Building a sustainable future.

ANNUAL REPORT 2023

Zip Co Limited
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> "We have made significant progress against our updated strategy to accelerate our path to group profitability."

This report is part of our suite of reporting for the 2023 financial year. You can find more information about our performance in our Full Year Results Investor Presentation.

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Who we are & why we exist.

OUR PURPOSE

Create a world where people can live fearlessly today, knowing they're in control of tomorrow.

We unite customers and merchants through simple, fair and transparent products and services. We give people the knowledge, access and ability to control their financial lives because if people are in control of tomorrow, they can live fearlessly today.

That belief extends to our own people. We give Zipsters the access and support they need to be fearless. When Zipsters act boldly they create a better world for themselves, our customers, merchants and communities.

OUR MISSION

To be the first payment choice, everywhere and every day.

WHY WE EXIST

We have the opportunity to rebalance the payments landscape, putting people, not financial institutions, in the centre.

VALUES

Our values are at the heart of our business. They steer our actions, shape our collaborations and enable us to deliver extraordinary experiences.

CUSTOMER FIRST

Put our customers and merchants at the centre of everything we do.

OWN IT

See a problem, own the solution. We make decisions and commit, aligning our work to Zip's highest priorities.

CHANGE THE GAME

Cross new boundaries. Experiment, ship, iterate and repeat to reach the best outcome for everyone.

STRONGER TOGETHER

Think 'we' not 'me'. We collaborate across Zip to bridge divides and achieve common goals.

FY23 delivered topline growth & improved margins.

$250.6m

Cash Gross Profit up 20.4%

2.8%

Cash Net Transaction Margin (NTM) up 30bps

($48.2m)

Group cash EBTDA up $103.2 million

FY23 SNAPSHOT

$8.9b

Total transaction volumes (TTV) up 7.0%

$693.2m

Revenue up 16.1%

72.3k

Merchants up 11.2%

6.2m

Active customers down 3.5%

7.8%

Revenue Margin up 60bps

FY23 OPERATING HIGHLIGHTS

REVISED STRATEGY TO ACCELERATE GROUP PATH TO PROFITABILITY

In response to market conditions, we reset our strategic pillars and shifted our focus to drive sustainable growth in core markets, improve unit economics and reduce costs. We have made significant progress against this updated strategy, accelerating our path to group profitability.

GROWTH IN CORE MARKETS

Zip's differentiated business model delivered improvements to its unit economics, with revenue margin of 7.8% up 60 basis points and NTM of 2.8% up 30 basis points – a strong result in a rising interest rate environment.

We successfully streamlined our operations and reduced our cost base. Zip US and NZ achieved positive cash EBTDA on a monthly basis at the end of FY23, joining the AU business which has been consistently positive cash EBTDA for the past five years.

BALANCE SHEET STRENGTHENING

Zip remains well funded with sufficient available cash and liquidity to support the execution of strategic priorities and growth initiatives, to deliver on positive Group cash EBTDA during 1H FY24. Zip restructured its balance sheet, taking actions to substantially reduce the outstanding face value of its convertible notes.

CHAIR'S REPORT

A year of simplification and focusing on core business.

DEAR SHAREHOLDER,

There's no question that Zip has taken significant steps forward as an organisation in FY23. While remaining faced with an uncertain global economy, Zip delivered strong growth in core markets, demonstrating the resilience of our business model. Zip's management team has executed a strategic pivot through this challenging environment. Your Board congratulates them on their decisive action.

A little over a year ago, Zip announced to the market that, in light of changing market conditions, the Company's strategy would be recalibrated to focus on the core markets of ANZ and Americas, with a clear aim to accelerate the path to achieving positive group cash flow. In line with this adjusted strategy, management undertook a strategic review, and took decisive action; non-core markets and products were exited, streamlining operations, improving efficiency and reducing cash burn. Proactive credit loss management strategies were implemented to reduce balance sheet risks and improve financial performance. These activities have laid the foundation for Zip going into FY24. Zip is now a leaner and stronger business, operating in the core markets of ANZ and Americas. Positive Group cash EBTDA is anticipated during 1H FY24.

Improving Zip's balance sheet position has been a critical area of focus. FY23 saw Zip launch two successful liability management exercises to significantly reduce our convertible note liabilities. Through a combination of liability management initiatives in December 2022 and June 2023, liabilities were reduced, and in July 2023 the terms and conditions of the remaining existing notes were amended. The support of noteholders and shareholders is very much appreciated. This complex undertaking was a significant event for the Company and has materially strengthened the balance sheet.

These actions involved the additional issuance of shares, and your Board acknowledges the potential for shareholder dilution. The significant changes, however, meaningfully reduces the outstanding face value of the notes. This exercise was the right path forward to strengthen the balance sheet, providing a platform for future profitable growth and was delivered with a nil cash impact to the Company.

In Australia, Treasury's recent recommendations to regulate BNPL are welcomed. The recommendations create a pathway to providing clarity and consistency across the sector. This has been a significant advocacy area for your Company, reflecting the business practices and principles that have underpinned Zip's operations since inception. Zip has engaged with government, industry and other stakeholders throughout this process and will continue to do so in line with its commitment to bringing fair and transparent credit products to customers.

In the US, the past 12 months has seen a reset of expectations and an alignment of operations with Zip's culture, making us a more integrated Company. I want to thank Zip's co-founder Larry Diamond for relocating to the US. He has revised the US strategy in line with the current operating environment and with a strong focus on improving the product and customer experience. This has been instrumental in driving the US business forward, including achieving cash EBTDA profitability as we exited FY23. Zip remains committed to providing credit to those without established relationships with traditional banks and remains of the view that there is an enormous opportunity in the US market. BNPL penetration still is under 2% of total payments penetration.

Following a comprehensive review of our risk management framework in FY22, as a Company we continued to strengthen our risk management practices. We have matured in our approach to risk identification and monitoring and strengthened our compliance frameworks.

We also continued the improvement of our cyber defence through our Cyber Security Council, and further regulatory and compliance training remains an area of focus for the Board. Regular Board workshops are conducted to address the most critical challenges we face as a Company and the Board is actively implementing measures to protect the Company and enhance Zip's overall risk management posture.

Zip's commitment to sustainability remains strong – championing responsible lending practices and evolving ways to improve customer financial literacy and protect customer data. We have a group strategy for diversity, equity and inclusion in place, including measurable objectives for gender diversity of 40% women, 40% men, 20% any gender across all levels by FY26. Greenhouse gas emissions are also measured to allow us to offset our carbon footprint. The Sustainability Report (contained in this report) highlights the progress your Company has made.

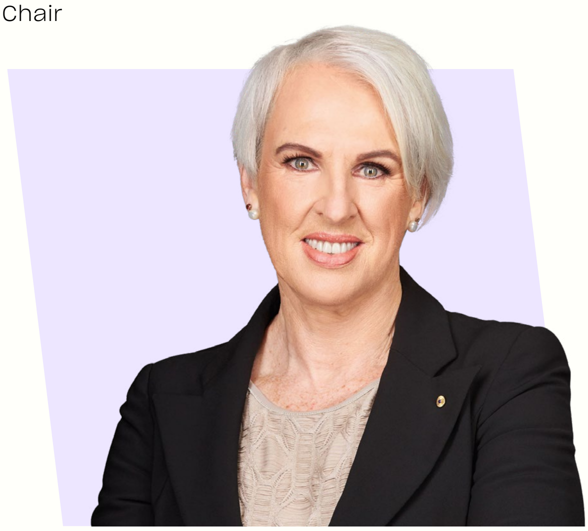
Zip welcomed Meredith Scott to the Board at the start of FY23. She has already shown her considerable experience as Chair of the Audit and Risk Committee. Zip acknowledges the value of diverse perspectives and intends to expand the independence of the Board in line with growth in our core markets.

Our success in executing against strategic priorities has been, and will continue to be, driven by a dedicated team of Zipsters. The team has aligned behind the revised strategy and remained focused on the exercise to reset the business. These efforts have enabled Zip to deliver strong results and clear progress against near and medium-term targets despite a challenging economic climate.

In August 2023, ANZ CEO Cynthia Scott became Group CEO, overseeing the Group's operations and strategy. Cynthia joined Zip in November 2021, bringing significant expertise in finance, corporate strategy, capital markets and innovation from her time in senior executive roles at Telstra, Scentre Group and as CEO of Barclays ANZ. Cynthia has made a significant positive impact since joining us. To drive performance in our core markets, Zip's co-founders Larry Diamond and Peter Gray have assumed the roles of CEO US and CEO ANZ respectively. These leadership changes see the founders connected to the business as drivers of performance, product innovation, and culture in the two core markets. I would also like to thank Martin Brooke for his almost seven years as CFO of Zip and welcome Gordon Bell who was appointed CFO in September 2023.

Thank you to all shareholders for your ongoing support and trust. The great majority of shareholders have remained steadfast and appreciate the work Zip has completed over the year. As Zip continues on the path to profitability, our vision remains clear along with the responsibility to deliver sustainable value to our shareholders, customers and merchants.

Diane Smith-Gander, AO
Chair



CEO'S REPORT

Continued growth from responsible lending and financial empowerment.

DEAR SHAREHOLDER,

Zip was founded 10 years ago to create a more financially fearless world and we remain committed to our mission to be the first payment choice, everywhere and every day. Zip's core principles of responsible lending, financial empowerment and innovation are what first attracted me to the company two years ago and I am honoured to have recently been appointed as Group CEO.

Just over 12 months ago, Zip took swift action in response to challenging and rapidly evolving market conditions. We adjusted our Company strategy to focus on accelerating group profitability and consolidating our footprint to two core markets – ANZ and Americas.

As we continue to consolidate and strengthen our position as a leaner and simpler business, our emphasis remains on delivering superior outcomes to our customers and merchants in our core markets, aligned to our overarching goal of sustainable and profitable growth.

During FY23, Zip made significant progress on its revised strategy and delivered a strong result. As we celebrate our 10th birthday this year, we know that our products continue to resonate as important budgeting tools for customers and deliver significant benefits to our merchant partners. In the current economic climate, with inflationary and cost of living pressures, our products have even greater relevance. We help customers budget and manage their spending responsibly, catering to both discretionary and everyday expenses, online and in-store. By offering payment flexibility and accessibility, we empower customers to manage their finances and feel in control of their financial future.

We also assist our merchants to focus on their customers and grow their business through new customer referrals, increased basket size, increased transaction velocity and higher customer satisfaction and retention. During 2023, we continued our leading position in the travel vertical in Australia, adding Uber, Jetstar and Webjet to the platform, as well as eBay AU and Peloton. In the US, we welcomed a variety of merchants partners including Barnes & Noble College, Fevo, WHP Global and Hanesbrands.

Since inception, Zip has held an Australian Credit Licence and built the business on the principles of responsible lending and strong consumer safeguards. As early as 2019, we advocated for fit-for-purpose regulation and actively engaged with regulators, consumer advocates and government to ensure the best possible sector outcomes. Zip welcomed the decision by the Federal Government to endorse Option 2 of the BNPL regulatory options proposed by the Australian Treasury.

Option 2 was the option Zip recommended and is aligned to our existing values and business practices. Having regulatory clarity will help support minimum standards and consistency across the sector and will deliver better experiences for customers.

In the US, we are well positioned for regulatory change. We have a partnership with WebBank, which allows Zip to provide access to credit in 45 states, and we have additional state licences beyond this. Doing the right thing by the customer is core to our DNA, and we will continue to work with our partners, regulators and other stakeholders as the regulatory environment in the US evolves.

While the macro environment remained uncertain in FY23, we have a strong foundation in place for profitable growth in FY24. We took actions to exit non-core operations, improve margins, lower our cost base and reduce our convertible notes outstanding face value by $312.2 million which included a consent solicitation process that completed in July 2023. We have accomplished a great deal as a team and are on track to achieve positive Group cash EBTDA during 1H FY24. As we move forward, our goal remains unchanged – democratising access to fair, affordable and responsible credit to the wider community. With strong foundations for future growth, we are well-positioned to expand and diversify the financial services we offer customers in the next decade.

In Australia, we look forward to growing our product offering with innovative and differentiated financial services to deliver the best outcomes for both new and existing customers. In the US, the introduction of the Zip physical card has been a significant milestone with return-to-store driving incremental customer engagement and accounting for approximately 30% of instore volumes. We continue to adapt our product offerings to meet our customers' evolving credit needs while maintaining sustainable margins for Zip.

We are proud of what we have built, and we are excited about the opportunities that lie ahead.

We continue to adapt our product offerings to meet our customers' evolving credit needs while maintaining sustainable margins for Zip. We are proud of what we have built, and we are excited about the opportunities that lie ahead.

Our strategy, culture, and talented team of Zipsters position us to serve our merchants and customers exceptionally well. I am continually inspired by our loyal and fearless Zipsters, who live our values and play a vital role in our success. Their commitment, confidence, and innovative contributions deserve recognition. They have navigated the last year with energy, resilience and great care for our customers and merchants.

In September 2023, Zip appointed Gordon Bell as Group CFO and I look forward to working with an executive of Gordon's calibre and experience. I would also like to thank Martin Brooke for the many years of service he has given Zip and his significant contribution to the Company. Our leadership team remains firmly focused on delivering our strategic objectives. The performance we have delivered in FY23 demonstrates what we can achieve with focus, commitment and a passion for our core values. I look forward to continuing our momentum into FY24.

Cynthia Scott

Group CEO and Managing Director

Our Strategy

We remain dedicated to customer-first products and striving to create better credit solutions that align with our purpose of creating simple, fair and transparent products that can be used everywhere and every day. During FY23, we continued to focus on our strategic objectives of Growth in Core Markets, Improve Unit Economics, and Reduce the Cost Base.

GROWTH IN CORE MARKETS

In FY23, we delivered sustainable growth in our core markets, forged new enterprise merchant partnerships, expanded into new verticals, and increased customer engagement.

IMPROVE UNIT ECONOMICS

We have enhanced unit economics by improving revenue margins, delivering strong credit outcomes and maintaining discipline on data and processing costs. These exercises have led to an improved net transaction margin despite the rising interest rate environment.

REDUCE THE COST BASE

We have successfully exited non-core markets and streamlined our operations and personnel to achieve significant cost reductions. We also executed two significant liability management exercises to reduce our convertible note liabilities and strengthen our balance sheet. Our activities in FY23 have set us on track to deliver positive Group cash EBTDA during 1H FY24.

FY23 BUSINESS REVIEW

Successfully reset the foundations of our business for future growth.

We have made significant progress in executing against our three strategic priorities: Growth in Core Markets, Improve Unit Economics, and Reduce the Cost Base. In FY23, we have successfully reset the foundations of our business to position ourselves for further growth in FY24, despite the evolving external operating environment.

Our competitive advantage stems from the strength of our customer base, merchant partnerships, innovative products, brand and technology platform. By focusing on our strategic priorities, Zip US and NZ exited FY23 positive cash EBTDA on a monthly basis, joining the Australian business which has been positive cash EBTDA for five years.

GROWTH IN CORE MARKETS

CUSTOMER ENGAGEMENT

In FY23, we delivered risk adjusted TTV growth driven by higher margin channels. We have observed customers using Zip in more places and for a wider range of everyday purchases. Our active users shopped at approximately 1.5 million locations across ANZ and the Americas.

Our products are resonating with our customers with an NPS of +55 across our core markets and we have seen high customer engagement and repeat usage from the Zip card, which is well-positioned to drive further growth from the instore opportunity in the US. The Zip Card is scaling well with approximately 400 thousand cards issued, and continues to deliver strong customer engagement. Increased usage of our products in response to the challenging economy reflects our customers' trust in our platform, enabling them to effectively manage their expenses and budgets with financial fearlessness and control.

MERCHANTS

Throughout the year, we have forged partnerships with key enterprise merchants such as Asics, eBay AU, Hoyts, Peloton and Webjet in ANZ and Barnes & Noble College, Fevo, Hanesbrands, Pet Supermarket and World Wrestling Entertainment (WWE) in the US. These partnerships have added and will continue to drive substantial value to our portfolio, and these relationships are a testament to the strength of our brand. It reinforces our value proposition and demonstrates our ability to secure high-profile partnerships.

In Australia, we have gained a significant foothold in the Travel vertical capitalising on the industry's recovery. In addition, merchants increasingly recognise the value of our platform and are actively seeking to join us, contributing to new customer acquisition and engagement. Our 'regulatory ready' products are already compliant with upcoming regulations, providing comfort and security for merchants seeking a responsible and sustainable consumer finance partner.

"Partnering with Zip for a no deposit, interest free finance option helps our customers to get Thermomix® or a Kobold into their homes sooner. Zip allows for flexibility in managing repayments over convenient instalments that work for our customer and their lifestyle. The customer finance application process is straight-forward, and their team are on hand to manage any customer queries directly. Zip's payment platform was also simple for our business to integrate into our e-commerce platform, allowing for a seamless transaction experience."

– Grace Mazur, Managing Director, Thermomix®

Michael Hill have been partnering with Zip through the Zip Pay and Zip Money products to our customers for over 5 years. Zip have played a key role in supporting our sales growth by providing unique and competitive financing offerings with a convenient process for our customers. We're looking forward to Zip backing our customers as we seek to expand both transaction volumes and values over the coming years."

– Joel Watson, Deputy CFO, Michael Hill

IMPROVE UNIT ECONOMICS

NET TRANSACTION MARGIN IMPROVEMENT

We have improved unit economics by growing revenue margins, delivering strong credit outcomes and maintaining discipline on data and processing costs. Revenue margin expansion to 7.8% has benefited from repricing, demonstrating the benefits of our two-sided revenue model and the value of our product offering in a rising cost of living environment. Despite external challenges of rising costs and interest rates, our ongoing focus on both processing costs and credit risk management has positively contributed to our net transaction margin of 2.8%, an improvement of 30 basis points versus FY22.

7.8%

Revenue margin expansion

CREDIT PERFORMANCE

The external operating environment, characterised by increasing interest rates and inflation, has added pressure on consumers. To manage this, we have proactively adjusted our risk settings and delivered an improvement in credit losses of 70 basis points at 2.0% of TTV, in line with our group target.

US credit performance has been particularly strong, while customer growth remained tempered by internal risk settings to deliver these outcomes. We successfully grew TTV from existing customers in higher margin channels such as the app and physical card, providing a solid platform for accelerated and profitable growth in FY24.

In Australia, in line with seasonality and a softening in the consumer environment, we experienced a slight uptick in arrears in the second half of FY23. Consequently, we further adjusted our lending criteria and risk settings for the existing portfolio and these changes have moderated top-line growth.

2.8%

Cash Net Transaction margin

($48.2m)

Group cash EBTDA up $103.2 million

REDUCE THE COST BASE

EXITING NON-CORE MARKETS

While we continue to see increased demand globally for our products from both customers and merchants, we made the decision to allocate resources to areas of our business that are already profitable or have a near and clear path to profitability. This resulted in our strategic decisions to exit non-core markets. We have reduced our geographic footprint to four core markets and exited SME lending to focus on consumer lending products only. Concentrating on our core products and core markets of the US, Canada, Australia, and New Zealand led to immediate cost reductions and simplified our business model, accelerating our path to profitability.

STREAMLINED OPERATIONS

In FY23, our primary goals were to streamline operations, reduce complexity, and improve efficiency. We renegotiated supplier contracts and reviewed our commercial arrangements across all areas of the business. Alongside exiting non-core markets, we significantly reduced our global headcount and employee costs, including an exercise to reduce approximately 16.1 million of annualised base salary costs across the US, ANZ and corporate divisions in the second half of FY23. These efforts resulted in a more efficient, disciplined, and agile organisation, right sizing the Company in preparation for continued sustainable growth.

BALANCE SHEET MANAGEMENT

In FY23 we took strategic actions to manage our balance sheet liabilities and reduce our convertible note liabilities by $312.2 million. In December 2022, we executed an incentivised conversion offering that resulted in a reduction of $70.0 million in the value of Senior Convertible Notes. In June 2023, Zip launched another liability management exercise that allowed us to further reduce the outstanding face value. This offering comprised an additional incentivised conversion exercise in June 2023 and a consent solicitation process to amend the terms and conditions of the remaining notes which completed in July 2023. The incentivised conversion included a cash payment that was fully funded by an equity raising, allowing Zip to complete the transaction with no cash impact to the Company.

Through the exercise in June and subsequent completion of the consent solicitation process in July, we successfully retired a significant portion of our convertible note liabilities at an effective rate of 47.5 cents in the dollar, reducing the notional value of the convertible note by $192.2 million to $137.8 million, fundamentally resetting and strengthening Zip's balance sheet. The success of the liability management exercises demonstrates strong support for the Company and its strategic direction, reduced the Company's overall debt position and fundamentally strengthened the balance sheet.

PEOPLE & CULTURE

Creating an inclusive, high-performance environment for our Zipsters.

Over the past 12 months, we have successfully transitioned from a global to a regional approach, focusing our efforts on our core markets of ANZ and Americas. We remain committed to providing an environment for Zipsters to grow and develop their careers and we have made investments in our systems and work environment to drive ongoing improvements in employee wellbeing and cultivate an effective performance culture. Our employee engagement score in FY23 was 78%, demonstrating that our employees remain highly engaged.

> **“We prioritise the nurturing of internal talent and aim to create a culture of growth and opportunity.”**

With an uncertain external environment affecting operations it has been important to maintain our culture in the face of change. Our adaptable performance framework has allowed us to shift strategic priorities and demonstrate our resilience, agility, and ability to navigate external challenges. We have modified our strategies, practices, and processes to set us up for continued success as we deliver on Zip’s revised strategy.

CAREER DEVELOPMENT

We prioritise the promotion and nurturing of internal talent, creating a culture of growth and opportunity. Regular talent reviews allow us to assess and develop the capabilities of our workforce, enhance our teams, and sustain our organisational culture. We strongly believe in providing our employees with opportunities for career growth and multiple career paths within the Company. By emphasising internal talent development, and providing them with tools and opportunities, internal promotions form the base of staff movement, supported by qualified external hires.

In FY23, we continued and enhanced programs such as our leadership essential training and a refreshed manager onBoarding program. We also expanded our performance framework to include 360° performance reviews for all employees. During FY24, we will complement this by launching an internal mentoring program. The introduction of a balanced scorecard with a weighting focused on personal growth and development during the annual performance review framework during FY23 can be highlighted as a conscious investment in employees’ professional growth.

Our total rewards framework philosophy remains consistent and attractive throughout the organisation. This includes non-financial benefits such as regular wellbeing and birthday leave and other forms of leave to support improved mental health and wellbeing. We ensure employees receive fair and equitable remuneration, aiming to attract, motivate, and retain top talent while recognising and valuing their contributions.

DIVERSITY, EQUITY AND INCLUSION

Zip remains committed to providing a safe and inclusive working environment which enables everyone to thrive, supports wellbeing and promotes equity and inclusion. We track performance on inclusion through engagement surveys, targeted focus groups and quantitative and qualitative program feedback.

We seek to build diverse teams and track and share our progress against our gender balance goals. We actively create and support employee resource groups where our people can connect and share feedback to senior leaders. One example is our "Women @ Zip" group which is flourishing in ANZ and Americas.

We celebrate diversity through company-wide events and communications, education and through our hiring practices. We acknowledge moments such as International Women's Day, World Pride, Black History Month, Asian Pacific Islander Desi American (APIDA) month and various religious and cultural traditions. We partner and collaborate with organisations such as The Dream Collective, Women Who Code, Girls in Tech and The Pinnacle Foundation to effect real social change.

FOCUS ON EMPLOYEE EXPERIENCE

We emphasise a holistic view in measurement and reporting to monitor our progress in employee engagement, wellbeing and diversity. We continued our initiatives that contribute to a flexible work culture and support employee wellbeing. These include family-friendly programs and policies such as parental leave, miscarriage and stillbirth bereavement leave, family and domestic violence leave and an employee wellbeing allowance.

To continuously improve, measure and understand employee engagement, we have moved from an annual survey to a more regular listening cadence across the organisation. Quarterly pulse surveys provide more comprehensive data to help us better understand how we can support our employees' wellbeing and offer opportunities for development. There is a continued effort to build a better workplace experience and evolve our ways of working. Our move to a new, NABERS 6-star energy rating building at 180 George Street, Sydney is a significant investment designed to reflect our hybrid working practices by fostering collaboration to promote the physical aspects of the employee experience.

Throughout the year, we have invested in and implemented numerous technology and process improvements. Upgrades to recruitment systems and practices, career growth and internal mobility initiatives, and enhanced visibility of overall employee experience now power additional organisational efficiency and employee satisfaction. These improvements provide leaders with data-driven oversight and contribute to enhanced experiences, creating a more engaging and rewarding work environment for employees.

FY24 PRIORITIES AND OUTLOOK

Continuing our focus on driving profitable growth.

Our successful efforts in consolidation, simplification, and strengthening the balance sheet have positioned the Company for the next phase of growth. Our goal is to achieve sustainable and profitable growth while optimising capital utilisation, leveraging the strategic assets of our business, including our customer base and merchant relationships, credit underwriting capabilities and approach to responsible lending to ensure long-term success.

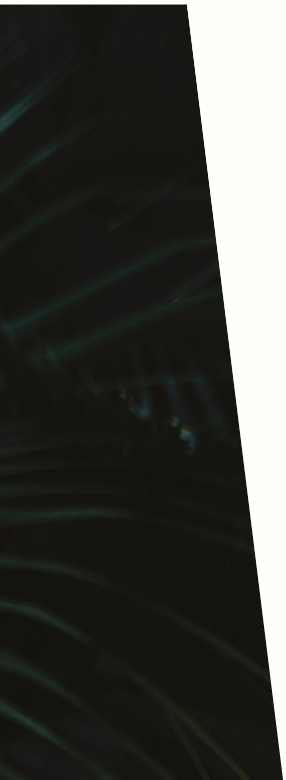
We are on track to achieve positive cash EBTDA as a group during the first half of FY24 and achieve a positive Group cash EBTDA result for the second half of FY24. Our strategy in FY24 will be underpinned by three key pillars and regional priorities for each of our ANZ and Americas divisions.

SUSTAINABLE GROWTH & PROFITABILITY IN CORE MARKETS

We will continue our focus on driving profitable growth in our existing products, including a disciplined approach on credit performance, and delivering on initiatives to further reduce cost of sales.

DELIVER INNOVATIVE PRODUCTS TO OUR CUSTOMERS & MERCHANTS

We will unlock new customer and market segments with product innovation, new merchant verticals and by providing customers with new ways to pay and budget responsibly.



CONTINUE TO STRENGTHEN PLATFORMS & BALANCE SHEET TO SUPPORT SCALE

We will continue to invest in our processes, platforms, and systems to support further scale and deliver operating leverage as we grow. Further strengthening of the balance sheet remains a focus as we continue to diversify and enhance our sources of funding.

SUSTAINABILITY REPORT

Taking action for sustainable growth.

SNAPSHOT

Increased representation of women in our total workforce to

44%

We remain fully committed to ensuring that Zip operates as a responsible and sustainable business.

Our effective management of environmental, social, and governance issues reduces risk and enhances value for our shareholders, customers, employees, and communities.

In FY21, we conducted a thorough evaluation and identified key environmental, social and governance topics aligned to Global Reporting Initiative (GRI) guidelines. This evaluation involved benchmarking, stakeholder engagement, United Nations' Sustainable Development Goals (UN SDGs) mapping and a materiality analysis. Based on this assessment we developed a materiality matrix that guides our sustainability strategy and approach.

Our focus areas reflect the areas material to Zip's business. These areas represent issues that are both important to Zip's stakeholders and where we can have impact. These are Financial Wellbeing and Responsible Lending, Cyber Security Resilience, Data Privacy and Financial Crime, Diversity, Equity and Inclusion, and Employee Wellbeing. In FY23, our sustainability framework evolved with a continued focus on responsible lending and preventing financial crime, and an increased focus on developing stronger cyber security resilience.

Looking to FY24, we plan to review our materiality matrix to ensure it continues to meet stakeholder and internal expectations. This will enable us to adapt to evolving sustainability-related risks, opportunities, and stakeholder ESG expectations.

SUSTAINABLE DEVELOPMENT GOALS ("SDGS")

We believe that finance and technology will play a key role in many of the UN SDGs.

We're committed to supporting the UN SDGs most relevant to the work we do.

The Sustainable Development Goals are outlined below in Table 1.

Table 1: Governance metrics

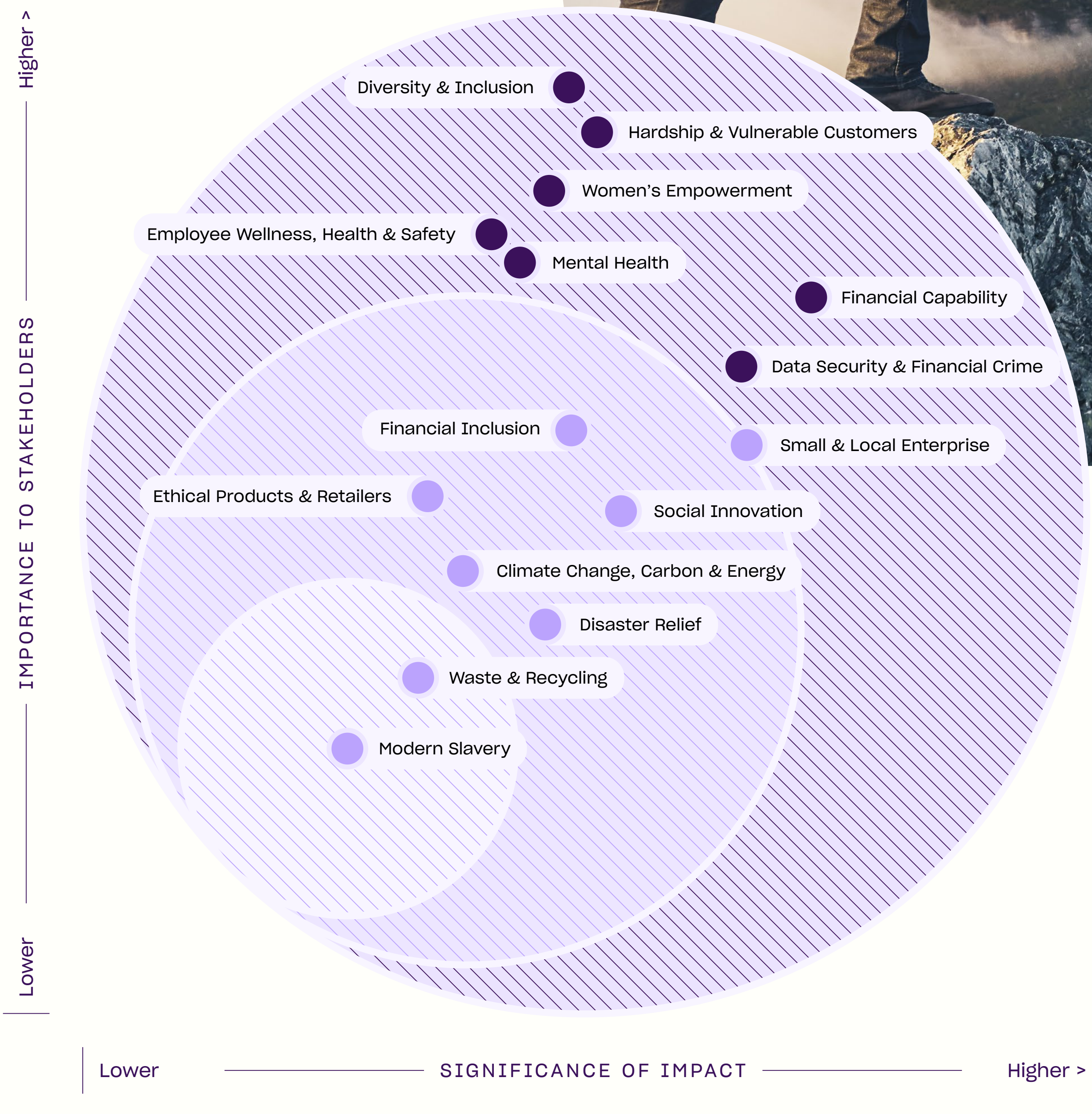
FOCUS AREAS/SDGs	GOALS/COMMITMENT	SDGS
GOVERNANCE		
Governance and Risk Management	– Majority of Independent Directors – Effective management of key risks	8 DECENT WORK AND ECONOMIC GROWTH 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Cyber security, data privacy and financial crime	– No material disruption to operations or data loss from cyber security – No reportable incidents concerning data privacy – Establish program to combat Financial Crime that meets regulatory standards and maintains effective controls	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
SOCIAL		
Diversity, Equity and Inclusion	– Gender balance measurable objectives of 40% women, 40% men, 20% any gender across all levels by FY26	5 GENDER EQUALITY 10 REDUCED INEQUALITIES
Community Engagement	– Mobilising Zip employees in response to crises – Mobilising customers in response to crises by FY24 – Commit two days of paid employee time to volunteering per annum	17 PARTNERSHIPS FOR THE GOALS
Financial Wellbeing and Responsible lending	– Partnering with communities to promote financial wellbeing	1 NO POVERTY 8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES
ENVIRONMENTAL		
Environmental Sustainability	– Climate Neutral accreditation – Emissions reduction targets set by FY24 – Climate-related Financial Disclosures roadmap by FY23	11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION

GLOBAL REPORTING INITIATIVE (GRI)

In FY23, we have taken significant steps to continuously improve our sustainability reporting by aligning with the GRI Standards 2021. This report incorporates the principal Universal Standards from the GRI Standards and provides references to where key standards are covered. An overview of the assessment outcomes can be found in the appendix.

Building on this foundation, Zip plans to conduct its next assessment following GRI guidelines in FY24. Regular assessments, ensure we enhance our sustainability reporting, increase transparency, and improve performance in addressing the issues that matter most to our stakeholders and to the overall sustainability of the organisation.

Zip Materiality Matrix



GOVERNANCE

Our mission and purpose have never been more relevant.

We are committed to continuously improving our governance practices to ensure alignment with the needs of our business and stakeholders. The Board, elected by the shareholders, oversees the governance and performance of Zip through a well-established framework.

Our governance approach is founded on accountability, effective delegation, and robust oversight to facilitate informed decision-making. The Board's role is to protect Zip's interests while considering the interests of shareholders and other stakeholders. By setting our strategic direction and instilling a performance-driven, adaptive, accountable and risk aware culture, the Board aims to achieve sustainable growth outcomes. Great emphasis is placed on creating an environment of strong corporate governance for Zip, its directors, officers, and employees, enabling us to serve customers and deliver to shareholders over the long term.

GOVERNANCE

GOVERNANCE METRICS

Sound governance is essential in fulfilling our purpose and strategy. The Board comprises five Directors – three independent Non-Executive Directors (including a Non-Executive Chair) and two Executive Directors (the group CEO and CEO US). Independent, diverse, and skilled Non-Executive Directors provide clear oversight and support sound decision-making by our Board.

The CEO is responsible for managing Zip's day-to-day affairs, with the Executive Leadership Team's support, adhering to the strategy, policies and the risk appetite set by the Board. A delegation of authority framework defines decision-making and expenditure limits for various levels of management, providing clarity to employees on expectations and operating procedures. The Board is also responsible for providing an environment where our people drive performance and manage risks in the best interests of stakeholders. Our performance on key governance metrics is outlined below in Table 2.

Table 2: Governance metrics

	FY23	FY22
Board Composition (#)		
Total Directors:	5	5
– Women	2	2
– Men	3	3
Independent Directors[1]	3	3
Women Directors on Board (%)[2]	40	40
Conduct		
Whistleblower cases	0	1
Cyber Security		
Notifiable cyber security incidents	0	0

1. Meredith Scott was appointed as an Independent Non-Executive Director on the 1st of September 2022.
2. Subsequent to 30 June 2023, Cynthia Scott was appointed as Group CEO and Managing Director. Cynthia's appointment as Chief Executive Officer was effective from 10 August 2023 and her appointment as Managing Director from 24 August 2023. Larry Diamond was appointed to the role of CEO US (effective 10 August 2023) and will continue to serve as an Executive Director. Peter Gray was appointed to the role of CEO ANZ (effective 10 August 2023) and will continue to serve the Board as an adviser (effective 24 August 2023). Following these changes, the representation of women on the Zip Board increased to 60%.

BOARD PRIORITIES DURING FY23

The Board continues to respond to changes to the broader macroeconomic environment and market conditions by refocusing the Company's strategy on tight capital management securing funding to support consumer receivables, exiting non-core markets, prioritising growth of the ANZ and US businesses, intensive management of our credit losses, liability management, right sizing our operating expenses whilst retaining key talent, and driving value for merchants and consumers. Over the past financial year, Board priorities included:

STRATEGY

The Board regularly reviews and assesses the effectiveness of Zip's strategy in the context of current and potential future market conditions. This resulted in a strategic priority to focus on ANZ and Americas to accelerate the group's path to profitability in FY24. Consequently, during FY23, non-core markets were either wound down or divested.

CULTURE

The Board and Senior Management are responsible for shaping Zip's culture to align with its purpose and strategy. Preserving a highly engaged culture while reducing operating expenses is a key focus. The Board monitors culture through people reporting that reviews employee engagement and experience, diversity and inclusion, recruitment, retention, and compliance.

LEADERSHIP

The Board works through the Executive Team to drive performance and governance. Developing and retaining key talent to support strategy execution is crucial in the context of elevated attrition. In FY23, the Board refocused leadership with dedicated CEOs for the US and ANZ to enhance accountability in these markets.

RISK MANAGEMENT

The Board ensures Zip has the capability to manage and mitigate key risks. In FY23, the Company continued to invest in resources for risk management and reviewed performance against the risk appetite and risk tolerance framework. This strengthened the ability to oversee, manage and mitigate key risks, including cyber security breach risks.

GOVERNANCE

The Board recognises engagement with shareholders and stakeholders ensures diverse perspectives. The Board maintains a strong focus on risk management and financial crime programs, alongside regular policy reviews, regulatory compliance, and tax obligations. During FY23, the Board welcomed the proposed regulation of the BNPL industry under the National Credit Act by the Australian Treasury.

PERFORMANCE

The Board closely monitors operational performance in core markets to ensure sufficient operating capital to achieve profitability. Addressing credit losses, eliminating cash burn in non-core markets, and practicing sound capital and cash flow management, were key areas of focus during FY23.

SECURE FUNDING

The Board tracks changes in capital markets and funding costs in the context of rising interest rates. In FY23, there was additional attention on treasury as the Board reviewed alternative funding sources, including our maturing corporate facility, and warehousing facilities to support consumer receivables.

LIABILITY MANAGEMENT

The Board improved the Company's capital structure through a liability management program. In FY23, expert advice was sought, and two successful liability management exercises were launched. Whilst one of these exercises completed in FY23, a further significant reduction in convertible note liabilities as a result of the consent solicitation process, will be reflected in 1H FY24.

CYBER SECURITY RESILIENCE

The Board actively monitors recent market developments, the cyber security resilience scorecard, and the Company's plans, to identify, protect, defend, and detect security risks. Preparedness to respond and recover from any threats or incidents is a critical focus.

GOVERNANCE

BOARD INDEPENDENCE

The Board seeks to direct strategy, drive accountability, endorse policy, manage risk, and monitor performance to position the Company for sustainable long-term growth. Continuously reviewing the collective skills, knowledge, experience, and diversity is a priority for the Board to support ongoing performance and governance duties. This assessment aims to identify the skills, capacity, and market knowledge required to facilitate our continued growth and path to profitability.

Three of our Directors are independent. All Directors are expected to exercise independent judgement in the best interests of all shareholders. All Directors are obligated to disclose to the Board any potential interests that could present a conflict with those of Zip.

BOARD SKILLS AND EXPERIENCE

To ensure the Board's effectiveness, a comprehensive Board Skills Matrix has been established, outlining the essential skills and experience required for both the Board and its Committees. The Nominations Committee has endorsed the Skills Matrix outlined below in Table 3, which received approval from the Board. Through regular reviews, the Nominations Committee assesses the experience, independence, knowledge, balance of skills and diversity of Directors, to ensure that the Board collectively possesses the necessary expertise.

"The Board seeks to position the Company for sustainable long-term growth."

Table 3: Board skills matrix

SKILLS AND EXPERIENCE	DESCRIPTION	LEVEL[1]
INDUSTRY		
Retail and ecommerce	Experience in the retail/ecommerce sectors	Proficient
Payments and affiliates	Experience in conducting business directly with consumers	Proficient
Issuing responsible credit	Experience with customer base	Practiced
Multi-country markets	Experience in conducting business in, and proven knowledge of, overseas markets in which the Company operate	Practiced
DIGITAL AND TECHNOLOGY		
Digital platforms	Experience in the use of online platforms to deliver products and services	Practiced
Disruptive technology	Experience in digital technologies, implementing technology products, leveraging digital technologies and digital disruption	Proficient
Online communities	Experience in leveraging online communities to drive business	Practiced
GOVERNANCE, STAKEHOLDERS AND REGULATORY		
Listed companies	Experience as a Director on a listed company Board in Australia or overseas	Practiced
People and culture	Experience in building workplace capability, setting a remuneration framework that attracts and retains high calibre executives, and promoting diversity and inclusion	Proficient
Health, safety, environment and sustainability	Experience related to workplace health, safety, environment, and corporate responsibility issues within large businesses	Practiced
Legal, governance and compliance	Ability in, and understanding of the application of legal, governance and compliance principles and regulations	Proficient
Risk management and compliance oversight	Experience in identifying, assessing, and managing strategic, operational, and financial risks, and monitoring compliance management frameworks and systems	Proficient
LEADERSHIP		
Executive leadership	Held senior executive position in an organisation of significant size or a listed company in Australia or overseas	Proficient
Financial acumen	Qualifications or experience in financial accounting and reporting, corporate finance, and internal controls	Proficient
Capital management	Experience in capital management strategies, including capital partnerships, debt financing and capital raisings	Proficient
Mergers and acquisitions	Experience in corporate transactions and joint ventures	Proficient
Strategy	Experience in developing, implementing, and challenging a plan of action to achieve our long-term objectives	Proficient

1. **Proficient** means regarded to have expert or highly qualified proficiency, knowledge and experience in the subject matter or domain and has been seen to contribute these skills in Board and Committee conversations and critical thinking. **Practiced** means has developed a sound working knowledge and understanding of the subject matter through either past executive or management roles, extensive on-the-job application of skills in Board and Committee activities and/or through training and professional development activities.

GOVERNANCE

Whenever a need arises, the Nominations Committee proactively engages in a comprehensive market search utilising both formal and informal methods, to identify potential candidates. These candidates are subject to multiple interviews, background and qualification checks and reference checks. After the Nominations Committee finalises a short list of potential candidates, the Board reviews and, if appropriate, approves the new Board member.

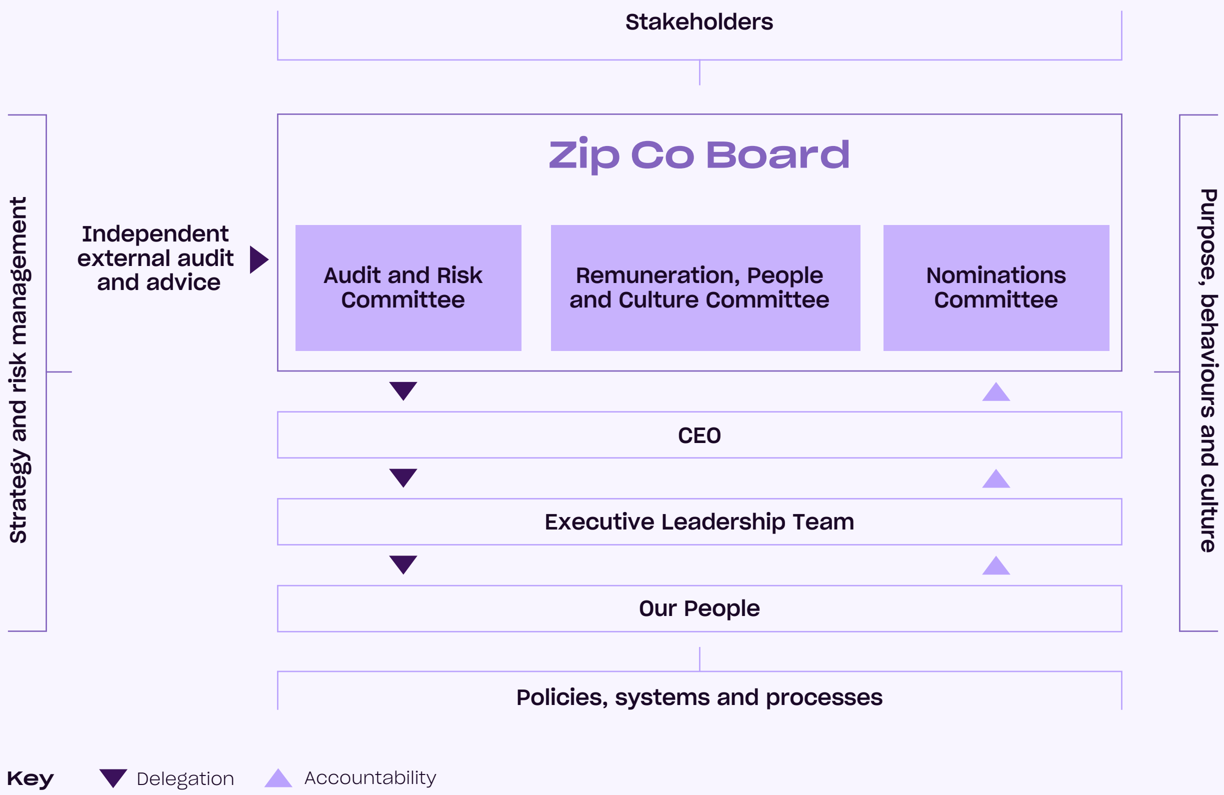
CORPORATE GOVERNANCE

The Board recognises the role it plays in meeting the responsibilities and obligations of customers, employees, shareholders, and the industry. To enhance the effectiveness of the Board and ensure an appropriate mix of capabilities for overseeing performance and governance, Board composition is continually reviewed.

The Board maintains its focus on risk management, increasing investments in resources, policies, reporting and compliance in line with an independent review undertaken in FY22.

The governance and performance of the Company is overseen by the Board elected by the shareholders. The Board has a framework in place for governing Zip. Further detail on our corporate governance can be found in the FY23 Corporate Governance statement.

OUR GOVERNANCE FRAMEWORK



RISK MANAGEMENT

Risk management is central to Zip's operating model and underpins all our activities. The purpose of risk management is to safeguard Zip's long-term viability, reduce volatility in financial performance, strengthen operational resilience and facilitate informed decision-making. The Risk Management Framework (RMF) complements the business model focusing on the identification, assessment, management and monitoring of the material risks faced by Zip.

The risk governance structure at Zip ensures effective risk oversight through consistent application, management, and reporting. The Board has a delegated Audit and Risk Committee (ARC) to provide support in discharging its responsibilities in reviewing the RMF and overseeing the Risk Appetite and Risk Profiles that include key material risks. They also review and monitor the control environment and escalate to the Board where required.

During FY23, Zip invested in maintaining and enhancing our risk management practices, with a particular focus on the core markets of ANZ and Americas. Key activities included:

- Continued execution of improvements recommended by an external independent review of our risk practices undertaken in FY22.
- Maintained a detailed risk appetite statement with clear risk appetite reporting measures, outlining our tolerance across strategic, financial, product, innovation, marketing, operational, cyber security, legal, regulatory, compliance and credit risks.
- Evaluated our risk register and further developed our risk matrix, identifying key risks, mitigations, and accountability.
- Improved the risk and compliance maturity across the business, including Third-Party Risk Management practices, enhancing our Issues & Events Management Policy, and strengthening regulatory change monitoring.
- Strengthened our Business Continuity and Crisis Management Plans, enhancing our response preparedness and recovery capabilities.
- Strengthened our cyber security resilience plan including the identification of vulnerabilities, assessment of our data management lifecycle, conducted a simulation to assess our response and recovery capability, and extended the external assessment of the maturity of our cyber security risk mitigations.

GOVERNANCE

CYBER SECURITY RESILIENCE

The Board prioritises cyber security resilience to protect our operations and customer data against rising and dynamic global cyber security threats. Importantly, there were no notifiable cyber security events affecting the data privacy or operations during the year.

For the last three years, the Cyber Security Council, chaired by an independent Non-Executive Director, has overseen our plan to identify, protect, defend, detect, respond, and recover from cyber threats and incidents. It met 11 times during FY23 to review our cybersecurity scorecard, roadmap, vulnerabilities, investments, and maturity assessments. We also appointed a highly skilled Director of Information Technology and Security to lead our cyber security resilience program for our US business. Learning from recent cyber breaches in other entities, the Board conducted a simulation exercise with the ANZ Management team in 2023. A similar exercise occurred for the US Management team in early FY24.

Key developments to improve our cyber security resilience during FY23 are outlined below in Table 4:

Table 4: Cyber Security risk mitigations

FOCUSES	KEY ACTIONS
Identify	Identified cyber threats and sourced intelligence on potential risks, evaluating potential vulnerabilities. The Board and Senior Management received briefings from external independent cyber security experts and learned from high-profile breaches leading to a test of common vulnerabilities. Maintained our cyber security performance reporting scorecard and roadmap that prioritises our investments in resilience to mitigate ongoing risks. Tracked the internet-facing systems missing patches, the number of vulnerabilities and the SaaS apps onboarded and in-use that are authenticated.
Protect	Updated our anti Phishing tool and training system, improved compliance and monitored click through rates to address vulnerabilities associated with stolen credentials. Tracked key protection indicators including the workstation patch coverage, mobile device management coverage and the Crowdstrike workstation coverage. Strengthened the protocols of our Application Programming Interface (API) gateway to better control remote access to our network. Strengthened Data Loss Prevention (DLP) controls and tools to reduce likelihood and impact of data loss. To further our Zero Trust Security strategy, invested in quarterly employee access reviews to Zip's cloud and SaaS applications.
Detection	Tracked key detection indicators including total users with a multi-factor authentication bypass, code leaks and data stored in source control. Use best of breed Security Information and Event Management (SIEM) technology to identify and alert to, advanced threats to our systems internally and externally.

FOCUSES	KEY ACTIONS
Response and Recovery	Conducted a simulation, facilitated by cyber security experts, to test and improve response and recovery capabilities, leading to business continuity plan enhancements. Tracked key response and recovery indicators including internal incident mean time to respond, Crowdstrike mean time to response and standard operating procedures incident response activities.
Maturity Review	Conducted a maturity assessment using the Australian Cyber Security Centre's (ACSC) 'Essential Eight' compliance to assess our maturity and identify opportunities. Conducted the US National Institute of Standard and Technology (NIST) risk assessment of internal and external vulnerabilities to assess the maturity of our ANZ and US platform and identify opportunities. Initiated the program to comply with ANZ ISO 27001 standard for the implementation of enterprise-wide Information Security Management Systems (ISMS).
External[1] Independent Assessment	To independently measure cyber security resilience, regular external security benchmarking was conducted. The Bitsight security rating ended the year at 770 (ranging from 720 to 770 throughout the year) from a maximum of 900 points. The end of year rating placed us in the top 10% of the Financial Services Sector.

1. BitSight is a company that provides daily security ratings through an automated service via the Bitsight Security Ratings Platform. The Bitsight platform continuously analyses terabytes of external data on the security behaviours of a company to help organisations manage third party risk, first party risk, benchmark performance, and assess and negotiate cyber insurance premiums. A Bitsight Security Rating describes a company's cybersecurity posture, serves as a measure of their risk, and transforms how companies manage security risk by using a data-driven, outside-in approach to rate a company's security effectiveness. A company's rating is presented as a number between 250 and 900.

GOVERNANCE

PROTECTION OF CUSTOMER DATA PRIVACY

Earning the trust of our customers through the protection of customer privacy and data is a top priority for us. In the context of a range of high-profile customer data breaches in the industry, we protect customer information through physical security measures, advanced technology, and secure processes to restrict access and destroy information no longer required, subject to legal obligations.

We remain fully committed to respecting the privacy of customer data, as outlined in our Privacy Policy, which explains how we collect, store, use and disclose personal information and how we comply with privacy laws. In the event of a privacy breach, we also have effective processes to manage and address these risks promptly, including complying with the Notifiable Data Breaches scheme. We take privacy complaints very seriously, and the Privacy Policy, which can be found on our website, includes detailed information on our data protection practices.

PREVENTION OF FINANCIAL CRIME

Recognising the important role that Zip plays in protecting our community, customers, and employees, the Board acknowledges the importance of combating financial crime.

We are committed to preventing, detecting, and disrupting financial crime by maintaining effective systems, processes, and controls to manage financial crime risks, including Anti-Money Laundering and Counter Terrorism Financing (AML/CTF), Sanctions and Anti-Bribery & Corruption. In addition, significant investment was made in a new financial crime platform, uplifting capability to perform screening, transaction monitoring and customer due diligence.

The Board has oversight of these programs and receives regular reporting on their effectiveness. Independent external auditors ensure that the programs continue to meet regulatory standards. The Board is focused on the continuous improvement of our control environment to manage the ever-evolving threat of financial crime.

“The protection of customer privacy and data is a top priority for us.”

CORPORATE CITIZENSHIP

We are committed to doing the right thing for our customers, our people, our shareholders, and our community. We issue responsible credit, facilitate digital payments, and create value for merchants and consumers.

To ensure ethical conduct and minimum standards of behaviour, our Code of Conduct sets out the way all our people work. It is aligned with our expectations of ethical behaviour and supported by our Anti-Bribery & Corruption policy, reflecting Zip's strengthened processes and procedures to combat such practices.

Each year, our employees undertake compliance training to ensure they understand our regulatory obligations and what this means for their individual role. The Board emphasises adhering to the training program that covers workplace bullying and harassment, IT and security, compliance, privacy awareness, anti-money laundering and counter terrorism financing, anti-bribery and corruption and insider trading. In FY23, we also reviewed and updated our modern slavery statement and our Whistleblower Policy.

SOCIAL WELLBEING

Building a diverse, equitable and inclusive organisation.

We recognise the impact we have on our customers, employees and communities, and the opportunities that exist to deliver positive social outcomes for all our stakeholders.

Zip remains focused on building a diverse, equitable and inclusive organisation and supporting positive community engagement.

Importantly, we continue to prioritise the financial wellbeing of our customers and upholding the highest standards of responsible lending.

Our measurable objectives are to have 40% women, 40% men and 20% of any gender at our Board, Executive, Director/VP, and Manager cohorts by FY26. Our performance on key social metrics is outlined below in Table 5.

40%	20%	40%
Women	Any Gender Identity	Men

Table 5: Social metrics

SOCIAL WELLBEING	FY23	FY22	COMMENTS
Diversity, Equity & Inclusion			
Board	40% women/ 60% men[1]	40% women/ 60% men[2]	Maintained representation of women
Executive	31% women/ 69% men	19% women/ 81% men	Increased representation of women by 12%
Directors/VPs	40% women/ 60% men	34% women/ 68% men	Increased representation of women by 6%, achieving our measurable objective
Managers	37% women/ 63% men	34% women/ 65% men	Increased representation of women by 3%
Total Workforce	**44% women/ 1% non-binary/ 55% men**	**42% women/ 58% men**	**Increased representation of women by 2%**
Gender Pay Equity (ANZ)[3]	1%	0%[3]	Continue to investigate and rectify any discrepancies through our formal remuneration review processes
Gender Pay Equity (US)[3]	2%	1%	
Gender Pay Gap (ANZ)[4]	22%	18%[5]	Continue to focus on achieving gender balance targets in leadership roles
Gender Pay Gap (US)[4]	14%	21%	

1. Subsequent to 30 June 2023, Cynthia Scott was appointed as Group CEO and Managing Director. Cynthia's appointment as Chief Executive Officer was effective from 10 August 2023 and her appointment as Managing Director from 24 August 2023. Larry Diamond was appointed to the role of CEO US (effective 10 August 2023) and will continue to serve as an Executive Director. Peter Gray was appointed to the role of CEO ANZ (effective 10 August 2023) and will continue to serve the Board as an adviser (effective 24 August 2023). Following these changes, the representation of women on the Zip Board increased to 60%.
2. Independent Non-Executive Director Pippa Downes resigned on 22 June 2022. Meredith Scott commenced as a Non-Executive Director on 1 September 2022.
3. Gender pay equity is analysed as the gap between men's and women's salaries performing the same role in the same region.
4. Gender pay gap is analysed as the gap between the average men's and average women's salaries, regardless of role.
5. In FY22, gender pay equity was calculated at a country-level. Figures shown are for AU, as this was the location of the majority of staff for ANZ.

SOCIAL WELLBEING

DIVERSITY, EQUITY & INCLUSION (DEI)

Zip's aim is to bring out the best in every employee by enabling them to be their true selves, explore their passions and maintain their wellbeing. Across our business, we deliver on this in many ways.

We prioritise creating a psychologically safe and inclusive environment. This is supported by our leaders who role-model behaviours through training and coaching. We also encourage our leaders to be courageous and show accountability when they make mistakes. We track performance on inclusion through engagement surveys, targeted focus groups and quantitative and qualitative program feedback, for example in our Conscious Inclusion training program. We share this performance company-wide and engage leaders in action-focused conversations, where necessary.

We seek to build diverse teams and track our progress against our gender balance goals on a quarterly basis and share team-based results with leaders. We celebrate diversity through company-wide events and communications, education and through our hiring practices. We acknowledge moments such as International Women's Day, World Pride, Black History Month, Asian Pacific Islander Desi American (APIDA) month and various religious and cultural traditions.

This year we increased focus on supporting the mental health and wellbeing of our employees, analysing data to better understand psychosocial hazards and develop associated risk mitigation strategies. Our ultimate goal is to ensure that every employee can thrive and do their best work.

Progress towards Gender Equity

We recognise the importance of gender equity and balance in creating a more inclusive workplace. In FY23, we remained committed to reporting to the Workplace Gender Equality Agency and publishing our DEI measurable objectives on our website. Our focus on fairness and transparency, includes measuring and reporting key metrics including gender pay equity, gender pay gaps and any gendered differences in performance ratings, engagement surveys and recruitment processes.

This year, we have improved transparency and accountability by publishing our gender pay gaps and gender pay equity. We made progress towards our DEI measurable objectives in FY23, with representation of women at all leadership levels either increased or maintained, including achieving 40% representation of women at Director/VP level. We also analysed our gender pay equity (difference between men and women who perform the same role in the same region), and our gender pay gap (the difference between the average men's salary and average women's salary) and we continue to focus on closing these gaps. To close this gap, we continue to focus on supporting gender pay equity and achieving our measurable objectives for gender balance in leadership roles.

DEI initiatives

Our commitment to providing an equitable experience for all employees remains strong. We empower our employees to form special interest and Employee Resource Groups (ERGs) and provide them with platforms to raise awareness and engage the broader team. In FY23, our "Women @ Zip" ERGs flourished in ANZ and Americas, thanks to strong Executive Sponsorship and support to deliver company-wide events.

Other DEI initiatives that we undertook during the year were:

- Partnered with The Dream Collective to launch a tailored Conscious Inclusion training program, achieving a +97 NPS, and 90% of participants reporting confidence in explaining DEIB (Diversity, Equity, Inclusion, and Belonging) concepts and 87% in taking action.
- Continued financial support and partnership with Women Who Code, a leading, international non-profit organisation aiding women to pursue technology careers and facilitating job connections.
- Maintained our partnership with Girls in Tech, hosting two panel events at Zip Sydney HQ on inclusive product design and how to transition into an engineering career.
- We also renewed our partnership with The Pinnacle Foundation, with Zipsters volunteering and hosted internal events to celebrate World Pride Month. This included hosting a panel discussion the future of LGBTQIA+ inclusion. Zip has reached Silver Partnership status in recognition of our support for three years.

Future Focus – FY24 and beyond:

- Expanding support for ERGs, beyond gender, with a focus on accessibility, neurodivergence, parents and LGBTQIA+.
- Embedding Conscious Inclusion as a mandatory training program for managers and above and providing continued learning for employees who have completed their initial training.
- Developing a strategy that seeks to mitigate and control risks relating to psychosocial hazards.
- While we had intended to roll out a First Nations Inclusion strategy in FY23 we did not meet this objective. We will continue to consider how we can play a meaningful role in supporting reconciliation.

"We seek to build diverse, balanced teams and bring out the best in every employee."

SOCIAL WELLBEING

COMMUNITY ENGAGEMENT

We support communities to thrive, by building strong relationships, making investments, and responding to emergency situations. 'Zipping it Forward' is central to our culture, with leaders and employees actively participating in community initiatives through our paid-volunteer leave program.

In FY23, we continued to focus on engaging with the community and investing in areas where we can maximise our impact with initiatives aligned to our values, including:

- Zip employees using paid volunteering leave with organisations including Young Change Agents, The Salvation Army, OzHarvest, Auckland City Mission and Two Good Co.
- Zip partnered with other Australian corporates to help launch the DV Collective, to aid individuals escaping domestic violence with financial and emotional independence. Zip product managers worked alongside IBM engineers to create a member portal for community organisations working in family and domestic violence.
- In NZ, we continued our support of the Women's Refuge Shielded Site Project, a tool for those experiencing domestic violence to seek help.
- Our continued partnership with Young Change Agents, a leading not-for-profit empowering youth across Australia to develop their financial literacy and entrepreneurial skills.
- A global fundraising effort to support the Movember Foundation, donating $46,000 to support men's health, including all employee donations matched by Zip.
- Enabling our employees to convert their points from 'Bonusly', Zip's recognition and rewards platform.
- Supporting the Indigenous Marathon Foundation's *Run Sweat Inspire* festival during NAIDOC Week.

FINANCIAL WELLBEING

Responsible Lending

Zip remains committed to responsible lending and supporting customers in their budgeting and maintaining successful repayments. We prioritise offering an appropriate level of credit and developing products that encourage responsible financial behaviour. We actively monitor customer financial wellbeing, with monthly reporting on measuring complaints, customer repayment behaviour and hardship levels provided to the Board.

In the US, we introduced a flexible payment date change policy, allowing customers one complimentary payment date change per transaction to accommodate their needs. We also implemented a program rewarding responsible financial behaviour with measured credit limit increases, to foster financial literacy and responsible financial habits.

In Australia, we collaborated with Financial Counsellors to improve support for customers experiencing hardship and optimised our processes and practices to better serve vulnerable customers. To aid customers with budget management, we introduced Zip's bank linking feature, displaying transactions from all aggregated accounts in the Zip app. As costs of living increase, we continue to proactively review our credit settings to ensure customers have an appropriate level of credit and affordable repayments. In New Zealand, we also introduced a flexible payment date change policy, allowing customers to choose the day their instalments are made, helping them to manage their repayments.

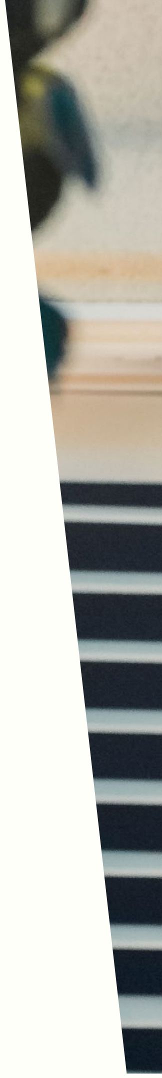
Regulation

We continue to actively engage with regulators in our core markets. In Australia, we have advocated for fit-for-purpose lending since 2019 and were heavily involved in developing the BNPL industry code of practice that came into effect in March 2021. We welcomed the announcement from Treasury this year to further strengthen the BNPL regulatory framework under Option 2 (of three proposed options), providing clarity and consistency across the sector. This framework formalises a fit-for-purpose minimum standard to protect consumers while encouraging competition and innovation. We are actively engaging with Treasury during their consultation process to finalise the details of this framework. With a decade of experience in providing fully regulated credit under our credit licence and the National Consumer Credit Protection Act (NCCPA), our existing processes are already aligned to obligations outlined in Option 2.

In New Zealand, we have also advocated for fit-for-purpose regulation and have been working with the government to strike a balance between providing customer protections while tailoring the approach to continue to encourage innovation and access to low-cost credit products.

In the US, we expanded our partnership with WebBank to enhance regulatory support for the Zip lending program in 45 states. In addition, the Consumer Financial Protection Bureau (CFPB) engaged with leading BNPL players, including Zip, resulting in a fair and balanced report being produced which detailed both the benefits and potential risks of BNPL. The report positions BNPL favourably compared to other credit products, acknowledging "significantly lower direct financial costs on consumers than legacy credit products." There are no requirements for changes to our processes or services based on the report, and we remain committed to compliance with federal and state laws.

"We are committed to responsible lending and financial empowerment."



ENVIRONMENTAL SUSTAINABILITY

Continuing to build on our environmental sustainability commitments.

We remain committed to transparently measuring and managing our environmental impact and climate-related risks, for the benefit of all our stakeholders. As a business, we recognise the important role we play in taking action on climate change and seek to continuously improve how we deliver on our environmental sustainability commitments. Our performance on key environmental metrics is outlined below in Table 6.

Table 6: Environmental metrics

ENVIRONMENTAL SUSTAINABILITY	FY23		FY22	
Climate Neutral Status[1]	In Progress (NetNada)[2]		Achieved (South Pole)[3]	
Greenhouse gas emissions[4]	**Market based calculation[5]**	**Location based calculation[6]**	**Market based calculation**	**Location based calculation**
Scope 1: Direct GHG emissions	0.00 tCO_2e	0.00 tCO_2e	8.1 tCO_2e	0.00 tCO_2e
Scope 2: Indirect GHG emissions from purchased electricity heating and cooling	46.9 tCO_2e	205.5 tCO_2e	192.1 tCO_2e	342.5 tCO_2e
Scope 3: Other indirect GHG emissions	26,738.1 tCO_2e	26,738.1 tCO_2e	10,303.2 tCO_2e	10,303.2 tCO_2e
Total GHG emissions (scopes 1, 2 & 3)	**26,785 tCO_2e**	**26,943.6 tCO_2e**	**10,503.4 tCO_2e**	**10,653.8 tCO_2e**

1. To achieve a 'Climate Neutral Status', Zip is committed to calculating our GHG emissions across Scopes 1, 2 and 3 and investing in carbon offsetting projects to effectively neutralise these emissions.
2. NetNada Pty Ltd is a sustainability software and climate consultancy that calculated Zip's GHG emissions in FY23 and will support our efforts to invest in carbon offsetting projects.
3. South Pole is a climate solutions consultancy that calculated Zip's GHG emissions in FY21 and FY22 and facilitated our investment in carbon offsetting projects.
4. Scope 1 emissions are direct emissions from owned or controlled sources (for example, owned vehicles or factories). Scope 2 emissions are indirect emissions from the generation of purchased energy (for example, electricity). Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions (for example, business travel, waste management, commuting, or third-party distribution such as digital marketing).
5. The market-based method calculates emissions based on the electricity that Zip have chosen to purchase. It is intended to support the use of and reporting of green energy tariffs via Renewable Energy Certificates and Guarantees of Origin.
6. The location-based method calculates the emission from electricity use based on the average emission intensity of the power grid. It does not factor in the electricity provider that an organisation has chosen to use.

In FY23, we continued to assess our direct and indirect GHG emissions across each of the three scopes and invested in carbon offsetting projects to neutralise our emissions. To calculate our emissions, we worked with NetNada to complete our emissions inventory as per The Greenhouse Gas Protocol. In line with our consolidation to core markets, emissions are calculated for our ANZ and US businesses only.

Our Scope 1 emissions have reduced to zero, as we did not generate direct emissions during the reporting period, and Scope 2 emissions decreased due to fewer offices and associated reduced electricity consumption. Through procuring renewable electricity in our NZ, Sydney, and US offices, we also reduced our Scope 2 market-based emissions significantly. The increase in our total Scope 3 emissions can be attributed to our commitment to transparency and accuracy in emissions reporting. By enhancing our assessment methodologies and expanding the inclusion of categories and expenses across Scope 3, as per the GHG Protocol guidelines, we have gained a more comprehensive understanding of our supply chain. This improvement is particularly evident in Purchased Goods and Services (Category 1), where our enhanced measurement capabilities have uncovered previously unaccounted emissions sources, leading to a higher reported total.

Moving forward, our focus will be on maintaining Scope 1 emissions as close to zero as possible and continuing to reduce our Scope 2 emissions through, for example, ongoing procurement of renewable electricity in our offices. We will also continue to invest in carbon offsetting projects in order to neutralise our emissions.

To effectively assess and manage climate-related risks, Zip adheres to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). Expert climate consultancy, Edge guided our TCFD-aligned disclosure and reporting efforts. This included two climate exposure screenings conducted using a standardised 3-pass climate risk assessment framework developed by the National Climate Change Adaptation Research Facility. 11 climate hazards were assessed across four timeframes (2005, 2030, 2050, and 2070) for three emissions scenarios (SSP1-2.6, SSP2-4.5, and SSP5-8.5). Our responses, aligned to the TCFDs recommendations, are provided in Table 7 below.

ENVIRONMENTAL SUSTAINABILITY

Table 7: Response to TCFD

CORE ELEMENTS	TCFD RECOMMENDATION		CORE ELEMENTS
Governance	a)	Describe the Board's oversight of climate-related risks and opportunities.	The Board is responsible for overseeing the management of these risks when they arise, with meetings occurring at least annually as part of the Board's review of its annual Sustainability report. Climate related issues are also reported at the Remuneration, People and Culture Committee.
	b)	Describe management's role in assessing and managing climate-related risks and opportunities.	Zip's CEO ANZ is accountable for the Corporate and Social Responsibility (CSR) division and environmental programs. The CSR team works with stakeholders to assess and address climate-related risks and opportunities. In ANZ this year, an environmental sustainability working group was formed, including cross-functional representatives to identify emissions reduction initiatives and drive engagement and awareness across the business.
Strategy	a) b)	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Through partnering with leading, climate consultancy, Edge, Zip identified the following key risks and opportunities: **Risk 1**: Acute physical: Cyclone, hurricane, typhoon **Time horizon**: Medium-term **Likelihood**: Unlikely **Magnitude of impact**: Medium **Primary potential financial impact**: Decreased revenues due to reduced operational capacity **Company specific description:** During the climate risk assessment workshop, tropical cyclones emerged as the greatest physical risk factor, requiring priority mitigation due to the high confidence in our ability to reduce high consequence impacts. Zip is yet to experience any direct impacts from related hazards such as extreme precipitation and wind speed, however, significant power outages and reduced consumer spending were identified as key concerns if impacts were to occur. **Opportunity 1**: Access to low carbon emission sectors **Time horizon**: Medium-term **Likelihood**: More likely than not **Magnitude of impact**: Medium-high **Primary potential financial impact**: Increased revenues through access to new and emerging sectors **Company specific description:** Zip's climate risk assessment noted transition risks presented indirect risks to Zip through changing markets and consumer preferences. This offers opportunities to target specific sectors such as electric vehicles and renewable energy, which are likely to experience significant growth in the shift to a zero-carbon economy. Zip aims to capitalise on this opportunity by prioritising action to meet increased demand for low-carbon alternatives and cater to these evolving consumer preferences.
	c)	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2-degree or lower scenario.	Zip is currently establishing climate-related commitments and actions as part of the business' sustainability strategy. The focus includes monitoring emissions, improving related data accuracy, and assessing climate-related risks and opportunities to inform future planning in this area.

CORE ELEMENTS	TCFD RECOMMENDATION		CORE ELEMENTS
Risk Management	a)	Describe the organisation's processes for identifying and assessing climate-related risks.	The Board's Audit, Risk and Compliance Committee administers Zip's risk management, setting risk thresholds and minimum expectations for strategy and operations. The Committee will be increasing its focus on climate-related risks as part of the transition to International Sustainability Standards Board (ISSB) reporting in FY24.
	b)	Describe the organisation's processes for managing climate-related risks.	Following TCFD recommendations, Zip has partnered with a leading climate consultancy to undertake a cross-functional assessment of climate-related risks and opportunities. A climate exposure assessment of our office sites was conducted, gauging site exposure to climate hazards over time. The second stage of this assessment involved identifying climate related operational risks and opportunities through a workshop, with prioritisation guided by detailed cost-benefit analyses across the business.
	c)	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	
Metrics and targets	a)	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Scope 1, 2 and 3 GHG emissions
	b)	Disclose Scope 1, 2 and 3 GHG emissions and the related risks.	See Table 6 for Scope 1, 2 and 3 GHG emissions.
	c)	Describe the target used by the organisation to manage climate-related risks and opportunities and performance against targets.	Given Zip's low overall emissions for core business operations, committed emissions targets have not been set. However, emissions reduction initiatives have been initiated. Over the last three years, Zip has measured and analysed its scope 1, 2 and 3 emissions. As part of Zip's Sustainability Strategy, we plan to set out solid commitments on emissions reductions business wide.

In FY23, Zip improved reporting rigour and transparency by participating in the Carbon Disclosure Project (CDP), completing a survey that aligns with TCFD recommendations.
In FY24, we will further develop climate change strategies, implement governance structures, and integrate climate risk into our enterprise risk management processes. Site-specific risk mitigation and agreed metrics and targets for measuring climate risk performance will also be investigated. Further information on actions taken in response to TCFD recommendations can be found in the appendix.

In FY23, we undertook the following environmental sustainability initiatives:

- Partnered with sustainability software and climate consultancy, NetNada Pty Ltd, to calculate our GHG emissions across Scope 1, 2 and 3;
- Progressed towards TCFD-aligned reporting and disclosures, including conducting a climate risk analysis of our offices, with the portfolio found to have low exposure to climate risk drivers to 2030;
- Completed our first CDP submission, with scoring to be available online in 2024;
- Relocated our Sydney HQ to a National Australian Built Environment Rating System (NABERS) 6-star energy rated building at Sydney Place; and
- Reduced waste through our ongoing sustainability partnerships with Zolo, Single Use Ain't Sexy and Simply Cups (not-for-profit that recycles coffee cups).

Board of Directors

DIANE SMITH-GANDER AO
Non-Executive Chair

JOHN BATISTICH
Non-Executive Director

MEREDITH SCOTT
Non-Executive Director

CYNTHIA SCOTT
Group Chief Executive Officer and Managing Director

LARRY DIAMOND
Managing Director (ceased on 24 August 2023) and Global Chief Executive Officer (ceased on 10 August 2023)

Chief Executive Officer US (appointed on 10 August 2023) and Executive Director (appointed on 24 August 2023)

TAI PHAN
Company Secretary

Refer to page 61 for qualifications and biography details.

CONTENTS

Directors' Report

The Directors are pleased to submit herewith the annual report of Zip Co Limited and its controlled entities (the consolidated entity or the Group) for the financial year ended 30 June 2023. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

DIRECTORS

The following persons were Directors of Zip Co Limited (the Company) during the whole of the financial year and up to the date of this report, unless otherwise stated:

- Diane Smith-Gander AO
- Cynthia Scott (Appointed as a director on 24 August 2023)
- Larry Diamond
- John Batistich
- Meredith Scott (Appointed as a director on 1 September 2022)
- Peter Gray (Resigned from a director on 24 August 2023)

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 AND RESULTS OF OPERATIONS

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

		30 June 2023 $'000	30 June 2022* $'000
Revenue from ordinary activities from continuing operations	Up (16%)	693,207	596,857
Loss from ordinary activities after income tax attributable to members	Down (66%)	(377,015)	(1,105,093)
Total comprehensive loss attributable to members	Down (64%)	(364,103)	(1,015,468)

* Comparative information has been restated to reflect discontinued operations in the current financial year. Please refer to Note 18.

Directors' Report continued

DIVIDENDS

No dividends have been declared for the year ended 30 June 2023 or for the previous corresponding period.

REVIEW OF OPERATIONS

Zip is a leading player in the digital retail finance and payments industry. Established in 2013, the Group is headquartered in Sydney, Australia with operations currently providing services in 4 countries around the world Australia and New Zealand (ANZ), the United States and Canada (Americas).

Following a strategic review of operations, during the financial year Zip closed operations in Mexico, Singapore and the United Kingdom and completed the sale of operations in Czech Republic, Poland, Saudi Arabia, South Africa, and the United Arab Emirates. Zip has reported the results of those operations as discontinued operations in this report.

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

Consumers

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

Small and Medium Sized Merchants (SMEs)

During the financial year Zip ceased offering its Zip Business Trade and Trade Plus products to SMEs (provision of interest-free lines of credit of up to $150,000) and commenced the wind down of Zip Business Capital (provision of unsecured loans of up to $500,000) in Australia and New Zealand.

REVIEW OF PERFORMANCE

Zip completed a strategic review of its operations during the year and took action to enable it to focus on its growth in core markets, and accelerate the path to profitability. Zip has reduced the number of product lines planned and in market, has reported a significant improvement in the performance of its receivable portfolio and has taken steps to simplify its operations, right size its global cost base and drive operational efficiency. Zip has closed its operations in Mexico, Singapore and the United Kingdom, and sold its businesses in Czech Republic, Poland, Saudi Arabia, South Africa and the United Arab Emirates.

Operations in the above regions have been reported as discontinued operations in the annual report for the twelve months to 30 June 2023 and consequently all figures quoted in the Review of Performance comprise Zip's continuing operations for the financial year ended 30 June 2023. Comparatives have been adjusted to reflect this throughout the Report.

Directors' Report continued

Operational Performance

Consumers

Key Metric

For the year ended 30 June	2023	2022*	%[1]
Transaction Volumes ('$M)	8,815.9	8,156.8	8.1%
Active Consumers[2] ('M)	6.2	6.4	(3.5%)

* Comparative information has been restated to reflect discontinued operations in the current financial year.
1. Movement calculations may not equate due to rounding.
2. Active customers defined as customer accounts that have had transaction activity in the 12 months to 30 June 2023 and in the 12 months to 30 June 2022.

Zip's performance is driven by a number of key operating metrics including Transaction Volumes and the number of active consumer accounts.

Transaction Volumes

For the year ended 30 June	2023 $'M	2022* $'M	Movement %
ANZ[1]	4,158.8	4,040.4	2.9%
Americas[1]	4,657.1	4,116.4	13.1%
	8,815.9	8,156.8	8.1%

* Comparative information has been restated to reflect discontinued operations in the current financial year.
1. Refer to Note 2 for details of segment information.

Total Transaction Volumes generated by consumers have grown to $8.8 billion for the financial year, an increase of 8.1%.

Transaction Volumes generated by ANZ increased by 2.9% and Transaction Volumes generated by Americas increased by 13.1%. Transaction Volumes generated by Americas comprised 52.8% of volumes, compared to 50.5% in the previous corresponding period.

Active Consumers

For the year ended 30 June	2023 M	2022* M	Movement %
ANZ	2.3	2.3	0.7%
Americas	3.9	4.1	(5.9%)
	6.2	6.4	(3.5%)

* Comparative information has been restated to reflect discontinued operations in the current financial year.

The number of active consumer accounts across Zip's continuing operations has remained consistent, with a marginal decrease across the reporting periods, as Zip balances growth with the tightening of underwriting criteria across all countries in which Zip operates.

SMEs (Business Financing)

For the year ended 30 June	2023 $'M	2022 $'M	Movement %
Originations	74.2	152.3	(51.3%)

Directors' Report continued

In line with ongoing efforts to simplify and focus on the core business, Zip commenced the wind down of Zip Business Capital in Australia and New Zealand during the year. Accordingly, originations generated by Zip Business have decreased 51.3% compared to the previous corresponding period to $74.2 million, including $12.5 million from the Trade and Trade Plus product that are no longer offered by the Group. The Zip Business Capital product generated originations of $61.7 million across Australia and New Zealand, a 22.5% decrease on the previous corresponding period.

Financial Performance

Group Results

Revenue has increased by 16.1% to $693.2 million in the financial year to 30 June 2023 when compared to the prior financial year, driven by growth in transaction volumes, a change in product mix and re-pricing initiatives.

For the year ended 30 June	2023 $'M	2022* $'M	Movement %
Consumers	8,815.9	8,156.8	8.1%
SMEs	74.2	152.3	(51.3%)
Underlying Volumes from continuing operations	**8,890.1**	**8,309.1**	**7.0%**

* Comparative information has been restated to reflect discontinued operations in the current financial year.

Reported Gross Profit has increased by 53.0% and the reported Gross Profit as a percentage of Underlying Volumes also increased to 2.7% compared to 1.9% in the previous corresponding period. As a percentage of Underlying Volumes, a strong increase in revenue, and a reduction in bad debts and expected credit losses, more than offset an increase in interest expense.

Excluding the movement in the bad debt provision and the amortisation of funding costs, cash gross profit as a percentage of Underlying Volumes increased to 2.8% from 2.5% in the previous corresponding period.

For the year ended 30 June	2023 $'M	2022* $'M	Movement %
Revenue	693.2	596.9	16.1%
Cost of sales[1]	(451.6)	(439.0)	2.9%
Gross profit	241.6	157.9	53.0%
Expenditure	(618.8)	(966.8)	(36.0%)
Loss before income tax	(372.3)	(808.1)	(53.9%)
Gross profit	241.6	157.9	53.0%
Add: Movement in bad debt provision and amortisation of funding costs	9.0	50.2	(82.1%)
Cash Gross Profit	250.6	208.1	20.4%

* Comparative information has been restated to reflect discontinued operations in the current financial year. Please refer to Note 18.

1. Cost of sales includes interest expense related to customer receivables (including $4.9 million of amortisation of funding cost for year ended 30 June 2023, and $5.5 million for year ended 30 June 2022), bad debts and expected credit losses, and bank fees and data costs.

Directors' Report continued

Adjusted Group Results

The Group's result for the twelve months to 30 June 2023 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 financial year ended 30 June 2023	$'M	
Reported loss before income tax	(372.3)	
Add back:		
Termination payment	16.3	On mutual termination of the Sezzle acquisition
Fair value loss on investment at FVTPL	52.8	Fair value movement of investment in ZestMoney
Incentivised conversion – incentive payments	29.9	Payment to Noteholders on conversion of $109.8 million Senior Convertible Notes
Effective interest charged on convertible notes	49.0	Acceleration of effective interest on revision of estimated future cash flows
Impairment of investment in associates	4.7	Impairment of investment in TendoPay
Loss on derecognition of financial assets	3.1	Loss on sale of Trade and Trade plus customer receivables
Impairment of goodwill and intangibles	9.8	Impairment of Zip Business goodwill and other intangibles
Professional service fees	2.0	Professional services fee paid for the conversion and restructuring of the Senior Convertible Notes
Adjusted loss before income tax	(204.7)	

Revenue

For the year ended 30 June	2023 $'M	2022* $'M	Movement %
Revenue	693.2	596.9	16.1%
% of Underlying Volumes	7.8%	7.2%	0.6%

* Comparative information has been restated to reflect discontinued operations in the current financial year. Please refer to Note 18.

Revenue has increased by 16.1% compared to the previous corresponding period reflecting a 7.0% increase in Underlying Volumes, a move towards higher margin products and the re-pricing of consumers and merchants under Zip's unique two-sided revenue model. Reported revenue as a percentage of Underlying Volumes was 7.8% compared to 7.2% in the previous corresponding period.

Directors' Report continued

Cost of Sales

For the year ended 30 June	2023 $'M	2022* $'M	Movement %
Interest expense[1]	159.6	73.8	116.2%
% of Underlying Volumes	1.8%	0.9%	0.9%
Bad debts and expected credit losses	170.2	257.7	(33.9%)
% of Underlying Volumes	1.9%	3.1%	(1.2%)
Bank fees and data costs	121.8	107.5	13.3%
% of Underlying Volumes	1.4%	1.3%	0.1%
Total cost of sales	451.6	439.0	2.9%
% of Underlying Volumes	5.1%	5.3%	(0.2%)

1. Interest expense related to customer receivables.

* Comparative information has been restated to reflect discontinued operations in the current financial year. Please refer to Note 18.

Cost of sales decreased to 5.1% of Underlying Volumes in the financial period, a reduction of 0.2%.

Interest expense as a percentage of Underlying Volumes increased by 0.9%, reflecting increases in base rates across all markets in which Zip operates.

Excluding the movement in the provision for expected credit losses, net bad debts written off totalled 2.0% of Underlying Volumes compared to 2.7% in the previous corresponding period in line with Zip's medium-term target of under 2.0% of Underlying Volumes.

Reported net bad debts written off by Zip's US operations totalled 1.3% of Underlying Volumes in the year, and gross bad debt write offs totalled 1.7%.

Reported net bad debts written off by Zip's ANZ operations totalled 2.4% of Underlying Volumes in the year, and gross bad debts write offs totalled 2.8%.

The Group continues to actively manage risk settings, and its portfolio management and collections activities, to ensure net write offs are in line with Zip's medium-term targets whilst maintaining top line growth. In the US, actions across the credit lifecycle (i.e. optimised decisioning, limit management, collections management, decisioning platform uplift) have driven improved credit performance. In Australia and New Zealand, actions to improve credit performance including tightened lending criteria and increased bank linking have resulted in early arrears trending down to the lowest levels since 2021.

Bank fees and data costs increased 0.1% as a percentage of Underlying Volumes, reflecting an increased percentage of Underlying Volumes processed across the Group which incur higher processing costs.

Expenditure

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

Directors' Report continued

Cash Expenses

For the year ended 30 June	2023 $'M	2022* $'M	Movement %
Salaries and employee benefits expense	170.4	163.5	4.2%
% of Underlying Volumes	1.9%	2.0%	(0.1%)
Marketing expenses	41.9	107.6	(61.0%)
% of Underlying Volumes	0.5%	1.3%	(0.8%)
Information technology expenses	44.4	43.7	1.7%
% of Underlying Volumes	0.5%	0.5%	–
Other operating expenses	94.6	60.6	56.2%
% of Underlying Volumes	1.1%	0.7%	0.4%

* Comparative information has been restated to reflect discontinued operations in the current financial year. Please refer to Note 18.

Average headcount has decreased from 1,172 for the financial year ended 30 June 2022 to 1,103 for the financial year ended 30 June 2023 as the Group simplifies its operations and focuses on its core markets and the path to profitability. As a percentage of Underlying Volumes, salary and employee benefits have decreased by 0.1% as compared to 30 June 2022. Headcount totalled 1,040 at 30 June 2023, following the reduction in headcount amounting to approximately $16.1 million in annualised base salary costs in the fourth quarter, the financial benefits of which flow into the next financial year.

In the year ended 30 June 2022, the Group successfully completed a global re-branding project including the re-branding of QuadPay in the US to Zip. Excluding the one-off re-branding costs of $20.3 million, marketing costs, which comprise customer marketing initiatives, including rewards programs, rebates, co-marketing projects with enterprise merchants, and direct integration costs, have fallen from $87.3 million (1.0% of Underlying Volumes) in the twelve months to 30 June 2022 to $41.9 million (0.5% of Underlying Volumes) in the last twelve months.

Information technology costs at 0.5% of Underlying Volumes are consistent with the percentage reported for the year to 30 June 2022. The Group continues to invest in improving its IT infrastructure whilst rationalising cost as the Group simplifies its operations.

Other operating costs in the financial year to 30 June 2023 include one-off costs relating to the termination payment fee for mutual termination of the Sezzle acquisition ($16.3 million), professional fees paid for conversion and restructuring the Senior Convertible Notes ($2.0 million), and the loss on derecognition of financial assets ($3.1 million), together with professional services, general administration, and other costs associated with the operation and management of the Group globally. Excluding the one-off costs, other operating costs were 0.8% of Underlying Volumes, compared to 0.5% in the previous corresponding period (excluding acquisition costs of $17.5 million reported in the prior year).

Directors' Report continued

Other Expenses

For the year ended 30 June	2023 $'M	2022* $'M	Movement $'M
Depreciation and amortisation expenses	63.4	61.5	1.9
Corporate financing costs	109.4	30.7	78.7
Share-based payments	14.3	26.9	(12.6)
Fair value loss/(gain) on financial instruments	61.1	(129.0)	190.1
Impairment losses	14.5	592.8	(578.3)
Share of loss of associates	4.7	8.3	(3.6)

* Comparative information has been restated to reflect discontinued operations in the current financial year. Please refer to Note 18.

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

The increase in corporate finance costs, reflects an accelerated effective interest charge of $49.0 million in the period as a result of the revised estimation of the probability of future repayments being made in relation to the convertible notes issued in September 2020 and April 2021, and the incentive payment of $29.9 million to noteholders on the two incentivised conversions of the Senior Convertible Notes.

To attract, retain and reward Zipsters, Zip offers a combination of short and long-term incentives that are delivered through equity. The reduction in share-based payments expense relates to a reduction in the level of equity incentives provided during the year together with a reduction in the expense relating to retention and performance incentives arising on the acquisition of QuadPay.

A fair value loss of $52.8 million was recorded during the financial year to reflect the difference between the carrying amount of Zip's investment in ZestMoney and the fair value at 30 June 2023, and a fair value loss arising on the embedded derivative in the convertible notes (referred to as CVI Convertible Notes) and warrants issued to CVI.

Following a review of the carrying value of Zip's investments at 30 June 2023, Zip impaired the Zip Business goodwill by $2.1 million, its associate TendoPay by $4.7 million, and intangibles across the Group by $7.7 million.

Receivables

	30 June 2023 $'M	30 June 2022 $'M	Movement %
Gross customer receivables	2,767.8	2,684.6	3.1%
Unearned future income	(18.9)	(16.3)	16.5%
Provision for expected credit losses	(152.1)	(160.2)	(5.1%)
	2,596.8	2,508.1	3.5%

The Group's receivables portfolio increased 3.1% to $2,767.8 million at 30 June 2023, up from $2,684.6 million at 30 June 2022 reflecting the growth in Underlying Volumes during the financial year ended 30 June 2023.

The provision for expected credit losses has reduced to 5.5% of gross customer receivables, from 6.0% at 30 June 2022 due to the improved performance of the receivables portfolio over the twelve months to 30 June 2023, compared to the previous financial year.

Directors' Report continued

Zip's ANZ line of credit consumer business comprises 86.9% of the gross receivables at 30 June 2023, compared to 83.9% at 30 June 2022. The repayment rate remained healthy averaging 13.5% (of the opening receivables balance repaid each month) during the year ended 30 June 2023, consistent with the previous financial year.

Capital Management

Receivables Funding Facilities

Consumer Facilities	Currency	Facility Limit $'M	Drawn at 30 June 2023 $'M
Zip Master Trust			
– Rated Note Series		1,567.5	1,567.5
– Variable Funding Note		535.4	460.7
– Variable Funding Note 2		136.2	118.5
zipMoney 2017-1 Trust		126.5	85.4
Total	AUD	2,365.6	2,232.1
AR2LLC	USD	225.0	131.4
Zip NZ Trust 2021-1	NZD	20.0	11.0

The Group had total facilities of $2,365.6 million available to fund its Australian receivables at 30 June 2023, of which $2,232.1 million was drawn ($133.5 million undrawn and available).

In October 2022, Zip completed its fifth rated note issuance and second AAA rated issuance, Zip Master Trust Series 2022-1, raising $285.0 million, maturing in November 2023. The proceeds from this issuance were used to repay Zip Master Trust Series 2020-1 which matured in October 2022. In December 2022, Zip refinanced Variable Funding Note 2 in the Zip Master Trust, with a revised limit of $136.2 million, maturing in January 2024.

In June 2023, Zip successfully completed a $190.0 million rated note issuance within the Zip Master Trust Series 2023-1 with the senior notes being AAA rated, maturing in May 2026.

The zipMoney 2017-1 Trust was refinanced and extended until July 2024 and in line with ongoing initiatives to optimise Zip's debt funding program the limit was revised to $126.5 million.

As part of its ongoing capital management program, Zip US negotiated a reduction in facility limit (from US$300.0 million to US$225.0 million) to align with expected usage, while ensuring it retains ample headroom to fund transactions and receivables growth in financial year 2024. Zip has drawn US$131.4 million from this facility at 30 June 2023.

Zip New Zealand facility has a limit of NZ$20.0 million available to fund receivables in New Zealand, drawn to NZ$11.0 million at 30 June 2023.

SME Facilities	Currency	Facility Limit $'M	Drawn at 30 June 2023 $'M
Zip Business			
– Capital Australia	AUD	35.0	27.1
– Capital New Zealand	NZD	26.9	26.9

The Group's funding facilities to support its Zip Business Capital product in Australia and New Zealand are in run off following the decision to wind down Zip Business Capital. Zip expects the wind down to deliver net cash inflows as capital invested in debt funding facilities is released back to Zip.

Directors' Report continued

Corporate Facility	Currency	Facility Limit $'M	Drawn at 30 June 2023 $'M
zipMoney 2017-2 Trust	AUD	90.0	90.0

The zipMoney 2017-2 Trust matures in December 2023, extendable to 31 March 2024 at Zip's option.

Convertible Notes

During the financial year ended 30 June 2023, Zip repaid $50.0 million of the CVI Convertible Notes and cancelled 500 of the 1,000 CVI Convertible Notes on this basis. Following the repayment, 500 CVI Convertible Notes remained outstanding at 30 June 2023.

Senior Convertible Note noteholders converted $109.8 million of the $400.0 million Senior Convertible Notes on issue during the financial year ended 30 June 2023. The Senior Convertible Notes were converted at a conversion price of $12.0576 per share and in addition noteholders agreed to cash payments totalling $29.9 million as an incentive to convert. The cash incentive payments and other transaction costs were funded by equity placements.

In June 2023, Zip announced a Consent Solicitation of the Senior Convertible Notes whereby the existing noteholders of the outstanding Senior Convertible Notes approved certain amendments to the terms and conditions of the Senior Convertible Notes. Shareholders approved the amendments and the physical settlement of the Senior Convertible Notes at the Extraordinary General Meeting of shareholders ("EGM") held on 31 July 2023. The amendments to the Senior Convertible Notes took effect following execution of the Amending Documents on 31 July 2023.

The financial impact of the repayments and conversions is set out in Note 5. The financial impact of the Consent Solicitation did not impact the Consolidated Financial Statements to 30 June 2023 and an assessment of the impact on the financial statements to financial year ended 30 June 2024 is detailed as a post balance date event in this review and as a subsequent event in Note 28.

Equity Capital

Zip raised $38.3 million ($36.5 million net of issuance costs) in equity capital from institutional and sophisticated investors to fund the cash incentive payments on conversion of the Senior Convertible Notes and expenses associated with the conversion and the Consent Solicitation transactions.

CHANGE IN THE STATE OF AFFAIRS

Other than detailed in this report, no significant changes in the state of affairs of the consolidated entity occurred during the financial year.

FUTURE DEVELOPMENTS

In future financial years, Zip will continue to focus on growth in core markets (Australia, New Zealand, the United States and Canada), improving unit economics, and reducing its Group costs base, to deliver sustainable growth and an accelerated path to profitability.

POST BALANCE DATE EVENTS

In June 2023, Zip announced that existing holders of its Senior Convertible Notes had approved certain amendments to the terms and conditions of the Senior Convertible Notes to become effective following the Extraordinary General Meeting on 31 July 2023. At the Extraordinary General Meeting shareholders approved the amendments and the physical settlement of the Senior Convertible Notes and the Amending Documents governing the Senior Convertible Notes were subsequently executed.

Directors' Report continued

At 30 June 2023, the Senior Convertible Notes had a principal amount of $290.2 million. The amended Senior Convertible Notes have a principal amount of $137.8 million, following the approved amendments, with an option for investors to put the amended Senior Convertible Notes back to Zip on 23 April 2025 at 109.17% of the principal amount. A coupon of 5.0% per annum is payable on a semi-annual basis and at the Final Maturity Date of 23 April 2028, noteholders may redeem the amended Senior Convertible Notes at 129.30% of the principal amount. At any time up to 10 business days prior to the Final Maturity Date, noteholders have the option of converting the amended Senior Convertible Notes into Zip's ordinary shares at a share price of $0.517 (adjusted in accordance with standard anti-dilutive provisions).

The amendment of the Senior Convertible Notes is a substantial modification of the terms of an existing financial liability, and will be accounted for as an extinguishment of the pre-existing financial liability and the recognition of a new financial liability. A gain is expected to be recognised on extinguishment of the pre-existing Senior Convertible Notes along with the associated tax impact.

As part of the Consent Solicitation, an Early Bird Fee of $2.1 million was paid to eligible noteholders subsequent to the year end.

In July 2023, the final payment of $1.9 million in relation to contingent consideration to the former Payflex shareholders has been made and the liability reduced to Nil.

In August 2023, Zip agreed an extension to the maturity date of the Zip NZ Trust 2021-1 to 31 July 2024.

In September 2023, Zip made a payment of $10.8 million, comprising a principal amount of $10.0 million and an accrued interest of $0.8 million, under the terms of the CVI Convertible Notes, reducing the number of CVI Convertible Notes by 100. Following the repayment, 400 Convertible Notes with a face value of $40.0 million remain outstanding and held by CVI Investments. In addition, Zip cancelled 19,365,208 warrants issued to CVI due to their expiration.

To the date of the release of this report, there have been no other material items, transactions or events subsequent to 30 June 2023 that relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

ENVIRONMENTAL REGULATION

The Group is not subject to any significant environmental regulation under a law of the Commonwealth, State or Territory of Australia, or in any of the other jurisdictions that the Group currently has, or is soon to have, a presence in.

Directors' Report continued

MATERIAL RISKS

Material business risks are those risks deemed to have a significant impact on Zip's operations, financial performance, and business objectives. The company is exposed to strategic, financial, operational, IT security and privacy, legal and compliance, and credit risks. The risk management strategy, to mitigate these risks, is outlined in the following table:

Risk Management Strategy

Risk	Risk Management Strategy
Strategic risk The risk that we are unable to identify and execute the right strategic initiatives and projects on target and on time that deliver measurable and agreed outcomes to support our goals.	Zip's strategic risks are identified and assessed as part of our annual business planning process which is endorsed by the Board. We identify the actions required to realise our plan, assessing both upside and downside risks. Key financial and business results are reviewed monthly by the Executive team and Board. In financial year 2023, focus areas of strategic risk included strategic alignment, competition, product innovation and delivery, reputation and brand and social and environmental sustainability. These influence the prioritisation of investments and resources in the Board-approved Corporate Plan. We undertake analysis on threats or opportunities to effectively assess key strategic risks. This includes monitoring cashflow forecasts, Net Promoter Score (NPS), growth in average monthly transacting users (MTU), DEI metrics, social impact initiatives, cyber security resilience, responsible lending and customers entering hardship.
Financial The risk that we are unable to access sufficient funding at a reasonable cost. The risk of not being able to meet financial commitments as and when they are due and in compliance with regulatory standards on solvency, liquidity, and financial management.	Zip has Board-approved cashflow and liquidity management plans and policies to ensure adequate liquidity is maintained to support the business, and that regulatory requirements are adhered to. This includes ensuring we have sufficient access to capital and debt facilities at a reasonable cost. Cash flow and Liquidity risk is managed by our Treasury and Finance function through monitoring cash flows, restricted cash positions and projected future cash flows, supported by business forecasts that take into account anticipated seasonality as well as stress testing and market conditions. We monitor cash flow forecasts on a monthly basis and track any reporting inaccuracies, misstatements or submission of accounts post regulatory deadlines.

Directors' Report continued

Risk	Risk Management Strategy
Operational The risk of loss due to inadequate or failed internal processes, people, and systems or from external events, which results in Zip being unable to provide continued delivery of our services to customers and merchants. Examples of focus areas of operational risk include People, Health, Safety & Wellbeing, Third parties governance and operational resilience.	Zip operates a robust operational Risk Management Framework which is overseen by the Audit and Risk Committee and the Zip Board. We actively monitor voluntary attrition rates, employee engagement scores and workplace incidents. Health, Safety, and wellbeing is monitored through loss-time injury frequency rate.
IT Security and Privacy The risk of loss resulting from disruption to operations and data loss or failed privacy and data use controls.	Zip uses automated and standardised security measures in a layered approach to protect systems. We maintain a specific Information and Communication Technology (ICT) management framework which includes regular IT security/ vulnerability assessments and testing, ongoing system monitoring, software change and access management controls, as well as regular ICT and employee training, including security awareness training and exercises. We test and measure key ICT and Security risk controls at least annually through an independent assurance reporting audit as well as through the use of compliance as code. Zip also monitors and responds to instances of unauthorised access, unauthorised data disclosures, employee information security training and phishing exercise click rates. Privacy and data risk is primarily monitored through cybersecurity maturity scores and reportable regulatory breaches.
Legal and Compliance The risk of inadequate adherence to regulatory and compliance obligations and financial loss from legal disputes	Zip has compliance management policies and procedures for identifying and managing regulatory obligations, incidents and issues that may arise. Management of regulatory and compliance risk is overseen by the Global Executive Team, the Audit and Risk Committee and the Board. We monitor employee annual compliance training, reportable regulatory breaches, legal disputes, and whistle-blower reports.
Credit Risk The risk of loss due to customers failing to meet all or part of their contractual obligations.	Zip takes precautions to ensure that approved customers can pay their obligations by conducting identity, affordability, and credit checks. We offer relatively short duration credit and low average order value on ZipPay, review and manage credit limits for higher risk customers and limit the concentration of non-performing loans and large single exposures in the consumer credit portfolio. We monitor delinquency rates, net bad debts, 120-day bad debt rates (US) and principal loss rates on a monthly basis.

Directors' Report continued

COMPOSITION OF THE BOARD

Name:	**Diane Smith-Gander AO**
Title:	Non-Executive Chair
Qualifications:	BEc, MBA, FAICD, FGIA, FAIM, GAICD
Term:	Non-Executive Director and Chair of the Board appointed on 1 February 2021
Independent:	Yes
Committees:	Member of each of the Audit & Risk Committee and Remuneration, People & Culture Committee and Chair of the Nominations Committee
Directorships:	Chair of Zip Co Limited, Chair of DDH1 Limited, Chair of the Committee for Economic Development of Australia and HBF Health Limited (appointed Chair in May 2022)
Experience:	Diane has extensive Australian and international experience in banking and finance, technology, and strategic and management consulting. This includes as a former partner at McKinsey & Company, and Group Executive IT and Operations, Westpac Banking Corporation.
Former Directorships (of listed entities in last 3 years):	Director of AGL Energy Limited (until 18 September 2022), Wesfarmers Limited (August 2009 – 12 November 2020).
Interests in shares:	40,896
Interest in restricted rights:	45,766

Name:	**John Batistich**
Title:	Non-Executive Director
Qualifications:	M.Mgt, BBus, GAICD
Term:	Non-Executive Director appointed on 6 February 2018
Independent:	Yes
Committees:	Chair of the Remuneration, People & Culture Committee and Member of the Nominations Committee, and the Audit & Risk Committee (as well as interim Chair from 22 June 2022 until 1 September 2022)
Directorships:	APG&CO Pty Ltd (and a number of its subsidiaries), Foodco Group Pty Limited (and director of a number of its subsidiaries), Sunnyfield Disability Services, Versa Connects Pty Ltd, and Board Advisor for Moose Services Pty Ltd (Moose Toys)
Experience:	John is a highly-experienced growth leader who brings marketing, digital and human resources skills to the Board. John has over 25 years of cross sector experience in Research, Marketing, Digital and General Management with blue chip companies like Westfield Group, Interbrand, Wrigley Company, Pepsico Foods, Kimberley Clark and Lion Nathan.
Former Directorships (of listed entities in last 3 years):	None
Interests in shares:	381,208
Interest in restricted rights:	22,883

Directors' Report continued

Name:	**Meredith Scott**
Title:	Non-Executive Director
Qualifications:	FCA, BEc, GAICD
Term:	Non-Executive Director appointed on 1 September 2022
Independent:	Yes
Committees:	Chair of the Audit & Risk Committee and Member of the Nominations Committee and Remuneration, People & Culture Committee
Directorships:	Payton Capital Limited
Experience:	Meredith is a business leader and board member with over 35 years' experience. Meredith has been the Chief Executive Officer of Opportunity International Australia (Opportunity) from 2018 to 2021. She was Chairman of Opportunity's Indian subsidiary, Dia Vikas Capital. Previously she was with Ernst & Young for 32 years, including 19 years as an audit partner, and an Ernst & Young Governing body member at national, Asian and Global levels. Throughout her time as a Partner at Ernst & Young she has had signing responsibilities for clients ranging across the Technology, Publishing, Telecommunications, Not for Profit, Movie Production and Education sectors. She was the first female to be appointed to the Oceania Executive team.
Former Directorships (of listed entities in last 3 years):	None
Interests in shares:	15,825
Interest in restricted rights:	19,070

Name:	**Cynthia Scott**
Title:	Group Chief Executive Officer and Managing Director
Qualifications:	BCom, Mapp Fin, GAICD
Term:	Managing Director (appointed on 24 August 2023), Group Chief Executive Officer (appointed on 10 August 2023), Chief Executive Officer ANZ (appointed on 01 December 2022 and ceased on 10 August 2023), and Managing Director ANZ (appointed on 16 November 2021 and ceased on 01 December 2022)
Independent:	No
Committees:	None
Directorships:	Uniti Group Limited (appointed October 2022) (also appointed as director of a Company subsidiary)

Directors' Report continued

Experience:	Cynthia assumed the role as Zip's ANZ CEO in November 2021. She was previously the Chief Strategy and Business Development Officer at Scentre Group and prior to that, Group Executive responsible for Telstra's New Business portfolio. Other roles at Telstra included Group Managing Director of Strategic Finance (Strategy, M&A, Treasury and Investor Relations), and responsibility for Telstra's international operations. Prior to Telstra, Cynthia spent over 20 years in investment banking, most recently at Barclays where her roles included Regional Head of Debt Capital Markets in Hong Kong and CEO of Australia and New Zealand. Cynthia is a Non-Executive Director on the Board of Uniti Group, and was previously Chair of Foxtel, Telstra Ventures and Autohome, a NYSE-listed Chinese technology company. She is a member of Chief Executive Women and of the Adara Panel and was previously a member of the Australian Advisory Board for Room to Read.
Former Directorships (of listed entities in last 3 years):	None
Interests in shares:	15,419
Interests in performance rights:	1,461,043

Name:	**Larry Diamond**
Title:	Chief Executive Officer US and Executive Director
Qualifications:	BTech(IT), MCom, CA
Term:	Executive Director (appointed on 11 September 2015), Managing Director (appointed on 1 July 2016 and ceased on 24 August 2023), and Chief Executive Officer (appointed on 1 July 2016 and ceased on 10 August 2023)
Independent:	No
Committees:	None
Directorships:	None (Larry is a director of a number of the Company's subsidiaries)
Experience:	Larry co-founded Zip with Peter Gray in 2013 with the goal of disrupting the broken and unfair credit card model, using technology to create a transparent, fairer and more flexible alternative. Larry has led Zip from fintech start-up to one of Australia's leading digital payments and technology companies. Today Zip is an ASX listed company with over 6 million active customers across its core markets of the US, Canada, Australia, and New Zealand. Prior to Zip Larry spent 12 years working in retail, technology, and investment banking, where he first saw the opportunity to digitise financial services with innovative products that bring customers and merchants together. His career included six years working in corporate finance and investment banking at Deutsche Bank and Macquarie Capital. Larry has a bachelor's degree in Business and Information Technology from the University of Technology Sydney, a master's degree in Finance from the University of New South Wales and is a qualified chartered accountant with the Institute of Chartered Accountants Australia and New Zealand.

Directors' Report continued

Former Directorships (of listed entities in last 3 years):	None
Interests in shares:	55,192,619 (55,091,767 indirect and 100,852 direct)
Interest in performance rights:	1,417,120

Name:	**Peter Gray**
Title:	Chief Executive Officer ANZ
Qualifications:	Diploma of Finance
Term:	Chief Executive Officer ANZ (appointed on 10 August 2023), Executive Director (appointed on 11 September 2015 and resigned on 24 August 2023) and Chief Operating Officer (appointed 1 July 2016 and ceased on 10 August 2023)
Independent:	No
Committees:	None
Directorships:	Primrose Hill Ventures Pte Ltd, Camden Town Technologies Pvt Limited. Peter is also a director of a number of the Company's subsidiaries
Experience:	Peter co-founded Zip with Larry Diamond in 2013. Under his co-leadership, the Company has grown to become a truly international BNPL business. An operations and consumer credit expert, Peter has underwritten over 3 million customers, $15 billion in transaction volume and $2 billion in loan receivables in Australia alone since the Company was founded. Peter was the chief architect in developing Zip's market-leading credit and decisioning technology platform and the launch of Zip's Master Trust receivables funding program. Peter oversees Zip's global operations including credit and risk management. Peter is a respected Australian BNPL authority and commentator, with over 25 years' experience spanning regulated consumer credit, operations, risk, legal, compliance and publicly listed companies.
Former Directorships (of listed entities in last 3 years):	Zip Co Limited (resigned on 24 August 2023)
Interests in shares:	18,142,616 (58,790 indirect and 18,083,826 direct)
Interest in performance rights:	1,384,565

Former Directorships quoted above are Directorships held in the last 3 years for listed entities only and exclude Directorships of all other types of entities, unless otherwise stated.

Directors' Report continued

COMPANY SECRETARY

Tai Phan is an experienced lawyer, Company Secretary, corporate governance and compliance professional. He has worked with Boards and executive management for ASX listed (Westpac, HT&E Limited, and Yancoal Ltd) and numerous unlisted companies. He has experience in the IPO listing process for the ASX, has been appointed an external consultant for AUSTRAC and as the Head of Asia-Pac Compliance for Travelex and Munich Re. Tai's experience covers a range of industries including financial services, mining, information technology and legal (both private practice and in-house).

MEETING OF DIRECTORS

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2023, and the number of meetings attended by each Director were:

	Board Directors				Audit and Risk Committee		Remuneration People and Culture Committee		Nominations Committee	
	Meetings		Ad-Hoc Meetings[1]							
	Held[2]	Attended	Held[3]	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]	Attended
Diane Smith-Gander AO	11	11	13	13	5	5	4	4	2	2
Larry Diamond	11	11	13	13	NM[4]	NM[4]	NM[4]	NM[4]	NM[4]	NM[4]
Peter Gray	11	11	13	13	NM[4]	NM[4]	NM[4]	NM[4]	NM[4]	NM[4]
John Batistich	11	11	13	13	5	5	4	4	2	2
Meredith Scott	9	9	10	10	4	4	3	3	1	1

1. Out of cycle Board meetings typically called for a special purpose that do not form part of the Board approved yearly planner.
2. The number of meetings held during the time the Director held office and was a member of the relevant committee.
3. The number of Ad-hoc Board meetings held during the time the Director held office and was a member of the Board.
4. NM refers to not a member of the committee.

Remuneration Report

This report forms part of the Company's Director's Report for the year ended 30 June 2023 (FY23) and sets out the remuneration arrangements for Zip's Directors and other Key Management Personnel (KMP). KMPs are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including all Directors. The Report is prepared in accordance with section 300A of the *Corporations Act 2001* and has been audited as required by section 308(3C) of the *Corporations Act 2001*.

MESSAGE FROM THE CHAIR OF THE REMUNERATION, PEOPLE AND CULTURE COMMITTEE

On behalf of the Board of Directors, I am pleased to present the audited Remuneration Report for FY23. Zip's Remuneration Report details how executive remuneration outcomes are linked to corporate performance. The report details our remuneration policy and its alignment between executive remuneration and shareholder outcomes.

FY23 performance on key measures:**

Total Transaction Volume (TTV)
$8.9b
+7.0% from FY22*

Transactions
72.7m
+8.3% from FY22*

Revenue
$693.2m
+16.1% from FY22*

Revenue Margin
(Revenue % of TTV)
7.8%
+60bps from FY22*

Credit Losses[1]
(Net Bad Debts % of TTV)
2.0%
–70bps from FY22*

Cash Net Transaction Margin % of TTV[1]
2.8%
+30bps from FY22*

Cash Gross Profit[1]
$250.6m
+20.4% from FY22*

Core Cash EBTDA
($48.2m)
+$103.2m improvement from FY22*

Merchants
(Number of Active Merchants for ANZ and US)
72.3k
+11.2% from FY22*

Active Customer Accounts
(Number of Accounts for ANZ and US)
6.2m
–3.5% from FY22*

Monthly Transacting Users (MTUs)
(% of Customer Accounts that are active monthly)
Australia 42.3%
US 27.0%

Employee Engagement
(Global)[2]
78%
–200bps from FY22

* Comparative information has been restated to reflect discontinued operations in the current financial year. Please refer to Note 18 in the consolidated financial statements.

** All measures have been rounded to one decimal point where relevant.

1. Non-IFRS information. Reported Cash Gross Profit adjusted for the movement in expected credit losses, and amortised finance costs expressed as a percentage of underlying volumes.
2. FY22 measured Australia, United States, New Zealand, United Kingdom, Canada, Mexico and Singapore. FY23 measured Australia, United States, New Zealand, United Kingdom, Canada and Mexico.

Directors' Report continued

For FY23, the Company delivered against the updated strategy resulting in record transaction volumes and revenue, improving credit losses and margins, and minimising costs and optimising capital management. Revenue grew by 16.1% year on year and revenue margins expanded by 60 basis points to 7.8%. Targeted actions were taken to manage credit losses within the target range of 2.0% of Total Transaction Volume (TTV) and delivered Cash Net Transaction Margin (NTM) expansion to 2.8% of TTV. Both were achieved against the headwinds of rising interest rates and inflationary conditions. The Company executed the strategy to divest or wind-down non-core businesses generating cash inflows and reducing cash burn. Furthermore, two proactive liability management exercises materially strengthened the balance sheet. Corporate liabilities were reduced by $312.2 million at a significant discount to face value. Importantly, the Company exited FY23 with the Americas and ANZ businesses generating monthly positive cash EBTDA as a result of these key strategic initiatives.

Remuneration Changes Implemented in FY23

In response to the decline in Zip's share price and market capitalisation during FY22, the Board completed a review of KMP remuneration. Taking a balanced approach, the Board considered the need to continue to attract and retain talent across Australia and New Zealand (ANZ) and the US, the shift in strategy towards profitable growth and improving long-term shareholder value. The following changes were implemented for FY23:

- **Short-Term Variable Reward (STVR)**: performance measures for FY23 were redefined to align with the refined strategy;
- **Long-Term Variable Reward (LTVR)**: the award opportunity for all Executive KMPs was reduced to a maximum of 50% of base salary, and a new performance measure comparing the Total Shareholder Return (TSR) of the Company to the ASX 300 Accumulation Index was implemented; and
- **Non-Executive Director (NED) Remuneration**: from 1 July 2022, NEDs voluntarily reduced Director's fees with a portion of the reduced fees delivered as restricted share rights via the NED Equity Plan, which was approved by shareholders at the 2022 Annual General Meeting.

Reward Outcomes for FY23

The Board is focused on **aligning remuneration outcomes with performance**. While significant progress was made on the path to cash EBTDA profitability, several challenging performance targets approved by the Board were not achieved. This is reflected in the FY23 scorecard results and STVR award outcomes for Executive KMP. The key reward outcomes for FY23 are as follows:

- the Global CEO and Global COO elected to forfeit their participation in the STVR Plan in FY23;
- the CFO received an STVR outcome of only 13.7% of the maximum award opportunity in FY23;
- LTVR performance hurdles were not achieved and no LTVR vesting occurred; and
- no Board discretion was exercised on any remuneration outcome during FY23.

Management Changes

During FY23, Larry Diamond our Global CEO and Managing Director relocated with his family to the US to assume the roles of Global CEO and CEO US to drive performance. The Americas is a core market for Zip and offers significant potential for future growth and profitability. The Board sought independent advice on the market practice for executive relocation packages, and approved relocation support including travel; accommodation; tax equalisation and compliance; healthcare and schooling support to enable a comparable standard of living. The support provided was set with reference to reasonable market practice and Zip's New York office location. The Board considered the substantially higher cost of living in New York compared to Sydney when determining relocation support. The value of relocation support is included in the Statutory Disclosures in this report. While Larry's fixed remuneration (including Long-Term Equity (LTE)) and

Directors' Report continued

his STVR did not change, his LTVR opportunity for FY23 was aligned to changes affecting all Executive KMP, reducing from a maximum of 150% of base salary to 50% of base salary.

Following the end of the FY23 year, the Company announced the appointment of Cynthia Scott as Group CEO and Managing Director. Larry will continue in the role of CEO US and as an Executive Director of Zip, and Peter Gray has been appointed to the role of CEO ANZ. Peter retired as an Executive Director of Zip effective on the 24 August 2023.

Looking Ahead to FY24

The Board continues to focus on rebuilding long-term shareholder value. There will be a continued review of the remuneration framework so that the Company can attract and retain the talent it needs while providing fair reward outcomes aligned with Company performance and considering the shareholder experience. In FY24, variable remuneration will continue to target the path to cash EBTDA profitability through the STVR plan, and restore shareholder value supported by the LTVR plan. A higher proportion of Executive KMP rewards will be performance based with an increase to STVR award opportunity offsetting the discontinuance of regular LTE awards. In summary, for FY24:

- no LTE awards, which were 50% of base salary in FY23, will be made to Executive KMP for FY24;
- the STVR award opportunity for Executive KMP will be increased from 50% to 100% of base salary, with half of any STVR award delivered in Zip shares deferred for 1 year;
- STVR performance measures will continue to be weighted towards cash profitability; and
- the total remuneration paid to the Board Chair will be reinstated to the amount that was paid before NEDs implemented a voluntary fee reduction in FY23.

The Company has historically used equity awards to deliver both fixed and variable remuneration to Executive KMP and other employees. While equity awards will continue to be a significant part of Zip's reward structure, the Company intends to deliver some elements of variable rewards in cash as it shifts to sustained cash EBTDA profitability.

The Board's Remuneration, People and Culture Committee regularly reviews the Company's remuneration policies. This is to advance the Company's strategic goals, support high retention rates for key talent, reward performance and decision making that aligns with the long-term interests of shareholders and with Zip's standards of behaviour and risk appetite, and to reflect shareholder interests and expectations.

We invite you to read the Remuneration Report and welcome your feedback.

John Batistich
Chair – Remuneration, People and Culture Committee

Directors' Report continued

CONTENTS

This remuneration report is divided into the following sections.

Building a sustainable future

Directors' Report continued

ABBREVIATIONS

Abbreviation	Definition
AGM	Annual General Meeting
ANZ	Australia and New Zealand
ASX	Australian Securities Exchange
BPS	Basis Points
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHESS	Clearing House Electronic Subregister System
COO	Chief Operating Officer
EBTDA	Earnings Before Taxes, Depreciation and Amortisation
FY22	Financial Year Ending 30 June 2022
FY23	Financial Year Ending 30 June 2023
GRG	Godfrey Remuneration Group
KMP	Key Management Personnel
LTE	Long-Term Equity
LTVR	Long-Term Variable Reward
MTUs	Monthly Transacting Users
NED	Non-Executive Director
NTM	Net Transaction Margin
RPCC	Remuneration, People and Culture Committee
STVR	Short-Term Variable Reward
TRP	Total Remuneration Package
TSR	Total Shareholder Return
TTRP	Target Total Remuneration Package
TTV	Total Transaction Volume
US	United States of America
VWAP	Volume Weighted Average Price
ZIPNEP	Zip NED Equity Plan

Directors' Report continued

1. LIST OF KMP FOR FY23

This report covers NEDs and Senior Executives considered to be KMP. The table below identifies the KMP for Zip for FY23:

Table 1 – List of KMP for FY23

KMP	ROLE	APPOINTED	AUDIT AND RISK	REMUNERATION PEOPLE AND CULTURE	NOMINATIONS
Diane Smith-Gander AO	Independent Non-Executive Chair	1 February 2021	Y	Y	C
John Batistich	Independent Non-Executive Director	3 September 2018	Y[1]	C	Y
Meredith Scott	Independent Non-Executive Director	1 September 2022	C[2]	Y	Y
Larry Diamond	Global Chief Executive Officer (CEO) and Managing Director	1 July 2016			
Peter Gray	Global Chief Operating Officer (COO) and Executive Director	1 July 2016			
Martin Brooke	Chief Financial Officer (CFO)	9 January 2017			

C = Chair of Committee.

Y = Member of Committee.

1. John Batistich was acting Chair of the Audit and Risk Committee during the period 1 July 2022 to 31 August 2022.
2. Meredith Scott was appointed as a Director of Zip, Chair of the Audit and Risk Committee and member of the Remuneration, People and Culture and Nomination Committees effective from 1 September 2022. No payments were made to Meredith Scott prior to her appointment as part of her consideration for agreeing to hold the position of Non-Executive Director.

1.1 Changes to KMP following the end of FY23

After the end of FY23, the following changes to the KMP were announced:

- Cynthia Scott was appointed as Group CEO and Managing Director. Cynthia's appointment as Group CEO was effective from 10 August 2023 and her appointment as Managing Director from 24 August 2023;
- Larry Diamond was appointed to the role of CEO US (effective 10 August 2023) and will continue to serve as an Executive Director; and
- Peter Gray was appointed to the role of CEO ANZ (effective 10 August 2023), retired from the Board effective 24 August 2023, and will continue to serve the Board as an adviser.

Directors' Report continued

2. ZIP'S REMUNERATION STRATEGY, FRAMEWORK AND POLICY

2.1 Remuneration Principles

With a focus on the path to profitability, Zip's remuneration strategy is designed to attract, motivate and retain talent to drive a high-performance culture that delivers on our business strategy and drives sustainable long-term returns for shareholders. It is designed to ensure that there is strong alignment between remuneration and performance. This strategy is underpinned by the following principles:

Strategic Alignment	Market Competitive	Performance Based	Simple and Transparent	Enhances Culture	Sustainable Value
Provide clear alignment of remuneration with strategic objectives and shareholder value	Provide market competitive remuneration to attract and retain quality global talent	Support merit-based remuneration achievement across a diverse and inclusive workforce	Implement remuneration policies that are simple, transparent and well understood	Support appropriate risk culture and employee conduct aligned to our standards	Reward sustainable outperformance

2.2 Remuneration Framework Summary

The Board seeks to create a simple and transparent design for remuneration. During FY23, the remuneration framework for Executive KMP was made up of four components: Fixed Remuneration (includes base salary, superannuation and any salary sacrifice), Fixed LTE, 'at-risk' STVR and 'at-risk' LTVR. The table below summarises each of these components for FY23 for the Executive KMP:

Table 2 – ZIP Remuneration Framework Summary

	Total Fixed Remuneration		Variable Remuneration	
Element	**Fixed Pay**	**Long-Term Equity (LTE)**	**Short-Term Variable Reward (STVR)**	**Long-Term Variable Reward (LTVR)**
Purpose	Attract and retain Executives, considering the size and complexity of the role, individual responsibilities, experience and skills in the context of the external market.	Provides Zip with a means to attract and retain high quality talent across the business by supplementing moderate Fixed Pay with equity that provides skin-in-the-game while minimising cash-drain.	STVR rewards performance against annual objectives that focus on delivering short-term strategic outcomes.	LTVR aligns Executive accountability and remuneration outcomes with the delivery of sustained group performance and shareholder interests over the long-term.

Directors' Report continued

	Total Fixed Remuneration		Variable Remuneration	
Element	**Fixed Pay**	**Long-Term Equity (LTE)**	**Short-Term Variable Reward (STVR)**	**Long-Term Variable Reward (LTVR)**
Delivery	Base salary (including salary sacrifice) and superannuation.	Rights with equal vesting over 4 years (25% per year).	Ordinary shares with 50% subject to a 12-month restriction period for Executive KMP.	Performance rights vesting after three years, subject to achieving performance hurdles.
FY23 Approach	Fixed Pay is positioned with reference to the market median and the 75th percentile, with the Board applying judgement to recognise individual factors.	Rights are service related and subject to continued employment over the vesting period.	STVR is measured against a scorecard with the following performance measures with weightings to drive profitability: – Cash EBTDA (50%) – Cash NTM (30%) – TTV (5%) – MTUs (5%) – Employee Engagement (10%)	LTVR performance hurdle is Zip TSR compared to movement in the ASX 300 Accumulation Index. Zip TSR must be positive, and vesting commences upon Zip TSR exceeding the Index by 5% compound annual growth over the performance period.

2.3 Board Policy for Setting Remuneration

The Company recognises the need to deliver on business strategy and to attract top talent in a competitive market. The Company considers the following factors in setting executive remuneration packages:

- Australia and US comparators who compete for talent with Zip;
- ASX-listed companies with a comparable market capitalisation (in particular, comparable financial and technology companies). In FY23, the industry comparator group was made up of Bendigo and Adelaide Bank Ltd (BEN); Credit Corp Group Ltd (CCP); EML Payments Ltd (EML); Humm Group Ltd (HUM); Judo Capital Holdings Ltd (JUD); Latitude Group Holdings Ltd (LFS); Link Administration Holdings (LNK); Objective Corporation Ltd (OCL); Solvar Ltd (SVR); and Tyro Payments Ltd (TYR);
- the Executive's contribution to the delivery of key strategic goals; and
- the Executive's contribution to long-term Revenue and Cash EBTDA outcomes.

The Committee sets the remuneration mix and amount considering the above factors, along with market conditions and sentiment, the Company's growth trajectory, strategic objectives, competencies and the skill sets of individuals, talent scarcity, changes in role complexities and geographic location.

When assessing remuneration, the Company seeks to position KMP remuneration competitively with reference to the median and 75th percentile of market comparators, with 'at-risk' STVR and 'at-risk' LTVR supporting decision making and performance aligned to shareholders' long-term interests. The Board's approach is to build a strong alignment between pay outcomes and performance.

Directors' Report continued

(a) Total Fixed Remuneration

Fixed Remuneration includes base salary, superannuation, salary sacrifice items and Fixed LTE.

When reviewing Fixed Remuneration for Executive KMP, the Committee references comparators outlined above and relevant to the market sector in the context of the individual's role and performance. The Committee has been mindful of the significant variation in Zip's market capitalisation when it has assessed remuneration.

(b) Variable Remuneration and Total Remuneration Package

Total Remuneration Package (TRP) is composed of Fixed Remuneration, STVR and LTVR.

The Board aims to set the STVR and LTVR opportunities for Executive KMP so that total at target remuneration outcomes above the market median are achievable based on performance. This approach is intended to drive performance and value creation for shareholders.

2.4 Key Issues Considered by the Board in FY23

The Board undertakes regular reviews of the remuneration framework aligned to the business strategy while remaining alert to changes in the market for talent. Market benchmarking continued to ensure that the remuneration framework remains fair and competitive against the comparator companies.

During FY23, the Board implemented several enhancements to the remuneration framework and its reporting, including:

- A revised balanced scorecard of performance hurdles for the STVR Plan is featured in detail in this report. The performance measures are weighted in line with the strategy to deliver a path to profitability with improved unit economics;
- Lowered the award opportunity for the LTVR Plan to a maximum of 50% of base salary in line with the market comparator set at the lower market capitalisation value;
- Maintained TSR as the sole performance hurdle for the LTVR Plan to directly align the award opportunity with shareholders' long-term interests. The Committee has again reviewed whether the introduction of a second LTVR performance measure is appropriate. It remains the Board's view that an additional measure is not appropriate at Zip's current stage of development. The Committee regards the application of a TSR performance measure to be the most effective model of aligning long-term executive performance with shareholder value outcomes and will review the appropriateness of the single measure LTVR program on an annual basis; and
- Revised the performance measure for the LTVR Plan to an indexed TSR. Zip TSR must be positive, and vesting commences upon Zip TSR exceeding the ASX 300 Accumulation Index by 5% compound annual growth over the performance period. The maximum award is achieved if Zip TSR exceeds the ASX 300 Accumulation Index by 10% compound annual growth or more over the performance period.

2.5 Remuneration Mix and Outcomes

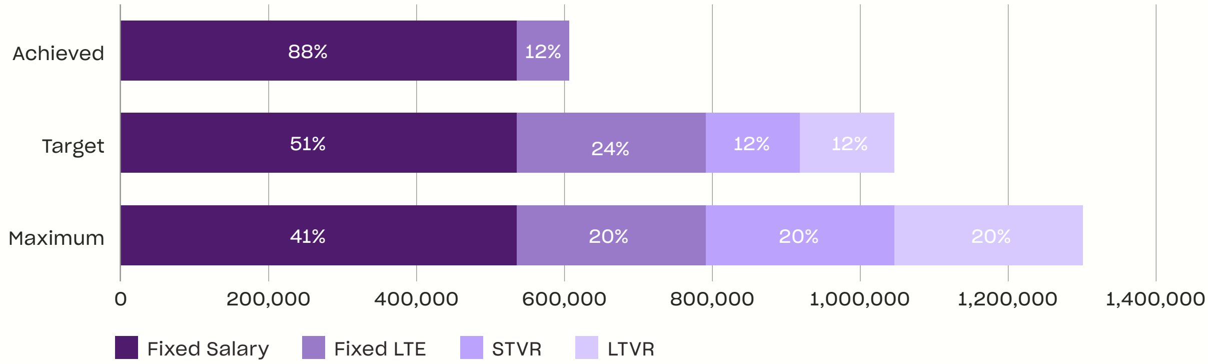
The Executive KMP Remuneration mix refers to the proportion of remuneration that senior executives can receive as Fixed Remuneration (including LTE Rights) and any variable 'at risk' remuneration.

The figure below features three graphs depicting the 'Achieved' FY23 remuneration mix for the Executive KMP relative to the 'Target' and 'Maximum' level of performance. Importantly, the Global CEO and Global COO elected to forfeit their participation in the STVR Plan for FY23 to align with shareholders' experience. Further, during FY23 no LTVR vested, and LTVR grants for all Executive KMP were reduced to a maximum opportunity of 50% of base salary.

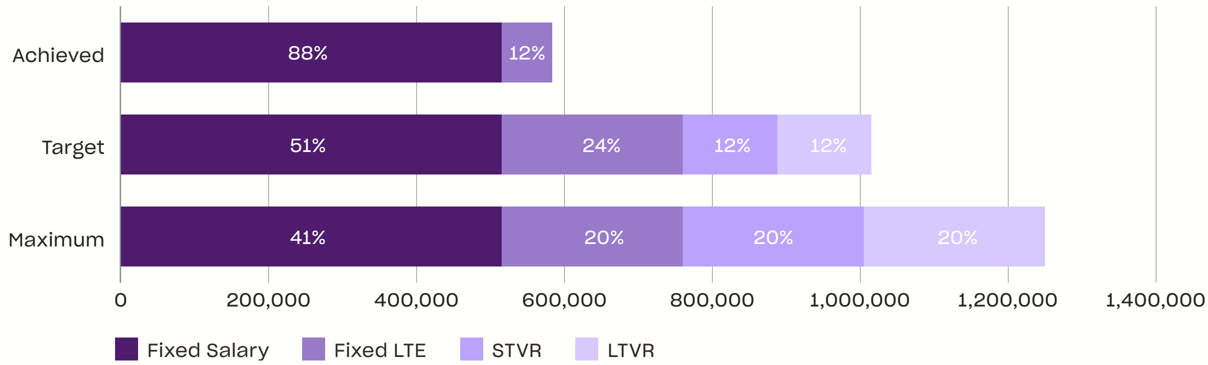
Directors' Report continued

Figure 1 – FY23 remuneration opportunities and outcomes*

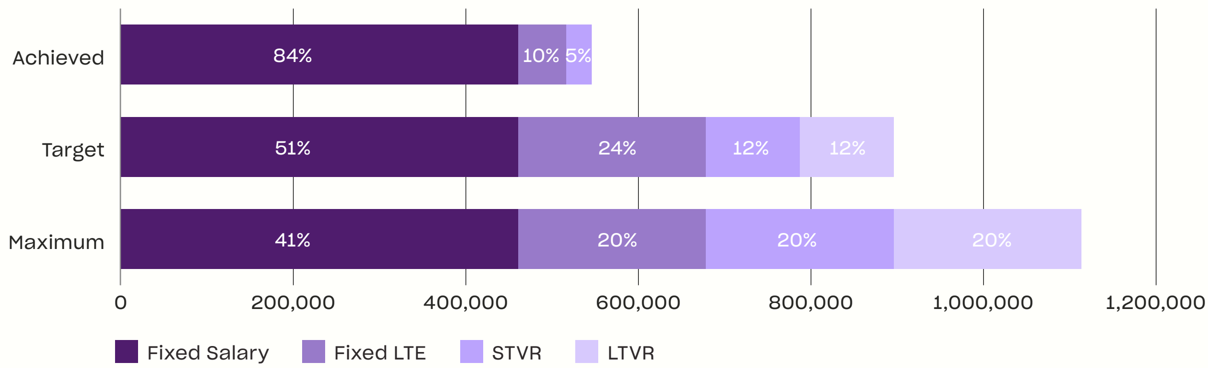
(a) Larry Diamond, Global CEO and Managing Director



(b) Peter Gray, Global COO and Executive Director



(c) Martin Brooke, CFO



* Percentages have been rounded to the nearest number and totals may not add to 100 due to rounding.

Directors' Report continued

2.6 Remuneration Delivery Profile

Remuneration at Zip is delivered in cash and equity vesting over a number of years. The table below outlines when the different components of remuneration are awarded and the time period over which they are paid or vest:

Table 3 – Executive KMP remuneration delivery profile for FY23

Type	Component	Instrument	Year 1	Year 2	Year 3	Year 4	Year 5
Total Fixed Remuneration	Fixed Pay	Base salary and Superannuation	Paid				
	LTE	Rights subject to continued employment	Grant ▲	25% vest ●	25% vest ●	25% vest ●	25% vest ●
Variable At-Risk	STVR	Ordinary shares subject to performance against balanced scorecard 50% are restricted for 12 months	Grant ▲ 50% vest ●	50% vest ●			
	LTVR	Performance Rights subject to achievement of TSR performance hurdle	▲ Grant		Vest ●		

▲ Grant
● End of deferral/performance period

3. ALIGNMENT BETWEEN PERFORMANCE AND REMUNERATION

3.1 Performance on Key Measures

The Board remains focused on linking variable remuneration outcomes for Executive KMPs with Company performance and shareholders' experience whilst balancing the need to attract and retain key talent to deliver on the Company's strategic goals.

During FY23 the Company made significant progress in executing against strategic priorities including growing the core ANZ and Americas markets, improving unit economics, optimising the cost base, strengthening the balance sheet, and creating a sustainable business. This progress is accelerating our path to cash profitability and positioning Zip for future profitable growth. However, the Company did not achieve the challenging STVR scorecard targets that it set for Cash EBTDA or Cash NTM which were negatively impacted by a rapid rise in interest rates, costs associated with exiting non-core markets and products, an increase in credit losses in Australia and lower growth in consumer spending. These outcomes are reflected in Executive KMP STVR awards. Further, the LTVR performance measures were not met and no LTVR vested during FY23.

Directors' Report continued

3.2 Performance Indicators Over Last 5 Years

The Board remains committed to rebuilding shareholder value over the long-term and has continued to take actions to position the Company to deliver positive cash EBTDA in FY24. The table below outlines the key performance measures over the last 5 years:

Table 4 – Performance indicators over last 5 years

Year ending 30 June	FY23	FY22	FY21	FY20	FY19
Total Transaction Volume ($ billions)	8.9	8.3*	5.8	2.1	1.1
Active Customer Accounts (millions)	6.2	6.4*	5.7*	2.1	1.3
Gross Receivables ($ billions)	2.8	2.7	2.1	1.2	0.7
Revenue ($ millions from continuing operations)	693.2	596.9	392.1*	160.1	82.9
Cash Net Transaction Margin (%)	2.8%	2.5%*	3.1%	3.8%	3.9%
Cash EBTDA ($ millions)	(48.2)	(151.4*)	(37.2*)	3.5	9.2
Share Price High ($)	1.72	8.78	14.53	6.97	3.98
Share Price Low ($)	0.40	0.44	4.96	1.05	0.84
Share Price Close ($)	0.41	0.44	7.57	5.23	3.31
Dividends paid in year	–	–	–	–	–

* Comparative information has been restated to reflect discontinued operations in the current financial year.

3.3 FY23 Achieved Total Remuneration

The Global CEO and Global COO elected to forfeit their STVR awards and the STVR outcome for the CFO was 13.7% of the maximum award opportunity. No LTVR awards vested during FY23 as the TSR performance target was not met.

The following table outlines the 'Achieved' Total Remuneration (what became payable or vested for the FY23 measurement period for fixed and variable remuneration). The figures in this table differ from the Statutory Remuneration Table, which has been prepared in accordance with the accounting standards and therefore includes accounting values for unvested equity under the LTE and LTVR Plans. This table is designed to show what Executives actually received for performance in FY23.

Directors' Report continued

Table 5 – FY23 achieved total remuneration

		Fixed remuneration		Value of fixed LTE vested during FY23[1]		STVR awarded following completion of FY23[2]		Value of LTVR vested following completion of the measurement period		Total remun-eration package (TRP)
KMP	Roles	Amount	% of TRP	Amount	% of TRP	Amount	% of TRP	Amount	% of TRP	
Larry Diamond[3]	Global CEO and Managing Director	$535,600	88%	$70,671	12%	$0	0%	$0	0%	$606,271
Peter Gray	Global COO and Executive Director	$515,000	88%	$67,830	12%	$0	0%	$0	0%	$582,830
Martin Brooke	CFO	$460,587	84%	$55,398	10%	$29,812	5%	$0	0%	$545,708

1. This is the grant value of the LTE that vested during the reporting period.
2. This is the value of the total STVR award calculated following the end of FY23. The Global CEO and Global COO elected to forfeit their participation in the STVR Plan in FY23.
3. Excludes the relocation package detailed in Table 20.

4. EXECUTIVE KMP REMUNERATION

4.1 Fixed Remuneration Framework and Outcome

The table below outlines the framework for Fixed Remuneration.

Table 6 – Fixed pay – salary and superannuation – key terms

Purpose	Attract and retain Executives, considering the size and complexity of the role, individual responsibilities, experience and skills.
Delivery	Fixed Remuneration comprises cash salary, salary sacrifice items (where applicable) and superannuation contributions.
Participants	All Executives.
Target	Highly competent, experienced and able Executives will be positioned at or around the median of the market benchmark, however, there will be flexibility to move up to the 75th percentile for exceptional recruits into key high-demand roles.
Approach	Our Fixed Remuneration is positioned having regard to the role, global responsibilities, criticality, complexity, skills, experience, performance and the remuneration paid by comparable companies with whom Zip competes for talent. An annual review process makes adjustments to Fixed Remuneration for changes in role or promotion, internal equity and significant market changes. Any increase to KMP remuneration requires Remuneration, People and Culture Committee endorsement and Board approval.

Benchmarking undertaken in FY23 found that the Fixed Remuneration for the CFO was positioned below comparable CFO roles in the ASX Industry Comparator Group. As a result, Fixed Remuneration was increased, however, in line with changes to remuneration for other Executive KMP the LTVR opportunity for the CFO was reduced to 50% of base salary, resulting in a lower TRP. No other changes were made to Fixed Remuneration for the Executive KMP, the Global CEO and Global COO.

Directors' Report continued

Table 7 – Fixed pay changes during FY23

Role	Executive	Fixed remuneration at the end of FY22	Fixed remuneration at the end of FY23	Change
Global CEO and Managing Director[1]	Larry Diamond	$535,600	$535,600	0%
Global COO and Executive Director	Peter Gray	$515,000	$515,000	0%
CFO	Martin Brooke	$440,000	$475,292[2]	8%

1. Fixed Remuneration in this table does not include the equity component of Total Fixed Remuneration (i.e. LTE) or the value of relocation assistance provided to Larry Diamond to support his move to the US.
2. Following a market benchmarking review the CFO's annual Fixed Remuneration was increased to $475,292 on 1 December 2022.

4.2 LTE Framework and Outcome

The table below outlines the framework for LTE grants.

Table 8 – Fixed remuneration: LTE – key terms

Purpose	The LTE plan is designed to compensate Executives for a moderate positioning of Fixed Pay and is designed to bring Total Fixed Remuneration closer in line with the global market. The LTE provides the Company with the opportunity to retain senior leaders and attract high quality talent, particularly in the US where the use of LTE is common.
Delivery	The LTE rewards retention and is based upon service rather than performance which is covered in the STVR and LTVR. The rights vest in equal tranches over 4 years (i.e. 25% per year). There are no disposal restrictions on the shares Executives receive upon vesting of the Rights other than trading in adherence to the Zip Securities Trading Policy.
Participants	Executive KMP and Executives with high demand skills, especially in the US.
Instrument	Awards are made under the Zip Equity Incentive Plan and are made in the form of Rights with a nil exercise price, which upon vesting confer the entitlement to one ordinary share in Zip (or the cash equivalent value at the discretion of the Board).
Allocation method	Rights are granted on a face value basis by dividing the participant's LTE dollar value opportunity in AUD by the 30-day Volume Weighted Average Price (VWAP) of Zip shares traded in the period immediately leading up to and including the date of release of the Zip results immediately preceding the grant date. For the Executive KMP, the 30-day VWAP of Zip shares up to and including the date of announcement of the Company's half year results is used to determine the number of Rights issued in March.
Approach	The LTE is granted annually as Rights to participants, which vest subject to continuing service. Parental and sick leave is included in the tenure period of the LTE.
Opportunity	Executive KMP have the opportunity to be awarded 50% of base salary vesting over 4 years.

Directors' Report continued

Malus	Malus and clawback provisions apply. For further detail refer to the Governance and Risk Management section of this report.
Cessation of Employment	If the participant ceases employment, then all of their unvested rights automatically lapse unless the Board determines otherwise. In the case of death or permanent disability, the Board reserves the discretion to pro-rata the award in line with service.
Change of Control	In the event of a change of control, the Board has the discretion to determine the treatment of all unvested Rights.

Grants were made to the Executive KMP under the LTE plan with effect from 8 March 2023. In line with ASX Listing Rule 10.14, the LTE grants for the two Executive Directors, the Global CEO and Global COO, were approved by shareholders at the AGM held on 3 November 2022. The first eligible vesting date will be on 8 March 2024. The table below outlines the LTE grants and vesting dates which are subject to ongoing employment.

Table 9 – LTE granted in FY23

Executive	LTE opportunity	Maximum opportunity as a % of base salary	Number of rights granted	Vesting dates
Larry Diamond *Global CEO and Managing Director*	$255,154	50%	99,267	8 March 2024
			99,266	8 March 2025
			99,266	8 March 2026
			99,266	8 March 2027
Peter Gray *Global COO and Executive Director*	$244,854	50%	95,259	8 March 2024
			95,259	8 March 2025
			95,259	8 March 2026
			95,259	8 March 2027
Martin Brooke *CFO*	$225,000	50%	87,535	8 March 2024
			87,535	8 March 2025
			87,535	8 March 2026
			87,535	8 March 2027

In FY24, the LTE Plan has been withdrawn from the remuneration offers to the Executive KMP in favour of a higher STVR Plan award opportunity which is subject to performance measures.

Directors' Report continued

4.3 STVR Framework and Outcome

The table below provides the framework for STVR.

Table 10 – FY23 STVR key terms

Purpose	Rewards financial and non-financial performance consistent with Zip's strategy over the short-term.
Participants	All permanent Zip employees are eligible to participate in the STVR plan.
Award Opportunity	Executive KMPs can be awarded 25% of base salary at Target performance and up to 50% if Stretch performance is achieved.
FY23 Performance Measures	For FY23, STVR performance was based on a scorecard aligned to key strategic priorities with the following measures: – **Financial**: Cash EBTDA (50%), Cash NTM (30%) and TTV (5%); – **Customer**: MTUs (5%); and – **People**: Employee Engagement (10%). These performance measures were chosen to best reflect financial and non-financial performance aligned to Zip's strategy of transitioning from growth to profitability and sustainable growth over the short-term. The performance measures and hurdles were reviewed and approved by the Board.
Assessment of Performance	Performance measures for the STVR balanced scorecard features Target and Stretch performance hurdles that are set as follows: – **Financial**: Cash EBTDA, Cash NTM and TTV: Target and Stretch hurdles are set by the Board with reference to the approved budget; – **Customer**: MTUs: Target and Stretch hurdles are set by the Board with reference to the approved ANZ and US budgets; and – **People**: Employee Engagement Score: Target and Stretch hurdles are set based on comparable high-performance organisations and prior year performance. The following payout scale applies for the STVR: – below Target performance, no STVR will be awarded; – at Target performance, 50% of the maximum will be awarded; – above Target and below Stretch performance, a pro-rata STVR will be awarded; and – at or above Stretch performance, the maximum STVR will be awarded.
Delivery	For the Executive KMP, 100% of STVR is awarded in Zip shares. 50% of any award can be traded immediately with the remaining 50% subject to a one-year restriction period. All deferred STVR awards are subject to malus and clawback provisions. Deferred shares have rights to any dividends declared during the deferral period. The number of shares is calculated on a face value basis by dividing the participant's assessed STVR dollar value by the Zip share price at the time that awards are approved or as otherwise determined by the Board. All trading is subject to the Zip Securities Trading Policy.
Cessation of Employment	If an Executive leaves during the performance period, then they will forfeit their entitlement to an award unless the Board determines otherwise. If an Executive leaves during the deferral period, then they will retain their shares subject to malus and clawback provisions.
Change of Control	Where a transaction or event is proposed that, in the opinion of the Board, may result in a person becoming entitled to control Zip, the Board retains the discretion (to be exercised consistently with the ASX Listing Rules) to determine that a particular treatment will apply to deferred shares.

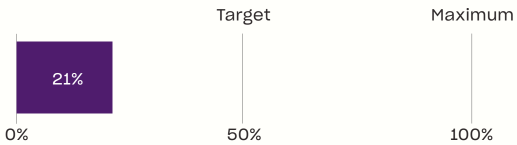
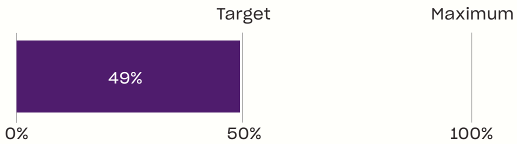
Directors' Report continued

Board Discretion	The Board retains absolute discretion in respect of STVR awards and final outcomes. As part of its overarching discretion, the Board may reduce final STVR awards having regard to affordability considerations and the Group's financial performance over the period. In addition to this overarching discretion, final STVR outcomes will be subject to a Board discretion modifier for "doing the right thing" whereby the Board may make downward adjustments (including to zero) for regulatory issues, conduct issues, brand and reputational issues, and non-financial and financial risk issues.
Malus	Malus and clawback provisions apply. For further detail refer to the Governance and Risk Management section of this report.

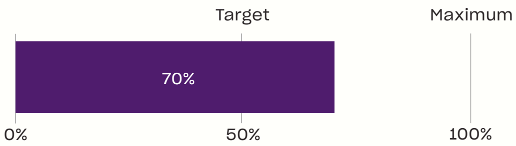
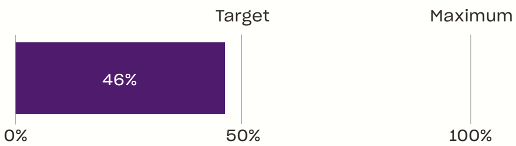
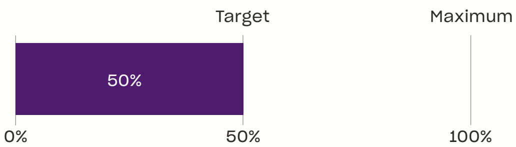
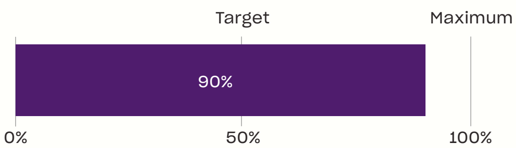
Company Scorecard and STVR Outcomes for FY23

For FY23, a Target and Stretch performance hurdle was approved by the Board for each measure in the STVR Plan scorecard. Meeting the Stretch performance hurdle will earn 100% of the award whilst meeting the Target performance hurdle will attract a 50% outcome. Any result above the Target, but below the Stretch, is rewarded on a pro-rata basis. Any result below the Target will not qualify for any award on that performance measure. The table below shows the outcome against the FY23 Company scorecard measures:

Table 11 – Company scorecard outcomes for FY23

Strategic Alignment	Measure	Weighting %	Performance Outcome	Vesting %	Award %
Financial	**Earnings Before Taxes Depreciation Amortisation (Cash EBTDA)**	50.0%	 Cash EBTDA was selected as a measure of profitability in line with the strategy to deliver on the path to positive Group cash EBTDA in FY24. The challenging Target hurdle was not achieved as a result of costs associated with exiting non-core markets and products, higher funding costs from higher interest rates, an increase in credit losses in Australia, and lower growth in consumer spending. As a result, there was no award outcome on this performance measure.	0.0%	0.0%
	Cash Net Transaction Margin (NTM)	30.0%	 Cash NTM was selected, in line with strategy, to measure the improvement in the unit economics of the business. Cash NTM was 2.76% which was marginally below the 2.8% Target hurdle. As a result, there was no award outcome on this measure.	0.0%	0.0%

Directors' Report continued

Strategic Alignment	Measure	Weighting %	Performance Outcome	Vesting %	Award %
Financial (cont.)	**Total Transaction Volume (TTV)**	5.0%	 TTV was selected to measure growth in the use of the Company's products in terms of the value of transactions in core markets. TTV grew to $8.9 billion which was above the Target hurdle of $8.6 billion but below Stretch. This performance measure received a 3.5% award outcome.	69.9%	3.5%
Customer	**Monthly Transacting Users (MTUs) Australia**	2.5%	 MTUs was selected as a measure of customer engagement with Zip products. An outcome of 42% in Australia was below Target, with no award outcome on this measure.	0.0%	0.0%
	Monthly Transacting Users (MTUs) United States	2.5%	 MTUs was selected as a measure of customer engagement with Zip products. An outcome of 27% in the US was at Target. This performance measure for the US received a 1.2% award outcome.	50.0%	1.2%
People	**Employee Engagement (Global)**	10.0%	 Employee Engagement reflects employee satisfaction and willingness to apply discretionary effort to drive performance. An outcome of 78% was achieved which was between Target and Stretch. As a result, this measure received a 9% award outcome.	90.0.%	9.0%
STVR Outcome for FY23					**13.7%**

In line with shareholders' experience, the Global CEO and Global COO elected to forfeit their participation in the STVR Plan for FY23 which has been accepted by the Board. The only Executive

Directors' Report continued

KMP participant in the STVR Plan for FY23 is the CFO. Based upon the review of performance against the performance hurdles, the STVR outcome for the CFO is 13.7% of the maximum opportunity. An STVR award of $29,812, for the financial year to 30 June 2023, will be granted to the CFO as shares as outlined in the table below:

Table 12 – STVR outcomes in FY23

Executive	Maximum STVR $opportunity	Maximum STVR opportunity as a % of base salary	% of maximum STVR awarded	Value STVR awarded $	% of maximum STVR not awarded
Larry Diamond *Global CEO and Managing Director*	$255,154	50%	0%[1]	$0	100%
Peter Gray *Global COO and Executive Director*	$244,854	50%	0%[1]	$0	100%
Martin Brooke *CFO*	$217,603[2]	50%	13.70%	$29,812	86.3%
Total				**$29,812**	

1. The Global CEO and Global COO have chosen to forfeit their award for FY23.
2. The CFO's base salary, part of his Fixed Remuneration, was increased on 1 December 2022. The maximum STVR Opportunity is calculated with reference to base salary on a pro-rata basis.

4.4 LTVR Framework and Outcome

The table below provides the framework for LTVR.

Table 13 – FY23 LTVR plan key terms

Purpose	The LTVR aligns Executive accountability and remuneration outcomes with the delivery of sustained group performance and shareholder interests over the long-term. The plan is designed to vary remuneration outcomes in line with the extent of longer-term (three-year) performance achievement focused on shareholder returns.
Participants	All Executive KMPs and selected Senior Executives.
Award Opportunity	For FY23, the Executive KMPs received LTVR awards with a maximum (face) value of 50% of base salary. The award opportunity was substantially lower than FY22 awards. In FY22, the Global CEO and Global COO LTVR maximum awards were 150% of base salary, with the CFO's maximum award 100% of base salary.
Delivery	Awards are made under the Zip Equity Incentive Plan and are made in the form of Performance Rights (Rights) with a nil exercise price which entitle the holder to one share in Zip upon vesting (or cash equivalent at the discretion of the Board).
Performance Period	The measurement period for assessing TSR performance is 3 years and is aligned with the release of results to ensure that the share price, upon which the TSR is determined, reflects an informed market. The initial LTVR plan granted in FY19 was a 3 year upfront offer with the Rights vesting in equal tranches after 3, 4 and 5 years from the issue date. After the initial 3-year plan there was a change towards annual issuance. From FY22, LTVR has been issued annually.
Vesting Conditions	A participant must remain employed for the rights to vest (subject to good leaver treatment outlined below). For FY23, the Board elected to change the performance hurdle for the LTVR moving from an absolute to relative TSR performance hurdle against the ASX 300 Accumulation Index.

Directors' Report continued

FY23 Performance Hurdle	Zip's TSR compared to movement in the ASX 300 Accumulation Index. Performance hurdles for the FY23 LTVR are: **Zip's TSR (on a compounding annual growth basis) compared to movement in the ASX 300 accumulation index** — **% Vesting** ≥ index movement + 10% — 100% > index movement + 5% & < index movement + 10% — Pro-rata = index movement + 5% — 50% < index movement + 5% — 0% In addition, Zip's TSR must be positive over the performance period unless the Board determines otherwise.
Retesting	For grants made prior to FY22, any unvested Performance Rights at the first two testing points were carried forward and if the TSR hurdle at the final testing point was achieved, 100% of all the Performance Rights initially granted would vest. Importantly, from FY22 this retesting clause was removed and any Rights that do not vest at the testing point will lapse.
Malus	Malus and clawback provisions apply. For further detail refer to the Governance and Risk Management section of this report.
Cessation of Employment	Subject to Board discretion if a participant ceases to be employed: – In "bad leaver" circumstances (e.g. termination for cause) during the performance period, all of the unvested LTVR rights will lapse (unless the Board determines otherwise); and – In "good leaver" circumstances (i.e. other than a bad leaver), the treatment of unvested LTVR rights will be at the discretion of the Board (subject to applicable laws). The Board's intention is that the LTVR rights will be pro-rated to time served during the Performance Period and left to be tested and vest in the ordinary course subject to achievement of the performance hurdle.
Change of Control	Where a transaction or event is proposed that, in the opinion of the Board, may result in a person becoming entitled to control Zip, the Board retains the discretion (to be exercised consistently with the ASX Listing Rules) to determine that a particular treatment will apply to the LTVR Plan including that all unvested rights will lapse.

Grants were made to the Executive KMP under the LTVR Plan on 13 March 2023. In line with ASX Listing Rule 10.14, the grants for the two Executive Directors were approved by shareholders at the AGM held on 3 November 2022. The Total Shareholder Return performance hurdle will be assessed in September 2025.

Table 14 – LTVR granted in FY23

LTVR grants for all Executive KMP were reduced to a maximum award opportunity of 50% of base salary. The LTVR awards set out below for the Global CEO and Global COO were approved by shareholders at the 2022 AGM.

Executive	LTVR opportunity $	Maximum LTVR opportunity as a % of base salary	Number of rights granted	Vesting dates
Larry Diamond *Global CEO and Managing Director*	$255,154	50%	228,326	September 2025
Peter Gray *Global COO and Executive Director*	$244,854	50%	219,109	September 2025
Martin Brooke *CFO*	$207,354	50%	185,551	September 2025

Directors' Report continued

Table 15 – LTVR assessed in FY23 based upon FY22 measurement period

The Executive KMP were granted a three-year upfront LTVR in February 2019. The starting point for the program was a share price of $0.95 being the 10-day VWAP before the release of the 4E for the year to 30 June 2018. During FY23, the second tranche of this LTVR award was eligible to be assessed. Based on the performance assessment against the TSR hurdles the LTVR did not vest. The table below sets out the maximum number of rights that could have vested and outcome of the performance assessment:

Executive	Rights eligible to vest	Maximum performance target	Actual performance outcome	% of maximum vested	Rights vested	Rights forfeited
Larry Diamond *Global CEO and Managing Director*	203,333	1.97	0.99	0%	0	0
Peter Gray *Global COO and Executive Director*	203,333	1.97	0.99	0%	0	0
Martin Brooke *CFO*	160,000	1.97	0.99	0%	0	0

The final performance assessment for the FY19 LTVR award is due in September 2023. Zip's TSR performance is not expected to meet the hurdle and it is likely that all outstanding LTVR rights from the FY19 LTVR award will lapse.

4.5 Executive Service Agreements

Remuneration and other terms of employment for Executive KMP are formalised in service agreements which were updated in FY22. Executive service agreements are ongoing, with no fixed term. Termination provisions are outlined in the table below:

Table 16 – Executive service agreements

Periods of notice required to terminate Executive KMP	Either party may terminate the employment agreement: – For the Executive Directors (Larry Diamond and Peter Gray), the agreement may be terminated on 6 months' notice; and – For the CFO (Martin Brooke), the agreement may be terminated on 3 months' notice.
Termination payments	Executive KMP are not entitled to any termination payments with a payment in lieu of the notice period at the discretion of the Board where termination occurs other than for cause.

For Non-Executive Directors there are no service agreements, however letters of appointment do apply; tenure and retirement/resignation as a director is governed by the *Corporations Act 2001* and the Company's constitution. Non-Executive Directors are not entitled to any termination payments.

5. GOVERNANCE AND RISK MANAGEMENT

5.1 Governance Framework

Designed to attract and retain high-performance talent to deliver sustainable shareholder returns and meet regulatory requirements, Zip's remuneration governance framework is led and approved by the Board with input from shareholders, Proxy Advisors and Remuneration Advisors. The Board delegates responsibility for policies and framework to the Remuneration, People and Culture Committee.

The Zip Board reviews and approves remuneration policy and principles, remuneration frameworks for Senior Executives and NEDs, and specific remuneration outcomes for Executive KMP and Senior Executives. The Remuneration, People and Culture Committee is the governing body for developing, monitoring and assessing remuneration strategy, policies and practices across the Company on behalf of the Board. The role of the Committee is to review, challenge, assess and as appropriate, endorse the recommendations made by management for Board approval. It oversees the Company's remuneration framework and assists the Board to implement a remuneration strategy and policy that is fair, responsible, effective and competitive. The Committee refers to the remuneration framework and policies when developing Board recommendations about Executive KMP remuneration outcomes and reviews any variations to maintain framework integrity. The figure below outlines the Zip Remuneration Governance Framework:

Figure 2 – Remuneration governance framework

BOARD

- Approves the overall remuneration policy and ensures it is competitive, fair and aligned to the long-term interests of the Company and shareholders.
- Approves Senior Executives and other KMP remuneration.
- Assesses Company performance and determines variable reward outcomes for Senior Executives.

COMMITTEE

The Remuneration, People and Culture Committee has delegated responsibility by the Board to make recommendations on:

- The remuneration policies and framework;
- Non-Executive Director and Senior Executive remuneration;
- The extent of the Senior Executive achievement against performance hurdles; and
- Executive variable incentive plans.

MANAGEMENT

- Provides information relevant to remuneration decisions and make recommendations to the Committee.
- Executes the Board approved remuneration framework throughout the organisation.

CONSULT SHARE-HOLDERS AND PROXY ADVISORS

REMUNERATION ADVISORS

The Committee may appoint and engage independent advisors directly in relation to remuneration matters. Advice is used to assist the Board with decisions made through the Board and Committee process.

The Committee Charter sets out the Committee's roles, responsibilities, composition, structure and membership requirements. The Committee is independent of Management when making recommendations affecting employee remuneration. Where appropriate, the Global CEO, Global COO, CFO and Group General Counsel attend Committee meetings as invitees, however, they do not participate in formal decision-making or in discussions relating to their own remuneration.

Directors' Report continued

5.2 Risk Management

A sound risk management culture is important to Zip. All performance is assessed by the Board with reference to Company risk management policies. The Board retains the ultimate discretion to adjust remuneration outcomes and/or unvested variable rewards (including to zero) to address poor behaviours or risk taking that is outside of the Board approved risk appetite.

The Company's STVR and LTVR Plans have been designed to protect the Company from the risk of unintended or unjustified pay outcomes by allowing risk factors to be considered over long periods and by way of a variety of measures that are considered key to the Company's success. For example:

- basing the STVR on five financial, customer and people performance measures, including Target performance hurdles before any STVR on a measure is able to be paid;
- applying a Board discretion modifier to STVR outcomes for "doing the right thing" whereby the Board may make downward adjustments (including to zero) for regulatory issues, conduct issues, brand and reputational issues, and non-financial and financial risk issues;
- deferring a component (50%) of STVR for Executive KMP to ensure alignment with shareholder value and compliance with Zip's codes of conduct and corporate governance; and
- distributing remuneration components across both long and short-term performance-based components to encourage prudent risk-taking in line with the overall objectives of the Company.

While formal shareholding requirements are not imposed for Executive KMP, the Global CEO and Global COO held material holdings in Zip shares.

Malus and Clawback

In addition to considering risk in the design of variable pay plans, the following malus and clawback provisions apply to the LTE, Deferred STVR and LTVR plans:

Amongst other things, the Board may elect to forfeit any unvested awards (i.e. malus) or recoup any vested and paid awards (i.e. clawback) in the following circumstances:

- a participant has engaged in serious misconduct (including but not limited to fraud, dishonesty, gross negligence or a breach of employment conditions);
- a material misstatement in, or omission from the Group's financial statements or a misstatement of an applicable vesting condition;
- a participant has acted or failed to act in a way that has contributed to material reputational damage to the Group; or
- in the opinion of the Board, acting in good faith, all or part of the initial award is no longer justified having regard to the circumstances or information which has subsequently come to light.

Use of Board Discretion

The Board did not exercise discretion on any outcomes of any award for any KMP in FY23.

Directors' Report continued

6. NON-EXECUTIVE DIRECTOR (NED) REMUNERATION POLICY

The remuneration policy for NEDs seeks to deliver market competitive fees to attract and retain talented, qualified directors, preserve independence, and align director and shareholder interests. The Board policy is to remunerate NEDs at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the NEDs and reviews their remuneration annually, based on market practice, duties and accountability. Fees are paid for service on the Board and for membership and/or chairing of the Audit and Risk, and Remuneration, People and Culture Committee. No additional fees are paid for membership of the Nomination Committee and the Board chair receives no additional fees for serving on Committees.

Once appointed all NEDs enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation relevant to the office of Director. All current NEDs were appointed for an initial term of three years (subject to election by shareholders). The service agreements for the NEDs do not carry notice period provisions, nor do they provide for any termination benefits. All Directors must retire from office at the third annual general meeting after the Director was last elected and will then be eligible for re-election.

Board Composition

The Zip Board had five Directors, three independent NEDs and two Executive Directors (being the Global CEO and Global COO). Independent NED, Meredith Scott, was appointed to the Board on 1 September 2022.

As compared with the comparator set, the size of the Board was considered small for FY23 especially considering the strategic challenges facing the Company. The Board put on hold the appointment of an additional NED during FY23 and intends to appoint one incremental independent NED, based in the US, given the strategic importance of the US market.

The Board will continue to review the collective skills, knowledge, experience and diversity required to support its ongoing performance and governance duties, with a view to identifying skills, capacity and market knowledge to support Zip's continued growth and long-term success.

6.1 NED Fees

To maintain independence and impartiality, NEDs do not receive performance-related remuneration such as share options or rights with a performance condition.

The Board reviewed NED Fees in light of the reduction in Zip's share price during FY22. Following this review the Board decided to voluntarily reduce fees to bring them in line with market benchmarks and in recognition of the shareholder experience. The Board also decided, and received shareholder approval, to deliver a portion of NED Fees as restricted share rights.

Directors' Report continued

The table below sets out the FY23 Board and Committee fee structure (all fees are inclusive of superannuation):

Table 17 – NED fees

	FY22 NED fees[1]		FY23 NED fees[1] (effective 1st July 2022)			
Role	Chair fee[2]	Director/ member fee	Chair fee[2]	Chair equity[3]	Director/ member fee	Director/ member equity[3]
Main Board	$300,000	$150,000	$220,000	$40,000	$110,000	$20,000
Audit and Risk Committee	$25,000	$12,500	$20,000	–	$10,000	–
Remuneration, People and Culture Committee	$12,500	$12,500	$10,000	–	$10,000	–
Nominations Committee[4]	–	–	–	–	–	–

1. Fees are inclusive of superannuation.
2. The Board Chair does not receive fees for serving on Committees.
3. A portion of NED Fees is delivered as restricted share rights under the NED Equity Plan approved by shareholders at the 2022 AGM.
4. NEDs do not receive fees for serving on the Nominations Committee.

NEDs are entitled to be reimbursed for all reasonable business-related expenses in addition to Board fees, as may be reasonably incurred in the discharge of their duties.

Aggregate Fee Pool

Non-Executive Director fees are determined within an aggregate fee pool limit. The current fee pool is $1,500,000 (inclusive of superannuation) and was approved by shareholders at the AGM held on 4 November 2021. The fee pool is designed to provide flexibility to the Board to accommodate changes in its size and composition.

6.2 NED Equity Plan

Restricted Rights to NEDs for FY23

The Company established the NED Equity Plan to assist in the motivation, retention and reward of NEDs and to provide an opportunity for the NEDs to acquire shareholdings in the Company through the sacrifice of fees into equity. In line with ASX Listing Rule 10.14, the Company obtained shareholder approval at the 2022 AGM before implementing the NED Equity Plan.

In designing the NED Equity Plan, the Directors were conscious that NED remuneration should not conflict with their obligations to bring independent judgement to their roles. Consistent with Principle 8 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the grants of securities will better align the interests of the NEDs with the interests of shareholders. In accordance with these governance recommendations, the securities issued under the NED Equity Plan are not subject to performance-based vesting conditions or vesting conditions of any kind.

Directors' Report continued

Key terms of the NED Equity Plan are outlined below:

Table 18 – FY23 NED equity plan – key terms

Purpose	The purpose of the Zip NED Equity Plan (ZIPNEP) is to facilitate long-term holding of equity interests and assist NEDs in reaching the minimum shareholding requirement. Providing a portion of NED Fees in equity also creates "skin in the game" alignment between NEDs and shareholders.
Instrument	Each NED will be invited to apply for Restricted Rights under the ZIPNEP, with a nil exercise price. Restricted Rights have been selected so as not to compromise NED's independence.
Opportunity	The grant is calculated to deliver a value of $40,000 to the Chair and $20,000 to each NED annually as part of their Main Board Fee.
Allocation Method	Diane Smith-Gander AO, John Batistich and Meredith Scott were invited to apply for the number of Restricted Rights, calculated as follows: – Number of Restricted Rights = Cash Fee Sacrifice $÷ Right Value; and – Where the Right Value is the 10-day volume weighted average price (VWAP) following the release of FY22 financial results.
Term	Each Right has a Term ending 15 years after the grant date, and if not exercised before the end of the Term the Restricted Rights will lapse.
Vesting Conditions & Exercise Conditions	To ensure NED independence is not compromised, and to recognise that the instruments are an alternative to cash remuneration, the Rights are not subject to any vesting conditions. Rights may not be exercised within 90 days of the Grant Date.
Dealing & Disposal Restrictions	Rights may not be sold, transferred, mortgaged, charged or otherwise dealt with or encumbered, except by force of law. Shares acquired from the exercise of vested Rights will be subject to disposal restrictions due to: – the Company's securities trading policy; – the insider trading provisions of the Corporations Act; – 12-month-on-sale restrictions under the Corporations Act; and – specified Disposal Restrictions included in the Invitation. Zip will ensure that such restrictions are enforced via CHESS holding locks or alternatively by any trustee of an Employee Share Trust that may be engaged in connection with the Plan.
Corporate Actions	In the event of a change of control or delisting, Exercise Restrictions will cease on the date determined by the Board.

6.3 NED Shareholding Policy

A minimum shareholding policy exists. This requirement is designed to facilitate share ownership and further strengthen the alignment between Directors and the Group's shareholders. NEDs will be required to build a shareholding with a monetary value (at cost) equal to 1x their Main Board fee within a three-year timeframe being the later of:

- three years from the effective date of the policy in October 2021; or
- three years from date of commencement as a NED for those appointed after October 2021.

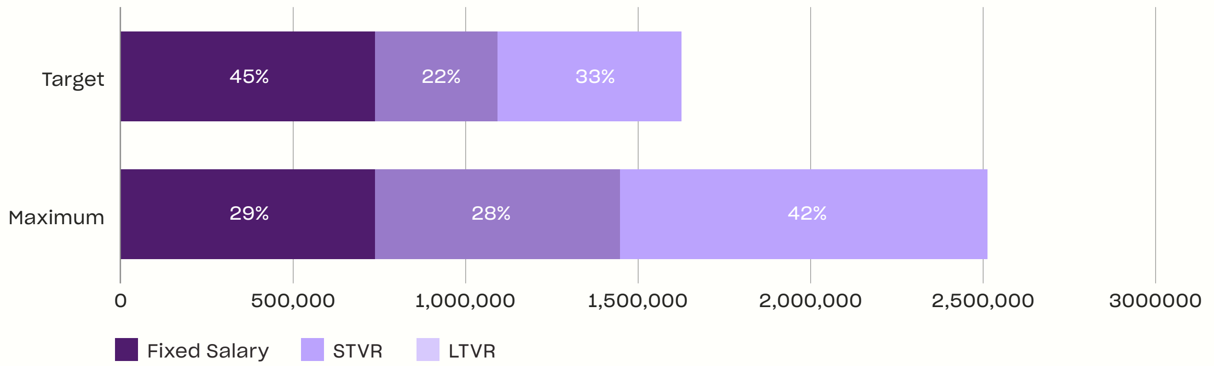
Directors' Report continued

7. FY24 REMUNERATION CHANGES

On 10 August 2023 the Company announced that it had appointed Cynthia Scott as Group CEO and would appoint Ms Scott to the Board as Managing Director. The Company also announced key employment terms agreed with Ms Scott. Ms Scott's remuneration opportunity, weighted towards long-term performance-based pay, is outlined below:

Table 19 – Group CEO FY24 remuneration opportunity*

Executive	Fixed remun-eration	Target STVR	Maximum STVR	Target LTVR	Maximum LTVR	Target TRP	Maximum TRP
Cynthia Scott *Group CEO and Managing Director*	737,399	355,000	710,000	532,500	1,065,000	1,624,899	2,512,399



* Percentages have been rounded to the nearest number and totals may not add to 100 due to rounding.

Supporting the Path to Profitability

In FY24, KMP Executive remuneration will continue to focus on the path to cash profitability. A higher proportion of Senior Executive reward will be performance based with an increase to the STVR opportunity offsetting the discontinuance of regular LTE awards. In summary:

- no LTE awards, which were 50% of base salary in FY22, will be made to Executive KMP;
- to recognise the discontinuance of LTE awards, and to support the path to profitability, STVR opportunity for Executive KMP, which is subject to performance measures being achieved, will be increased from 50% to 100% of base salary, with half of any STVR award delivered in Zip shares that are deferred for 1 year; and
- STVR performance measures will continue to be weighted towards profitability.

After completing a review of NED remuneration, the Remuneration, People and Culture Committee (with Ms Diane Smith-Gander excluding herself) made a recommendation to the Board to restore the total remuneration paid to the Board Chair to the amount that was paid before NEDs implemented a voluntary fee reduction in FY23. In FY24 the Board Chair will receive a Main Board fee of $260,000 and an invitation to participate in the NED Equity Plan with a value of $40,000. Total remuneration is inclusive of superannuation. This change recognises the substantial ongoing workload and accountabilities of the Chair. No other changes to NED remuneration are proposed for FY24.

The Company has historically used equity awards to deliver both fixed and variable remuneration to Executive KMP and other employees. While equity awards will continue to be a significant part of reward at Zip, the Company intends to deliver some elements of variable reward in cash as it shifts to sustained profitability.

Directors' Report continued

8. STATUTORY DISCLOSURES

8.1 Remuneration Tables

Details of the remuneration of KMP of the consolidated entity are set out in the following table which has been prepared in accordance with the accounting standards.

Table 20 – Statutory remuneration table

		Total fixed remuneration					Other benefits	At risk remuneration		
FY23 and FY22 ($)	**Year**	**Salary and fees**	**Salary sacrifice[1]**	**Super-annu-ation**	**Annual and long service leave[2]**	**Long-term equity[3]**	**Other[4]**	**Short-term incen-tive**	**Long-term incen-tive[5]**	**Total**
Non-Executive Directors:										
Diane Smith-Gander AO	FY23	199,095	40,000	20,905	–	–	–	–	–	260,000
	FY22	256,383	–	23,200	–	–	–	–	–	279,583
John Batistich	FY23	117,647	20,000	12,353	–	–	–	–	–	150,000
	FY22	159,085	–	15,915	–	–	–	–	–	175,000
Meredith Scott (part year FY23)[6]	FY23	105,581	16,667	11,086	–	–	–	–	–	133,334
	FY22	–	–	–	–	–	–	–	–	–
Pippa Downes (part year FY22)[7]	FY22	167,340	–	16,734	–	–	–	–	–	184,074
Executive Directors:										
Larry Diamond	FY23	507,139	3,169	25,292	50,835	70,671	548,812	–	177,752	1,383,670
	FY22	493,019	19,013	23,568	39,387	83,410	–	–	179,201	837,598
Peter Gray	FY23	481,786	7,922	25,292	41,220	67,830	–	–	172,876	796,926
	FY22	472,419	19,013	23,568	37,802	80,062	–	–	176,509	809,373
Executive Manager:										
Martin Brooke	FY23	427,373	7,922	25,292	18,889	55,398	–	29,812	111,975	676,661
	FY22	397,419	19,013	23,568	19,220	63,980	–	59,550	124,637	707,387
Total FY23		**1,838,621**	**95,680**	**120,220**	**110,944**	**193,899**	**548,812**	**29,812**	**462,603**	**3,400,591**
Total FY22		1,945,665	57,039	126,553	96,409	227,452	–	59,550	480,347	2,993,015

1. Salary sacrifice for Non-Executive Directors includes the Director's fees sacrifice for restricted rights under the NED Equity Plan.
   For Executive KMP this is salary sacrifice for car parking. Larry Diamond's car parking salary sacrifice ceased on 31 August 2022. For Peter Gray and Martin Brooke, salary sacrifice car parking ceased on 30 November 2022.
2. The annual leave ($69,390) and long service leave ($41,554) represents the increase in the associated provisions. Comparatives adjusted to reflect annual leave accrued in the prior financial year less amount taken.
3. Long-Term Equity is expensed over the vesting period. The value disclosed is the portion recognised as an expense in FY23.
4. Other benefits include relocation assistance of $548,812 (which covered items such as housing, healthcare, travel, schooling, and tax equalisation and compliance) for Larry Diamond.
5. The value of LTI Performance Rights is calculated at the date of grant using a Monte Carlo simulation pricing model and is expensed over the vesting period. The value disclosed is the portion recognised as an expense in FY23.
6. Meredith Scott commenced as a KMP on 1 September 2022.
7. Pippa Downes commenced as a KMP on 1 October 2020 and resigned on 22 June 2022.

Directors' Report continued

8.2 KMP Equity Interests and Changes

(a) Issue of Shares

Other than set out in this report, there were no shares issued to Directors and other KMP as part of compensation during the financial year ended 30 June 2023.

(b) Performance Rights Holding

The number of Performance Rights in the Company held during the financial year by each Director and other members of KMP of the consolidated entity, including their personally related parties, affecting remuneration of Directors and other KMP in the current or future financial years is set out below:

Table 21 – Fixed long-term equity

Long-term equity	Balance at the start of the year	Granted	Conversion to ordinary shares	Balance at the end of the year
Larry Diamond	103,322	397,065	(27,097)	473,290
Peter Gray	99,166	381,036	(26,006)	454,196
Martin Brooke	83,209	350,140	(21,763)	411,586
Total	**285,697**	**1,128,241**	**(74,866)**	**1,339,072**

Issue date	Vesting date	Expiry date	Number of rights issued	$fair value at grant date
8 March 2021	8 March 2023[1]	8 March 2027	13,767	8.92
8 March 2021	8 March 2024	8 March 2027	13,767	8.92
8 March 2021	8 March 2025	8 March 2027	13,765	8.92
8 March 2022	8 March 2023	8 March 2028	61,099	0.93
8 March 2022	8 March 2024	8 March 2028	61,099	0.93
8 March 2022	8 March 2025	8 March 2028	61,100	0.93
8 March 2022	8 March 2026	8 March 2028	61,100	0.93
8 March 2023	8 March 2024	8 March 2029	282,061	0.52
8 March 2023	8 March 2025	8 March 2029	282,060	0.52
8 March 2023	8 March 2026	8 March 2029	282,060	0.52
8 March 2023	8 March 2027	8 March 2029	282,060	0.52
Total			**1,413,938**	

1. Rights vested and converted to ordinary shares on 8 March 2023.

Table 22 – Variable long-term incentive

At risk long-term equity	Balance at the start of the year	Granted	Conversion to ordinary shares	Lapsed	Balance at the end of the year
Larry Diamond	715,504	228,326	–	–	943,830
Peter Gray	711,260	219,109	–	–	930,369
Martin Brooke	377,204	185,551	–	–	562,755
Total	**1,803,968**	**632,986**	**–**	**–**	**2,436,954**

Directors' Report continued

Issue date	Vesting date	Expiry date	Number of rights issued	$Fair value at grant date
15 February 2019	15 February 2022	15 February 2025	406,666	0.287
15 February 2019	15 September 2022	15 February 2025	160,000	0.317
15 February 2019	15 February 2023	15 February 2025	406,666	0.317
15 February 2019	15 September 2023	15 February 2025	160,000	0.330
15 February 2019	15 February 2024	15 February 2025	406,668	0.330
30 November 2021	15 September 2024	30 November 2027	263,968	2.990
13 March 2023	15 September 2025	13 March 2029	632,986	0.265
Total			**2,436,954**	

(c) NED Equity Plan Restricted Rights Holding

Table 23 – NED equity plan

NED equity plan restricted rights	Balance at the start of the year	Granted	Conversion to ordinary shares	Balance at the end of the year
Diane Smith-Gander AO	–	45,766	–	45,766
John Batistich	–	22,883	–	22,883
Meredith Scott	–	19,070	–	19,070
Total	**–**	**87,719**	**–**	**87,719**

(d) Options Holding

No options were granted during FY23 and none of the KMP currently hold options for shares in Zip.

(e) Shareholding

Table 24 – KMP shareholding

Ordinary shares	Balance at the start of the year	Conversion from performance shares	Net additions/ (disposals)	Balance at the end of the year
Diane Smith-Gander AO	40,896	–	–	40,896
Larry Diamond	55,165,522	27,097	–	55,192,619
Peter Gray	17,916,610	26,006	200,000	18,142,616
John Batistich	381,208	–	–	381,208
Meredith Scott[1]	–	–	15,825	15,825
Martin Brooke	317,038	83,168	(130,461)	269,745

1. Meredith Scott's opening shareholding balance is as at 1 September 2022 when she commenced as a KMP.

Directors' Report continued

8.3 Other Statutory Disclosures

(a) Securities Trading Policy

The Zip Securities Trading Policy is featured in Zip's Corporate Governance Statement which can be found on our website.

(b) Other Transactions to KMP and their Related Parties

During the year, Peter Gray invested $1,000,000 in Class C Notes in VFN2 in the Zip Master Trust. The investment was made as part of a public offer process, on the same commercial terms as offered to each of the Class C noteholders investing in VFN2 in the Zip Master Trust.

There were no loans to/from and no other transactions in the financial year ended 30 June 2023 and to the date of this report between the Company and:

- the Directors; and
- other members of KMP of the consolidated entity, including their personally related parties.

(c) Use of Remuneration Consultants

The Committee may seek and consider advice from external and independent advisers from time to time to assist the Committee discharge its duties, including periodically testing the market competitiveness of the remuneration policy and framework by benchmarking against comparable companies.

During FY23, the Godfrey Remuneration Group (GRG) were engaged by the Committee to provide the following services:

- benchmarking regarding KMP remuneration quantum and structure; and
- support with development of the NED Equity Plan.

The total fees paid to GRG during FY23 was $53,900 (including GST).

The Remuneration, People and Culture Committee has procedures in place to ensure that all engagements with independent external remuneration consultants, and recommendations (if any) are free from undue influence. At times, remuneration consultants may be required to interact with management to obtain the relevant information needed to form any remuneration recommendations. In these instances, a Non-Executive Director will always have oversight of interactions between independent consultants and management.

The Board confirms that remuneration advice received during FY23 was free from undue influence because these procedures were adhered to.

In addition, PricewaterhouseCoopers (PwC) provided assistance with Zip's equity plans, including legal and tax advice. PwC did not provide a remuneration recommendation as defined in the *Corporations Act 2001*.

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

This concludes the Remuneration Report, which has been audited.

Directors' Report continued

INDEMNITY AND INSURANCE OF OFFICERS

The Company has indemnified the Directors and Executives of the Company for costs incurred, in their capacity as a Director or Executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and Executives of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Company under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditors are outlined in Note 24 to the financial statements.

During the period, Deloitte Touche Tohmatsu, the Company's auditor, has performed certain other services in addition to their statutory duties. The Board is satisfied that the provision of those non-audit services during the period by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* or as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks or rewards.

Total amount paid for non-audit services for the year amounted to $29,000 (FY22: $217,000).

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF DELOITTE TOUCHE TOHMATSU

There are no officers of the Company who are former partners of Deloitte Touche Tohmatsu.

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.

AUDITOR

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the Directors.

Cynthia Scott
Group Chief Executive Officer
and Managing Director

28 September 2023

Auditor's Independence Declaration

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Quay Quarter Tower
50 Bridge Street
Sydney, NSW 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

The Board of Directors
Zip Co Limited
Level 7, 180 George Street
Sydney NSW 2000

28 September 2023

Dear Board Members

Auditor's Independence Declaration to Zip Co Limited

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

As lead audit partner for the audit of the financial statements of Zip Co Limited for the financial year ended 30 June 2023, 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 audit; and

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

Yours faithfully

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden

Partner

Chartered Accountants

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the period ended 30 June 2023

	Note	Consolidated 30 June 2023 $'000	Consolidated 30 June 2022* $'000
Continuing operations			
Portfolio interest income		574,018	500,665
Transactional income		119,189	96,192
Revenue		693,207	596,857
Other income		4,895	797
Bad debts and expected credit losses	10	(170,239)	(257,691)
Bank fees and data costs		(121,759)	(107,467)
Interest expense	3	(164,594)	(73,828)
Salaries and employee benefits expenses		(170,378)	(163,512)
Marketing expenses		(41,908)	(107,553)
Information technology expenses		(44,416)	(43,661)
Depreciation and amortisation expenses	3	(63,432)	(61,529)
Share-based payments		(14,250)	(26,926)
Corporate financing costs	3	(109,411)	(30,716)
Other operating expenses	3	(89,667)	(60,639)
Impairment losses	3	(14,490)	(592,857)
Fair value (loss)/gain on financial instruments	3	(61,109)	128,960
Share of loss of associates	4	(4,740)	(8,348)
Loss before income tax benefit/(expense) from continuing operations		(372,291)	(808,113)
Income tax benefit/(expense)	6	36,413	(232)
Loss after income tax benefit/(expense) from continuing operations		(335,878)	(808,345)
Discontinued operations			
Loss after income tax benefit from discontinued operations	18	(41,137)	(296,748)
Loss After Income Tax for the period attributable to the Members of Zip Co Limited		(377,015)	(1,105,093)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange differences on translation		12,912	89,625
Other comprehensive income for the period, net of tax		12,912	89,625
Total Comprehensive Loss for the period attributable to the Members of Zip Co Limited		(364,103)	(1,015,468)
		Cents	**Cents**
Earnings per share from continuing operations attributable to the Members of Zip Co Limited			
Basic loss per share	7	(46.62)	(132.59)
Diluted loss per share	7	(46.62)	(132.59)
Earnings per share from continuing and discontinued operations attributable to the Members of Zip Co Limited			
Basic loss per share	7	(52.33)	(181.26)
Diluted loss per share	7	(52.33)	(181.26)

* Comparative information has been restated to reflect discontinued operations in the current financial year. Please refer to Note 18.

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

Consolidated Statement of Financial Position

As at 30 June 2023

		Consolidated	
	Note	30 June 2023 $'000	30 June 2022 $'000
Assets			
Cash and cash equivalents	8	151,955	241,326
Restricted cash	8	123,955	58,369
Other receivables	9	87,160	72,835
Term deposit		7,196	3,864
Customer receivables	10	2,596,832	2,508,124
Investments at FVTPL	11	13,846	–
Investments in associates	4	2,248	70,741
Property, plant and equipment		5,092	5,246
Right-of-use assets		18,641	3,813
Intangible assets	12	141,638	192,350
Goodwill	13	209,235	222,744
Deferred tax assets	6	36,969	–
Total assets		**3,394,767**	**3,379,412**
Liabilities			
Trade and other payables	14	213,637	140,547
Employee provisions		8,808	9,068
Deferred consideration	15	1,889	26,184
Lease liabilities		17,717	4,039
Borrowings	16	2,591,208	2,380,909
Financial liabilities – convertible notes and warrants	5	327,168	380,916
Total liabilities		**3,160,427**	**2,941,663**
Net assets		**234,340**	**437,749**
Equity			
Issued capital	17	2,121,541	2,041,496
Reserves		158,551	152,385
Convertible notes – equity component	5	114,466	114,466
Non-controlling interest		–	1,015
Accumulated losses		(2,160,218)	(1,871,613)
Total equity		**234,340**	**437,749**

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

Consolidated Statement of Changes in Equity

For the period ended 30 June 2023

Consolidated	Issued Capital $'000	Treasury Shares $'000	Share-Based Payments Reserve $'000	Foreign Currency Translation Reserve $'000	Convertible Notes $'000	Accumulated Losses $'000	Non-Controlling Interests $'000	Total Equity $'000
Balance at 1 July 2022	2,041,496	(3,345)	85,475	70,255	114,466	(1,871,613)	1,015	437,749
Loss after income tax for the period	–	–	–	–	–	(377,015)	–	(377,015)
Other comprehensive income for the period, net of tax	–	–	–	12,912	–	–	–	12,912
Total comprehensive loss for the period	–	–	–	12,912	–	(377,015)	–	(364,103)
Recognition of share-based payments	–	–	11,038	–	–	–	–	11,038
Transfer of share-based payments	–	–	–	–	–	–	–	–
Issue of treasury shares to Zip Employee Share Trust	8,538	(8,538)	–	–	–	–	–	–
Issue of treasury shares to employees	–	10,637	(10,637)	–	–	–	–	–
Issue of ordinary shares under share-based payment plans	9,173	–	(9,173)	–	–	–	–	–
Exercise of options	73	–	(73)	–	–	–	–	–
Issue of shares – business acquisitions	–	–	–	–	–	–	–	–
Issue of shares – capital raising	38,279	–	–	–	–	–	–	38,279
Issue of shares – Payflex contingent consideration (Note 15)	838	–	–	–	–	–	–	838
Issue of shares – Senior convertible notes conversion	4,953	–	–	–	–	88,410	–	93,363
Issue of shares – Twisto holdback considerations (Note 15)	19,965	–	–	–	–	–	–	19,965
Cost of issuing of shares	(1,774)	–	–	–	–	–	–	(1,774)
Derecognition of non-controlling interests	–	–	–	–	–	–	(1,015)	(1,015)
Balance at 30 June 2023	2,121,541	(1,246)	76,630	83,167	114,466	(2,160,218)	–	234,340

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity continued

Consolidated	Issued Capital $'000	Treasury Shares $'000	Share-Based Pay-ments Reserve $'000	Foreign Currency Trans-lation Reserve $'000	Conver-tible Notes $'000	Accum-ulated Losses $'000	Non-Control-ling Interests $'000	Total Equity $'000
Balance at 1 July 2021	1,688,785	(10,438)	116,515	(19,370)	114,466	(766,520)	–	1,123,438
Loss after income tax for the period	–	–	–	–	–	(1,105,093)	–	(1,105,093)
Other comprehensive income for the period, net of tax	–	–	–	89,625	–	–	–	89,625
Total comprehensive loss for the period	–	–	–	89,625	–	(1,105,093)	–	(1,015,468)
Recognition of share-based payments	–	–	30,937	–	–	–	–	30,937
Transfer of share-based payments	–	–	(41,544)	–	–	–	–	(41,544)
Issue of shares – PartPay contingent consideration	6,990	–	–	–	–	–	–	6,990
Issue of treasury shares to Zip Employee Share Trust	15,760	(15,760)	–	–	–	–	–	–
Issue of treasury shares to employees	–	22,853	(22,853)	–	–	–	–	–
Issue of ordinary shares under share-based payment plans	19,661	–	–	–	–	–	–	19,661
Exercise of options	310	–	–	–	–	–	–	310
Issue of shares – business acquisitions	137,209	–	2,156	–	–	–	–	139,365
Issue of shares – capital raising	172,729	–	–	–	–	–	–	172,729
Issue of shares – IT development and software purchase	3,440	–	264	–	–	–	–	3,704
Cost of issuing of shares	(3,388)	–	–	–	–	–	–	(3,388)
Acquisition of non-controlling interests	–	–	–	–	–	–	1,015	1,015
Balance at 30 June 2022	2,041,496	(3,345)	85,475	70,255	114,466	(1,871,613)	1,015	437,749

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the period ended 30 June 2023

	Note	Consolidated 30 June 2023 $'000	30 June 2022 $'000
Cash flows to operating activities			
Revenue from customers		728,818	620,176
Payments to partners, suppliers and employees		(438,547)	(517,887)
Net increase in receivables		(338,260)	(766,957)
Borrowing transaction costs		(2,764)	(2,390)
Interest received from financial institutions		3,595	1,227
Interest paid		(161,529)	(72,404)
Termination payment fee		(16,340)	–
Acquisition of business costs		–	(14,183)
Net cash flow used in operating activities		(225,027)	(752,418)
Cash flows to investing activities			
Payments for plant and equipment		(3,149)	(4,546)
Payments for software development		(21,419)	(24,968)
Disposal of subsidiaries, net of cash disposed of[1]	18	5,788	–
Payment for acquisitions, net of cash acquired		–	6,847
Deferred consideration		(4,047)	–
Payments for investments in associates	4	(4,324)	(72,048)
Increase in term deposits		(3,331)	(2,358)
Net cash flow used in investing activities		(30,482)	(97,073)
Cash flows from financing activities			
Proceeds from borrowings		757,849	1,195,390
Repayment of borrowings		(487,573)	(540,951)
Repayment of CVI Convertible Notes		(53,764)	–
Payment for incentive in relation to the Senior Convertible Notes conversion		(12,502)	–
Repayment of principal of lease liabilities		(3,997)	(3,949)
Proceeds from issue of shares		38,352	173,039
Cost of share issues		(1,774)	(3,388)
Net cash flow from financing activities		236,591	820,141
Net decrease in cash, cash equivalents and restricted cash		(18,918)	(29,350)
Cash, cash equivalents and restricted cash at the beginning of the period		299,695	330,201
Foreign exchange effect		(4,867)	(1,156)
Cash, cash equivalents and restricted cash at the end of the period	8	**275,910**	**299,695**

1. The Group has elected to present a statement of cash flows that analyses all cash flows in total – i.e., including both continuing and discontinued operations; amounts related to discontinued operations from operating, investing and financing activities are disclosed in Note 18.

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

Notes to the Consolidated Financial Statements

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES OF THE ANNUAL REPORT

(a) Business

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 currently providing services in 4 countries around the world providing services in Australia, Canada, New Zealand, and the United States.

Following a strategic review of operations, during the financial year Zip closed operations in Mexico, Singapore and the United Kingdom and completed the sale of operations in Czech Republic, Poland, Saudi Arabia, South Africa, and the United Arab Emirates. Zip has reported the results of those operations as discontinued operations in this report.

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

Zip's ordinary shares have been listed on the ASX (ASX code: ZIP) since 2015. Zip Co Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity' or the 'Group' or 'Zip'.

(b) Statement of Compliance

The full-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations, and complies with other requirements of the law.

Compliance with Australian Accounting Standards ensures that the financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this financial report has been prepared in accordance with and complies with IFRS as issued by the IASB.

The consolidated entity is a for-profit entity and the financial statements comprise the consolidated financial statements of the consolidated entity.

The financial statements were approved by the Board of Directors and authorised for issue on 28 September 2023. The Directors have the power to amend and reissue the financial statements.

(c) Basis of Preparation

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

Comparative Figures

Prior Period Adjustments

When necessary, comparative figures have been adjusted to comply with the changes in presentation in the current period.

Discontinued Operations

The financial results of businesses reclassified as discontinued operations are excluded from the results of the continuing operations and are presented as a single line item "loss after income tax benefit from discontinued operations" in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The comparative periods are also restated. Refer to Note 18 for details. As required by AASB 5, the Consolidated Statement of Financial Position is not restated when a business is reclassified as a discontinued operation.

Notes to the Consolidated Financial Statements continued

(d) Going Concern

The Directors have prepared the Consolidated Financial Statements on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred a total comprehensive loss after tax[1] of $364.1 million (FY22: $1,015.5 million) and had net cash outflows from operations of $225.0 million (FY22: $752.4 million) with net cash inflows from financing activities of $236.6 million (FY22: $820.1 million) and net cash outflows from investing activities of $30.5 million (FY22: $97.1 million) for the financial year ended 30 June 2023.

The net decrease in cash, cash equivalents and restricted cash over the financial year totalled $18.9 million (FY22: $29.4 million), excluding the impact of foreign exchange movements.

The consolidated entity's cash outflows from operating and financing activities and inflows from investing activities in the period included $63.9 million net significant non-recurring items, including the following inflows and (outflows):

Acquisition and sale of non-core business related:

- ($23.7) million of deferred payments associated with previous acquisitions made by the consolidated entity;
- ($16.3) million paid to Sezzle on the mutual termination of the merger agreement; and
- $12.8 million received from the sale of its Eastern European (Twisto) and South African (Payflex) operations, net of costs, with a further $1.1 million held back to be received over the next two years subject to no adverse claims under the terms of the share sale agreement.

Liability management and funding related:

- $36.5 million received (net of costs) to cover the Senior Convertible Notes incentive payments and costs associated with the incentivised conversions and consent solicitation exercises;
- ($12.5) million in incentive payments paid to Senior Convertible Note holders on the conversion into ordinary shares of $70.0 million in Senior Convertible Notes in December 2022. A further ($17.4) million remained in payables at 30 June 2023;
- ($32.3) million of repayments deferred from prior years by CVI Investments in accordance with the terms of the CVI Convertible Notes; and
- ($28.4) million invested in the consolidated entity's secured consumer debt funding programs which Zip has plans underway to replace with third party funding providers.

Cash flows to operating activities

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

- Restructured all global operations to focus on the core markets of ANZ and Americas;
- Streamlined operations in the core markets to improve business efficiency and deliver cost savings;
- Closed the consolidated entity's operations in Mexico, Singapore and the United Kingdom;
- Sold operations in Eastern Europe (Twisto), South Africa (Payflex) and the Middle East (Spotii);
- Ceased the Zip Business Trade and Trade Plus products;
- Commenced the wind down of Zip Business Capital;
- Enhanced credit origination and collections focus, resulting in improved bad debt performance in all operations, particularly in the United States; and
- Repriced charges to consumers and merchants to reflect the higher cost of funding.

The full annualised cash flow benefit of these actions has been reflected in the consolidated entity's cash flow forecasts, which indicate an improvement in cash flows from operating activities.

1. Total from both continuing and discontinued operations.

Notes to the Consolidated Financial Statements continued

Borrowings

The consolidated entity's business model is to borrow funds through secured consumer borrowing facilities to fund the consolidated entity's receivables portfolio. As set out in Note 16, the consolidated entity has secured consumer borrowing facilities that are due to mature in the next twelve months and will need to be renewed or refinanced, or they will otherwise commence amortisation.

Zip's corporate facility ($90.0 million) matures in December 2023, and may be extended to 31 March 2024 at Zip's option. The corporate facility becomes repayable in the event Zip is unable to renew or refinance the facility beyond 31 March 2024.

The consolidated entity engages with existing and potential new lenders on an ongoing basis and, as has been the case to date, the Directors expect that maturing borrowing facilities will be renewed with existing or new financiers.

The Directors have considered the consolidated entity's cash flow forecasts, which include the impact of the actions set out in this note to reduce cash outflows and assume the successful renewal of the consolidated entity's maturing borrowing facilities. The Directors consider that the consolidated entity will have sufficient funding to operate as a going concern and accordingly, have concluded that it is appropriate to prepare the Consolidated Financial Statements on the going concern basis and that the consolidated entity will be able to pay its debts as and when they become due and payable from operating cash flows and available finance facilities.

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

The 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.

(e) Adoption of New and Revised Accounting Standards

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current financial year and that have a significant impact on the consolidated entity's 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 Consolidated Financial Statements for the financial year ended 30 June 2023.

The consolidated entity has not adopted any accounting standards that are issued but not yet effective. The consolidated entity has considered the applicability and impact of all recently issued accounting pronouncements and has determined that they were either not applicable or were not expected to have a material impact on the Consolidated Financial Statements.

(f) Critical Accounting Estimates and Judgement

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

Notes to the Consolidated Financial Statements continued

Provision for Expected Credit Loss

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

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

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

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

The ECL recognised in the Consolidated Financial Statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios (including base, good and bad scenarios). These scenarios are representative of Zip's view of forecast economic conditions, sufficient to calculate an unbiased ECL. The weightings used are reviewed each reporting period to ensure these remain appropriate and as such are considered to represent significant accounting estimates. Judgement has been applied in the assessment of the macroeconomic overlay in the financial year ended 30 June 2023. Refer to Note 10 for further details.

Impairment of Non-Financial Assets

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

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

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

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

Intangible assets such as customer relationships and trademarks used by the consolidated entity for its own activities are unlikely to generate largely independent cash inflows and are therefore tested at a CGU level. Please refer to Note 13 for detailed assumptions and assessment of impairment for goodwill and intangible assets.

Notes to the Consolidated Financial Statements continued

Fair Value Measurements and Valuation Processes

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

(g) Principles of Consolidation

The Consolidated Financial Statements incorporate the assets and liabilities of all subsidiaries of Zip Co Limited ('parent entity') as at 30 June 2023 and the results of all subsidiaries for the twelve months then ended.

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

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

(h) Segment Reporting

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

(i) Revenue Recognition

Portfolio Interest Income

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

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

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

Transactional Income

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

Notes to the Consolidated Financial Statements continued

(j) Cash, Cash Equivalents and Restricted Cash

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

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

(k) Intangible Assets

Software Development Asset

Software development costs are capitalised only when:

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

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

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

Intangibles Acquired in a Business Combination

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

Acquired intangibles are independently valued by an external valuer and their fair values are recorded at initial recognition.

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

The useful life of intangible assets is assessed on the timing of the projected cash flow of the relationships.

Intangibles Acquired Separately

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

Derecognition of Intangibles

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

Notes to the Consolidated Financial Statements continued

(l) Goodwill

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

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

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

(m) Trade And Other Payables

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

(n) Share-Based Payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 27.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of the number of equity instruments that will eventually vest. At each reporting date, the consolidated entity revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions (no reversal of expense for market based vesting conditions). The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves. Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. Share-based payments which have been approved, but yet to be issued to the employees at the end of the reporting period, are recognised on the basis of equity-settled share-based payment transactions. For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each reporting date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

(o) Financial Instruments

Initial Recognition and Subsequent Measurement of Financial Instruments

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

Notes to the Consolidated Financial Statements continued

Financial Assets

Financial assets are initially measured at fair value. Financial assets are subsequently measured at amortised cost and include cash, cash equivalents, restricted cash, term deposits, other receivables (excluding prepayments) and customer receivables. Customer receivables are non-derivative financial assets which are measured at amortised cost using the effective interest method, less any impairment. Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Investments in equity instruments are classified as investments at FVTPL, unless the consolidated entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition. The consolidated entity did not have any financial assets measured at FVTOCI at 30 June 2023 and 30 June 2022.

Financial assets at FVTPL are subsequently measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss is recognised in profit or loss.

Financial Liabilities

Financial liabilities are initially measured at fair value.

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

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

Classification of Debt and Equity Components

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

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

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

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

Notes to the Consolidated Financial Statements continued

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 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. On conversion of a convertible instrument, the entity derecognises the liability component and recognises it as equity. The recognition of equity comprises a market value of the ordinary shares issued on the conversion, recorded as issued capital, and the remaining balance recorded in retained earnings being the difference between the derecognised liability component and the amount recorded in issued capital. The original equity component remains as equity. There is no gain or loss on conversion. Refer to Note 5 for details.

(p) Issued Capital

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

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

Notes to the Consolidated Financial Statements continued

(q) Income Tax

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

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

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The consolidated entity recognised deferred tax assets arising from temporary differences and tax losses to the extent required to equal deferred tax liabilities for the financial years ended 30 June 2023 and 30 June 2022. In the financial year ended 30 June 2023, the consolidated entity has further recognised a deferred tax asset in respect of Australian tax losses as it considers there is evidence that sufficient taxable profit will arise from the Amendment of the Terms of the Senior Convertible Notes following the Consent Solicitation exercise to fully utilise the unused tax losses in the following financial year. This increase to deferred tax assets was not subject to offsetting as there were no further deferred tax liabilities as at 30 June 2023.

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

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

Tax Consolidation Legislation

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

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

Notes to the Consolidated Financial Statements continued

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

(r) Earnings Per Share

Basic Earnings Per Share

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

Diluted Earnings Per Share

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

(s) Recoverable Amount of Assets

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

(t) Foreign Currencies

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

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

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

(u) Discontinued Operations

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Notes to the Consolidated Financial Statements continued

NOTE 2. SEGMENT INFORMATION

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

The consolidated entity had five operating segments being ANZ, Americas, EMEA, Zip Business and Corporate in the year ended 30 June 2023 and in the year ended 30 June 2022, with EMEA discontinued in the period ending 30 June 2023. The operating segments may change in the future as the consolidated entity continues to re-assess its operating model, reporting systems, and the financial information presented to the CODM for decision-making purposes. The details of the operating segments are set out below and the results of each segment are reported in the table that follows:

ANZ (previously referred as APAC)	Offers BNPL instalment[1] or line of credit products[2] to consumers in Australia, New Zealand and historically included the consolidated entity's Pocketbook operations. Operations in Singapore were discontinued in the financial year ended 30 June 2023.
Americas	Offers BNPL instalment products to customers in the US and Canada. Operations in Mexico were discontinued in the financial year ended 30 June 2023.
EMEA	Offers BNPL instalment products to customers in Europe, the Middle East and South Africa (discontinued in the financial year ended 30 June 2023).
Zip Business	Provides unsecured loans and lines of credit to small and medium-sized businesses in Australia and New Zealand. Zip ceased offering Trade and Trade Plus products and commenced the wind down of Zip Business Capital in Australia and New Zealand during the financial year ended 30 June 2023.
Corporate	Comprises group expenses benefiting all segments and are either not directly attributable or allocated to a particular segment.

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

The consolidated entity made a reclassification across operating segments due to discontinued operations. These changes have resulted in changes to the presentation of the statement of profit or loss and other comprehensive income of the affected segments including current and prior reporting periods.

Notes to the Consolidated Financial Statements continued

Financial year ended 30 June 2023	ANZ $'000	Americas $'000	Zip Business $'000	Corporate $'000	Total $'000
Revenue	367,801	309,408	15,998	–	693,207
Cost of sales[1]	(251,604)	(182,760)	(17,280)	–	(451,644)
Gross profit	116,197	126,648	(1,282)	–	241,563
Other income	3,843	297	416	339	4,895
Operating expenses	(111,638)	(158,579)	(4,517)	(49,647)	(324,381)
Effective interest charged on convertible notes	–	–	–	(78,079)	(78,079)
Segment EBTDA (excluding reconciling items)	8,402	(31,634)	(5,383)	(127,387)	(156,002)
Depreciation of right-of-use assets	(2,792)	–	–	–	(2,792)
Depreciation of PP&E	(1,853)	(539)	(3)	–	(2,395)
Amortisation of intangibles	(11,096)	(46,519)	(630)	–	(58,245)
Segment loss before income tax	(7,339)	(78,692)	(6,016)	(127,387)	(219,434)
Reconciling corporate items from operating to statutory loss:					
Share-based payments					(14,250)
Termination payment fee					(16,340)
Incentives conversion – incentive payments					(29,856)
Share of loss of associates					(4,740)
Fair value loss on financial instruments					(61,109)
Impairment losses					(14,490)
Loss on derecognition of financial assets					(3,069)
Loss on derecognition of financial liabilities					(7,037)
Professional services fees paid for the conversion and restructuring of the Senior Convertible Notes					(1,966)
Loss before income tax for continuing operations					(372,291)
Loss before income tax for discontinued operations (Note 18)					(41,324)
Loss before income tax from continuing and discontinued operations					(413,615)

1. Cost of sales comprises Interest expense related to customer receivables (refer to Note 3), Bad debts and expected credit losses, and Bank fees and data costs which are presented in the Statement of Profit or Loss.

Notes to the Consolidated Financial Statements continued

Financial year ended 30 June 2022	ANZ* $'000	Americas* $'000	Zip Business $'000	Corporate* $'000	Total* $'000
Revenue	297,351	282,634	16,872	–	596,857
Cost of sales[1]	(200,399)	(226,266)	(12,321)	–	(438,986)
Gross profit	96,952	56,368	4,551	–	157,871
Other income	726	5	4	62	797
Operating expenses	(109,164)	(171,560)	(12,090)	(45,523)	(338,337)
Effective interest charged on convertible notes	–	–	–	(29,929)	(29,929)
Global re-branding project costs	–	–	–	(20,343)	(20,343)
Segment EBTDA (excluding reconciling items)	(11,486)	(115,187)	(7,535)	(95,733)	(229,941)
Depreciation of right-of-use assets	(3,140)	(607)	–	–	(3,747)
Depreciation of PP&E	(1,989)	(207)	(5)	–	(2,201)
Amortisation of intangibles	(12,135)	(42,275)	(1,171)	–	(55,581)
Segment loss before income tax	(28,750)	(158,276)	(8,711)	(95,733)	(291,470)
Reconciling corporate items from operating to statutory loss:					
Share-based payments					(26,926)
Acquisition of business costs					(17,472)
Share of loss of associates					(8,348)
Fair value gain on financial instruments					128,960
Impairment losses					(592,857)
Loss before income tax for continuing operations					(808,113)
Loss before income tax for discontinued operations (Note 18)					(297,292)
Loss before income tax from continuing and discontinued operations					(1,105,405)

1. Cost of sales comprises Interest expense related to customer receivables (refer to Note 3), Bad debts and expected credit losses, and Bank fees and data costs which are presented in the Consolidated Statement of Profit or Loss.

* Comparative information has been restated to reflect discontinued operations in the current financial year. Please refer to Note 18.

Notes to the Consolidated Financial Statements continued

NOTE 3. EXPENDITURE

	Consolidated	
	30 June 2023 $'000	30 June 2022* $'000
Loss before income tax from continuing operations includes the following specific expenses:		
Interest expense:		
Interest expense related to customer receivables	159,646	73,828
Interest expense related to funding for operations	4,948	–
Total interest expense	164,594	73,828
Depreciation and amortisation expenses:		
Depreciation of property, plant and equipment	2,395	2,201
Depreciation of right-of-use assets	2,792	3,747
Amortisation of acquired intangibles	40,448	40,401
Amortisation of internally generated IT development and software	17,797	15,180
Total depreciation and amortisation expenses	63,432	61,529
Corporate financing costs:		
Effective interest charged on convertible notes (normal course)	29,058	29,929
Effective interest charged on convertible notes (accelerated)	49,021	–
Interest on leasing liabilities	65	152
Incentivised conversion – incentive payments	29,856	–
Other corporate financing costs	1,411	635
Total corporate financing costs	109,411	30,716
Other operating expenses:		
Occupancy expense	4,214	2,772
Termination payment fee	16,340	–
Acquisition of business costs	–	17,472
Loss on derecognition of financial assets	3,069	–
Loss on derecognition of financial liabilities (Note 5)	7,037	–
Professional services fees	25,182	27,916
Other operating expenses	33,825	12,479
Total other operating expenses	89,667	60,639
Impairment losses:		
Impairment of goodwill (Note 13)	2,112	590,130
Impairment of intangibles (Note 12)	7,723	2,727
Impairment of investment in associates (Note 4)	4,655	–
Total impairment losses	14,490	592,857
Fair value loss (gain) on financial instruments:		
Fair value loss (gain) on embedded derivative and warrants (Note 5)	8,263	(118,978)
Fair value loss (gain) on investment at FVTPL (Note 11)	52,846	(1,481)
Fair value gain on investment on acquisition	–	(8,501)
Fair value loss (gain) on financial instruments	61,109	(128,960)

* Comparative information has been restated to reflect discontinued operations in the current financial year. Please refer to Note 18.

Notes to the Consolidated Financial Statements continued

NOTE 4. INVESTMENTS IN ASSOCIATES

	TendoPay $'000	ZestMoney[1] $'000	Hemenal A.Ş. Finansman $'000	Consolidated $'000
Balance at 30 June 2022	5,307	65,434	–	70,741
Recognition of pre-existing investment	–	–	1,434	1,434
Additional investments	–	–	4,324	4,324
Share of loss of associates	(1,147)	(83)	(3,510)	(4,740)
Foreign exchange gain	495	114	–	609
Derecognition of pre-existing investment	–	(65,465)	–	(65,465)
Impairment of investments	(4,655)	–	–	(4,655)
Balance at 30 June 2023	–	–	2,248	2,248

1. The investment in ZestMoney has been derecognised from an investment in an associate and has been recognised as an investment at FVTPL.

The associates of the consolidated entity existing during the year ended 30 June 2023 are detailed in the following table. The associates listed below have share capital consisting solely of ordinary shares, which are held directly by the consolidated entity's controlled subsidiaries. The proportion of ownership interest is the same as the proportion of voting rights held.

The consolidated entity has accounted for investments in associates using the equity method.

			% of Ownership Interest	
Associates during the year	**Location of Incorporation of Holding Company**	**Location of Principal of Business**	**30 June 2023 %**	**30 June 2022 %**
TendoPay	Singapore	Philippines	35.00%	35.00%
ZestMoney	Singapore	India	10.20%	10.20%
Hemenal Finansman A.Ş.	Turkey	Turkey	50.20%	60.00%

TendoPay

At 30 June 2023, the consolidated entity held a 35% interest in TendoPay. The consolidated entity accounts for the investment in TendoPay as an associate due to the consolidated entity's ability to exercise significant influence.

For the period ended 30 June 2023, a share of loss of $1.1 million and an unrealised foreign exchange gain of $0.4 million were recorded. In November 2022, TendoPay disposed of its operating subsidiary at a loss. The consolidated entity revalued its investment in TendoPay and has recorded an impairment charge of $4.7 million and brought down the value of investment in TendoPay to Nil at 30 June 2023.

ZestMoney

From 1 July 2022 to 26 August 2022, the investment in ZestMoney was measured as an investment in an associate. For the period up to 26 August 2022, Zip's share of the loss of ZestMoney was $0.1 million and an unrealised foreign exchange gain of $0.1 million was recorded, resulting in the carrying amount of the consolidated entity's investment in ZestMoney being recorded at $65.4 million as at 26 August 2022.

On 26 August 2022, the consolidated entity waived the conditional right to increase its shareholding in relation to its investment in ZestMoney. The waiver of such conditional right resulted in the consolidated entity no longer having any significant influence over ZestMoney. The investment has been reclassified to an investment at FVTPL (Note 11) on this basis from 26 August 2022 onwards.

Notes to the Consolidated Financial Statements continued

Hemenal Finansman A.Ş.

Zip's investment in Hemenal Finansman A.Ş. was derecognised as a subsidiary and was recognised as an investment in an associate during the year ended 30 June 2023, due to Zip no longer exercising control over the investee. A share of loss of $3.5 million has been recorded for the year ended 30 June 2023.

NOTE 5. FINANCIAL LIABILITIES – CONVERTIBLE NOTES AND WARRANTS

Reconciliation of Financial Impact of Issue of the Convertible Notes and Warrants

	30 June 2023 $'000	30 June 2022 $'000
Debt hosts:		
– CVI Convertible Notes issued on 1 September 2020	46,932	73,643
– Senior Convertible Notes issued on 23 April 2021	277,873	305,294
Total debt hosts	324,805	378,937
Embedded derivative:		
– CVI Convertible Notes issued on 1 September 2020	1,314	1,851
Warrants:		
– Warrants issued on 1 September 2020	1,049	128
Total financial liabilities component	327,168	380,916
Equity component:		
– Senior Convertible Notes issued 23 April 2021	114,466	114,466
Total equity component	114,466	114,466

	Financial Liability – Embedded Derivative $'000	Financial Liability – Warrants $'000	Financial Liability – Debt Hosts $'000	Total Financial Liabilities – Convertible Notes and Warrants $'000	Convertible Notes – Equity Component $'000
30 June 2021	60,643	60,314	349,008	469,965	114,466
Effective interest on convertible notes	–	–	29,929	29,929	–
Fair value gain recognised	(58,792)	(60,186)	–	(118,978)	–
30 June 2022	1,851	128	378,937	380,916	114,466
Effective interest on convertible notes	–	–	78,079	78,079	–
Fair value loss recognised	7,342	921	–	8,263	–
Repayment of CVI Convertible Notes	(7,879)	–	(38,848)	(46,727)	–
Conversion of Senior Convertible Notes	–	–	(93,363)	(93,363)	–
30 June 2023	1,314	1,049	324,805	327,168	114,466

Notes to the Consolidated Financial Statements continued

CVI Convertible Notes and Warrants Issued on 1 September 2020

	Issue Date	Expiry Date	Conversion Price	Number Issued	Number Remaining
CVI Convertible Notes	1 September 2020	1 September 2025	As detailed below	1,000	500
Warrants	1 September 2020	1 September 2023	As detailed below	19,365,208	19,365,208

On 1 September 2020, Zip issued 1,000 convertible notes (referred to as CVI 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.

On initial recognition, the CVI 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.

Debt Component and Embedded Derivative

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

As a result of the semi-annual conversion price reset on 1 September 2022, the conversion price of the convertible notes has been adjusted to $1.8443, being the floor price, pursuant to their terms. The conversion price remained at $1.8443 at 30 June 2023, due to Zip's share price being lower than the floor price on 1 March 2023 (semi-annual conversion price reset date) and the price of Placement shares issued on 14 June 2023 being lower than the floor price.

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

- defer the conversion of the instalment amount to a later instalment date (up until the maturity date);
- subject to certain conditions being met, to convert the instalment amount into Zip's shares; or
- subject to certain conditions being met, to receive an amount of cash equal to the applicable instalment amount due on such date plus any accrued and unpaid interest as at the applicable instalment date.

During the financial year ended 30 June 2023, no CVI Convertible Notes have been converted. Under the terms of the convertible notes, a payment of $43.0 million was made to CVI on 1 September 2022 and a payment of $10.8 million was made on 1 March 2023. Zip has cancelled 500 of the 1,000 CVI Convertible Notes on this basis. Following the repayment, 500 CVI Convertible Notes remained outstanding at 30 June 2023.

Notes to the Consolidated Financial Statements continued

As a result of the repayment on 1 September 2022 and on 1 March 2023, Zip derecognised 50% of the financial liabilities in relation to the embedded derivative options feature ($7.9 million) and the carrying amount of the debt host ($38.9 million), resulting in a loss of $7.0 million on derecognition of these financial liabilities, which is the difference between the carrying amount of the financial liabilities before extinguishment and the repayment amount of $53.8 million.

Due to the repayment made on 1 September 2022 and on 1 March 2023, Zip also revised its estimation on probability of future instalments repayments and adjusted the carrying amount of the debt host at the respective repayment dates to reflect the revised estimated future cash flows. Accordingly, an additional effective interest of $5.7 million has been recorded to reflect the acceleration of the accrued effective interest. As a result, total effective interest of $12.2 million in relation to CVI Convertible Notes has been recorded for the financial year ended 30 June 2023.

Zip has reported a financial liability in relation to the underlying debt component of the CVI Convertible Notes of $46.9 million, being the carrying amount of $73.6 million at 30 June 2022, adding an effective interest of $12.2 million and less extinguishment of debt host of $38.9 million, recorded for the year ended 30 June 2023.

The remaining embedded derivative was revalued at 30 June 2023 in accordance with Accounting Standard AASB 9 *Financial Instruments*. Following the revaluation at 30 June 2023, the remaining embedded derivative was valued at a fair value of $1.3 million using the Black Scholes option valuation model. The option fair value has been based on a closing Zip's share price at 30 June 2023 of $0.41, volatility of 80%, and a risk free rate of 3.49%.

A fair value loss of $7.3 million was recorded to reflect the fair value movement of the embedded derivatives during the financial year.

Warrants

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

As a result of the Zip's Equity Placement in June 2023, the exercise price of the warrants issued to CVI has been adjusted to $0.47, pursuant to their terms.

The warrants were revalued at 30 June 2023 in accordance with Accounting Standard AASB 9 *Financial Instruments*. Following the revaluation at 30 June 2023, the warrants were valued at a fair value of $1.0 million using the Black Scholes option valuation model. The fair value has been based on Zip's closing share price at 30 June 2023 of $0.41, volatility of 80%, and a risk free rate of 3.35%. The different risk free rates used for the valuation of the remaining embedded derivative and the warrants reflect the different expiry dates of the instruments.

A fair value loss of $0.9 million has been recorded for the warrants, being the movement in the fair value of the warrants between 1 July 2022 and 30 June 2023.

Fair value gains in relation to the embedded derivative and warrants recognised in the financial year ended 30 June 2022 totalled $119.0 million.

Notes to the Consolidated Financial Statements continued

Senior Convertible Notes Issued on 23 April 2021

	Issue Date	Expiry Date	Conversion Price	Number Issued	Number Remaining
Senior Convertible Notes	23 April 2021	23 April 2028	As detailed below	2,000	1,451

Zip issued $400.0 million zero coupon senior convertible notes (referred to as Senior Convertible Notes) on 23 April 2021, which are listed on the Singapore Securities Trading Exchange (SGX-ST). The Senior Convertible Notes have a 7-year maturity with an option for investors to put the Senior Convertible Notes back to Zip after 4 years at 109.36% of the principal amount. The yield is 2.25% per annum calculated on a semi-annual basis. At maturity, noteholders have the option of converting the Senior Convertible Notes into Zip's ordinary shares at a share price of $12.39 (adjusted in accordance with standard anti-dilutive provisions) or redeeming the notes at 116.96% of the principal amount. The conversion price was adjusted to $12.0576 during the financial year 2022 and remained at $12.0576 at 30 June 2023.

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.

During the financial year ended 30 June 2023, Zip completed liability management exercises to convert $109.8 million of the $400.0 million Senior Convertible Notes on issue.

The Senior Convertible Notes were converted at a conversion price of $12.0576 per share and the conversion resulted in the issuance of 9.1 million shares and incentive payments of $29.9 million in cash to noteholders ($17.4 million remained payable at 30 June 2023. Refer to Note 14). The cash incentive payments, and other transaction costs, were funded by Equity Placements raising a total of $38.3 million ($36.5 million net of issuance costs). Under the Equity Placements, Zip Co issued 21,956,476 fully paid ordinary shares on 19 December 2022 at a fixed price of $0.62 and issued 52,479,860 fully paid ordinary shares on 15 June 2023 at a fixed price of $0.47.

The offer to Noteholders comprised 27.45% of the outstanding notes that were originally issued (being $109.8 million out of the total $400.0 million program).

The incentive of $29.9 million offered by Zip to its participating Noteholders ($12.5 million paid in December 2022 and $17.4 million remained payable at 30 June 2023, in relation to incentivised conversions in December 2022 and June 2023 respectively) was provided as an incentive to convert the notes, and this amount has been recorded as corporate financing costs in the financial year ended 30 June 2023.

Debt Component

A conversion of a convertible note is considered a derecognition of the liability component. Upon conversion in December 2022, Zip also revised its estimation on probability of the Put redemption in April 2025 and adjusted the carrying amount of the debt host in December 2022 to reflect the revised estimated future cash flow. Accordingly, an additional effective interest of $43.3 million has been recorded to reflect the acceleration of the accrued effective interest. As a result, total effective interest of $65.9 million in relation to Senior Convertible Notes has been recorded for the financial year ended 30 June 2023.

At 30 June 2023, Zip has reported a financial liability in relation to the underlying debt component of the Senior Convertible Notes of $277.9 million, comprising the carrying value of debt component of $305.3 million at 30 June 2022, less the derecognised debt component of $93.3 million and adding accrued effective interest of $65.9 million, recorded in the financial year ended 30 June 2023.

Notes to the Consolidated Financial Statements continued

Equity Component

The equity component of the Senior Convertible Notes remained at $114.5 million at 30 June 2023, 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.

In June 2023, Zip announced a Consent Solicitation of the Senior Convertible Notes and the existing holders of the outstanding Senior Convertible Notes have approved certain amendments to the terms and conditions of the Senior Convertible Notes. The amendments to the Senior Convertible Notes took effect following execution of the Amending Documents on 31 July 2023. In addition, shareholders approved the physical settlement of the Senior Convertible Notes at the Extraordinary General Meeting of shareholders ("EGM") held on 31 July 2023. The financial impact of the Consent Solicitation did not impact the Consolidated Financial Statements to 30 June 2023 and an assessment of the impact on the financial statements to financial year ended 30 June 2024 is detailed as a subsequent event in Note 28.

NOTE 6. TAXATION

Income Tax

	Consolidated	
	30 June 2023 $'000	30 June 2022* $'000
Numerical reconciliation of income tax and tax at the statutory rate		
Loss before income tax from continuing operations	(372,291)	(808,113)
Tax at the Australian statutory tax rate of 30%	(111,687)	(242,434)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
– Share-based payments	71	337
– Non-deductible expenses	23,239	10,709
– Non-assessable/deductible fair value loss/(gain)	15,486	(2,500)
– Impairment losses	2,288	176,744
– Assessable TOFA gain on financial instruments	23,792	–
– Effect of different tax rates of subsidiaries operating in other jurisdictions	4,250	5,803
	(42,561)	(51,341)
Current year tax losses not recognised	6,377	64,799
Initial recognition of prior year tax losses	(30,669)	–
Movement in temporary differences not recognised	19,431	(16,427)
Movement in temporary differences recognised	11,009	3,201
Income tax (benefit)/expense from continuing operations	(36,413)	232
Loss before income tax from discontinued operations	(41,324)	(297,292)
Income tax benefit from discontinued operations	(187)	(544)

* Comparative information has been restated to reflect discontinued operations in the current financial year. Please refer to Note 18.

Notes to the Consolidated Financial Statements continued

Deferred Tax

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

In the financial year ended 30 June 2023, Zip has further recognised a deferred tax asset in respect of Australian tax losses as it considers there is evidence that sufficient taxable profit will arise from the Amendment of the Terms of the Senior Convertible Notes following the Consent Solicitation exercise (refer to Note 28) to fully utilise the unused tax losses in the following financial year.

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Deferred tax assets comprising temporary differences attributable to:		
– Provision for expected credit losses	47,771	45,967
– Other provision and payables	49,687	41,746
– Fair value movements on financial instruments	(79)	(10,985)
Deferred tax assets comprising tax losses:	128,757	119,672
Less: Deferred tax assets not brought to account	(153,877)	(157,353)
Deferred tax assets (recognised from temporary difference) before set off	72,259	39,047
Set off deferred tax liabilities pursuant to set-off provisions	(35,290)	(39,047)
Net deferred tax assets	36,969	–
Deferred tax liabilities comprise temporary differences attributable to:	–	–
– Acquired intangibles and other	26,767	39,047
– Financial instruments	8,523	–
Deferred tax liabilities before set off	35,290	39,047
Set off deferred tax assets pursuant to set-off provisions	(35,290)	(39,047)
Net deferred tax liabilities	–	–

NOTE 7. LOSS PER SHARE

(a) Reconciliation of Earnings Used in Calculating Loss Per Share

	Consolidated	
	30 June 2023 $'000	30 June 2022* $'000
Loss attributable to the Members of the Zip Co Limited used in calculating basic and diluted loss per share		
Continuing operations	(335,878)	(808,345)
Discontinued operations	(41,137)	(296,748)
	(377,015)	(1,105,093)

* Comparative information has been restated to reflect discontinued operations in the current financial year. Please refer to Note 18.

Notes to the Consolidated Financial Statements continued

(b) Weighted Average Number of Shares Used as the Denominator

	30 June 2023 '000	30 June 2022 '000
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	720,403	609,679

(c) Earnings Per Share from Continuing Operations

	30 June 2023 Cents	30 June 2022* Cents
Basic loss per share	(46.62)	(132.59)
Diluted loss per share[1]	(46.62)	(132.59)

1. As the consolidated entity reported losses for the year ended 30 June 2023 and 30 June 2022, no dilutive shares have been included in the EPS calculation.

* Comparative information has been restated to reflect discontinued operations in the current year. Please refer to Note 18.

(d) Earnings Per Share from Continuing Operations and Discontinued Operations

	30 June 2023 Cents	30 June 2022 Cents
Basic loss per share	(52.33)	(181.26)
Diluted loss per share[1]	(52.33)	(181.26)

1. As the consolidated entity reported losses for the year ended 30 June 2023 and 30 June 2022, no dilutive shares have been included in the EPS calculation.

NOTE 8. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Cash and cash equivalents	151,955	241,326
Restricted cash	123,955	58,369
	275,910	299,695

At 30 June 2023 the consolidated entity had cash of $275.9 million of which $124.0 million was restricted cash (30 June 2022: cash of $299.7 million of which $58.4 million was restricted cash). Restricted cash is held by the securitisation warehouses and special purpose vehicles and is not available to pay creditors of the consolidated entity.

The consolidated entity holds balances (30 June 2023: $95.4 million, 30 June 2022: $95.7 million) that are reported as cash and cash equivalents and either provide initial funding for transactions on Zip's virtual card or physical card products or provide a float to support such transactions.

Zip considers both of these amounts as unavailable, and together with the $124.0 million in reported restricted cash are not included in the balances Zip considers as available cash to fund operations (unavailable cash 30 June 2023: $219.4 million, 30 June 2022: $154.1 million).

Notes to the Consolidated Financial Statements continued

Zip invests funds in its securitisation warehouses and when required withdraws funds in excess of those required to meet subordination requirements to fund its operations, drawing a corresponding amount from funding providers (30 June 2023: $0.8 million, 30 June 2022: $80.0 million). Zip considers this amount to be available cash to fund operations.

Available cash and liquidity is determined as:

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Cash, cash equivalents and restricted cash	275,914	299,695
Less: unavailable cash		
– Restricted cash	(123,955)	(58,369)
– Operational floats	(95,400)	(95,710)
Add: excess invested securitisation warehouses and special purpose vehicles	759	79,967
Available cash	57,318	225,583
Available corporate funding	–	53,000
Total cash and liquidity	57,318	278,583

Reconciliation of Loss After Income Tax to Net Cash from Operating Activities[1]

	30 June 2023 $'000	30 June 2022 $'000
Loss after income tax for the year	(377,015)	(1,105,093)
Adjustments for:		
Depreciation and amortisation expenses	66,956	68,645
Share-based payments	12,595	30,937
Loss on derecognition of financial liabilities	7,037	–
Share of loss of associates	4,740	8,348
Fair value movements on financial instruments	61,109	(128,960)
Effective interest charged on convertible notes	78,079	29,929
Impairment losses	35,258	821,111
Incentivised conversion – incentive payments	29,856	–
Gain on disposal of subsidiaries	(6,725)	–
Change in operating assets and liabilities:		
Movement in customer receivables	(159,646)	(490,852)
Movement in other receivables	(15,855)	(40,213)
Movement in other payables	75,733	51,247
Movement in employee provisions	(180)	2,980
Movement in deferred tax balances	(36,969)	(497)
Net cash from operating activities	(225,027)	(752,418)

1. The consolidated entity has elected to present the reconciliation to operating activities in total – i.e., including both continuing and discontinued operations. Amounts related to discontinued operations from operating, investing and financing activities are disclosed in Note 18.

Notes to the Consolidated Financial Statements continued

NOTE 9. OTHER RECEIVABLES

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Amounts due from payment platform providers	40,859	38,232
Prepayments	10,098	11,005
Accrued income	15,444	12,785
Other receivables	20,759	10,813
Total	87,160	72,835

NOTE 10. CUSTOMER RECEIVABLES

AASB 9 *Financial Instruments*

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

- The consolidated entity provides accounts with lines of credit and instalments products to customers, and the business model is to hold such accounts and collect contractual cash flows until the account is closed; and
- The contractual terms of the accounts give rise on specified dates to cash flows that are solely payments of principal and "effective interest" and permit customers to vary the dates and frequency of payments.

Impairment

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

- Stage 1: instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (ECL) are recognised and "effective interest" revenue is calculated on the gross carrying amount of the asset. 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.

Notes to the Consolidated Financial Statements continued

Expected Credit Losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted based on forward-looking information as described in this note. The exposure at default is estimated on gross customer receivables at the reporting date, adjusted for expected repayments and future drawdowns up to the point the exposure is expected to be in default.

Significant Increase in Credit Risk Since Initial Recognition

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

Definition of Default and Credit – Impaired Assets

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

Write-Off Policy

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

Provisioning Model

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

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

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

In the assessment of the provision for expected credit losses at 30 June 2023 management took into consideration all available information relevant to the assessment, including information about past events, current economic conditions and reasonable and supportable information about future events and economic conditions at the report date.

Notes to the Consolidated Financial Statements continued

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 rates) and modelling risks.

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

In the assessment of expected credit losses at 30 June 2023 and at 30 June 2022, Zip considered base, good and bad scenarios, applying a weighted probability when determining the reported ECL. The base scenario was assessed by applying the actual performance of the customer receivable book. The good and bad scenarios were assessed by applying upside/downside movements to key variables which could have a significant impact on the credit risk.

These variables include the probability of default, loss given default, the rate of customer repayments, the customer repayment lifecycle and the bad debts recovery rate. The movement in these variables was supported by modelling macroeconomic scenarios based on forward-looking information.

Provision Overview

The provision for expected credit losses as a percentage of receivables decreased from 6.0% at 30 June 2022 to 5.5% at 30 June 2023, reflecting the performance of the receivables portfolio during the financial year ended 30 June 2023.

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:

	ANZ[1] $'000	Americas $'000	EMEA $'000	Zip Business $'000	Consolidated $'000
Customer receivables	2,419,542	280,026	–	68,271	2,767,839
Unearned future income	(7,747)	(11,195)	–	–	(18,942)
Provision for expected credit losses	(120,475)	(23,159)	–	(8,431)	(152,065)
Balance at 30 June 2023	2,291,320	245,672	–	59,840	2,596,832

1. The customer receivables information is presented in line with the classification of the consolidated entity's operating segments. The instalment products customer receivables in the ANZ segment comprise 0.6% of the total customer receivables presented in ANZ segment. Refer to Note 2 for description of the consolidated entity's instalments and line of credit products.

	ANZ $'000	Americas $'000	EMEA $'000	Zip Business $'000	Consolidated $'000
Customer receivable	2,264,577	231,313	84,423	104,261	2,684,574
Unearned future income	(8,682)	(7,545)	(34)	–	(16,261)
Provision for expected credit losses	(116,716)	(29,158)	(8,755)	(5,560)	(160,189)
Balance at 30 June 2022	2,139,179	194,610	75,634	98,701	2,508,124

Notes to the Consolidated Financial Statements continued

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

	ANZ $'000	Americas $'000	EMEA $'000	Zip Business $'000	Consolidated $'000
Balance at 30 June 2021	82,021	19,998	1,346	3,007	106,372
Taken on acquisitions	–	–	10,328	–	10,328
Provided in the period[1]	121,474	128,504	–	7,713	257,691
Receivables written-off during the period[1]	(96,845)	(124,425)	–	(5,463)	(226,733)
Recoveries during the period[1]	10,150	3,285	–	371	13,806
Foreign exchange and other movement[2]	(84)	1,796	(2,919)	(68)	(1,275)
Balance at 30 June 2022	116,716	29,158	8,755	5,560	160,189
Provided in the period	103,481	54,663	–	12,095	170,239
Receivables written-off during the period	(118,244)	(80,015)	–	(5,664)	(203,923)
Recoveries during the period	18,523	18,631	–	667	37,821
Foreign exchange and other movement[2]	(1)	722	(8,755)	(4,227)	(12,261)
Balance at 30 June 2023	120,475	23,159	–	8,431	152,065

1. Comparative information has been restated to reflect discontinued operations in the current financial year. Please refer to Note 18.
2. Other movements include the movements from discontinued operations.

The consolidated entity's customer receivable balances are predominately high volume low value advances to individual customers. The following tables provide 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.

	ANZ $'000	Americas $'000	Zip Business $'000	Consolidated $'000
Customer Receivables				
Stage 1	2,237,280	254,970	61,543	2,553,793
Stage 2	136,899	16,681	4,899	158,479
Stage 3	45,363	8,375	1,829	55,567
Balance at 30 June 2023	2,419,542	280,026	68,271	2,767,839
Provision for Expected Credit Losses				
Stage 1	(26,418)	(8,673)	(5,158)	(40,249)
Stage 2	(65,504)	(9,648)	(1,393)	(76,545)
Stage 3	(28,553)	(4,838)	(1,880)	(35,271)
Balance at 30 June 2023	(120,475)	(23,159)	(8,431)	(152,065)

Notes to the Consolidated Financial Statements continued

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

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

	Consolidated			
	30 June 2023 $'000	% of Customer Receivables	30 June 2022 $'000	% of Customer Receivables
Past due under 30 days	85,209	3%	85,311	3%
Past due 31 days to under 60 days	49,547	2%	41,386	2%
Past due 61 to under 90 days	32,429	1%	32,269	1%
Past due 91 to under 180 days	46,861	2%	44,984	2%

The following table shows customer receivables and provision for expected losses presented based on the location of origination:

Customer Receivables	30 June 2023 $'000	30 June 202 $'000
Australia	2,473,537	2,328,855
New Zealand	14,276	39,984
Americas	280,026	231,313
United Kingdom	–	1,686
United Arab Emirates	–	13,570
Czech Republic and Poland	–	64,340
South Africa	–	4,826
Balance	2,767,839	2,684,574

Notes to the Consolidated Financial Statements continued

Provision for Expected Credit Losses	30 June 2023 $'000	30 June 2022 $'000
Australia	(127,959)	(120,741)
New Zealand	(947)	(1,535)
Americas	(23,159)	(29,158)
United Kingdom	–	(680)
United Arab Emirates	–	(1,653)
Czech Republic and Poland	–	(6,140)
South Africa	–	(282)
Balance	(152,065)	(160,189)

Zip ANZ and Zip Americas customer receivables are consumer based in nature and industry classification is not applicable.

The following table shows Zip Business customer receivables presented in their industry classification:

Customer Receivables	30 June 2023 $'000	30 June 2022 $'000
Advertising	–	483
Architecture	–	143
Agriculture	2,139	2,416
Construction	6,134	15,491
Education	1,307	1,085
Financial	2,164	3,005
Hospitality	93	–
Manufacturing	11,284	12,683
Retail	18,655	28,016
Services	17,191	28,485
Telecommunications	–	–
Transportation	3,470	3,983
Wholesale	5,672	8,420
Mining	162	51
Balance	68,271	104,261

Notes to the Consolidated Financial Statements continued

NOTE 11. INVESTMENTS AT FVTPL

	30 June 2023 $'000
Balance at 30 June 2022	–
Recognition of pre-existing investment at FVTPL	65,465
Fair value loss on revaluation	(52,846)
Foreign exchange movement	1,227
Balance at 30 June 2023	13,846

As set out in Note 4, Zip's investment in ZestMoney has been derecognised from an investment in an associate and recognised as an investment at FVTPL. The fair value of the investment in ZestMoney at 30 June 2023 was based on an assessment of market value which resulted in a fair value loss of $52.8 million, reducing the investment in ZestMoney to $13.8 million at 30 June 2023.

NOTE 12. INTANGIBLE ASSETS

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Carrying Amounts		
Brand names and trademarks	62	855
Customer database	174	619
Transacting partner database	40,733	58,874
IT development and software	100,669	132,002
	141,638	192,350

Consolidated	Brand Name and Trademarks $'000	Customer Database $'000	Transacting Partner Database $'000	IT Development and Software $'000	Total $'000
Cost					
Balance at 30 June 2021	298	2,122	84,280	175,782	262,482
Taken on business combinations	7,042	1,538	1,576	44,718	54,874
Additions	–	–	–	28,672	28,672
Effect of movements in foreign exchange rates	17	–	7,598	16,263	23,878
Balance at 30 June 2022	7,357	3,660	93,454	265,435	369,906
Additions (continuing operations)	–	–	–	17,648	17,648
Additions (discontinued operations)	–	–	–	3,771	3,771
Written off	(229)	(1,468)	(948)	(16,350)	(18,995)
Disposals (discontinued operations)	(7,066)	(1,538)	(1,488)	(53,288)	(63,380)
Effect of movements in foreign exchange rates	–	–	3,405	(576)	2,829
Balance at 30 June 2023	62	654	94,423	216,640	311,779

Notes to the Consolidated Financial Statements continued

Consolidated	Brand Name and Trademarks $'000	Customer Database $'000	Transacting Partner Database $'000	IT Development and Software $'000	Total $'000
Accumulated amortisation and impairment losses					
Balance at 30 June 2021	(218)	(1,096)	(14,434)	(42,915)	(58,663)
Amortisation	(9)	(612)	(17,419)	(44,156)	(62,196)
Impairment	(6,273)	(1,333)	(366)	(44,734)	(52,706)
Effects of movements in foreign exchange rates	(2)	–	(2,361)	(1,628)	(3,991)
Balance at 30 June 2022	(6,502)	(3,041)	(34,580)	(133,433)	(177,556)
Amortisation (continuing operations)	–	(383)	(17,299)	(40,563)	(58,245)
Amortisation (discontinued operations)	–	–	(80)	(2,849)	(2,929)
Impairment	–	(63)	(59)	(7,601)	(7,723)
Written off	229	1,468	948	16,350	18,995
Disposals (discontinued operations)	6,273	1,539	513	49,332	57,657
Effects of movements in foreign exchange rates	–	–	(3,133)	2,793	(340)
Balance at 30 June 2023	–	(480)	(53,690)	(115,971)	(170,141)

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

Internally generated intangibles:

- IT development and software 2.5 years.

Acquired intangibles:

- Brand name (fully written off) and Trademarks indefinite;
- Customer database 5 years;
- Transacting partner database 4 to 5 years; and
- IT development and software 6 years.

The impairment assessment of intangible assets is detailed in Note 13.

Notes to the Consolidated Financial Statements continued

NOTE 13. GOODWILL

The consolidated entity has four cash-generating units (CGUs) at 30 June 2023 as set out in the following table (Payflex CGU disposed during the financial year ended 30 June 2023). Goodwill has been allocated to these CGUs.

Consolidated	Zip AU $'000	Zip US $'000	Zip NZ & UK[1] $'000	Zip UK[1] $'000	Zip NZ[1] $'000	Zip Business $'000	Spotii $'000	Twisto $'000	Payflex $'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	–	–	–	–	–
Recognised on acquisitions	–	–	–	–	–	–	21,102	112,495	18,484	152,081
Impairment (continuing operations)	–	(589,262)	–	–	(868)	–	–	–	–	(590,130)
Impairment (discontinued operations)	–	–	–	(44,678)	–	–	(21,102)	(112,495)	–	(178,275)
Effect of movements in foreign exchange rates	–	65,605	–	–	(58)	–	–	–	560	66,107
Balance at 30 June 2022	4,548	195,806	–	–	1,234	2,112	–	–	19,044	222,744
Impairment (continuing operations)	–	–	–	–	–	(2,112)	–	–	–	(2,112)
Impairment (discontinued operations)	–	–	–	–	–	–	–	–	(18,447)	(18,447)
Effect of movements in foreign exchange rates	–	7,624	–	–	23	–	–	–	(597)	7,050
Balance at 30 June 2023	4,548	203,430	–	–	1,257	–	–	–	–	209,235

1. Zip NZ & UK were acquired as part of the 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.

During the financial year 2023, Zip impaired goodwill in the Payflex CGU by $18.4 million and the Zip Business CGU by $2.1 million to reflect the differences between the carrying amount and an assessment of market value. (FY22: $768.4 million).

Notes to the Consolidated Financial Statements continued

As at 30 June 2023, for each of the remaining consolidated entity's CGU, the recoverable amount has been calculated based on value-in-use using free cash flow to equity (FCFE) projections covering a five-year period, including tax expense where relevant and financing costs, and then applying a discount rate comprising a cost of equity. Cash flow projections during the forecast period are based on the forecast revenue and transaction volume growth. Cash flows beyond the five-year period have been extrapolated using a steady long-term annual growth rate which did not exceed the long-term average for the sectors and economies in which the CGUs operate. The steady long-term growth rate was estimated by the directors based on past performance of each cash-generating unit and the growth expectations for the markets in which they operate.

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

	Zip AU %	Zip US %	Zip NZ %
Discount rate – post tax[1]	15.8%	15.0%	16.4%
Long-term annual growth rate[2]	4.0%	4.0%	4.0%

1. Zip has used a post-tax discount rate applied to post-tax cash flows to be aligned with how valuation practitioners would ordinarily undertake such an exercise. Post-tax rates used in the prior financial year impairment assessment were 12.7% for Zip AU CGU, 12.5% for Zip US CGU and 13.0% for Zip NZ CGU.
2. Long-term growth rates used in the prior financial year impairment assessment were 2.5% for Zip AU CGU, 4.0% for Zip US CGU and 2.5% for Zip NZ CGU.

Sensitivity to Changes in Assumptions

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

For Zip AU CGU, Zip US CGU and Zip NZ CGU, reducing the forecast compound annual growth rate (CAGR) of transaction volumes or long-term annual growth rate to zero would not result in an impairment charge. The increase in discount rate that would reduce the excess of the recoverable amount over the carrying amount to zero, but would not result in an impairment charge, is summarised in the following table:

	Zip AU %	Zip US %	Zip NZ %
Increase in discount rate %	100.5%	5.4%	11.5%

NOTE 14. TRADE AND OTHER PAYABLES

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Trade payables	63,710	34,830
Amounts due to merchants and other partners	126,170	75,253
Incentivised conversion – incentive payments (refer to Note 5)	17,354	–
Other	6,403	30,464
Total	213,637	140,547

The increase in the amount due to merchants and other partners reflects an increase in volumes and the increase in pre-funding of transaction volumes by partners to cover weekend trading following 30 June 2023.

Notes to the Consolidated Financial Statements continued

NOTE 15. DEFERRED CONSIDERATION

	Consolidated
	$'000
Balance at 30 June 2022	26,184
Settlement of Twisto Holdback Consideration	(19,965)
Partially settled Payflex contingent consideration	(4,885)
Foreign exchange impact	555
Balance at 30 June 2023	1,889

Twisto Holdback Consideration

Under the terms of the acquisition of Twisto, consideration of EUR€12.5 million (Holdback Consideration) was held back for the purposes of satisfying any claims that may arise under the acquisition agreement, to be settled through the issue of new ordinary shares in Zip subject to a maximum issuance of 4,550,000 shares, with the balance payable in cash, or subject to the ASX listing rules, in shares. No claims were made and consequently in December 2022, Zip issued 27,627,408 shares at issue price of $0.7227 to settle the Holdback Consideration. Shares issued were valued at $19.96 million at the date of settlement and as a result, the Holdback Consideration amount reduced to Nil at 30 June 2023 ($19.3 million at 30 June 2022).

Payflex Contingent Consideration and BEE Holdback Amount

Under the terms of the acquisition of Payflex, a maximum contingent consideration of ZAR$73.8 million was payable to the former Payflex shareholders in Zip shares or cash, subject to the achievement of performance milestones based on growth targets relating to the achievement of total transaction volumes and net transaction margins for the twelve months performance period ending 30 June 2022. As at 30 June 2022, Payflex achieved the performance milestones and accordingly 1,053,608 Zip's shares were issued to Payflex shareholders on 4 October 2022, valued at $0.8 million and a cash payment of $3.4 million was made during the financial year ended 30 June 2023. Consequently the balance of the contingent consideration was reduced to $1.9 million as at 30 June 2023. This amount was settled subsequent to the year end (refer to Note 28).

In addition, the terms of the Payflex Acquisition entitled the vendors to a holdback consideration amounting to $0.6 million (ZAR$7.2 million) to be settled twelve months from the date of completion. This holdback consideration was paid and the liability reduced to Nil at 30 June 2023.

NOTE 16. BORROWINGS

Borrowings and Securitisation Warehouse

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Secured consumer facilities	2,440,325	2,279,031
Secured SME facilities	51,876	53,518
Corporate facility	90,000	48,893
	2,582,201	2,381,442
Add: accrued interest	11,878	4,434
Less: unamortised costs	(2,871)	(4,967)
	2,591,208	2,380,909

Notes to the Consolidated Financial Statements continued

The consolidated entity sells customer receivables to securitisation warehouses and special purpose vehicles through its asset-backed financing program. The securitisation warehouses and special purpose vehicles are consolidated as the consolidated entity is exposed to, or has rights to, variable equity returns, and has the ability to affect its returns through its power over the securitisation warehouses and special purpose vehicles. The secured facilities are directly secured by receivables in the consolidated entity's securitisation warehouses and special purpose vehicles. In the event the consolidated entity does not extend a secured facility, or renew a secured facility with a new financier, the secured facility amortises under the terms of the respective secured facility agreement and customer repayments are used to repay the respective financier.

Zip's corporate facility matures in December 2023, and may be extended to 31 March 2024 at Zip's option. The corporate facility is secured by a corporate guarantee and becomes repayable in the event Zip is unable to renew or refinance the facility.

Assets Pledged as Security

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

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Customer receivables[1]	2,517,658	2,405,196
Cash held through asset-backed financing program	123,955	58,369
	2,641,613	2,463,565
Borrowings related to receivables[2]	2,694,438	2,552,830

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 $79.2 million held by entities that do not have asset-backed financing programs in place or are ineligible receivables at 30 June 2023 and $27.2 million at 30 June 2022.
2. Including $202.2 million junior and seller notes held by Zip's corporate entities ($226.8 million at 30 June 2022).

Term of Secured Facilities Financing Arrangements

Consumer Facilities	Facility Limit $'000	Drawn at 30 June 2023 $'000	Maturity	Facility Type
Zip Master Trust				
– Rated Note Series				
– 2021-1	475,000	475,000	April 2024	BBSW + Margin
– 2021-2	617,500	617,500	September 2024	BBSW + Margin
– 2022-1	285,000	285,000	November 2023	BBSW + Margin
– 2023-1	190,000	190,000	May 2026	BBSW + Margin
– Variable Funding Note	535,420	460,670	March 2024	BBSW + Margin
– Variable Funding Note 2	136,221	118,501	January 2024	BBSW + Margin
zipMoney 2017-1 Trust[1]	126,500	85,400	July 2024	BBSW + Margin
AR2LLC[2]	339,367	198,146	May 2024	SOFR
Zip NZ Trust 2021-1[3]	18,377	10,108	September 2023	BKBM +Margin
Total	2,723,385	2,440,325		

1. Facility limit reduced from $259.7 million at 30 June 2023, to $126.5 million on 5 July 2023.
2. Facility limit of US$225.0 million translated to AUD at exchange rate of 0.663.
3. Facility limit of NZ$20.0 million translated to AUD at exchange rate of 1.0883.

Notes to the Consolidated Financial Statements continued

SME Facilities	Facility Limit $'000	Drawn at 30 June 2023 $'000	Maturity	Facility Type
Zip Business Trust 2022-1	35,000	27,115	March 2024	BBSW + Margin
Funding Box NZ[1]	24,761	24,761	November 2023	BKBM + Margin
Total	59,761	51,876		

1. Facility limit of NZ$26.9 million translated to AUD at exchange rate of 1.0883.

Securitisation warehouses funding SME receivables are in run off following the decision to wind down Zip Business Capital in Australia and New Zealand.

Term of Corporate Facility

	Facility Limit $'000	Drawn at 30 June 2023 $'000	Maturity	Facility Type
zipMoney 2017-2 Trust[1]	90,000	90,000	December 2023	BBSW + Margin

1. The zipMoney 2017-2 Trust may be extended to 31 March 2024 at Zip's option.

Reconciliation of Borrowings

At June 2023	30 June 2022 $'000	Cash Movement[1] $'000	Non-Cash Movement $'000	30 June 2023 $'000
Gross borrowings	2,381,442	200,759	–	2,582,201
Accrued interest	4,434	(161,490)	168,934	11,878
Unamortised costs	(4,967)	(2,764)	4,860	(2,871)
Total	2,380,909	36,505	173,794	2,591,208

At June 2022	30 June 2021 $'000	Cash Movement[2] $'000	Non-Cash Movement $'000	30 June 2022 $'000
Gross borrowings	1,663,137	718,305	–	2,381,442
Accrued interest	3,589	(61,476)	62,321	4,434
Unamortised costs	(7,493)	(2,390)	4,916	(4,967)
Total	1,659,233	654,439	67,237	2,380,909

1. The cash movements shown in gross borrowings in the financial year ended 30 June 2023 includes a disposal amount of ($69.5) million as a result of the sale of Twisto and Payflex. Note that interest payment of $0.1 million for leasing liabilities is excluded from the cash movement in the reconciliation.
2. The cash movements shown in gross borrowings in the financial year ended 30 June 2022 includes a taken-on amount of $64.0 million as a result of the acquisition of Spotii and Twisto. Note that interest payment of $0.2 million for leasing liabilities is excluded from the cash movement in the reconciliation.

Notes to the Consolidated Financial Statements continued

NOTE 17. ISSUED CAPITAL

Ordinary Shares

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

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

	30 June 2023 Shares '000	30 June 2023 Shares '000	30 June 2022 $'000	30 June 2022 $'000
Ordinary shares – fully paid	824,647	2,121,541	687,936	2,041,496
	824,647	2,121,541	687,936	2,041,496

Movements in Ordinary Share Capital

Details	Date	Shares '000	$'000
Balance	30 June 2021	562,136	1,688,785
Issue of shares – employee incentives		5,736	35,421
Issue of shares – capital raising		94,492	172,729
Issue of shares – exercise of options		2,177	310
Issue of shares – acquisitions		21,783	137,209
Issue of shares – PartPay contingent consideration		1,092	6,990
Issue of shares – acquisition of intangibles		520	3,440
Cost of issuing shares		–	(3,388)
Balance	30 June 2022	687,936	2,041,496
Issue of shares – employee incentives		24,263	17,711
Issue of shares – capital raising		74,436	38,279
Issue of shares – exercise of options		225	73
Issue of shares – conversion of the Senior Convertible Notes		9,106	4,953
Issue of shares – Payflex deferred consideration		1,054	838
Issue of shares – Twisto holdback considerations		27,627	19,965
Cost of issuing shares		–	(1,774)
Balance	30 June 2023	824,647	2,121,541

Notes to the Consolidated Financial Statements continued

Movements in Performance Rights

Details	Date	Rights '000
Balance	30 June 2021	6,777
Issued during the year		6,212
Lapsed during the year		(3,002)
Vested during the year		(11)
Exercised during the year		(784)
Balance	30 June 2022	9,192
Issued during the year		19,548
Lapsed during the year		(6,416)
Vested during the year		(3,438)
Exercised during the year		(387)
Balance	30 June 2023	18,499

Shares under Performance Rights

Shares Under at Risk Long-Term Incentives (LVTR)

At Risk Long-Term Incentives were issued for no consideration under the Employee Incentive Plan and have a nil exercise price and vest based on the achievement of Total Shareholder Return hurdles and time-based hurdles as set out previously in the Remuneration Report.

Issue Date	Vesting Date	Expiry Date	Number of Rights	Fair Value at Grant Date $
15 February 2019	15 September 2021	15 February 2025	116,667	0.287
15 February 2019	15 February 2022	15 February 2025	406,666	0.287
15 February 2019	15 September 2022	15 February 2025	393,333	0.317
15 February 2019	15 February 2023	15 February 2025	406,666	0.317
15 February 2019	15 September 2023	15 February 2025	381,618	0.330
15 February 2019	15 February 2024	15 February 2025	406,668	0.330
15 December 2019	15 September 2022	15 December 2025	54,795	0.630
15 December 2019	15 September 2023	15 December 2025	54,795	0.760
15 December 2019	15 September 2024	15 December 2025	54,794	0.810
2 July 2020	15 September 2023	24 June 2026	36,949	1.56
2 July 2020	15 September 2024	24 June 2026	36,949	1.63
2 July 2020	15 September 2025	24 June 2026	36,947	1.65
26 October 2020	14 September 2023	22 October 2026	23,030	4.68
7 June 2021	7 June 2023	7 June 2027	99,904	6.88
7 June 2021	7 June 2024	7 June 2027	66,542	6.88
15 November 2021	15 September 2024	30 November 2027	11,127	2.99
15 November 2021	15 September 2024	30 November 2027	57,204	2.99
18 November 2021	15 September 2024	30 November 2027	101,260	2.99
19 November 2021	15 September 2024	30 November 2027	105,504	2.99
24 November 2021	15 September 2024	30 November 2027	25,070	2.99
30 November 2021	15 September 2024	30 November 2027	12,776	2.99
13 March 2023	13 March 2026	13 March 2029	2,559,097	0.265
Balance at 30 June 2023			5,448,361	

Notes to the Consolidated Financial Statements continued

Issued in the Financial Year Ended 30 June 2023:

Issue Date	Vesting Date	Expiry Date	Number of Rights	Fair Value at Grant Date $
13 March 2023	13 March 2026	13 March 2029	2,559,097	0.265
Total issued in the financial year			2,559,097	

Lapsed in the Financial Year Ended 30 June 2023:

Issue Date	Vesting Date	Expiry Date	Number of Rights
15 December 2019	15 September 2022	15 December 2025	(40,665)
15 December 2019	15 September 2023	15 December 2025	(11,716)
2 July 2020	15 September 2023	24 June 2026	(156,007)
2 July 2020	15 September 2024	24 June 2026	(156,006)
2 July 2020	15 September 2025	24 June 2026	(156,006)
9 June 2021	9 June 2023	9 June 2027	(10,096)
9 June 2021	9 June 2024	9 June 2027	(43,458)
30 November 2021	15 September 2024	30 November 2027	(61,815)
Total lapsed in the financial year			(635,769)

Shares under Long-Term Equity (LTE)

LTEs issued provide Zip with the best opportunity to retain senior leaders and attract high-quality talent. LTEs were issued with equal vesting over one to four years. LTE is not subject to any performance hurdles and only requires the employees to remain employed for the rights to vest.

Details of LTEs outstanding during the year are as follows:

	Weighted Average Fair Value $	Number of LTE Issued
Balance at the 30 June 2021		2,145,658
Issued during the year	5.46	5,837,586
Forfeited during the year	6.58	(1,907,352)
Vested during the year	7.16	(795,345)
Balance at the 30 June 2022		5,280,547
Issued during the year	0.56	16,989,338
Lapsed during the year	2.07	(5,779,585)
Vested during the year	2.20	(3,438,460)
Balance at 30 June 2023		13,051,840

Notes to the Consolidated Financial Statements continued

Restricted Rights to NEDs for FY23

The Company established the NED Equity Plan to assist in the motivation, retention and reward of NEDs and to provide an opportunity for the NEDs to acquire shareholdings in the Company through the sacrifice of fees into equity. Following approval by shareholders at the 2022 AGM, the rights under the NED Equity Plan were granted on 23 December 2023 and vested immediately, not subject to performance-based vesting conditions or vesting conditions of any kind. Each right under the NED Equity Plan ends 15 years after the grant date, and if not exercised before the end of the Term the rights under the NED Equity Plan will lapse.

Details of rights under the NED Equity Plan movement are as follows:

	Weighted Average Fair Value ($)	Number of NED Equity Issued
Balance at the 30 June 2022		–
Issued during the year	0.52	87,719
Balance at 30 June 2023		87,719

Movements in Warrants

Details	Warrants '000
Balance at 30 June 2021	33,980
Issue of warrants	–
Balance at 30 June 2022	33,980
Lapsed during the period	(3,654)
Balance at 30 June 2023	30,326

The following table shows details of warrants issued outstanding at 30 June 2023:

Issue Date	Expiry Date	Exercise Price	Number Remaining
6 November 2019	6 November 2026	$4.70	10,961,250
1 September 2020[1]	1 September 2023	$0.47	19,365,208
Balance at 30 June 2023			30,326,458

1. Refer to Note 5 for details of the warrants issued to CVI and refer to Note 28 for details of expire of warrants issued to CVI after 30 June 2023.

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

The Amazon Warrants were independently valued by an external valuer using a custom-built Monte Carlo model which simulates share price paths over the duration of the warrants' life.

As a result, each Amazon Warrant has been valued at $1.65 which approximates the value of the service received. Of the warrants issued, 3,653,750 warrants (25% of the total) vested concurrently with Zip's entry into the strategic agreement, and the remainder of the warrants vest based on performance milestones relating to transaction volumes being achieved over the seven years from issue date. On vesting, the warrants may be exercised any time up to seven years from the issue date. Unvested Amazon Warrants are subject to early expiration in certain circumstances, including in the event that the applicable vesting milestones are not met by specified dates.

Notes to the Consolidated Financial Statements continued

Assessments are made at each future reporting date and adjustments made to the amounts recognised as expenses based on this assessment.

During the financial year ended 30 June 2022, 1,826,875 Amazon Warrants, representing 12.5% of the total Amazon Warrants, were cancelled. The transaction volumes processed through Amazon Australia have not met the requirement of the first performance milestone on the third anniversary date, being 7 November 2022, and as a result 1,826,875 Amazon Warrants, representing another 12.5% of the total Amazon Warrants, expired on this basis, and were cancelled in February 2023.

There were no other Amazon Warrants exercised or expired during the year ended 30 June 2023.

Movements in Convertible Notes

Details	Convertible Notes
Balance at 30 June 2021	3,000
Balance at 30 June 2022	3,000
Repayment of CVI Convertible Notes[1]	(500)
Conversion of Senior Convertible Notes[1,2]	(549)
Balance at 30 June 2023	1,951
Representing as:	
Issue of CVI Convertible Notes issued on 1 September 2020[1]	500
Issue of Senior Convertible Notes issued on 23 April 2021[1,2]	1,451
	1,951

1. Refer to Note 5 for details of the convertible notes outstanding at 30 June 2023 and refer to Note 28 for details of repayment made in relation to CVI Convertible Notes after 30 June 2023.
2. The Senior Convertible Notes issued on 23 April 2021 are listed on the Singapore Exchange (SGX).

Additional Information Relating to Unissued Securities

Performance Shares that may be Issued to Urge Vendors

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

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

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

During the financial year ended 30 June 2022, the milestones were partially achieved, and 1,099,711 shares were issued as milestone consideration. During the financial year ended 30 June 2023, due to certain acceleration events occurring, the milestones were deemed to have been achieved. Accordingly, an additional 4,296,863 shares were issued as milestone consideration. In each case, the number of Zip's shares issued as milestone consideration was calculated based on the prescribed $6.00 share price and included the issue of additional shares that were issued as payment of the required 'true up' amounts due to Zip's share price being less than the prescribed $6.00 (such shares being issued at the price equal to the volume weighted average price of Zip's shares in the 30 trading days prior to their applicable issue date). No obligations for milestone consideration remained outstanding in relation to the acquisition of Urge at 30 June 2023.

Notes to the Consolidated Financial Statements continued

Tenure Consideration Shares and Performance Consideration Shares Issued to QuadPay Founders

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

The first instalment of 2,500,000 Tenure Consideration Shares was issued to QuadPay Founders on 30 September 2021, following QuadPay Founders' continuous employment with QuadPay to the first anniversary date. The second instalment of 2,500,000 Tenure Consideration Shares was issued on 15 September 2022, following QuadPay Founders' continuous employment with QuadPay to the second anniversary date.

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

The second performance target was met by the QuadPay Founders, with the TTV on the QuadPay platform for the rolling three months to November 2021 exceeding the TTV performance targets. Accordingly, a payment of US$7.5 million was payable to each QuadPay Founder. Zip issued 6,142,506 shares on 4 October 2022 to the QuadPay Founders as part of the Performance Consideration Shares, with the balance of $19.3 million paid in cash. The number of shares issued were calculated based on the higher of $3.70 per share and the volume weighted average price of Zip's shares on the ASX in the 15 trading days prior to the date of issuance, with the balance paid in cash.

The third performance target had a deadline of 30 June 2022 and this was not met by the QuadPay Founders. As a result, there were no payments made to the QuadPay Founders in relation to the third performance target.

Accordingly the balance of the Performance Consideration Shares reduced to Nil.

Performance Shares that may have been Issued to a Subset of Spotii Sellers

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

Prior to the consolidated entity's sale of Spotii, none of the performance targets were met, and accordingly no performance payments have been made since acquisition and during the financial year ended 30 June 2023.

Share buy-back

There is no current on-market share buy-back.

Notes to the Consolidated Financial Statements continued

NOTE 18. DISCONTINUED OPERATIONS

During the financial year ended 30 June 2023, following its strategic review process the consolidated entity has ceased operations in Singapore, the United Kingdom and Mexico, and completed the sale of the Spotii, Twisto and Payflex operations as detailed below.

In accordance with AASB 5, the consolidated entity has disclosed these operations under discontinued operations as one line on the face of the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Prior period comparatives have been reclassified to be comparable.

Sale of Spotii

On 23 May 2023, Zip completed the sale of Spotii, Zip's Middle East operations, for a total consideration of $1. The carrying value of Spotii at the disposal date was $2.1 million and after adjusting for the foreign currency translation reserve of $1.0 million Zip reported loss on sale of $3.1 million.

Sale of Twisto

On 6 June 2023, Zip completed the sale of Twisto, Zip's Central and Eastern European operations, for a consideration of $7.4 million (net of transaction cost of $0.6 million), comprising a cash consideration of $6.3 million and a deferred consideration of $1.1 million. The carrying value of Twisto at the disposal date was $4.7 million net liability position and after adjusting for the foreign currency translation reserve of $4.4 million, Zip reported a gain on sale of $7.7 million.

Sale of Payflex

On 30 June 2023, Zip completed the sale of Payflex, Zip's South African operations, for a total consideration of $6.5 million (net of transaction cost of $0.8 million). The carrying value of net assets of Payflex at the disposal date was $4.5 million and after adjusting for the foreign currency translation reserve of $0.1 million, Zip reported gain on sale of $2.1 million.

Under the terms of the share sale agreements entered into on the sale of Spotii, Twisto and Payflex, Zip provided standard indemnities that may give rise to future claims. Zip does not expect any claims to be made, and in the event they are, does not expect the amount of any claims to be material.

Results of Discontinued Operations

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Revenue	33,931	23,749
Expenses	(81,980)	(321,041)
Loss from the ordinary activities	(48,049)	(297,292)
Gain on disposal of subsidiaries	6,725	–
Loss before income tax benefit	(41,324)	(297,292)
Income tax benefit (from the ordinary activities)	187	544
Income tax benefit (from gain on disposal of subsidiaries)	–	–
Loss after income tax benefit from discontinued operations	(41,137)	(296,748)

Notes to the Consolidated Financial Statements continued

Cash Flows (Used In)/From Discontinued Operations

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

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Net cash flow used in operating activities	(24,653)	(69,068)
Net cash flow from (used in) investing activities	5,788	(5,674)
Net cash flow from financing activities	5,838	7,135
Net decrease in cash, cash equivalents and restricted cash from discontinued operations	(13,027)	(67,607)

Gain/(loss) on Sale of the Subsidiaries	Spotii $'000	Twisto $'000	Payflex $'000	Total $'000
Sales consideration[1] (net of transaction costs)	–	7,405	6,508	13,913
Carrying value of net assets sold	(2,118)	4,656	(4,545)	(2,007)
Reclassification of FCTR relating to disposed entities	(938)	(4,399)	156	(5,181)
(Loss)/gain on sale before income tax	(3,056)	7,662	2,119	6,725
Income tax benefit	–	–	–	–
(Loss)/gain on sale after income tax	(3,056)	7,662	2,119	6,725

1. Sale consideration of Twisto includes a holdback receivable of $1.1 million which has been recorded as a receivable at 30 June 2023.

Assets and Liabilities of Controlled Entities at Dates of Sales

	Spotii $'000	Twisto $'000	Payflex $'000	Total $'000
Assets				
Cash, cash equivalents and restricted cash	1,002	2,874	3,124	7,000
Customer receivables	1,842	60,871	8,225	70,938
Other receivables	42	(12)	113	143
Property, plant and equipment	90	96	126	312
Right-of-use assets	–	128	–	128
Intangible assets	–	685	5,038	5,723
Total assets	**2,976**	**64,642**	**16,626**	**84,244**
Liabilities				
Trade and other payable	(858)	(5,731)	(6,024)	(12,613)
Employee provisions	–	(24)	(57)	(81)
Borrowings	–	(63,543)	(6,000)	(69,543)
Total liabilities	**(858)**	**(69,298)**	**(12,081)**	**(82,237)**
Net assets sold	**2,118**	**(4,656)**	**4,545**	**2,007**
Consideration received, satisfied in cash	–	6,280	6,508	12,788
Cash, cash equivalents and restricted cash disposed of	(1,002)	(2,874)	(3,124)	(7,000)
Disposal of subsidiaries, net of cash disposed of	**(1,002)**	**3,406**	**3,384**	**5,788**

Notes to the Consolidated Financial Statements continued

NOTE 19. DIVIDENDS

There were no dividends paid, recommended, or declared during the current or previous financial year.

NOTE 20. 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 its subsidiary zipMoney Payments Pty Ltd alleging infringement of Firstmac's "ZIP" trademark, which is registered in respect of financial affairs (loans).

On 1 June 2023, Zip announced that it had successfully defended the trade mark infringement claim, and that Zip was also successful in its non-use application, and cross-claim for removal or cancellation of Firstmac's trade mark. Zip notes that Firstmac has now lodged an appeal in response to both its failed trade mark infringement claim against Zip, and Zip's success in its non-use claim and the consequential cancellation or removal of Firstmac's mark. Zip will continue to defend its use of 'ZIP'. There were no other contingent liabilities or contingent assets as at 30 June 2023.

NOTE 21. FINANCIAL RISK MANAGEMENT

Financial Risk Management Objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. These methods include sensitivity analysis in the case of interest rate and other price risks, and ageing analysis for credit risk.

Market Risk

Foreign Currency Risk

Foreign currency risk arises on financial instruments that are denominated in a foreign currency, that is, in a currency other than the functional currency in which they are measured. Foreign currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

The consolidated entity undertakes transactions denominated in its subsidiaries' functional currencies; consequently, limited exposures to exchange rate fluctuations arise.

The consolidated entity did not hedge any foreign currency risks during the financial year ended 30 June 2023 or 30 June 2022.

Translation exposures arise from financial and non-financial items held by an entity with a functional currency different from the consolidated entity's presentation currency. The consolidated entity's exposure to translation-related risk mainly arises from its investments in subsidiaries in the United States, New Zealand, the United Kingdom, United Arab Emirates, Czech Republic and Poland, and South African business. The consolidated entity's investments in subsidiaries in the United Kingdom, United Arab Emirates, Czech Republic and Poland, and South African business were discontinued during the financial year ended 30 June 2023. Foreign exchange gains or losses on translating the consolidated entity's investment in foreign subsidiaries to Australian dollars at the end of the financial year are recognised in Other Comprehensive Income and accumulated in the foreign currency translation reserve.

Notes to the Consolidated Financial Statements continued

Price Risk

The consolidated entity is exposed to the equity price risk arising from its embedded derivative in the Convertible Notes and Warrants issued to CVI, which have been recorded as financial liabilities at 30 June 2023.

As detailed in Note 5, Zip has reported a financial liability at 30 June 2023 in relation to the underlying debt component of the CVI Convertible Notes of $46.9 million (FY22: $73.6 million), and the embedded derivative and warrants issued have been valued at fair values of $1.3 million (FY22: $1.85 million) and $1.0 million (FY22: $0.1 million) respectively using the Black Scholes option valuation model. The fair values have been based on a closing Zip's share price at 30 June 2023 of $0.41, volatility of 80%, and a risk free rate of 3.49% for the embedded derivative, and 3.35% for the warrants. The different risk free rates reflect the different expiry dates of the instruments. A fair value loss of $8.3 million has been recorded, being the movement in the fair values of the embedded derivative and warrants between 30 June 2022 and 30 June 2023 (FY22: a fair value gain of $119.0 million).

The valuation of the above-mentioned financial liabilities has Zip's share price as the key input. The fair values of these financial liabilities are dependent on the share price of Zip which is listed on the Australian Securities Exchange (ASX).

The sensitivity analyses below have been determined based on the exposure to Zip's share price at 30 June 2023.

If Zip's share price had been 1% higher/lower:

- Loss after tax for the year ended 30 June 2023 would increase/decrease by $0.1 million as a result of the changes in fair values of these financial liabilities (30 June 2022: $0.5 million); and
- Equity would decrease/increase by $0.1 million as a result of the changes in fair values of these financial liabilities (30 June 2022: $0.5 million).

Interest Rate Risk

The consolidated entity's main interest rate risk arises from its cash and cash equivalents, term deposits and borrowings. During the financial year ended 30 June 2023 and the financial year ended 30 June 2022, the consolidated entity's secured borrowings to fund the customer receivables are a mix of fixed rate borrowings and floating-rate borrowings where the rates are set as a fixed margin plus 1-month BBSW/BKBM/EURIBOR/PLR/SOFR.

The consolidated entity also earns interest from its customer receivables on fixed rates. During the financial year ended 30 June 2023, the consolidated entity reviewed its pricing framework in accordance with its risk management policy in the event of a movement in interest rates.

At 30 June 2023 and 30 June 2022, the consolidated entity had CVI Convertible Notes which bears interest payable semi-annually at a fixed amount of $0.75 million and had Senior Convertible Notes with zero coupon and a yield of 2.25% per annum calculated on a semi-annual basis. Refer to Note 5 for details.

Notes to the Consolidated Financial Statements continued

At the end of the reporting periods, the consolidated entity had the following variable rate borrowing outstanding:

	Weighted Average Interest Rate	30 June 2023 $'000	Weighted Average Interest Rate	30 June 2022 $'000
Floating rate secured borrowing	7.35%	(2,582,201)	3.70%	(2,379,549)

At the end of reporting periods, the consolidated entity had the following financial assets and liabilities exposed to variable interest rate risk:

	30 June 2023 $'000	30 June 2022 $'000
Cash and cash equivalents	151,955	241,326
Restricted cash	123,955	58,369
Term deposit	7,196	3,864
Floating rate secured borrowing	(2,582,201)	(2,379,549)

In the event of a +/– 100 basis points movement in the floating rate, based on reasonable possible judgement, and with all other variables held constant, the consolidated entity's:

- Loss after tax for the year ended 30 June 2023 would increase/decrease by $16.1 million (2022: increase/decrease by $14.5 million). This is mainly attributable to the consolidated entity's exposure to interest rates on its floating-rate borrowings; and
- Equity at 30 June 2023 would decrease/increase by $16.1 million (2022: decrease/increase by $14.5 million).

Interest Rate Benchmark Reform

Management consider the risk arising from financial instruments because of the Interest Benchmark Reform is the interest rate risk. The interest rate risk arising from the Interest Benchmark Reform has an immaterial impact on the consolidated entity, and the risk has been closely monitored by reviewing the contracts that had yet to transition to an alternative benchmark rate and proactively managing the transition of existing IBOR-linked contracts to new benchmark interest rates.

There were no changes to the contractual terms that are not necessary as a direct consequence of the IBOR reform during the financial year ended 30 June 2023. At 30 June 2023, the consolidated entity did not have derivatives or non-derivative financial instruments which were not yet transitioned to an alternative benchmark rate when interest under the contract was indexed to a benchmark rate that was still subject to IBOR reform. There are no further changes to interest rates in the consolidated entity arising from the interest rate benchmark reform. The consolidated entity did not have material hedging items or hedging instruments at 30 June 2023.

During the financial year ended 30 June 2022, the consolidated entity modified the terms of its floating-rate secured borrowing facility in the US, which was indexed to USD LIBOR, to reference Secured Overnight Financing Rate (SOFR). After the transition, the method used to calculate the interest rate has been modified with an updated fixed spread to compensate for the basis difference between the existing interest rate benchmark and the alternative benchmark rate. The transition was a direct consequence of IBOR reform and the new basis for determining the contractual cash flows was economically equivalent to the previous basis (i.e., the basis immediately preceding the change). The consolidated entity applied the practical expedient and changed the basis for determining the contractual cash flows prospectively by revising the effective interest rate. There were no other changes to the contractual terms that are not necessary as a direct consequence of the IBOR reform.

Notes to the Consolidated Financial Statements continued

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming application details and setting appropriate credit limits prior to customers joining the Zip platform.

The consolidated entity regularly reviews customer collections, and collections past due. If there are uncollectable customer receivables, the consolidated entity will write off these receivables but will continue to work on their recovery.

The consolidated entity regularly reviews the level of provision for expected credit loss to ensure that the level of provision is sufficient to mitigate the credit risk exposure in terms of financial reporting. The provision raised represents management's expectation for credit losses in the receivables portfolio at the reporting date measured in accordance with AASB 9.

The provision is estimated on the basis of historical loss experience for assets with similar credit characteristics by the consolidated entity and other companies with similar portfolios. The maximum exposure to credit risk at the reporting date for recognised financial assets is the carrying amount, net of any provisions for expected credit losses of those assets, as disclosed in the consolidated statement of financial position and notes to the consolidated financial statements. Refer to Note 10 for detailed assessment of expected credit losses.

The consolidated entity does not hold any collateral or other credit enhancements.

Liquidity Risk

Liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable. The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities, by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Each of the securitisation warehouses in place has loan covenants that are in line with standard market practice given the nature of the warehouse facilities. There were no material breaches of any of the covenants in place during the financial year.

Financial Arrangements

Unused borrowing facilities at the reporting date are disclosed in Note 16.

Remaining Contractual Maturities

The financial assets of the consolidated entity predominantly comprise customer receivables that have:

- An average repayment profile of five months for Zip Pay receivables, ten months for Zip Money receivables and twelve months for SME receivables; and
- Customer repayment for Zip's Instalment product have a short-term duration, typically 42 days. Instalments products are offered by the Zip New Zealand business, and the Zip Americas and Zip EMEA operating segments (discontinued during the financial year ended 30 June 2023).

Notes to the Consolidated Financial Statements continued

The following tables detail the consolidated entity's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the Consolidated Statement of Financial Position.

Consolidated 30 June 2023	Weighted Average Interest Rate %	1 Year or Less $'000	Between 1 and 2 Years $'000	Between 2 and 5 Years $'000	Over 5 Years $'000	Remaining Contractual Maturities $'000
Non-interest-bearing						
Trade and other payables		213,637	–	–	–	213,637
Deferred consideration		1,889	–	–	–	1,889
Lease liabilities		4,001	4,071	12,191	–	20,263
Interest-bearing						
Borrowings						
– Floating rate borrowings	7.35%	1,701,179	702,900	190,000	–	2,594,079
Total non-derivatives		1,920,706	706,971	202,191	–	2,829,868

Consolidated 30 June 2022	Weighted Average Interest Rate %	1 Year or Less $'000	Between 1 and 2 Years $'000	Between 2 and 5 Years $'000	Over 5 Years $'000	Remaining Contractual Maturities $'000
Non-interest-bearing						
Trade and other payables		140,547	–	–	–	140,547
Deferred consideration		26,184	–	–	–	26,184
Lease liabilities		3,080	435	551	–	4,066
Interest-bearing						
Borrowings						
– Floating rate Borrowings	3.70%	594,731	1,169,079	620,173	–	2,383,983
– Fixed rate Borrowings	11.50%	–	1,893	–	–	1,893
Total non-derivatives		764,542	1,171,407	620,724	–	2,556,673

The cash flows in the maturity analysis above are not expected to occur significantly earlier than disclosed above.

Notes to the Consolidated Financial Statements continued

Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the consolidated entity. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair Value Hierarchy

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level in the fair value measurement hierarchy as follows:

- Level 1: the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: a valuation technique is used using inputs other than quoted prices within level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices).
- Level 3: a valuation technique is used using inputs that are not observable based on observable market data (unobservable inputs).

The Directors consider that the carrying amount of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	Fair Value Hierarchy at 30 June 2023			
	Level 1 $'000	Level 2 $'000	Level 3[1] $'000	Total $'000
Financial assets				
Cash and cash equivalents	151,955	–	–	151,955
Restricted cash	123,955	–	–	123,955
Other receivables	–	77,062	–	77,062
Term deposit	–	7,196	–	7,196
Customer receivables	–	2,596,832	–	2,596,832
Investments at FVTPL	–	13,846	–	13,846
Total	**275,910**	**2,694,936**	**–**	**2,970,846**
Financial liabilities				
Trade and other payables	–	213,637	–	213,637
Deferred consideration	–	1,889	–	1,889
Leasing liabilities	–	17,717	–	17,717
Borrowings	–	2,591,208	–	2,591,208
Financial liabilities – convertible notes Net debt host	–	324,805	–	324,805
Financial liabilities – CVI Convertible notes embedded derivative	–	–	1,314	1,314
Financial liabilities – warrants	–	–	1,049	1,049
Total	**–**	**3,149,256**	**2,363**	**3,151,619**

1. Refer to price risk analysis in this note for the valuation method of financial liabilities – convertible notes embedded derivative and financial liability-warrants which are classified as level 3.

Notes to the Consolidated Financial Statements continued

	Fair Value Hierarchy at 30 June 2022			
	Level 1 $'000	Level 2 $'000	Level 3[1] $'000	Total $'000
Financial assets				
Cash and cash equivalents	241,326	–	–	241,326
Restricted cash	58,369	–	–	58,369
Other receivables	–	61,830	–	61,830
Term deposit	–	3,864	–	3,864
Customer receivables	–	2,508,124	–	2,508,124
Total	**299,695**	**2,573,818**	**–**	**2,873,513**
Financial liabilities				
Trade and other payables	–	140,547	–	140,547
Deferred consideration	–	26,184	–	26,184
Leasing liabilities	–	4,039	–	4,039
Borrowings	–	2,380,909	–	2,380,909
Financial liabilities – convertible notes Net debt host	–	378,937	–	378,937
Financial liabilities – CVI convertible notes embedded derivative	–	–	1,851	1,851
Financial liabilities – warrants	–	–	128	128
Total	**–**	**2,930,616**	**1,979**	**2,932,595**

1. Refer to price risk analysis in this note for the valuation method of financial liabilities – convertible notes embedded derivative and financial liability-warrants which are classified as level 3.

NOTE 22. KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors

The following persons were Directors of Zip Co Limited (Zip or the Company) during the financial year ended 30 June 2023:

- Diane Smith-Gander AO
- Larry Diamond
- Peter Gray
- John Batistich
- Meredith Scott (Appointed as a director on 1 September 2022)

Other KMP

- Martin Brooke

Notes to the Consolidated Financial Statements continued

Compensation

The aggregate compensation paid to Directors and other members of key management personnel of the consolidated entity is set out below:

	30 June 2023 $'000	30 June 2022 $'000
Short-term employee benefits	2,407	2,003
Post-employment benefits	162	127
Long-term benefits[1]	69	97
Share-based payments	763	766
	3,401	2,993

1. Comparatives adjusted to reflect annual leave accrued in the prior financial year less amount taken.

NOTE 23. RELATED PARTY TRANSACTIONS

Parent Entity

Zip Co Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 26.

Key Management Personnel

Disclosures relating to key management personnel are set out in Note 22 and the remuneration report included in the Directors' report.

Transactions with Related Parties

During the financial year ended June 2023, Peter Gray invested $1.0 million in Class C Notes in Variable Funding Note 2 (VFN2) in the Zip Master Trust. The investment was made as part of a public offer process, on the same commercial terms as offered to each of the Class C noteholders investing in VFN2 in the Zip Master Trust. Zip made interest payments of $0.1 million to Peter Gray and there was an immaterial amount of accrued interest outstanding at 30 June 2023. Other than reported in this note and in Note 22, there were no other transactions with related parties during the current and previous financial year.

Receivables from and Payable to Related Parties

There were no trade receivables due from, or trade payables due to, related parties at the current and previous reporting date.

Loans to/from Related Parties

During the financial year ended 30 June 2022, the consolidated entity provided loans to its associate TendoPay for working capital and loan funding purposes. The principal loan amount outstanding at 30 June 2022 was $3.8 million, with accrued interest of $0.5 million based on interest rate of 18% per annum. During the financial year ended 30 June 2023, the principal and accrued interest were repaid by TendoPay to Zip.

Other than reported in this note, there were no other loans to/from related parties at 30 June 2023 and at 30 June 2022.

Notes to the Consolidated Financial Statements continued

NOTE 24. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu (the auditor of the consolidated entity) and other auditors:

	30 June 2023 $'000	30 June 2022 $'000
Deloitte		
Audit and review of the financial statements		
– Group	1,526	1,526
– Controlled entities	671	983
Other Assurance services	35	667
Non-audit services		
– Consulting services	29	217
Total	2,261	3,393
Other Auditors		
Audit and review of the financial statements	265	96
Non-audit services		
– Consulting services	77	–
Total	342	96

NOTE 25. PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements except as set out in this Note.

Investment in Subsidiaries, Associates and Joint Ventures

Investments in subsidiaries, associates and joint ventures are accounted for at cost. Dividends (if any) received from subsidiaries, associates and joint ventures are recognised in profit or loss when a right to receive the dividend is established (provided that it is probable that the economic benefits will flow to the Parent and the amount of income can be measured reliably).

Tax Consolidation

The Company and its wholly-owned Australian resident entities are members of a tax-consolidated group under Australian tax law. The Company is the head entity within the tax-consolidated group.

See Note 1 for a summary of the significant accounting policies relating to the consolidated entity.

Set out below is the supplementary information about the parent entity.

Statement of Profit or Loss and Other Comprehensive income

	Parent	
	30 June 2023 $'000	30 June 2022 $'000
Loss after income tax	(145,121)	(747,728)
Total comprehensive loss	(145,121)	(747,728)

Notes to the Consolidated Financial Statements continued

Statement of Financial Position

	Parent	
	30 June 2023 $'000	30 June 2022 $'000
Total current assets	63,439	72,730
Total non-current assets	1,568,018	1,710,161
Total assets	**1,631,457**	**1,782,891**
Total current liabilities	(349,416)	(406,047)
Total liabilities	**(349,416)**	**(406,047)**
Net assets	**1,282,041**	**1,376,844**
Issued capital	2,121,541	2,041,496
Reserves	75,918	105,645
Convertible notes – equity	114,466	114,466
Accumulated losses	(1,029,884)	(884,763)
Total equity	**1,282,041**	**1,376,844**

Guarantees Entered into by the Parent Entity in Relation to the Debts of its Subsidiaries

During the financial year ended 30 June 2023 and financial year 30 June 2022, the parent entity and certain subsidiaries had a deed of cross guarantee in place under which each company guarantees the debts of the others.

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and Directors' Report under *Corporations Instrument 2016/785* issued by the Australian Securities and Investments Commission.

The effect of the Deed is that the parent entity guarantees to each creditor payment in full of any debt in the event of winding up of the subsidiaries included in the Deed under certain provisions of the *Corporations Act 2001*.

The subsidiaries detailed in Note 26 are parties to a deed of cross guarantee under which each guarantees the debts of the others. These controlled entities have been relieved of the requirement to prepare a financial report and Directors' Report under *ASIC Corporations (Wholly-owned Companies) Instruments 2016/785*. These controlled entities and the Company form a Closed Group. Included in the Closed Group are receivables on zipMoney Payments Pty Ltd's balance sheet which are transferred to the Trusts (which are not parties to the deed of cross guarantee) but failed derecognition due to zipMoney Payments Pty Ltd retaining substantially all the risks and rewards of ownership.

The effects of transactions between entities to the deed are eliminated in full in the Consolidated Statement of Financial Position and Consolidated Statement of Profit or Loss and Other Comprehensive Income as set out in the following tables.

The parent entity has provided a corporate guarantee to secure the funding facility of the zipMoney 2017-2 Trust as at 30 June 2023 and 30 June 2022.

Notes to the Consolidated Financial Statements continued

The Consolidated Statement of Financial Position of the Closed Group is set out in the following table:

	30 June 2023 $'000	30 June 2022 $'000
Assets		
Cash and cash equivalents	61,525	157,722
Restricted cash	75,817	12,834
Other receivables	51,291	49,173
Customer receivables	2,315,538	2,191,318
Property, plant and equipment	3,853	3,062
Right-of-use assets	18,037	2,960
Intangible assets	13,767	20,867
Investments	1,079,359	1,230,703
Deferred tax assets	36,969	–
Total Assets	**3,656,156**	**3,668,639**
Liabilities		
Trade and other payables	(53,462)	(52,610)
Employee provisions	(7,053)	(5,970)
Lease liabilities	(17,034)	(3,207)
Borrowings	(2,358,245)	(2,128,303)
Financial liabilities – convertible notes and warrants	(327,168)	(380,916)
Total Liabilities	**(2,762,962)**	**(2,571,006)**
Net Assets	**893,194**	**1,097,633**
Equity		
Issued capital	2,121,541	2,041,496
Reserves	75,439	105,167
Convertible notes – equity	114,466	114,466
Accumulated losses	(1,418,252)	(1,163,496)
Total Equity	**893,194**	**1,097,633**

Notes to the Consolidated Financial Statements continued

The Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Closed Group is set out in the following table:

	30 June 2023 $'000	30 June 2022 $'000
Portfolio interest income	346,854	275,224
Transactional income	22,026	18,244
Revenue	368,880	293,468
Other income	3,862	180
Bad debts and expected credit losses	(105,942)	(124,087)
Bank fees and data costs	(24,418)	(22,667)
Interest expense	(127,987)	(55,493)
Salaries and employee benefits expenses	(85,006)	(83,740)
Marketing expenses	(3,116)	(20,829)
Information technology expenses	(23,149)	(22,128)
Depreciation and amortisation expenses	(15,700)	(19,208)
Share-based payments	(6,038)	(8,654)
Corporate financing costs	(109,390)	(30,669)
Other operating costs	(84,004)	(33,098)
Impairment of investments	(71,331)	(866,282)
Fair Value (loss)/gain on financial instruments	(8,264)	119,310
Loss before income tax	(291,603)	(873,897)
Income tax benefit/(expense)	36,847	(338)
Loss after income tax	(254,756)	(874,235)
Other comprehensive income, net of tax	–	–
Total comprehensive loss	(254,756)	(874,235)

Contingencies

Other than reported in Note 20, the parent entity had no contingencies as at 30 June 2023 and 30 June 2022.

Capital Commitments – Property, Plant and Equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2023 and 30 June 2022.

Notes to the Consolidated Financial Statements continued

NOTE 26. INTEREST IN SUBSIDIARIES

Ultimate Parent

Zip Co Limited is the ultimate parent entity and the parent entity of the consolidated entity from a legal perspective.

Corporate Structure

The legal corporate structure of the consolidated entity is set out below:

Name	Principal Place of Business/ Country of Incorporation	Ownership Interest 30 June 2023 %	Ownership Interest 30 June 2022 %
Legal parent			
Zip Co Limited[1]	Australia		
Legal subsidiaries			
zipMoney Payments Pty Ltd[1]	Australia	100%	100%
zipMoney Trust 2017-1[2]	Australia	100%	100%
zipMoney Trust 2017-2[2]	Australia	100%	100%
Zip Master Trust[2]	Australia	100%	100%
zipMoney Holdings Pty Ltd[1]	Australia	100%	100%
zipMoney Securities Ltd	Australia	100%	100%
Pocketbook Holdings Pty Ltd	Australia	100%	100%
Pocketbook Australia Pty Ltd	Australia	100%	100%
Pocketbook Technologies Pty Ltd	Australia	100%	100%
Zip Domestic Holdings Pty Limited	Australia	100%	100%
Zip International Holdings Pty Limited	Australia	100%	100%
Zip International India Pty Ltd	Australia	100%	100%
Zip Business Australia Pty Ltd	Australia	100%	100%
Funding Box 3	Australia	100%	100%
ZipBiz Trust 2020-1[2]	Australia	100%	100%
Zip Business Trust 2022-1[2]	Australia	100%	100%
Urge Holdings Pty Ltd	Australia	100%	100%
Urge Technologies Pty Ltd	Australia	100%	100%
Shnap Pty Ltd	Australia	100%	100%
zipMoney Payments (NZ) Limited	New Zealand	100%	100%
Zip Business New Zealand Pty Ltd	New Zealand	100%	100%
Funding Box NZ Limited	New Zealand	100%	100%
Zip Co NZ Limited	New Zealand	100%	100%
Zip Co NZ Finance Limited	New Zealand	100%	100%
Zip NZ Trust 2021-1	New Zealand	100%	100%
Zip Co Payments UK Limited	United Kingdom	100%	100%
Zip Co Finance UK Limited	United Kingdom	100%	100%
Zip UK Holdings LTD	United Kingdom	100%	100%

Notes to the Consolidated Financial Statements continued

Name	Principal Place of Business/ Country of Incorporation	Ownership Interest 30 June 2023 %	30 June 2022 %
Zip Co US inc.	United States of America	100%	100%
QuadPay AR1 LLC	United States of America	100%	100%
AR2 Holdco LLC	United States of America	100%	100%
AR2 LLC	United States of America	100%	100%
Zip Co Canada Holdings Inc.	United States of America	100%	100%
Hemenal Finansman A.Ş.	Turkey	50.2%	60%
Zip Co Payments Canada ULC	Canada	100%	100%
Zip Co Payments Mexico. S.A.de C.V.	Mexico	100%	100%
Zip Global Consulting Pte Ltd	Singapore	100%	100%
Spotii Holdings Ltd	United Arab Emirates	–	100%
Spotii DMMC	United Arab Emirates	–	100%
Spotii Arabia for Information Technology (KSA)	Kingdom of Saudi Arabia	–	100%
Spotii Pakistan (SMC-Private) Limited	Pakistan	–	100%
Payflex Proprietary Limited	South Africa	–	100%
Twisto Payments a.s.	Czech Republic	–	100%
Nikita Engine s.r.o.	Czech Republic	–	100%
Twisto FinCo s.r.o.	Czech Republic	–	100%
Twisto Polska Sp z.o.o.	Poland	–	100%
Twisto Finco PL Sp. z.o.o.	Poland	–	100%

1. These entities have entered into a deed of cross guarantee, refer to Note 25 for details.
2. Ownership is through zipMoney Payments Pty Ltd, which is both the Participating Unitholder and Residual Unitholder of the zipMoney Trust 2017-1, and the zipMoney Trust 2017-2, the Zip Master Trust, the ZipBiz Trust 2020-1 and the Zip Business Trust 2022-1.

Notes to the Consolidated Financial Statements continued

NOTE 27. SHARE-BASED PAYMENTS

Movement in Share-Based Payments Reserve

Details	30 June 2023 $'000	30 June 2022 $'000
Opening balance	85,475	116,515
Recognised for the year		
– At Risk Short-Term Incentive	8,516	18,484
– At Risk Long-Term Incentive	(1,438)	1,647
– Fixed Long-Term Equity	3,741	13,180
– Amazon warrants	–	(2,931)
– Recognition of replacement options issued to QuadPay after acquisition	172	557
– Issue of shares to business acquisition	–	2,156
– Issue of shares to IT development and software purchases	–	264
– Recognition of NED equity plans	47	–
Total recognised for the year	11,038	33,357
Exercised for the year		
– Exercise of share-based payments	(9,246)	(41,544)
– Issue of shares to Zip Employee Share Trust	(10,637)	(22,853)
Total exercised for the year	(19,883)	(64,397)
Closing balance	76,630	85,475

Employee Short-Term Incentive Plan

Short-term incentives are granted to employees for their contribution to the performance of the consolidated entity and include annual share awards, sign- on bonuses and project-specific incentives. Provision is made during the year for incentives that are to be issued during the year and in subsequent years.

Shares have been issued under the Employee Short-Term Incentive Plan as follows:

- 20,849,020 ordinary shares issued in financial year 2023 with a weighted average share price of $0.76; and
- 4,953,510 ordinary shares issued in financial year 2022 with a weighted average share price of $5.83.

Shares issued vest immediately other than those issued to KMP as set out in the Remuneration Report.

Shares issued under the Short-Term Incentive Plan are expensed as share-based payments as the services have been provided.

Notes to the Consolidated Financial Statements continued

Employee Long-Term Incentive Plan

Performance rights include At Risk Long-Term Incentive (LTI) and Fixed Long-Term Equity (LTE), which are subject to the consolidated entity's Remuneration Framework Structure as set out in Remuneration Report.

LTI:

LTIs have been issued under the consolidated entity's Employee Long-Term Incentive Plan as follows:

- 2,559,097 LTIs issued in financial year 2023 to management; and
- 374,756 LTIs issued in financial year 2022 to management.

Details of LTIs movement are as follows:

	Weighted Average Fair Value $	Number of LTI Issued
Balance at the 30 June 2021		4,631,361
Granted during the year	2.99	374,756
Lapsed during the year	4.99	(1,094,418)
Balance at the 30 June 2022		3,911,699
Granted during the year	0.26	2,559,097
Exercised during the year	2.65	(386,666)
Lapsed during the year	4.58	(635,769)
Balance at 30 June 2023		5,448,361

The LTIs on issue have a nil exercise price and vest on the achievement of Total Shareholder Return and time-based hurdles over the period from the date of grant to the assessment dates. The assessment date is three years from the date of grant.

LTIs granted were valued by an independent valuation using a custom-built Monte Carlo model which simulates multiple paths for the share price over the duration of the grant's life. The pay out of the rights is then calculated along each simulated path based on the realised performance of the share price along that path and discounted to the valuation date. The value of the rights is then averaged across all the simulations to obtain the fair value of the rights. This process is repeated for each volatility scenario. These benefits are recognised as share-based payments over the vesting period.

Notes to the Consolidated Financial Statements continued

LTE:

LTEs issued provide Zip with the best opportunity to attract and retain senior leaders and high-quality talent. LTEs were issued with equal vesting over one to four years. LTE is not subject to any performance hurdles and only requires the employees to remain employed for the rights to vest.

Details of LTEs movement are as follows:

	Weighted Average Fair Value $	Number of LTE Issued
Balance at the 30 June 2021		2,145,658
Granted during the year	5.46	5,837,586
Lapsed during the year	6.58	(1,907,352)
Vested during the year	7.16	(795,345)
Balance at the 30 June 2022		5,280,547
Granted during the year	0.56	16,989,338
Lapsed during the year	2.07	(5,779,585)
Vested during the year	2.20	(3,438,460)
Balance at 30 June 2023		13,051,840

All granted LTEs were valued under risk neutral principles, with the future expected value for each LTE being the grant date share price escalated at the risk-free rate. This future expected value is discounted back to the grant date using the risk-free rate, resulting in the fair value at the grant date being Zip's share price at the grant date.

Restricted Rights to NEDs for FY23

The Company established the NED Equity Plan to assist in the motivation, retention and reward of NEDs and to provide an opportunity for the NEDs to acquire shareholdings in the Company through the sacrifice of fees into equity. Following approval by shareholders at the 2022 AGM, the rights under the NED Equity Plan were granted on 23 December 2023 and vested immediately, not subject to performance-based vesting conditions or vesting conditions of any kind.

Details of rights under the NED Equity Plan movement are as follows:

	Weighted Average Fair Value $	Number of NED Equity Issued
Balance at the 30 June 2022		–
Granted during the year	0.52	87,719
Balance at 30 June 2023		87,719

All rights granted under the NED Equity Plan were valued under risk neutral principles, with the future expected value for each right under the NED Equity Plan being the grant date share price escalated at the risk-free rate. This future expected value is discounted back to the grant date using the risk-free rate, resulting in the fair value at the grant date being Zip's share price at the grant date. The weighted average fair value at the grant date of the rights under the NED Equity Plan is $0.52. Each right under the NED Equity Plan ends 15 years after the grant date, and if not exercised before the end of the Term the rights under the NED Equity Plan will lapse.

Notes to the Consolidated Financial Statements continued

Share Options

Share of Options Issued on Acquisition of QuadPay

The options issued during the financial year 2021 were the replacement awards issued to employees and other option holders of QuadPay on the acquisition of QuadPay. The outstanding share options in QuadPay were replaced by options in Zip at 31 August 2020 on the acquisition of QuadPay. There were 10,480,369 replacement options issued to employees and non-employees. No amounts were paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

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 options otherwise lapse 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.

Details of Employee Share Options outstanding during the year are as follows:

	Weighted Average Exercise Price $	Number of Options
Balance at the 30 June 2021		3,862,546
Exercised during the year	0.27	(2,177,352)
Forfeited during the year	0.48	(713,484)
Expired during the year	0.27	(11,448)
Balance at the 30 June 2022		960,262
Exercised during the year	0.16	(225,090)
Forfeited during the year	0.31	(114,933)
Expired during the year	0.45	(118,077)
Balance at 30 June 2023		502,162

Replacement options were valued at $85.3 million at 31 August 2020 by using a Black Scholes pricing model, with the key inputs being the grant dates share price of $9.16, weighted average exercised price of $0.20, expected volatility of 50%, expected life of 8 to 10 years, risk free rate of 0.07%, and expected dividend yield of nil. In determining the expected prospective volatility, an observed 4 year historical volatility of share prices was considered, based on the share prices of a range of comparable companies in the industry which Zip operates, as well as that of Zip.

For options exercised during the financial year ended 30 June 2023, the weighted average Zip share price at the dates of exercise was $0.53 ($3.40 in June 2022).

Westpac Options

At 30 June 2022, the Company had 5,880,000 outstanding options held by Westpac Banking Corporation that vest based on the achievement of certain revenue hurdles. 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. In the event a hurdle is achieved, the associated options vest, and lapse 12 months after vesting. As at 30 June 2022, none of the revenue hurdles had been met and no options have vested. Options relating to any hurdle not achieved by 10 August 2022 automatically lapsed. The 5,880,000 options lapsed on this basis and were cancelled on 8 September 2022.

Notes to the Consolidated Financial Statements continued

Amazon Warrants

During the financial year ended 30 June 2023, there was no share-based payment expense provided in relation to the Amazon warrants (FY22: ($2.9 million)). Refer to Note 17 for details.

NOTE 28. SUBSEQUENT EVENTS

In June 2023, Zip announced that existing holders of its Senior Convertible Notes had approved certain amendments to the terms and conditions of the Senior Convertible Notes to become effective following the Extraordinary General Meeting on 31 July 2023. At the Extraordinary General Meeting shareholders approved the amendments and the physical settlement of the Senior Convertible Notes and the Amending Documents governing the Senior Convertible Notes were subsequently executed.

At 30 June 2023, the Senior Convertible Notes had a principal amount of $290.2 million. The amended Senior Convertible Notes have a principal amount of $137.8 million, with an option for investors to put the amended Senior Convertible Notes back to Zip on 23 April 2025 at 109.17% of the principal amount. A coupon of 5.0% per annum is payable on a semi-annual basis and at the Final Maturity Date of 23 April 2028, noteholders may redeem the amended Senior Convertible Notes at 129.30% of the principal amount. At any time up to 10 business days prior to the Final Maturity Date, noteholders have the option of converting the amended Senior Convertible Notes into Zip's ordinary shares at a share price of $0.517 (adjusted in accordance with standard anti-dilutive provisions).

The amendment of the Senior Convertible Notes is a substantial modification of the terms of an existing financial liability, and will be accounted for as an extinguishment of the pre-existing financial liability and the recognition of a new financial liability. A gain is expected to be recognised on extinguishment of the pre-existing Senior Convertible Notes along with the associated tax impact.

As part of the Consent Solicitation, an Early Bird Fee of $2.1 million was paid to eligible noteholders subsequent to the year end.

In July 2023, the final payment of $1.9 million in relation to contingent consideration to the former Payflex shareholders has been made and the liability reduced to Nil.

In August 2023, Zip agreed an extension to the maturity date of the Zip NZ Trust 2021-1 to 31 July 2024.

In September 2023, Zip made a payment of $10.8 million, which included accrued interest of $0.8 million, under the terms of the CVI Convertible Notes. Following the repayment, 400 Convertible Notes with a face value of $40.0 million remain outstanding and held by CVI Investments, Inc. In addition, Zip cancelled 19,365,208 warrants issued to CVI due to their expiration.

To the date of the release of this report, there have been no other material items, transactions or events subsequent to 30 June 2023 that relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

Directors' Declaration

The Directors declare that in the Directors' opinion:

- There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- The attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- The attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, 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 30 June 2023 and of its performance for the financial year ended on that date; and
- The Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

At the date of this declaration, the Company is within the class of companies affected by *ASIC Corporations (Wholly owned Companies) Instrument 2016/*785. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which *ASIC Corporations (Wholly owned Companies) Instrument 2016/785* applies, as detailed in Note 25 to the financial statements will, as a group, be able to meet any liabilities to which they are, or may become, subject because of the deed of cross guarantee.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors,

Cynthia Scott
Group Chief Executive Officer
and Managing Director

28 September 2023

Independent Auditor's Report to the Members

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Zip Co Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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 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 report.

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

Independent Auditor's Report to the Members continued

Deloitte.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 (d) in the consolidated financial statements, which sets forth the events or conditions that indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Independent Auditor's Report to the Members continued

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Expected credit loss provisioning As at 30 June 2023, the carrying value of Customer receivables recorded was $2,597m, which included a provision for expected credit loss (ECL) of $152.1m as disclosed in Note 10. The Group's models to measure the 'expected credit losses', that meet the measurement objective of AASB 9 *Financial Instruments,* involve the use of significant judgements and assumptions to: • Classify credit instruments into three credit risk buckets based on assessment of increases in credit risk and objective evidence of impairment or write off, using historical roll rates; • Determine the probability of default, exposure at default and loss given default based on historical data adjusted for current economic conditions and forward looking information; and • Formulate and incorporate multiple forward looking macroeconomic and regulatory scenarios in the model risk overlay. We consider this to be a key audit matter due to the significance of the Customer receivables balance to the consolidated financial statements, the level of judgement and subjectivity in the selection and application of the key assumptions and estimates used to determine expected credit losses, and the volume and complexity of data sets and provisioning models used to perform the calculations.	Our procedures included, but were not limited to: • Obtaining an understanding of the source of data inputs, the methodology used, and credit estimates and judgements made by management in the provisioning models; • Understanding the key controls relating to the customer loan approval, collection, identification of overdue amounts, transaction data, impairment assumptions, judgement and modelling processes and calculations; • Agreeing a sample of data inputs into the provisioning models to calculate the probability of default, exposure at default and loss given default, to the relevant source documentation and historical loan portfolio performance and recovery records; • Assessing the provisioning methodology with reference to relevant accounting standards; • Testing the mathematical accuracy of the models; • Considering the reasonableness of management's key assumptions used in determining probability of default, exposure at default, loss given default and lifetime expected loss; • Considering the reasonableness of judgemental overlays in response to the current and forward looking, regulatory, model risk and macroeconomic factors and environment; and • Assessing the adequacy of the disclosures in Note 1 (f), Note 10 and Note 21 to the financial statements.

Independent Auditor's Report to the Members continued

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Impairment of Goodwill and other indefinite life intangible assets Goodwill of $209.2m and intangible assets of $141.6m allocated to the Group's remaining cash-generating units (CGUs) were assessed by management for impairment as disclosed in Note 12 and Note 13. $18.4m of goodwill relating to discontinued operations, $2.1m of goodwill and $7.7m intangible assets both relating to continuing operations were impaired during the year. Management conducted annual impairment tests (or more frequently where impairment indicators existed) to assess the recoverable amount of goodwill and other indefinite life intangible assets. This assessment was performed through the preparation of discounted free cash flow to equity Value in Use models. The impairment test requires judgement in respect of key assumptions including forecast compound annual growth rate (CAGR) of transaction volumes and revenue over a 5 year period, long-term annual growth rates and discount rates. The impairment of goodwill and other intangible assets acquired in a business combination was a key audit matter due to the presence of significant impairment indicators, and the degree of estimation associated with the assumptions used in the impairment assessment.	Our procedures were performed in conjunction with our valuation specialists and included, but were not limited to: • Obtaining an understanding of any changes to the internal and external impairment indicators (such as the impact of macro-economic factors on cash flow forecasts, revisions to strategic direction and changes in market capitalisation); • Understanding the key controls relating to the preparation and review of impairment models; • Assessing the competence and capabilities of management's valuation expert; • Assessing management's position paper to identify the CGU to which goodwill has been allocated; • Evaluating consistency of management's projections, historical track record and external market evidence; • Testing the model methodology and mathematical accuracy; • Considering the reasonableness of key assumptions used in the impairment model, such as the Board's revised strategic direction, forecast compound annual growth rate (CAGR) of transaction volumes, long-term annual growth rate and discount rate; • Assessing the appropriateness of any impairment charges recognised; and • Assessing the adequacy of the disclosures in Note 1 (f), Note 1(k), Note 1 (l), Note 12 and Note 13 to the financial statements.
Convertible notes The Group issued $400.0m zero coupon senior convertible notes on 23 April 2021.	Our procedures were performed in conjunction with our accounting technical and tax experts. They included, but were not limited to:

Independent Auditor's Report to the Members continued

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
On initial recognition, the Senior Convertible Notes contained two components, a debt contract and a separate conversion feature. The debt contract was classified as a financial liability measured at amortised cost and the conversion feature was classified as equity in accordance with AASB 132. During the financial year ended 30 June 2023, the Group completed liability management exercises to convert into equity $109.8m of the $400m zero coupon Senior Convertible Notes on issue, resulting in derecognition of $93.4m of the liability component. At 30 June 2023, a financial liability of $277.9m in relation to the underlying debt component and $114.5m in relation to the equity component of the remaining Senior Convertible Notes was recognised in the financial statements as disclosed in Note 5. $29.9m of conversion incentive expenses and $65.9m of effective interest expense were also recognised in respect of the Senior Convertible Notes, as disclosed in Note 5. In addition, as disclosed in Note 28, the Group completed the Consent Solicitation exercise on 31 July 2023. The Group expects the transaction to result in a future taxable profit. A Deferred tax asset of $37.0m was recognised, which represents previously unrecognised tax losses, against which future taxable gains are expected to be offset. We consider this to be a key audit matter as accounting for the impact of the senior convertible note liability management exercise, including the incentivised conversion and consent solicitation is an area of significant accounting complexity. The recognition of a deferred tax asset requires judgement in determining whether it is probable that future taxable profits will be available.	• Obtaining an understanding of the nature and terms of the senior convertible note liability management exercises; • Understanding the key controls relating to the preparation and review of accounting positions, transactions and disclosures; • Reviewing management's accounting position papers and evaluating the external accounting assessment performed by management's accounting expert; • Assessing the competence and capabilities of management's accounting expert; • Testing the mathematical accuracy of effective interest adjustments; • Considering the appropriateness of management's decision to revise its estimated redemption probability of the associated put option; • In conjunction with our technical accounting specialists, assessing management's proposed accounting treatment of the liability management exercise for compliance with the relevant accounting standards (AASB 132); • Considering the timing of consent solicitation exercise to determine the appropriate period in which to recognise the impact; • Assessing the appropriate accounting treatment for related tax consequences, including assessing probability for future taxable profits against which deferred tax assets are expected to be utilised; and • Assessing the adequacy of the disclosures in Note 1 (o), Note 5 and Note 28 to the financial statements.

Independent Auditor's Report to the Members continued

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
IT systems The Group's operations and financial reporting processes are heavily dependent on IT systems for the processing and recording of a significant volume of transactions. Therefore, we consider the operation of financial reporting IT systems and controls to be a key audit matter.	Our procedures were performed in conjunction with our IT experts. They included, but were not limited to: • Developing an understanding of the IT systems, IT application controls and IT dependent manual controls that were integral to the lending and financial reporting processes; • Understanding and evaluating the design and implementation of the relevant controls; and • Where we identified control matters relating to IT systems relevant to our audit, we evaluated manual controls and varied the nature, timing and extent of our substantive procedures.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

Independent Auditor's Report to the Members continued

Deloitte.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report to the Members continued

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We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 66 to 96 of the Directors' Report for the year ended 30 June 2023**.**

In our opinion, the Remuneration Report of Zip Co Limited, for the year ended 30 June 2023, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants

Sydney, 28 September 2023

Shareholder Information

The shareholder information set out below was applicable as at 6 September 2023.

DISTRIBUTION OF EQUITABLE SECURITIES

Analysis of Number of Equitable Security Holders by Size of Holding

Range	Number of Holders of Ordinary Shares	Number of Holders of Unlisted Warrants Exp 06.11.2026
1 to 1,000	68,982	–
1,001 to 5,000	24,548	–
5,001 to 10,000	6,180	–
10,001 to 100,000	7,667	–
100,001 and over	698	1
Total	108,075	1
Holding less than a marketable parcel	76,856	–

Range	CVI Convertible Notes	Number of Holders of Unquoted Options Vesting 10.08.2022
1 to 1,000	1	–
100,001 and over	–	–
Total	1	–
Holding less than a marketable parcel	–	–

Range	Number of Holders of Unquoted Performance Rights, Vesting 15.02.2022	Number of Holders of Unquoted Performance Rights, Vesting 15.02.2023	Number of Holders of Unquoted Performance Rights, Vesting 15.02.2024
100,001 and over	2	2	2
Total	2	2	2
Holding less than a marketable parcel	–	–	–

Range	Number of Holders of Unquoted Performance Rights, Vesting 15.09.2021	Number of Holders of Unquoted Performance Rights, Vesting 15.09.2022	Number of Holders of Unquoted Performance Rights, Vesting 15.09.2023
10,001 to 100,000	–	–	–
100,001 and over	1	3	3
Total	1	3	3
Holding less than a marketable parcel	–	–	–

Shareholder Information continued

Range	Number of Holders of Unquoted Performance Rights, Vesting 15.09.2024	Number of Holders of Unquoted Performance Rights, Vesting 14.09.2023	Number of Holders of Unquoted Performance Rights, Vesting 07.06.2023
10,001 to 100,000	4	2	1
100,001 and over	2	–	–
Total	6	2	1
Holding less than a marketable parcel	–	–	–

Range	Number of Holders of Unquoted Performance Rights, Vesting 07.06.2024	Number of Holders of Unquoted Performance Rights, Vesting 15.09.2025
10,001 to 100,000	1	–
100,001 and over	–	5
Total	1	5
Holding less than a marketable parcel	–	–

Range	QuadPay Employee Options	LTE Plan – Unlisted Performance Rights, Vesting Various Dates up to 08.03.2027
1 to 1,000	1	14
1,001 to 5,000	1	90
5,001 to 10,000	1	33
10,001 to 100,000	13	140
100,001 and over	1	19
Total	17	296
Holding less than a marketable parcel	–	–

Shareholder Information continued

EQUITY SECURITY HOLDERS

Twenty Largest Quoted Equity Security Holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary Shares	
	Number Held	% of Total Shares Issued
DIAMOND VENTURE HOLDINGS PTY LTD <DIAMOND FT A/C>	54,448,015	6.39
UBS NOMINEES PTY LTD	36,008,843	4.23
CITICORP NOMINEES PTY LIMITED	27,656,951	3.25
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	27,340,314	3.21
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	23,701,367	2.78
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	22,711,187	2.67
MR PETER JOHN GRAY	15,702,474	1.84
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	13,904,039	1.63
ST LAWRENCE CORPORATION PTY LTD <ST LAWRENCE A/C>	13,278,305	1.56
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	10,779,818	1.27
MR DESHUN SHI	10,000,000	1.17
SOLIUM NOMINEES (AUSTRALIA) PTY LTD <VSA A/C>	9,105,889	1.07
BNP PARIBAS NOMS PTY LTD <DRP>	7,757,626	0.91
TOMANOVIC MULTIOWN PTY LTD <AFS SUPER FUND A/C>	6,000,000	0.70
SUPERHERO SECURITIES LIMITED <CLIENT A/C>	5,934,673	0.70
MR ADAM MARC FINGER	5,403,147	0.63
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <EUROCLEAR BANK SA NV A/C>	3,406,901	0.40
MR CHANGHUI PEI	3,215,000	0.38
ROCKET INTERNET CAPITAL PARTNERS SCS <RICP SCS A/C>	2,954,596	0.35
MRS XIAOLI CAI	2,850,000	0.33
Total	302,159,145	35.47

Shareholder Information continued

Unquoted Equity Securities

	Number on Issue	Number of Holders
Unlisted Warrants, Expiry 6 November 2026	7,307,500	1
Unlisted Warrants, Expiry 6 November 2026	3,653,750	1
CVI Convertible Notes	400	1
QuadPay Employee options	489,799	17
Unlisted Performance Rights Vesting 15.02.2022	406,666	2
Unlisted Performance Rights Vesting 15.02.2023	406,666	2
Unlisted Performance Rights Vesting 15.02.2024	406,668	2
Unlisted Performance Rights Vesting 15.09.2021	116,667	1
Unlisted Performance Rights Vesting 15.09.2022	393,334	3
Unlisted Performance Rights Vesting 15.09.2023	381,617	3
Unlisted Performance Rights Vesting 15.09.2024	312,941	6
Unlisted Performance Rights Vesting 14.09.2023	23,030	2
Unlisted Performance Rights Vesting 07.06.2023	99,904	1
Unlisted Performance Rights Vesting 07.06.2024	66,542	1
Unlisted Performance Rights Vesting 15.09.2025	2,602,722	5
Long Term Equity Plan – Unlisted Performance Rights, vesting various dates up to 8 March 2027	11,451,407	296
NED Equity Plan – Unlisted Restricted Rights	87,719	3

The following persons holds 20% or more of unquoted equity securities:

Name	Class	Number Held
AMAZON.COM NV INVESTMENT HOLDINGS LLC	Unlisted Warrants Expiry 06.11.2026	10,961,250
CVI INVESTMENTS, INC	Convertible Notes, Face Value $100,000	400

Shareholder Information continued

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below based on the shares disclosed as held from the last Form 604 lodged by the shareholder:

	Ordinary Shares	
	Number Held	Percentage %
MR LARRY DIAMOND, MR LARRY DIAMOND + MRS ASHLYN DIAMOND DIAMOND VENTURE HOLDINGS PTY LTD <DIAMOND UNIT A/C>	54,557,689	8.18%
STATE STREET CORPORATION AND SUBSIDIARIES	39,400,084	5.91%

VOTING RIGHTS

Voting rights are as set out below:

Ordinary shares:

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.

Options:

All quoted and unquoted options do not carry any voting rights.

ASX LISTING RULE 4.10.3

The corporate governance statement that meets the requirements of this rule is located on the Company's website https://zip.co/investors/corporate-governance

GRI Content Index

STATEMENT OF USE

Zip Co Limited has reported the information cited in this GRI content index for the period 1 July 2022 to 30 June 2023 with reference to the GRI Standards, GRI 1 Standard used.

GRI 1 STANDARD USED

GRI 1: Foundation 2021.

GRI Standard	Disclosure	Reference/Location	Page
General Disclosures			
GRI 2: General Disclosures 2021	**The organisation and its reporting practices**		
	2-1: Organisation details	Directors' Report	48-49
	2-2: Entities included in the organisation's sustainability reporting	Directors' Report	48-49
	2-3: Reporting period, frequency and contact point	Directors' Report	48
	2-4: Restatements of information	Directors' Report	48
	2-5: External assurance	Auditor's Independence Declaration	97-98
	Activities and workers		
	2-6: Activities, value chain and other business relationships	Review of Operations	48-49
	2-7: Employees	Sustainability Report (Social Metrics)	37
		Directors' Report (Cash Expenses)	54
	Governance		
	2-9: Governance structure and composition	Sustainability Report (Governance)	26-30
	2-10: Nomination and selection of the highest governance body	Sustainability Report (Governance)	28-29
		Corporate Governance Statement (CGS)	
	2-11: Chair of the highest governance body	Sustainability Report (Governance)	26
	2-12: Role of the highest governance body in overseeing the management of impacts	Sustainability Report	20-45
	2-13: Delegation of responsibility for managing impacts	Sustainability Report	20-45

GRI Content Index continued

GRI Standard	Disclosure	Reference/Location	Page
GRI 2: General Disclosures 2021 continued	2-14: Role of the highest governance body in sustainability reporting	Sustainability Report	20-45
	2-15: Conflicts of interest	Sustainability Report	28
		Corporate Governance Statement (CGS)	
	2-16: Communication of critical concerns	Sustainability Report (Governance)	25-35
	2-17: Collective knowledge of the highest governance body	Sustainability Report (Governance)	29
	2-18: Evaluation of the performance of the highest governance body	*Corporate Governance Statement (CGS)*	
	2-19: Remuneration policies	Remuneration Report	66-96
	2-20: Process to determine remuneration	Remuneration Report	66-96
	Strategy, policies and practices		
	2-22: Statement on sustainable development strategy	Sustainability Report	20-24
	2-23: Policy commitments	*Corporate Governance Statement (CGS)*	
	2-24: Embedding policy commitments	*Corporate Governance Statement (CGS)*	
	2-25: Process to remediate negative impacts (whistleblowing)	*Corporate Governance Statement (CGS)*	
	2-26: Mechanisms for seeking advice and raising concerns	*Corporate Governance Statement (CGS)*	
	Stakeholder engagement		
	2-29: Approach to stakeholder engagement	Shareholder engagement in our *Corporate Governance Statement (CGS)*	
		People & Culture (P&C) section	16-17
		Sustainability Report	20-45
GRI 3: Material Topics 2021	**Material Topics**		
	3-1: Process to determine material topics		20-24
	3-2: List of material topics		23-24

GRI Content Index continued

GRI Standard	Disclosure	Reference/Location	Page
Cyber Security, Data Privacy and Financial Crime			
GRI 3: Material Topics 2021	3-3: Management of material topics		31-35
GRI 205: Anti-corruption 2016	205-1: Operations assessed for risks related to corruption	Sustainability Report (Governance)	34
	205-2: Communication and training about anti-corruption policies and procedures	Sustainability Report (Governance)	34
GRI 418: Customer Privacy 2016	418-1: Substantiated complaints concerning breaches of customer privacy and loses of customer data	Sustainability Report (Cyber)	31-34
Employment Conditions and Social Wellbeing			
GRI 3: Material Topics 2021	3-3: Management of material topics		16-17 38-40
	401-2: Benefits provided to full-time employees that are not provided to temporary or part time employees	People & Culture (P&C)	16-17
GRI 403: Occupational Health and Safety 2016	403-3: Occupational health services	People & Culture (P&C)	16-17
	403-6: Promotion of worker health	People & Culture (P&C)	16-17
		Sustainability Report (Social Wellbeing)	38-40
GRI 404: Training and Education 2016	404-2: Programs for upgrading employee skills and transition assistance programs	People & Culture (P&C)	16-17
	404-3: Percentage of employees receiving regular performance and career development reviews	People & Culture (P&C)	16-17
Diversity, Equity and Inclusion (DEI)			
GRI 3: Material Topics 2021	3-3: Management of material topics		36-39
GRI 405: Diversity and Equal Opportunity 2016	405-1: Diversity of governance bodies and employees	Social Metrics section	37
	405-2: Ratio of basic salary and remuneration of women to men	Sustainability Report (DEI)	37-38
GRI 403: Occupational Health and Safety 2016	403-6: Promotion of worker health	People & Culture (P&C)	16-17
		Sustainability Report (Social Wellbeing)	38-39

GRI Content Index continued

GRI Standard	Disclosure	Reference/Location	Page
Financial Wellbeing			
GRI 3: Material Topics 2021	3-3: Management of material topics		35-41
GRI 203: Indirect Economic Impacts 2016	203-2: Significant indirect economic impacts	Sustainability Report (Financial Wellbeing)	40-41
Climate Change and Environmental Sustainability			
GRI 3: Material Topics 2021	3-3: Management of material topics		42-45
GRI 201: Economic Performance 2016	201-2: Financial implications and other risks and opportunities due to climate change	Sustainability Report	44-45
GRI 302: Energy 2016	302-1: Energy consumption within the organization	Sustainability Report (Environmental)	42-43
	302-4: Reduction of energy consumption	Sustainability Report (Environmental)	42-43
GRI 305: Emissions 2016	305-1: Direct (Scope 1) GHG emissions	Sustainability Report (Environmental)	42-43
	305-2: Energy indirect (Scope 2) GHG emissions	Sustainability Report (Environmental)	42-43
	305-3: Other indirect (Scope 3) GHG emissions	Sustainability Report (Environmental)	42-43
	305-5: Reduction of GHG emissions	Sustainability Report (Environmental)	42-43
Economic Performance			
GRI 201: Economic Performance 2016	201-1: Direct economic value generated and distributed	Financial Report	47-167
		Sustainability Report (Social Wellbeing)	40

Corporate Directory

DIRECTORS

Diane Smith-Gander AO (Chair)
Cynthia Scott (Group CEO & Managing Director)
Larry Diamond (CEO US & Executive Director)
John Batistich (Non-Executive Director)
Meredith Scott (Non-Executive Director)

COMPANY SECRETARY

Tai Phan

REGISTERED OFFICE

Level 5, 126 Phillip Street
Sydney NSW 2000

Website: www.zip.co

SECURITIES EXCHANGE LISTING

ASX Code: ZIP

AUDITORS

Deloitte Touche Tohmatsu
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50 Bridge Street
Sydney NSW 2000

SOLICITORS

Arnold Bloch Liebler
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Sydney NSW 2000

SHARE REGISTRY

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Level 11, 172 St Georges Terrace
Perth WA 6000

INVESTOR ENQUIRIES

investors@zip.co

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