Appendix 4D
Half Year Financial Report

Name of entity:	Zip Co Limited
ACN:	139 546 428
Reporting period:	Half Year ended 31 December 2022
Previous period:	Half Year ended 31 December 2021

The information contained in this report should be read in conjunction with the most recent annual financial report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

			31 DECEMBER 2022 $'000	31 DECEMBER 2021[1] RESTATED[3] $'000
Revenue from ordinary activities[2]	Up	19%	350,973	295,831
Loss from ordinary activities after income tax attributable to members	Up	15%	(242,514)	(211,374)
Total comprehensive loss attributable to members	Up	42%	(241,208)	(169,859)

1. Revenue from ordinary activities reported for the half year ended 31 December 2021 included other income of $0.9 million. Other income was subtracted from revenue to align with the financial results presented for the half year ended 31 December 2022.
2. Revenue including comparative revenue has been presented on a continuing operations basis.
3. Restated numbers are explained in Note 20 in the Half Year Financial Report for the six months to 31 December 2022.

The company does not have a dividend policy.

	31 DECEMBER 2022	31 DECEMBER 2021
Total number of ordinary shares on issue	765,365,865	588,834,884
Net tangible asset backing per ordinary share[1]	(11.13) cents	3.37 cents[2]

1. The net tangible asset backing includes the Right-of-use asset recognised as per AASB 16.
2. Restated numbers are explained in Note 20 in the 31 December 2022 Half Year Report.

BRIEF EXPLANATION OF THE ABOVE FIGURES

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

DETAILS OF CONTROLLED ENTITIES

In July 2022, Zip's investment in Hemenal Finansman A.Ş. was deconsolidated and accounted for as an investment in an associate.

There were no other changes in controlled entities in the half year ended 31 December 2022.

Appendix 4D Half Year Financial Report Cont.

ASSOCIATES/JOINT VENTURE ENTITIES

In July 2022, Zip deconsolidated its investment in Hemenal Finansman A.Ş. and accounted for the investment as an investment in an associate.

In August 2022, Zip derecognised its investment in ZestMoney from an investment in an associate and recognised the investment as an investment at FVTPL.

Detailed information in relation to Zip's investments is contained in the 31 December 2022 Half Year Report.

REVIEW CONCLUSION

This report is based on the condensed financial statements for the half year ended 31 December 2022.

The condensed financial statements have been subject to a review by an independent auditor and the review opinion includes a material uncertainty in respect of going concern; however, the opinion is not modified in respect of this matter.

DIVIDENDS

No dividends have been declared for the half year ended 31 December 2022 or for the previous corresponding period.

Signed

Larry Diamond
Managing Director &
Global Chief Executive Officer

23 February 2023

HALF YEAR REPORT 2023

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Directors' Report

The directors are pleased to present their report on Zip Co Limited and its controlled entities (consolidated entity or Group) for the half year ended 31 December 2022.

DIRECTORS

The following persons were Directors of Zip Co Limited (Zip or the Company) during the financial period and up to the date of this report:

- Diane Smith-Gander AO
- Larry Diamond
- Peter Gray
- John Batistich
- Meredith Scott (appointed on 1 September 2022)

REVIEW AND RESULTS OF OPERATIONS

A summary of revenues and results for the period is set out below:

	31 DECEMBER 2022 $'000	31 DECEMBER 2021 $'000
Revenue from ordinary activities[1]	350,973	295,831
Loss from ordinary activities after income tax attributable to members	(242,514)	(211,374)
Total comprehensive loss attributable to members	(241,208)	(169,859)

1. Current period revenue and comparative revenue has been presented on a continuing operations basis.

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity is offering point-of-sale credit and payments to customers and providing integrated retail finance solutions to merchants, both online and in-store.

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 9 countries around the world providing services in Australia, Canada, Czech Republic, New Zealand, Poland, Saudi Arabia, South Africa, UAE, and the United States.

During the half year Zip closed its operations in Mexico, Singapore and the United Kingdom and has reported the results of the operations in those countries as discontinued operations in the half year report to 31 December 2022.

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 half year Zip ceased offering its Zip Business Trade and Trade Plus products to SMEs (provision of interest-free lines of credit of up to $150,000) as it narrowed its offering to the Zip Business Capital product.

REVIEW OF PERFORMANCE

Zip announced its intention to focus on its growth in core markets, accelerate the path to profitability and complete a strategic review of its non-core operations in the period. Zip has reduced the number of product lines planned and in market, has reported a significant improvement in the performance of its receivable portfolio and has taken steps to simplify its operations, right size its global cost base and drive operational efficiency. The strategic review of its global presence was well advanced at 31 December 2022 and has subsequently been completed. The closure of operations in Mexico, Singapore and the United Kingdom is complete. Subsequent to the half year end, Zip announced its intention to close its operations in Saudi Arabia and the UAE and commenced the process of winding down operations in these geographies. As a result of the strategic review, Zip is advancing the sale or restructuring of businesses in India, Turkey, Czech Republic, Poland and South Africa.

Operations in Mexico, Singapore and the United Kingdom have been reported as discontinued operations in the Half Year Financial Report for the six months to 31 December 2022 and consequently all figures quoted in the Review of Performance comprise Zip's continuing operations for the half year ended 31 December 2022. Comparatives have been adjusted to reflect this throughout the report.

OPERATIONAL PERFORMANCE

Consumers

KEY METRIC

FOR THE HALF YEAR ENDED 31 DECEMBER	2022	2021	%
Transaction Volumes ('$M)	4,855.3	4,392.7	10.5%
Active Consumers ('M)	7.3	7.0	4.3%
Merchants ('K)	97.5	81.5	19.6%

Zip's performance is driven by a number of key operating metrics including transaction volumes, the number of active consumer accounts and integrated merchants. Zip has grown transaction volumes by 10.5% during the half year, generating additional volumes from its active customers.

Transaction Volumes

FOR THE HALF YEAR ENDED 31 DECEMBER	2022 $'M	2021 $'M	MOVEMENT %
APAC	2,194.3	2,190.7	0.2%
AMERICAS	2,348.7	2,123.8	10.6%
EMEA	312.3	78.2	299.4%
	4,855.3	4,392.7	10.5%

Directors' Report Cont.

Total transaction volumes generated by consumers have grown to $4.9 billion for the half year, an increase of 10.5%.

Transaction volumes generated by the Americas increased 10.6% and comprised 48.4% of volumes, compared to 48.3% in the previous corresponding period. The comparative results for the EMEA segment include results generated by Twisto and Spotii for the two months from the dates of acquisition to 31 December 2021.

Active Consumers

FOR THE HALF YEAR ENDED 31 DECEMBER	2022 M	2021 M	MOVEMENT %
APAC	2.3	2.2	4.5%
AMERICAS	4.0	4.3	(7.0%)
EMEA	1.0	0.5	100.0%
	7.3	7.0	4.3%

The number of active consumer accounts across Zip's continuing operations has increased 4.3% compared to the previous corresponding period, despite the tightening of underwriting criteria across all countries in which Zip operates.

Merchants

FOR THE HALF YEAR ENDED 31 DECEMBER	2022 K	2021 K	MOVEMENT %
APAC	45.8	40.2	13.9%
AMERICAS	23.9	18.5	29.2%
EMEA	27.8	22.8	21.9%
	97.5	81.5	19.6%

Integrated merchants increased significantly across Zip's continuing operations as enterprise merchants and SMEs continue to see the benefits of joining Zip's platform and accessing Zip's consumer base directly.

SMEs (Business Financing)

FOR THE HALF YEAR ENDED 31 DECEMBER	2022 $'M	2021 $'M	MOVEMENT %
Originations	57.0	70.9	(19.6%)

Originations generated by Zip Business have decreased 19.6% compared to the previous corresponding period to $57.0 million, including $12.5 million from the Trade and Trade Plus products that are no longer offered by the Group ($32.1 million from the Trade and Trade Plus products reported in the previous corresponding period). Excluding the impact of Trade and Trade Plus products, the Zip Business Capital product generated originations of $44.5 million across Australia and New Zealand, a 14.7% increase on the previous corresponding period.

FINANCIAL PERFORMANCE

Group Results

Revenue grew by 18.7% to $351.0 million for the six months to 31 December 2022 when compared to the six months to 31 December 2021, driven predominantly by growth in transaction volumes and originations of 10.1% generated by Zip's Consumer and SME operations to $4,912.3 million (underlying volumes).

FOR THE HALF YEAR ENDED 31 DECEMBER	2022 $'M	2021 $'M	MOVEMENT %
Consumers	4,855.3	4,392.7	10.5%
SMEs	57.0	70.9	(19.6%)
Underlying Volumes from continuing operations	**4,912.3**	**4,463.6**	**10.1%**

Reported Gross Profit has increased by 95.0% and reported Gross Profit as a percentage of underlying volumes has increased to 2.7% compared to 1.6% in the previous corresponding period. As a percentage of underlying volume, an increase in revenue of 0.5%, and reduction in bad debts of 1.4%, have offset a 0.7% increase in interest expense. Excluding the movement in the bad debt provision and the amortisation of funding costs, cash gross profit as a percentage of underlying volumes increased to 2.5% from 2.3% in the previous corresponding period.

FOR THE HALF YEAR ENDED 31 DECEMBER	2022 $'M	2021 RESTATED* $'M	MOVEMENT %
Revenue	351.0	295.8	18.7%
Cost of sales[1]	(218.8)	(228.0)	(4.0%)
Gross profit	132.2	67.8	95.0%
Other expenditure	(370.6)	(261.1)	41.9%
Loss before income tax	(236.0)	(192.4)	22.7%
Gross profit	132.2	67.8	95.0%
Add: Movement in bad debt provision and amortisation of funding costs	(10.5)	33.4	(131.4%)
Cash gross profit	121.7	101.2	20.3%

1. Cost of sales includes interest expense (including $2.3 million of amortisation of funding costs for half year ended 31 December 2022, and $3.5 million for half year ended 31 December 2021), bad debts and expected credit losses, and bank fees and data costs.

* Restated numbers are explained in Note 20 in the half year report 31 December 2022.

Directors' Report Cont.

Adjusted Group Results

The Group's result for the six months to 31 December 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:

FOR THE HALF YEAR ENDED 31 DECEMBER 2022	$'M	
Reported loss before tax	(236.0)	
Add back:		
Termination payment	16.3	On mutual termination of the Sezzle acquisition
Fair value loss on investment	19.7	Revaluation of ZestMoney on derecognition as an associate
Incentive payments	12.5	Incentive payment to Noteholders on conversion of $70 million Senior Convertible Notes
Effective interest on convertible notes	47.7	Acceleration of effective interest on convertible notes
Loss on derecognition of financial assets	3.1	Loss on derecognition of financial assets
Impairment of investment in Tendo	4.7	Impairment of investment in Tendo
Impairment of Payflex goodwill	18.4	Impairment of Payflex goodwill
Adjusted loss before income tax	(113.6)	

Revenue

FOR THE HALF YEAR ENDED 31 DECEMBER	2022 $'M	2021 RESTATED* $'M	MOVEMENT %
Revenue	351.0	295.8	18.7%
% Of underlying volumes	7.1%	6.6%	0.5%

* Restated numbers are explained in Note 20 in the financial statements.

Revenue has increased by 18.7% compared to the previous corresponding period reflecting a 10.1% increase in underlying volumes. Reported revenue as a percentage of underlying volumes was 7.1% compared to 6.6% in the previous corresponding period.

Cost of Sales

FOR THE HALF YEAR ENDED 31 DECEMBER	2022 $'M	2021 RESTATED* $'M	MOVEMENT %
Interest expense	73.5	37.4	96.5%
% of underlying volumes	1.5%	0.8%	0.7%
Bad debts and expected credit losses	79.6	135.2	(41.1%)
% of underlying volumes	1.6%	3.0%	(1.4%)
Bank fees and data costs	65.7	55.4	18.6%
% of underlying volumes	1.3%	1.2%	0.1%
Total cost of sales	218.8	228.0	(4.0%)
% of underlying volumes	4.4%	5.0%	(0.6%)

* Restated numbers are explained in Note 20 in the financial statements.

Cost of sales decreased to 4.4% of underlying volumes in the financial period, a reduction of 0.6%, as a 1.4% decrease in reported bad debts and expected credit losses more than offset a 0.7% increase in interest expense as a percentage of underlying volumes.

Interest expense as a percentage of underlying volumes increased by 0.7%, reflecting increases in base rates across all markets in which Zip operates.

Excluding the movement in the provision for expected credit losses, net bad debts written off totalled 1.9% of underlying volumes compared to 2.4% in the previous corresponding period. The Group is below its medium term target of under 2% of underlying volumes noting that the net bad debt write offs in the half are reported against peak seasonal volumes and net bad debt write offs associated with these volumes are reported in the second half of the financial year.

Reported net bad debts written off by Zip's US operations totalled 1.6% of underlying volumes in the current half year, and gross bad debt write offs totalled 2.0%. On a cohort basis, which matches expected net bad debt write offs against volumes written on a monthly basis, Zip's US operations expects to record gross bad debts of 1.4% to 1.6% of underlying volumes.

The Group has managed risk settings, portfolio management and collections activities, to reduce net bad debt write offs compared to previous periods and will continue to actively manage these settings and activities whilst maintaining top line growth.

Bank fees and data costs increased 0.1% as a percentage of underlying volumes, reflecting an increased percentage of total volumes processed by the Americas and EMEA, which incur higher processing costs.

Expenditure

The Group incurs expenses that have a cash impact 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 or future reporting periods.

Directors' Report Cont.

Cash Expenses

FOR THE HALF YEAR ENDED 31 DECEMBER	2022 $'M	2021 RESTATED* $'M	MOVEMENT %
Salaries and employee benefits expense	91.1	78.4	16.2%
% of underlying volumes	1.9%	1.8%	0.1%
Marketing expenses	27.4	70.1	(60.9%)
% of underlying volumes	0.6%	1.6%	(1.0%)
Information technology expenses	24.7	20.0	23.5%
% of underlying volumes	0.5%	0.4%	0.1%
Other operating expenses	42.8	26.1	64.0%
% of underlying volumes	0.9%	0.6%	0.3%

* Restated numbers are explained in Note 20 in the financial statements.

Average headcount over the six months to 31 December 2022 totalled 1,392, compared to 1,191 in the period to December 2021, a net increase of 16.9%, and reflecting the addition of Spotii (October 2021), Twisto (November 2021) and Payflex (January 2022).

In the first half to 31 December 2021 the Group successfully completed a global re-branding project including the re-branding of QuadPay in the US to Zip. Excluding the one-off re-branding costs of $17.6 million, marketing costs, which comprise customer marketing initiatives, including rewards programs, rebates, co-marketing projects with enterprise merchants, and direct integration costs, have fallen from $52.5 million (1.2% of underlying volumes) in the six months to 31 December 2021 to $27.4 million (0.6% of underlying volumes) in the last six months as the Group balances growth with cash EBTDA profitability.

Information technology costs at 0.5% of underlying volumes are consistent with the percentage reported for the year to 30 June 2022 and reflect the impact of acquisitions made during the period to 31 December 2021, together with increased software programs introduced to monitor, manage and operate the Group's IT infrastructure during the year to 30 June 2022.

Other operating costs include $16.3 million paid to Sezzle on the mutual termination of the merger agreement for the acquisition of Sezzle, together with professional services, general administration, and other costs associated with the operation and management of the Group globally. Excluding the termination payment, other operation costs were 0.5% of underlying volumes, compared to 0.5% in the previous corresponding period excluding acquisition costs.

Other Expenses

FOR THE HALF YEAR ENDED 31 DECEMBER	2022 $'M	2021 $'M	MOVEMENT $'M
Depreciation and amortisation expenses	33.8	31.6	2.2
Corporate financing costs	75.6	15.1	60.5
Share-based payments	13.5	43.1	(29.6)
Fair value loss/(gain) on financial instruments	30.3	(70.9)	101.2
Impairment losses	23.1	44.7	(21.6)
Loss on derecognition of financial liabilities	5.8	–	5.8

The movement in depreciation and amortisation costs reflects an increase in the amortisation of internally generated IT development and software.

The increase in corporate finance costs, which includes the effective interest charged on the convertible notes issued in September 2020 and April 2021, includes the incentive payment of $12.5 million paid to the noteholders in December 2022 to convert $70 million of the convertible notes at an effective conversion rate of 23 cents in the dollar, and the accelerated effective interest charge of $47.7 million as a result of the revised estimation of the probability of future repayments being made in relation to the convertible notes.

To attract, retain and reward Zipsters, Zip offers a combination of short and long-term incentives that are delivered through equity. The reduction in share based payments expense relates primarily 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, reducing to $1.9 million in the half year to 31 December 2022, compared to $15.3 million in the corresponding period.

The reclassification of the Group's investment in ZestMoney from being recorded as an associate to being recognised at FVTPL has resulted in a loss of $19.7 million being reported as a loss on financial instruments in the six months to 31 December 2022. In addition, the Group reported a fair value loss of $10.6 million on the convertible notes and warrants on issue.

Following a review of the carrying value of Zip's investments at 31 December 2022, Zip has reported an impairment charge of $4.7 million relating to its investment in Tendo and has impaired the goodwill in Payflex CGU by $18.4 million to reflect the difference between the Payflex carrying amount at 31 December 2022 and an assessment of market value. In the six months to 31 December 2021, Zip reported an impairment charge of $44.7 million against the goodwill attributable to its UK CGU following a review of the allocation of capital to its operations in the United Kingdom.

Following repayment of $40 million in convertible notes on 1 September 2022, Zip derecognised 40% of the financial liabilities in relation to both embedded derivative options feature ($7.2 million) and the carrying amount of the debt host ($30.0 million). This resulted in a loss of $5.8 million on derecognition of these financial liabilities, being reported, representing the difference between the carrying amount of the financial liabilities before extinguishment and the repayment amount of $43.0 million.

RECEIVABLES

	31 DECEMBER 2022 $'M	30 JUNE 2022 $'M	MOVEMENT %
Gross customer receivables	2,922.2	2,684.6	8.9%
Unearned future income	(21.7)	(16.3)	33.1%
Provision for expected credit losses	(143.4)	(160.2)	(10.5%)
	2,757.1	2,508.1	9.9%

The Group's receivables portfolio increased 9.9% to $2,757.1 million at 31 December 2022, up from $2,508.1 million at 30 June 2022 due to the strong growth in underlying volumes during the half year ended 31 December 2022.

The provision for expected credit losses has reduced to 4.9% of gross customer receivables, from 6.0% at 30 June 2022 due to the improved performance of the receivables portfolio over the six months to 31 December 2022, compared to the previous financial year.

Zip's APAC line of credit consumer business comprises 83.0% of the gross receivables at 31 December 2022, compared to 83.9% at 30 June 2022. The repayment rate remained healthy averaging 14.0% (of the opening receivables balance repaid each month) during the six months to 31 December 2022, consistent with the previous financial year. The reported arrears rate (accounts over 60 days past due) was 2.13% of the receivables at 31 December 2022, compared with 2.30% at 30 June 2022.

Directors' Report Cont.

CAPITAL MANAGEMENT

Receivables Funding Facilities

CONSUMER FACILITIES	CURRENCY	FACILITY LIMIT $'M	DRAWN AT 31 DECEMBER 2022 $'M
Zip Master Trust			
– Rated Note Series		1,377.5	1,377.5
– Variable Funding Notes		671.6	597.1
2017-1 Trust		264.7	254.9
2017-2 Trust		100.0	90.0
Total	AUD	2,413.8	2,319.5
AR2LLC	USD	300.0	129.9
NZ Trust 2021-1	NZD	30.0	18.4
TWISTO Czech	CZK	958.0	617.9
TWISTO Poland	EUR	19.5	15.5
PAYFLEX South Africa	ZAR	85.0	60.0

The Group had total facilities of $2,413.8 million available to fund its Australian consumer receivables at 31 December 2022, of which $2,319.5 million was drawn ($94.3 million undrawn and available).

In October 2022, Zip completed its fifth rated note issuance and second AAA rated issuance, Zip Master Trust 2022-1 transaction size of $300.0 million (upsized from $200.0 million launch size) maturing in November 2023. The proceeds from this issuance were used to repay Zip Master Trust 2020-1 which matured in October 2022. In December 2022, Zip refinanced Variable Funding Note 2 in the Master Trust, with a revised limit of $136.2 million, maturing in January 2024.

Zip has a facility totalling US$300.0 million to fund its US consumer receivables which was drawn to US$129.9 million at 31 December 2022.

Zip New Zealand facility has a limit of NZ$30.0 million available to fund receivables in New Zealand, drawn to NZ$18.4 million at 31 December 2022.

The Group has facilities in both the Czech Republic and Poland to fund consumer receivables generated by Twisto in the respective countries. In November 2022, Twisto refinanced the senior Polish facility for a further year, maturing in November 2023. Twisto has debt facilities with a combined limit of EUR€59.1 million and an undrawn balance at 31 December of EUR€18.1 million.

In November 2022, Payflex refinanced their debt facility available to fund receivables in South Africa, with an increased limit of ZAR$85.0 million, up from ZAR$55.0 million. Of the ZAR$85.0 million available ZAR$60.0 million was drawn at 31 December 2022.

SME FACILITIES	CURRENCY	FACILITY LIMIT $'M	DRAWN AT 31 DECEMBER 2022 $'M
Zip Business			
– Capital Australia	AUD	60.0	37.8
– Capital New Zealand	NZD	40.0	29.6

The Group has funding facilities to support its Zip Business Capital product in Australia and New Zealand. At 31 December 2022, the Group had a facility totalling $60.0 million to fund receivables in Australia, drawn $37.8 million and a facility of NZ$40.0 million, drawn NZ$29.6 million to fund receivables in New Zealand.

CONVERTIBLE NOTES

In September 2022, Zip made a payment of $43.0 million (including $3.0 million in accrued interest) to CVI Investments and cancelled 400 of the 1,000 interest bearing Convertible Notes on issue. The interest bearing Convertible Notes were issued in September 2020 to CVI Investments, Inc., an affiliate of Heights Capital Management, which is part of the US-based Susquehanna International Group ("SIG"). The payment was made at the request of CVI Investments in accordance with the terms of the Convertible Note Subscription Agreement. Details of the interest bearing Convertible Notes are contained in Note 6.

In December 2022, Zip completed a liability management exercise to convert $70 million of the $400 million zero coupon Senior Convertible Notes on issue. The Senior Convertible Notes were converted at a conversion price of $12.0576 per share and, in addition, noteholders received a cash payment of $17,860 per $100,000 of notes converted. The conversion resulted in the issuance of 5.8 million shares and the payment $12.5 million in cash to noteholders and equated to the conversion of the $70 million converted at an effective rate of 23 cents per dollar.

EQUITY CAPITAL

Zip raised $13.6 million ($13.0 million net of issuance costs) in equity capital from institutional and sophisticated investors in December 2022 to fund the cash payment to incentivise the conversion of the Senior Convertible Notes and expenses associated with the conversion transaction.

POST BALANCE DATE EVENTS

In January 2023, Zip announced its intention to cease operations in the Middle East and commenced the process of winding down activities in this geography.

Under the terms of the Payflex Acquisition, the vendors were entitled to a holdback consideration amounting to $0.6 million (ZAR$7.2 million) to be settled twelve months from the date of completion. Subsequent to 31 December 2022, the holdback consideration was paid and the holdback consideration reduced to nil.

Directors' Report Cont.

Subsequent to the half year end, Zip agreed an extension to the maturity date of the zipMoney 2017-2 Trust to 29 December 2023, with a reduced limit of $90 million, and an option for Zip to extend for an additional three months.

To the date of the release of this report, there have been no other material items, transactions or events subsequent to 31 December 2022 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

Larry Diamond
Managing Director &
Global Chief Executive Officer

23 February 2023

Auditor's Independence Declaration

Deloitte.

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The Board of Directors
Zip Co Limited
Level 14, 10 Spring Street
Sydney NSW 2000

23 February 2023

Dear Board Members

Auditor's Independence Declaration to Zip Co Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Zip Co Limited and its controlling entities.

As lead audit partner for the review of the half year financial report of Zip Co Limited for the half year ended 31 December 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountant

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the period ended 31 December 2022

		CONSOLIDATED	
	Note	31 DECEMBER 2022 $'000	31 DECEMBER 2021 RESTATED* $'000
Continuing operations			
Portfolio interest income		287,507	246,214
Transactional income		63,466	49,617
Revenue		350,973	295,831
Other Income		2,441	906
Bad debts and expected credit losses	11	(79,603)	(135,201)
Bank fees and data costs		(65,653)	(55,429)
Interest expense		(73,497)	(37,357)
Salaries and employee benefits expenses		(91,127)	(78,444)
Marketing expenses		(27,402)	(70,067)
Information technology expenses		(24,679)	(20,011)
Depreciation and amortisation expenses	4	(33,805)	(31,614)
Share-based payments		(13,526)	(43,081)
Corporate financing costs	4	(75,551)	(15,147)
Other operating expenses	4	(42,800)	(26,068)
Impairment loss	4	(23,102)	(44,678)
Fair value (loss)/gain on financial instruments	4	(30,314)	70,967
Loss on derecognition of financial liabilities	6	(5,751)	–
Share of loss of associates	5	(2,593)	(3,025)
Loss before income tax expense from continuing operations		(235,989)	(192,418)
Income tax expense	7	(326)	(133)
Loss after income tax expense from continuing operations		(236,315)	(192,551)
Discontinued operations			
Loss after income tax expense from discontinued operations	3	(6,199)	(18,823)
Loss after income tax expense for the period attributable to the Members of Zip Co Limited		(242,514)	(211,374)
Other Comprehensive Income			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange differences on translation		1,306	41,515
Other Comprehensive Income for the period, net of tax		1,306	41,515
Total Comprehensive Loss for the period attributable to the Members of Zip Co Limited		(241,208)	(169,859)

* The comparative information is restated and re-presented to reflect changes in classification and to identify the results of discontinued operations. Please refer to Note 3 and Note 20.

		Cents	Cents
Earnings per share from continuing operations attributable to the Members of Zip Co Limited			
Basic loss per share*	8	(33.73)	(33.74)
Diluted loss per share*	8	(33.73)	(33.74)
Earnings per share from continuing and discontinuing operations attributable to the Members of Zip Co Limited			
Basic loss per share*	8	(34.61)	(37.04)
Diluted loss per share*	8	(34.61)	(37.04)

* The comparative information is restated and re-presented to reflect changes in classification and to identify the results of discontinued operations. Please refer to Note 3 and Note 20.

The above Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Financial Position

As at 31 December 2022

	Note	CONSOLIDATED 31 DECEMBER 2022 $'000	CONSOLIDATED 30 JUNE 2022 $'000
Assets			
Cash and cash equivalents	9	153,860	241,326
Restricted cash	9	115,794	58,369
Other receivables	10	89,592	72,835
Term deposit		8,191	3,864
Customer receivables	11	2,757,045	2,508,124
Investments at FVTPL	12	46,962	–
Investments in associates	5	4,395	70,741
Property, plant and equipment		4,622	5,246
Right-of-use assets		2,140	3,813
Intangible assets	13	174,033	192,350
Goodwill	14	206,941	222,744
Total assets		**3,563,575**	**3,379,412**
Liabilities			
Trade and other payables	15	222,317	140,547
Employee provisions		8,643	9,068
Deferred consideration	16	3,798	26,184
Lease liabilities		2,254	4,039
Borrowings	17	2,669,244	2,380,909
Financial liabilities – convertible notes and warrants	6	361,554	380,916
Total liabilities		**3,267,810**	**2,941,663**
Net assets		**295,765**	**437,749**
Equity			
Issued capital	18	2,094,790	2,041,496
Reserves		148,980	152,385
Convertible notes – equity	6	114,466	114,466
Non-controlling interest		–	1,015
Accumulated losses		(2,062,471)	(1,871,613)
Total equity		**295,765**	**437,749**

The above Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Changes in Equity

For the period ended 31 December 2022

CONSOLIDATED	ISSUED CAPITAL $'000	TREASURY SHARES $'000	SHARE-BASED PAYMENTS RESERVE $'000	FOREIGN CURRENCY TRANS-LATION RESERVE $'000	CONVER-TIBLE NOTES $'000	ACCUMU-LATED LOSSES (RESTATED*) $'000	TOTAL EQUITY $'000
Balance at 1 July 2021	1,688,785	(10,438)	116,515	(19,370)	114,466	(747,146)	1,142,812
Loss after income tax (expense)/benefit for the period (Restated*)	–	–	–	–	–	(211,374)	(211,374)
Other comprehensive income for the period, net of tax	–	–	–	41,515	–	–	41,515
Total comprehensive loss for the period	–	–	–	41,515	–	(211,374)	(169,859)
Recognition of share-based payments	–	–	44,645	–	–	–	44,645
Exercise of share-based payments	–	–	(18,593)	–	–	–	(18,593)
Issue of treasury shares to Zip Employee Share Trust	13,703	(13,703)	–	–	–	–	–
Issue of shares from Zip Employee Share Trust	–	13,319	(13,319)	–	–	–	–
Issue of ordinary shares under share-based payment plans	17,888	–	–	–	–	–	17,888
Exercise of options	103	–	–	–	–	–	103
Issue of shares – business acquisitions	134,786	–	2,156	–	–	–	136,942
Issue of shares – PartPay contingent consideration	6,990	–	–	–	–	–	6,990
Issue of shares – IT development and software purchase	3,440	–	264	–	–	–	3,704
Balance at 31 December 2021	1,865,695	(10,822)	131,668	22,145	114,466	(958,520)	1,164,632

* The comparative information is restated and re-presented to reflect changes in classification. Please refer to Note 20.

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

Condensed Consolidated Statement of Changes in Equity Cont.

For the period ended 31 December 2022

CONSOLIDATED	ISSUED CAPITAL $'000	TREASURY SHARES $'000	SHARE-BASED PAYMENTS RESERVE $'000	FOREIGN CURRENCY TRANS-LATION RESERVE $'000	CONVER-TIBLE NOTES $'000	ACCUMU-LATED LOSSES $'000	NON-CONTROL-LING INTERESTS $'000	TOTAL EQUITY $'000
Balance at 1 July 2022	2,041,496	(3,345)	85,475	70,255	114,466	(1,871,613)	1,015	437,749
Loss after income tax expense for the period	–	–	–	–	–	(242,514)	–	(242,514)
Other comprehensive income for the period, net of tax	–	–	–	1,306	–	–	–	1,306
Total comprehensive loss for the period	–	–	–	1,306	–	(242,514)	–	(241,208)
Recognition of share-based payments	–	–	13,526	–	–	–	–	13,526
Exercise of share-based payments	–	–	(11,677)	–	–	–	–	(11,677)
Issue of treasury shares to Zip Employee Trust	6,560	(6,560)	–	–	–	–	–	–
Issue of shares from Zip Employee Share Trust	–	8,999	(8,999)	–	–	–	–	–
Issue of ordinary shares under share-based payment plans	9,272	–	–	–	–	–	–	9,272
Exercise of options	63	–	–	–	–	–	–	63
Issue of shares – business acquisitions	–	–	–	–	–	–	–	–
Issue of shares – capital raising	13,613	–	–	–	–	–	–	13,613
Issue of shares – Payflex contingent consideration (refer to Note 16)	838	–	–	–	–	–	–	838
Issue of shares – Senior convertible notes conversion	3,599	–	–	–	–	51,656	–	55,255
Issue of shares – Twisto holdback considerations	19,965	–	–	–	–	–	–	19,965
Cost of issuing of shares	(616)	–	–	–	–	–	–	(616)
Derecognition of NCI	–	–	–	–	–	–	(1,015)	(1,015)
Balance at 31 December 2022	2,094,790	(906)	78,325	71,561	114,466	(2,062,471)	–	295,765

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

Condensed Consolidated Statement of Cash Flows

For the period ended 31 December 2022

	Note	CONSOLIDATED 31 DECEMBER 2022 $'000	31 DECEMBER 2021 RESTATED* $'000
CASH FLOWS TO OPERATING ACTIVITIES			
Revenue from customers		352,010	301,610
Payments to suppliers and employees		(165,364)	(290,284)
Net increase in receivables		(328,350)	(602,515)
Borrowing transaction costs		(1,455)	(1,804)
Interest received from financial institutions		1,634	599
Interest paid		(68,322)	(33,952)
Termination payment fee		(16,340)	–
Acquisition of business costs		–	(3,265)
Net cash flow used in operating activities	9	(226,187)	(629,611)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(914)	(2,219)
Payments for software development		(11,210)	(13,628)
Deferred performance consideration		(2,169)	–
Payment for acquisitions, net of cash acquired		–	11,324
Payments for investments in associates	5	(4,324)	(72,048)
Increase in term deposits		(4,327)	–
Net cash flow used in investing activities		(22,944)	(76,571)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		569,462	1,119,370
Repayment of borrowings		(297,292)	(475,000)
Repayment of convertible notes		(43,011)	–
Payment for incentive in relation to convertible notes conversion		(12,502)	–
Repayment of principal of lease liabilities		(1,814)	(2,238)
Proceeds from issue of shares		13,677	103
Cost of share issues		(616)	–
Net cash flow from financing activities		227,904	642,235
Net decrease in cash and cash equivalents		(21,227)	(63,947)
Cash and cash equivalents at the beginning of the financial period		299,695	330,201
Foreign exchange effect		(8,814)	554
Cash, Cash Equivalents, Restricted Cash at the End of the Period	9	**269,654**	**266,808**

* The comparative information is restated and re-presented to reflect changes in classification. Please refer to Note 20.

The Group has elected to present a statement of cash flows that analyses all cash flows in total – i.e., including both continuing and discontinued operations; amounts related to discontinued operations by operating, investing and financing activities are disclosed in Note 3.

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

Notes to the Condensed Consolidated Financial Statements

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES OF THE HALF-YEAR FINANCIAL 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 operations span 9 countries around the world providing services in Australia, Canada, Czech Republic, New Zealand, Poland, Saudi Arabia, South Africa, United Arab Emirates, and the United States. During the half year Zip closed its operations in Mexico, Singapore and the United Kingdom and has reported the results of the operations in those countries as discontinued operations in this Report.

A strategic review announced during the period completed subsequently and Zip is now winding down operations in Saudi Arabia and the UAE and advancing the sale or restructuring of businesses in India, Turkey, Czech Republic, Poland and South Africa.

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. STATEMENT OF COMPLIANCE

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

The half year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

The condensed consolidated financial statements comprise the condensed consolidated financial statements of the consolidated entity. For the purposes of preparing the condensed consolidated financial statements, the consolidated entity is a for-profit entity.

The condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 23 February 2023.

C. BASIS OF PREPARATION

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

Prior Period Adjustments

Certain comparative figures have been restated and/or reclassified for misstatement corrections or to conform to changes in presentation for the half year ending December 2022. Refer to Note 20 for details. Where relevant, restated figures are presented in the respective notes in this report.

Discontinued operations

The financial results of businesses reclassified as discontinued operations are excluded from the results of the continuing operations and are presented as a single line item loss after income tax expense from discontinued operations in the statement of profit or loss and other comprehensive income. The comparative periods are also restated. Refer to Note 3 for details. According to AASB 5, the Balance Sheet is not restated when a business is reclassified as a discontinued operation.

D. GOING CONCERN

The Directors have prepared the condensed financial statements on the 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 condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 31 December 2022 reflects a total comprehensive loss after tax of $241.2 million[1]. The condensed consolidated statement of cash flows for the six months ended 31 December 2022 reflects net cash outflows from operations of $226.2 million[1] with net cash inflows from financing activities of $227.9 million[1] and net cash outflows from investing activities of $22.9 million[1].

The net decrease in cash and cash equivalents over the six months to 31 December 2022 totalled $21.2 million, excluding the impact of foreign exchange movements.

The consolidated entity's cash outflows from operating and financing activities in the period included the following significant items totalling a $114.4 million net cash outflow, of which $103.6 million net are non-recurring items:

- $23.3 million of deferred payments associated with previous acquisitions made by the consolidated entity.
- $16.3 million paid to Sezzle on the mutual termination of the merger agreement.
- $12.5 million in incentive payments paid to Senior Convertible Note holders on the conversion into ordinary shares of $70 million in Senior Convertible Notes.
- $13.1 million raised (net of costs) to cover the incentive payments.
- $43.0 million paid to CVI Investments made up of $32.2 million of repayments deferred by CVI Investments in accordance with the terms of the Convertible Notes, and $10.8 million repayable in the period.
- $32.4 million invested in the consolidated entity's debt funding programs which Zip has plans underway to replace with third party funding providers

As a result of the conversion of $70 million in Senior Convertible Notes by Zip and principal redemption payment of $40 million to CVI Investments Zip has reduced its potential future payments in respect of these liabilities by $110 million.

Consistent with its stated strategy of focusing on core markets, right sizing its global cost base and accelerating the path to profitability, the consolidated entity has taken the following actions during the period to reduce net operating cash outflows:

- Restructured all global operations to focus on the core markets of ANZ and the US and streamlined operations to improve business efficiency and deliver savings. Closed the consolidated entity's operations in Mexico, Singapore and the United Kingdom, and subsequent to the period end, commenced the closure of operations in the Middle East.
- Ceased the Zip Business, Trade and Trade Plus products.
- Improved bad debt performance in all operations, particularly in the United States.
- Repriced charges to consumers and merchants to reflect the higher cost of funding.

1. Total from both continuing and discontinued operations.

Notes to the Condensed Consolidated Financial Statements Cont.

Subsequent to period end, the consolidated entity continues to take steps to drive operational efficiency in its core markets of ANZ and the US, wind down non-core businesses, and reduce cash outflows in its non-core markets. Cash outflows in Zip's non-core markets totalled $19.0 million for the six months to 31 December 2022.

The consolidated entity's business model is to borrow funds through secured consumer facilities to fund the consolidated entity's receivables portfolio. As set out in Note 17, the consolidated entity has a number of borrowing facilities that are due to mature in the next twelve months and, as has been the case to date, the Directors expect that the maturing borrowing facilities will be renewed with existing or new financiers.

The Directors have considered the consolidated entity's cash flow forecasts, which include the impact of the actions set out in this note to reduce cash outflows, and assume the successful renewal of the consolidated entity's maturing borrowing facilities. The Directors consider that the consolidated entity will have sufficient funding to operate as a going concern and accordingly, have concluded that it is appropriate to prepare the condensed financial statements on the going concern basis and 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.

However, in the event that the consolidated entity is unable to improve its cash flows from operations and renew its borrowing facilities, a material uncertainty would exist that may cast significant doubt on the consolidated entity's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The condensed 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.

E. 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 half year and that have a significant impact on the consolidated entity's financial statements. There were no new or revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that have materially impacted the consolidated entity's condensed financial statements for the year ended 31 December 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 condensed financial statements.

F. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

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.

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 half year ended 31 December 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 tested for impairment if indicators of impairment arise. 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 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 5.

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 6 for details.

Notes to the Condensed Consolidated Financial Statements Cont.

G. PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Zip Co Limited ('parent entity') as at 31 December 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.

H. 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.

I. 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.

Transactional Income

Transactional income includes Establishment fees, Transaction processing fees, Affiliate fees and Interchange which are recognised in accordance with AASB 15 and not considered portfolio interest income.

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.

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.

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.

Notes to the Condensed Consolidated Financial Statements Cont.

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 Cash Generating Units (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 acquired intangibles, and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit if further impairment is needed. Any impairment loss for goodwill is recognised directly in profit or loss.

M. 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 Fair Value through Other Comprehensive Income (FVTOCI) are measured at Fair Value at Profit or Loss (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 31 December 2022 and 30 June 2022.

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. The net gain or loss is recognised in profit or loss. There is no requirement to recognise an impairment loss.

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.

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.

Notes to the Condensed Consolidated Financial Statements Cont.

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.

N. 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.

O. DISCONTINUED OPERATIONS

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the condensed consolidated statement of profit or loss and other comprehensive income.

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 five operating segments being APAC, Americas, EMEA, Zip Business and Corporate in the half year ended 31 December 2021 and in the half year ended 31 December 2022. 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 details of the operating segments are out below 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 and New Zealand, and historically included the consolidated entity's Pocketbook operations.
AMERICAS	Offers BNPL instalment products to customers in the US and Canada.
EMEA	Offers BNPL instalment products to customers in 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 remaining 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 over time.

The consolidated entity reclassified certain operating segments, reporting Mexico, Singapore, and the United Kingdom as discontinuing operations. These changes have not impacted the consolidated entity's net profit, but have resulted in changes to the presentation of the statement of profit or loss and other comprehensive income of the affected segments including current and prior reporting periods.

Notes to the Condensed Consolidated Financial Statements Cont.

HALF YEAR ENDED 31 DECEMBER 2022	APAC $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CORPORATE $'000	TOTAL $'000
Revenue	171,849	152,972	17,440	8,712	–	350,973
Cost of Sales[1]	(95,567)	(99,282)	(14,260)	(8,539)	–	(217,648)
Gross Profit	76,282	53,690	3,180	173	–	133,325
Other income	1,959	106	224	103	49	2,441
Operating expenses	(54,350)	(79,885)	(13,556)	(5,447)	(14,936)	(168,174)
Effective interest charged on convertible notes	–	–	–	–	(62,575)	(62,575)
Segment EBTDA (excluding reconciling items)	23,891	(26,089)	(10,152)	(5,171)	(77,462)	(94,983)
Depreciation of right-of-use assets	(1,695)	–	–	–	–	(1,695)
Depreciation of PP&E	(996)	(261)	(166)	(2)	–	(1,425)
Amortisation of intangibles	(5,534)	(22,806)	(1,972)	(377)	–	(30,689)
Segment profit (loss) before income tax	15,666	(49,156)	(12,290)	(5,550)	(77,462)	(128,792)
Reconciling corporate items from operating to statutory loss:						
Share-based payments						(13,526)
Loss on derecognition of financial assets						(3,069)
Termination payment fee						(16,340)
Incentive payments						(12,502)
Share of loss of associates						(2,593)
Fair value loss on financial instruments						(30,314)
Impairment loss						(23,102)
Loss on derecognition of financial liabilities						(5,751)
Loss before income tax expense for continuing operations						(235,989)
Loss before income tax expense for discontinued operations						(6,199)
Loss before income tax expense from continuing and discontinued operations						(242,188)

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

HALF YEAR ENDED 31 DECEMBER 2021	APAC $'000	AMERICAS RESTATED* $'000	EMEA $'000	ZIP BUSINESS $'000	CORPORATE $'000	TOTAL RESTATED* $'000
Revenue	140,005	144,305	3,545	7,976	–	295,831
Cost of Sales[1]	(99,434)	(116,135)	(4,432)	(7,985)	–	(227,986)
Gross profit	40,571	28,170	(887)	(9)	–	67,845
Other income	269	–	540	97	–	906
Operating expenses	(55,342)	(88,654)	(7,600)	(7,105)	(32,995)	(191,696)
Effective interest charged on convertible notes	–	–	–	–	(14,777)	(14,777)
Segment EBTDA (excluding reconciling items)	(14,502)	(60,484)	(7,947)	(7,017)	(47,772)	(137,722)
Depreciation of right-of-use assets	(1,459)	(590)	–	–	–	(2,049)
Depreciation of PP&E	(883)	(58)	(164)	(2)	–	(1,107)
Amortisation of intangibles	(5,866)	(20,741)	(1,284)	(567)	–	(28,458)
Segment loss before income tax	(22,710)	(81,873)	(9,395)	(7,586)	(47,772)	(169,336)
Reconciling corporate items from operating to statutory loss:						
Employee remuneration related share-based payments						(42,202)
Other share-based payments						(879)
Acquisition of business costs						(3,265)
Share of loss of associates						(3,025)
Fair value gain on financial instruments						70,967
Impairment of goodwill						(44,678)
Loss before income tax expense for continuing operations						(192,418)
Loss before income tax expense for discontinued operations						(18,823)
Loss before income tax from continuing and discontinued operations						(211,241)

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

* The comparative information is restated and re-presented to reflect changes in classification. Please refer to Note 20.

Notes to the Condensed Consolidated Financial Statements Cont.

NOTE 3. DISCONTINUED OPERATIONS

During the current period, as part of its strategic review process the consolidated entity has ceased operations in Singapore, United Kingdom and Mexico. As per AASB 5 *Non-current assets held for sale and discontinued operations*, the consolidated entity has disclosed these operations under discontinued operations as one line on the face of the consolidated profit or loss and other comprehensive income. Prior period comparatives have been reclassified to be comparable.

RESULTS OF DISCONTINUED OPERATIONS

	CONSOLIDATED	
	31 DECEMBER 2022 $'000	31 DECEMBER 2021 $'000
Revenue	230	3,403
Expenses	(6,429)	(22,226)
Loss before income tax	(6,199)	(18,823)
Income Tax (expense)/Benefit	–	–
Loss after income tax from discontinued operations	(6,199)	(18,823)

CASH FLOWS FROM/(USED IN) DISCONTINUED OPERATIONS

The condensed cash flows from/(used in) discontinued operations during the period are set out below:

	CONSOLIDATED	
	31 DECEMBER 2022 $'000	31 DECEMBER 2021 $'000
Net Cash flow used in operating activities	(6,320)	(17,175)
Net Cash flow from investing activities	26	(899)
Net Cash flow from (used in) financing activities	–	–
Net decrease in cash and cash equivalents from discontinued operations	(6,294)	(18,074)

NOTE 4. EXPENDITURE

	CONSOLIDATED	
	31 DECEMBER 2022 $'000	31 DECEMBER 2021 RESTATED* $'000
Loss before income tax from continuing operations includes the following specific expenses:		
Depreciation and amortisation expenses:		
Depreciation of property, plant and equipment	1,425	1,107
Depreciation of right-of-use assets	1,695	2,049
Amortisation of acquired intangibles	20,661	21,610
Amortisation of internally generated IT development and software	10,024	6,848
Total depreciation and amortisation expenses	33,805	31,614
Corporate financing costs:		
Effective interest charged on convertible notes (normal course)	14,843	14,777
Effective interest charged on convertible notes (accelerated)	47,732	–
Interest on leasing liabilities	51	79
Incentive payments	12,502	–
Other finance costs	423	291
Total corporate financing costs	75,551	15,147
Other operating expenses:		
Occupancy expense	1,929	1,590
Termination payment fee	16,340	–
Acquisition of business costs	–	3,265
Loss on derecognition of financial assets	3,069	–
Other operating expenses (Restated*)	21,462	21,213
Total other operating expenses (Restated*)	42,800	26,068
Impairment losses:		
Impairment of goodwill (Note 14)	18,447	44,678
Impairment of investment in associates (Note 5)	4,655	–
	23,102	44,678
Fair value gain/loss on financial instruments:		
Fair value loss (gain) on embedded derivative and warrants (Note 6)	10,575	(65,997)
Fair value loss (gain) on investment at FVTPL (Note 12)	19,739	(1,481)
Fair value gain on investment on acquisition (Note 5)	–	(3,489)
Fair value loss (gain) on financial instruments	30,314	(70,967)

* The comparative information is restated and re-presented to reflect changes in classification. Please refer to Note 20.

Notes to the Condensed Consolidated Financial Statements Cont.

NOTE 5. INVESTMENTS IN ASSOCIATES

	TENDO $'000	ZESTMONEY[1] $'000	HEMENAL FINANSMAN A.Ş. $'000	CONSOLIDATED $'000
Balance at 30 June 2022	5,307	65,434	–	70,741
Recognition of pre-existing investment	–	–	1,434	1,434
Additional investments	–	–	4,324	4,324
Share of loss of associates	(1,147)	(83)	(1,363)	(2,593)
Foreign exchange gain	495	114	–	609
Derecognition of pre-existing investment	–	(65,465)	–	(65,465)
Impairment of investments	(4,655)	–	–	(4,655)
Balance at 31 December 2022	–	–	4,395	4,395

The associates of the consolidated entity during or at the end of the half year ended 31 December 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.

1. The investment in ZestMoney has been derecognised from an investment in an associate and has been recognised as an investment at FVTPL. Refer to Note 12 for details.

			% OF OWNERSHIP INTEREST	
ASSOCIATES	LOCATION OF INCORPORATION %	LOCATION OF PRINCIPAL OF BUSINESS %	31 DECEMBER 2022	30 JUNE 2022
Tendo	Singapore	Philippines	35.00%	35.00%
ZestMoney	Singapore	India	10.20%	10.20%
Hemenal Finansman A.Ş.	Turkey	Turkey	50.20%	60.00%

TENDOPAY

At 31 December 2022, the consolidated entity held a 35% interest in TendoPay. 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 period ended 31 December 2022, a share of loss of $1.1 million and an unrealised foreign exchange gain of $0.5 million were recorded. In November 2022, Tendo disposed of its operating subsidiary reporting a loss on sale. The consolidated entity revalued its investment in Tendo and has recorded an impairment charge of $4.7 million and brought down the value of investment in Tendo to nil at 31 December 2022.

ZESTMONEY

From 1 July 2022 to 26 August 2022, the investment in ZestMoney was measured as an investment in an associate. For the period up to 26 August 2022, the share of the loss of ZestMoney was $0.1 million and an unrealised foreign exchange gain of $0.1 million was recorded, resulting in the carrying amount of the consolidated entity's investment in ZestMoney being recorded at $65.5 million as at 26 August 2022.

When making its initial investment in ZestMoney in September 2021, the consolidated entity negotiated a conditional right to increase its shareholding. At the time, the consolidated entity fully intended to exercise that right, which would have resulted in significant influence being achieved. As such, the investment was accounted for as an associate. On 26 August 2022, the consolidated entity waived the conditional right to increase its shareholding, thus removing the future access to those additional shares and attaining significant influence over ZestMoney. As a result, the investment has been reclassified from an investment in an associate to an investment at FVTPL (Note 12) from 26 August 2022.

HEMENAL FINANSMAN A.Ş.

Zip's investment in Hemenal Finansman A.Ş. was derecognised as a subsidiary and was recognised as an investment in an associate during the half year ended 31 December 2022, due to Zip not having exposure, or rights, to variable returns from its involvement with the investee. The investment was initially measured at fair value when transferred to an investment in an associate and carried at cost after initial recognition. A share of loss of associate of $1.4 million has been recorded for the half year ended 31 December 2022.

NOTE 6. FINANCIAL LIABILITIES – CONVERTIBLE NOTES AND WARRANTS

	31 DECEMBER 2022 $'000	30 JUNE 2022 $'000
Debt hosts:		
– Convertible notes issued on 1 September 2020	51,487	73,643
– Convertible notes issued on 23 April 2021	304,722	305,294
Total Debt hosts	356,209	378,937
Embedded derivative:		
– Convertible notes issued on 1 September 2020	3,417	1,851
Warrants:		
– Warrants issued on 1 September 2020	1,928	128
Total	**361,554**	**380,916**
Equity component:		
– Convertible notes issued 23 April 2021	114,466	114,466
Total	**114,466**	**114,466**

Notes to the Condensed Consolidated Financial Statements Cont.

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

	FINANCIAL LIABILITY	FINANCIAL LIABILITY	FINANCIAL LIABILITY	TOTAL FINANCIAL LIABILITIES	EQUITY
	EMBEDDED DERIVATIVE $'000	WARRANTS $'000	NET DEBT HOST $'000	CONVERTIBLE NOTES AND WARRANTS $'000	CONVERTIBLE NOTES – EQUITY COMPONENT $'000
30 June 2022	1,851	128	378,937	380,916	114,466
Effective interest on convertible notes	–	–	62,575	62,575	–
Fair value loss recognised	8,775	1,800	–	10,575	–
Repayment of convertible notes	(7,209)	–	(30,050)	(37,259)	–
Conversion of convertible notes	–	–	(55,253)	(55,253)	–
31 December 2022	3,417	1,928	356,209	361,554	114,466

CONVERTIBLE NOTES AND WARRANTS ISSUED ON 1 SEPTEMBER 2020

	ISSUE DATE	EXPIRY DATE	CONVERSION PRICE $	NUMBER ISSUED	NUMBER OUTSTANDING
Convertible Notes	1 September 2020	1 September 2025	1.8443	1,000	600
Warrants	1 September 2020	1 September 2023	0.62	19,365,208	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 semi-annual conversion price reset on 1 September 2022, the conversion price of the convertible notes has been adjusted to $1.8443, being the floor price, 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
- 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 half year ended 31 December 2022, no convertible notes have been converted. Under the terms of the Convertible Notes, a payment of $43.0 million (including accrued interest) has been made to CVI on 1 September 2022 and Zip has cancelled 400 of the 1,000 convertible notes issued to CVI on this basis. Following the repayment, 600 convertible notes issued to CVI remained outstanding at 31 December 2022.

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 Zip's Equity Placement in December 2022, the exercise price of the warrants issued to CVI has been adjusted to $0.62, 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.

Upon repayment on 1 September 2022, Zip derecognised the 40% of the financial liabilities in relation to the embedded derivative options feature ($7.2 million) and the carrying amount of the debt host ($30.0 million), resulting in a loss of $5.8 million on derecognition of these financial liabilities, being the difference between the carrying amount of the financial liabilities before extinguishment and the repayment amount of $43.0 million.

On 1 September 2022, Zip also revised its estimation on the probability of future instalment payments and adjusted the carrying amount of the debt host at 1 September to reflect the revised estimated future cash flow. Accordingly, additional effective interest of $4.5 million has been recorded to reflect the acceleration of the accrued effective interest. As a result, total effective interest of $7.9 million in relation to convertible notes issued CVI has been recorded for the half year ended 31 December 2022.

Zip has reported a financial liability in relation to the underlying debt component of the convertible notes of $51.5 million, being the carrying amount of $73.6 million at 30 June 2022, adding an effective interest of $7.9 million and less extinguishment of debt host of $30.0 million, recorded for the year ended 31 December 2022.

The embedded derivative and the warrants have been revalued at 31 December 2022 in accordance with Accounting Standard AASB 9 *Financial Instruments*. Following the revaluation at 31 December 2022, the remaining 60% of the embedded derivative and warrants issued have been valued at fair values of $3.4 million and $1.9 million respectively using the Black Scholes option valuation model. The fair values have been based on a closing Zip's share price at 31 December 2022 of $0.51, volatility of 80%, and a risk free rate of 3.49% for the embedded derivative, and 3.35% for the warrants. The different risk free rates reflect the different expiry dates of the instruments.

A fair value loss of $6.5 million was recorded to reflect the movement for 40% of the embedded derivative from 1 July 2022 to 31 August 2022, when it was derecognised. A fair value loss of $2.3 million was recorded to reflect the movement of the remaining 60% of the embedded derivative from 1 July 2022 to 31 December 2022. A fair value loss of $1.8 million has been recorded for the warrants, being the movement in the fair values of the warrants between 1 July 2022 and 31 December 2022. Fair value gain for embedded derivative and the warrants recognised in the half year ended 31 December 2021 was $66.0 million.

Notes to the Condensed Consolidated Financial Statements Cont.

CONVERTIBLE NOTES ISSUED ON 23 APRIL 2021

	ISSUE DATE	EXPIRY DATE	CONVERSION PRICE $	NUMBER ISSUED	NUMBER OUTSTANDING
Convertible Notes	23 April 2021	23 April 2028	12.0576	2,000	1,650

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. The conversion price was adjusted to $12.0576 during the financial year 2022 and remained at $12.0576 at 31 December 2022.

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.

In December 2022, Zip completed a liability management exercise to convert $70 million of the $400 million zero coupon Senior Convertible Notes on issue. The Senior Convertible Notes were converted at a conversion price of $12.0576 per share and in addition noteholders received a cash payment of $17,860 per $100,000 of notes converted. The conversion resulted in the issuance of 5.8 million shares and the payment $12.5 million in cash to noteholders and equated to the conversion of the $70 million converted at an effective rate of 23 cents per dollar. The cash incentive payment under the conversion invitation and other transaction costs was funded by a separate Equity Placement announced by Zip on 13 December 2022, whereby Zip Co issued 21,956,476 fully paid ordinary shares on 19 December 2022 at a fixed price of $0.62.

The offer to Noteholders represented 17.5% of the outstanding notes that were originally issued (being $70.0 million out of the total $400.0 million program).

The incentive of $12.5 million provided by Zip to its participating Noteholders is considered as additional consideration for the incentive to convert the notes, and this amount has been recorded as other corporate financing costs in the half year ended 31 December 2022.

A conversion of a convertible note is considered a derecognition of the liability component.

The partially derecognised debt host of $55.3 million was transferred into $51.7 million of retained earnings and $3.6 million of issued share capital, respectively.

Upon conversion in December 2022, Zip also revised its estimation on probability of Put redemption in April 2025 and adjusted the carrying amount of the debt host in December 2022 to reflect the revised estimated future cash flow. Accordingly, additional effective interest of $43.2 million has been recorded to reflect the acceleration of the accrued effective interest. As a result, total effective interest of $54.7 million in relation to Senior Convertible Notes has been recorded for the half year ended 31 December 2022.

At 31 December 2022, Zip has reported a financial liability in relation to the underlying debt component of the Senior Convertible Notes of $304.7 million, comprising the carrying value of debt component of $305.3 million at 30 June 2022, less the derecognised debt component of $55.3 million and adding accrued effective interest of $54.7 million, recorded in the half year ended 31 December 2022. The equity component of the Senior Convertible Notes remained at $114.5 million at 31 December 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 7. TAXATION

INCOME TAX BENEFIT

	CONSOLIDATED	
	31 DECEMBER 2022 $'000	31 DECEMBER 2021 RESTATED* $'000
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax expense from continuing operations	(235,989)	(192,418)
Tax at the statutory tax rate of 30%	(70,797)	(57,725)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:	–	–
– Share-based payments	143	3,524
– Non-deductible expenses	7,613	3,013
– Non-deductible interest	16,982	–
– Assessable gain on financial instrument	16,170	–
– Non-assessable fair value loss/(gain)	5,554	(897)
– Impairment losses	7,155	13,403
– Effect of different tax rates of subsidiaries operating in other jurisdictions	5,970	9,034
	(11,210)	**(29,648)**
Current period tax losses not recognised/prior period tax losses recouped	4,965	42,027
Movement in temporary differences not recognised	1,477	(16,887)
Movement in temporary differences recognised	5,094	4,641
Income tax expense from continuing operations	326	133
Loss before income tax expense from discontinued operations	(6,199)	(18,823)
Income tax expense from discontinued operations	–	–

* The comparative information is restated and re-presented to reflect changes in classification. Please refer to Note 20.

Notes to the Condensed Consolidated Financial Statements Cont.

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 have been offset in the Condensed Consolidated Statement of Financial Position at 31 December 2022 and were offset in the Consolidated Statement of Financial Position 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.

	CONSOLIDATED	
	31 DECEMBER 2022 $'000	30 JUNE 2022 $'000
Deferred tax assets comprise temporary differences attributable to:		
– Provision for expected credit losses	40,113	45,967
– Other provision and payables	42,390	41,746
– Fair value movements on financial instruments	(7,906)	(10,985)
Deferred tax assets comprise tax losses:	120,402	119,672
Less: Deferred tax assets not brought to account[1]	(161,469)	(157,353)
Deferred tax assets (recognised from temporary difference) before set off	**33,530**	**39,047**
Set off deferred tax liabilities pursuant to set-off provisions	(33,530)	(39,047)
Net deferred tax assets	**–**	**–**
Deferred tax liabilities comprise temporary differences attributable to:	–	–
– Acquired intangibles and other	33,530	39,047
Deferred tax liabilities before set off	**33,530**	**39,047**
Set off deferred tax assets pursuant to set-off provisions	(33,530)	(39,047)
Net deferred tax liabilities	**–**	**–**

1. include those tax losses from continuing and discontinued operations.

NOTE 8. LOSS PER SHARE

A. RECONCILIATION OF EARNINGS USED IN CALCULATING LOSS PER SHARE

	CONSOLIDATED	
	31 DECEMBER 2022 $'000	31 DECEMBER 2021 RESTATED* $'000
Loss attributable to the Members of the Zip Co Limited used in calculating basic and diluted loss per share		
Continuing operations	(236,315)	(192,551)
Discontinued operations	(6,199)	(18,823)
	(242,514)	(211,374)

B. WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

	31 DECEMBER 2022‘ 000	31 DECEMBER 2021 ‘000
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	700,677	570,685

C. EARNINGS PER SHARE FROM CONTINUING OPERATIONS

	31 DECEMBER 2022 CENTS	31 DECEMBER 2021 RESTATED CENTS
Basic loss per share	(33.73)	(33.74)
Diluted loss per share[1]	(33.73)	(33.74)

D. EARNINGS PER SHARE FROM CONTINUING OPERATIONS AND DISCONTINUED OPERATIONS

	31 DECEMBER 2022	31 DECEMBER 2021
Basic loss per share	(34.61)	(37.04)
Diluted loss per share[1]	(34.61)	(37.04)

1. As the consolidated entity reported losses for the year ended 31 December 2022 and 31 December 2021, no dilutive shares have been included in the EPS calculation.

* The comparative information is restated and re-presented to reflect changes in classification. Please refer to Note 20.

Notes to the Condensed Consolidated Financial Statements Cont.

NOTE 9. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

	CONSOLIDATED	
	31 DECEMBER 2022 $'000	30 JUNE 2022 $'000
Cash and cash equivalents	153,860	241,326
Restricted cash	115,794	58,369
	269,654	299,695

At 31 December 2022 the consolidated entity had cash of $269.7 million of which $115.8 million was restricted cash (30 June 2022: cash of $299.7 million of which $58.4 million was restricted cash). Restricted cash is held by the securitisation warehouses and special purpose vehicles and is not available to pay creditors of the consolidated entity.

The consolidated entity holds balances (31 December 2022: $101.4 million, 30 June 2022: $95.7 million) that are reported as cash and cash equivalents and are held on Zip's balance sheet to either provide initial funding for transactions on Zip's virtual card or physical card products or provide a float to support such transactions. Zip considers both of these amounts as unavailable, and together with the $115.8 million in reported restricted cash are not included in the balances Zip considers as available cash to fund operations (unavailable cash 31 December 2022: $217.2 million, 30 June 2022: $154.1 million).

Zip invests funds in its securitisation warehouses and when required withdraws funds in excess of those required to meet subordination requirements to fund its operations, drawing a corresponding amount from funding providers (31 December 2022: $16.0 million, 30 June 2022: $80.0 million).

Available cash and liquidity is determined as :

	31 DECEMBER 2022 $'000	30 JUNE 2022 $'000
Cash, cash equivalents and restricted cash	269,654	299,695
Less: unavailable cash		
– Restricted cash	(115,794)	(58,369)
– Operational floats	(101,383)	(95,710)
Add: excess invested securitisation warehouses and special purpose vehicles	16,027	79,967
Available cash	68,504	225,583
Available corporate funding	10,000	53,000
Total cash and liquidity	78,504	278,583

RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH USED IN OPERATING ACTIVITIES

	31 DECEMBER 2022[1] $'000	31 DECEMBER 2021[1] RESTATED* $'000
Loss after income tax expense for the half year	(242,514)	(211,374)
Adjustments for:		
Depreciation and amortisation expense	33,919	31,856
Share-based payments	13,526	44,645
Share of loss of associate	2,593	3,025
Loss on derecognition of financial liabilities	5,751	–
Fair value movements on financial instruments and investments	30,314	(70,967)
Effective interest charged on convertible notes	62,575	14,777
Incentive payments	12,502	–
Impairment of goodwill and intangibles	23,102	44,678
Change in operating assets and liabilities:		
Movement in customer receivables	(248,922)	(460,745)
Movement in other receivables	(8,735)	(10,062)
Movement in other payables	90,127	(17,841)
Movement in employee provisions	(425)	2,397
Net cash flow in operating activities	(226,187)	(629,611)

1. The consolidated entity has elected to present the reconciliation to operating activities in total – i.e., including both continuing and discontinued operations. Amounts related to discontinued operations by operating, investing and financing activities are disclosed in Note 3.

* The comparative information is restated and re-presented to reflect changes in classification. Please refer to Note 20.

Notes to the Condensed Consolidated Financial Statements Cont.

NOTE 10. OTHER RECEIVABLES

	CONSOLIDATED	
	31 DECEMBER 2022 $'000	30 JUNE 2022 $'000
Amounts due from payment platform providers	43,395	38,232
Prepayments	12,632	11,005
Accrued Income	20,556	12,785
Other receivables	13,009	10,813
Total	89,592	72,835

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; 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 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 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 31 December 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.

Notes to the Condensed Consolidated Financial Statements Cont.

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 31 December 2022 and at 30 June 2022, 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 31 December 2022 and at 30 June 2022, the impact of COVID-19 still existed and its impact was considered in the assessment of the economic overlay.

PROVISION OVERVIEW

From 30 June 2022 to 31 December 2022,the provision for expected credit losses decreased by $16.8 million. 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[1] $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
Customer receivables	2,447,170	291,556	91,597	91,882	2,922,205
Unearned future income	(10,385)	(11,340)	(1)	–	(21,726)
Provision for expected credit losses	(102,504)	(27,018)	(7,449)	(6,463)	(143,434)
Balance at 31 December 2022	2,334,281	253,198	84,147	85,419	2,757,045

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 0.9% of the total customer receivables presented in APAC segment. Refer to Note 2 for a description of the consolidated entity's instalments and line of credit products.

	APAC $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
Customer receivable	2,264,577	231,313	84,423	104,261	2,684,574
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	194,610	75,634	98,701	2,508,124

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 2022	116,716	29,158	8,755	5,560	160,189
Provided in the period	25,446	35,966	5,142	13,049	79,603
Receivables written-off during the period	(44,982)	(46,426)	(6,772)	(12,592)	(110,772)
Recoveries during the period	9,493	7,600	460	372	17,925
Foreign exchange and other movement[1]	(4,169)	720	(136)	74	(3,511)
Balance at 31 December 2022	102,504	27,018	7,449	6,463	143,434

1. Other movement includes $0.2 million of Bad debts and expected credit losses from discontinued operations.

The consolidated entity's customer receivable balances are predominately high volume low value advances to individual customers. The following tables provides information about customer receivables classified into Stage 1 to Stage 3 and the provision provided for expected credit losses for each stage. As the consolidated entity's customer receivables are short-term in nature, the staging transfer disclosures have not been provided.

	APAC $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
Gross Customer Receivables					
Stage 1	2,298,850	263,147	85,125	87,208	2,734,330
Stage 2	112,586	20,637	3,816	3,408	140,447
Stage 3	35,734	7,772	2,656	1,266	47,428
Balance at 31 December 2022	2,447,170	291,556	91,597	91,882	2,922,205
Provision for Expected Credit Losses					
Stage 1	(29,249)	(12,981)	(2,732)	(3,875)	(48,837)
Stage 2	(51,012)	(9,638)	(2,208)	(1,410)	(64,268)
Stage 3	(22,243)	(4,399)	(2,509)	(1,178)	(30,329)
Balance at 31 December 2022	(102,504)	(27,018)	(7,449)	(6,463)	(143,434)

Notes to the Condensed Consolidated Financial Statements Cont.

	APAC $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
Gross Customer Receivables					
Stage 1	2,120,690	188,408	76,543	94,983	2,480,624
Stage 2	104,083	25,849	4,641	6,016	140,589
Stage 3	39,804	17,056	3,239	3,262	63,361
Balance at 30 June 2022	2,264,577	231,313	84,423	104,261	2,684,574
Provision for Expected Credit Losses					
Stage 1	(40,572)	(14,801)	(2,513)	(2,853)	(60,739)
Stage 2	(48,479)	(4,716)	(3,218)	(1,428)	(57,841)
Stage 3	(27,665)	(9,641)	(3,024)	(1,279)	(41,609)
Balance at 30 June 2022	(116,716)	(29,158)	(8,755)	(5,560)	(160,189)

The following table provides information about customer receivables by payment past due status. Figures presented in the table differ from the staging table as the staging table is based on the assessment of credit risk which includes, but is not limited to past due status.

	CONSOLIDATED			
	31 DECEMBER 2022 $'000	% OF CUSTOMER RECEIVABLES	30 JUNE 2022 $'000	% OF CUSTOMER RECEIVABLES
Past due under 30 days	83,099	3%	85,311	3%
Past due 31 days to under 60 days	37,431	1%	41,386	2%
Past due 61 to under 90 days	28,342	1%	32,269	1%
Past due 91 under 180 days	39,003	1%	44,984	2%

NOTE 12. INVESTMENTS AT FVTPL

	31 DECEMBER 2022 $'000
Balance at 30 June 2022	–
Recognition of pre-existing investment at FVTPL	65,465
Fair value loss on revaluation	(19,739)
Foreign exchange gain	1,236
Balance at 31 December 2022	46,962

As set out in Note 5, Zip's investment in ZestMoney has been derecognised from an investment in an associate and recognised as an investment at FVTPL. At 31 December 2022, the fair value of the investment was based on an assessment of market value which resulted in a fair value loss of $19.7 million.

NOTE 13. INTANGIBLE ASSETS

	CONSOLIDATED	
	31 DECEMBER 2022 $'000	30 JUNE 2022 $'000
Carrying amounts		
Brand names and trademarks	829	855
Customer database	428	619
Transacting partner database	50,374	58,874
IT development and software	122,402	132,002
	174,033	192,350

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 2022	7,357	3,660	93,454	265,435	369,906
Additions	–	–	–	11,210	11,210
Effect of movements in foreign exchange rates	(26)	–	1,482	(4,443)	(2,987)
Balance at 31 December 2022	7,331	3,660	94,936	272,202	378,129

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 2022	(6,502)	(3,041)	(34,580)	(133,433)	(177,556)
Additions	–	(191)	(8,703)	(21,791)	(30,685)
Effects of movements in foreign exchange rates	–	–	(1,279)	5,424	4,145
Balance at 31 December 2022	(6,502)	(3,232)	(44,562)	(149,800)	(204,096)

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

Internally generated intangibles:

- IT development and software 2.5 years.

Notes to the Condensed Consolidated Financial Statements Cont.

Acquired intangibles:

- Brand names indefinite 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.

NOTE 14. GOODWILL

The consolidated entity has five cash-generating units (CGUs) at 31 December 2022 as set out in the following table. Goodwill has been allocated to these CGUs.

CONSOLIDATED	ZIP AU $'000	ZIP US $'000	ZIP NZ $'000	ZIP BUSINESS $'000	PAYFLEX $'000	CONSOLI-DATED $'000
Balance at 30 June 2022	4,548	195,806	1,234	2,112	19,044	222,744
Impairment	–	–	–	–	(18,447)	(18,447)
Effect of movements in foreign exchange rates	–	3,284	(43)	–	(597)	2,644
Balance at 31 December 2022	4,548	199,090	1,191	2,112	–	206,941

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.

Management have performed the assessment of impairment indicators assessment for each of the consolidated entity's CGUs, including both internal and external factors as indicators of impairment. Other than for the Zip US CGU and Payflex CGU, there have been no indicators of impairment for these CGUs at 31 December 2022.

To assess the potential impairment of the Zip US CGU, Zip conducted a full impairment test. At 31 December 2022, the recoverable amount of the Zip US CGU 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 reflecting the cost of equity. Cash flow projections during the forecast period are based on forecast revenue growth arising from increasing total transaction volumes for the Zip US CGU. Forecast increases in gross margin and operating costs have been included to support the forecast growth in volumes. 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 in the 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.

A discount rate of 14% (12.5% used in June 2022) and long term growth rate of 4% (4% used in June 2022) has been used in the calculation of the value-in-use.

For the Zip US CGU, the carrying amount does not exceed the recoverable amount therefore no impairment of goodwill and intangible assets at 31 December 2022 has been recorded.

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

AT 31 DECEMBER 2022	ZIP US %
Percentage reduction in the forecast	
CAGR of transaction volumes	5.8%
Increase in discount rate %	1.7%
Decrease in long-term annual growth rate %	2.3%

Zip impaired goodwill in the Payflex CGU by $18.4 million to reflect the difference between the Payflex carrying amount at 31 December 2022 and an assessment of market value.

There has been no impairment recorded in relation to Zip's other CGUs at 31 December 2022 (31 December 2021: $44.7 million).

NOTE 15. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	31 DECEMBER 2022 $'000	30 JUNE 2022 $'000
Trade payables	33,417	34,830
Amounts due to merchants and other partners	179,907	75,253
Other	8,993	30,464
Total	222,317	140,547

NOTE 16. DEFERRED CONSIDERATION

	CONSOLIDATED $'000
Balance at 30 June 2022	26,184
Settlement of Twisto Holdback Consideration	(19,965)
Partially settled Payflex contingent consideration	(3,008)
Unrealised foreign exchange impact	587
Balance at 31 December 2022	3,798

Notes to the Condensed Consolidated Financial Statements Cont.

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. No claims have been made and consequently in December 2022, Zip issued 27,627,408 shares at an issue price of $0.7227 to settle the Twisto Holdback consideration, valued at $19.96 million at the date of settlement, resulting in a foreign exchange loss of 0.66 million. As a result, the Twisto Holdback consideration amount reduced to nil at 31 December 2022 ($19.3 million at 30 June 2022).

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 former Payflex shareholders in Zip shares or cash, subject to the achievement of 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. As at 30 June 2022, Payflex achieved the performance milestones and accordingly 1,053,608 Zip's shares were issued to Payflex shareholders on 4 October 2022, valued at $0.8 million and a cash payment of $2.2 million was made. Consequently the balance of the contingent consideration has reduced to $3.4 million, reported as $3.2 million as at 31 December 2022 (reduced by a foreign exchange impact of $0.2 million), and will be settled to the vendors on 31 March 2023 and 30 September 2023.

In addition, the terms of the Payflex Acquisition entitled the vendors to a holdback consideration amounting to $0.6 million (ZAR$7.2 million) to be settled twelve months from the date of completion. Subsequent to 31 December 2022, the holdback consideration was paid and the liability reduced to nil.

NOTE 17. BORROWINGS

BORROWINGS AND SECURITISATION WAREHOUSE

	CONSOLIDATED	
	31 DECEMBER 2022 $'000	30 JUNE 2022 $'000
Secured Consumer facilities	2,599,349	2,326,031
Secured SME facilities	65,505	53,518
Corporate facility[1]	1,214	1,893
	2,666,068	2,381,442
Add: accrued interest	7,406	4,434
Less: unamortised costs	(4,230)	(4,967)
	2,669,244	2,380,909

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. Of the secured consumer facilities $2,509 million is directly secured by receivables in the consolidated entities securitisation warehouses and special purpose vehicles. In the event the consolidated entity does not extend a facility, or renew a facility with a new financier, the facility amortises under the terms of the respective facility agreement and customer repayments are used to repay the respective financier.

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	
	31 DECEMBER 2022 $'000	30 JUNE 2022 $'000
Customer receivables[1]	2,640,990	2,405,196
Cash held in asset-backed financing programs	115,794	58,369
	2,756,784	2,463,565
Borrowings related to receivables[2]	2,875,346	2,606,348

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 $12.9 million held by entities that do not have asset-backed financing programs in place at 31 December 2022 and $27.2 million at 30 June 2022.
2. Including $210.5 million junior and seller notes held by Zip's corporate entities ($226.8 million at 30 June 2022).

TERM OF FACILITIES FINANCING ARRANGEMENTS

CONSUMER RECEIVABLES	FACILITY LIMIT $'000	DRAWN AT 31 DECEMBER 2022 $'000	MATURITY	FACILITY TYPE
Zip Master Trust				
– Rated Note Series				
– 2021-1	475,000	475,000	April 2024	BBSW + Margin
– 2021-2	617,500	617,500	September 2024	BBSW + Margin
– 2022-1	285,000	285,000	November 2023	BBSW + Margin
– Variable Funding Note	535,420	480,420	March 2024	BBSW + Margin
– Variable Funding Note 2	136,221	116,721	January 2024	BBSW + Margin
zipMoney 2017-1 Trust	264,700	254,900	May 2023	BBSW + Margin
zipMoney 2017-2 Trust	100,000	90,000	September 2023	BBSW + Margin
AR2LLC[1]	442,804	191,691	May 2024	SOFR
Zip NZ Trust 2021-1[2]	28,009	17,179	July 2023	BKBM +Margin
Twisto Czech[3]	62,389	41,081	March 2023	EURIBOR + Margin
Twisto Poland[3]	30,623	24,678	November 2023	EURIBOR + Margin
Payflex South Africa[4]	7,337	5,179	January 2025	PLR + Margin
Total	2,985,003	2,599,349		

1. Facility limit of US$300.0 million translated to AUD at exchange rate of 0.6775.
2. Facility limit of NZ$30.0 million translated to AUD at exchange rate of 1.0711.
3. Facility limits of CZK$958.0 million for Twisto Czech and EUR€19.5 million for Twisto Poland translated to AUD at the exchange rates of 15.3553 and 0.6359 respectively.
4. Facility limit of ZAR$85.0 million translated to AUD at exchange rate of 11.5845.

Notes to the Condensed Consolidated Financial Statements Cont.

SME RECEIVABLES

	FACILITY LIMIT $'000	DRAWN AT 31 DECEMBER 2022 $'000	MATURITY	FACILITY TYPE
Securitisation Warehouses				
Zip Biz Trust 2022-1	60,000	37,825	March 2024	BBSW + Margin
Funding Box NZ[1]	37,345	27,680	November 2023	BKBM + Margin
Total	97,345	65,505		

1. Facility limit of NZ$40.0 million translated to AUD at exchange rate of 1.0711.

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.

	31 DECEMBER 2022 SHARES '000	31 DECEMBER 2022 $'000	30 JUNE 2022 SHARES '000	30 JUNE 2022 $'000
Ordinary shares – fully paid	765,365	2,094,790	687,936	2,041,496
	765,365	2,094,790	687,936	2,041,496

MOVEMENTS IN ORDINARY SHARE CAPITAL

DETAILS	SHARES '000	$000
Balance at 30 June 2022	687,936	2,041,496
Issue of shares – employee incentives	20,987	15,832
Issue of shares – capital raising	21,956	13,613
Issue of shares – exercise of options	–	63
Issue of shares – conversion of Senior Convertible Notes	5,805	3,599
Issue of shares – Payflex Deferred consideration	1,054	838
Issue of shares – Twisto holdback considerations	27,627	19,965
Cost of issuing shares	–	(616)
Balance at 31 December 2022	765,365	2,094,790

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MOVEMENTS IN OPTIONS

Employee options

DETAILS	OPTIONS '000
Balance at 30 June 2022	960
Exercised during the period	(154)
Forfeited during the period	(76)
Expired during the period	(17)
Balance at 31 December 2022	713

Westpac Banking Corporation

At 30 June 2022, the Company had 5,880,000 outstanding but lapsed options held by Westpac Banking Corporation Options which were cancelled on 8 September 2022.

MOVEMENTS IN PERFORMANCE RIGHTS

Performance Rights Under at Risk Long-Term Incentives (LVTR)

DETAILS	RIGHTS '000
Balance at 30 June 2022	3,912
Lapsed during the period	(509)
Balance at 31 December 2022	3,403

Performance Rights Under Long Term Equity

DETAILS	RIGHTS '000
Balance at 30 June 2022	5,281
Granted during the period	12,685
Lapsed during the period	(2,974)
Vested during the period	(1,583)
Balance at 31 December 2022	13,409

MOVEMENTS IN WARRANTS

DETAILS	WARRANTS '000
Balance at 30 June 2022	33,980
Lapsed during the period	(1,827)
Balance at 31 December 2022	32,153

Notes to the Condensed Consolidated Financial Statements Cont.

The following table shows details of warrants issued and outstanding at 31 December 2022:

ISSUE DATE	EXPIRY DATE	EXERCISE PRICE	NUMBER ISSUED
6 November 2019	6 November 2026	$4.70	12,788,125
1 September 2020[1]	1 September 2023	$0.62	19,365,208
Total at 31 December 2022			32,153,333

1. Refer to Note 6 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 are made at each future reporting date and adjustments made to the amounts recognised in expenses based on this assessment.

During the financial year ended 30 June 2022, 1,826,875 Amazon Warrants, representing 12.5% of the total Amazon Warrants, were cancelled. The transaction volumes processed through Amazon Australia have not met the requirement of the first performance milestone on the third anniversary date, being 7 November 2022, and as a result 1,826,875 Amazon Warrants, representing another 12.5% of the total Amazon Warrants, expired on this basis, and were cancelled in February 2023. There were no other Amazon Warrants exercised or expired during the half year ended 31 December 2022.

MOVEMENTS IN CONVERTIBLE NOTES

DETAILS	NUMBER OF CONVERTIBLE NOTES
Balance at 30 June 2022	3,000
Repayment of convertible notes issued to CVI[1]	(400)
Conversion of Senior Convertible Notes[1,2]	(350)
Balance at 31 December 2022	2,250
Represented as:	
Convertible notes issued on 1 September 2020[1]	600
Convertible notes issued on 23 April 2021[1,2]	1,650
	2,250

1. Refer to Note 6 for details of the convertible notes outstanding at 31 December 2022.
2. The convertible notes issued on 23 April 2021 are listed on the Singapore Exchange (SGX).

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.

During the financial year ended 30 June 2022, the milestones were partially achieved, and 1,099,711 shares were issued as milestone consideration. During the half year ended 31 December 2022, due to certain acceleration events occurring, the milestones were deemed to have been achieved. Accordingly, an additional 4,296,863 shares were issued as milestone consideration. In each case above, the number of Zip's shares issued as milestone consideration was calculated based on the prescribed $6.00 share price and included the issue of additional shares as payment of the required 'true up' amounts due to Zip's share price being less than the prescribed $6.00 (such shares being issued at the price equal to the volume weighted average price of Zip's shares in the 30 trading days prior to their applicable issue date). No obligations for milestone consideration remained outstanding in relation to the acquisition of Urge.

Tenure Consideration Shares and Performance Consideration Shares 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 were to 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 2,500,000 Tenure Consideration Shares were issued on 15 September 2022, following QuadPay Founders' continuous employment with QuadPay to 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.

Notes to the Condensed Consolidated Financial Statements Cont.

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 was payable to each QuadPay Founder. Zip issued 6,142,506 shares on 4 October 2022 to the QuadPay Founders as part of the Performance Consideration Shares, with the balance of $19.3 million paid in cash. The number of shares issued were 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 paid 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. Accordingly the balance of the Performance Consideration Shares reduced to nil.

PERFORMANCE SHARES THAT MAY BE ISSUED TO A SUBSET SPOTII SELLERS

Under the terms of the acquisition of Spotii, Zip 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.

At 31 December 2022, none of the performance targets have been met, and following Zip's announcement of its intention to wind down operations in the Middle East these performance targets are incapable of being met.

NOTE 19. CONTINGENCIES

On 24 June 2019, Zip announced to the ASX that Firstmac Limited had commenced proceedings in the Federal Court against Zip Co Limited and zipMoney Payments Pty Ltd alleging infringement of Firstmac's "ZIP" trademark, which is registered in respect of financial affairs (loans). Zip continues to vigorously defend the proceedings and has brought a cross-claim seeking cancellation of Firstmac's "ZIP" trademark. However, as the proceedings are ongoing at the date of this report, there remains the possibility of a liability being incurred contingent on the outcome of the proceedings.

As previously disclosed in the consolidated entity's Annual Report 2022, an arbitration was entered into with respect to a legal dispute associated with an alleged breach of contract. The arbitration is ongoing, and the directors continue to consider the most likely outcome at this time is that there is no material present obligation arising from a past event at 31 December 2022.

There were no other contingent liabilities or contingent assets as at 31 December 2022 and as at 30 June 2022.

NOTE 20. PRIOR PERIOD ADJUSTMENTS

During the financial year ended 30 June 2022, the consolidated entity determined that the consolidated financial statements for the financial year ended 30 June 2021 contained certain misstatements which required restatement. The restatements in the consolidated financial statements for the financial year ended 30 June 2021 have resulted in a restatement of the comparative information included in the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of change in equity, and condensed consolidated statement of cash flows in this report.

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

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A. INCOME STATEMENT RESTATEMENT

The following restatement impacts the condensed consolidated statement of profit or loss and other comprehensive income for the six months to 31 December 2021 and the condensed consolidated statement of financial position at 31 December 2021.

(a) A reduction in customer receivables of $2.1 million with a corresponding decrease in revenue of $2.1 million, in relation to the improvement in the effective interest income calculation process for customer receivables.

(b) An increase in customer receivables of $8.6 million with a corresponding decrease in the bad debts and expected credit loss expense of $8.6 million, in relation to the incorrect accounting for customer disputes.

(c) An increase in trade and other payables of $3.6 million with a corresponding increase in other operating expense of $3.6 million, due to adjustments to operating costs.

B. CASH FLOW RESTATEMENTS

Within the consolidated statement of cash flows for the six months to 31 December 2021, "Net increase in receivables" ($602.5 million) and "Borrowing transaction costs" ($1.8 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 used in operating activities of $25.3 million to net cash flow used in operating activities of $629.6 million.

C. RECLASSIFICATIONS

Zip also made certain reclassifications of account balances across its consolidated balance sheet and consolidated income statement as management believed 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 was changed in respect of:

- 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 was changed in respect of:

- 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 condensed consolidated statements of prof it or loss and other comprehensive income, condensed consolidated statements of changes in equity, and condensed consolidated statements of cash flows for the half year ended 31 December 2021.

The values as previously reported for the half year 2021 were derived from the consolidated entity's Half Year Financial Report for the six months to 31 December 2021 dated 28 February 2022.

Notes to the Condensed Consolidated Financial Statements Cont.

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

FOR THE HALF YEAR ENDED 31 DECEMBER 2021	PREVIOUSLY REPORTED $'000	RECLASSIFI-CATIONS $'000	RESTATEMENTS $'000	CURRENTLY REPORTED $'000	FOOTNOTE
Operating Income	297,901	(297,901)	–	–	2
Portfolio interest income	251,882	(3,598)	(2,070)	246,214	a, 2
Transactional income	46,019	3,598	–	49,617	2
Revenue	297,901	–	(2,070)	295,831	a
Interest Expense	–	(37,357)	–	(37,357)	3
Amortisation of Funding	(3,525)	3,525	–	–	3
Interest Expense	(33,832)	33,832	–	–	3
Bad debts and expected credit losses	(143,836)	–	8,635	(135,201)	b
Bank fees and data costs	(55,429)	–	–	(55,429)	
Other Income	906	–	–	906	
Other operating expenses	–	(22,432)	(3,636)	(26,068)	c, 4
Administration expenses	(17,928)	17,928	–	–	4
Occupancy expenses	(1,239)	1,239	–	–	4
Acquisition of business costs	(3,265)	3,265	–	–	4
Depreciation and amortisation expenses	–	(31,614)	–	(31,614)	5
Depreciation expense	(3,155)	3,155	–	–	5
Amortisation of intangibles	(28,459)	28,459	–	–	5
Salaries and employee benefits expenses	(78,444)	–	–	(78,444)	
Information technology expenses	(20,011)	–	–	(20,011)	
Marketing expenses	(70,067)	–	–	(70,067)	
Share-based payments	(43,081)	–	–	(43,081)	
Corporate financing costs	(15,147)	–	–	(15,147)	
Share of loss of associates	(3,025)	–	–	(3,025)	
Fair value (loss) gain on financial instruments	70,967	–	–	70,967	
Impairment of goodwill and Intangibles	(44,678)	–	–	(44,678)	
Loss before Income Tax from continuing operations	(195,347)	–	2,929	(192,418)	
Income tax benefit	(133)	–	–	(133)	
Loss after Income Tax from continuing operations	(195,480)	–	2,929	(192,551)	
Loss after Income Tax from discontinuing operations	(18,823)	–	–	(18,823)	
Loss after Income Tax attributable to Zip Co Limited	(214,303)	–	2,929	(211,374)	
Basis loss per share (cents)	(37.55)	–	0.51	(37.04)	
Diluted loss per share (cents)	(37.55)	–	0.51	(37.04)	

Previously Reported numbers in the Condensed Statement of Profit or Loss and Other Comprehensive Income have been reclassified to reflect the split between continuing and discontinued operations before the restatement and reclassifications stated in this note. Please refer to Note 3 for details of discontinued operations.

1. In accordance with AASB 101, the presentation of the consolidated Statement of Profit or Loss and Other Comprehensive Income changed in respect of:
   - 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. Reclassification of 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.

(2) Statement of Changes in Equity

FOR THE HALF YEAR ENDED 31 DECEMBER 2021	PREVIOUSLY REPORTED $'000	RESTATEMENTS $'000	AS RESTATED $'000	FOOTNOTE
Loss for the period	(214,303)	2,929	(211,374)	a,b,c
Total Comprehensive loss	(172,788)	2,929	(169,859)	a,b,c
Accumulated losses	(961,449)	2,929	(958,520)	a,b,c
Total Equity	1,161,703	2,929	1,164,632	a,b,c

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

(3) Statement of Cash Flows

FOR THE HALF YEAR ENDED 31 DECEMBER 2021	PREVIOUSLY REPORTED $'000	RESTATEMENTS $'000	AS RESTATED $'000	FOOTNOTE
Net increase in receivables	–	(602,515)	(602,515)	1
Borrowing transaction costs	–	(1,804)	(1,804)	2
Net Cash Flow used in Operating Activities	(25,292)	(604,319)	(629,611)	
Net increase in receivables	(602,515)	602,515	–	1
Net Cash Flow used in Investing Activities	(679,086)	602,515	(76,571)	
Borrowing transaction costs	(1,804)	1,804	–	2
Net Cash Flow from Financing Activities	640,431	1,804	642,235	
Net decrease in cash, cash equivalents, and restricted cash	(63,947)	–	(63,947)	

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".

Notes to the Condensed Consolidated Financial Statements Cont.

NOTE 21. SUBSEQUENT EVENTS

In January 2023, Zip announced its intention to cease operations in the Middle East and commenced the process of winding down activities in this geography.

Under the terms of the Payflex Acquisition, the vendors were entitled to a holdback consideration amounting to $0.6 million (ZAR$7.2 million) to be settled twelve months from the date of completion. Subsequent to 31 December 2022, the holdback consideration was paid and the holdback consideration reduced to nil.

Subsequent to the half year end, Zip agreed an extension to the maturity date of the zipMoney 2017-2 Trust to 29 December 2023, with a reduced limit of $90 million, and an option for Zip to extend for an additional three months.

To the date of the release of this report, there have been no other material items, transactions or events subsequent to 31 December 2022 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

Directors' Declaration

In the Directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standards AASB 134 *Interim Financial Reporting*, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors

Larry Diamond
Managing Director &
Global Chief Executive Officer

23 February 2023

Independent Auditor's Report to the Members

Deloitte.

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Independent Auditor's Review Report to the Members of Zip Co Limited

Conclusion

We have reviewed the half-year financial report of Zip Co Limited (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2022, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 14 to 63.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and

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

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the condensed consolidated financial statements, which indicates that the Group has incurred a consolidated loss after tax of $241.2 million and had net cash outflows from operating activities of $226.2 million, net cash outflows from investing activities of $22.9 million and net cash inflows from financing activities of $227.9 million during the six months ended 31 December 2022. As stated in the going concern section of Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Deloitte.

Directors' Responsibilities for the Half-year Financial Report

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

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants
Sydney, 23 February 2023

Corporate Directory

DIRECTORS

Diane Smith-Gander AO (Chair)
Larry Diamond (Managing Director & Global CEO)
Peter Gray (Executive Director & Global COO)
John Batistich (Non-Executive Director)
Meredith Scott (Non-Executive Director)

COMPANY SECRETARY

David Franks
Tai Phan

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ASX Code: ZIP

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