APPENDIX 4D
Half Year Financial Report

Name of entity:	Zip Co Limited
ACN:	139 546 428
Reporting period:	Half Year ended 31 December 2021
Previous period:	Half Year ended 31 December 2020

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 2021 $'000	31 DECEMBER 2020 $'000
Revenue from ordinary activities	UP	89%	302,210	160,028
Loss from ordinary activities after income tax attributable to members	DOWN	53%	(214,303)	(453,769)
Total comprehensive loss attributable to members	DOWN	62%	(172,788)	(455,929)

The company does not have a dividend policy.

	31 DECEMBER 2021	31 DECEMBER 2020
Total number of ordinary shares on issue	588,834,884	541,603,343
Net tangible asset backing per ordinary share[1]	2.88 cents	12.12 cents

1. The net tangible asset backing includes the Right-of-use asset recognised as per AASB16.

BRIEF EXPLANATION OF THE ABOVE FIGURES

Zip recorded revenue growth of 89% over the previous corresponding period, including $3.7 million in revenue generated by acquired entities, Spotii and Twisto, in the two months following acquisition.

The Group reported a loss before tax, depreciation, amortisation and share based payments of $157.6 million (excluding non-recurring items) compared to a loss of $14.9 million in the prior corresponding half year. The Group has invested in employment, marketing and other expenses in the six months to 31 December 2021 to support the growth in revenue during the half year, and expansion into new markets.

Further commentary on the results is contained in Zip's Half Year Financial Report for the six months to 31 December 2021.

APPENDIX 4D
Half Year Financial Report

Continued

Zip reported a statutory loss after tax of $214.3 million. The reported loss before tax was $214.2 million which includes a number of non-recurring items.

Excluding these items, Zip reported an adjusted loss before tax (which is non-IFRS information) of $153.6 million as follows:

FOR THE HALF YEAR ENDED 31 DECEMBER 2021	$'M	
Reported loss before income tax	(214.2)	
Add Back:		
Acquisition of business costs	3.3	On acquisitions made or announced in the period
Fair value gains relating to the acquisitions	(5.0)	Revaluation of pre-existing investments
One-off re-branding costs	17.6	Global re-branding project costs
Impairment of goodwill	44.7	Impairment of goodwill allocated to the Zip UK CGU
Adjusted loss before income tax	(153.6)	

DETAILS OF CONTROLLED ENTITIES

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

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

Detailed information in relation to these acquisitions and their contributions to the Group's financial performance since acquisition is contained in the 31 December 2021 Half Year Report.

ASSOCIATES/JOINT VENTURE ENTITIES

In September 2021, Zip invested US$50.0 million to acquire an 11.1% interest in ZestMoney – a leading Indian BNPL operator. On acquisition, Zip accounted for the investment in ZestMoney as an associate.

During the half year ended 31 December 2021, Zip increased its interest in its associate TendoPay by 10% to 35%.

Detailed information is contained in the 31 December 2021 Half year Report.

REVIEW CONCLUSION

This report is based on the condensed consolidated financial statements for the half year ended 31 December 2021.

The condensed consolidated financial statements have been subject to a review by an independent auditor and the review is not subject to qualification.

DIVIDENDS

No dividends have been declared for the half year ended 31 December 2021 or for the previous corresponding period.

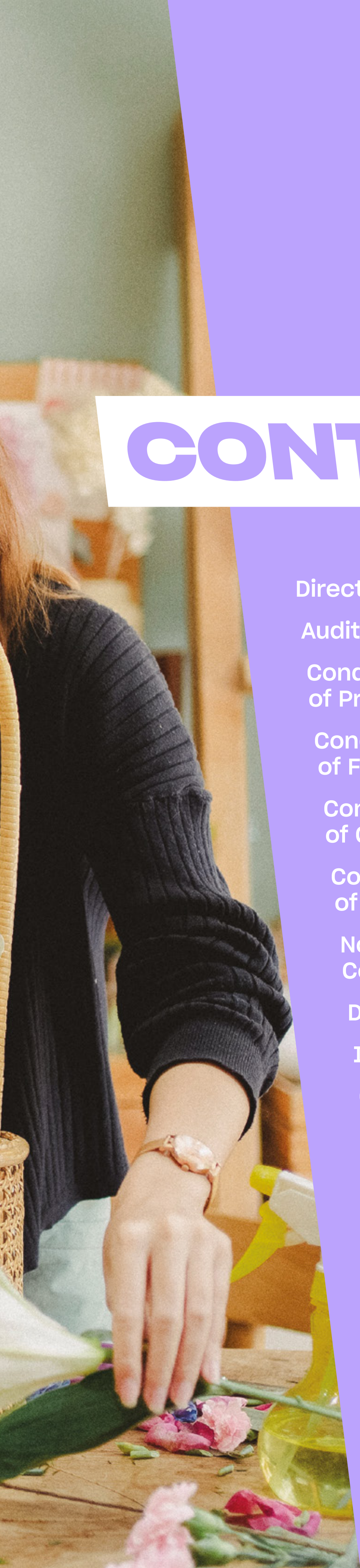
Larry Diamond
Managing Director & Chief Executive Officer

28 February 2022

FEARLESS

HALF YEAR
FINANCIAL REPORT
2022

Zip Co Limited
ACN 139 546 428
(ASX: Z1P)



CONTENTS

FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2021

This financial report does not include all the notes of the type normally included in an annual financial report. This report is to be read in conjunction with the Annual Report for the year ended 30 June 2021 and any public announcements made by Zip Co Limited during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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 2021.

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
Pippa Downes

REVIEW AND RESULTS OF OPERATIONS

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

	31 DECEMBER 2021 $'000	31 DECEMBER 2020 $'000
Revenue from ordinary activities	302,210	160,028
Loss from ordinary activities after income tax attributable to members	(214,303)	(453,769)
Total comprehensive loss attributable to members	(172,788)	(455,929)

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 in the United States, New Zealand, United Kingdom, Canada, Mexico, Central Europe, Singapore and the Middle East.

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

CONSUMERS

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

SMALL AND MEDIUM SIZED MERCHANTS

Zip has a number of credit and payment services to support its SME base across Australia and New Zealand both online and in-store:

- Merchants can offer Zip, an interest free payment method at checkout, to increase basket sizes, conversion rates, and drive repeat purchases;
- SMEs can apply for a Zip Business Trade or Trade Plus account, which provide an interest free line of credit of up to $150,000. Account holders can use their credit to cover their bills and invoices or everyday purchases, repaying them on a flexible repayment schedule; and
- Zip also provides SMEs unsecured loans of up to $500,000 with Zip Business Capital.

REVIEW OF PERFORMANCE

OPERATIONAL PERFORMANCE

CONSUMERS

KEY METRIC			
FOR THE HALF YEAR ENDED 31 DECEMBER	2021	2020	%
Transaction Volumes ('$M)	4,448.6	2,320.6	91.7%
Consumers ('M)	9.9	5.7	73.7%
Merchants ('K)	81.8	38.5	112.5%

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

TRANSACTION VOLUMES

FOR THE HALF YEAR ENDED 31 DECEMBER	2021 $'M	2020 $'M	MOVEMENT %
APAC	2,190.7	1,529.9	43.2%
AMERICAS	2,126.0	790.7	168.9%
EMEA	131.9	–	–
	4,448.6	2,320.6	91.7%

Transaction volumes generated by consumers have grown to $4.4 billion for the 6 months, an increase of 91.7%, including transaction volumes of $78.2 million generated by Twisto and Spotii in the two months from the dates of acquisition, reported in the EMEA segment.

Directors' Report

Continued

CONSUMERS

FOR THE HALF YEAR ENDED 31 DECEMBER	2021 M	2020 M	MOVEMENT %
APAC	3.0	2.5	20.0%
AMERICAS	5.7	3.2	78.1%
EMEA	1.2	–	–
	9.9	5.7	73.7%

The number of consumer accounts has increased to 9.9 million globally at 31 December 2021, including 1.0 million added on the acquisition of Spotii and Twisto, an increase of 2.6 million from the 7.3 million reported at 30 June 2021.

MERCHANTS

FOR THE HALF YEAR ENDED 31 DECEMBER	2021 K	2020 K	MOVEMENT %
APAC	40.2	30.1	33.6%
AMERICAS	18.5	8.4	120.2%
EMEA	23.1	–	–
	81.8	38.5	112.5%

Merchant numbers increased by 43,300 from 31 December 2020, including 22,600 added on the acquisition of Spotii and Twisto. Enterprise merchants and SMEs continue to join Zip's platform as they recognise that providing their consumers with Zip's alternative payment method at point of sale and at checkout increases sales volumes and order values, and drives repeat purchases.

SMES

FOR THE HALF YEAR ENDED 31 DECEMBER	2021 $'M	2020 $'M	MOVEMENT %
Originations	70.9	21.2	234.4%

Launched in August 2020, Zip Business has seen a 234.4% increase in originations compared to the previous corresponding period. The business has continued to refine its products to meet the requirements of SMEs, across Australia and New Zealand, facing the challenges of operating in an environment dealing with COVID-19. "Tap to pay", a contactless payment solution, was launched for Trade Plus customers in the period and had an immediate impact on frequency of usage.

FINANCIAL PERFORMANCE

GROUP RESULT

Operating income grew by 88.5% to $301.3 million for the six months to 31 December 2021, when compared to the six months to 31 December 2020, driven by the growth in transaction volumes and originations of 93% generated by Zip's Consumer and SME operations to $4,519.5 million (underlying volumes), and including the results of Spotii and Twisto from the dates of acquisition. Gross Profit has fallen by 23.2% reflecting an increase in bad debts and expected credit losses. Reported Gross Profit as a percentage of underlying volumes fell to 1.3% compared to 3.3 % in the previous corresponding period, primarily due to a 2.0% increase in bad debts and expected credit losses.

Excluding the movement in the bad debt provision and the amortisation of funding, cash gross profit as a percentage of underlying volumes fell from 3.7% in the previous corresponding period to 2.1%.

FOR THE HALF YEAR ENDED 31 DECEMBER	2021 $'M	2020 $'M	MOVEMENT %
Operating income	301.3	159.8	88.5%
Cost of sales[1]	(242.2)	(82.8)	192.5%
Gross profit	59.1	77.0	(23.2%)
Expenditure	(274.1)	(531.0)	(48.4%)
Loss before income tax	(214.2)	(453.8)	(52.8%)

1. Cost of sales includes interest expense, amortisation of funding costs, bad debts and expected credit losses, and bank fees and data costs.

ADJUSTED GROUP RESULT

The Group's result for the six months to 31 December 2021 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	2021 $'M	
Reported loss before income tax	(214.2)	
Add back:		
Acquisition of business costs	3.3	On acquisitions made or announced in the period
Fair value gains relating to the acquisitions	(5.0)	Revaluation of pre-existing investments
One-off re-branding costs	17.6	Global re-branding project costs
Impairment of goodwill	44.7	Impairment of goodwill allocated to the Zip UK CGU
Adjusted loss before income tax	(153.6)	

OPERATING INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER	2021 $'M	2020 $'M	MOVEMENT %
Operating income	301.3	159.8	88.5%
% of underlying volumes	6.7%	6.9%	(0.2%)

Operating income has increased by 88.5% compared to the previous corresponding period reflecting a 93% increase in underlying volumes. Reported operating income as a percentage of underlying volumes was 6.7% compared to 6.9% in the previous corresponding period.

Directors' Report

Continued

COST OF SALES

FOR THE HALF YEAR ENDED 31 DECEMBER	2021 $'M	2020 $'M	MOVEMENT %
Interest expense	33.8	25.5	32.5%
% of underlying volumes	0.7%	1.1%	(0.4%)
Amortisation of funding costs	3.5	2.0	75.0%
% of underlying volumes	0.1%	0.1%	–
Bad debts and expected credit losses	148.3	29.5	402.7%
% of underlying volumes	3.3%	1.3%	2.0%
Bank fees and data costs	56.6	25.8	119.4%
% of underlying volumes	1.3%	1.1%	0.2%
Total cost of sales	242.2	82.8	192.5%
% of underlying volumes	5.4%	3.6%	1.8%

Cost of sales increased to 5.4% of underlying volumes in the financial period primarily due to a 2.0% increase in reported bad debts and expected credit losses. Interest costs as a percentage of underlying volumes fell 0.4%, as the Group is now turning over capital in approximately 3 to 4 months on a blended basis compared to 6 months in the previous corresponding period. Bank fees and data costs increased by 0.2% as a percentage of underlying volumes as the results of QuadPay in the US were included for the full period, compared to four months in previous corresponding period. The cost of processing in the US is higher than in Australia and New Zealand.

Excluding the movement in the provision for expected credit losses, net bad debts written off totalled 2.6% of underlying volumes compared to 1.0% in the previous corresponding period.

The Group revised its risk settings in core markets during the course of 2021 with the objective of maximising growth whilst balancing revenue and net bad debt write offs. This adjustment to risk settings, together with the broader impact of the economic environment on the receivables portfolio, has resulted in the Group reporting net bad debt write offs above its medium-term target of under 2% of underlying volumes. As demonstrated on the onset of COVID in 2020 the Group is able to manage the level of net write offs through the adjustment of the risk settings in its underwriting models together with a tightening of its portfolio management activities. Risk settings have now been adjusted and will continue to be adjusted, and portfolio management activities have been implemented, to reduce the level of write offs towards the Group's medium-term net bad debt targets.

The reported receivables performance is also impacted by Zip launching and growing in a number of new markets during the previous financial year and current reporting period, both organically and by acquisition. In the early stages of operations in these new markets the credit decisioning model is being developed and revised as the business learns how the customer portfolio performs in various scenarios. As such the level of losses incurred is higher than would be expected in more mature markets.

EXPENDITURE

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

DIRECT CASH EXPENSES

FOR THE HALF YEAR ENDED 31 DECEMBER	2021 $'M	2020 $'M	MOVEMENT %
Salaries and employee benefits expense	84.3	38.7	117.8%
% of underlying volumes	1.9%	1.7%	0.2%
Marketing expenses	74.5	26.4	182.2%
% of underlying volumes	1.6%	1.1%	0.5%
Information technology expenses	20.8	9.7	114.4%
% of underlying volumes	0.5%	0.4%	0.1%
Administration and occupancy expenses	22.8	14.5	57.2%
% of underlying volumes	0.5%	0.6%	(0.1%)

Including 234 employees added on the acquisitions of Spotii and Twisto, the Group's headcount has increased from 1,048 at 30 June 2021 to 1,585 at 31 December 2021. As a percentage of underlying volumes salary and employee benefits have increased by 0.2% as compared to the six months ended 31 December 2020, reflecting the Group's investment in growth and geographic expansion.

The Group successfully completed a global re-branding project in the six months to 31 December 2021 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 increased to $56.9 million and represent 1.3% of underlying volumes, an increase of 0.2% when compared to the six months to 31 December 2020.

OTHER EXPENSES

FOR THE HALF YEAR ENDED 31 DECEMBER	2021 $'M	2020 $'M	MOVEMENT $'M
Amortisation of intangibles	28.6	14.6	14.0
Corporate financing costs	15.1	2.7	12.4
Share-based payments	44.6	74.4	(29.8)
Fair value (gain)/loss on convertible notes and warrants	(66.0)	33.2	(99.2)
Fair value movements on investments	(5.0)	306.2	(311.2)
Impairment of goodwill	44.7	–	–

The increase in amortisation costs arises from the amortisation of intangibles acquired on the acquisition of QuadPay for six months in the reporting period compared to four in the previous corresponding period, and the amortisation of intangibles acquired on the acquisitions of Spotii and Twisto since the acquisition dates.

The issuance of the convertible notes in April 2021 resulted in an increase of $10.7 million in corporate financing costs compared to the previous corresponding period due to the effective interest charged on the notes.

To attract, retain and reward Zipsters, Zip offers a combination of short and long-term incentives that are delivered through equity. The share-based payments expense relating to the provision of retention and performance incentives, arising on the acquisition of QuadPay, approved by shareholders at the Extraordinary General Meeting (EGM) in August 2020, reduced to $15.3 million in the half year ended 31 December 2021, a $48.1 million reduction compared to the previous corresponding period. Excluding this movement, the increase reflects the accrual for both short-term and long-term employee incentives resulting from the increased headcount across the Group.

Directors' Report

Continued

At each reporting date, Zip revalues the embedded derivative in the convertible notes, and warrants issued to CVI Investments, Inc. to reflect their fair value. At 31 December 2021 Zip is reporting a fair value gain of $66.0 million being the difference in fair value between 30 June 2021 and the reporting date.

In the half year ended 31 December 2021, Zip recorded a fair value gain of $5.0 million on revaluation of its pre-existing investments in Spotii and Twisto on completion of the respective acquisitions. In the six months to 31 December 2020, Zip recorded a revaluation and day 1 adjustment amounting to $306.2 million on the acquisition of QuadPay.

The Group is reviewing the allocation of capital across the geographies in which it operates, in order to ensure it is allocated appropriately to deliver optimal returns in the short to medium-term. The review is ongoing, but the Group has taken the decision to reduce the allocation of capital available to drive growth in the United Kingdom, which has resulted in an impairment charge of $44.7 million being reported, fully impairing goodwill attributable to the Zip UK CGU.

RECEIVABLES

	31 DECEMBER 2021 $'M	31 JUNE 2021 $'M	MOVEMENT %
Gross customer receivables	2,665.4	2,111.6	26.2%
Unearned future income	(18.7)	(17.2)	8.7%
Provision for expected credit losses	(149.6)	(106.4)	40.6%
	2,497.1	1,988.0	25.6%

The Group's receivables portfolio increased 25.6% to $2,497.1 million at 31 December 2021, up from $1,988.0 million at 30 June 2021 due to the strong growth in underlying volumes during the half year ended 31 December 2021, and the acquisitions of Twisto and Spotii during the period. Excluding the impact of acquisitions, receivables grew 22.9%.

The Group reported a provision for expected credit losses of 5.6% of the gross receivable's portfolio at 31 December 2021, compared with 5.0% at 30 June 2021. The performance of the receivable's portfolio has impacted the roll rates included in the calculation of the provision resulting in a slightly higher provision being reported.

Gross receivables generated by Zip's Australian-based consumer business comprise 81% of the gross receivables balance at 31 December 2021, compared to 85% at 30 June 2021. The repayment rate remains healthy averaging 15.0% (of the opening gross receivables balance repaid each month) during the six months to 31 December 2021, compared to 14.6% across the prior financial year. The reported arrears rate (accounts over 60 days past due) was 1.64% of the gross receivables balance at 31 December 2021, compared with 1.78% at 30 June 2021. The reduction in the arrears rate includes the impact of actions taken in the latter part of 2021 to bring net bad debt write offs back in line with management's medium-term expectations.

CORPORATE ACTIVITY

Zip made a number of acquisitions and investments during the six months to 31 December 2021 as it delivers on its global expansion strategy.

SPOTII

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

At 31 December 2021, the Group has valued acquired intangibles arising from the acquisition of Spotii on a provisional basis and has engaged independent valuers to determine the final valuations to be reported in the Annual Report to 30 June 2022. The provisional valuation has resulted in acquired intangibles totalling $5.4 million (net of taxation) being recognised at the acquisition date and goodwill of $21.1 million being reported.

TWISTO

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

At 31 December 2021 the Group has valued acquired intangibles arising from the acquisition of Twisto on a provisional basis and has engaged independent valuers to determine the final valuations to be reported in the Annual Report to 30 June 2022. The provisional valuation has resulted in acquired intangibles totalling $43.6 million (net of taxation) being recognised at the acquisition date and goodwill of $112.5 million being reported.

ZESTMONEY

In September 2021, Zip invested $69.2 million (US$50.0 million) to acquire a 11.1% interest in ZestMoney, a leading Indian BNPL operator. Under the agreement, Zip has taken a board seat, agreed specific reserved matters that require its approval, and has negotiated terms to increase its shareholding over time, at its discretion. Zip negotiated a conditional right to increase its shareholding in ZestMoney when making its investment in September 2021. This conditional right is not being recognised in the Group's Condensed Consolidated Financial Statements in the Half Year Financial Report for the six months to 31 December 2021 due to both the regulatory and other hurdles that need to be overcome in order to exercise the right.

TENDOPAY

Zip increased its interest in TendoPay, a leading BNPL player in the Philippines, by 10% to 35% during the half year ended 31 December 2021, investing $2.8 million (US$2.0 million). On investing in TendoPay in the previous financial year, Zip negotiated a conditional right to increase its shareholding. The conditional right is not recognised in the Group's Condensed Consolidated Financial Statements in the Half Year Financial Report for the six months to 31 December 2021 based on consideration of operational matters in respect of exercising the conditional rights.

CAPITAL MANAGEMENT

RECEIVABLES FUNDING FACILITIES

CONSUMER FACILITIES	CURRENCY	FACILITY LIMIT $'M	DRAWN AT 31 DECEMBER 2021 $'M
Zip Master Trust			
Rated Note Series		1,377.5	1,377.5
Variable Funding Note		535.4	430.2
2017-1 Trust		264.7	191.0
2017-2 Trust		100.0	47.0
Total	AUD	2,277.6	2,045.7
AR2LLC	USD	300.0	161.9
NZ Trust 2021-1	NZD	30.0	–
TWISTO Czech	CZK	658.0	570.2
TWISTO Poland	EUR	19.3	13.6

Directors' Report

Continued

The Group had total facilities of $2,277.6 million available to fund its Australian consumer receivables at 31 December 2021, of which $2,045.7 million was drawn ($231.9 million undrawn and available). Subsequent to the reporting date the Group added Variable Funding Note 2 to the structure increasing undrawn and available funding to $431.9 million.

During the half year ended 31 December 2021 the Group completed its fourth rated note issuance, raising $617.5 million from external investors, redeeming the inaugural note issuance of $475.0 million, with the balance available to fund receivables. This was the first issuance under the Master Trust structure to be assigned a AAA rating.

The 2017-2 Trust was extended to September 2023 and the facility limit increased by $30 million. This facility is available to fund receivables, junior notes, capital expenditure and working capital.

Zip has a facility totalling US$300.0 million to fund its US consumer receivables drawn to US$161.9 million at 31 December 2021.

Zip established a facility to fund consumer receivables in New Zealand during the period, with a facility limit of NZ$30 million. The facility was able to be drawn at the reporting date, but no amounts had been drawn.

The Group has facilities in both the Czech Republic and Poland to fund consumer receivables generated by Twisto in the respective countries.

SME FACILITIES	CURRENCY	FACILITY LIMIT $'M	DRAWN AT 31 DECEMBER 2021 $'M
Zip Business			
Capital Australia		35.0	26.0
Capital New Zealand	NZD	12.0	8.0
Trade/Trade Plus		100.0	9.5

The Group has funding facilities totalling $46.3 million, with $33.6 million drawn at 31 December 2021, to fund its Zip Business Capital product, and facilities totalling $100.0 million, $9.5 million drawn, to fund its Zip Business Trade and Trade Plus products.

At 31 December 2021, the Zip Business Capital facilities in Australia and New Zealand were in the process of being extended and increased. In February 2022, an agreement was reached to extend the Zip Business Capital facility in New Zealand to March 2022. Agreements to extend and increase the facility limits for Zip Business Capital in Australia and New Zealand are expected to be executed prior to 31 March 2022.

POST BALANCE DATE EVENTS

Subsequent to the reporting date, the consolidated entity announced the completion of the acquisition of the remaining 73.75% interest in Payflex that it did not already own, comprising the Upfront Consideration, BEE Holdback Amount and Deferred Consideration. The implied maximum enterprise value is ZAR$250.0 million (circa $22.9 million).

The Upfront Consideration of ZAR$103.4 million (circa $9.5 million) is payable in new fully paid ordinary shares in Zip, subject to a maximum issuance of 1,477,686 shares, with the balance payable in cash. Zip's shares issued in settlement of the Upfront Consideration will be subject to voluntary escrow arrangements.

In addition, Zip has agreed to make a potential cash payment of up to a maximum of ZAR$7.2 million (circa $0.7 million), which Zip has agreed to pay generally within 12 months from completion, subject to certain agreed conditions being met in connection with Zip exploring the merit of "empowering" Payflex in accordance with South African legislation, policy and good corporate governance practice regarding 'black economic empowerment" investment.

Deferred Consideration of up to ZAR$73.8 million (circa $6.8 million) is payable subject to the satisfaction of prescribed performance milestones, which are based on growth targets relating to the achievement of total transaction volumes and net transaction margins for the 12-month 'performance period' ending 30 June 2022. Deferred Consideration is payable by the issue of up to 1,053,608 Zip shares, with the balance payable in cash. Zip shares issued in settlement of the Deferred Consideration will be subject to voluntary escrow arrangements.

The financial effects of this transaction have not been recognised at 31 December 2021.

In January 2022, the Group added Variable Funding Note 2 to the Master Trust, with a new Senior Funding partner. This provides diversity of Senior Funding partners in the variable funding structure within the Master Trust.

In February 2022, the Group extended the facility funding receivables generated by Zip Business Capital in New Zealand to March 2022.

Subsequent to the end of the reporting period, Zip announced it had entered a definitive agreement to acquire Sezzle Inc. (ASX:SZL) in an all-scrip transaction by way of a statutory merger under the laws of the State of Delaware.

In addition, Zip announced a fully underwritten placement to eligible institutional, professional and sophisticated investors, and a non-underwritten share purchase plan to eligible Zip shareholders, with combined proceeds of up to $200.0 million subsequent to the period end.

To the date of the release of this report, there have been no other material items, transactions or events subsequent to 31 December 2021 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 & Chief Executive Officer

28 February 2022

Auditor’s Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
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28 February 2022

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 2021, 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

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 31 December 2021

	NOTE	31 DECEMBER 2021 $'000	31 DECEMBER 2020 $'000
Operating income	3	**301,304**	**159,842**
Cost of Sales			
Interest expense		(33,832)	(25,498)
Amortisation of funding costs		(3,525)	(1,991)
Bad debts and expected credit losses		(148,335)	(29,522)
Bank fees and data costs		(56,552)	(25,832)
Total Cost of Sales		**(242,244)**	**(82,843)**
Gross Profit		**59,060**	**76,999**
Other Income	3	906	186
Expenditure			
Administration expenses		(21,212)	(13,270)
Depreciation expense	4	(3,230)	(2,546)
Amortisation of intangibles	4	(28,626)	(14,627)
Information technology expenses		(20,827)	(9,728)
Marketing expenses		(74,515)	(26,437)
Corporate financing costs	4	(15,147)	(2,692)
Occupancy expenses		(1,590)	(1,188)
Salaries and employee benefits expenses		(84,343)	(38,727)
Share-based payments	4	(44,645)	(74,356)
Acquisition of business costs		(3,265)	(7,837)
Share of loss of associates	5	(3,025)	(149)
Fair value gain/(loss) on financial instruments	4	70,967	(33,162)
Net adjustment relating to the acquisition of QuadPay		–	(306,235)
Impairment of goodwill	15	(44,678)	–
Loss Before Income Tax		**(214,170)**	**(453,769)**
Income tax expense	7	(133)	–
Loss After Income Tax Attributable to Members		**(214,303)**	**(453,769)**
Other comprehensive income/(loss)			
Foreign exchange differences on translation		41,515	(2,160)
Total Other Comprehensive Income/(Loss), Net of Tax		41,515	(2,160)
Total Comprehensive Loss Attributable to Members of Zip Co Limited		**(172,788)**	**(455,929)**

		CENTS	CENTS
Earnings per share			
Basic loss per share	8	(37.55)	(95.52)
Diluted loss per share	8	(37.55)	(95.52)

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 2021

	NOTE	31 DECEMBER 2021 $'000	30 JUNE 2021 $'000
Assets			
Cash and cash equivalents	9	266,808	330,201
Other receivables	10	64,016	32,719
Term deposit		1,507	1,507
Customer receivables	11	2,497,047	1,988,036
Investments at FVTPL	12	–	19,034
Investments in associates	5	73,272	7,006
Property, plant and equipment		4,360	3,294
Right-of-use assets	13	4,812	5,849
Intangible assets	14	250,543	203,819
Goodwill	15	894,180	772,961
Total Assets		**4,056,545**	**3,364,426**
Liabilities			
Trade and other payables	16	74,482	73,096
Employee provisions		8,486	6,034
Deferred contingent consideration	17	19,323	6,990
Lease liabilities	13	5,070	6,296
Borrowings	18	2,368,736	1,659,233
Financial liabilities – convertible notes and warrants	19	418,745	469,965
Total Liabilities		**2,894,842**	**2,221,614**
Net Assets		**1,161,703**	**1,142,812**
Equity			
Issued capital	20	1,865,695	1,688,785
Reserves		142,991	86,707
Convertible notes – equity	19	114,466	114,466
Accumulated losses		(961,449)	(747,146)
Total Equity		**1,161,703**	**1,142,812**

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 half year ended 31 December 2021

	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	TOTAL $'000
Balance at 1 July 2020	**274,151**	**–**	**19,700**	**(79)**	**–**	**(88,372)**	**205,400**
Loss after income tax expense for the half-year	–	–	–	–	–	(453,769)	(453,769)
Other comprehensive loss for the half-year, net of tax	–	–	–	(2,160)	–	–	(2,160)
Total comprehensive loss for the half-year	**–**	**–**	**–**	**(2,160)**	**–**	**(453,769)**	**(455,929)**
Recognition of share-based payments	–	–	74,356	–	–	–	74,356
Exercise of share-based payments	–	–	(12,615)	–	–	–	(12,615)
Recognition of replacement options issued for QuadPay acquisition	–	–	85,292	–	–	–	85,292
Issue of ordinary shares under share-based payment plans	12,615	–	–	–	–	–	12,615
Exercise of options	1,094	–	–	–	–	–	1,094
Issue of shares – business acquisitions	1,090,741	–	–	–	–	–	1,090,741
Issue of shares – capital raising	120,000	–	–	–	–	–	120,000
Issue of shares – PartPay contingent consideration	6,989	–	–	–	–	–	6,989
Cost of issuing of shares	(1,757)	–	–	–	–	–	(1,757)
Balance at 31 December 2020	**1,503,833**	**–**	**166,733**	**(2,239)**	**–**	**(542,141)**	**1,126,186**
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 for the half-year	–	–	–	–	–	(214,303)	(214,303)
Other comprehensive income for the half-year, net of tax	–	–	–	41,515	–	–	41,515
Total comprehensive income/(loss) for the half-year	**–**	**–**	**–**	**41,515**	**–**	**(214,303)**	**(172,788)**
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 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 (refer to note 17)	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**	**(961,449)**	**1,161,703**

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 half year ended 31 December 2021

	NOTE	CONSOLIDATED 31 DECEMBER 2021 $'000	CONSOLIDATED 31 DECEMBER 2020 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income from customers		301,610	160,028
Payments to suppliers and employees		(290,284)	(114,290)
Interest received from financial institutions		599	–
Interest paid		(33,952)	(25,205)
Acquisition of business costs		(3,265)	(6,601)
Net Cash Flow (to)/from Operating Activities		**(25,292)**	**13,932**
CASH FLOWS TO INVESTING ACTIVITIES			
Payments for plant and equipment		(2,219)	(721)
Payments for software development		(13,628)	(4,515)
Net increase in receivables		(602,515)	(453,307)
Payment for acquisitions, net of cash acquired	6	11,324	26,210
Payments for investments in associates	5	(72,048)	(3,269)
Payments for investments at FVTPL		–	(3,231)
Net Cash Flow to Investing Activities		**(679,086)**	**(438,833)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowing transaction costs		(1,804)	(2,106)
Proceeds from borrowings		1,119,370	465,981
Repayment of borrowings		(475,000)	(66,200)
Proceeds from issue of convertible notes		–	96,824
Repayment of principal of lease liabilities		(2,238)	(1,733)
Proceeds from issue of shares		103	121,094
Cost of share issues		–	(1,757)
Net Cash Flow from Financing Activities		**640,431**	**612,103**
Net (decrease)/increase in cash and cash equivalents		(63,947)	187,202
Cash and cash equivalents at the beginning of the financial half-year		330,201	32,712
Foreign exchange effect		554	(2,160)
Cash and Cash Equivalents at the End of the Half Year	9	**266,808**	**217,754**

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. 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 28 February 2022.

B. 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

As required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial half year. In particular, the comparative Condensed Consolidated Statement of Financial Position contains an offset of deferred tax liabilities of $10.3 million against deferred tax assets as they relate to the same taxation jurisdiction and taxing entity.

C. GOING CONCERN

The Directors have prepared the Report 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 half year ended 31 December 2021 reflects the consolidated entity's total comprehensive loss after tax of $172.8 million. The condensed consolidated statement of cash flows for the half year ended 31 December 2021 reflects net cash flows used in operations of $25.3 million.

The Directors have reviewed cash flow forecasts for the consolidated entity through to 31 March 2023. The cash flow forecasts indicate that the consolidated entity will have sufficient funding to operate as a going concern during the forecast period. The Directors have concluded that it is appropriate to prepare the financial statements on the going concern basis, as they are confident that the consolidated entity will be able to pay its debts as and when they become due and payable from operating cash flows and available finance facilities.

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

D. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current financial half year and that have a significant impact on the consolidated entity's condensed consolidated 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 consolidated financial statements for the half year ended 31 December 2021.

Notes to the Condensed Consolidated Financial Statements

Continued

E. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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 cashflows 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, Establishment 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.

The difference between Fees and Interest booked to customers' accounts and portfolio interest income is reported as unearned future income in the financial statements. Refer to note 11 for details.

TRANSACTIONAL INCOME

Transactional income includes transaction processing fees, affiliate fees and interchange which are recognised as earned and not considered portfolio interest income.

PROVISION FOR EXPECTED CREDIT LOSS

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period. The carrying amounts of certain assets are often determined based on estimates and assumptions of future events.

An expected credit loss model is used for the assessment of impairment of customer receivables under AASB 9. Expected credit losses (ECL) are based on the difference between the contractual cash flows due in accordance with the terms of the consolidated entity's products and all the cash flows that the consolidated entity expects to receive from its customers. The expected credit losses are calculated based on either 12 months or the lifetime of the customer receivables.

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. Loss given default 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. Probability of default constitutes a key input in measuring ECL. Probability of default 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. Judgement has been applied in the assessment of the macroeconomic overlay in the current financial half year taking into account the impact of COVID-19. Refer to note 11 for further details.

INTANGIBLE ASSETS

SOFTWARE DEVELOPMENT ASSET

Software development costs are capitalised only when:

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

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

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

INTANGIBLES ACQUIRED IN A BUSINESS COMBINATION

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

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

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

The useful life of intangible assets is assessed on either the duration for which the assets contribute to the consolidated entity's value or the timing of the projected cashflow 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 14. 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.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

Notes to the Condensed Consolidated Financial Statements

Continued

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

Intangible assets such as brands, customer relationships and trademarks used by the consolidated entity for its own activities are unlikely to generate largely independent cash inflows and are therefore tested at a CGU level. Please refer to note 15 for detailed assessment of impairment for goodwill and intangible assets.

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 Level 1 inputs are 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 19 for details.

ACQUISITION ACCOUNTING

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

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

The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition date fair values of assets transferred to the former owners, liabilities incurred by the consolidated entity to the former owners of the acquiree, and the equity instruments issued by the consolidated entity in exchange for control of the acquiree. Potential forms of consideration include cash, other assets, a business or a subsidiary of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities. Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the business combination or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement requires judgement in assessing the nature of the arrangement and whether the contingent payment forms part of the consideration transferred in a business combination or a separate transaction.

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

F. PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Zip Co Limited ('parent entity') as at 31 December 2021 and the results of all subsidiaries for the six months then ended (for acquired subsidiaries since acquisition dates). Zip Co Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

G. SEGMENT REPORTING

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

H. BUSINESS COMBINATIONS

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

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

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

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as a liability is remeasured at subsequent reporting dates in accordance with AASB 9 *Financial Instruments*, or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Notes to the Condensed Consolidated Financial Statements

Continued

I. GOODWILL

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

For the purposes of impairment testing, goodwill is allocated to each of the consolidated entity's CGUs (or groups of CGUs) that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is so allocated is:

(a) representing the lowest level within the entity at which the goodwill is monitored for internal management purposes; and

(b) not be larger than an operating segment determined in accordance with AASB 8 *Operating Segments*.

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

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

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

J. FINANCIAL INSTRUMENTS

RECOGNITION AND 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 and financial liabilities are initially measured at fair value.

FINANCIAL ASSETS

Financial assets are subsequently measured at amortised cost and include cash and cash equivalents, term deposits, other receivables (excluding prepayments) and customer receivables. Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Investments in equity instruments are classified as investments at FVTPL, unless the consolidated entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition. The consolidated entity did not have any financial assets measured at FVTOCI at 31 December 2021 and 31 December 2020.

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

FINANCIAL LIABILITIES

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

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

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

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

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

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

TRANSACTION COSTS

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

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

Notes to the Condensed Consolidated Financial Statements

Continued

CUSTOMER RECEIVABLES AND OTHER RECEIVABLES

Customer receivables are non-derivative financial assets which are measured at amortised cost using the effective interest method, less any impairment. Refer to note 11 for further details of customer receivables and impairment of such financial assets.

The consolidated entity applies a simplified approach in calculating the ECLs for other receivables based on lifetime expected credit losses. Other receivables that are at risk of non-recovery are written off. The provision for expected credit losses related to other receivables was nil (2020: nil).

K. FOREIGN CURRENCIES

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

NOTE 2. SEGMENT INFORMATION

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

The consolidated entity had three operation segments being Zip AU, Zip Global and Zip Business in the financial year ended 30 June 2021. In the half year ended 31 December 2021, the consolidated entity transitioned to five operation segments: APAC, Americas, EMEA, Zip Business and Corporate. In order to enhance comparability, the segment information for the year ended 30 June 2021 has been presented under the five operation segments.

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

APAC	Offers BNPL instalment or line of credit products to consumers in Australia, New Zealand and Singapore, and includes the consolidated entity's Pocketbook operations.
AMERICAS	Offers BNPL instalment products to customers in the US, Canada, and Mexico.
EMEA	Offers BNPL instalment products to customers in the UK, Europe, and the Middle East.
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.

HALF YEAR ENDED 31 DECEMBER 2021	APAC $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CORPORATE $'000	TOTAL $'000
Operating income	140,005	146,461	6,862	7,976	–	301,304
Cost of Sales	(99,438)	(124,958)	(9,863)	(7,985)	–	(242,244)
Gross Profit	40,567	21,503	(3,001)	(9)	–	59,060
Other income	269	–	540	97	–	906
Operating expenses	(56,484)	(88,849)	(17,424)	(7,105)	(32,995)	(202,857)
Effective interest charged on convertible notes	–	–	–	–	(14,777)	(14,777)
Segment EBTDA (excluding corporate items)	(15,648)	(67,346)	(19,885)	(7,017)	(47,772)	(157,668)
Depreciation of right-of-use assets	(1,459)	(590)	–	–	–	(2,049)
Depreciation of PP&E	(890)	(83)	(206)	(2)	–	(1,181)
Amortisation of intangibles	(5,867)	(20,741)	(1,451)	(567)	–	(28,626)
Segment loss before income tax	(23,864)	(88,760)	(21,542)	(7,586)	(47,772)	(189,524)
Reconciling items from operating to statutory loss:						
Employee remuneration related share-based payments						(43,766)
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						(214,170)

Notes to the Condensed Consolidated Financial Statements

Continued

HALF YEAR ENDED 31 DECEMBER 2020	APAC $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CORPORATE $'000	TOTAL $'000
Operating income	97,808	57,710	–	4,324	–	159,842
Cost of sales	(45,353)	(36,765)	–	(725)	–	(82,843)
Gross profit	52,455	20,945	–	3,599	–	76,999
Other income	146	36	–	4	–	186
Operating expenses	(48,780)	(25,875)	(3,164)	(3,385)	(8,434)	(89,638)
Effective interest charged on convertible notes	–	–	–	–	(2,404)	(2,404)
Segment EBTDA (excluding corporate items)	3,821	(4,894)	(3,164)	218	(10,838)	(14,857)
Depreciation of right-of-use assets	(1,459)	(394)	–	–	–	(1,853)
Depreciation of PP&E	(660)	–	(27)	(6)	–	(693)
Amortisation of intangibles	(5,508)	(9,117)	–	(2)	–	(14,627)
Segment loss before income tax	(3,806)	(14,405)	(3,191)	210	(10,838)	(32,030)
Reconciling items from operating to statutory loss:						
Employee remuneration related share-based payments						(73,477)
Other share-based payments						(879)
Acquisition of business costs						(7,837)
Share of loss of associate						(149)
Fair value loss on financial instruments						(33,162)
Net adjustments relating to acquisition of QuadPay						(306,235)
Loss before income tax						(453,769)

NOTE 3. REVENUE

	CONSOLIDATED	
	31 DECEMBER 2021 $'000	31 DECEMBER 2020 $'000
Operating income		
Portfolio interest income	254,770	143,242
Transactional income	46,534	16,600
Total operating income	301,304	159,842
Other income		
Finance income	599	–
Other	307	186
Total other income	906	186
Total revenue	302,210	160,028

NOTE 4. EXPENDITURE

	31 DECEMBER 2021 $'000	31 DECEMBER 2020 $'000
Loss before income tax includes the following specific expenses:		
Depreciation expense:		
Depreciation of property, plant and equipment	1,181	693
Depreciation of right-of-use assets	2,049	1,853
Total depreciation expense	3,230	2,546
Amortisation of intangibles:		
Amortisation of acquired intangibles	21,610	10,020
Amortisation of internally generated IT development and software	7,016	4,607
Total amortisation of intangibles	28,626	14,627
Corporate financing costs:		
Effective interest charged on convertible notes	14,777	2,404
Interest on leasing liabilities	79	133
Other finance costs	291	155
Total corporate financing costs	15,147	2,692
Share-based payments:		
Employee remuneration related share-based payments	43,766	73,477
Recognition of Amazon warrants (note 20)	879	879
Total share-based payments	44,645	74,356
Fair value (gain)/loss on financial instruments:		
Fair value (gain)/loss on convertible notes and warrants (note 19)	(65,997)	33,162
Fair value gain on investment at FVTPL (note 12)	(1,481)	–
Fair value gain on acquisition of associate (note 5)	(3,489)	–
Fair value (gain)/loss on financial instruments	(70,967)	33,162

NOTE 5. INVESTMENTS IN ASSOCIATES

	PAYFLEX $'000	TENDOPAY $'000	ZESTMONEY $'000	SPOTII $'000	CONSOLIDATED $'000
Balance at 30 June 2021	981	3,215	–	2,810	7,006
Additional investments	–	2,815	69,233	–	72,048
Share of loss of associates	(256)	(435)	(1,943)	(391)	(3,025)
Foreign exchange (loss)/gain	(60)	54	(332)	83	(255)
Fair value gain on investment on acquisition	–	–	–	3,489	3,489
Derecognition of pre-existing investment	–	–	–	(5,991)	(5,991)
Balance at 31 December 2021	665	5,649	66,958	–	73,272

The associates of the consolidated entity as at 31 December 2021 are detailed in the following table. The associates listed 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.

Notes to the Condensed Consolidated Financial Statements

Continued

ASSOCIATES	LOCATION OF INCORPORATION OF HOLDING COMPANY	LOCATION OF PRINCIPAL OF BUSINESS	% OF OWNERSHIP INTEREST 31 DECEMBER 2021 %	30 JUNE 2021 %	MEASUREMENT METHOD
Payflex	South Africa	South Africa	26.25%	26.25%	Equity Method
Tendo	Singapore	Philippines	35.00%	25.00%	Equity Method
ZestMoney	Singapore	India	11.10%	–	Equity Method
Spotii[1]	United Arab Emirates	United Arab Emirates & Kingdom of Saudi Arabia	100.00%	20.00%	Equity Method

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

PAYFLEX

At 31 December 2021, the consolidated entity held a 26.25% interest in Payflex and accounted for the investment in Payflex as an associate due to its ability to exercise significant influence.

For the period ended 31 December 2021, the consolidated entity recognised its share of the loss of Payflex amounting to $0.3 million. The carrying amount of the consolidated entity's investment in Payflex at 31 December 2021 was reported at $0.7 million, being the investment value at 30 June 2021 less its share of loss during the current financial period and an unrealised foreign exchange loss on the investment of $0.1 million.

On 25 August 2021, the consolidated entity announced its intention to acquire the remaining 73.75% interest in Payflex that it does not already own. The acquisition was completed on 3 January 2022. Refer to note 22 for further details.

TENDOPAY

At 31 December 2021, the consolidated entity held a 35% interest in TendoPay, being the 25% interest held at 30 June 2021 and a further 10% interest acquired in December 2021 for an investment of $2.8 million (US$2 million). The consolidated entity accounts for the investment in TendoPay as an associate due to the consolidated entity's ability to exercise significant influence.

For the half year ended 31 December 2021, the share of loss of TendoPay was $0.4 million. An unrealised foreign exchange gain of $0.1 million on the investment resulted in the carrying amount of the consolidated entity's investment in TendoPay being recorded at $5.6 million at 31 December 2021.

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

ZESTMONEY

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

For the half year ended 31 December 2021, the share of the loss of ZestMoney was $1.9 million. An unrealised foreign exchange loss of $0.3 million on the investment resulted in the carrying amount of the consolidated entity's investment in ZestMoney being recorded at $67.0 million as at 31 December 2021.

The consolidated entity negotiated a conditional right to increase its shareholding in ZestMoney when making its investment in September 2021. This conditional right is not being recognised in the consolidated entity's Condensed Consolidated Financial Statements in this Report due to both the regulatory and other hurdles that need to be overcome in order to exercise the right.

SPOTII

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

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

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

NOTE 6. ACQUISITIONS

A. SUMMARY OF ACQUISITION

SPOTII

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

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

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

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

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

TWISTO

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

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

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

- Cash consideration paid of $0.6 million;
- 17,454,987 new Zip Co Limited shares issued, valued at $115.4 million, based on the agreed post valuation adjusted enterprise value of $155.4 million (EUR$99.3 million); and
- Holdback consideration of $19.3 million (EUR$12.5 million) for the purposes of satisfying any claims that may arise under the acquisition agreement which will be paid to the vendors, either in shares or cash. Refer to note 17 for further details.

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

Notes to the Condensed Consolidated Financial Statements

Continued

The initial accounting for the acquisitions of both Spotii and Twisto has been provisionally determined at the end of the half year ended 31 December 2021. Final accounting will be completed by 30 June 2022 which is within the required measurement period outlined in AASB 3 *Business Combinations*.

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

The independent market valuations of acquired intangibles arising from the acquisition of Spotii and Twisto have been provisionally completed at 31 December 2021. The amounts of revenue and profit or loss of Spotii and Twisto since the acquisition dates are included in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income in the reporting period.

The provisionally determined amount of goodwill recognised on the acquisition of Spotii and Twisto has been calculated as the consideration transferred less the fair value of net assets acquired, and reflects the growth potential of the acquired entities.

Acquisition-related costs totalling $1.8 million have been excluded from the consideration transferred and have been recognised as an expense in profit or loss in the half year ended 31 December 2021.

Details of the acquisitions are as follows:

	SPOTII 2021 $'000	TWISTO 2021 $'000	TOTAL 2021 $'000
Cash and cash equivalents	405	11,556	11,961
Customer receivables	9,078	45,632	54,710
Other receivables	303	1,053	1,356
Plant property and equipment	5	5	10
Trade and other payables	(1,277)	(2,416)	(3,693)
Borrowings	(7,458)	(56,472)	(63,930)
Net deferred tax	–	–	–
Acquired brand names and trademarks	–	6,273	6,273
Acquired customer database	–	1,538	1,538
Acquired transaction partner database	–	388	388
Acquired IT development and software	5,400	35,386	40,786
Goodwill[1]	21,102	112,495	133,597
Acquisition date value of the total consideration transferred	27,558	155,438	182,996
Representing:			
Zip Co Limited pre-existing investment	5,991	20,103	26,094
Zip Co Limited shares issued to vendor	21,567	115,375	136,942
Zip Co Limited Holdback consideration	–	19,323	19,323
Cash paid to vendor	–	637	637
Total	27,558	155,438	182,996
Cash used to acquire business, net of cash acquired:			
Acquisition date value of the total consideration transferred	27,558	155,438	182,996
Less: cash and cash equivalent acquired	(405)	(11,556)	(11,961)
Less: Zip Co Limited shares issued to vendor	(21,567)	(115,375)	(136,942)
Less: Zip Co Limited holdback amount	–	(19,323)	(19,323)
Less: Zip Co Limited pre-existing investment	(5,991)	(20,103)	(26,094)
Payments for acquisitions, net of cash acquired	(405)	(10,919)	(11,324)

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

B. ACQUISITION FAIR VALUE ADJUSTMENTS

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

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

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

NOTE 7. TAXATION

INCOME TAX

	CONSOLIDATED 31 DECEMBER 2021 $'000
Numerical reconciliation of income tax expense and tax at the statutory rate	
Loss before income tax expense	(214,170)
Tax at the statutory tax rate of 30%	(64,251)
Tax effect amounts which are not deductible (taxable) in calculating taxable income:	
Share-based payments	3,851
Impairment of goodwill	13,403
Non-deductible expenses	3,121
Non-assessable fair value gain	(897)
Effect of different tax rates of subsidiaries operating in other jurisdictions	10,816
	(33,957)
Current half-year tax losses not recognised	45,877
Movement in temporary differences not recognised	(16,428)
Movement in temporary differences recognised	4,641
Income tax expense	133

The nature of the reconciling items in the half year ended 31 December 2020 were in line with the reconciling items reported in the half year ended 31 December 2021.

Notes to the Condensed Consolidated Financial Statements

Continued

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 2021 and were offset in the Consolidated Statement of Financial Position at 30 June 2021, 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.

NOTE 8. LOSS PER SHARE

A. RECONCILIATION OF EARNINGS USED IN CALCULATING LOSS PER SHARE

	31 DECEMBER 2021 $'000	31 DECEMBER 2020 $'000
Loss attributable to the owners of the consolidated entity used in calculating basic and diluted loss per share	(214,303)	(453,769)

B. WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

	31 DECEMBER 2021 '000	31 DECEMBER 2020 '000
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	570,685	475,050

C. BASIC AND DILUTED LOSS PER SHARE

	31 DECEMBER 2021 CENTS	31 DECEMBER 2020 CENTS
Basic loss per share	(37.55)	(95.52)
Diluted loss per share[1]	(37.55)	(95.52)

1. As the consolidated entity reported losses for the half year ended 31 December 2021 and 31 December 2020, no dilutive shares have been included in the EPS calculation.

NOTE 9. CASH AND CASH EQUIVALENTS

At 31 December 2021 the consolidated entity had cash of $266.8 million of which $116.6 million was restricted cash (30 June 2021: cash of $330.2 million of which $41.0 million was restricted cash). Cash held in corporate accounts, considered as unrestricted, includes amounts subsequently remitted to securitisation warehouses and special purpose vehicles post year end (31 December 2021: $21.4 million; 30 June 2021: $22.9 million). Restricted cash is held by the securitisation warehouses and special purpose vehicles and is not available to pay creditors of the consolidated entity.

RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH (TO)/FROM OPERATING ACTIVITIES

	31 DECEMBER 2021 $'000	31 DECEMBER 2020 $'000
Loss after income tax expense for the year	(214,303)	(453,769)
Adjustments for:		
Depreciation and amortisation expense	31,856	17,173
Bad debts and expected credit losses	148,335	29,522
Share-based payments	44,645	74,356
Share of loss of associate	3,025	149
Fair value movements on convertible notes and warrants	(65,997)	33,162
Fair value movements on investment and acquisitions	(4,970)	306,235
Effective interest charged on convertible notes	14,777	2,404
Transaction costs on financial instruments	–	1,236
Impairment of goodwill	44,678	–
Change in operating assets and liabilities:		
Increase in other receivables	(8,258)	(11,746)
(Decrease)/increase in other payables	(21,477)	13,987
Increase in employee provisions	2,397	1,223
Net cash (to)/from operating activities	(25,292)	13,932

NOTE 10. OTHER RECEIVABLES

	31 DECEMBER 2021 $'000	30 JUNE 2021 $'000
Prepayments	15,777	13,884
Accrued Income	17,178	11,614
Other receivables	31,061	7,221
Total	64,016	32,719

NOTE 11. CUSTOMER RECEIVABLES

AASB 9 *FINANCIAL INSTRUMENTS*

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

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

Notes to the Condensed Consolidated Financial Statements

Continued

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. 12-month ECL are the expected credit losses that result from default events that are expected within 12 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 below. 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 instalment products, and customer receivables in hardship cases (customer receivables are past due under normal repayment terms and the repayment terms have been renegotiated) 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 loan receivable, the allowance will be based on lifetime expected credit losses. A loan receivable will be considered in default at 90 days past due for line of credit products or 42 days past due for 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 line of credit products or 84 days for instalment products, in accordance with historical experience and industry practice. The consolidated entity’s instalment product has a short-term duration for customer repayments, being up to 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 12 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 12-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 2021 management took into consideration all available information relevant to the assessment, including information about past events, current economic conditions and reasonable and supportable information about future events and economic conditions at the report date.

PROVISION OVERLAY

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

In the assessment of expected credit losses at 31 December 2021, management considered base, good and bad scenarios applying a weighted probability when determining the reported expected credit losses. 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, 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.

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

COVID-19 CONSIDERATION

As at 31 December 2021, the impact of COVID-19 still existed and its impact was considered in the assessment of the economic overlay.

PROVISION OVERVIEW

From 30 June 2021 to 31 December 2021, the provision for expected credit losses increased by $43.2 million (including $10.2 million taken on the acquisitions of Spotii and Twisto), which was primarily driven by the $553.8 million increase in the value of receivables across the consolidated entity's operating segments.

The provision for expected credit losses as a percentage of receivables increased from 5.0% at 30 June 2021 to 5.6% at 31 December 2021, reflecting the performance of the receivables portfolio during the six months to 31 December 2021.

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.

The following table summarises customer receivables as at the reporting dates:

	APAC $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CONSOLI-DATED $'000
Gross customer receivable	1,808,483	228,416	4,998	69,683	2,111,580
Unearned future income	(13,163)	(3,902)	(107)	–	(17,172)
Provision for expected credit losses	(82,021)	(19,998)	(1,346)	(3,007)	(106,372)
Balance at 30 June 2021	1,713,299	204,516	3,545	66,676	1,988,036

Notes to the Condensed Consolidated Financial Statements

Continued

	APAC $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
Gross customer receivables	2,185,420	299,850	88,952	91,136	2,665,358
Unearned future income	(14,102)	(4,515)	(101)	–	(18,718)
Provision for expected credit losses	(100,169)	(30,444)	(12,546)	(6,434)	(149,593)
Balance at 31 December 2021	2,071,149	264,891	76,305	84,702	2,497,047

The following table summarises movements in the provision for expected credit losses in the reporting period:

	APAC $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
Balance at 30 June 2021	82,021	19,998	1,346	3,007	106,372
Taken on acquisition of Spotii	–	–	504	–	504
Taken on acquisition of Twisto	–	–	9,735	–	9,735
Provided for the period	59,917	75,952	6,812	5,654	148,335
Receivables written-off during the period	(44,799)	(67,589)	(6,294)	(2,481)	(121,163)
Recoveries during the period	3,030	2,083	443	254	5,810
Balance at 31 December 2021	100,169	30,444	12,546	6,434	149,593

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	1,703,201	197,985	2,868	67,574	1,971,628
Stage 2	83,612	22,976	1,495	1,198	109,281
Stage 3	21,670	7,455	635	911	30,671
Balance at 30 June 2021	1,808,483	228,416	4,998	69,683	2,111,580
PROVISION FOR EXPECTED CREDIT LOSSES					
Stage 1	(26,537)	(9,805)	(687)	(1,791)	(38,820)
Stage 2	(40,289)	(3,218)	(253)	(823)	(44,583)
Stage 3	(15,195)	(6,975)	(406)	(393)	(22,969)
Balance at 30 June 2021	(82,021)	(19,998)	(1,346)	(3,007)	(106,372)

	APAC $'000	AMERICAS $'000	EMEA $'000	ZIP BUSINESS $'000	CONSOLI-DATED $'000
GROSS CUSTOMER RECEIVABLES					
Stage 1	2,057,266	245,256	76,617	83,242	2,462,381
Stage 2	101,515	43,733	8,496	5,399	159,143
Stage 3	26,639	10,861	3,839	2,495	43,834
Balance at 31 December 2021	2,185,420	299,850	88,952	91,136	2,665,358
PROVISION FOR EXPECTED CREDIT LOSSES					
Stage 1	(39,955)	(15,359)	(3,751)	(4,244)	(63,309)
Stage 2	(42,216)	(9,868)	(5,214)	(1,391)	(58,689)
Stage 3	(17,998)	(5,217)	(3,581)	(799)	(27,595)
Balance at 31 December 2021	(100,169)	(30,444)	(12,546)	(6,434)	(149,593)

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 2021 $'000	30 JUNE 2021 $'000
Past due under 30 days	103,627	66,716
Past due 31 days to under 60 days	37,967	30,010
Past due 61 days to under 90 days	27,460	20,909
Past due 91 days to under 180 days	33,923	22,317

NOTE 12. INVESTMENTS AT FVTPL

	CONSOLIDATED $'000
Balance at 30 June 2021	19,034
Fair value gain on revaluation	1,481
Foreign exchange loss	(412)
Derecognition on acquisition of Twisto	(20,103)
Balance at 31 December 2021	–

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

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

Notes to the Condensed Consolidated Financial Statements

Continued

NOTE 13. LEASES

The consolidated entity has recognised right-of-use assets and lease liabilities in relation to property leases that have over 12 months to expiry. The average lease term of these leases is 4 years from inception. Short-term leases are not included in accordance with AASB 16 *Leases* exemptions.

The consolidated entity has not received any rent concessions for its property leases during the half year ended 31 December 2021. As the COVID-19 restrictions still exist, management consider the shift to working from home and the resulting impact on office space requirements is an impairment indicator for the right-of-use assets. With the consolidated entity's current headcount, the floor space is expected to be fully utilised in the future and consequently the right-of-use assets have not been impaired at 31 December 2021. The consolidated entity does not intend to break or early terminate any of its property leases. Extension options have not been included in the assessment as exercising the options is not considered reasonably certain.

A. RIGHT-OF-USE ASSETS

The tables below show the right-of-use assets at the beginning and end of the current half year:

CONSOLIDATED	$'000
Carrying Amount	
Balance at 30 June 2021	5,849
Balance at 31 December 2021	4,812

CONSOLIDATED	$'000
Cost	
Balance at 30 June 2021	12,256
Addition	1,012
Balance at 31 December 2021	13,268

CONSOLIDATED	$'000
Accumulated depreciation	
Balance at 30 June 2021	(6,407)
Depreciation	(2,049)
Balance at 31 December 2021	(8,456)

B. LEASE LIABILITIES

The tables below show the lease liabilities at the beginning and end of the current half year:

CONSOLIDATED	$'000
Lease Liabilities	
Balance at 30 June 2021	6,296
Addition	1,012
Interest expense on lease liabilities	79
Repayment of lease liabilities	(2,317)
Balance at 31 December 2021	5,070
Analysed as:	
Current	3,326
Non-current	1,744
Balance at 31 December 2021	5,070

Amounts recognised in profit and loss for the periods:

	CONSOLIDATED	
	31 DECEMBER 2021 $'000	31 DECEMBER 2020 $'000
Depreciation expense on right-of-use assets	2,049	1,853
Interest expense on lease liabilities	79	133
Expense relating to short-term leases	788	759

Expenses relating to short-term leases are reported in occupancy expenses in the Condensed Consolidated Statement of Profit and Loss together with the cost of utilities and other office expenses, and are reported as a cash flow to operating activities in the Condensed Consolidated Statement of Cash Flows.

NOTE 14. INTANGIBLE ASSETS

	CONSOLIDATED	
	31 DECEMBER 2021	30 JUNE 2021
Carrying amounts		
Brand names and trademarks	6,636	80
Customer database	2,368	1,026
Transacting partner database	63,974	69,846
IT development and software	177,565	132,867
	250,543	203,819

Notes to the Condensed Consolidated Financial Statements

Continued

CONSOLIDATED	BRAND NAMES AND TRADEMARKS $'000	CUSTOMER DATABASE $'000	TRANSACTING PARTNER DATABASE $'000	IT DEVELOPMENT AND SOFTWARE $'000	TOTAL $'000
Cost					
Balance at 30 June 2021	298	2,122	84,280	175,782	262,482
Taken on business combinations	6,273	1,538	388	40,786	48,985
Additions	–	–	–	17,331	17,331
Effect of movements in foreign exchange rates	294	72	3,008	6,958	10,332
Balance at 31 December 2021	6,865	3,732	87,676	240,857	339,130

CONSOLIDATED	BRAND NAMES AND TRADEMARKS $'000	CUSTOMER DATABASE $'000	TRANSACTING PARTNER DATABASE $'000	IT DEVELOPMENT AND SOFTWARE $'000	TOTAL $'000
Accumulated amortisation					
Balance at 30 June 2021	(218)	(1,096)	(14,434)	(42,915)	(58,663)
Additions	(11)	(245)	(8,697)	(19,673)	(28,626)
Effects of movements in foreign exchange rates	–	(23)	(571)	(704)	(1,298)
Balance at 31 December 2021	(229)	(1,364)	(23,702)	(63,292)	(88,587)

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

Internally generated intangibles:

- IT development and software 2.5 years.

Acquired intangibles:

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

The impairment assessment of intangible assets is detailed in note 15.

NOTE 15. GOODWILL

The consolidated entity has seven cash-generating units (CGUs) at 31 December 2021 as set out in the following table. Goodwill has been allocated to these CGUs.

CONSOLIDATED	ZIP AU $'000	ZIP US[1] $'000	ZIP NZ&UK[2] $'000	ZIP UK[2] $'000	ZIP NZ[2] $'000	ZIP BUSINESS $'000	SPOTII[1] $'000	TWISTO[1] $'000	CONSOLI-DATED $'000
Balance at 30 June 2021	4,548	719,463	46,838	–	–	2,112	–	–	772,961
Reallocation of goodwill	–	–	(46,838)	44,678	2,160	–	–	–	–
Recognition on acquisitions	–	–	–	–	–	–	21,102	112,495	133,597
Impairment	–	–	–	(44,678)	–	–	–	–	(44,678)
Effect of movements in foreign exchange rates	–	25,954	–	–	24	–	723	5,599	32,300
Balance at 31 December 2021	4,548	745,417	–	–	2,184	2,112	21,825	118,094	894,180

1. Quad and Urge operations are considered as the Zip US CGU for impairment assessment purposes. During the half year ended 31 December 2021, Zip acquired Spotii and Twisto. Spotii and Twisto operate under separate management teams and the cash flows are independent. Management have determined that Spotii and Twisto are separate CGUs.

2. Zip NZ & UK were acquired as part of acquisition of PartPay and were considered as one CGU for impairment assessment purposes at 30 June 2021. From 1 July 2021, management started to monitor Zip UK under the EMEA segment and to monitor Zip NZ under the Asia Pacific segment, and goodwill was reallocated between the Zip UK CGU and the Zip NZ CGU.

IMPAIRMENT ASSESSMENT FOR GOODWILL, INCLUDING INTANGIBLE ASSETS:

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

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

An assessment of impairment indicators for each of the consolidated entity's CGUs, including both internal and external factors as indicators of impairment, has been performed.

Management are reviewing the allocation of capital across the geographies in which it operates, in order to ensure it is allocated appropriately to deliver optimal returns in the short to medium term. The review is ongoing, but management have taken the decision to reduce the allocation of capital available to drive growth in the United Kingdom. This is considered an indicator of impairment and as required under AASB136 *Impairment of Assets*, the consolidated entity has performed a recoverable amount assessment of the Zip UK CGU.

Notes to the Condensed Consolidated Financial Statements

Continued

The recoverable amount of Zip UK 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 comprising a cost of equity. Cash flow projections during the forecast period are based on forecast revenue and transaction volume growth, which have materially changed following the decision to reduce the allocation of capital to the Zip UK CGU. The after tax discount rate of 11.07% reflects an estimate of the equity cost of capital for the Zip UK CGU, compared to the pre-tax discount rate of 20.1% used in the assessment at 30 June 2021. Cash flows beyond the five-year period have been extrapolated using a steady long-term annual growth rate 2.0% (2.5% used in the assessment at 30 June 2021) which did not exceed the long-term average for the sectors and economies in which the Zip UK CGU operates. The steady long-term growth rate was estimated by management based on past performance of the Zip UK CGU and the expectations for the UK market in which it operates.

Management concluded that an impairment of goodwill was required and an impairment charge of $44.7 million has been reported in the Condensed Consolidated Statement of Profit and Loss, fully impairing goodwill allocated to the Zip UK CGU.

There have been no indicators of impairment for other Zip CGUs at 31 December 2021 and no impairment has been recognised for these Zip CGUs in the half year ended 31 December 2021 (31 December 2020: nil).

NOTE 16. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	31 DECEMBER 2021 $'000	30 JUNE 2021 $'000
Trade payables	36,889	36,663
Amounts due to merchants and other partners	27,483	32,445
Other	10,110	3,988
Total	74,482	73,096

NOTE 17. DEFERRED CONTINGENT CONSIDERATION

	CONSOLIDATED $'000
Balance at 30 June 2021	6,990
Issue of shares	(6,990)
Addition	19,323
Balance at 31 December 2021	19,323

PARTPAY DEFERRED CONSIDERATION

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

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

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

PartPay satisfied the remaining performance milestones in the financial year 2021 and accordingly 1,091,499 shares were issued to the PartPay shareholders on 18 October 2021, valued at $7.0 million. Consequently the balance of the contingent consideration has reduced to nil as at 31 December 2021.

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, either in shares or cash. If no claims have been made by the end of the one-year anniversary of completion, Zip has 60 days to issue these Zip Shares. If a claim has been made and has not been finally determined or resolved by the end of the one-year anniversary of completion, Zip has up to no later than four years after the anniversary of completion of the acquisition to issue these Zip Shares. The Holdback Consideration will be issued at an issue price equal to the Company's 30-day VWAP immediately prior to their issuance, subject to a 'minimum floor share price' of $5.00 per Share and an 'exchange rate cap' of A$1.82 per EUR.

NOTE 18. BORROWINGS

BORROWINGS AND SECURITISATION WAREHOUSE

	CONSOLIDATED	
	31 DECEMBER 2021 $'000	30 JUNE 2021 $'000
Secured Consumer facilities	2,325,831	1,624,153
Secured SME facilities	43,066	38,984
Corporate facility[1]	2,476	–
	2,371,373	1,663,137
Add: accrued interest	3,548	3,589
Less: unamortised costs	(6,185)	(7,493)
	2,368,736	1,659,233

1. Twisto corporate asset-backed facility.

The consolidated entity sells customer receivables to securitisation warehouses and special purpose vehicles through its asset-backed financing programs. 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. The consolidated entity may serve as a sponsor, servicer, manager, liquidity provider, purchaser of notes and/or purchaser of residual interest units.

ASSETS PLEDGED AS SECURITY

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

	CONSOLIDATED	
	31 DECEMBER 2021 $'000	30 JUNE 2021 $'000
Customer receivables[1]	2,373,454	1,962,550
Cash held in asset-backed financing programs	51,257	40,989
	2,424,711	2,003,539
Borrowings related to receivables[2]	2,585,359	2,007,889

1. The amount recognised above represents the carrying value of the customer receivables held by securitisation warehouses and special purpose vehicles and is net of the provision for expected credit losses and unearned future income. This excludes customer receivables totalling $123.6 million held by entities that are not in asset-backed financing programs at 31 December 2021 and $25.5 million at 30 June 2021.

2. Including $216.5 million junior and seller notes held by Zip's corporate entities ($344.8 million at 30 June 2021).

Notes to the Condensed Consolidated Financial Statements

Continued

TERM OF FACILITIES FINANCING ARRANGEMENTS

CONSUMER RECEIVABLES

	FACILITY LIMIT $'000	DRAWN AT 31 DECEMBER 2021 $'000	MATURITY
Zip Master Trust			
Rated Note Series			
2020-1	285,000	285,000	October 2022
2021-1	475,000	475,000	April 2024
2021-2	617,500	617,500	September 2024
Variable Funding Note	535,420	430,241	March 2024
zipMoney 2017-1 Trust	264,700	191,000	May 2023
zipMoney 2017-2 Trust	100,000	47,000	September 2023
AR2LLC[1]	413,451	223,085	May 2024
Zip NZ Trust 2021-1[2]	28,227	–	June 2023
Twisto Czech[3]	41,350	35,835	March 2022/October 2022
Twisto Poland[3]	30,117	21,170	November 2022/November 2023
Total	2,790,765	2,325,831	

1. Facility limit of US$300.0 million translated to AUD at exchange rate of 0.7256.
2. Facility limit of NZ$30.0 million translated to AUD at exchange rate of 1.0628.
3. Facility limits of CZK$658.0 million for Twisto Czech and EUR$19.3 million for Twisto Poland translated to AUD at the exchange rates of 15.9129 and 0.6408 respectively. Maturity dates are shown for the Senior and Mezzanine Notes separately as the dates are not concurrent.

SME RECEIVABLES

	FACILITY LIMIT $'000	DRAWN AT 31 DECEMBER 2021 $'000	MATURITY
Securitisation Warehouses			
Funding Box 3 Australia	35,000	25,994	March 2022
Funding Box NZ[1]	11,291	7,572	February 2022
Zip Biz 2020-1 Trust	100,000	9,500	November 2023
Total	146,291	43,066	

1. Facility limit of NZ$12.0 million translated to AUD at exchange rate of 1.0628.

Interest payable under all funding arrangements are based on an agreed margin plus BBSW/LIBOR with the exception of Twisto's subordinated notes, Funding Box 3 and Funding Box NZ which are subject to fixed rates.

At 31 December 2021, the Zip Business Capital facilities in Australia and New Zealand were in the process of being extended and increased. In February 2022, an agreement was reached to extend the Zip Business Capital facility in New Zealand to March 2022. Agreements to extend and increase the facility limits for Zip Business Capital in Australia and New Zealand are expected to be executed prior to 31 March 2022.

NOTE 19. FINANCIAL LIABILITIES – CONVERTIBLE NOTES AND WARRANTS

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

	FINANCIAL LIABILITY EMBEDDED DERIVATIVE $'000	FINANCIAL LIABILITY WARRANTS $'000	FINANCIAL LIABILITY NET DEBT HOST $'000	TOTAL FINANCIAL LIABILITIES CONVERTIBLE NOTES AND WARRANTS $'000	CONVERTIBLE NOTES EQUITY $'000
30 June 2021	60,643	60,314	349,008	469,965	114,466
Effective interest on convertible notes	–	–	14,777	14,777	–
Fair value gain recognised	(19,804)	(46,193)	–	(65,997)	–
31 December 2021	40,839	14,121	363,785	418,745	114,466

CONVERTIBLE NOTES AND WARRANTS ISSUED ON 1 SEPTEMBER 2020:

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

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

During the half year ended 31 December 2021, no convertible notes were converted (half year ended 31 December 2020: None).

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

The embedded derivative and the warrants have been revalued at 31 December 2021 in accordance with Accounting Standard AASB 9 *Financial Instruments*. Following the revaluation at 31 December 2021, the embedded derivative and warrants issued have been valued at fair values of $40.8 million and $14.1 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 2021 of $4.33, volatility of 45%, and a risk free rate of 1.17% for the embedded derivative, and 0.56% for the warrants. The different risk free rates reflect the different expiry dates of the instruments.

A fair value gain of $66.0 million has been recorded, being the movement in the fair values of the embedded derivative and warrants between 1 July 2021 and 31 December 2021 (fair value loss recognised in the half year ended 31 December 2021: $33.2 million).

Zip has reported a financial liability in relation to the underlying debt component of the convertible notes of $69.4 million, being the carrying amount of $65.3 million at 30 June 2021 plus an effective interest of $4.1 million recorded for the half year ended 31 December 2021.

Notes to the Condensed Consolidated Financial Statements

Continued

CONVERTIBLE NOTES ISSUED ON 23 APRIL 2021

ISSUE DATE	EXPIRY DATE	CONVERSION PRICE	NUMBER ISSUED
23 April 2021	23 April 2028	See in this note	2,000
Total			2,000

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). No Senior Convertible Notes had been converted as at 31 December 2021.

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

At 31 December 2021, Zip has reported a financial liability in relation to the underlying debt component of the Senior Convertible Notes of $294.4 million, comprising the carrying value of debt component of $283.7 million at 30 June 2021, and accrued effective interest of $10.7 million recorded in the half year ended 31 December 2021. The equity component of Senior Convertible Notes remained at $114.5 million at 31 December 2021, 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 20. 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 2021 SHARES '000	31 DECEMBER 2021 $'000	30 JUNE 2021 SHARES '000	30 JUNE 2021 $'000
Ordinary shares – fully paid	588,835	1,865,695	562,136	1,688,785
	588,835	1,865,695	562,136	1,688,785

MOVEMENTS IN ORDINARY SHARE CAPITAL

	SHARES '000	DETAILS $'000
Balance at 30 June 2021	562,136	1,688,785
Issue of shares – employee incentives	3,630	31,591
Issue of shares – exercise of options	1,153	103
Issue of shares – acquisitions	20,305	134,786
Issue of shares – PartPay contingent consideration	1,091	6,990
Issue of shares – acquisition of intangibles	520	3,440
Balance at 31 December 2021	588,835	1,865,695

MOVEMENTS IN OPTIONS

DETAILS	OPTIONS '000
Balance at 30 June 2021	9,742
Options exercised	(1,153)
Options expired not exercised	(173)
Balance at 31 December 2021	8,416

OPTIONS – WESTPAC BANKING CORPORATION:

At 31 December 2021, the Company had 5,880,000 outstanding options held by Westpac Banking Corporation that vest based on the achievement of certain revenue hurdles. In the event a hurdle is achieved, the associated options vest, and lapse 12 months after vesting. Options relating to any hurdle not achieved by 10 August 2022 automatically lapse. As at 31 December 2021, none of the revenue hurdles had been met and no options have vested.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

OPTIONS – REPLACEMENT AWARDS TO QUADPAY

There were 2,535,598 options issued to employees and non-employees on the acquisition of QuadPay that remained un-exercised at 31 December 2021.

Each option expires on the earlier of:

- the expiry dates of the options which varies between 28 May 2028 and 28 May 2030; and
- the date on which the option otherwise lapses in accordance with the terms of the Award Agreement between the Company and the relevant QuadPay option holder and the terms of the QuadPay Option Plan.

The options can be exercised by the holder at any time before the options expire. No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

MOVEMENTS IN PERFORMANCE RIGHTS

SHARES UNDER AT RISK LONG-TERM INCENTIVES DETAILS	RIGHTS '000
Balance at 30 June 2021	4,631
Issued during the year	375
Lapsed during the year	(573)
Balance at 31 December 2021	4,433

SHARES UNDER LONG-TERM EQUITY DETAILS	RIGHTS '000
Balance at 30 June 2021	2,146
Issued during the period	2,379
Lapsed during the period	(162)
Balance at 31 December 2021	4,363

Notes to the Condensed Consolidated Financial Statements

Continued

MOVEMENTS IN WARRANTS

DETAILS	WARRANTS '000
Balance at 30 June 2021	33,980
Issue of warrants	–
Balance at 31 December 2021	33,980

The following table shows details of warrants issued outstanding at 31 December 2021:

ISSUE DATE	EXPIRY DATE	EXERCISE PRICE	NUMBER ISSUED
6 November 2019	6 November 2026	$4.70	14,615,000
1 September 2020[1]	1 September 2023	$5.16	19,365,208
Total at 31 December 2021			33,980,208

1. Refer to note 19 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 7 years from issue date. On vesting, the warrants may be exercised any time up to 7 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. An expense of $0.9 million has been recognised for the half year ended 31 December 2021 based on management's assessment of the likelihood of the performance milestones being met over the 7 years from issue date. Further assessments will be made at each future reporting date and adjustments made to the amounts recognised based on this assessment.

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

There were no other Amazon Warrants exercised or expired during the half year ended 31 December 2021.

MOVEMENTS IN CONVERTIBLE NOTES

DETAILS	CONVERTIBLE NOTES
Balance at 30 June 2021	3,000
Balance at 31 December 2021	3,000
Representing as:	
Issue of convertible notes issued on 1 September 2020[1]	1,000
Issue of convertible notes issued on 23 April 2021[1,2]	2,000

1. Refer to note 19 for details of the convertible notes outstanding at 31 December 2021.
2. The issuance of 2,000 convertible notes on 23 April 2021 is listed on 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.

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

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

During the half year ended 31 December 2021, the milestones were partially achieved, and shares will be issued as milestone consideration to the vendors.

TENURE CONSIDERATION SHARES AND PERFORMANCE CONSIDERATION SHARES THAT MAY BE ISSUED TO QUADPAY FOUNDERS

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

The first instalment of 2,500,000 Tenure Consideration Shares were issued to QuadPay Founders on 30 September 2021, following QuadPay Founders' continuous employment with QuadPay to the first anniversary date. The second instalment of up to 2,500,000 Tenure Consideration Shares remains unissued at 31 December 2021, and will be issued provided the QuadPay Founders remain employed by 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 target. Accordingly, Zip issued 5,398,824 shares on 24 May 2021 to the QuadPay Founders as part of the Performance Consideration Shares. The number of Zip's shares issued was calculated based on the volume weighted average price of Zip's shares on the ASX in the 15 trading days prior to the date of issuance.

The second performance target has been met by the QuadPay Founders, with the TTV on the QuadPay platform for the rolling three months to 31 December 2021 exceeding the TTV performance target. Accordingly, US$7.5 million worth of shares will be issued to each QuadPay Founder no later than 15 September 2022. The number of shares to be issued will be calculated based on the higher of $3.70 per share and the volume weighted average price of Zip's shares on the ASX in the 15 trading days prior to the date of issuance.

PERFORMANCE SHARES THAT MAY BE ISSUED TO A SUBSET SPOTII SELLERS

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

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

Notes to the Condensed Consolidated Financial Statements

Continued

If the performance payments are payable, they will be paid in up to 3 payment tranches relating to the 12 month "performance periods" ending on 30 June 2022, 30 June 2023 and 30 June 2024. If any of these additional consideration amounts are paid in Zip shares:

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

NOTE 21. 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 in the half year ended 31 December 2021 and to the date of this report, there remains the possibility of a liability being incurred contingent on the outcome of the proceedings. There were no other contingent liabilities or contingent assets as at 31 December 2021.

NOTE 22. SUBSEQUENT EVENTS

Subsequent to the reporting date, the consolidated entity announced the completion of the acquisition of the remaining 73.75% interest in Payflex that it did not already own, comprising the Upfront Consideration, BEE Holdback Amount, and Deferred Consideration. The implied maximum enterprise value is ZAR$250.0 million (circa $22.9 million).

The Upfront Consideration of ZAR$103.4 million (circa $9.5 million) is payable in new fully paid ordinary shares in Zip, subject to a maximum issuance of 1,477,686 shares, with the balance payable in cash. Zip's shares issued in settlement of the Upfront Consideration will be subject to voluntary escrow arrangements.

In addition, Zip has agreed to make a potential cash payment of up to a maximum of ZAR$7.2 million (circa $0.7 million), which Zip has agreed to pay generally within 12 months from completion, subject to certain agreed conditions being met in connection with Zip exploring the merit of "empowering" Payflex in accordance with South African legislation, policy and good corporate governance practice regarding 'black economic empowerment" investment.

Deferred Consideration of up to ZAR$73.8 million (circa $6.8 million) is payable subject to the satisfaction of prescribed performance milestones, which are based on growth targets relating to the achievement of total transaction volumes and net transaction margins for the 12-month 'performance period' ending 30 June 2022. Deferred Consideration is payable by the issue of up to 1,053,608 Zip shares, with the balance payable in cash. Zip shares issued in settlement of the Deferred Consideration will be subject to voluntary escrow arrangements.

The financial effects of this transaction have not been recognised at 31 December 2021.

In January 2022, the Group added Variable Funding Note 2 to the Master Trust, with a new Senior Funding partner. This provides diversity of Senior Funding partners in the variable funding structure within the Master Trust.

In February 2022, the Group extended the facility funding receivables generated by Zip Business Capital in New Zealand to March 2022.

Subsequent to the end of the reporting period, Zip announced it had entered a definitive agreement to acquire Sezzle Inc. (ASX:SZL) in an all-scrip transaction by way of a statutory merger under the laws of the State of Delaware.

In addition, Zip announced a fully underwritten placement to eligible institutional, professional and sophisticated investors, and a non-underwritten share purchase plan to eligible Zip shareholders, with combined proceeds of up to $200.0 million subsequent to the period end.

To the date of the release of this report, there have been no other material items, transactions or events subsequent to 31 December 2021 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 Standard 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 2021 and of its performance for the financial half-year 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 & Chief Executive Officer

28 February 2022

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 2021, 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 13 to 51.

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 2021 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.

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.

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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 2021 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, 28 February 2022

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Corporate Directory

DIRECTORS

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Larry Diamond (Managing Director & CEO)
Peter Gray (Executive Director & Global COO)
John Batistich (Non-Executive Director)
Pippa Downes (Non-Executive Director)

COMPANY SECRETARY

David Franks
Tai Phan

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