recorded a revaluation and day 1 adjustment amounting to $306.2 million on the acquisition of QuadPay as the directors did not consider the fair value of the equity instruments granted for the purchase of QuadPay, as measured in accordance with AASB 13, was reflected in the subsequent equity value of the instruments granted or the underlying assets acquired.

Review of Operations continued

Following the strategic review of market conditions, including global inflation and interest rates expectations, together with the availability of capital, Zip has adjusted discount rates and reduced forecast growth rates and cash flows across the US and New Zealand CGU's resulting in a partial impairment charge being recorded against the carrying value of goodwill arising on previous acquisitions in those geographies. A partial impairment charge of $590.1 million has been recorded on this basis, including $589.3 million in relation to the US CGU. In addition, to deliver optimal returns in the short to medium-term the Group has made the decision to reduce the allocation of capital available to drive growth across the United Kingdom, Twisto, and Spotii, reducing growth rates and subsequent cashflows from those CGU's. Consequently, Zip has fully impaired the goodwill and acquired intangibles attributable to the Zip UK, Twisto and Spotii CGUs at 30 June 2022.

Accordingly, Zip has reported an impairment charge against the carrying value of goodwill and acquired intangibles of $821.1 million in the year to 30 June 2022.

Receivables

FOR THE YEAR ENDED 30 JUNE	2022 $'M	2021 RESTATED* $'M	MOVEMENT %
Customer receivables	2,691.3	2,090.6	28.7%
Unearned future income	(16.2)	(21.5)	(24.7%)
Provision for expected credit losses	(160.2)	(106.4)	50.6%
	2,514.9	1,962.7	28.1%

* Restated numbers are explained in Note 19 of this Preliminary Final Report.

The acquisition of Spotii, Twisto and Payflex together with strong growth in underlying volumes has resulted in the Group's receivables portfolio increasing 27.8% to $2,514.9 million at 30 June 2022, up from $1,962.7 million at 30 June 2021. Excluding the impact of acquisitions, receivables grew 25.2%.

The performance of the receivables portfolio has impacted roll rates included in the calculation of the provision for expected credit losses, which together with the re-assessment of the economic overlay within the Group's provisioning models, has resulted in the Group reporting a provision of 6.0% of the receivables at 30 June 2022, compared with 5.1% at 30 June 2021.

Gross receivables generated by Zip's Australian-based consumer business comprises 84.5% of the gross receivables at 30 June 2022, compared to 81.4% at 30 June 2021. The repayment rate remains healthy averaging 14.0% (of the opening receivables balance repaid each month) during the year ended 30 June 2022, compared to 14.6% across the prior financial year. The reported arrears rate (accounts over 60 days past due) was 2.30% of the receivables at 30 June 2022, compared with 1.78% at 30 June 2021.

CORPORATE ACTIVITY

Zip focused on its global expansion strategy in the first half of the financial year to 30 June 2022 completing a number of acquisitions and investments. Zip completed the acquisitions of Spotii and Twisto, announced in the previous financial year, and acquired Payflex, in each case acquiring the balance of the outstanding shares that it did not already own. In addition, Zip invested in leading Indian BNPL operator ZestMoney and increased its investment in TendoPay.

ACQUISITIONS

SPOTII

On 18 October 2021, Zip completed the acquisition of Spotii, a leading tech-enabled payments platform operating in the Middle East, paying $21.6 million (US$16 million) to acquire the 80% of the outstanding shares it did not already own. On completion, Zip issued 2,850,412 new shares and allocated 285,039 shares in Zip's Employee Share Trust to employee shareholders who were participants in the Spotii employee share plan.

Review of Operations continued

As part of consolidating the controlling entities of Spotii, the Group valued acquired intangibles arising from the acquisition of Spotii in conjunction with independent valuers, and goodwill has been determined. The valuation resulted in acquired intangibles totalling $5.4 million (net of taxation) and goodwill of $21.1 million being recognised at the acquisition date.

TWISTO

Following shareholder approval at the Annual General Meeting, Zip completed the acquisition of Central European BNPL provider, Twisto on 12 November 2021. Total consideration for the acquisition amounted to $135.3 million for the 87.63% of the outstanding shares in Twisto that Zip didn't already own. On completion, Zip paid cash of $0.6 million, and issued 17,454,987 new Zip shares valued at $115.4 million. To satisfy any claims that may arise under the acquisition agreement, Zip held back $19.3 million, to be settled through the issue of new ordinary shares in Zip subject to a maximum issuance of 4,550,000 shares (Holdback Consideration), with the balance payable in cash, or subject to compliance with the ASX listing rules, in shares. If no claims have been made by the end of the one-year anniversary of completion, Zip has 60 days to issue these Zip Shares. If a claim has been made and has not been finally determined or resolved by the end of the one-year anniversary of completion, Zip has up to no later than four years after the anniversary of completion of the acquisition to issue these Zip Shares. The Holdback Consideration will be issued at an issue price equal to the Company's 30-day VWAP immediately prior to their issuance, subject to a 'minimum floor share price' of $5.00 per Share and an 'exchange rate cap' of $1.82 per EUR. Further details regarding the Twisto acquisition are set out in the Notice of Meeting and Explanatory Statement lodged by Zip on ASX on 29 September 2021. No claims have been made to the date of this report.

As part of consolidating the controlling entities of Twisto, the Group has valued acquired intangibles arising from the acquisition of Twisto in conjunction with independent valuers, and goodwill has been determined. The valuation resulted in acquired intangibles totalling $43.6 million (net of taxation) being recognised at the acquisition date and goodwill of $112.5 million being recognised at the acquisition date.

Payflex

On 3 January 2022, Zip completed the acquisition of the remaining 73.75% interest in Payflex that it did not already own. Total consideration of $15.9 million comprised upfront consideration of $8.9 million (ZAR$103.4 million), which was paid via 1,477,686 new Zip shares valued at $2.4 million on 23 March 2022, with the balance payable in cash. Zip's shares issued in settlement of the upfront consideration are subject to voluntary escrow arrangements.

In addition, Zip has agreed to make a potential cash payment of up to a maximum of $0.6 million (ZAR$7.2 million), subject to certain agreed conditions being met within 12 months from completion in connection with Zip exploring the merit of "empowering" Payflex in accordance with South African legislation, policy and good corporate governance practice regarding 'Black Economic Empowerment' investment.

Deferred consideration of up to $6.4 million (ZAR$73.8 million) is payable subject to the satisfaction of prescribed performance milestones, which are based on growth targets relating to the achievement of total transaction volumes and net transaction margins for the twelve months performance period ending 30 June 2022. Deferred consideration is payable by the issue of up to 1,053,608 Zip shares, with the balance payable in cash. Zip shares issued in settlement of the deferred consideration are subject to voluntary escrow arrangements. At 30 June 2022, Payflex has achieved the performance milestones and accordingly, the full amount will be payable by 30 September 2022.

As part of consolidating Payflex, the Group valued acquired intangibles arising from the acquisition of Payflex in conjunction with independent valuers, and goodwill has been determined. The valuation resulted in acquired intangibles totalling $5.2 million (net of taxation) and goodwill of $18.5 million being recognised at the acquisition date.

Review of Operations continued

INVESTMENTS

ZESTMONEY

On 23 September 2021, Zip invested $69.2 million (US$50.0 million) to acquire an 11.1% interest in ZestMoney, a leading Indian BNPL operator. Under the agreement, Zip has taken a Board seat, agreed on specific reserved matters that require its approval, and has negotiated terms to increase its shareholding over time, at its discretion. This conditional right is not being recognised in the Group's Consolidated Financial Statements in this Preliminary Final Report due to both the regulatory and other hurdles that need to be overcome in order to exercise the right. Zip commenced the process to give up this conditional right to increase its shareholding subsequent to the end of the financial year 2022.

TENDOPAY

On 17 December 2021, Zip increased its interest in TendoPay, a leading BNPL player in the Philippines, by 10% to 35%, investing $2.8 million (US$2.0 million). On investing in TendoPay in the previous financial year, Zip negotiated a conditional right to increase its shareholding. This conditional right is not being recognised in the Group's Consolidated Financial Statements in this Preliminary Final Report based on consideration of operational matters in respect of exercising the conditional rights.

CAPITAL MANAGEMENT

Receivables Funding Facilities

CONSUMER FACILITIES	CURRENCY $'M	FACILITY LIMIT $'M	DRAWN AT 30 JUNE 2022
Zip Master Trust			
– Rated Note Series		1,377.5	1,377.5
– Variable Funding Notes		735.4	445.2
2017-1 Trust		264.7	211.0
2017-2 Trust		100.0	47.0
Total	AUD	2,477.6	2,080.7
AR2LLC	USD	300.0	116.9
NZ Trust 2021-1	NZD	30.0	16.0
TWISTO Czech	CZK	958.0	560.8
TWISTO Poland	EUR	19.4	15.9
PAYFLEX South Africa	ZAR	55.0	30.0

The Group had total facilities of $2,477.6 million available to fund its Australian consumer receivables at 30 June 2022, of which $2,080.7 million was drawn ($396.9 million undrawn and available).

In September 2021, the Group completed its fourth rated note issuance, raising $617.5 million from external investors, redeeming the inaugural note issuance of $475.0 million, with the balance available to fund receivables. This was the first issuance under the Master Trust structure to be assigned a AAA rating. In January 2022, the consolidated entity added the Zip Variable Funding Note 2 to the Zip Master Trust, with a new senior funding partner, providing diversity of senior funding partners in the variable funding structure within the Zip Master Trust.

The 2017-2 Trust, which is available to fund receivables, junior notes, capital expenditure and working capital, was extended to September 2023 during the financial year and the facility limit increased by $30.0 million to $100.0 million.

Zip has a facility totalling US$300.0 million to fund its US consumer receivables which was drawn to US$116.9 million at 30 June 2022.

Review of Operations continued

Zip established a facility to fund consumer receivables in New Zealand during the financial year, with a facility limit of NZ$30.0 million of which NZ$16.0 million was drawn at 30 June 2022.

The Group has facilities in both the Czech Republic and Poland to fund consumer receivables generated by Twisto in the respective countries. In March 2022, the Group increased its Twisto Czech facility by CZK$300.0 million.

Facilities available to fund receivables generated by Payflex in South Africa totalling ZAR$55.0 million of which ZAR$30.0 million was drawn at 30 June 2022.

SME FACILITIES	CURRENCY $'M	FACILITY LIMIT $'M	DRAWN AT 30 JUNE 2022
Zip Business			
– Capital Australia	AUD	60.0	32.8
– Capital New Zealand	NZD	40.0	8.0
– Trade/Trade Plus	AUD	100.0	13.5

The Group has separate funding facilities to support each of its Zip Business Capital product and its Zip Business Trade and Trade Plus products.

In March 2022, the Group refinanced its Zip Business Capital facility in Australia, increased the senior commitment to $60.0 million and extended the availability period to March 2024. In May 2022, the consolidated entity extended the facility funding receivables generated by Zip Business Capital in New Zealand to November 2023, with the senior commitment increasing to NZ$40.0 million.

At the end of the financial year the Group had a facility totalling $100.0 million to fund its Zip Business Trade and Trade Plus products, drawn $13.5 million. Following the decision to discontinue the Trade and Trade Plus products, after the year end, the facility was fully repaid.

Equity Capital

During the financial year, the Group raised a total of $172.7 million ($169.3 million net of costs) in equity, from new and existing retail, institutional, sophisticated and professional investors. Funds were ultimately raised to strengthen Zip's Balance Sheet and position Zip for sustainable growth by providing more runway to support Zip's path to cash flow profitability.

POST BALANCE DATE EVENTS

Subsequent to the year end, Zip commenced the process to give up the conditional right to increase its shareholding in relation to its investment in its associate ZestMoney.

Following the decision to discontinue the Trade and Trade Plus products, the $13.5 million drawn under the funding facility in place to provide funding to support these products was fully repaid in July 2022.

To the date of the release of this report, there have been no other material items, transactions or events subsequent to 30 June 2022 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

Preliminary Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2022

	NOTE	CONSOLIDATED 30 JUNE 2022 $'000	CONSOLIDATED 30 JUNE 2021 RESTATED* $'000
Portfolio interest income		522,129	337,305
Transactional income		97,874	56,614
Revenue		620,003	393,919
Other Income		1,400	451
Bad debts and expected credit losses	11	(276,106)	(131,522)
Bank fees and data costs		(114,262)	(71,511)
Interest expense		(78,594)	(63,780)
Salaries and employee benefits expenses		(184,407)	(97,692)
Marketing expenses		(120,089)	(73,754)
Information technology expenses		(47,082)	(24,027)
Depreciation and amortisation expenses	3	(68,645)	(91,768)
Share-based payments		(30,937)	(142,843)
Corporate financing costs	3	(30,963)	(10,796)
Other operating expenses	3	(75,224)	(45,464)
Impairment of goodwill and intangibles	3,14	(821,111)	–
Fair value gain (loss) on financial instruments	3,5,6	128,960	(77,613)
Share of loss of associates	4	(8,348)	(753)
Net adjustment relating to the acquisition of QuadPay		–	(306,235)
Loss Before Income Tax		**(1,105,405)**	**(743,388)**
Income tax benefit	7	312	65,240
Loss After Income Tax for the year attributable to Members of Zip Co Limited		**(1,105,093)**	**(678,148)**
Other Comprehensive Loss for the year			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange differences on translation		89,625	(19,291)
Total Other Comprehensive Loss for the year, net of tax		**89,625**	**(19,291)**
Total Comprehensive Loss for the year Attributable to the Members of Zip Co Limited		**(1,015,468)**	**(697,439)**
Earnings per share			
Basic loss per share	8	(181.26)	(131.93)
Diluted loss per share	8	(181.26)	(131.93)

* The comparative information is restated and re-presented to reflect changes in classification. Please refer to Note 19.

The above Preliminary Consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Preliminary Consolidated Statement of Financial Position

At 30 June 2022

	NOTE	CONSOLIDATED 30 JUNE 2022 $'000	CONSOLIDATED 30 JUNE 2021 RESTATED $'000
Assets			
Cash and cash equivalents	9	241,326	289,212
Restricted cash	9	58,369	40,989
Other receivables	10	72,835	30,195
Term deposit		3,864	1,507
Customer receivables	11	2,514,871	1,962,694
Investments at FVTPL	12	–	19,034
Investments in associates	4	70,741	7,006
Property, plant and equipment		5,246	3,294
Right-of-use assets		3,813	5,849
Intangible assets	13	192,350	203,819
Goodwill	14	222,744	772,961
Total assets		**3,386,159**	**3,336,560**
Liabilities			
Trade and other payables	15	147,294	64,604
Employee provisions		9,068	6,034
Deferred contingent consideration	16	26,184	6,990
Lease liabilities		4,039	6,296
Borrowings	17	2,380,909	1,659,233
Financial liabilities – convertible notes and warrants	5	380,916	469,965
Total liabilities		**2,948,410**	**2,213,122**
Net Assets		**437,749**	**1,123,438**
Equity			
Issued capital	18	2,041,496	1,688,785
Reserves		152,385	86,707
Convertible notes – equity	5	114,466	114,466
Non-controlling interest		1,015	–
Accumulated losses		(1,871,613)	(766,520)
Total equity		**437,749**	**1,123,438**

* The comparative information is restated and re-presented to reflect changes in classification. Please refer to Note 19.

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

Preliminary Consolidated Statement of Changes in Equity

For the year ended 30 June 2022

CONSOLIDATED	ISSUED CAPITAL $'000	TREASURY SHARES $'000	SHARE-BASED PAYMENTS RESERVE $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	CONVERTIBLE NOTES $'000	ACCUMULATED LOSSES $'000	TOTAL EQUITY $'000
Balance at 1 July 2020	**274,151**	–	**19,700**	**(79)**	–	**(88,372)**	**205,400**
Loss after income tax benefit for the year (Restated*)	–	–	–	–	–	(678,148)	(678,148)
Other comprehensive loss for the year, net of tax	–	–	–	(19,291)	–	–	(19,291)
Total comprehensive loss for the year (Restated*)	–	–	–	**(19,291)**	–	**(678,148)**	**(697,439)**
Recognition of share-based payments	–	–	142,843	–	–	–	142,843
Exercise of share-based payments	–	–	(123,267)	–	–	–	(123,267)
Issue of treasury shares to Zip Employee Share Trust	18,491	(18,491)	–	–	–	–	–
Issue of shares from Zip employee Share Trust	–	8,053	(8,053)	–	–	–	–
Recognition of replacement options issued for QuadPay acquisition	–	–	85,292	–	–	–	85,292
Issue of ordinary shares under share-based payment plans	123,267	–	–	–	–	–	123,267
Exercise of options	1,342	–	–	–	–	–	1,342
Issue of shares – business acquisitions	1,090,741	–	–	–	–	–	1,090,741
Issue of shares – capital raising	176,710	–	–	–	–	–	176,710
Issue of shares – PartPay contingent consideration	6,989	–	–	–	–	–	6,989
Issue of convertible notes	–	–	–	–	114,466	–	114,466
Cost of issuing of shares	(2,906)	–	–	–	–	–	(2,906)
Balance at 30 June 2021 (Restated*)	**1,688,785**	**(10,438)**	**116,515**	**(19,370)**	**114,466**	**(766,520)**	**1,123,438**

* The comparative information is restated and re-presented to reflect changes in classification. Please refer to Note 19.

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

Preliminary Consolidated Statement of Changes in Equity continued

CONSOLIDATED	ISSUED CAPITAL $'000	TREASURY SHARES $'000	SHARE-BASED PAYMENTS RESERVE $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	CONVERTIBLE NOTES $'000	ACCUMULATED LOSSES $'000	NON-CONTROLLING INTERESTS LOSSES $'000	TOTAL EQUITY $'000
Balance at 30 June 2021 (Restated*)	**1,688,785**	**(10,438)**	**116,515**	**(19,370)**	**114,466**	**(766,520)**	**–**	**1,123,438**
Loss after income tax benefit for the year	–	–	–	–	–	(1,105,093)	–	(1,105,093)
Other comprehensive income for the year, net of tax	–	–	–	89,625	–	–	–	89,625
Total comprehensive income/(loss) for the year	–	–	–	**89,625**	–	**(1,105,093)**	**–**	**(1,015,468)**
Recognition of share-based payments	–	–	30,937	–	–	–	–	30,937
Exercise of share-based payments	–	–	(41,544)	–	–	–	–	(41,544)
Issue of treasury shares to Zip Employee Trust	15,760	(15,760)	–	–	–	–	–	–
Issue of shares from Zip Employee Share Trust	–	22,853	(22,853)	–	–	–	–	–
Issue of ordinary shares under share-based payment plans	19,661	–	–	–	–	–	–	19,661
Exercise of options	310	–	–	–	–	–	–	310
Issue of shares – business acquisitions	137,209	–	2,156	–	–	–	–	139,365
Issue of shares – capital raising	172,729	–	–	–	–	–	–	172,729
Issue of shares – PartPay contingent consideration (refer to Note 16)	6,990	–	–	–	–	–	–	6,990
Issue of shares – IT development and software purchase	3,440	–	264	–	–	–	–	3,704
Cost of issuing of shares	(3,388)	–	–	–	–	–	–	(3,388)
Acquisition of non-controlling interests							1,015	1,015
Balance at 30 June 2022	**2,041,496**	**(3,345)**	**85,475**	**70,255**	**114,466**	**(1,871,613)**	**1,015**	**437,749**

* The comparative information is restated and re-presented to reflect changes in classification. Please refer to Note 19.

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

Preliminary Consolidated Statement of Cash Flows

For the year ended 30 June 2022

	NOTE	CONSOLIDATED 30 JUNE 2022 $'000	CONSOLIDATED 30 JUNE 2021 RESTATED $'000
CASH FLOWS TO OPERATING ACTIVITIES			
Revenue from customers		620,176	403,009
Payments to suppliers and employees		(517,887)	(292,594)
Net increase in receivables		(766,957)	(930,054)
Borrowing transaction costs		(2,390)	(2,084)
Interest received from financial institutions		1,227	187
Interest paid		(72,404)	(57,677)
Acquisition of business costs		(14,183)	(8,702)
Net Cash Flow to Operating Activities		**(752,418)**	**(887,915)**
CASH FLOWS TO INVESTING ACTIVITIES			
Payments for plant and equipment		(4,546)	(1,383)
Payments for software development		(24,968)	(12,009)
Payments for investments in associates	4	(72,048)	(6,575)
Payment for acquisitions, net of cash acquired	6	6,847	26,209
Payments for investments at FVTPL	12	–	(14,488)
Increase in Term Deposits		(2,358)	–
Net Cash Flow to Investing Activities		**(97,073)**	**(8,246)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		1,195,390	1,051,866
Repayment of borrowings		(540,951)	(521,199)
Proceeds from issue of convertible notes		–	490,978
Repayment of principal of lease liabilities		(3,949)	(3,737)
Proceeds from issue of shares		173,039	178,052
Cost of share issues		(3,388)	(2,906)
Net Cash Flow from Financing Activities		**820,141**	**1,193,054**
Net (decrease)/increase in cash, cash equivalents and restricted cash		(29,350)	296,893
Cash, cash equivalents and restricted cash at the beginning of the year		330,201	32,712
Foreign exchange effect		(1,156)	596
Cash, Cash Equivalents and Restricted Cash at the End of the year	9	**299,695**	**330,201**

* The comparative information is restated and re-presented to reflect changes in classification. Please refer to Note 19.

The above Preliminary Consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Preliminary Final Report

30 June 2022

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES OF THE PRELIMINARY FINAL REPORT

A. BUSINESS

Zip is a global provider of digital retail finance and payments services. In Australia, Zip is a responsible credit provider, both as a core value and through its legal obligations under its ASIC regulated Australian Credit License. Zip is also accredited to the Buy Now Pay Later (BNPL) Code of Practice issued by the Australian Finance Industry Association. Zip's current operations span 13 countries around the world providing services in Australia, Canada, Czech Republic, Mexico, New Zealand, Singapore, Poland, Saudi Arabia, South Africa, Turkey, United Arab Emirates, the United Kingdom and the United States. Zip's ordinary shares have been listed on the ASX (ASX code: ZIP) since 2015. Zip Co Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

B. BASIS OF PREPARATION

The Preliminary Final Report (the Report) has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

The report is to be read in conjunction with any public announcements made by Zip Co Limited during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and Australian Securities Exchange Listing Rules.

The Report, comprising the preliminary financial statements and notes of the consolidated entity, complies with the recognition and measurement requirements of Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Selective disclosure requirements of Australian Accounting Standards have been included. The Report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) in respect of the recognition and measurement requirements.

The Report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars and all values are rounded to the nearest thousand ($'000), unless otherwise noted. When necessary, comparative figures have been adjusted to comply with the changes in presentation in the current period.

Comparative Figures

Certain comparative figures have been restated and/or reclassified for misstatement corrections or to conform to changes in presentation for the current financial year. Refer to Note 19 for details. Where relevant, restated figures are presented in the respective notes in this report.

C. GOING CONCERN

The Directors have prepared the Report 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 preliminary consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2022 reflects the consolidated entity's total comprehensive loss after tax of $1,015.5 million. The preliminary consolidated statement of cash flows for the year ended 30 June 2022 reflects net cash flows to operations of $752.4 million.

The Directors have reviewed cash flow forecasts for the consolidated entity through to 30 September 2023. The cash flow forecasts indicate that the consolidated entity will have sufficient funding to operate as a going concern during the forecast period. The Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis, as they are confident that the consolidated entity will be able to pay its debts as and when they become due and payable from operating cash flows and available finance facilities.

Notes to the Preliminary Final Report continued

The financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

D. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current financial year and that have a significant impact on the consolidated entity's financial statements. There were no other new or revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that have materially impacted the consolidated entity's financial statements for the year ended 30 June 2022. The consolidated entity has not adopted any accounting standards that are issued but not yet effective. The consolidated entity has considered the applicability and impact of all recently issued accounting pronouncements and has determined that they were either not applicable or were not expected to have a material impact on the financial statements.

E. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing this Report, the consolidated entity has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results in the future.

Provision for Expected Credit Loss

Customer receivables are initially recognised at fair value. Subsequently, they are classified and measured at amortised cost.

An expected credit loss model is used for the assessment of impairment of customer receivables under AASB 9. Expected credit losses (ECL) are based on the difference between the contractual cash flows due in accordance with the terms of the consolidated entity's products and all the cash flows that the consolidated entity expects to receive from its customers. The expected credit losses are calculated based on either twelve months or the lifetime of the customer receivables.

ECL is the product of Probability of default (PD), Exposure at default (EAD), and Loss given default (LGD). LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. PD constitutes a key input in measuring ECL and it is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

When measuring expected credit losses the consolidated entity uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Management consider that the key source of estimation uncertainty relates to the formulation and incorporation of multiple forward-looking economic scenarios into the ECL estimates to meet the measurement objective of AASB 9.

The ECL recognised in the consolidated financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios (including base, good and bad scenarios). These scenarios are representative of management's view of forecast economic conditions, sufficient to calculate an unbiased ECL. The weightings used are reviewed each reporting period to ensure these remain appropriate and as such are considered to represent significant accounting estimates. Judgement has been applied in the assessment of the macroeconomic overlay in the financial year ended 30 June 2022, taking into account the impact of COVID-19. Refer to Note 11 for further details.

Impairment of Non-Financial Assets

Non-financial assets other than goodwill and other indefinite life intangible assets are reviewed for indicators of impairment. Goodwill and other indefinite life intangible assets are tested for impairment annually or more frequently if there are indications that goodwill and indefinite life intangible assets might be impaired. If an intangible asset was recognised during the current annual period, that intangible asset is tested for impairment before or at the end of the current annual period.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a discount rate specific to the asset or cash-generating unit (CGU) to which the asset belongs.

CGUs are defined as the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination.

Intangible assets such as brands, customer relationships and trademarks used by the consolidated entity for its own activities are unlikely to generate largely independent cash inflows and are therefore tested at a CGU level. Please refer to Note 14 for detailed assumptions and assessment of impairment for goodwill and intangible assets.

The assessment of impairment of investments in associates is detailed in Note 4.

Fair Value Measurements and Valuation Processes

The consolidated entity measures certain assets and liabilities at fair value for financial reporting purposes. In estimating the fair value of these assets and liabilities, the consolidated entity uses market-observable data to the extent it is available. Where market-observable data is not available, the consolidated entity engages qualified third-party valuers to assist with the valuation and work closely with management to establish the appropriate valuation techniques and inputs to the valuation model. Key inputs to the valuation model for valuation of derivatives embedded in convertible notes and warrants recognised as financial liability include Zip's share price, volatility and the risk free rate. Refer to Note 5 for details.

Acquisition Accounting

Acquisitions of businesses are accounted for using the acquisition method. The consolidated entity identifies the acquisition date, which is the date on which it obtains control of the acquiree. Judgement is required when determining the date on which the consolidated entity obtains control of the acquiree, considering the events and conditions precedent to completing the acquisition, which may include but is not limited to, the signing of the sale and purchase agreement between the consolidated entity and the acquiree, obtaining Board, shareholder and regulatory approvals and the issuing and legal transfer of consideration, including in the form of shares in the consolidated entity.

The consolidated entity may obtain control of an acquiree in which it held an equity interest immediately before the acquisition date. AASB 3 *Business Combinations* refers to such a transaction as a business combination achieved in stages. Judgement is required in remeasuring the consolidated entity's previously held equity interest in the acquiree from its previous classification and measurement under AASB 9 *Financial Instruments* or AASB 128 *Investments in Associates* to its acquisition-date fair value.

The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition date fair values of assets transferred to the former owners, liabilities incurred by the consolidated entity to the former owners of the acquiree, and the equity instruments issued by the consolidated entity in exchange for control of the acquiree. Potential forms of consideration include cash, other assets, a business or a subsidiary of the acquirer, contingent

Notes to the Preliminary Final Report continued

consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities. Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the business combination or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement requires judgement in assessing the nature of the arrangement and whether the contingent payment forms part of the consideration transferred in a business combination or a separate transaction.

Indicators include, but are not limited to, payments that are contingent on continued employment by the selling shareholders who become key employees in the consolidated entity, the duration of their continued employment compared to the contingent payment period and whether the level of their employee remuneration other than the contingent payments is at a reasonable level in comparison with that of other key employees in the consolidated entity.

F. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Zip Co Limited ('parent entity') as at 30 June 2022 and the results of all subsidiaries for the six months then ended (for acquired subsidiaries since their acquisition dates).

Subsidiaries are all entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between the entities that are controlled by the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

G. SEGMENT REPORTING

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers (CODM). CODM include the Non-Executive Directors, Chief Executive Officer, Chief Operations Officer and Chief Financial Officer. The CODM are responsible for the allocation of resources to operating segments and assessing their performance.

H. REVENUE RECOGNITION

Portfolio Interest Income

The consolidated entity recognises portfolio interest income on customer receivables using the effective interest rate method (in accordance with AASB 9), based on estimated future cash receipts over the expected life of the financial asset. In making their judgement of the estimated future cash flows and the expected life of the customer receivables balance, the Directors have considered the historical repayment pattern of the customer receivables on a portfolio basis for each type of its products.

These estimates require significant judgment and will be reviewed on an ongoing basis and where required, appropriate adjustments to the recognition of revenue will be made.

The Directors consider that revenue from Merchant fees, Service fees, Monthly fees and Interest are akin to financial or portfolio interest income which should be accrued on a time proportionate basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Notes to the Preliminary Final Report continued

Transactional Income

Transactional income includes Establishment fees, Transaction processing fees, Affiliate fees and Interchange which are recognised as earned and not considered portfolio interest income.

I. BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition date fair values of assets transferred to the former owners, liabilities incurred by the consolidated entity to the former owners of the acquiree, and the equity instruments issued by the consolidated entity in exchange for control of the acquiree.

Goodwill arises in a business combination when the consideration transferred to the acquiree is greater than the net of the acquisition-date fair value of identifiable assets and the liabilities assumed. Acquisition costs are recognised in profit or loss as incurred.

Where the consideration transferred by the consolidated entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. If there are changes in the fair value of the contingent consideration that qualify as measurement period adjustments, they are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the consolidated entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Share-Based Payment Transactions of the Acquiree in a Business Combination

When the share-based payment awards held by the employees of an acquiree (acquiree awards) are replaced by the Company's share-based payment awards (replacement awards), both the acquiree awards and the replacement awards are measured in accordance with AASB 2 ("market-based measure") at the acquisition date. The portion of the replacement awards that is included in measuring the consideration transferred in a business combination equals the market-based measure of the acquiree awards multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The excess of the market-based measure of the replacement awards over the market-based measure of the acquiree awards included in measuring the consideration transferred is recognised as remuneration cost for post-combination service.

J. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Restricted cash is held by the securitisation warehouses and special purpose vehicles and is not available to pay creditors of the consolidated entity.

Notes to the Preliminary Final Report continued

K. INTANGIBLE ASSETS

Software Development Asset

Software development costs are capitalised only when:

- The technical feasibility and commercial viability or usefulness of the project is demonstrated;
- The consolidated entity has an intention, ability and financial resources to complete the project and use it or sell it; and
- The costs can be measured reliably.

Such costs include payments to external contractors, any purchase of materials and equipment, and the costs of employees, who are directly involved in the software project.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Intangibles Acquired in a Business Combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date.

Acquired intangibles are independently valued by an external valuer and their fair values are recorded at initial recognition. Refer to Note 6 for the valuation of intangibles acquired during the financial year.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The useful life of intangible assets is assessed on either the duration for which the assets contribute to the consolidated entity's value or the timing of the projected cash flow of the relationships.

Intangibles Acquired Separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives which are disclosed in Note 13. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Derecognition of Intangibles

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

L. GOODWILL

Goodwill arising on the acquisition of a business is carried at cost as established at the date of the acquisition of the business, less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the consolidated entity's CGUs (or groups of CGUs) that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is so allocated is (a) representing the lowest level within the entity at which the goodwill is monitored for internal management purposes; and (b) not be larger than an operating segment determined in accordance with AASB 8 *Operating Segments*.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss.

An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

M. TRADE AND OTHER PAYABLES

Trade and other payables represent the principal amounts outstanding at balance date, plus, where applicable, any accrued interest.

N. EMPLOYEE BENEFITS

A provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on high quality corporate bond rates, which have terms to maturity approximating the terms of the related liability, are used.

O. FINANCIAL INSTRUMENTS

Initial Recognition and Subsequent Measurement of Financial Instruments

Financial assets and financial liabilities are recognised when the consolidated entity becomes a party to the contractual provisions of the instrument.

Financial Assets

Financial assets are initially measured at fair value. Financial assets are subsequently measured at amortised cost and include cash, cash equivalents, restricted cash, term deposits, other receivables (excluding prepayments) and customer receivables. Customer receivables are non-derivative financial assets which are measured at amortised cost using the effective interest method, less any impairment. Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Investments in equity instruments are classified as investments at FVTPL, unless the consolidated entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition. The consolidated entity did not have any financial assets measured at FVTOCI at 30 June 2022 and 30 June 2021.

Financial assets at FVTPL are subsequently measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss is recognised in profit or loss. There is no requirement to recognise an impairment loss.

Notes to the Preliminary Final Report continued

Financial Liabilities

Financial liabilities are initially measured at fair value.

Financial liabilities including trade and other payables, loans and borrowings, deferred contingent considerations and the debt component of convertible notes are measured subsequently at amortised cost. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Financial liabilities at FVTPL, including those warrants issued which meet the definitions of a financial liability in accordance with the substance of the contractual arrangements, are initially measured at fair value and subsequently measured at fair value at each reporting date. Any gains or losses arise on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

Classification of Debt and Equity Components

Convertible loan notes issued by the consolidated entity are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

A conversion option that will be settled by the exchange of a fixed amount of cash for a variable number of the Company's own equity instruments is considered a financial liability. The conversion features that fail the equity classification are accounted for as derivative financial liabilities, and are accounted for separately from their host debt component. Derivatives financial liabilities are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

A conversion option that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments is considered an equity component. The conversion feature classified as equity is not required to be revalued at each reporting date.

The option derivatives embedded in the convertible notes are assessed to determine whether it is to be separated from its debt host contract on the basis of the stated terms of the option feature. The debt component of convertible notes is subsequently measured at amortised cost as described above. The effective interest charged on the debt host contract is reported in corporate finance costs.

Transaction Costs

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components (if any) in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

Derecognition of Financial Assets and Liabilities

The consolidated entity derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the consolidated entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the consolidated entity recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the consolidated entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the consolidated entity continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the consolidated entity has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

The consolidated entity derecognises financial liabilities when, and only when, the consolidated entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

P. ISSUED CAPITAL

Ordinary shares are classified as equity and are carried at cost.

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

Q. INCOME TAX

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and any adjustment recognised for prior periods, where applicable.

Where uncertainty exists over the income tax treatments of certain tax positions, an assessment of each uncertain tax position is made based on whether it is considered probable that the relevant taxation authority will accept the position. Where it is not probable, the effect of the uncertainty is reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The consolidated entity has assessed the impact of the interpretation and does not believe that there are any uncertain tax positions for which the consolidated entity is required to reflect a different tax treatment in determining both current and deferred taxes.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

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

Notes to the Preliminary Final Report continued

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Tax Consolidation Legislation

Zip Co Limited and its wholly-owned Australian-controlled subsidiaries are members of a tax-consolidated group under Australian tax law. Zip Co Limited is the head entity within the tax-consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group.

Amounts payable or receivable under the tax-funding arrangement between the head entity and the entities in the tax consolidated group are determined using a ‘separate taxpayer within group’ approach to determine the tax contribution amounts payable or receivable by each member of the tax-consolidated group. This approach results in the tax effect of transactions being recognised in the legal entity where that transaction occurred and does not tax effect transactions that have no tax consequences to the group. The same basis is used for tax allocation within the tax-consolidated group.

R. EARNINGS PER SHARE

Basic Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Zip Co Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted Earnings Per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

S. RECOVERABLE AMOUNT OF ASSETS

The carrying amounts of assets other than financial instruments and goodwill are reviewed by the Directors where there is an impairment indicator to ensure they are not in excess of the recoverable amounts (the higher of value-in-use and fair value less costs of disposal). The expected net cash flows are discounted to present values in determining recoverable amounts.

T. FOREIGN CURRENCIES

In preparing the consolidated financial statements of the consolidated entity, the results and financial position of each group entity are expressed in Australian dollars, which is the functional currency of the parent entity and the presentation currency for the consolidated financial statements.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the consolidated entity's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a foreign exchange translation reserve and may be subsequently reclassified to profit and loss in future reporting period.

NOTE 2. SEGMENT INFORMATION

An operating segment is a component of an entity engaging in business activities from which it may earn revenue and incur expenses, whose operating results are reviewed and used by the Chief Operating Decision Makers (CODM) in assessing performance and in determining the allocation of resources. Intersegment loans are eliminated on consolidation and there is no aggregation of operating segments.

The consolidated entity had three operating segments being Zip AU, Zip Global and Zip Business in the financial year ended 30 June 2021. In the financial year ended 30 June 2022, the consolidated entity transitioned to five operating segments: APAC, Americas, EMEA, Zip Business and Corporate. In order to enhance comparability, the segment information for the year ended 30 June 2021 has been presented under the five operating segments.

The operating segments may change in the future as the consolidated entity continues to re-assess its operating model, reporting systems, and the financial information presented to the CODM for decision making purposes. The consolidated entity has the following operating segments and the results of each segment are reported in the table that follows:

APAC	Offers BNPL instalment products[1] or line of credit products[2] to consumers in Australia, New Zealand and Singapore, and includes the consolidated entity's Pocketbook operations.
Americas	Offers BNPL instalment products to customers in the US, Canada, and Mexico.
EMEA	Offers BNPL instalment products to customers in the UK, Europe, the Middle East and South Africa.
Zip Business	Provides unsecured loans and lines of credit to small and medium-sized businesses in Australia and New Zealand.
Corporate	Comprises group expenses benefiting all segments and are either not directly attributable or allocated to a particular segment.

1. For instalment products, a customer makes the first instalment when the transactions happen and then repays the rest instalments typically over 6 weeks. These instalments are of equal value for each order and are interest-free.
2. Line of credit products offer customers a flexible customer loan that consists of a defined amount of money that customer can access as needed and repay either immediately or over time.

Notes to the Preliminary Final Report continued

FINANCIAL YEAR ENDED 30 JUNE 2022	APAC $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CORPORATE $'000	TOTAL $'000
Revenue	297,375	282,915	22,841	16,872	–	620,003
Cost of Sales[1]	(200,471)	(226,992)	(29,178)	(12,321)	–	(468,962)
Gross Profit	**96,904**	**55,923**	**(6,337)**	**4,551**	**–**	**151,041**
Other income	726	5	603	4	62	1,400
Operating expenses	(111,833)	(178,201)	(43,635)	(12,090)	(44,262)	(390,021)
Effective interest charged on convertible notes	–	–	–	–	(29,929)	(29,929)
Global re-branding project costs	–	–	–	–	(20,343)	(20,343)
Segment EBTDA (excluding reconciling items)	**(14,203)**	**(122,273)**	**(49,369)**	**(7,535)**	**(94,472)**	(287,852)
Depreciation of right-of-use assets	(3,140)	(607)	–	–	–	(3,747)
Depreciation of PP&E	(2,011)	(262)	(424)	(5)	–	(2,702)
Amortisation of intangibles	(12,135)	(42,275)	(6,615)	(1,171)	–	(62,196)
Segment loss before income tax	**(31,489)**	**(165,417)**	**(56,408)**	**(8,711)**	**(94,472)**	**(356,497)**
Reconciling corporate items from operating to statutory loss:						
Share-based payments						(30,937)
Acquisition of business costs						(17,472)
Share of loss of associates						(8,348)
Fair value gain on financial instruments						128,960
Impairment loss						(821,111)
Loss before income tax						**(1,105,405)**

1. Cost of sales comprises Interest expense, Bad debts and expected credit losses, and Bank fees and data costs which are presented in the Consolidated Statement of Profit or Loss.

Notes to the Preliminary Final Report continued

FINANCIAL YEAR ENDED 30 JUNE 2021	APAC $'000	AMERICAS RESTATED* $'000	EMEA $'000	ZIP BUSINESS $'000	CORPORATE $'000	TOTAL RESTATED* $'000
Revenue	214,117	167,100	1,798	10,904	–	393,919
Cost of sales[1]	(135,827)	(121,050)	(3,624)	(6,312)	–	(266,813)
Gross Profit	**78,290**	**46,050**	**(1,826)**	**4,592**	**–**	**127,106**
Other income	359	60	28	4	–	451
Operating expenses	(102,688)	(98,476)	(11,584)	(9,271)	(9,608)	(231,627)
Effective interest charged on convertible notes	–	–	–	–	(10,168)	(10,168)
Segment EBTDA (excluding reconciling items)	**(24,039)**	**(52,366)**	**(13,382)**	**(4,675)**	**(19,776)**	**(114,238)**
Depreciation of right-of-use assets	(2,918)	(1,012)	–	–		(3,930)
Depreciation of PP&E	(1,763)	–	(70)	(9)	–	(1,842)
Amortisation of intangibles	(11,229)	(74,637)	(122)	(8)	–	(85,996)
Segment loss before income tax	**(39,949)**	**(128,015)**	**(13,574)**	**(4,692)**	**(19,776)**	**(206,006)**
Reconciling items from operating to statutory loss:						
Share-based payments						(142,843)
Acquisition of business costs						(9,938)
Share of loss of associate						(753)
Fair value loss on financial instruments						(77,613)
Net adjustments relating to acquisition of QuadPay						(306,235)
Loss before income tax						**(743,388)**

1. Cost of sales comprises Interest expense, Bad debts and expected credit losses, and Bank fees and data costs which are presented in the Consolidated Statement of Profit or Loss.

* The comparative information is restated and re-presented to reflect changes in classification. Please refer to Note 19.

Notes to the Preliminary Final Report continued

NOTE 3. EXPENDITURE

	CONSOLIDATED	
	30 JUNE 2022 $'000	30 JUNE 2021 $'000
Loss before income tax includes the following specific expenses:		
Depreciation and amortisation expenses:		
Depreciation of property, plant and equipment	2,702	1,842
Depreciation of right-of-use assets	3,747	3,930
Amortisation of acquired intangibles	45,621	34,238
Write-off of intangibles	–	42,570
Amortisation of internally generated IT development and software	16,575	9,188
Total depreciation and amortisation expenses	**68,645**	**91,768**
Corporate financing costs:		
Effective interest charged on convertible notes	29,929	10,168
Interest on leasing liabilities	161	244
Other finance costs	873	384
Total corporate financing costs	**30,963**	**10,796**
Other operating expenses:		
Occupancy expense	3,581	2,419
Acquisition of business costs	17,472	9,938
Other operating expenses (Restated*)	54,171	33,107
Total other operating expenses (Restated*)	**75,224**	**45,464**
Impairment of goodwill and intangibles:		
Impairment of goodwill (Note 14)	768,405	–
Impairment of intangibles (Note 13)	52,706	–
Impairments	**821,111**	**–**
Fair value gain/loss on financial instruments:		
Fair value (gain) loss on convertible notes and warrants (Note 5)	(118,978)	82,049
Fair value gain on investment at FVTPL (Note 12)	(1,481)	(4,436)
Fair value gain on acquisition of associate (Note 4)	(8,501)	–
Fair value (gain) loss on financial instruments	**(128,960)**	**77,613**

* The comparative information is restated and re-presented to reflect changes in classification. Please refer to Note 19.

NOTE 4. INVESTMENTS IN ASSOCIATES

	PAYFLEX $'000	TENDO $'000	ZESTMONEY $'000	SPOTII $'000	CONSOLIDATED $'000
Balance at 30 June 2021	981	3,215	–	2,810	7,006
Additional investments	–	2,815	69,233	–	72,048
Share of loss of associates	(256)	(1,039)	(6,662)	(391)	(8,348)
Foreign exchange gain (loss)	(61)	316	2,863	83	3,201
Fair value gain on investment on acquisition	5,012	–	–	3,489	8,501
Derecognition of pre-existing investment	(5,676)	–	–	(5,991)	(11,667)
Balance at 30 June 2022	**–**	**5,307**	**65,434**	**–**	**70,741**

The associates of the consolidated entity as at 30 June 2022 are detailed in the following table. The associates listed below have share capital consisting solely of ordinary shares, which are held directly by the consolidated entity's controlled subsidiaries. The proportion of ownership interest is the same as the proportion of voting rights held. The consolidated entity has accounted for investments in associates using the equity method.

			% OF OWNERSHIP INTEREST	
ASSOCIATES	**LOCATION OF INCORPORATION OF HOLDING COMPANY**	**LOCATION OF PRINCIPAL OF BUSINESS**	**30 JUNE 2022 %**	**30 JUNE 2021 %**
Payflex[1]	South Africa	South Africa	100.00%	26.25%
Tendo	Singapore	Philippines	35.00%	25.00%
Zest	Singapore	India	10.20%	–
Spotii[2]	United Arab Emirates	United Arab Emirates & Kingdom of Saudi Arabia	100.00%	20.00%

1. Payflex was derecognised as an investment in an associate upon its acquisition by Zip as its fully owned subsidiary on 3 January 2022.
2. Spotii was derecognised as an investment in an associate upon its acquisition by Zip as its fully owned subsidiary on 18 October 2021.

PAYFLEX

On 3 January 2022, the consolidated entity acquired the remaining 73.75% of interest of Payflex it did not already own.

The consolidated entity derecognised the investment in associate and accounted for the acquisition as described in Note 6.

Up to the date of acquisition, the consolidated entity recognised its share of loss of Payflex amounting to $0.3 million, a gain on the revaluation of Zip's ownership interest in Payflex of $5.0 million, and a realised foreign exchange loss of $0.1 million.

Notes to the Preliminary Final Report continued

TENDOPAY

At 30 June 2022, the consolidated entity held a 35% interest in TendoPay, being the 25% interest held at 30 June 2021 and a further 10% interest acquired in December 2021 for an investment of $2.8 million (US$2 million). The consolidated entity accounts for the investment in TendoPay as an associate due to the consolidated entity's ability to exercise significant influence.

For the year ended 30 June 2022, the share of loss of TendoPay was $1.0 million. An unrealised foreign exchange gain of $0.3 million on the investment resulted in the carrying amount of the consolidated entity's investment in TendoPay being recorded at $5.3 million at 30 June 2022.

On investing in TendoPay in the previous financial year, the consolidated entity negotiated a conditional right to increase its shareholding. The conditional right is not recognised in the consolidated entity's Consolidated Financial Statements in this Report based on the consideration of operational matters in respect of exercising the conditional rights.

ZESTMONEY

On 23 September 2021, the consolidated entity invested $69.2 million (US$50.0 million) to acquire an 11.1% interest in Primrose Hill Ventures Pte Ltd, the parent company of ZestMoney, a provider of BNPL services to consumers in India. The consolidated entity has accounted for the investment as an associate due to the consolidated entity's significant influence comprising board representation and voting rights arising from this investment. The investment has been initially recorded at cost, being the fair value upon acquisition of $69.2 million. The consolidated entity's shareholding in ZestMoney diluted from 11.1% to 10.2% at 30 June 2022, due to additional capital raised from other investors.

For the year ended 30 June 2022, the share of the loss of ZestMoney was $6.6 million. An unrealised foreign exchange gain of $2.9 million on the investment resulted in the carrying amount of the consolidated entity's investment in ZestMoney being recorded at $65.4 million as at 30 June 2022.

The consolidated entity negotiated a conditional right to increase its shareholding in ZestMoney when making its investment in September 2021. This conditional right is not being recognised in the consolidated entity's Consolidated Financial Statements in this Report due to both the regulatory and other hurdles that need to be overcome in order to exercise the right. Subsequent to the year end, Zip commenced the process to give up the conditional right to increase its shareholding in relation to its investment in its associate ZestMoney.

SPOTII

On 18 October 2021, the consolidated entity acquired the remaining 80% of interest of Spotii it did not already own.

The consolidated entity derecognised the investment in associate and accounted for the acquisition as described in Note 6.

Up to the date of acquisition, the consolidated entity recognised its share of loss of Spotii amounting to $0.4 million, a gain on the revaluation of Zip's ownership interest in Spotii of $3.5 million, and a realised foreign exchange gain of $0.1 million.

NOTE 5. FINANCIAL LIABILITIES – CONVERTIBLE NOTES AND WARRANTS

RECONCILIATION OF FINANCIAL IMPACT OF ISSUE OF THE CONVERTIBLE NOTES AND WARRANTS

	FINANCIAL LIABILITY — EMBEDDED DERIVATIVE $'000	FINANCIAL LIABILITY — WARRANTS $'000	FINANCIAL LIABILITY — NET DEBT HOST $'000	TOTAL FINANCIAL LIABILITIES — CONVERTIBLE NOTES AND WARRANTS $'000	CONVERTIBLE NOTES — EQUITY $'000
30 June 2020	–	–	–	–	–
Issued during the period	21,698	17,210	338,840	377,748	114,466
Effective interest on convertible notes	–	–	10,168	10,168	–
Fair value loss recognised	38,945	43,104	–	82,049	–
30 June 2021	**60,643**	**60,314**	**349,008**	**469,965**	**114,466**
Effective interest on convertible notes	–	–	29,929	29,929	–
Fair value gain recognised	(58,792)	(60,186)	–	(118,978)	–
30 June 2022	**1,851**	**128**	**378,937**	**380,916**	**114,466**

CONVERTIBLE NOTES AND WARRANTS ISSUED ON 1 SEPTEMBER 2020

	ISSUE DATE	EXPIRY DATE	CONVERSION PRICE	NUMBER ISSUED
Convertible Notes	1 September 2020	1 September 2025	See in this note	1,000
Warrants	1 September 2020	1 September 2023	See in this note	19,365,208

On 1 September 2020, Zip issued 1,000 convertible notes and 19,365,208 warrants to CVI Investments, Inc. (CVI), an affiliate of Heights Capital Management, which is part of the US-based Susquehanna International Group.

The convertible notes issued to CVI have a face value of $100,000 each. The convertible notes have a maturity of 5 years from issue and bear interest payable semi-annually at a fixed amount of $0.75 million. The conversion price of the convertible notes varies based on movements in Zip's share price subject to a floor and a ceiling price. The initial conversion price was $5.5328, representing a 50% premium to the 1-day volume weighted average price of Zip's shares on the Australian Stock Exchange (ASX) on 29 May 2020 (the last trading day prior to the announcement of the convertible note raising). The conversion price resets semi-annually to a price equal to 93% of the then prevailing current market price of Zip's shares on the ASX, subject to a minimum price of $1.8443 and a maximum price equal to the initial conversion price of $5.5328.

As a result of the share issue by Zip on 4 March 2022 of 78,285,139 new shares at an issue price of $1.90 per share under Zip's fully underwritten placement to institutional, professional and sophisticated investors, the conversion price of the convertible notes has been adjusted to $2.0215, effective as of 4 March 2022, pursuant to their terms.

At each Instalment date (commencing on the date falling 6 months after 1 September 2020 and every 6 months thereafter up to and including the maturity date on 1 September 2025), the noteholder has the option to elect, in respect of $10.0 million of the convertible notes, together with any previously deferred amounts and any accrued and unpaid interest, to either:

- defer the conversion of the instalment amount to a later instalment date (up until the maturity date);
- subject to certain conditions being met, to convert the instalment amount into Zip's shares; or

Notes to the Preliminary Final Report continued

- subject to certain conditions being met, to receive an amount of cash equal to the applicable instalment amount due on such date plus any accrued and unpaid interest as at the applicable instalment date.

During the year ended 30 June 2022, no convertible notes have been converted (year ended 30 June 2021: None).

The warrants issued to CVI were issued for nil cash consideration, have a 3 year exercise period and have a variable exercise price being the lower of $5.1639 and the price of any equity securities issued by Zip (excluding issues for prescribed business as usual and agreed strategic transactions).

As a result of the share issue by Zip on 8 April 2022 of 16,206,961 new shares at an issue price of $1.48 per share under a share purchase plan to eligible Zip shareholders, the exercise price of the warrants issued to CVI has been adjusted to $1.48, effective as of 8 April 2022, pursuant to their terms.

On initial recognition, the convertible notes included a debt component reported as a financial liability measured at amortised cost, and a conversion option considered an embedded derivative measured at FVTPL. The warrants issued to CVI are classified as financial liabilities measured at FVTPL.

The embedded derivative and the warrants have been revalued at 30 June 2022 in accordance with Accounting Standard AASB 9 *Financial Instruments*. Following the revaluation at 30 June 2022, the embedded derivative and warrants issued have been valued at fair values of $1.85 million and $0.1 million respectively using the Black Scholes option valuation model. The fair values have been based on a closing Zip's share price at 30 June 2022 of $0.44, volatility of 60%, and a risk free rate of 3.0% for the embedded derivative, and 2.4% for the warrants. The different risk free rates reflect the different expiry dates of the instruments.

A fair value gain of $119.0 million has been recorded, being the movement in the fair values of the embedded derivative and warrants between 1 July 2021 and 30 June 2022 (fair value loss recognised in the year ended 30 June 2021: $82.0 million).

Zip has reported a financial liability in relation to the underlying debt component of the convertible notes of $73.6 million, being the carrying amount of $65.3 million at 30 June 2021 plus an effective interest of $8.3 million recorded for the year ended 30 June 2022.

CONVERTIBLE NOTES ISSUED ON 23 APRIL 2021

Zip issued $400.0 million zero coupon senior convertible notes (Referred as Senior Convertible Notes) on 23 April 2021, which are listed on the Singapore Securities Trading Exchange (SGX-ST). The Senior Convertible Notes have a 7 year maturity with an option for investors to put the Senior Convertible Notes back to Zip after 4 years at 109.36% of the principal amount. The yield is 2.25% per annum calculated on a semi-annual basis. At maturity, note holders have the option of converting the Senior Convertible Notes into Zip's ordinary shares at a share price of $12.39 (adjusted in accordance with standard anti-dilutive provisions) or redeeming the notes at 116.96% of the principal amount.

As a result of the share issue by Zip on 4 March 2022 of 78,285,139 new ordinary shares at an issue price of $1.90 per share under Zip's fully underwritten placement to eligible institutional, professional and sophisticated investors, the conversion prices of the Senior Convertible Notes has been adjusted to $12.0576, effective as of 4 March 2022, pursuant to their terms.

During the year ended 30 June 2022, no Senior Convertible Notes had been converted as 30 June 2022 (year ended 30 June 2021: None).

On initial recognition, the Senior Convertible Notes contained two components, a debt contract and a separate conversion feature. The debt contract is classified as a financial liability measured at amortised cost and the conversion feature is classified as equity in accordance with AASB 132. The investor put option is not separated and is accounted for as part of the debt host contract at amortised cost.

At 30 June 2022, Zip has reported a financial liability in relation to the underlying debt component of the Senior Convertible Notes of $305.3 million, comprising the carrying value of debt component of $283.7 million at 30 June 2021, and accrued effective interest of $21.6 million recorded in the year ended 30 June 2022. The equity component of the Senior Convertible Notes remained at $114.5 million at 30 June 2022, which is in accordance with AASB 9 in that Zip is not required to revalue the conversion feature recorded as equity at each reporting date.

NOTE 6. ACQUISITIONS

A. SUMMARY OF ACQUISITION

Spotii

On 18 October 2021, the consolidated entity increased its ownership interest in Spotii Holdings Ltd ("Spotii"), a leading technology enabled payments platform operating in the Middle East to 100%, acquiring the 80% of Spotii it did not already own. Upon acquisition, the consolidated entity acquired a 100% interest in the following entities:

- Spotii Holdings Ltd;
- Spotii DMCC Ltd;
- Spotii Arabia for Information Technology (KSA); and
- Spotii Pakistan (SMC Private) Limited.

Total consideration of $21.6 million for the acquisition of Spotii comprised of:

- 2,850,412 new Zip shares issued, valued at $19.4 million, based on the agreed post valuation adjusted enterprise value of $27.6 million (US$20.0 million); and
- 285,039 Zip shares issued from the Employee Share Trust, valued at $2.2 million, were paid to the Spotii's employee share options plan.

The fair value of the tangible assets and liabilities of Spotii included in the net assets acquired were considered to be equal to their pre-acquisition book value, as described in this note. Intangible assets were not recognised in Spotii prior to acquisition. In accordance with AASB 3, the fair values of intangible assets were recognised, as detailed in the table in this note.

Twisto

On 12 November 2021, the consolidated entity increased its ownership interest in Twisto Payments A.S. (Twisto), a leading high growth BNPL player in the Czech Republic and Poland to 100%, acquiring the 87.63% of Twisto it did not already own. Upon acquisition, the consolidated entity acquired a 100% interest in the following entities:

- Twisto Payments A.S;
- Nikita Engine S.R.O;
- Twisto FinCo S.R.O;
- Twisto Polska Sp Z.O.O; and
- Twisto Finco PL Sp. Z.O.O.

Total consideration of $135.3 million for the acquisition of Twisto comprised:

- Cash consideration paid of $0.6 million;
- 17,454,987 new Zip shares issued, valued at $115.4 million, based on the agreed post valuation adjusted enterprise value of $155.4 million (EUR€99.3 million); and
- Holdback consideration of $19.3 million (EUR€12.5 million) for the purposes of satisfying any claims that may arise under the acquisition agreement which will be paid to the vendors by no later than the four-year anniversary of completion of the acquisition. The consideration is payable in new Zip shares, up to a maximum of 4,550,000 shares, with the balance payable in cash, or subject to the ASX listing rules, in shares. The shares will be issued at an issue price equal to Zip's 30 day VWAP immediately prior to the date of issue, subject to a 'minimum floor share price' of $5.00 per share and an 'exchange rate cap' of $1.82 per EU. As at 30 June 2022, there have been no claims made.

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The fair value of the tangible assets and liabilities of Twisto included in the net assets acquired were considered to be equal to their pre-acquisition book value, as described in this note. In accordance with AASB 3, the fair values of intangible assets were recognised upon acquisition, as detailed in the table in this note.

Payflex

On 3 January 2022, the consolidated entity increased its ownership interest in Payflex Proprietary Limited ("Payflex"), a provider of BNPL services in South Africa to 100%, acquiring 73.75% of Payflex it did not already own. Upon acquisition, the consolidated entity acquired 100% interest in the following entity:

- Payflex Proprietary Limited

Total consideration of $15.9 million (maximum potential purchase price of ZAR$184.4 million) for the acquisition of Payflex comprised of:

- Cash consideration of $6.5 million
- 1,477,686 new Zip Co Limited shares issued, valued at $2.4 million, based on the agreed post valuation enterprise value of $21.6 million (ZAR 250 million);
- Contingent consideration of $6.4 million (ZAR$73.8 million), payable subject to the satisfaction of prescribed performance milestones, which are based on growth targets relating to the achievement of total transaction volumes and net transaction margins for the twelve months performance period ending 30 June 2022. The contingent consideration is, payable by the issue of up to 1,053,608 Zip shares calculated on a 15-day weighted average price of Zip's shares on the ASX prior to the date of issue, with the balance payable in cash. As at 30 June 2022, Payflex has achieved the performance milestones and accordingly, the full amount will be payable by 30 September 2022; and
- Black Economic Entity ("BEE") holdback amount of $0.6 million (ZAR$7.2 million), payable within twelve months from the date of acquisition.

The fair value of the tangible assets and liabilities of Payflex included in the net assets acquired were considered to be equal to their pre-acquisition book value, as described in this note. Intangible assets were not recognised in Payflex prior to acquisition. In accordance with AASB 3, the fair values of intangible assets were recognised, as detailed in the table in this note.

The initial accounting for the acquisition of Spotii, Twisto and Payflex was provisionally determined at their acquisition dates and finally determined during the financial year ended 30 June 2022 which is within the required measurement period outlined in AASB 3 *Business Combinations*. No adjustments have been made to the initial accounting.

Management determined the acquisition dates as the dates on which the Company obtained control over the acquired entities.

The amounts of revenue and profit or loss of Spotii, Twisto and Payflex since the acquisition dates are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the reporting period.

From the acquisition dates to 30 June 2022, the contribution of revenue to the consolidated entity's revenue from Spotii, Twisto and Payflex was $2.6 million, $12.9 million and $2.7 million, respectively. From the acquisition dates to 30 June 2022, the contribution of loss to the consolidated entity's loss before income tax from Spotii, Twisto and Payflex was $6.9 million, $18.8 million and $1.3 million, respectively.

If the acquisition of Spotii, Twisto and Payflex had been completed on the 1 July 2021, the contribution of revenue to the consolidated entity's revenue from Spotii, Twisto and Payflex would have been $3.0 million, $18.2 million and $4.3 million, respectively. If the acquisition of Spotii, Twisto and Payflex had been completed on the 1 July 2021, the contribution of loss to the consolidated entity's loss before income tax from Spotii, Twisto and Payflex would have been $8.1 million, $26.2 million and $2.4 million, respectively.

Goodwill recognised on the acquisition of Spotii, Twisto and Payflex has been calculated as the consideration transferred less the fair value of net assets acquired and reflected the growth potential, market opportunities and talent resources of the acquired entities at the dates of acquisition.

Acquisition-related costs totalling $2.1 million have been excluded from the consideration transferred.

Details of the acquisitions are as follows:

	SPOTII OCT 2021 $'000	TWISTO NOV 2021 $'000	PAYFLEX JAN 2022 $'000	TOTAL $'000
Cash and cash equivalents	405	7,588	2,046	10,039
Restricted cash	–	3,968	–	3,968
Customer receivables	9,078	45,632	2,654	57,364
Other receivables	303	1,053	23	1,379
Plant property and equipment	5	5	98	108
Trade and other payables	(1,277)	(2,416)	(573)	(4,266)
Borrowings	(7,458)	(56,472)	(6,314)	(70,244)
Deferred tax liabilities	–	–	(683)	(683)
Acquired brand names and trademarks	–	6,273	769	7,042
Acquired customer database	–	1,538	–	1,538
Acquired transaction partner database	–	388	1,188	1,576
Acquired IT development and software	5,400	35,386	3,932	44,718
Goodwill[1]	21,102	112,495	18,484	152,081
Acquisition date value of the total consideration transferred	**27,558**	**155,438**	**21,624**	**204,620**
Representing:				
Zip Co Limited pre-existing investment	5,991	20,103	5,676	31,770
Zip Co Limited shares issued to vendor	21,567	115,375	2,423	139,365
Zip Co Limited Holdback consideration	–	19,323	–	19,323
Zip Co Limited contingent Consideration	–	–	6,379	6,379
Zip Co Limited BEE Holdback amount	–	–	623	623
Cash paid to vendor	–	637	6,523	7,160
Total	**27,558**	**155,438**	**21,624**	**204,620**
Cash used to acquire business, net of cash acquired:				
Acquisition date value of the total consideration transferred	27,558	155,438	21,624	204,620
Less: cash and cash equivalent acquired	(405)	(11,556)	(2,046)	(14,007)
Less: Zip Co Limited shares issued to vendor	(21,567)	(115,375)	(2,423)	(139,365)
Less: Zip Co Limited holdback amount	–	(19,323)	–	(19,323)
Less: Zip Co Limited Contingent consideration	–	–	(6,379)	(6,379)
Less: Zip Co Limited Bee Holdback amount	–	–	(623)	(623)
Less: Zip Co Limited pre-existing investment	(5,991)	(20,103)	(5,676)	(31,770)
Payments for acquisitions, net of cash acquired	**(405)**	**(10,919)**	**4,477**	**(6,847)**

1. None of the goodwill is expected to be deductible for tax purpose.

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B. ACQUISITION FAIR VALUE ADJUSTMENTS

In accordance with the requirements of AASB 3 *Business Combinations*, Zip derecognised its investments in Spotii, Twisto and Payflex, and revalued these pre-existing investments to their fair values on the dates of acquisition, as determined by AASB 13 *Fair Value Measurement*. These revaluations were based on an agreed post valuation enterprise value of $27.6 million (US$20.0 million) for Spotii, $155.4 million (EUR€99.3 million) for Twisto, and $21.6 million (ZAR 250 million) for Payflex. The increase in the valuation and fair value gain of Zip's pre-existing investments are set out in the following tables:

SPOTII	OCT 2021 $'000
Fair value of pre-existing investment on acquisition	5,991
Less: carrying value of investment in associate pre-acquisition	(2,502)
Fair value gain on investment in associate on acquisition	**3,489**

TWISTO	NOV 2021 $'000
Fair value of pre-existing investment on acquisition	20,103
Less: carrying value of investment at FVTPL pre-acquisition	(18,622)
Fair value gain on investment at FVTPL on acquisition	**1,481**

PAYFLEX	JAN 2022 $'000
Fair value of pre-existing investment on acquisition	5,676
Less: carrying value of investment in associate pre-acquisition	(664)
Fair value gain on investment at FVTPL on acquisition	**5,012**

NOTE 7. TAXATION

INCOME TAX BENEFIT

	CONSOLIDATED	
	30 JUNE 2022 $'000	30 JUNE 2021 RESTATED* $'000
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	(1,105,405)	(743,388)
Tax at the statutory tax rate of 30%	(331,621)	(223,016)
– Share-based payments	1,494	5,663
– Non-deductible expenses	11,209	3,673
– Non-assessable fair value gain	(2,500)	(33,745)
– Goodwill impairment	243,604	–
– Net adjustment relating to the acquisition of QuadPay	–	124,773
– Effect of different tax rates of subsidiaries operating in other jurisdictions	16,959	9,138
	(60,855)	**(113,514)**
Current year tax losses not recognised	76,088	32,339
Movement in temporary differences not recognised	(15,545)	15,935
Income tax benefit	**(312)**	**(65,240)**

* The comparative tax information is re-presented due to the restatement of financial results for the year ended 30 June 2021. Please refer to Note 19 for details of restatements.

DEFERRED INCOME TAX

The consolidated entity has recognised deferred tax assets arising from temporary differences and tax losses to the extent required to equal deferred tax liabilities. Deferred tax assets and deferred tax liabilities were offset in the Consolidated Statement of Financial Position at 30 June 2021 and at 30 June 2022, to the extent they are levied by the same taxing authority on the same entity or different entities within a tax consolidated group.

Management will recognise the balance of the deferred tax assets on temporary differences and from tax losses once the consolidated entity can demonstrate that it is probable the tax benefits will be utilised within the foreseeable future.

	30 JUNE 2022 $'000	30 JUNE 2021 RESTATED* $'000
Deferred tax assets comprise temporary differences attributable to:		
– Provision for expected credit losses	45,967	33,451
– Other provision and payables	41,746	20,002
– FV on financial instruments	(10,985)	24,615
Tax Losses	119,672	43,348
Total	**196,400**	**121,416**
Representing:		
Deferred tax assets not brought to account	157,353	80,556
Deferred tax assets recognised from timing difference	39,047	40,860
Total	**196,400**	**121,416**
Reported as:		
Deferred tax assets recognised from timing difference	39,047	40,860
Set off deferred tax liabilities pursuant to set-off provisions	(39,047)	(40,860)
Net deferred tax assets	**–**	**–**
Deferred tax liabilities comprise temporary differences attributable to:		
Timing differences		
– Acquired intangibles and other	39,047	40,860
Total	**39,047**	**40,860**
Set off deferred tax assets pursuant to set-off provisions	(39,047)	(40,860)
Net deferred tax liabilities	**–**	**–**

* The comparative tax information is re-presented due to the restatement of financial results for the year ended 30 June 2021. Please refer to Note 19 for details of restatements.

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NOTE 8. LOSS PER SHARE

A. RECONCILIATION OF EARNINGS USED IN CALCULATING LOSS PER SHARE

	30 JUNE 2022 $'000	30 JUNE 2021 RESTATED* $'000
Loss attributable to the owners of the consolidated entity used in calculating basic and diluted loss per share	(1,105,093)	(678,148)

B. WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

	30 JUNE 2022 '000	30 JUNE 2021 '000
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	609,679	514,034

C. BASIC AND DILUTED LOSS PER SHARE

	30 JUNE 2022 CENTS	30 JUNE 2021 RESTATED* $'000
Basic loss per share	(181.26)	(131.93)
Diluted loss per share[1]	(181.26)	(131.93)

1. As the consolidated entity reported losses for the year ended 30 June 2022 and 30 June 2021, no dilutive shares have been included in the EPS calculation.

* The comparative information is restated to reflect changes in classification. Please refer to Note 19.

NOTE 9. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

	30 JUNE 2022 $'000	30 JUNE 2021 $'000
Cash and cash equivalents	241,326	289,212
Restricted cash	58,369	40,989
Total	**299,695**	**330,201**

At 30 June 2022 the consolidated entity had total cash of $299.7 million of which $58.4 million was restricted cash (30 June 2021: total cash of $330.2 million of which $41.0 million was restricted cash). Cash held in corporate accounts, considered as unrestricted, includes amounts subsequently remitted to securitisation warehouses and special purpose vehicles post year end (30 June 2022: $33.8 million; 30 June 2021: $22.9 million). Restricted cash is held by the securitisation warehouses and special purpose vehicles and is not available to pay creditors of the consolidated entity.

NOTE 10. OTHER RECEIVABLES

	CONSOLIDATED	
	30 JUNE 2022 $'000	30 JUNE 2021 RESTATED* $'000
Amounts due from payment platform providers	38,232	3,436
Prepayments	11,005	11,360
Accrued Income	12,785	11,614
Other receivables	10,813	3,785
Total	**72,835**	**30,195**

* The comparative information is restated. Please refer to Note 19.

NOTE 11. CUSTOMER RECEIVABLES

AASB 9 FINANCIAL INSTRUMENTS

Under AASB 9, customer receivables are initially recognised at fair value. Subsequently, they are classified and measured at amortised cost as:

- The consolidated entity provides accounts with lines of credit and instalments products to customers, and the business model is to hold such accounts and collect contractual cash flows until the account is closed. There have been no historic sales and there are no current plans to sell the accounts for fair value gains; and
- The contractual terms of the accounts give rise on specified dates to cash flows that are solely payments of principal and "effective interest" and when providing lines of credit permit customers to vary the dates and frequency of payments.

IMPAIRMENT

AASB 9 requires recognition of expected credit losses based on unbiased forward-looking information and is applicable to all financial assets at amortised cost and loan commitments. The guidance requires assets to be classified into the following three stages:

- **Stage 1:** instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (ECL) are recognised and "effective interest" revenue is calculated on the gross carrying amount of the asset. Twelve-month ECL are the expected credit losses that result from default events that are expected within twelve months after the reporting date.
- **Stage 2:** instruments that have experienced a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but "effective interest" revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.
- **Stage 3:** includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and "effective interest" revenue is calculated on the net carrying amount.

EXPECTED CREDIT LOSSES

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted based on forward-looking

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information as described in this note. The exposure at default is estimated on gross customer receivables at the reporting date, adjusted for expected repayments and future drawdowns up to the point the exposure is expected to be in default.

SIGNIFICANT INCREASE IN CREDIT RISK SINCE INITIAL RECOGNITION

The provisioning model utilises customer receivables 30 days past due for its line of credit products or 14 days past due for its instalment products as criteria to identify significant increases in credit risk.

DEFINITION OF DEFAULT AND CREDIT – IMPAIRED ASSETS

Where there has been objective evidence of impairment for a customer receivable, the allowance will be based on lifetime expected credit losses. A customer receivable will be considered in default at 90 days past due for its line of credit products or 42 days past due for its instalments products, and/or when the consolidated entity is unlikely to receive the outstanding contractual amount in full based on internal or external indicators.

WRITE-OFF POLICY

The consolidated entity's policy is to write off balances that are outstanding for over 180 days for its line of credit products or 84 days for its instalment products, in accordance with historical experience and industry practice. The consolidated entity's instalment product has a short-term duration for customer repayments, typically 42 days.

PROVISIONING MODEL

In determining the appropriate level of provision for expected credit losses, the consolidated entity has considered receivables attributable to each of its product offerings separately and also aggregated by segment in this note.

For each classification of receivable, the consolidated entity has applied historic roll rates (the percentage of receivables that move into the next ageing bucket), averaged over a twelve-month period, to the credit limits of those customers that are considered current and to the respective receivable balances for those customers accounts over 30 days past due.

Accordingly, under the requirements of AASB 9, a provision has been recognised for performing customer receivables to the extent that expected lifetime losses emerge within a twelve-month period by applying historical roll rates to the credit facility limits. For customers overdue, historical roll rates are applied to the overdue balances over the expected life of the credit facility to determine an amount of expected credit losses.

In the assessment of the provision for expected credit losses at 30 June 2022 management took into consideration all available information relevant to the assessment, including information about past events, current economic conditions and reasonable and supportable information about future events and economic conditions at the report date.

PROVISION OVERLAY

An allowance for debt recoveries is applied to the resulting estimated exposure at default and an economic overlay is added to include forward-looking macro-economic and regulatory factors (including GDP, unemployment rate, and inflation rate) and modelling risks.

Forward-looking information considered in assessing macroeconomic scenarios included economic reports published by financial analysts, governmental bodies, or other similar organisations, including assessments of the outlook for the Australian and global economies that the consolidated entity operates in.

In the assessment of expected credit losses at 30 June 2022 and at 30 June 2021, management considered base, good and bad scenarios, applying a weighted probability when determining the reported ECL. The base scenario was assessed by applying the actual performance of the customer receivable book. The good and bad scenarios were assessed by applying upside/downside movements to key variables which could have a significant impact on the credit risk. These variables include the probability of default, loss given default, the rate of customer repayments, the customer repayment lifecycle and the bad debts recovery rate. The movement in these variables was supported by modelling macroeconomic scenarios based on forward-looking information.

COVID-19 CONSIDERATION

As at 30 June 2022 and at 30 June 2021, the impact of COVID-19 still existed and its impact was considered in the assessment of the economic overlay.

PROVISION OVERVIEW

From 30 June 2021 to 30 June 2022, the provision for expected credit losses increased by $53.8 million (including $10.3 million taken on the acquisitions of Spotii, Twisto and Payflex), which was primarily driven by the $600.7 million increase in the value of receivables across the consolidated entity's operating segments.

The consolidated entity believes that the provision for expected credit losses, in accordance with AASB 9, is sufficient to address any potential write-offs arising from the current economic environment.

Customer receivables are shown net of unearned future income and the provision for expected credit losses. The difference between Fees and Interest booked to customers' accounts and portfolio interest income is reported as unearned future income in the financial statements. The following table summarises customer receivables as at the reporting dates:

	APAC $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
Customer receivable (Restated*)	1,808,483	207,479	4,998	69,683	2,090,643
Unearned future income	(13,163)	(8,307)	(107)	–	(21,577)
Provision for expected credit losses	(82,021)	(19,998)	(1,346)	(3,007)	(106,372)
Balance at 30 June 2021 (Restated*)	**1,713,299**	**179,174**	**3,545**	**66,676**	**1,962,694**

	APAC[1] $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
Customer receivable	2,264,577	238,060	84,423	104,261	2,691,321
Unearned future income	(8,682)	(7,545)	(34)	–	(16,261)
Provision for expected credit losses	(116,716)	(29,158)	(8,755)	(5,560)	(160,189)
Balance at 30 June 2022	**2,139,179**	**201,357**	**75,634**	**98,701**	**2,514,871**

1. The customer receivables information is presented in line with the classification of the consolidated entity's operating segments. The instalments products customer receivables in APAC segment comprise 0.6% of the total customer receivables presented in APAC segment.

* The comparative information is restated. Please refer to Note 19.

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The following table summarises reconciliations of provision for expected credit losses in the reporting periods:

	APAC $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
Balance at 30 June 2021	82,021	19,998	1,346	3,007	106,372
Taken on acquisitions	–	–	10,328	–	10,328
Provided for the period	121,505	128,842	18,046	7,713	276,106
Receivables written-off during the period	(96,873)	(124,678)	(16,595)	(5,463)	(243,609)
Recoveries during the period	10,150	3,275	930	371	14,726
Effect of movements in foreign exchange rates	(87)	1,721	(5,300)	(68)	(3,734)
Balance at 30 June 2022	**116,716**	**29,158**	**8,755**	**5,560**	**160,189**

NOTE 12. INVESTMENTS AT FVTPL

	30 JUNE 2022 $'000
Balance at 30 June 2021	19,034
Fair value gain on revaluation	1,481
Foreign exchange loss	(412)
Derecognition on acquisition of Twisto	(20,103)
Balance at 30 June 2022	**–**

At 30 June 2021, the investment in Twisto was recorded as an investment measured at FVTPL at $19.0 million, which represented the fair value of Zip's 12.37% interest in Twisto. At the time of Zip's acquisition of the remaining 87.63% interest in Twisto, Zip's existing investment was de-cognised as Zip obtained control over Twisto at the acquisition date of 12 November 2021. Twisto became a fully owned subsidiary of the consolidated entity from this date, with its financial position and profit and loss consolidated into the consolidated entity.

Up to the date of acquisition, the consolidated entity reported a gain on the revaluation of Zip's ownership interest in Twisto. The gain on revaluation of $1.1 million includes a fair value gain of $1.5 million and a foreign exchange loss of $0.4 million in translating the investment from EUR to AUD. The consolidated entity derecognised the investment at FVTPL and accounted for the acquisition as described in Note 6.

NOTE 13. INTANGIBLE ASSETS

	CONSOLIDATED 30 JUNE 2022 $'000	CONSOLIDATED 30 JUNE 2021 $'000
Carrying amounts		
Brand names and trademarks	855	80
Customer database	619	1,026
Transacting partner database	58,874	69,846
IT development and software	132,002	132,867
	192,350	**203,819**

CONSOLIDATED	BRAND NAMES AND TRADEMARKS $'000	CUSTOMER DATABASE $'000	TRANSACTING PARTNER DATABASE $'000	IT DEVELOPMENT AND SOFTWARE $'000	TOTAL $'000
Cost					
Balance at 30 June 2021	298	2,122	84,280	175,782	262,482
Taken on business combinations	7,042	1,538	1,576	44,718	54,874
Additions	–	–	–	28,672	28,672
Effect of movements in foreign exchange rates	17	–	7,598	16,263	23,878
Balance at 30 June 2022	**7,357**	**3,660**	**93,454**	**265,435**	**369,906**

CONSOLIDATED	BRAND NAMES AND TRADEMARKS $'000	CUSTOMER DATABASE $'000	TRANSACTING PARTNER DATABASE $'000	IT DEVELOPMENT AND SOFTWARE $'000	TOTAL $'000
Accumulated amortisation and impairment losses					
Balance at 30 June 2021	(218)	(1,096)	(14,434)	(42,915)	(58,663)
Additions	(9)	(612)	(17,419)	(44,156)	(62,196)
Impairment	(6,273)	(1,333)	(366)	(44,734)	(52,706)
Effects of movements in foreign exchange rates	(2)	–	(2,361)	(1,628)	(3,991)
Balance at 30 June 2022	**(6,502)**	**(3,041)**	**(34,580)**	**(133,433)**	**(177,556)**

The following useful lives are used in the calculation of amortisation:

Internally generated intangibles:

- IT development and software 2.5 years.

Acquired intangibles:

- Brand names and trademarks 1 to 5 years;
- Customer database 4 to 5 years;
- Transacting partner database 4 to 11 years; and
- IT development and software 5 to 6 years.

The impairment assessment of intangible assets is detailed in Note 14.

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NOTE 14. GOODWILL

The consolidated entity has eight cash-generating units (CGUs) at 30 June 2022 as set out in the following table. Goodwill has been allocated to these CGUs.

CONSOLIDATED	ZIP AU $'000	ZIP US[1] $'000	ZIP NZ & UK[2] $'000	ZIP UK[2] $'000	ZIP NZ[2] $'000	ZIP BUSINESS $'000	SPOTII[1] $'000	TWISTO[1] $'000	PAYFLEX $'000	CONSOLIDATED $'000
Balance at 30 June 2021	4,548	719,463	46,838	–	–	2,112	–	–	–	772,961
Reallocation of goodwill	–	–	(46,838)	44,678	2,160	–	–	–	–	–
Add: amount recognised on acquisitions	–	–	–	–	–	–	21,102	112,495	18,484	152,081
Impairment	–	(589,262)	–	(44,678)	(868)	–	(21,102)	(112,495)	–	(768,405)
Effect of movements in foreign exchange rates	–	65,605	–	–	(58)	–	–	–	560	66,107
Balance at 30 June 2022	**4,548**	**195,806**	**–**	**–**	**1,234**	**2,112**	**–**	**–**	**19,044**	**222,744**

1. Quad and Urge operations are considered as Zip US CGU for impairment assessment purposes. During the year ended 30 June 2022, Zip acquired Spotii, Twisto and Payflex. Spotii, Twisto and Payflex operate under separate management teams and the cash flows are independent. Management have determined that Spotii, Twisto and Payflex are separate CGUs.
2. Zip NZ & UK were acquired as part of acquisition of PartPay and were considered as one CGU for impairment assessment purposes at 30 June 2021. From 1 July 2021, management started to monitor Zip UK under the EMEA segment and to monitor Zip NZ under the Asia Pacific segment, and goodwill was reallocated between the Zip UK CGU and the Zip NZ CGU.

IMPAIRMENT ASSESSMENT FOR GOODWILL, INCLUDING INTANGIBLE ASSETS:

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination.

Zip UK and Zip NZ businesses now both have a separate active market that generates independent cash inflows, and operate on different technology platforms. On this basis, management have split out Zip UK and Zip NZ as separate CGUs from Zip Global CGU commencing 1 July 2021.

As at 30 June 2022, for each of the consolidated entity's CGUs, the recoverable amount has been calculated based on value-in-use using free cash flow to equity (FCFE) projections covering a five-year period, including tax expense where relevant and financing costs, and then applying a discount rate comprising a cost of equity. Cash flow projections during the forecast period are based on the forecast revenue and transaction volume growth. Cash flows beyond the five-year period have been extrapolated using a steady long-term annual growth rate which did not exceed the long-term average for the sectors and economies in which the CGUs operate. The steady long-term growth rate was estimated by the directors based on past performance of each cash-generating unit and the growth expectations for the markets in which they operate.

Cash flow projections during the forecast period are based on forecast revenue growth arising from increasing total transaction volumes for the Zip AU, Zip NZ, Zip UK, Zip US, Spotii, Twisto, and Payflex CGUs, and future originations for the Zip Business CGU. Forecast increases in gross margin and operating costs have been included to support the forecast growth in volumes. The impact of COVID-19, inflation and interest rates on the markets in which the CGUs operate has been considered in determining the forecasts.

ZIP UK CGU, SPOTII CGU AND TWISTO CGU

During the consolidated entity's annual impairment assessment process, management reviewed and revised its strategic priorities to increase its focus on sustainable growth and profitability in core markets. The revision included an assessment of the availability of capital, an evaluation of the allocation of capital to ensure it was being allocated to the most significant opportunities for profitable growth, and a review of Zip's global presence and opportunities to right size its global cost base.

To deliver optimal returns in the short to medium term, management have made the decision to reduce the allocation of capital available to drive growth across the UK, Spotii and Twisto, reducing growth rates and subsequent cashflows from those CGUs. Consequently, the recoverable amount for the UK, Spotii and Twisto CGUs was significantly less than their carrying amount. In accordance with AASB 136 *Impairment of Assets*, the consolidated entity has fully impaired the carrying amount of goodwill and intangibles recognised from the acquisition of the UK, Spotii and Twisto.

ZIP NZ CGU AND ZIP US CGU

Following the review of market conditions and the availability of capital, management have reduced forecast growth rates and cash flows across the US and New Zealand. The reduced forecast growth rates and cash flows resulted in a lower recoverable amount than the carrying value. Consequently, a goodwill impairment charge of $0.87 million and $589.3 million was recorded for the Zip NZ CGU and the Zip US CGU respectively.

ZIP AU CGU, ZIP BUSINESS CGU AND PAYFLEX CGU

For the Zip AU, Zip Business and Payflex CGUs, the carrying amount does not exceed the recoverable amount therefore no impairment of goodwill and intangible assets at 30 June 2022 has been recorded.

Key rates included in the current financial year impairment assessment are set out in the following table:

AT 30 JUNE 2022	ZIP AU %	ZIP NZ %	ZIP US %	ZIP BUSINESS %	PAYFLEX %
Discount rate – post tax	12.7%	13.0%	12.5%	12.7%	24.6%
Long-term annual growth rate	2.5%	2.5%	4.0%	2.5%	4.0%

Pre-tax discount rates used in the prior financial year impairment assessment were 11.1% for Zip AU CGU, 20.1% for Zip NZ CGU, 20.1% for Zip US CGU and 29.6% for Zip Business CGU, respectively.

No impairment charge was reported in the financial year ended 30 June 2021.

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SENSITIVITY TO CHANGES IN ASSUMPTIONS

For CGUs that are not assessed to be impaired, management have conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the group of CGUs to which goodwill is allocated. Forecast transaction volumes are the key drivers in determining the cash flow projections for each CGU. In the event that transaction volumes do not reach the levels forecast there is a risk that the forecast cash flows are not sufficient to support the carrying value of goodwill and an impairment charge may be reported in a future accounting period.

The percentage reduction in the forecast compound annual growth rate (CAGR) in transaction volumes over the five year forecast period, and increase in discount rate, that would reduce the excess of the recoverable amount over the carrying amount for each CGU to zero, but would not result in an impairment charge, is summarised in the following table:

AT 30 JUNE 2022	ZIP AU %	ZIP BUSINESS %	PAYFLEX %
Percentage reduction in the forecast CAGR of transaction volumes	26.5%	22.6%	1.3%
Increase in discount rate %	124.7%	18.0%	0.7%

Reducing the long-term annual growth rate to zero, would not result in an impairment charge for any of the CGUs.

The percentage reduction by in the forecast compound annual growth rate (CAGR) in transaction volumes over the five year forecast period, and increase in discount rate, that would result in an impairment charge, is summarised in the following table:

AT 30 JUNE 2022	ZIP US $'000	ZIP NZ $'000
Percentage reduction in the forecast CAGR of transaction volumes – 1%	3,684	93
Increase in discount rate – 1%	39,895	1,480

NOTE 15. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	30 JUNE 2022 $'000	30 JUNE 2021 RESTATED* $'000
Trade payables	37,606	36,663
Amounts due to merchants and other partners	79,224	23,953
Other	30,464	3,988
Total	**147,294**	**64,604**

* The comparative information is restated to reflect changes in classification. Please refer to Note 19.

NOTE 16. DEFERRED CONTINGENT CONSIDERATION

	CONSOLIDATED $'000
Balance at 30 June 2021	6,990
Issue of shares	(6,990)
Addition	26,324
Unrealised foreign exchange impact	(140)
Balance at 30 June 2022	**26,184**

PARTPAY DEFERRED CONSIDERATION

Under the terms of the acquisition of PartPay Limited (acquired in October 2019), Zip agreed to issue up to a maximum of NZ$15.0 million of deferred consideration in Zip shares or cash to the PartPay shareholders, subject to the achievement of minimum transaction volumes on the PartPay platform during the financial years 2020 and 2021.

The number of Zip's shares to be issued is calculated on the higher of $2.76 per Zip's share and a 5% discount to the volume weighted average price of Zip's shares on the ASX in the 10 trading days prior to the date of issue.

PartPay satisfied the performance milestones in the financial year 2020 and accordingly 1,091,742 shares were issued to the PartPay shareholders on 14 October 2020, valued at $7.0 million. Consequently the balance of the contingent consideration was reduced to $7.0 million as at 30 June 2021.

PartPay satisfied the remaining performance milestones in the financial year 2021 and accordingly 1,091,499 shares were issued to the PartPay shareholders on 18 October 2021, valued at $7.0 million, which reduced the balance of the contingent consideration to nil.

TWISTO HOLDBACK CONSIDERATION

Under the terms of the acquisition of Twisto, consideration of $19.3 million (EUR€12.5 million) was held back for the purposes of satisfying any claims that may arise under the acquisition agreement, to be settled through the issue of new ordinary shares in Zip subject to a maximum issuance of 4,550,000 shares (Holdback Consideration), with the balance payable in cash, or subject to the ASX listing rules, in shares. If no claims have been made by the end of the one-year anniversary of completion, Zip has 60 days to issue these Zip Shares. If a claim has been made and has not been finally determined or resolved by the end of the one-year anniversary of completion, Zip has up to no later than four years after the anniversary of completion of the acquisition to issue these Zip Shares. The Holdback Consideration will be issued at an issue price equal to the Company's 30-day VWAP immediately prior to their issuance, subject to a 'minimum floor share price' of $5.00 per Share and an 'exchange rate cap' of $1.82 per EUR. Further details regarding the Twisto acquisition are set out in the Notice of Meeting and Explanatory Statement lodged by Zip on ASX on 29 September 2021. At 30 June 2022, there have been no claims made.

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PAYFLEX CONTINGENT CONSIDERATION AND BEE HOLDBACK AMOUNT

Under the terms of the acquisition of Payflex, a maximum contingent consideration of $6.4 million (ZAR$73.8 million) is payable to the Payflex shareholders in Zip shares or cash, subject to the achievement of performance targets during the financial year 2022. As at year end, Payflex has achieved the performance target and accordingly, the full amount will be payable by 30 September 2022.

The number of Zip's shares to be issued is calculated on a 15-days weighted average price of Zip's shares on the ASX prior to the date of issue, capped at 1,053,608 shares. The excess amount is to be paid in cash.

In addition, it is the intention that Payflex becomes empowered on the basis that it will have ownership of 26% by a Black Economic Empowerment ("BBE") entity in South Africa. Therefore, Zip has agreed to holdback an amount of $0.6 million (ZAR$7.2 million) for twelve months from the date of completion. If the BEE transaction is not implemented within a 12-month period post completion, the holdback amount will be paid out to the shareholders of Payflex as part of the purchase consideration.

NOTE 17. BORROWINGS

BORROWINGS AND SECURITISATION WAREHOUSE

	CONSOLIDATED	
	30 JUNE 2022 $'000	30 JUNE 2021 $'000
Secured Consumer facilities	2,326,031	1,624,153
Secured SME facilities	53,518	38,984
Corporate facility[1]	1,893	–
	2,381,442	**1,663,137**
Add: accrued interest	4,434	3,589
Less: unamortised costs	(4,967)	(7,493)
	2,380,909	**1,659,233**

1. Twisto corporate asset-backed facility.

The consolidated entity sells customer receivables to securitisation warehouses and special purpose vehicles through its asset-backed financing program. The securitisation warehouses and special purpose vehicles are consolidated as the consolidated entity is exposed to, or has rights to, variable equity returns, and has the ability to affect its returns through its power over the securitisation warehouses and special purpose vehicles.

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ASSETS PLEDGED AS SECURITY

The table below presents the assets and underlying borrowings as a result of the securitisation warehouses and special purpose vehicles through the consolidated entity's asset-backed financing program:

	CONSOLIDATED	
	30 JUNE 2022 $'000	30 JUNE 2021 $'000
Customer receivables[1]	2,411,943	1,962,550
Cash held in asset-backed financing program	58,369	40,989
	2,470,312	**2,003,539**
Borrowings related to receivables[2]	**2,552,830**	**2,007,889**

1. The amount recognised above represents the carrying value of the customer receivables held by securitisation warehouses and special purpose vehicles and is net of the provision for expected credit losses and unearned future income. This excludes customer receivables totalling $27.2 million held by entities that do not have asset-backed financing programs in place at 30 June 2022 and $25.5 million at 30 June 2021.
2. Including $226.8 million junior and seller notes held by Zip's corporate entities ($344.8 million at 30 June 2021).

TERM OF FACILITIES FINANCING ARRANGEMENTS

Consumer Receivables

	FACILITY LIMIT $'000	DRAWN AT 30 JUNE 2022 $'000	MATURITY	FACILITY TYPE
Zip Master Trust				
– Rated Note Series				
– 2020-1	285,000	285,000	October 2022	BBSW + Margin
– 2021-1	475,000	475,000	April 2024	BBSW + Margin
– 2021-2	617,500	617,500	September 2024	BBSW + Margin
– Variable Funding Note	535,420	430,241	March 2024	BBSW + Margin
– Variable Funding Note 2	200,000	15,000	January 2023	BBSW + Margin
zipMoney 2017-1 Trust	264,700	211,000	May 2023	BBSW + Margin
zipMoney 2017-2 Trust	100,000	47,000	September 2023	BBSW + Margin
AR2LLC[1]	435,477	169,648	May 2024	SOFR
Zip NZ Trust 2021-1[2]	27,056	14,430	July 2023	BKBM +Margin
Twisto Czech[3]	58,730	34,675	March 2023	EURIBOR + Margin
Twisto Poland[3]	29,443	23,864	November 2022	EURIBOR + Margin
Payflex[4]	4,901	2,673	January 2025	PLR + Margin
Total	**3,033,227**	**2,326,031**		

1. Facility limit of US$300.0 million translated to AUD at exchange rate of 0.6889.
2. Facility limit of NZ$30.0 million translated to AUD at exchange rate of 1.1088.
3. Facility limits of CZK$958.0 million for Twisto Czech and EUR€19.4 million for Twisto Poland translated to AUD at the exchange rates of 16.3119 and 0.6589 respectively.
4. Facility limit of ZAR$55.0 million translated to AUD at exchange rate of 11.2214.

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SME Receivables

	FACILITY LIMIT $'000	DRAWN AT 30 JUNE 2022 $'000	MATURITY	FACILITY TYPE
Securitisation Warehouses				
Zip Biz Trust 2022-1	60,000	32,760	March 2024	BBSW + Margin
Funding Box NZ[1]	36,075	7,258	November 2023	BKBM + Margin
Zip Biz 2020-1 Trust	100,000	13,500	November 2023	BBSW + Margin
Total	**196,075**	**53,518**		

1. Facility limit of NZ$40.0 million translated to AUD at exchange rate of 1.1088.

NOTE 18. ISSUED CAPITAL

ORDINARY SHARES

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the consolidated entity in proportion to the number of, and amounts paid, on the shares held. The fully paid ordinary shares have no par value and the consolidated entity does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

	30 JUNE 2022 SHARES '000	30 JUNE 2022 $'000	30 JUNE 2021 SHARES '000	30 JUNE 2021 $'000
Ordinary shares – fully paid	687,936	2,041,496	562,136	1,688,785
	687,936	**2,041,496**	**562,136**	**1,688,785**

MOVEMENTS IN ORDINARY SHARE CAPITAL

DETAILS	SHARES '000	$'000
Balance at 30 June 2021	562,136	1,688,785
Issue of shares – employee incentives	5,736	35,421
Issue of shares – capital raising	94,492	172,729
Issue of shares – exercise of options	2,177	310
Issue of shares – acquisitions	21,783	137,209
Issue of shares – PartPay contingent consideration	1,092	6,990
Issue of shares – acquisition of intangibles	520	3,440
Cost of issuing shares	–	(3,388)
Balance at 30 June 2022	**687,936**	**2,041,496**

Notes to the Preliminary Final Report continued

MOVEMENTS IN WARRANTS

DETAILS	WARRANTS '000
Balance at 30 June 2021	33,980
Issue of warrants	–
Balance at 30 June 2022	**33,980**

The following table shows details of warrants issued outstanding at 30 June 2022:

ISSUE DATE	EXPIRY DATE	EXERCISE PRICE	NUMBER ISSUED
6 November 2019	6 November 2026	$4.70	14,615,000
1 September 2020[1]	1 September 2023	$1.48	19,365,208
Total at 30 June 2022			**33,980,208**

1. Refer to Note 5 for details of the warrants issued to CVI.

On 7 November 2019, Zip entered a strategic agreement with Amazon Commercial Services Pty Limited (Amazon Australia) whereby Zip was offered as a payment choice on Amazon Australia. Zip issued Amazon Australia warrants to acquire 14,615,000 ordinary shares in Zip at an exercise price of $4.70 exercisable based on achievement of certain performance hurdles (Amazon Warrants).

The Amazon Warrants were independently valued by an external valuer using a custom-built Monte Carlo model which simulates share price paths over the duration of the warrants' life. As a result, each Amazon Warrant has been valued at $1.65 which approximates the value of the service received. Of the warrants issued, 3,653,750 warrants (25 % of the total) vested concurrently with Zip's entry into the strategic agreement, and the remainder of the warrants vest based on performance milestones relating to transaction volumes being achieved over the seven years from issue date. On vesting, the warrants may be exercised any time up to seven years from the issue date. Unvested Amazon Warrants are subject to early expiration in certain circumstances, including in the event that the applicable vesting milestones are not met by specified dates. Assessments will be made at each future reporting date and adjustments made to the amounts recognised in expenses based on this assessment.

The transaction volumes processed through Amazon Australia have not met the requirement of the first performance milestone on the second anniversary date, being 7 November 2021, and as a result 1,826,875 Amazon Warrants, representing 12.5% of the total Amazon warrants, expired on this basis, and were cancelled on 9 August 2022.

There were no other Amazon Warrants exercised or expired during the year ended 30 June 2022.

MOVEMENTS IN CONVERTIBLE NOTES

DETAILS	CONVERTIBLE NOTES
Balance at 30 June 2021	3,000
Balance at 30 June 2022	**3,000**
Representing as:	
Issue of convertible notes issued on 1 September 2020[1]	1,000
Issue of convertible notes issued on 23 April 2021[1,2]	2,000
	3,000

1. Refer to Note 5 for details of the convertible notes outstanding at 30 June 2022.
2. The issuance of 2,000 convertible notes on 23 April 2021 is listed on Singapore Exchange (SGX).

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ADDITIONAL INFORMATION RELATING TO UNISSUED SECURITIES

Performance Shares that may be Issued to Urge Vendors

Under the terms of the acquisition of Urge Holdings Pty Ltd, Zip agreed to issue up to a maximum of $5.5 million of shares to the vendors as the 'milestone consideration' based on the achievement of certain prescribed performance milestones. The measurement period for determining whether the milestones have been satisfied commenced in April 2021.

The milestone consideration may also become payable early as a result of specific acceleration events.

The full terms of the milestone consideration, including the requirement for the vendors to remain employed, and details of the Urge acquisition were included in Zip's ASX announcement on 26 October 2020.

Depending on the relevant milestone that is achieved, shares will be issued at either an issue price of $6.8439 per share, or an issue price equal to the higher of $6.00 per share, and the volume weighted average price of Zip's shares in the 30 trading days prior to their applicable issue date.

The maximum number of shares that may be issued on the achievement of the milestones is 916,660 (which was determined based on an agreed minimum price of $6.00 per share). If, when any shares are issued as the milestone consideration, Zip's share price is less than $6.00, Zip may be required to pay a 'true up' amount in cash or in shares, wholly or partially, at Zip's discretion, to the vendors for the difference. If, when any shares are issued as the 'true up' amount, the issue price will equal the volume weighted average price of Zip's shares in the 30 trading days prior to their applicable issue date. The milestones must generally be satisfied by no later than 3.5 years after the acquisition date of 26 October 2020, as otherwise, the right to receive the milestone consideration will lapse.

During the year ended 30 June 2022, the milestones were partially achieved, and 1,099,711 shares were issued as milestone considerations accordingly.

Tenure Consideration Shares and Performance Consideration Shares that may be Issued to QuadPay Founders

Under the terms of the acquisition of QuadPay Inc., Zip agreed to issue the QuadPay Founders a maximum of 5,000,000 Shares (split equally) (Tenure Consideration Shares). The Tenure Consideration Shares will be issued in equal instalments in the two-year period after completion of the transaction, which occurred on 31 August 2020, subject to the QuadPay Founders continuing to remain employed with QuadPay. In addition, Zip agreed to issue up to a maximum amount of US$60 million at Zip's discretion either in cash or by the issue of up to a maximum of 24,570,024 shares (Performance Consideration Shares), split equally between each QuadPay Founder subject to the achievement of certain prescribed minimum Total Transaction Volume (TTV) performance targets on the QuadPay platform during the period from 1 January 2020 to 30 June 2022, and remaining employed during this period.

The first instalment of 2,500,000 Tenure Consideration Shares have been issued to QuadPay Founders on 30 September 2021, following QuadPay Founders' continuous employment with QuadPay to the first anniversary date. The second instalment of up to 2,500,000 Tenure Consideration Shares remains unissued at 30 June 2022, and will be issued subject to the QuadPay Founders continuing to remain employed with QuadPay on the second anniversary date.

The first performance target was met by the QuadPay Founders, with the TTV on the QuadPay platform for the rolling three months to 31 December 2020 exceeding the TTV performance targets. Accordingly, Zip issued 5,398,824 shares on 24 May 2021 to the QuadPay Founders as part of the Performance Consideration Shares. The number of Zip's shares issued was calculated based on the volume weighted average price of Zip's shares on the ASX in the 15 trading days prior to the date of issuance.

The second performance target has been met by the QuadPay Founders, with the TTV on the QuadPay platform for the rolling three months to November 2021 exceeding the TTV performance targets. Accordingly, a payment of US$7.5 million will be made to each QuadPay Founder no later than 15 September 2022. The number of shares to be issued, will be calculated based on the higher of $3.70 per share and the volume weighted average price of Zip's shares on the ASX in the 15 trading days prior to the date of issuance, with the balance payable in cash.

The third performance target had a deadline of 30 June 2022 and this was not met by the QuadPay Founders. As a result, there will be no payments made to the QuadPay Founders in relation to the third performance target. After the payments due pursuant to the second performance target are made to the QuadPay Founders, the balance of the Performance Consideration Shares will be reduced to nil.

PERFORMANCE SHARES THAT MAY BE ISSUED TO A SUBSET SPOTII SELLERS

Under the terms of the acquisition of Spotii, Zip has agreed to pay up to US$15.0 million in performance payments to a subset of Spotii sellers subject to the satisfaction of prescribed performance targets and, for a co-founder, their respective continued employment at the date of satisfaction of the relevant performance targets.

The performance payments can be paid by Zip, at its discretion by the issue of additional Zip shares (up to a maximum number of 3,550,000 Zip shares), with the balance payable in cash. The performance milestones are based on aggressive growth targets relating to the achievement of a certain total transaction volumes, active customers, and gross profit margin targets.

If the performance payments are payable, they will be paid in up to 3 payment tranches relating to the twelve-month "performance periods" ending on 30 June 2022, 30 June 2023 and 30 June 2024. If any of these additional consideration amounts are paid in Zip shares:

- the number of Zip shares to be received will be determined based on the higher of the volume weighted average price of Zip's shares on the ASX for the 30 trading days before the applicable issue date and a minimum share price of $6.00 per share, with Zip required to pay a cash true up amount for any difference (including any difference in a prescribed exchange rate cap); and
- 60% of each tranche of Zip shares issued to each seller as part of this additional consideration will be subject to a 1 year voluntary escrow period commencing on 1 July 2022 immediately after the relevant "performance period".

At 30 June 2022, none of the performance targets have been met.

NOTE 19. PRIOR PERIOD ADJUSTMENTS

During 2022, the consolidated entity determined that the consolidated financial statements for the financial year 2021 contained certain misstatements which require restatement.

The restated financial statements are indicated as "Restated" in the financial statements and accompanying notes, as applicable. Where relevant, the reported values have been updated and changes have been footnoted throughout the financial statements and the accompanying notes.

A. BALANCE SHEET AND INCOME STATEMENT RESTATEMENTS

As part of the ongoing improvement in the receivables and payables reconciliation processes' for Zip's US operations (QuadPay was acquired in August 2020), the following adjustments were identified:

a) A reduction in customer receivables of $4.4 million and a reduction in trade and other payables of $1.3 million, with a corresponding decrease in revenue of $3.1 million, in relation to the improvement in the effective interest rate calculation process for customer receivables.

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b) A reduction in customer receivables of $7.6 million with a corresponding increase in bad debts and expected credit losses of $7.6 million, in relation to the incorrect accounting for customer disputes.

c) An increase in trade and other payable of $6.1 million with a corresponding increase in other operating expense of $6.1 million, and an increase in marketing expenses of $2.5 million with a corresponding decrease in other receivables of $2.5 million, due to adjustments to operating costs.

d) A reduction in customer receivables of $8.0 million with a corresponding reduction to trade and other payables of $8.0 million due to a balance sheet posting error in the customer receivable reconciliation. The adjustment has no impact on Loss Before Income Tax.

e) A reduction in customer receivables of $5.3 million with a corresponding reduction to trade and other payables of $5.3 million due to the elimination of off balance sheet pre-approved loan commitments. The adjustment has no impact on Loss Before Income Tax.

B. CASH FLOW RESTATEMENTS

Within the consolidated statement of cash flows, “Net increase in receivables” ($930.0 million) and “Borrowing transaction costs” ($2.1 million) have been reclassified from “Net Cash Flow from Investing Activities” and “Net Cash Flow from Financing Activities” respectively into “Net Cash Flow to Operating Activities”.

In accordance with AASB 107 *Statement of Cash Flows*, this change in presentation was considered appropriate given the cash flows were primarily derived from the consolidated entity’s principal revenue-generating activities.

This resulted in a change in net cash flow from operations of $44.2 million to net cash flow to operations of $ 887.9 million.

C. RECLASSIFICATIONS

Zip also made certain reclassifications of account balances across its consolidated balance sheet and consolidated income statement as management believe that the revised presentation provides more relevant information to the users of its financial statements and is aligned with common industry practice. Principal changes included:

- In accordance with AASB 101 *Presentation of Financial Statements*, the presentation of the consolidated Statement of Profit or Loss and Other Comprehensive Income changed to:
  - Revenue: to present separately interest revenue calculated using the effective interest method from transactional income.
  - Expenses: to present expenses groupings “by nature”.
- The presentation of the consolidated balance sheet changed to:
  - Offset “Deferred tax assets” and “Deferred tax liabilities” in accordance with AASB 112 *Income Taxes*.
  - Further disaggregation of “Cash and cash equivalents” into “Cash and cash equivalents” and “Restricted Cash”.

The following tables represent the consolidated entity’s restated consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for the year ended 30 June 2021, as well as restated consolidated statement of financial position at 30 June 2021.

The values as previously reported for the financial year 2021 were derived from the consolidated entity’s Annual Report dated 29 September 2021.

(1) Statement of Profit or Loss and Other Comprehensive Income[1]

FOR THE YEAR ENDED 30 JUNE 2021	PREVIOUSLY REPORTED $'000	RECLASSIFICATIONS $'000	RESTATEMENTS $'000	CURRENTLY REPORTED $'000	FOOTNOTE
Operating Income	397,068	(397,068)	–	–	2
Portfolio interest income	347,394	(6,940)	(3,149)	337,305	a,2
Transactional income	49,674	6,940	–	56,614	2
Revenue	**397,068**	**–**	**(3,149)**	**393,919**	a
Interest Expense	–	(63,780)	–	(63,780)	3
Amortisation of Funding	(5,129)	5,129	–	–	3
Interest Expense	(58,651)	58,651	–	–	3
Bad debts and expected credit losses	(123,881)	–	(7,641)	(131,522)	b
Bank fees and data costs	(71,511)	–	–	(71,511)	
Other Income	451	–	–	451	
Other operating expenses	–	(39,404)	(6,060)	(45,464)	c,4
Administration expenses	(27,047)	27,047	–	–	4
Occupancy expenses	(2,419)	2,419	–	–	4
Acquisition of business costs	(9,938)	9,938	–	–	4
Depreciation and amortisation expenses	–	(91,768)	–	(91,768)	5
Depreciation expense	(5,772)	5,772	–	–	5
Amortisation of intangibles	(85,996)	85,996	–	–	5
Salaries and employee benefits expenses	(97,692)	–	–	(97,692)	
Information technology expenses	(24,027)	–	–	(24,027)	
Marketing expenses	(71,230)	–	(2,524)	(73,754)	c
Share-based payments	(142,843)	–	–	(142,843)	
Corporate financing costs	(10,796)	–	–	(10,796)	
Share of loss of associates	(753)	–	–	(753)	
Fair value (loss) gain on financial instruments	(77,613)	–	–	(77,613)	
Net adjustment relating to the acquisition of QuadPay	(306,235)	–	–	(306,235)	
Loss before Income Tax	**(724,014)**	**–**	**(19,374)**	**(743,388)**	
Income tax benefit	65,240	–	–	65,240	
Loss after Income Tax	**(658,774)**	**–**	**(19,374)**	**(678,148)**	
Basis loss per share (cents)	(128.16)	–	(3.77)	(131.93)	
Diluted loss per share (cents)	(128.16)	–	(3.77)	(131.93)	

1. In accordance with AASB 101, the presentation of the consolidated Statement of Profit or Loss and Other Comprehensive Income changed to:
   - Revenue: presenting separately interest revenue calculated using the effective interest method.
   - Expenses: presenting expenses groupings "by nature".
   - Removed cost of sales and gross profit sub-totals.
2. Presented "Portfolio interest income" and "Transaction income" separately and reclassified Establishment fees from "Portfolio interest income" to "Transactional income".
3. Combined "Amortisation of funding" with "Interest expense" into "Interest expense".
4. Combined into one line item "Other operating expenses".
5. Combined "Depreciation expense" and "Amortisation of intangibles" into one line item "Depreciation and amortisation expenses".

a,b,c. Refer to section A for correction of misstatements.

Notes to the Preliminary Final Report continued

(2) Statement of Financial Position

FOR THE YEAR ENDED 30 JUNE 2021	PREVIOUSLY REPORTED $'000	RECLASSIFI-CATIONS $'000	RESTATE-MENTS $'000	CURRENTLY REPORTED $'000	FOOTNOTE
Cash and cash equivalents	330,201	(40,989)	–	289,212	1
Restricted cash	–	40,989	–	40,989	1
Other receivables	32,719	–	(2,524)	30,195	c
Customer receivables	1,988,036	–	(25,342)	1,962,694	a,b,d,e
Deferred tax assets	10,312	(10,312)	–	–	2
Total Assets	**3,374,738**	**(10,312)**	**(27,866)**	**3,336,560**	
Trade and other payables	73,096	–	(8,492)	64,604	a,c,d,e
Deferred tax liabilities	10,312	(10,312)	–	–	2
Total Liabilities	**2,231,926**	**(10,312)**	**(8,492)**	**2,213,122**	
Net Assets	**1,142,812**	–	**(19,374)**	**1,123,438**	
Accumulated losses	(747,146)	–	(19,374)	(766,520)	a,b,c
Total Equity	**1,142,812**	**–**	**(19,374)**	**1,123,438**	

1. Presented "Cash and cash equivalents" separately as "Cash and cash equivalents" and "Restricted Cash".
2. Offset "Deferred tax assets" and "Deferred tax liabilities" relating to the same tax jurisdictions in accordance with AASB 112.

a,b,c,d,e. Refer to section A in this note for correction of misstatements.

(3) Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2021	PREVIOUSLY REPORTED $'000	RESTATE-MENTS $'000	AS RESTATED $'000	FOOTNOTE
Loss for the period	(658,774)	(19,374)	(678,148)	a,b,c
Total Comprehensive loss	(678,065)	(19,374)	(697,439)	a,b,c
Accumulated losses	(747,146)	(19,374)	(766,520)	a,b,c
Total Equity	**1,142,812**	**(19,374)**	**1,123,438**	a,b,c

a,b,c. Refer to section A in this note for correction of misstatements.

(4) Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2021	PREVIOUSLY REPORTED $'000	RESTATE-MENTS $'000	AS RESTATED $'000	FOOTNOTE
Net increase in receivables	–	(930,054)	(930,054)	1
Borrowing transaction costs	–	(2,084)	(2,084)	2
Net Cash Flow to Operating Activities	**44,223**	**(932,138)**	**(887,915)**	
Net increase in receivables	(930,054)	930,054	–	1
Net Cash Flow to Investing Activities	**(938,300)**	**930,054**	**(8,246)**	
Borrowing transaction costs	(2,084)	2,084	–	2
Net Cash Flow from Financing Activities	**1,190,970**	**2,084**	**1,193,054**	
Net increase in cash, cash equivalents, and restricted cash	**296,893**	**–**	**296,893**	

1. "Net increase in receivables" previously presented as "Net Cash Flow from Investing Activities" now presented as "Net Cash Flow to Operating Activities"
2. "Borrowing transaction costs" previously presented as "Net Cash Flow from Financing Activities" now presented as "Net Cash Flow to Operating Activities".

NOTE 20. SUBSEQUENT EVENTS

Subsequent to the year end, Zip commenced the process to give up the conditional right to increase its shareholding in relation to its investment in its associate ZestMoney.

Following the decision to discontinue the Trade and Trade Plus products, the $13.5 million drawn under the funding facility in place to provide funding to support these products was fully repaid in July 2022.

To the date of the release of this report, there have been no other material items, transactions or events subsequent to 30 June 2022 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

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