2018 Annual Report

Reimagining payments. Improving every day.

Zip Co Limited (formerly zipMoney Limited)

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Key Highlights

1.3M+[1]

Happy customers

$750M+[2]

Annualised transactions

$40.4M+

FY18 revenue, up 138%

1. Circa 1.3 million customers across Zip and Pocketbook. 2. Run-rate annualised transaction volume as at 30 June 2018.

FY18 Snapshot

Cash Flow Break-even

On a monthly basis in Q4

New Brand

Exciting new look launched

Major Partners

Officeworks, Tigerair, Kogan

CEO & Chairman's Report

2018 was a pivotal year for Zip - we raised equity from Westpac, rebranded, launched our App and added some of the country's largest retailers to our payments platform. The foundation is now set for another year of significant growth as we drive towards our target of $1 billion in transaction volume.

Dear fellow shareholders,

It's a pleasure to write our report for FY18, our third year as a publicly listed company.

Zip was founded 5 years ago with a mission to disrupt the unfriendly credit card market by providing consumers with a better, fairer, digital alternative. We saw an opportunity to simplify financial services by bringing transparency and responsibility to payment and credit products, and deliver a more enjoyable experience. At the heart of what we do, Zip empowers consumers to take back control of their financial lifestyle and 'Own it'.

In looking back on a year of incredible growth and significant milestones, it's appropriate to give thanks to a number of important stakeholders who have made this possible:

- Our users, now numbering over 1.3 million, who have adopted and loved our market-leading products, Zip and Pocketbook.
- Our retail partners, who now number over 10,000 and include many of the country's biggest names, as well as our much-loved small business segment.
- Our passionate staff, 'Zipsters', who continue to challenge, experiment, and drive the Company and its products forward into new, unchartered territory.
- Finally, our investors, who have supported the business since listing in September 2015 and have helped propel the share price from 20c to over $1, an increase of over 500%.

Record-breaking Year

We set out at the beginning of FY18 with a number of ambitious goals, so we're pleased to deliver another set of record results, including:

- Revenue of $40m, an increase of 138%
- Cashflow break-even on a monthly basis
- Quarterly transactions of 600,000 (up 240%)
- Annualised run-rate of $750m in transactions
- Net bad debts of 2.6%, below industry peers

"A year of incredible growth and significant milestones"

The last year saw the Company refresh its branding to better reflect its product range and provide a scalable platform from which to grow. Zip Pay and Zip Money now sit as two accounts under one master brand – 'Zip'. We also updated the listed company name from 'zipMoney' to 'Zip Co' and the ticker from 'ZML' to 'Z1P'.

We rolled out our first native app in August 2018 and quickly achieved Top 10 status in the Shopping and Finance categories within the App and Play stores, respectively. The feedback from users has been fantastic and the app creates a new, captive channel to engage and drive instore payments.

As alternative payment methods continue to be adopted en masse by customers and retailers nationally and globally, our aim is to be everywhere that customers are. We want to be their payment method of choice, whether they're paying for a 60-inch television, a new pair of joggers, or a phone bill.

The last 12 months has been a watershed year as some of the country's biggest retailers joined the Zip platform, including Officeworks, Super Retail Group, Tigerair, Spotlight, Virgin Australia, and Target. Also, after a successful beta trial, we can now offer customers the ability to use Zip to pay bills through BPAY, interest free.

Board and Funding

Last year we raised $40 million in equity from Westpac, in a minority share placement, to support our growth trajectory. This relationship continues to build, initially with Westpac Institutional Bank.

Our Board has seen a number of changes over 2018. We said farewell to Megan Quinn, who made a substantial contribution to our branding and marketing efforts. We were also pleased to add two experienced executives to the Board: Dianne Challenor, General Manager, Global Transaction Services at Westpac; and John Batistich, formerly Marketing and Digital Director for the Westfield Group.

During the year we were successful in securing an increase in receivables funding from NAB, which significantly reduced all-in cost of funds below 6% compared to 10% previously. The relationship with NAB continues to grow in strength as we look to complete the expansion of our available facilities to $500m.

Accelerating Change

As we look forward, we believe there has never been a more favourable climate for Fintechs in Australia. Many new and exciting developments will continue to propel the sector forward, supported by evolving consumer choices, open-banking, comprehensive credit reporting and supply weakness from the banking sector.

> There has never been a more favourable climate for Fintechs in Australia

To continue to capitalise on this opportunity, it's critical that we remain laser-focused on our core proposition of issuing interest free credit and processing payments in our expanding network, while fostering deep relationships with both consumers and retail partners. We currently account for 0.1% of the market and have a wonderful opportunity to increase our reach and penetration to rapidly accelerate our growth.

We will continue to drive forward with our growth-oriented strategy aimed at creating and maximising shareholder value. Our team is committed to the future as we disrupt the credit card market through experimentation and innovation.

Together, we share a relentless pursuit of superior and responsible customer experiences.

Philip Crutchfield
Chairman

Larry Diamond
Managing Director & CEO

About Zip


Welcome back ,
Sarah!
Here's a quick look at your account.
Zip Pay
$890 05
Available Funds
Payment scheduled for $40.00/m
Zip Money
$3,015 00
Available Funds
Payment scheduled for $40.00/m
Recommended for you
FIND
INSTORE
SETTINGS

Who we are

We're Zip

We create simple, fair and transparent credit and payment solutions that improve lives every day. We allow people to own the things they love now, and pay later, interest free.

Looking at the credit landscape, the credit card and traditional sales finance model is broken. Credit card applications are lengthy, acceptance rates are low, and the terms are often unfriendly.

As credit card volume growth slows, consumers are moving to debit cards, digital wallets and Alternate Payment Methods (APMs). Consumers are increasingly disengaged with banks and credit card providers because they know the difference between a good deal and a bad one. And they're willing to act accordingly. With this growing societal shift towards APMs, Zip prides itself on offering products with a strong focus on financial wellbeing and responsibility.

In recent months, there's been increased publicity surrounding credit cards and the Pay Later industry. Right from the outset, Zip has built its offering on a foundation of customer trust and longevity.

Our model is unique in market when placed alongside credit cards and other Pay Later providers.

Zip's key points of difference

Responsibility

I.D. and credit checks for all applicants. A revenue model that doesn't rely on customers falling into arrears

Big data advantage

Significant investment in decision technology, A.I. and data sciences

Flexibility

Uniquely positioned to offer credit for both small and large purchases

Network value

Established proprietary payments network built online and instore with partners

Affordability

Interest free terms, flexible repayment schedules, and simple and transparent fees

Competitive acquisition model

Low, single digit $ cost per acquisition

What we do

Zip provides products that give people the freedom to better control their everyday finances.

zip

Credit and Payments

zip.co

Interest free digital wallet:

- Line of credit and reusable account
- For everyday spending and life's bigger buys
- Zip Pay for under $1,000. Zip Money for up to $30,000

Pocketbook

Budgeting and Saving

getpocketbook.com

Personal finance managment App:

- Free mobile app
- Automatically categorises spending
- Helps users manage savings and achieve goals

How we do it

Customers enjoy:

No upfront payments
Interest free terms
Flexible repayments

Retailers bring customers; customers bring retailers. Zip generates revenue from both parties.

Retail partners enjoy:

Increased sales volumes
Increased order values
Increased re-purchases

It's a win-win

Zip issues credit at the point-of-sale and processes payments, both instore and online, in a 'closed loop' network.

From its beginnings in 2013 as a consumer finance company focused on point-of-sale credit, Zip continues to evolve. It is now an established 'next generation' payments company, primed for further growth.

The nature of the Zip model allows for many applications, all with the purpose of delivering seamless transactions for both customers and partners.

Business Operations

Growing Our Partners

Many large retailers now offer multiple APMs at checkout, because they value the right mix of options that will help drive conversion.

We have continued to add significantly larger enterprise retailers to our platform and the sales pipeline continues to expand with well-known, exciting brands.

Our retail partners have enjoyed collaborating on a number of effective marketing campaigns to help drive both customer acquisition and retransaction behaviour. This has included various launches, promotions and social campaigns.

BETTS
REID CYCLES
thermomix
catch.com.au
99Bikes
DOORS PLUS
Trip a Deal
FOREVER NEW

2016

Note: the size of the blocks is indicative of the size of the business.
For example, the largest blocks represent businesses with $1 billion+ in annual sales.

Super Retail Group

Best&Less

Spotlight

Target

Fantastic Furniture

tigerair

Officeworks

kogan.com

laserclinics Australia

bras N things

webjet.com.au Exclusives

MITRE 10

2017

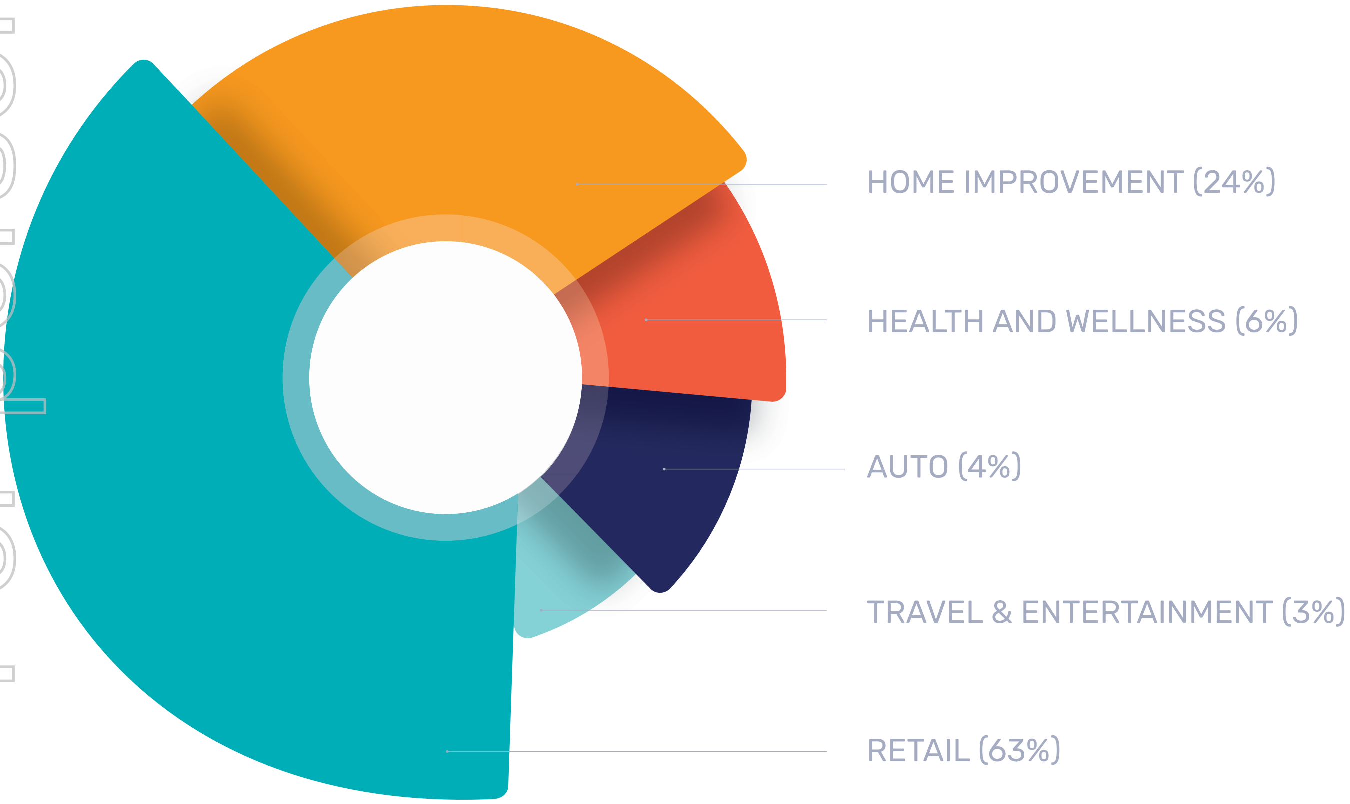
2018

10,000 places to shop, and growing

There are now more than 10,000 places for customers to shop within the Zip network. In our target categories, we've partnered with some of the biggest players.

During FY18, more than 6,000 retail partners joined the Zip network, including big names like Officeworks, Tigerair, Kogan, Mitre 10, Fantastic Furniture and Total Tools.

Transaction volume by category[1]



1. Chart illustrative of Zip's key segments based on transaction value to June 2018.

We're just getting started

Zip is currently processing annualised transaction volume of $750m+, less than 0.1% of the addressable market.

In Australia, there is an estimated $1 trillion+ in annual payment volume.

Given our diverse model, we are uniquely placed to penetrate across all verticals.

Increasing adoption of APMs is driving industry acceptance right across the ecosystem.

1. Australian Bureau of Statistics www.abs.gov.au/ausstats/abs@.nsf/mf/8501.0. 2. Reserve Bank of Australia www.rba.gov.au/statistics/tables/xls/c01hist.xls?v=2018-08-02-18-22-22 / www.rba.gov.au/statistics/tables/?v=2018-08-02-18-22-10#Money-credit. 3. The Australian Institute of Health and Welfare www.aihw.gov.au. 4. Tourism Research Australia www.tra.gov.au.

Growing Our Customers

Zip's customer numbers and engagement metrics continue to grow

This has been driven by a range of initiatives delivered in FY18, including:

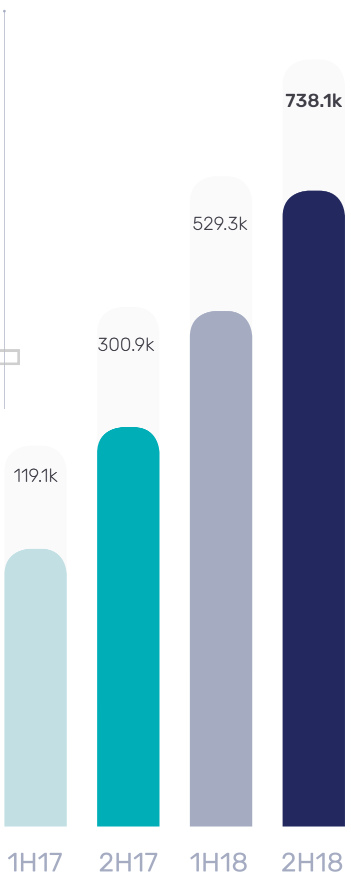
- An expanded Zip network of retail partners
- Targeted marketing campaigns
- New brand launched in June
- New product feature releases

The Zip platform now has over 738,000 customers, with an average of 35,000 signing up each month.

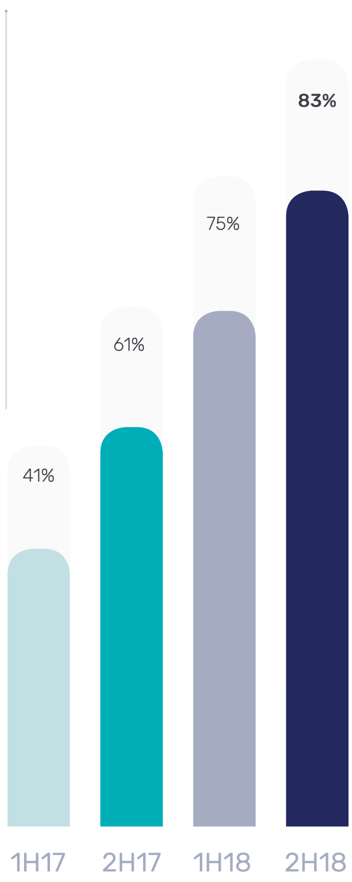
The repeat transaction rate is increasing, with 83% of transactions in June from existing customers. The increase in customer numbers follows an expansion of the Zip network, providing more places to shop, as well as targeted campaigns to make it easier for our customers to find places to use Zip.

We unified the network during the year, enabling any Zip account holder (Zip Pay or Zip Money) to be able to shop at any Zip retail partner. Plus, we introduced a new product feature to allow customers to use Zip to pay bills through BPay, interest free.

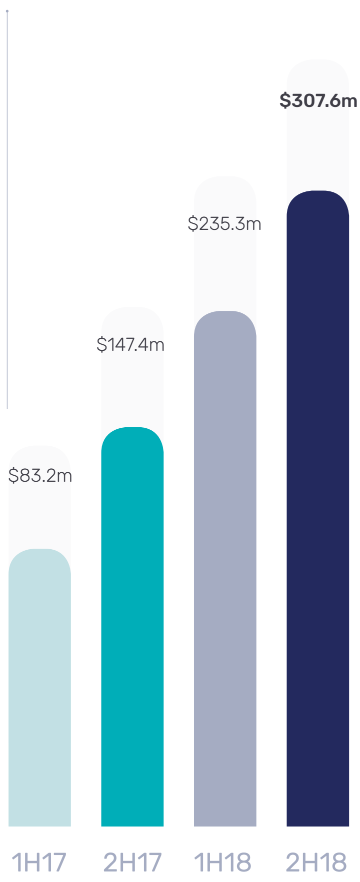
CUSTOMERS

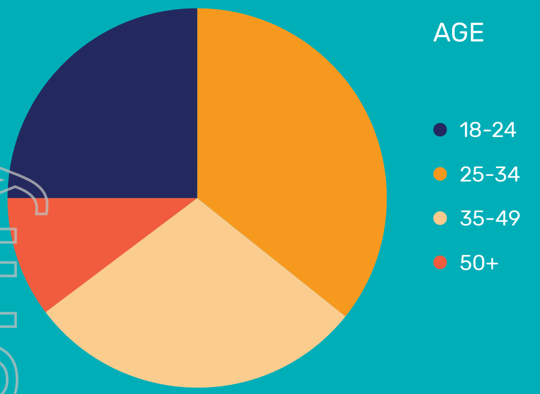


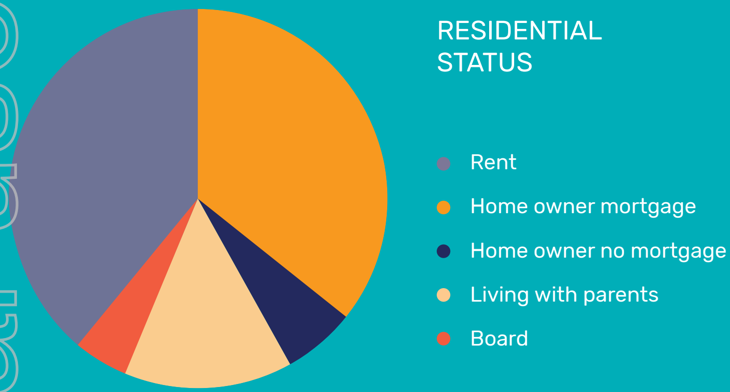
REPEAT TRANSACTION RATE

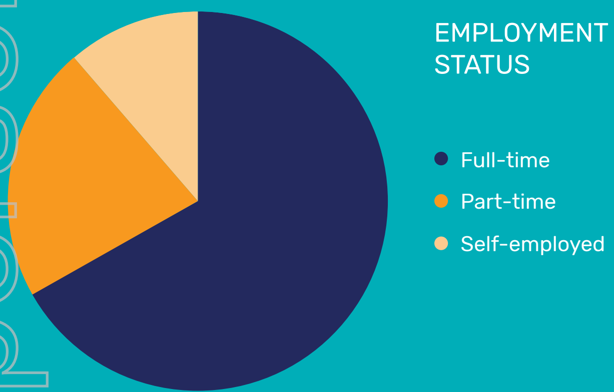


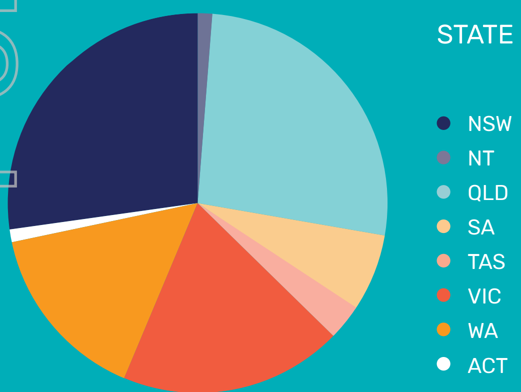
TRANSACTION VALUE











Strong demand

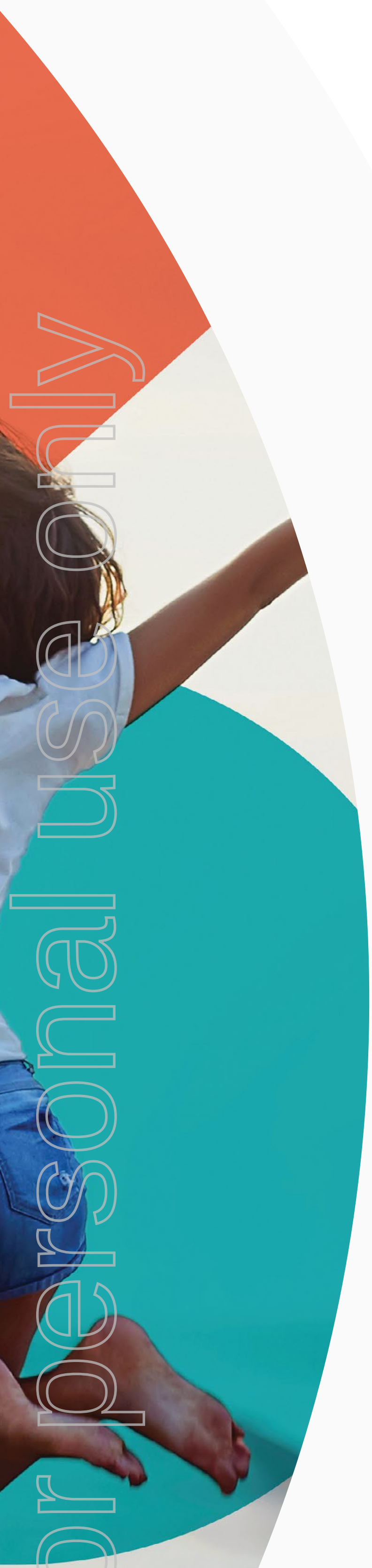
APMs appeal to a diverse audience and there's increasingly strong demand for interest free offerings. A breakdown of our customers is provided to the left. We added 440,000 new customers in FY18.

Our customer base remains diverse and demonstrates the appeal of interest free products. There's a strong bias to millennials, with over 60% of the customer base below 35, and a median age of 31.

Significantly, over 40% of the Zip Money customer base is represented by home owners who are likely to have access to alternative sources of credit, but see Zip as a better option.

Note: Residential and employment data is based on customers who hold a Zip Money account as at 30 June 2018.


Own it



Growing Our Offering

In FY18, we made several new innovations to further improve Zip for our customers and retail partners.

A new brand

In June, we launched a fresh new look that's vibrant and fun. It's been designed for clarity and impact, making it easy to spot at point-of-sale.

Brand architecture

The new brand clearly unifies our two types of accounts, Zip Pay and Zip Money, under one master brand: Zip. This gives us greater synergy across all communications and touchpoints.

The 'Own it' platform

We introduced 'Own it' as the brand platform. 'Own it' is a powerful, evocative phrase that sums up how the Zip brand empowers both shoppers and sellers.

The phrase also speaks to accountability. As an organisation, we believe in integrity and take our responsibilities seriously. So, in that way, we 'Own it' too.

After all, when you 'Own it', you're putting yourself in the driver's seat, you're giving yourself permission to do more, enjoy more, experience more.

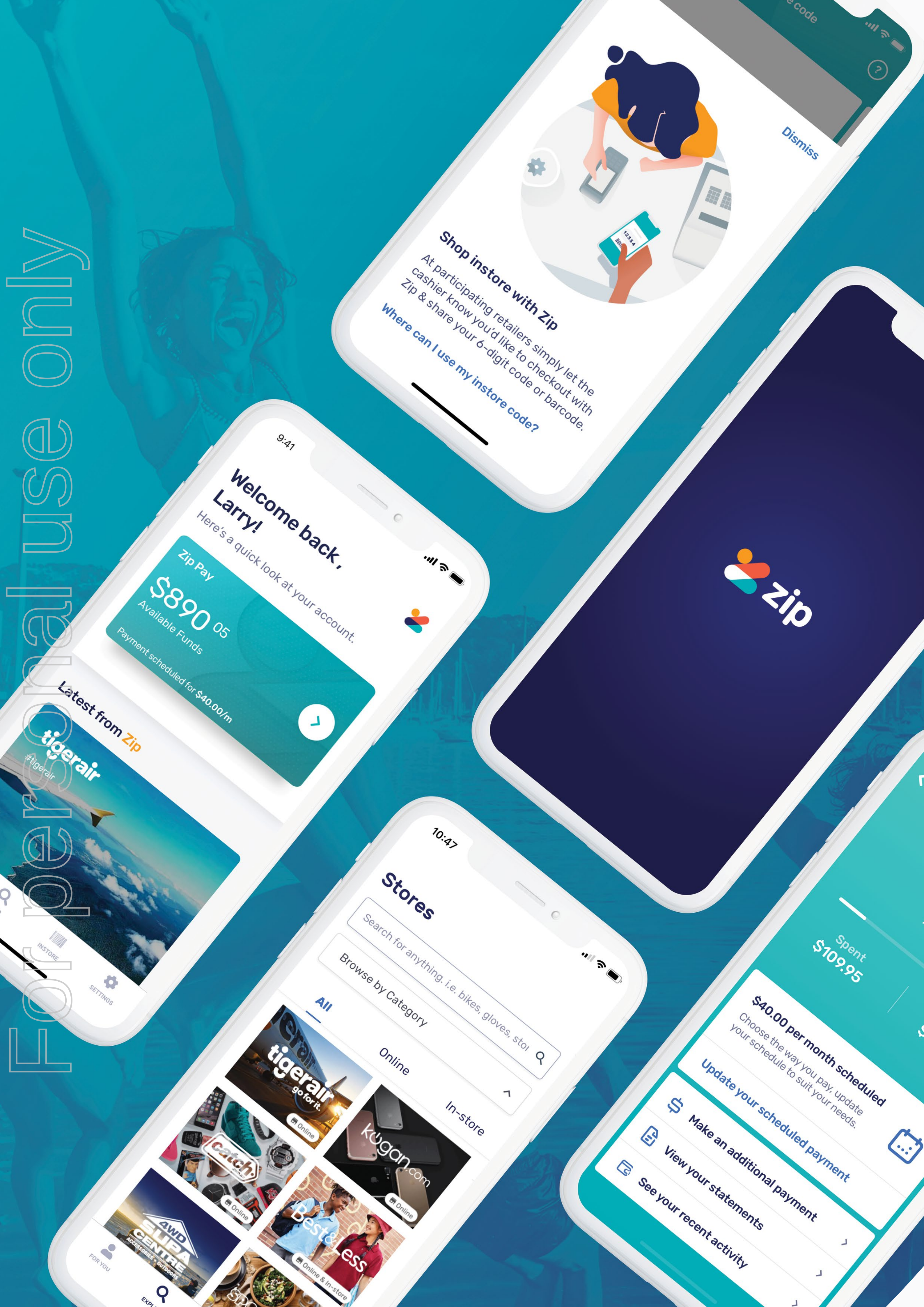
Own your look

Own your sanctuary

Own your wellbeing

Own the moment

Own that feeling

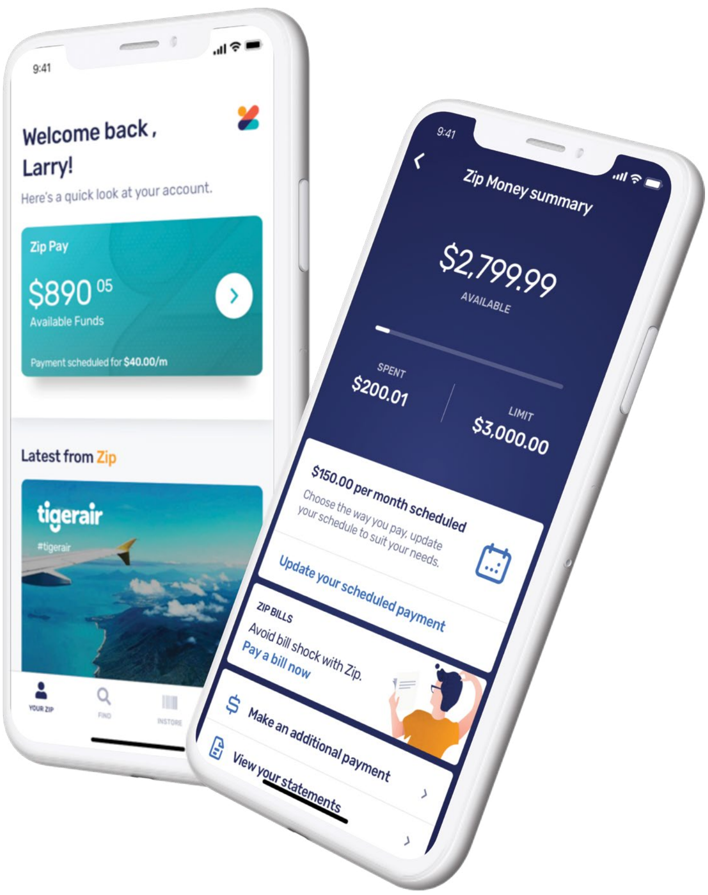

Dismiss
Shop instore with Zip
At participating retailers simply let the cashier know you'd like to checkout with Zip & share your 6-digit code or barcode.
Where can I use my instore code?
9:41
Welcome back, Larry!
Here's a quick look at your account.
Zip Pay
$890 05
Available Funds
Payment scheduled for $40.00/m
Latest from Zip
tigerair
zip
10:47
Stores
Search for anything. i.e. bikes, gloves, stor
Browse by Category
All
Online
In-store
tigerair
go for it.
Online
kogan.com
Best&Less
Online & In-store
4WD SUPA CENTRE
ACCESSORIES • OUTDOORS
FOR YOU
INSTORE
SETTINGS
Spent
$109.95
$40.00 per month scheduled
Choose the way you pay, update your schedule to suit your needs.
Update your scheduled payment
Make an additional payment
View your statements
See your recent activity

New native app

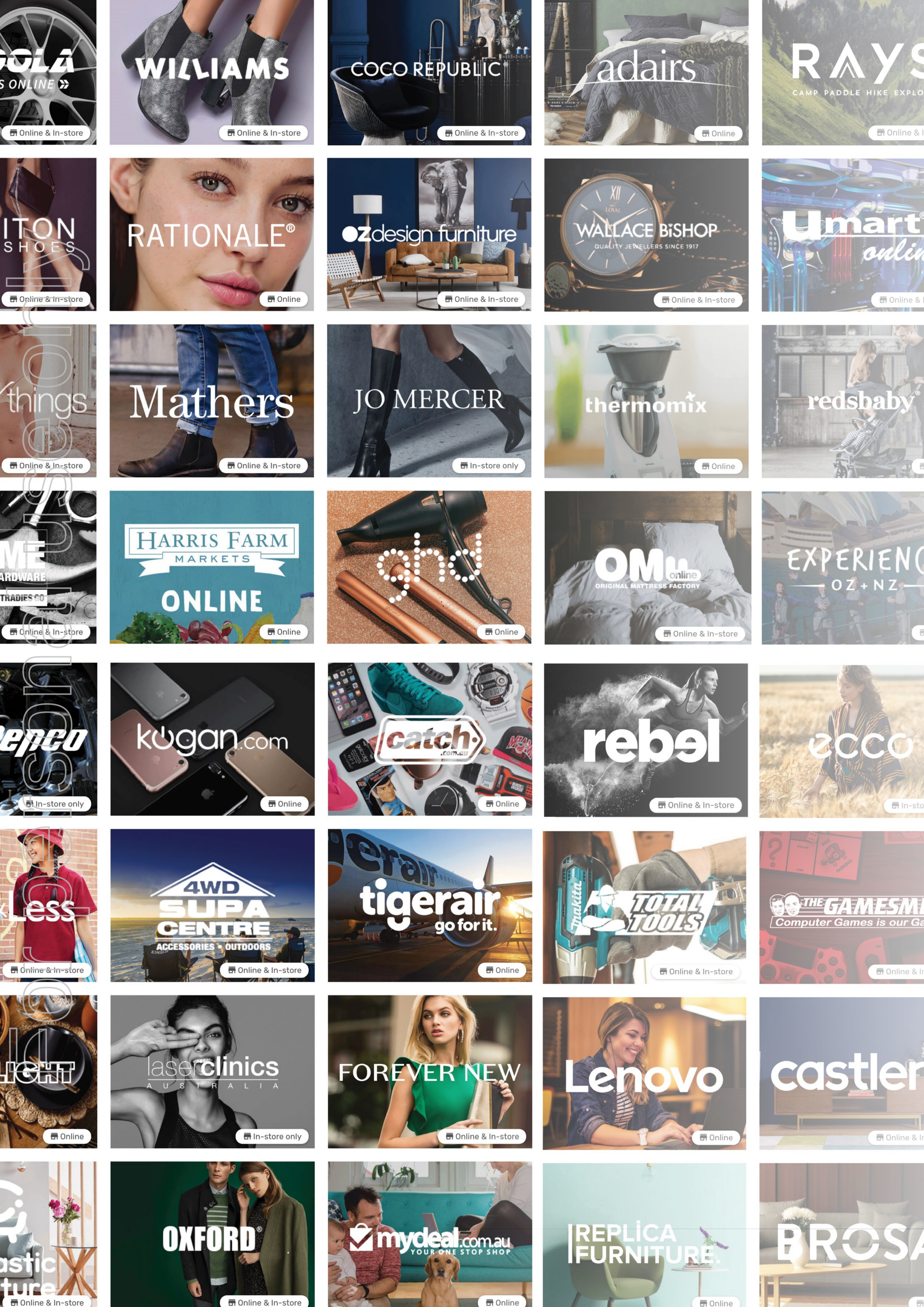
The new Zip app, launched for both iOS and Android in August 2018, was an important development. In the first month alone, it achieved more than 96,000 downloads[1]. Some of its key benefits include:

- Customers can browse, shop and manage their Zip account from one, convenient place
- A captive platform for promoting co-marketing campaigns, special offers from retail partners, and exclusive deals
- Scannable barcodes to improve the instore payment experience

We plan to make further investment in mobile as it is central to the customer experience.



1. Total downloads via The App Store and Google Play.



Online & In-store
WILLIAMS
Online & In-store
COCO REPUBLIC
Online & In-store
adairs
Online
RAYS
CAMP PADDLE HIKE EXPLO
Online & In-store
RATIONALE
Online
OZdesign furniture
Online & In-store
WALLACE BISHOP
QUALITY JEWELLERS SINCE 1917
Online & In-store
Umart
online
things
Online & In-store
Mathers
Online & In-store
JO MERCER
In-store only
thermomix
Online
redsbaby
ME
ARDWARE
Online & In-store
HARRIS FARM
MARKETS
ONLINE
Online
ghd
Online
OM online
ORIGINAL MATTRESS FACTORY
Online & In-store
EXPERIEN
OZ + NZ
In-store only
kogan.com
Online
catch.com.au
Online
rebel
Online & In-store
ecco
Less
Online & In-store
4WD SUPA CENTRE
ACCESSORIES • OUTDOORS
Online & In-store
tigerair
go for it.
Online
makita
TOTAL TOOLS
Online & In-store
THE GAMESMI
Computer Games is our Ga
Online
laserclinics
AUSTRALIA
In-store only
FOREVER NEW
Online & In-store
Lenovo
Online
castler
astic
ture
Online & In-store
OXFORD
Online & In-store
mydeal.com.au
YOUR ONE STOP SHOP
Online
REPLICA FURNITURE.
Online
BROSA

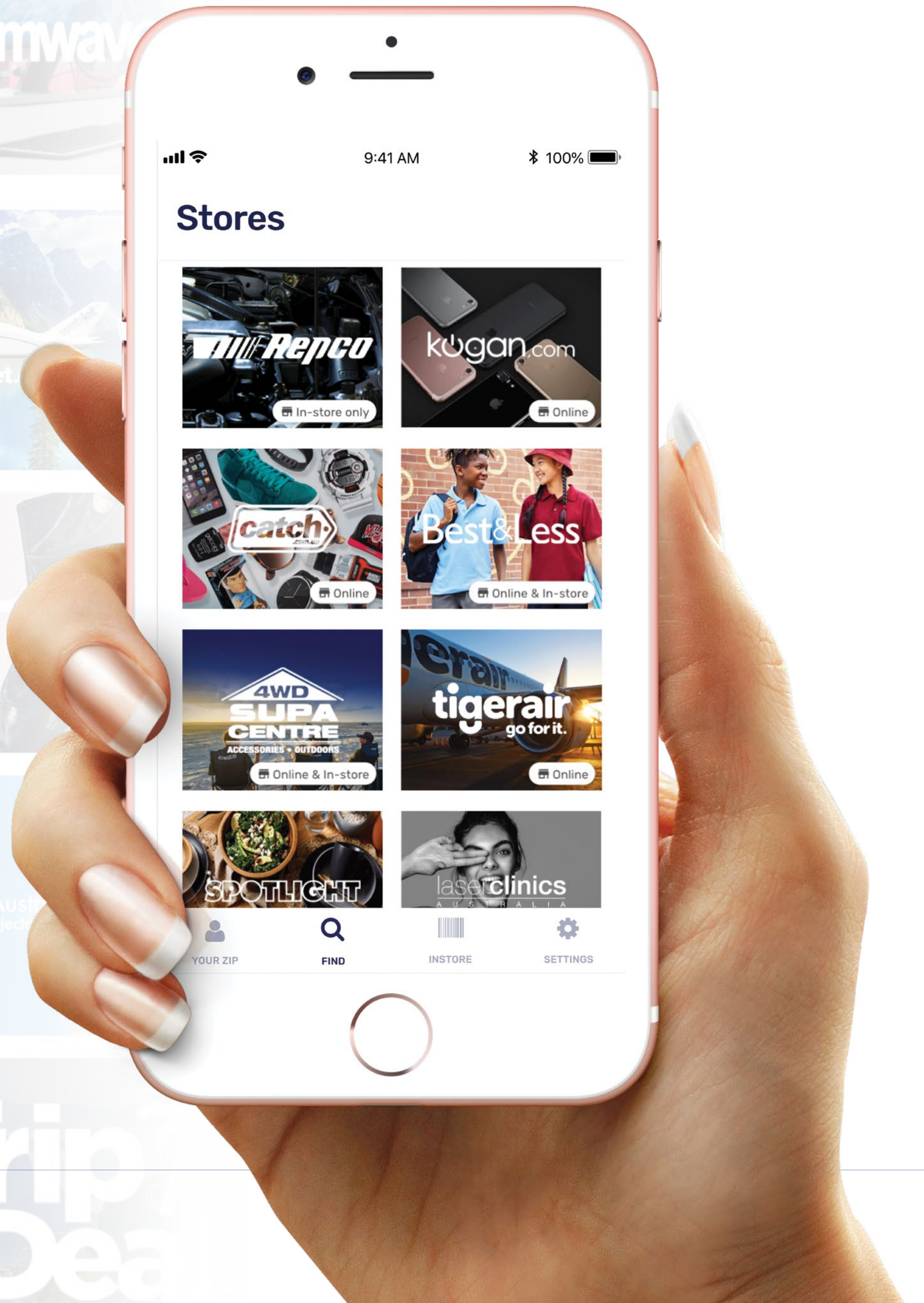
2.4M

user sessions per month
across our websites

New store directory

Our store directory lists all the places customers can make purchases using their Zip account. It attracts 2.4m user sessions every month.

In March 2018, we updated this feature to deliver greater functionality and flexibility to customers. Now it's even more convenient to find products and stores where Zip can be used.




45,000+
billers
added to the Zip
network

New feature – Pay bills with Zip

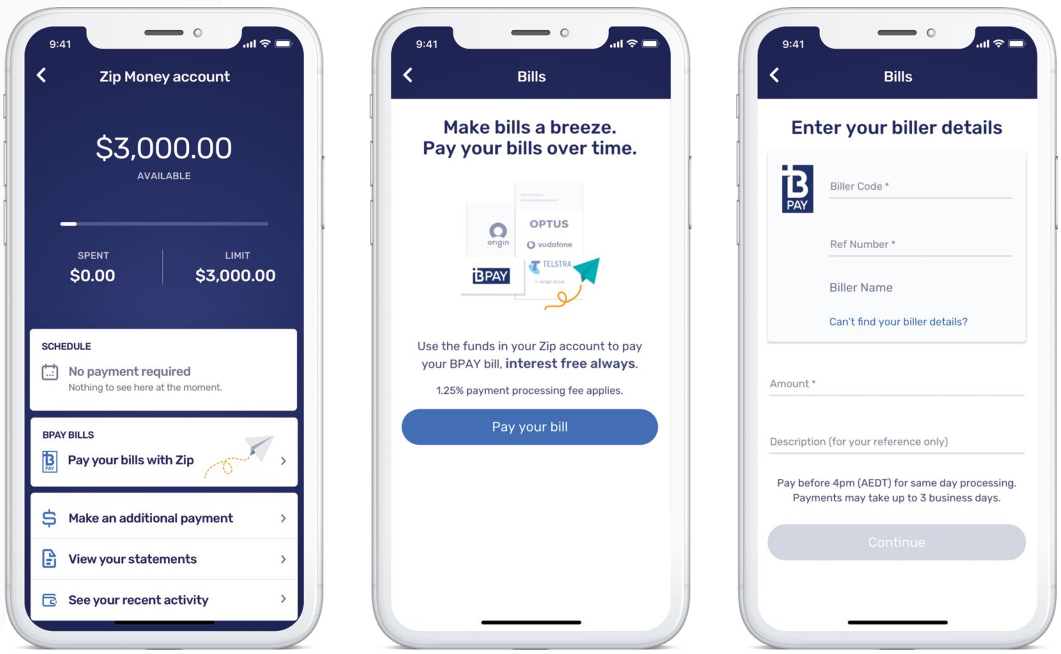
To increase ways customers can use their Zip account, we've introduced the ability to pay bills with Zip.

In March, we ran a successful beta trial that allowed customers to make BPAY payments from their Zip Money account with interest free terms of 3 months.

During the trial, customers used this innovative product feature to pay everyday bills like telco and utilities, but also to 'smooth' larger bills such as school fees and tax over the interest free period.

BPAY is the preferred way for Australians to pay their bills, with approximately 45% of Australians using it each month[1]. The Pay Bills with Zip feature has expanded our partner network by more than 45,000 billers and received an overwhelmingly positive response.

We expect the use of this feature to grow significantly.



1. RFi Payments Diary May 2018.

Pocketbook

New milestones for Pocketbook

Pocketbook has continued its rapid growth as the dominant Personal Financial Management App in Australia. By the end of FY18, Pocketbook had reached over 540,000 users, after another record year.

In 2018, Pocketbook tracked over 500 million transactions, totalling approximately $200 billion. The App also provided over 3 million alerts to users, providing them with useful and actionable insights into their spending. It's estimated that these notifications from Pocketbook helped customers save more than $30 million on things like late bill payments, unpaid salaries and large bank fee charges.

During the year, the team has continued to push industry-leading initiatives, including pioneering the first open banking integration in Australia with Macquarie Bank.

Pocketbook’s been kicking goals

#1 Personal finance App

As ranked by the App Store

New categorisation engine

Improved coverage and accuracy by approximately 15-20%[1]

Award-winning design

StartCon Awards
Mozo Experts Choice Awards
Fintech Australia “Finnie’s” Awards

Australia’s first open banking integration

With Macquarie Bank

1. Based on internal testing

Financial Results

FY18 Key Metrics

Zip achieved considerable growth during the year, underpinned by record increases across key metrics.

138%

Revenue[1]

$40.4M

FY17 – $17.0M

1.33%

Net Bad Debts[3]

2.61%

FY17 – 1.28%

108%

Receivables[2]

$316.7M

FY17 – $152.0M

145%

Customers

738.1K

FY17 – 300.9K

135%

Transaction Volume

$542.9M

FY17 – $230.5M

141%

Retail Partners

10.6K

FY17 – 4.4K

1. Revenue includes Portfolio income and other income. 2. Gross receivable value. 3. Bad debts are written off in line with policy after 180 days past due, percentage calculated on the gross receivable amount.

Credit Performance

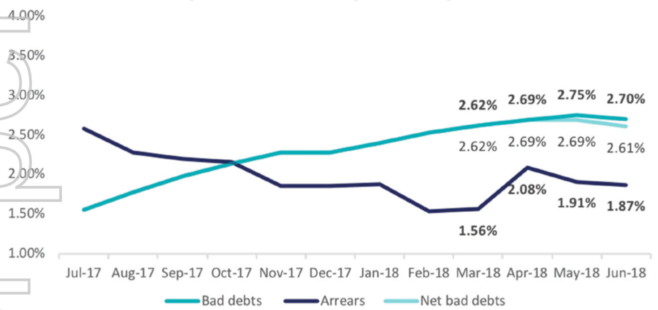
We are extremely pleased with the performance of our loan book which balances the responsibility of credit assessing applicants with the simplicity and ease of signing up.

Our gross bad debt write-offs show signs of stabilising at approximately 2.7%, which is significantly better than industry benchmarks. We're now well-placed to fine tune our approval and scorecard thresholds to maximise revenue opportunities while managing losses.

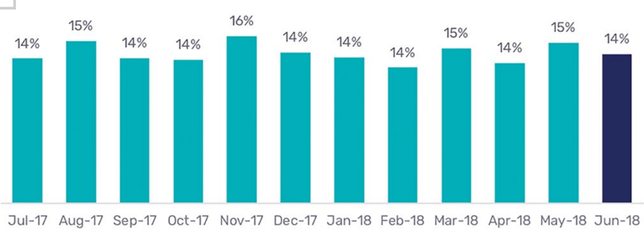
During the year, we made a number of changes to our application flow to optimise the credit decision process without increasing customer friction. We also added more data sources to our proprietary decision-making technology, revised our risk rules and policies, and enhanced our sophisticated machine learning models.

Repayments continue to run at approximately 14% of the prior month's closing receivables balance, demonstrating efficient recycling of capital.

CREDIT PERFORMANCE[1]



REPAYMENT RATE[2]



Impact of new Accounting Standard AASB9 – Financial Instruments

Zip has completed its assessment of the impact of AASB9 – Financial Instruments on its provision for bad debts.

AASB9 requires the bad debt provision to be calculated on an expected loss basis rather than an incurred loss basis as is currently the case. The calculation requires Zip to take account of undrawn credit limits of performing facilities plus macro-economic factors and modelling risks.

Based on Zip's model, adoption of the new standard requires Zip to increase the bad debt provision at 1 July 2018 by $4.97 million, bringing the total provision to $14.47 million, or 4.57% of the closing balance of gross customer receivables as compared to 3% at 30 June 2018. The standard requires that this adjustment is recognised through retained earnings at 1 July 2018. This is a non cash item, has no impact on bad debt write-offs, and does not impact management's expectations of future losses.

Capital Management

We welcomed Westpac's direct equity investment of $40 million during the year, which we used to repay expensive mezzanine debt, increase the equity held by Zip in its funding structures, and fund growth. At 30 June 2018 we had $16.4 million in equity across our facilities. We retain access to mezzanine capital and can release equity to further fund growth as required.

We currently have debt funding facilities in place totalling $400 million, of which $290 million had been drawn at 30 June 2018. In addition we're in the process of documenting an increase of $100 million in the facility provided by the National Australia Bank, bringing total facilities available to $500 million.

1. Arrears defined as those accounts greater than 60 days delinquent. Bad debts defined as those accounts greater that 180 days delinquent. All figures are on an annualised basis. 2. Repayment expressed as a percentage of receivables at the beginning of the month.

What's Ahead

Outlook

Zip has developed a truly unique alternative payments offering, underpinned by a low-cost consumer acquisition model, proprietary platform, strong partnerships and highly capable team. FY18 was a transformative year for the business as we scaled, hit cashflow break-even and launched our new brand. Zip's FY19 focus remains to become the default payment option for more consumers, at more places to shop.

Pocketbook continues to see tremendous user growth and strong advocacy. With the emergence of open banking, competition in the area of account aggregation, budgeting and spending insights will grow. In reply, Pocketbook will evolve beyond budgeting to deliver more value to our customers.

Our key priorities for FY19 are:

- **Transaction volume and customer growth targets.** We aim to supercharge our growth and deliver $1.0b+ in annual transaction volume, with more than one million customers. Zip will continue growing rapidly whilst leveraging operational efficiencies and remaining cashflow break-even.
- **Expansion of the Zip network.** We will continue winning both large and iconic retailers in our target segments, plus greater numbers of small and mid-sized retail partners. Building key channel partnerships across the payments ecosystem will vastly increase our footprint, enabling us to be at many more places where our customers shop and to break into the 'everyday' spend category.
- **Increase customer engagement.** Our recently-launched native App is a key platform to engage our user base and it will see continued investment. We'll also complete the rollout of the new Zip brand, increasing awareness and our market share. By enhancing our products, personalising communications, and giving our customers access to exclusive partner offers, we'll drive significant active monthly usage.
- **Capitalise on the favourable operating environment.** The timing has never been better for alternative payment providers and Fintech in Australia. With enabling infrastructure and technologies like Open Banking, Comprehensive Credit Reporting

and the New Payments Platform coming online, we see emerging opportunities to deliver increased value to our customers and enhance our product offerings. Customers are embracing APMs, and retail partners are using technology and innovation to offer better customer experiences when delivering financial services. With the growth of Zip, and our industry more generally, plus the spotlight on the regulatory framework across the broader financial services sector, there's the possibility of further regulatory focus. Zip continues to proactively engage with the regulator, and is well-positioned to adjust should any changes eventuate. We fundamentally see ourselves as establishing a long-term financial relationship with our customers and, as an Australian Credit License and AFSL holder, will always act responsibly and transparently.

- **Funding diversification.** As our transaction volume and outstanding receivables increase, so too does our ability to diversify our debt funding. Our aim is to complete the process of having our receivables rated, setting Zip up for access to a broader range of debt funders, plus cheaper and more efficient structures in the future.

FY19 is already off to a great start with a number of iconic brands joining the platform. We started the year with our strongest pipeline of new retail partners since founding Zip, plus a number of game-changing channel partnerships in the works. Recent new product releases such as 'Pay Bills with Zip' are resonating well with our consumer base, and the take-up is increasing as we roll out this feature to our Zip Pay customers.

Zip came from humble beginnings and we certainly have not forgotten our origins. We continually challenge ourselves to improve, and have our customers at the centre of everything we do. This year we'll expand the reach of our network and deliver more value to both our customers and retail partners. The outlook for our business is very strong and we remain focused on innovating and capitalising on opportunities.

There's an estimated $1 trillion+ in annual payment volume in Australia, and we're just getting started.

Board Of Directors

Philip Crutchfield
Chairman

Philip is a barrister and a former partner of Mallesons Stephen Jaques (now King & Wood Mallesons). He is a board member of the Geelong Grammar School Council, Bell Shakespeare Theatre Company, and the Victorian Bar Foundation Limited.

Larry Diamond
Managing Director & CEO

Larry co-founded Zip in 2013 following 12 years in retail, technology and investment banking at Pacific Brands, Macquarie Capital and Deutsche Bank. Larry is a qualified CA and holds a Bachelor of Information Technology and Master of Commerce (Finance) degrees.

Peter Gray
Executive Director & COO

Peter co-founded Zip in 2013, with 25 years of experience in the retail finance industry. He has underwritten 1.5m customers and $600m in loan receivables globally. An operations and consumer credit expert, Peter is also the responsible manager of Zip's Australian Credit Licence.

John Batistich
Non-Executive Director

John is a highly-experienced growth leader who brings marketing, digital and human resources skills to the Board. He is a Non-Executive Director for Foodco and HRI and advises the General Pants Group Board. He holds a Masters of Management and a Bachelor of Business.

Dianne Challenor
Non-Executive Director

Dianne is General Manager, Global Transaction Services at Westpac. Highly experienced in payments and transaction services, Dianne has also led regional and global teams for JP Morgan and Citibank. In 2018, she was named one of the "Most Influential Women in Payments" by PaymentsSource.

Andrew Bursill
Company Secretary

Andrew is an Executive Director of the Automic Group with 20 years' experience in Company Secretarial activities with ASX listed companies. He is a member of the Institute of Chartered Accountants in Australia and a Fellow of the Governance Institute of Australia.

Financial Report

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Directors' Report

The directors are pleased to submit herewith the annual report of Zip Co Limited (formerly zipMoney Limited) and its controlled entities (consolidated entity or the Group) for the financial year ended 30 June 2018. 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 (Zip or the Company) during the whole of the financial year and up to the date of this report, unless otherwise stated:

Philip Crutchfield

Larry Diamond

Peter Gray

Megan Quinn (Resigned 1 November 2017)

Dianne Challenor (Appointed 1 February 2018)

John Batistich (Appointed 3 September 2018)

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity is offering point-of-sale credit and payment solutions to consumers and providing a variety of integrated Retail Finance solutions to merchants across numerous industries, both online and in-store.

REVIEW AND RESULTS OF OPERATIONS

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

	2018		2017	
	Revenue	Loss after Tax	Revenue	Loss after Tax
	$	$	$	$
Zip Co Limited	40,406,686	(22,549,726)	17,002,131	(20,190,588)

DIVIDENDS

No dividends have been declared for the year ended 30 June 2018 or for the previous corresponding period.

REVIEW OF OPERATIONS

Zip is a leading player in the digital retail finance and payments industry. The Group provides point-of-sale credit and digital payment services across the retail, travel and health sectors, as well as Pocketbook, a leading Personal Financial Management App. Pocketbook helps users track their budget and save by automatically categorising spending (e.g. clothes, groceries, childcare) and provides smart alerts.

Zip offers consumers an interest-free digital wallet and credit through its Zip Pay (up to $1,000) and Zip Money (up to $30,000) products. Zip generates revenue from both merchants (through a Merchant Services Fee) and customers (predominantly Monthly Fees, Establishment Fees and Interest).

Zip is now accessible by more than 738,000 customers across more than 10,500 merchants. Customers simply sign-in to their Zip digital wallet, online or in-store, and authenticate the transaction to confirm the purchase – all without the exchange of cash or credit card information.

In June 2018 the Group rebranded and now has a single destination for Zip Pay and Zip Money customers (www.zip.co) and a single-site store directory (www.zip.co/stores) to support the merchant community. The impact of the rebranding exercise has yet to be seen in the results of the Group, but it, together with the launch of the Zip Native App in August 2018, are expected to contribute significantly to the further expansion of the Group's activities.

Pocketbook saw its user base increase to over 530,000 in the financial year, during which it successfully upgraded both the Android and iOS versions of the native App which saw an increase in sign-up rates to the App. Pocketbook also announced the first of its kind direct API integration with Macquarie Bank in early 2018.

During the financial year the Group saw significant growth in all operating metrics, compared to the previous financial year:

- Customer numbers increased by 145% to over 738,000
- Merchant numbers increased by 139% to over 10,500
- Transaction volumes increased by 136% to $542.9 million
- Number of transactions processed increased by 243% to 1.9 million

Revenue reported for the financial year grew from $17.0 million to $40.4 million, an increase of 138%, reflecting this growth across all key operating metrics.

Cost of sales rose from $18.0 million to $30.2 million, an increase of 68%. The Group reported a gross profit of $9.1 million compared to a loss in the prior financial year. The Group has now exited its expensive legacy funding program and as a result has materially reduced interest expense, leading to an improvement in gross profit.

Operating costs grew from to $19.8 million to $32.8 million, an increase of 66%. The growth in the cost base of the Group has largely stabilised with $16.1 million in costs incurred in the first half, $16.7 million in the second.

Salaries and employee benefits represented 48% of the operating costs for the Group in the financial year, compared to 38% in the prior financial year. The Group's permanent headcount has increased from 108 at the start of the financial year to 138 at the end. In addition, the Group engaged casual staff to support its operations team of approximately 38, compared to 25 at the end of June 2017.

The Group reported a loss before income tax of $22.5 million compared to $20.7 million in the prior financial year. Of this, $14.6 million was recorded in the first half of the financial year and $7.9 million in the second half of the financial year.

Receivables

The Group's receivables portfolio increased to $316.7 million at 30 June 2018, up from $152.0 million at 30 June 2017, an increase of 108%. Monthly repayments continue to run at approximately 14% of the prior months closing balance.

The seasoning of the receivables saw net bad debt write-offs rise from 1.28% at 30 June 2017, to 2.61% at 30 June 2018. This is in line with management's expectation that net bad debt write-offs will trend towards 3%. The Group wrote off $8.2 million in bad debts during the financial year, as compared to $1.9 million in the prior financial year. Bad debt write-offs, excluding the impact of recoveries, rose from 1.28% of the closing receivables balance at 30 June 2017 to 2.70% at 30 June 2018.

The reported arrears rate (accounts over 60 days past due) reduced from 2.94% of the closing receivables balance at the end of June 2017 to 1.87% at the end of June 2018, reflecting enhancements made to the Group's collection processes in the second half of the 2017 financial year and during this financial year.

Capital management

In August 2017 Westpac invested $40.0 million in equity in the Group at 81 cents per share. These funds were used to repay expensive mezzanine capital within the Group's funding structures, increase the equity held by the Group in its receivables portfolio and to fund growth and capital expenditure.

As at 30 June 2018, the Group had $16.4 million in equity in its funding structures and retains the ability to access mezzanine capital in the future to enable the release of equity to further fund growth and capital expenditure as required.

In November 2017, the Group completed the transfer of all outstanding receivables from the Victory Park Capital ("VPC") backed zipMoney 2015-1 Trust to the NAB backed zipMoney 2017-1 Trust. This brought the Group's financing arrangements with VPC to a conclusion.

In January 2018, the Group agreed an increase of $120.0 million in the facilities available within the zipMoney 2017-1 Trust, bringing the total facility available within the Trust to $360.0 million.

The Group now funds over 96% of its receivables portfolio in the low cost zipMoney 2017-1 Trust funding structure, with the balance funded by the higher cost zipMoney 2017-2 Trust, and the Group's Balance Sheet.

At 30 June 2018 the Group had drawn $290.0 million from its total facilities available of $380.0 million.

The Group is in the process of documenting a further increase of $100.0 million in the facilities available within the zipMoney 2017-1 Trust and has completed the documentation of an additional $20.0 million in the facilities available within the zipMoney 2017-2 Trust. Once both are completed, total facilities available to the Group will be $500.0 million.

Cashflows

The Group generated an operating cash inflow of $1.4 million during the financial year compared to an outflow of $7.6 million in the previous financial year. This excludes the impact of bad debts written-off in the financial year of $8.5 million (2017: $1.9 million) shown in the movement in receivables. Cash inflows from operations in the second half of the financial year were $4.2 million compared to an outflow of $2.8 million in the first half of the financial year.

Receipts from customers totalled $39.6 million for the financial year, a 136% increase from $16.8 million in the prior financial year, in line with the increase in revenue. The Group received an R&D tax incentive for the 2016 and 2017 tax years in the financial year. Going forward any such incentives will be received by way of reduction in future tax payments. Payments to suppliers and employees totalled $26.4 million up from $15.0 million in the prior financial year.

Cashflow used in investing activities increased from $117.6 million in the prior financial year to $176.9 million in the financial year to 30 June 2018. The Group moved offices during the financial year and the cost of fitting out the new premises, together with the Group's spend on information technology equipment is included in payments for plant and equipment. The Group spent $2.5 million in the financial year on product development, in line with that spent in the prior financial year. The increase in customer loans, net of repayments and bad debts written-off totalled $170.9 million, compared to $112.5 million in the prior financial year.

Cash from financing activities totalled $168.9 million. Proceeds from the issue of shares to Westpac and from the conversion of options, predominantly by VPC, in the financial year totalled $41.0 million. The Group borrowed an additional $204.0 million to fund receivables in the financial year and repaid $75.4 million to VPC and mezzanine financiers.

CHANGES IN THE STATE OF AFFAIRS

No significant changes in the state of affairs of the consolidated entity occurred during the financial year.

FUTURE DEVELOPMENTS

Information on future developments in the operations of the consolidated entity and the expected results of those operations has not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

SUBSEQUENT EVENTS

Subsequent to the year end Zip Co Limited issued 1,887,942 shares to the original vendors of Pocketbook as payment for the equity and liability components of the contingent consideration payable to the vendors on the achievement of the performance milestones contained in the share sale agreement. The equity component, included in reserves, totalled $1,162,800 and the liability component, shown in the deferred contingent liability, totalled $337,200.

In August 2018, the Board decided to reward its employees for their contribution to the performance of the consolidated entity by granting them 2,186,126 ordinary shares. These shares were valued at $1.025, vest immediately at grant date and were issued under the Employee Short Term Incentive Plan.

There have been no other significant events occurring after the end of the reporting period.

ENVIRONMENTAL REGULATION

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

INFORMATION ON DIRECTORS

Name:	Philip Crutchfield
Title:	Non-Executive Chairman
Experience and expertise:	Philip is a barrister and a former partner of Mallesons Stephen Jaques (now King & Wood Mallesons). He is a board member of the Geelong Grammar School Council, Bell Shakespeare Theatre Company, and the Victorian Bar Foundation Limited.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	4,700,000
Interest in options:	1,000,000

Name:	Larry Diamond
Title:	Managing Director and Chief Executive Officer
Experience and expertise:	Larry co-founded Zip in 2013 following 12 years in retail, technology and investment banking at Pacific Brands, Macquarie Capital and Deutsche Bank. Larry is a qualified CA and holds Bachelor of Information Technology and Master of Commerce (Finance) degrees.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	61,117,263
Interest in performance shares:	6,925,535

Name:	Peter Gray
Title:	Executive Director and Chief Operating Officer
Experience and expertise:	Peter co-founded Zip in 2013, with 25 years of experience in the retail finance industry. He has underwritten 1.5m customers and $600m in loan receivables globally. An operations and consumer credit expert, Peter is also the responsible manager of Zip's Australian Credit Licence.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	20,006,105
Interest in performance shares:	2,285,775

Name:	Megan Quinn (Resigned 1 November 2017)
Title:	Non-Executive Director
Experience and expertise:	Megan Quinn was a co-founder of internationally acclaimed NET-A-PORTER. For the past 25 years she has built an international career specialising in retail, finance, advertising and publishing for the fashion, jewellery, banking, technology and airline industries. While in London, Megan held executive Board roles with both NET-A-PORTER and Harrods and is now an Independent Non-Executive Director of Reece Ltd; Specialty Fashion Group and UNICEF Australia.
Other current directorships:	Reece Ltd; Speciality Fashion Group
Former directorships (last 3 years):	None
Interests in shares:	None
Interest in options:	200,000

Name:	Dianne Challenor (Appointed 1 February 2018)
Title:	Non-Executive Director
Experience and expertise:	Dianne is General Manager, Global Transaction Services at Westpac. Highly experienced in payments and transaction services, Dianne has also led regional and global teams for JP Morgan and Citibank. In 2018, she was named one of the "Most Influential Women in Payments" by PaymentsSource.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	None
Interest in options:	None

Name:	John Batistich (Appointed 3 September 2018)
Title:	Non-Executive Director
Experience and expertise:	John is a highly-experienced growth leader who brings marketing, digital and human resources skills to the Board. He is a Non-Executive Director for Foodco and HRI and advises the General Pants Group Board. He holds a Masters of Management and a Bachelor of Business.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	266,000
Interest in options:	None

Other current directorships quoted above are current directorships for listed entities only and exclude directorships of all other types of entities, unless otherwise stated.

Former directorships (last 3 years) 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.

Company Secretary

Andrew Bursill is an Executive Director of the Automic Group with 20 years' experience in Company Secretarial activities with ASX listed companies. He is a member of the Institute of Chartered Accountants in Australia and a Fellow of the Governance Institute of Australia.

Meetings 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 2018, and the number of meetings attended by each director were:

	Full Board	
	Held	Attended
Philip Crutchfield	6	6
Larry Diamond	6	5
Peter Gray	6	6
Megan Quinn	2	2
Dianne Challenor	3	2

Held represents the number of meetings held during the time the director held office or was a member of the relevant committee.

REMUNERATION REPORT (AUDITED)

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

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The remuneration policy of Zip Co Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives. The Board of Zip Co Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated entity.

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives (if any), was developed by the Board. All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. The Board reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The Board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which was 9.5% for the 2018 financial year (9.5% for 2017 financial year), and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the consolidated entity and expensed. Options granted are valued using the Black-Scholes methodology and the benefits are amortised over the vesting period.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. None was sought during the 2018 financial year. The maximum aggregate amount of fees that can be paid to non-executive directors is $600,000, which was approved by shareholders at the 2017 Annual General Meeting (formerly $300,000). Fees for non-executive directors are not linked to the performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the consolidated entity and are able to participate in the Employee Long Term Incentive Plan. Any options issued under the Employee Long Term Incentive Plan are reported as share-based payments and are approved at the consolidated entity's AGM.

Performance based remuneration

The Board may provide for bonuses (either cash or equity) to key management personnel at their discretion based on the consolidated entity's and individual performance.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables. The key management personnel of the consolidated entity in the financial year consisted of the following:

- Philip Crutchfield
  Non – Executive Chairman
- Larry Diamond
  Executive Director
- Peter Gray
  Executive Director
- Megan Quinn
  Non – Executive Director (Resigned on 1 November 2017)

- Dianne Challenor
  Non – Executive Director (Appointed on 1 February 2018)

- Martin Brooke
  Chief Financial Officer, Executive Management

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2018	**Cash salary and fees $**	**Cash bonus $**	**Non-monetary $**	**Superannuation $**	**Annual leave $**	**Equity-settled $**	**Total $**
Non-Executive Directors:							
P. Crutchfield	110,000	–	–	10,450	–	–	**120,450**
M. Quinn[(1)]	11,040	–	–	1,169	–	–	**12,209**
D. Challenor[(2)]	–	–	–	–	–	–	**–**
Executive Directors:							
L. Diamond	291,667	–	10,845	27,708	7,712	–	**337,932**
P. Gray	291,667	–	–	27,708	8,047	–	**327,422**
Executive Management:							
M. Brooke	240,000	–	–	22,800	13,756	100,000	**376,556**
	944,374	**–**	**10,845**	**89,835**	**29,515**	**100,000**	**1,174,569**

(1) Resigned 1 November 2017.
(2) Appointed 1 February 2018.

On 21 August 2018 the consolidated entity approved the issue of 97,561 ordinary shares to M.Brooke under the existing Employee Short Term Incentive Plan for the achievement of 100% of the performance targets set for the Financial Year.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2017	**Cash salary and fees $**	**Cash bonus $**	**Non-monetary $**	**Superannuation $**	**Annual leave $**	**Equity-settled $**	**Total $**
Non-Executive Directors:							
P. Crutchfield	60,000	–	–	5,700	–	187,047	**252,747**
M. Quinn	31,324	–	–	2,976	–	53,440	**87,740**
Executive Directors:							
L. Diamond	250,000	–	9,100	23,750	1,132	–	**283,982**
P. Gray	250,000	–	–	23,750	14,569	–	**288,319**
Executive Management:							
M. Brooke[(1)]	115,692	–	–	10,991	8,006	50,000	**184,689**
	707,016	**–**	**9,100**	**67,167**	**23,707**	**290,487**	**1,097,477**

(1) Appointed 9 January 2017.

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Larry Diamond
Title:	Managing Director and CEO
Agreement commenced:	1 July 2016
Term of agreement:	Annual salary of $300,000 exclusive of statutory superannuation. This was based on a Board review of market comparable salaries. Company may terminate agreement on 6 months' notice or by providing cash payment equal to 6 months' pay.

Name:	Peter Gray
Title:	Executive Director and COO
Agreement commenced:	1 July 2016
Term of agreement:	Annual salary of $300,000 exclusive of statutory superannuation. This was based on a Board review of market comparable salaries. Company may terminate agreement on 6 months' notice or by providing cash payment equal to 6 months' pay.

Name:	Philip Crutchfield
Title:	Non-Executive Chairman
Agreement commenced:	14 December 2015
Term of agreement:	Annual fees of $120,000 exclusive of statutory superannuation. This was based on a Board review of market comparable salaries. Tenure and retirement/ resignation as a director is governed by the *Corporations Act 2001* and the Company's constitution.

Name:	Megan Quinn
Title:	Non-Executive Director
Agreement commenced:	22 August 2016 (Resigned 1 November 2017)
Term of agreement:	Annual fees of $40,000 inclusive of statutory superannuation. This was based on a Board review of market comparable salaries. Tenure and retirement/ resignation as a director is governed by the *Corporations Act 2001* and the Company's constitution.

Name:	Dianne Challenor
Title:	Non-Executive Director
Agreement commenced:	1 February 2018
Term of agreement:	Dianne is the General Manager of the GTS Westpac Institutional Banking and was nominated by Westpac to join the Board as a Non-Executive Director. No fees are payable to either Dianne or Westpac for acting in this capacity.

Name:	Martin Brooke
Title:	Chief Financial Officer
Agreement commenced:	9 January 2017
Term of agreement:	Annual salary of $240,000 exclusive of statutory superannuation. Eligible for annual performance based bonus of $100,000. Company may terminate agreement on 3 months' notice or by providing cash payment equal to 3 months' pay.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

Other than set out in this report, there were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2018.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Expiry date	Exercise price	Fair value per option at grant date
14 December 2015	3 years from date of issue	$0.50	$0.290
14 December 2015	3 years from date of issue	$0.70	$0.260
5 December 2016	2 years from date of issue	$1.00	$0.267

The options above are fully vested.

Options granted carry no dividend or voting rights.

Performance rights

There were no performance rights over ordinary shares issued to directors and other key management personnel as part of compensation in the current financial year.

Short term and long term incentive program

During the year the consolidated entity introduced new Short Term Incentive and Long Term Incentive Plans to align the interests of employees with the objectives of the consolidated entity, and provide incentives to directors, senior executives and staff.

Under the terms of the Short Term Incentive Plan the consolidated entity may offer shares or options, or a combination thereof, to provide a short term incentive to employees to reward the achievement of performance targets set for the year. No consideration is payable in respect of the shares or options issued, and no exercise price is payable in the event options are issued, but the Board retains the flexibility to include time based vesting conditions where appropriate. Options must be exercised within three years of the date of issue or they will lapse. Unvested options will automatically lapse.

During the financial year, 285,715 options have been granted under the Short Term Incentive Plan, with no performance hurdles, based on the achievement of specific performance target.

Under the terms of the Long Term Incentive Plan the consolidated entity may offer options subject to vesting conditions comprising both performance and time based hurdles. Both hurdles must be satisfied for vesting to occur.

The performance based hurdle is set by the Board for each option issue and Is based on Total Shareholder Return. The Board sets a Target and Threshold Total Shareholder Return hurdle, options will fully vest if the Target Return is achieved and will proportionately vest if the Threshold is achieved but not the Target.

The time based hurdle requires the participant to be remain continuously employed at each of the measurement dates set by the Board.

Options must be exercised within three years of the measurement date that is five years from the date of issue or they will lapse. Unvested options will automatically lapse.

There have been no grants under the Long Term Incentive Plan during the financial year.

Additional disclosures relating to key management personnel.

Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	At appointment date	Conversion from performance shares	Net Additions/ (Disposals)	Balance at the end of the year
Ordinary shares					
Philip Crutchfield	4,660,000	–	–	40,000	4,700,000
Larry Diamond[1]	61,117,263	–	–	–	61,117,263
Peter Gray[1]	20,006,105	–	–	–	20,006,105
Megan Quinn	–	–	–	–	–
Dianne Challenor	–	–	–	–	–
Martin Brooke	50,000	–	–	65,789	115,789

(1) This includes "Net Vendor Shares" on completion of acquisition of zipMoney Holdings Pty Ltd.

Option holding

The number of option over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Conversion to ordinary shares	Disposals/ other	Balance at the end of the year
Options over ordinary shares					
Philip Crutchfield	1,000,000	–	–	–	1,000,000
Megan Quinn	200,000	–	–	–	200,000

Performance rights holding

The number of performance rights over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	At appointment	Conversion to ordinary shares during the year	Expired/ forfeited/ other	Balance at the end of the year
Performance rights over ordinary shares					
Larry Diamond	6,925,535	–	–	–	6,925,535
Peter Gray	2,285,775	–	–	–	2,285,775

Other transactions

As a Class B Noteholder in the zipMoney 2015-1 Trust Philip Crutchfield lent the trust $100,000 on the same commercial terms as offered to each of the Class B Noteholders in the Trust at the previous reporting date. This has been repaid in full in the financial year to 30 June 2018.

This concludes the remuneration report, which has been audited.

SHARES UNDER OPTION

In addition to options held by directors, unissued ordinary shares of Zip Co Limited under option at the date of this report are as follows:

Expiry date	Exercise price	Number under option
30 November 2018	$0.75	445,000
30 November 2018	$0.10	340,000
19 January 2021	Nil	285,715
		1,070,715

The Company has granted Westpac Banking Corporation 9,800,000 options to acquire ordinary shares at $0.81 that vest based on the achievement of certain revenue hurdles as set out below:

Revenue hurdle	Relevant amount threshold	Performance options to vest
Hurdle 1	$25,000,000	1,960,000
Hurdle 2	$37,500,000	1,960,000
Hurdle 3	$50,000,000	1,960,000
Hurdle 4	$62,500,000	1,960,000
Hurdle 5	$75,000,000	1,960,000

In the event a hurdle is achieved, the associated options vest, and lapse 12 months after vesting. Options relating to any hurdle not achieved by 10 August 2022 automatically lapse. Additionally, if the first revenue hurdle is not achieved by 10 August 2020, then 3,920,000 options will lapse.

The first revenue hurdle has not been met at the date of this report.

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.

SHARES UNDER PERFORMANCE RIGHTS

Unissued ordinary shares of Zip Co Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Number under rights
28 July 2015	28 July 2020(1)	20,000,000
28 July 2015	17 September 2018(2)	13,330,000
		33,330,000

(1) The Company issued 20,000,000 performance shares to Columbus Capital in 2015 in connection with the facilitation of an institutional financing facility ("Warehouse Facility"). The provision of the "Warehouse Facility" was not completed and accordingly the milestones are unable to be met. The Company's shareholders approved the cancellation of the performance shares at the AGM in November 2017. The consolidated entity is awaiting the completion of formal documentation by Columbus Capital to formally cancel the shares. In the event that formal documentation is not completed by Columbus Capital, the performance shares will expire on 28 July 2020.

(2) The balance of 13,330,000 performance shares represent those shares that will be issued to the original shareholders of zipMoney Limited under the Rubianna Resources Limited prospectus dated 11 August 2015 in the event pre-tax break-even is achieved in a consecutive three calendar month period prior to 17 September 2018. As at 30 June 2018, the target had not been achieved. The consolidated entity is in the process of formally determining whether this hurdle has been achieved at the date of this report.

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

SHARES ISSUED ON THE EXERCISE OF OPTIONS

The following ordinary shares of Zip Co Limited were issued during the year ended 30 June 2018 and up to the date of this report on the exercise of options granted:

Grant date	Exercise price	Number of shares issued
25 November 2015	$0.20	5,000,000
5 August 2015	$0.10	303,000
5 August 2015	$0.75	80,000

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 auditor are outlined in note 25 to the financial statements. Total amount paid for non-audit services for the year amounted to $21,000 (2017:nil).

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,

Larry Diamond
Managing Director & Chief Executive Officer

26 September 2018

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

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

26 September 2018

Dear Board Members

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 (formerly zipMoney Limited).

As lead audit partner for the audit of the financial statements of Zip Co Limited for the financial year ended 30 June 2018, 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 sincerely

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Note	30 June 2018 $	30 June 2017 $
PORTFOLIO INCOME	3	**39,274,390**	**16,432,325**
COST OF SALES	4	**(30,156,805)**	**(17,996,081)**
GROSS PROFIT		**9,117,585**	**(1,563,756)**
Other income	3	1,132,296	569,806
EXPENDITURE			
Administration expenses		(6,144,561)	(3,348,839)
Consulting fees		(279,705)	(1,012,459)
Depreciation expense		(763,351)	(193,236)
Amortisation of intangibles		(2,809,729)	(1,699,491)
Finance costs		(1,575,617)	(1,272,436)
Occupancy expenses		(1,569,675)	(816,133)
Recruitment costs		(495,599)	(584,555)
Salaries and employee benefits expenses		(15,586,151)	(7,593,310)
Share-based payments	28	(3,575,219)	(3,233,125)
LOSS BEFORE INCOME TAX		**(22,549,726)**	**(20,747,534)**
Income tax benefit	6	–	556,946
LOSS AFTER INCOME TAX		**(22,549,726)**	**(20,190,588)**
Other comprehensive income for the year, net of tax		–	–
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF ZIP CO LIMITED		**(22,549,726)**	**(20,190,588)**
Basic loss per share	17	(7.84)	(8.58)
Diluted loss per share	17	(7.84)	(8.58)

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 2018

	Note	30 June 2018 $	30 June 2017 $
ASSETS			
Cash and cash equivalents	7	12,658,134	19,214,261
Other receivables		5,016,738	43,640
Term deposit		1,209,153	351,500
Customer receivables	8	300,602,824	143,831,709
Property, plant and equipment	9	3,240,753	502,024
Goodwill	10	4,548,276	4,548,276
Other intangible assets	11	5,792,007	6,059,942
TOTAL ASSETS		**333,067,885**	**174,551,352**
LIABILITIES			
Trade and other payables	13	8,027,403	1,665,458
Employee provisions		841,239	567,065
Deferred R&D tax incentives	14	757,966	98,880
Deferred contingent consideration		337,200	337,200
Borrowings	15	289,723,751	160,257,432
TOTAL LIABILITIES		**299,687,559**	**162,926,035**
NET ASSETS		**33,380,326**	**11,625,317**
EQUITY			
Issued capital	16	81,328,159	37,066,688
Share-based payment reserves		4,379,167	4,335,903
Accumulated losses		(52,327,000)	(29,777,274)
TOTAL EQUITY		**33,380,326**	**11,625,317**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	Issued Capital $	Reserves $	Accumulated Losses $	Total $
BALANCE AT 1 JULY 2016	**19,409,691**	**1,712,500**	**(9,586,686)**	**11,535,505**
Loss for the period	–	–	(20,190,588)	(20,190,588)
TOTAL COMPREHENSIVE LOSS	**–**	**–**	**(20,190,588)**	**(20,190,588)**
Shares issued during the period	11,184,792	–	–	11,184,792
Recognition of share-based payments	–	2,623,403	–	2,623,403
Issue of ordinary shares under share-based payments plans	1,845,662	–	–	1,845,662
Shares issued as consideration for the acquisition of Pocketbook	5,300,317	–	–	5,300,317
Costs of Issue	(673,774)	–	–	(673,774)
BALANCE AT 1 JULY 2017	**37,066,688**	**4,335,903**	**(29,777,274)**	**11,625,317**
Loss for the period	–	–	(22,549,726)	(22,549,726)
TOTAL COMPREHENSIVE LOSS	**–**	**–**	**(22,549,726)**	**(22,549,726)**
Shares issued during the period	40,000,000	–	–	40,000,000
Recognition of share-based payments	–	3,536,889	–	3,536,889
Exercise of share-based payments	–	(3,493,625)	–	(3,493,625)
Issue of ordinary shares under share- based payments plans	1,819,455	–	–	1,819,455
Exercise of options	2,743,500	–	–	2,743,500
Costs of issue	(301,484)	–	–	(301,484)
BALANCE AT 30 JUNE 2018	**81,328,159**	**4,379,167**	**(52,327,000)**	**33,380,326**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	30 June 2018 $	30 June 2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		39,606,139	16,803,240
Payments to suppliers and employees		(26,429,754)	(14,966,115)
R&D tax incentives		1,204,234	–
Interest received		255,400	147,446
Interest paid		(13,210,462)	(9,563,276)
NET CASH FLOW FROM/TO OPERATING ACTIVITIES	24	**1,425,557**	**(7,578,705)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(3,502,080)	(622,495)
Payments for software development		(2,541,794)	(2,657,619)
Payment to acquire business, net of cash acquired		–	(1,870,130)
Net movement in receivables		(170,856,326)	(112,458,248)
NET CASH FLOW TO INVESTING ACTIVITIES		**(176,900,200)**	**(117,608,492)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of shares		41,031,000	10,874,231
Costs of share issues		(301,484)	(673,774)
Borrowings transaction costs		(451,000)	(1,988,477)
Proceeds from borrowings		204,000,000	189,100,000
Repayment of borrowings		(75,360,000)	(60,000,000)
NET CASH FLOW FROM FINANCING ACTIVITIES		**168,918,516**	**137,311,980**
Net (decrease)/increase in cash and cash equivalents		(6,556,127)	12,124,783
Cash and cash equivalents at the beginning of the year		19,214,261	7,089,478
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	**12,658,134**	**19,214,261**

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES OF THE FULL-YEAR FINANCIAL REPORT

a. Statement of Compliance

The Company changed its name to Zip Co Limited (formerly zipMoney Limited) on 7 December 2017.

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

The financial statements were approved by the board of directors and authorised for issue on 26 September 2018.

Basis of preparation

The consolidated financial statements have 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, unless otherwise noted.

Going concern

The Directors have prepared the Report on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2018 reflects a consolidated loss after tax of $22.5 million. The preliminary consolidated statement of cash flows for the year ended 30 June 2018 reflects net cash flows from operations of $1.4 million.

The Directors have reviewed cash flow forecasts for the consolidated entity through to 30 September 2019. The cash flow forecast indicates that the consolidated entity will have sufficient funding to operate as a going concern during the forecast period. The Directors have concluded that it is appropriate to prepare the financial statements on the going concern basis, as they are confident that the consolidated entity will be able to pay its debts as and when they become due and payable from operating cash flows and available finance facilities.

The 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.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1(q).

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 their operations and effective for the current financial year.

New Accounting Standards and Interpretations not yet mandatory or early adopted

The accounting policies and methods of computation adopted in the preparation of the full-year financial report are consistent with those adopted and disclosed in the consolidated entity's financial report for the financial year ended 30 June 2017. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory are presented below. They have not been early adopted by the consolidated entity for the reporting period ended 30 June 2018.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace AASB 139 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity.

The consolidated entity does not have any hedging arrangements in place. New impairment requirements will use an 'expected credit loss' as opposed to an 'incurred credit loss' model under AASB 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

Impairment

A general three stage model applies to debt instruments at amortised cost or at fair value through other comprehensive income for recognising impairment losses.

The consolidated entity has both long term and short term customer receivables. When this standard is adopted, the entity's loss allowance on customer receivable will change.

The consolidated entity has performed an impact assessment of AASB 9. The adoption of AASB 9 impacts the consolidated entity's customer receivables balance which is measured at amortised cost. Based on the consolidated entity's assessment, an adjustment of $4.97 million will be made to increase the impairment of customer receivables to recognise loan impairment on an expected loss basis for the adoption of AASB 9.

The adjustment is applied retrospectively, however comparatives need not be restated. Instead, the cumulative effect of applying the change for the first time will be recognised as an adjustment to the opening balance of retained earnings on 1 July 2018.

AASB 15 Revenue from Contracts with Customers

AASB 15 must be applied for annual reporting periods beginning on or after 1 January 2018. The consolidated entity will adopt this standard from 1 July 2018.

An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under AASB 118.

The consolidated entity has made an assessment and the impact of this standard is immaterial.

AASB 16 Leases

AASB 16 eliminates the operating and finance lease classifications for lessees currently the model under AASB 117 Leases for lessees. It instead requires an entity to recognise most leases onto its statement of financial position in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right-of-use asset in its statement of financial position for most leases.

There are some optional exemptions for leases with a period of 12 months or less and for low value leases. The application date of this standard is for annual reporting periods beginning on or after 1 January 2019. The consolidated entity has not yet made a detailed assessment of the impact of this standard.

b. Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 26.

c. Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Zip Co Limited ('consolidated entity' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Zip Co Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

d. Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition date fair values of assets transferred to the consolidated entity, liabilities incurred by the consolidated entity to the former owners of the acquiree, and the equity instruments issued by the consolidated entity in exchange for control of the acquiree. Goodwill arises in a business combination when the consideration transferred to the acquiree is greater than the net of the acquisition-date amounts of identifiable assets and the liabilities assumed. Acquisition-related costs are recognised in profit or loss as incurred.

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

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified.

Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is remeasured at subsequent reporting dates in accordance with AASB 139 'Financial Instruments: Recognition and Measurement, or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

e. Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the consolidated entity's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit 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 cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

f. 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 the adjustment recognised for prior periods, where applicable.

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

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

Tax consolidation legislation

Zip Co Limited and its wholly-owned Australian controlled subsidiaries are members of a tax-consolidated group under Australian tax law. Zip Co limited is the head entity within the tax-consolidated group. In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group.

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

g. Trade and other payables

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

h. Recoverable Amount of Assets

The carrying amounts of assets are reviewed annually by Directors to ensure they are not in excess of the recoverable amounts. The expected net cash flows are discounted to present values in determining recoverable amounts.

i. Portfolio Income

The directors consider that revenue from Merchants fee, Establishment fees and Monthly fee 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.

In making their judgement around estimated future cashflow and expected life of the customer receivables balance, the directors have considered the historical repayment pattern of the customer receivables on a portfolio basis. These estimates are reviewed on an ongoing basis and where required, appropriate adjustments will be made in the future reporting periods.

j. Issued Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

k. Cash and cash equivalents

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.

l. 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'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

m. Employee benefits

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

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

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled share-based payment transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

There are no cash-settled share-based payments as at year end. 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.

n. Intangible assets

Software development asset

Software development costs are capitalised only when:

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

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

Acquired Intangible Assets

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

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.

o. Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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 pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

p. Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

q. Critical accounting estimates and judgements

In preparing this financial 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.

Significant accounting estimates and assumptions

Revenue recognition

The consolidated entity recognises revenue on customer receivables using effective interest rate method (in accordance with AASB 139), based on estimated future cash receipts over the expected life of the financial asset. In making their judgement of estimated future cashflows and expected life of the customer receivables balance, the directors have considered the historical repayment pattern of the customer receivables on a portfolio basis.

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

Provision for doubtful debts

The carrying amounts of certain assets are often determined based on estimates and assumptions of future events. The key sources of estimation uncertainty relate to the doubtful debts of loans receivable. The risk of impairment to personal loans requires the consolidated entity to assess impairment regularly. The credit provision raised represents management's best estimate of losses incurred in the loan portfolio at reporting date based on their experienced judgement. The collective provision is estimated on the basis of historical loss experience for assets with similar credit characteristics by the consolidated entity with reference to other companies with similar portfolios. Refer to note 8 for further details.

r. Financial Instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

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 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.

Customer receivables

Customer receivables, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'receivables'. Customer receivables are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

s. 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.

t. Foreign currencies

The financial statements are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('$'), which is the functional currency of the consolidated entity and the presentation currency for the consolidated financial statements. All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date.

u. Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

v. Government grants / Research and development tax incentives

Grants from the government (such as research and development tax incentives) are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants are initially recognised as deferred income and is recognised in the profit or loss on a systematic basis over the useful life of the underlying asset.

NOTE 2: SEGMENT INFORMATION

Management has determined that the consolidated entity has one reporting segment being the provision of financial products and payment solutions to consumers, and providing a variety of integrated solutions to small, medium and enterprise merchants across numerous industries, both online and in-store. The internal reporting framework is based on the principal activity as discussed above and is the most relevant to assist the Board with making decisions regarding the consolidated entity and its ongoing growth.

The assets as presented relate to the reporting segment, as identified above.

The consolidated entity operates in Australia and New Zealand. At this stage the consolidated entity's operations in New Zealand are immaterial in the context of the consolidated entity's overall revenue and assets.

NOTE 3: REVENUE

	Consolidated	
	30 June 2018	30 June 2017
	$	$
Portfolio income	**39,274,390**	**16,432,325**
Other income		
Interest income from financial institutions	255,400	147,446
R&D tax incentives	545,148	295,659
Other	331,748	126,701
Total other income	**1,132,296**	**569,806**
Total revenue	**40,406,686**	**17,002,131**

NOTE 4: COST OF SALES

	Consolidated	
	30 June 2018	30 June 2017
	$	$
Interest expense	13,024,665	10,280,907
Doubtful debts expense	13,190,378	5,288,880
Bank fees and data costs	3,941,762	2,426,294
Total cost of sales	**30,156,805**	**17,996,081**

NOTE 5: EXPENSES

	Consolidated	
	30 June 2018	30 June 2017
	$	$
Loss before income tax includes the following specific expenses:		
Amortisation of intangibles:		
Amortisation of acquired intangibles	700,404	525,300
Amortisation of internally generated intangibles	2,109,325	1,174,191
Superannuation expense:		
Defined contribution superannuation expense	1,343,232	569,077
Finance costs:		
Amortisation of funding costs	1,463,117	1,264,103
Other funding costs	112,500	8,333
Administration expenses:		
Professional services	1,208,750	1,036,584
Information technology expense	2,720,599	1,002,981
Other administration expense	2,215,212	1,309,274
Other expenses:		
Operating lease expense	1,271,681	589,528

NOTE 6: INCOME TAX BENEFIT

	Consolidated	
	30 June 2018	30 June 2017
	$	$
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	(22,549,726)	(20,747,534)
Tax at the statutory tax rate of 30%	(6,764,918)	(6,224,260)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	1,179,597	1,226,813
Non-deductible expenses	676,364	362,677
R&D tax incentives	(163,544)	(89,459)
	(5,072,501)	(4,724,229)
Current year tax losses not recognised	3,369,782	3,699,952
Current year temporary differences not recognised	1,702,719	467,331
	-	**(556,946)**

NOTE 7: CASH AND CASH EQUIVALENTS

At 30 June 2018, the consolidated entity had cash at bank of $12,658,134 of which $8,658,406 was in restricted cash (30 June 2017: cash at bank of $19,214,261 of which $12,589,341 was in restricted cash). Restricted cash is held by the zipMoney 2017-1 Trust and 2017-2 Trust and is not available to pay creditors of the consolidated entity.

NOTE 8: CUSTOMER RECEIVABLES

	Consolidated	
	30 June 2018	30 June 2017
	$	$
Gross customer receivables	316,741,362	152,038,565
Unearned future income	(6,636,297)	(3,645,356)
Provision for doubtful debts	(9,502,241)	(4,561,500)
	300,602,824	**143,831,709**

Movement in the provision for doubtful debts are as follows:

	Consolidated	
	30 June 2018	30 June 2017
	$	$
Opening balance	4,561,500	1,221,365
Provisions recognised during the financial year to profit or loss	13,190,378	5,288,880
Receivables written-off during the financial year as bad debts	(8,249,637)	(1,948,745)
	9,502,241	**4,561,500**

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	30 June 2018	30 June 2017
	$	$
Carrying amounts of		
Computer equipment	591,597	349,364
Leasehold improvement	2,649,156	152,660
	3,240,753	**502,024**

	Computer equipment	Leasehold improvement	Total
	$	$	$
Cost			
Balance at 1 July 2016	77,095	11,274	88,369
Acquisitions through business combinations	3,871	–	3,871
Additions	432,214	190,281	622,495
Balance at 30 June 2017	513,180	201,555	714,735
Additions	539,747	2,962,333	3,502,080
Disposals	(49,027)	(187,173)	(236,200)
Balance at 30 June 2018	**1,003,900**	**2,976,715**	**3,980,615**

	Computer equipment $	Leasehold improvement $	Total $
Accumulated amortisation			
Balance at 1 July 2016	15,899	493	16,392
Acquisitions through business combinations	3,083	–	3,083
Additions	144,834	48,402	193,236
Balance at 30 June 2017	163,816	48,895	212,711
Additions	295,514	475,837	763,351
Disposals	(49,027)	(187,173)	(236,200)
Balance at 30 June 2018	**412,303**	**327,559**	**739,862**

NOTE 10: GOODWILL

	Consolidated	
	$	$
Balance at 1 July 2016	–	–
Add : Amount recognised on business combination	4,548,276	4,584,276
Balance at 30 June 2017	4,548,276	4,584,276
Less : Accumulated impairment losses	–	–
Balance at 30 June 2018	**4,548,276**	**4,584,276**

The consolidated entity has one cash-generating unit representing the entire operations of the consolidated entity. Goodwill has been allocated to this cash-generating unit.

The recoverable amount has been based on value in use calculations which uses cash flow projections covering a five year period and a post tax discount rate of 18.9%. The discount rate reflecting an estimate of the equity cost of capital.

Cash flows beyond the five year period have been extrapolated using a steady 3.25% annual growth rate.

NOTE 11: OTHER INTANGIBLE ASSETS

	Consolidated	
	30 June 2018 $	30 June 2017 $
Carrying amounts of		
Brand names and trademarks	145,308	161,851
Customer database	298,996	391,000
IT development and software	5,347,703	5,507,091
	5,792,007	**6,059,942**

	Brand Names and Trademarks $	Customer Database $	IT Development and Software $	Total $
Cost				
Balance at 1 July 2016	782	–	2,181,741	2,182,523
Acquisitions through business combinations	179,970	460,000	2,965,430	3,605,400
Additions	7,649	–	2,649,970	2,657,619
Balance at 30 June 2017	188,401	460,000	7,797,141	8,445,542
Additions	18,857	–	2,522,937	2,541,794
Balance at 30 June 2018	**207,258**	**460,000**	**10,320,078**	**10,987,336**

	Brand Names and Trademarks $	Customer Database $	IT Development and Software $	Total $
Accumulated amortisation				
Balance at 1 July 2016	–	–	652,269	652,269
Acquisitions through business combinations	–	–	33,840	33,840
Additions	26,550	69,000	1,603,941	1,699,491
Balance at 30 June 2017	26,550	69,000	2,290,050	2,385,600
Additions	35,400	92,004	2,682,325	2,809,729
Balance at 30 June 2018	**61,950**	**161,004**	**4,972,375**	**5,195,329**

The following useful lives are used in the calculation of amortization.

Brand names and trademarks	1 to 5 years
Customer database	5 years
IT development and software	2.5 to 5 years

NOTE 12: DEFERRED TAX NOT RECOGNISED

The consolidated entity has the following deferred tax asset which has not been brought into account.

	Consolidated	
	30 June 2018 $	30 June 2017 $
Deferred tax assets comprises temporary differences attributable to:		
Tax losses	7,127,854	4,138,383
Timing differences	2,717,999	916,569
	9,845,853	**5,054,952**

The deferred tax assets will be recognised in the accounts once the consolidated entity can demonstrate that it is probable that the tax benefit will be utilised within the foreseeable future.

Tax losses and timing difference include adjustments in respect of losses and timing difference brought forward from the prior financial year amounting to ($380,311) and $98,711, respectively.

NOTE 13: TRADE AND OTHER PAYABLES

	Consolidated	
	30 June 2018	30 June 2017
	$	$
Trade payables	7,535,973	1,093,568
Other payables and accruals	491,430	571,890
	8,027,403	**1,665,458**

Refer to note 19 for further information on financial instruments.

NOTE 14: DEFERRED R&D TAX INCENTIVES

	Consolidated	
	30 June 2018	30 June 2017
	$	$
Deferred R&D tax incentive	757,966	98,880

The consolidated entity recognises its R&D tax incentives as deferred income in accordance with the guidance under AASB 120 Government Grants and is systematically amortised to the profit or loss as other income over the expected useful life of the underlying development assets (2.5 years).

NOTE 15: BORROWINGS

Borrowings and securitisation warehouse

The consolidated entity sells customer receivables to special purpose vehicle securitisation warehouses (zipMoney Trust 2017-1 and zipMoney Trust 2017-2) through its asset-backed securitisation program. The special purpose vehicles are consolidated as the consolidated entity is exposed or has rights to variable equity returns and has the ability to affect its returns through its power over the securitisation vehicles. The consolidated entity may serve as a manager, servicer, liquidity provider, purchaser of notes and/or purchaser of residual interest units.

	Consolidated	
	30 June 2018	30 June 2017
	$	$
Class A Notes	230,000,000	108,500,000
Class B Notes	60,000,000	52,860,000
Add: Accrued interest	749,029	934,826
Less: Unamortised costs	(1,025,278)	(2,037,394)
	289,723,751	**160,257,432**

At 30 June 2018 the undrawn facility amount to $90.0 million (30 June 2017: $251.5 million).

Total secured liabilities

	Consolidated 30 June 2018 $	Consolidated 30 June 2017 $
Class A Notes	230,000,000	108,500,000
Class B Notes	60,000,000	52,860,000
	290,000,000	**161,360,000**

Assets pledged as security

The table below presents the assets and underlying borrowings as a result of the securitisation warehouse:

	Consolidated 30 June 2018 $	Consolidated 30 June 2017 $
Customer receivables[(1)]	295,794,526	143,831,709
Cash held by securitisation warehouse	8,658,406	12,589,341
	304,452,932	**156,421,050**
Borrowings related to receivables[(2)]	**306,400,000**	**162,360,000**

(1) The amount recognised above represents the carrying value of the customer receivables held by the zipMoney Trusts and is net of provisions for bad debts and unearned future income. This excludes customer receivables totaling $4.8 million held by zipMoney Payments Pty Ltd at 30 June 2018 and nil at 30 June 2017.

(2) Including $16.4 million Class C Notes held by zipMoney Payments Pty Ltd ($1.0 million at 30 June 2017).

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	30 June 2018 $	30 June 2017 $
Total facility size		
Total facility size – securitisation warehouse	370,000,000	402,860,000
Total facility size – working capital	10,000,000	10,000,000
Used at the reporting date		
Used facility – securitisation warehouse	290,000,000	155,360,000
Used facility – working capital	–	6,000,000
Unused at the reporting date		
Unused facility – securitisation warehouse	80,000,000	247,500,000
Unused facility – working capital	10,000,000	4,000,000

Terms of the facilities

The consolidated entity has two securitisation warehouses in place, having closed the zipMoney Trust 2015-1 facility during the period.

Under each warehouse program, loans are originated on the consolidated entities balance sheet and continuously sold into a program administered by Perpetual Trustee Limited.

As at 30 June 2018, the zipMoney Trust 2017-1 had $360.0 million in committed Class A and B wholesale debt financing with a term maturing on 10 May 2019. The facility is secured against the underlying pool of receivables with no credit recourse back to the consolidated entity. The consolidated entity is in the process of assessing alternatives for the re-financing, or extension, of the facility. The consolidated entity is in the process of documenting a further increase of $100.0 million in the facilities available within the zipMoney 2017-1 Trust.

As at 30 June 2018, the zipMoney Trust 2017-2 had $20.0 million in committed Class A wholesale debt financing with a term maturing on 17 November 2019. The facility is available to fund customer receivables junior notes and as a source of working capital funding to the consolidated entity. The facility is secured against the underlying pool of receivables and by way of corporate guarantee provided by the parent Zip Co Limited. The consolidated entity has completed the documentation of an additional $20.0 million in the facilities available within the zipMoney 2017-2 Trust.

NOTE 16: ISSUED CAPITAL

	Consolidated			
	30 June 2018 Shares	30 June 2018 $	30 June 2017 Shares	30 June 2017 $
Ordinary shares – fully paid	295,548,222	81,328,159	238,673,009	37,066,688
Performance shares	33,330,000	–	33,330,000	–
	328,878,222	**81,328,159**	**272,003,009**	**37,066,688**

Movements in ordinary share capital

Details	Date	Shares	$
Balance	**1 July 2016**	**208,223,529**	**19,409,691**
Issue of shares – employee incentives		2,911,641	1,845,662
Issue of shares – placement		19,670,057	10,818,531
Issue of shares – exercise of options		557,000	366,261
Issue of shares – acquisition of Pocketbook		7,310,782	5,300,317
Costs of issue during the period			(673,774)
Balance	**30 June 2017**	**238,673,009**	**37,066,688**
Balance	**1 July 2017**	**238,673,009**	**37,066,688**
Issue of shares – employee incentives		2,442,497	1,819,455
Issue of shares – placement		49,382,716	40,000,000
Issue of shares – exercise of options		5,050,000	2,743,500
Costs of issue during the period			(301,484)
Balance	**30 June 2018**	**295,548,222**	**81,328,159**

Movements in performance shares

Details	Date	Share numbers
Balance	**30 June 2016**	**33,330,000**
Balance	**30 June 2017**	**33,330,000**
Balance	**30 June 2018**	**33,330,000**

The consolidated entity issued 20,000,000 performance shares to Columbus Capital in 2015 in connection with the facilitation of an institutional financing facility ("Warehouse Facility"). The provision of the "Warehouse Facility" was not completed and accordingly the milestones are unable to be met. The consolidated entity's shareholders approved the cancellation of the performance shares at the AGM in November 2017. The consolidated entity is awaiting the completion of formal documentation by Columbus Capital to formally cancel the shares. In the event that formal documentation is not completed by Columbus Capital, the performance shares will expire on 28 July 2020.

The balance of 13,330,000 performance shares represent those shares that will be issued to the original vendors in the event pre-tax break-even is achieved in a consecutive three calendar month period prior to 17 September 2018. As at 30 June 2018, the target has not been achieved.

Movements in options

Details	Date	Option numbers
Balance	**1 July 2016**	**6,725,000**
Options issued to directors		1,200,000
10c options exercised		(557,000)
Balance	**30 June 2017**	**7,368,000**
Options issued to Westpac Banking Corporation		9,800,000
Employee unlisted options issued		285,715
Options exercised		(5,050,000)
Balance	**30 June 2018**	**12,403,715**

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.

Share buy-back

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

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or consolidated entity was seen as value adding relative to the current consolidated entity's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

NOTE 17: LOSS PER SHARE

a. Reconciliation of earnings used in calculating loss per share

All figures in $	30 June 2018	30 June 2017
Loss attributable to the owners of the Consolidated Entity used in calculating basic and diluted loss per share	(22,549,726)	(20,190,588)

b. Weighted average number of shares used as the denominator

Number of shares	30 June 2018	30 June 2017
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	287,483,273	235,260,772

c. Basic and diluted loss per share

	30 June 2018	30 June 2017
	Cents	Cents
Basic loss per share	(7.84)	(8.58)
Diluted loss per share	(7.84)	(8.58)

The options and performance shares (as disclosed in note 16) are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purpose of diluted earnings per share.

NOTE 18: DIVIDENDS

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

NOTE 19: FINANCIAL INSTRUMENTS

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (such as interest rate 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, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by management under policies approved by the Board of Directors ('the Board').

These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. The management identify and evaluate financial risks within the consolidated entity's operating units and report to the Board on a monthly basis.

Market risk

Foreign currency risk

The foreign currency risk is limited as the consolidated entity mainly operates in Australia.

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The consolidated entity's main interest rate risk arises from its borrowings. The consolidated entity's borrowings are all on variable rates.

In the event of a +/- 1% movement in the BBSW, the consolidated entity's interest expense would move by +/- $2,900,000.

The consolidated entity also earns interest from its customer receivables. In the event of a movement in interest rates the consolidated entity would review its pricing framework in accordance with its risk management policy.

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 references and setting appropriate credit limits prior to the customers joining the Zip Co platform.

The consolidated entity regularly reviews customer collections, and collections in arrears. 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 doubtful debts to ensure that the level of provision is sufficient to mitigate the credit risk exposure in terms of financial reporting. The credit provision raised represents management's best estimate of losses incurred in the receivables portfolio at reporting date based on their experienced judgement.

The collective 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 to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the consolidated statement of financial position and notes to the consolidated financial statements. The consolidated entity does not hold any collateral.

Customer receivables

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

The table below provides information about customer receivables from customers by payment due status but not deemed to be impaired.

	Consolidated	
	30 June 2018	30 June 2017
	$	$
Past due under 30 days	9,949,636	7,726,817
Past due 31 days to under 60 days	1,909,418	1,551,201
Past due 61 to under 180 days	5,918,066	4,462,887

While the consolidated entity believes that the level of provision for doubtful debts provided in the consolidated financial statements is sufficient to address any potential write-offs arising from the arrears above, the consolidated entity will continue to maximise its effort to minimise the risk of actual bad debts through its robust debtor management practices.

The consolidated entity considers any account over 60 days past due to be in arrears.

Liquidity risk

Vigilant 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 period.

Financing arrangements

Unused borrowing facilities at the reporting date are disclosed in note 15.

Remaining contractual maturities

The financial instrument assets of the consolidated entity predominantly comprise customer receivables that have an average repayment profile of six and fourteen months, for Zip Pay and Zip Money receivables respectively.

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument 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 2018	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives						
Non-interest bearing						
Payables		8,027,403	–	–	–	8,027,403
Deferred contingent consideration		337,200	–	–	–	337,200
Interest-bearing – variable rate						
Borrowings	5.19%	273,749,029	17,000,000	–	–	290,749,029
Total non-derivatives		**282,113,632**	**17,000,000**	**–**	**–**	**299,113,632**

Consolidated 30 June 2017	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives						
Non-interest bearing						
Payables		1,665,458	–	–	–	1,665,458
Deferred contingent consideration		–	337,200	–	–	337,200
Interest-bearing – variable rate						
Borrowings	5.49%	437,082	86,000,000	–	–	86,437,082
Interest-bearing – fixed rate						
Borrowings	14.27%	75,857,744	–	–	–	75,857,744
Total non-derivatives		**77,960,284**	**86,337,200**	**–**	**–**	**164,297,484**

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

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 as at 30 June 2018			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash and cash equivalents	12,658,134	–	–	12,658,134
Other receivables	6,225,891	–	–	6,225,891
Customer receivables	–	300,602,824	–	300,602,824
Total	**18,884,025**	**300,602,824**	**–**	**319,486,849**
Financial liabilities				
Trade and other payables	8,027,403	–	–	8,027,403
Deferred contingent consideration	337,200	–	–	337,200
Borrowings	289,723,751	–	–	289,723,751
Total	**298,088,354**	**–**	**–**	**298,088,354**

	Fair value hierarchy as at 30 June 2017			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash and cash equivalents	19,214,261	–	–	19,214,261
Other receivables	395,140	–	–	395,140
Customer receivables	–	143,831,709	–	143,831,709
Total	**19,609,401**	**143,831,709**	**–**	**163,441,110**
Financial liabilities				
Trade and other payables	1,665,458	–	–	1,665,458
Deferred contingent consideration	337,200	–	–	337,200
Borrowings	160,257,432	–	–	160,257,432
Total	**162,260,090**	**–**	**–**	**162,260,090**

NOTE 20: COMMITMENTS

The following table summarises the operating lease commitments of the consolidated entity:

	30 June 2018 $	30 June 2017 $
Operating lease commitments		
Not later than 1 year	1,704,537	393,505
Later than 1 year and not more than 5 years	6,498,617	–
Total minimum lease payments	**8,203,154**	**393,505**

NOTE 21: CONTINGENCIES

Other than reported in the financial statements, there are no other contingent liabilities or contingent assets as at 30 June 2018 (30 June 2017:nil).

NOTE 22: KEY MANAGEMENT PERSONNEL DISCLOSURES

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	30 June 2018 $	30 June 2017 $
Short-term employee benefits	955,219	716,116
Post-employment benefits	89,835	67,167
Long-term benefits	29,515	23,707
Share-based payments	100,000	290,487
	1,174,569	**1,097,477**

NOTE 23: RELATED PARTY TRANSACTIONS

Parent entity

Zip Co Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 27.

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

Other than the loan noted below, there were no transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to/from related parties at the current reporting date.

As a Class B Noteholder in the zipMoney 2015-1 Trust Philip Crutchfield lent the trust $100,000 on the same commercial terms as offered to each of the Class B Noteholders in the Trust at the previous reporting date. This has been repaid in full in the financial year to 30 June 2018.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

NOTE 24: RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH USED IN OPERATING ACTIVITIES

	30 June 2018 $	30 June 2017 $
Loss after income tax benefit for the year	(22,549,726)	(20,190,588)
Adjustments for:		
Depreciation and amortisation expense	3,573,080	1,892,727
Doubtful debts expense	13,190,378	5,288,880
Amortisation of funding costs	1,463,117	1,264,103
Share-based payment	3,575,219	3,233,125
Change in operating assets and liabilities:		
Decrease/(increase) in other receivables	(4,973,098)	(255,571)
Increase/(decrease) in trade and other payables	6,213,327	1,454,350
Increase/(decrease) in R&D tax incentives	659,086	(556,946)
Increase/(decrease) in employee provisions	274,174	291,215
Net cash from/to in operating activities	**1,425,557**	**(7,578,705)**

NOTE 25: REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmastsu, the auditor of the consolidated entity:

	30 June 2018 $	30 June 2017 $
Audit services		
Audit and review of the financial statements	150,000	110,000
Non-audit service		
Agreed-upon procedures	21,000	–
Total	**171,000**	**110,000**

NOTE 26: 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.

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 2018	30 June 2017
	$	$
Loss after income tax	(1,051,496)	(457,277)
Total comprehensive loss	**(1,051,496)**	**(457,277)**

Statement of financial position

	Parent	
	30 June 2018	30 June 2017
	$	$
Total current assets	90,932	84,512
Total non-current assets	88,499,210	40,902,728
Total assets	**88,590,142**	**40,987,240**
Total current liabilities	(439,120)	(391,931)
Total liabilities	**(439,120)**	**(391,931)**
Net assets	**88,151,022**	**40,595,309**
Issued capital	96,819,220	48,255,274
Reserve	4,911,978	4,868,714
Accumulated losses	(13,580,176)	(12,528,679)
Total equity	**88,151,022**	**40,595,309**

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity has provided a deed of cross guarantee to secure the debts of all of its subsidiaries' liabilities as at 30 June 2018 and 30 June 2017.

The parent entity has provided a corporate guarantee to secure the funding facility of the zipMoney 2017-2 Trust as at 30 June 2018 and 30 June 2017.

Contingent liabilities

Other than reported in the financial statements, the parent entity had no other contingent liabilities as at 30 June 2018 and 30 June 2017.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

NOTE 27: INTERESTS IN SUBSIDIARIES

(a) Ultimate parent

Zip Co Limited is the ultimate parent entity and the parent entity of the consolidated entity from a legal perspective.

(b) 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 2018 %	Ownership interest 30 June 2017 %
Legal parent			
Zip Co Limited	Australia		
Legal subsidiaries			
zipMoney Payments Pty Ltd	Australia	100%	100%
zipMoney Trust 2015-1[(1)]	Australia	–	100%
zipMoney Trust 2017-1[(1)]	Australia	100%	100%
zipMoney Trust 2017-2[(1)]	Australia	100%	100%
zipMoney Holdings Pty Ltd	Australia	100%	100%
zipMoney Securities Limited	Australia	100%	100%
Pocketbook Holdings Pty Ltd	Australia	100%	100%
Pocketbook Australia Pty Ltd	Australia	100%	100%
Pocketbook Technologies Pty Ltd	Australia	100%	100%
zipMoney Payments (NZ) Limited	New Zealand	100%	100%

(1) Ownership is through zipMoney Payments Pty Ltd, which is both the Participation Unitholder and Residual Unitholder of zipMoney Trust 2015-1, zipMoney Trust 2017-1, and zipMoney Trust 2017-2.

NOTE 28: SHARE-BASED PAYMENTS

At the consolidated entity's AGM In November 2016, approval was given for the issue of a further 700,000 options exercisable at $1.00 to Philip Crutchfield, the consolidated entity's Chairman, and 200,000 options exercisable at $1.00 to Megan Quinn, Non-Executive Director.

The fair value of these options were valued using Black-Scholes model using the following assumptions:

	Option exercisable at $1.00
Grant date:	5 December 2016
Share price at grant date:	$0.78
Risk free rate:	1.94%
Expiry period:	2 years
Dividend yield:	0%
Fair value per option:	$0.267

Based on the above, an option expense of $240,487 was recognized in the year to 30 June 2017.

In August 2017, the Board decided to reward its employees for their contribution to the performance of the group by granting them up to 1,690,000 ordinary shares. These shares were valued at $0.76, vest immediately at grant date and will be issued under the Employee Short Term Incentive Plan.

During the financial year, 285,715 zero price options were issued to employees under the consolidated entity's Short Term Employee Incentive Plan. These options were valued at the market price on the date of issue $0.87. Accordingly, an option expense of $248,572 was recognised in the year to 30 June 2018.

In August 2018, the Board decided to reward its employees for their contribution to the performance of the consolidated entity by granting them 2,186,126 ordinary shares. These shares were valued at $1.025, vest immediately at grant date and were issued under the Employee Short Term Incentive Plan.

NOTE 29: SUBSEQUENT EVENTS

Subsequent to the year end Zip Co limited issued 1,887,942 shares to the original vendors of Pocketbook as payment for the equity and liability components of the contingent consideration payable to the vendors on the achievement of the performance milestones contained in the share sale agreement. The equity component, included in reserves, totalled $1,162,800 and the liability component, shown in the deferred contingent liability, totalled $337,200.

In August 2018, the Board decided to reward its employees for their contribution to the performance of the consolidated entity by granting them 2,186,126 ordinary shares. These shares were valued at $1.025, vest immediately at grant date and were issued under the Employee Short Term Incentive Plan.

There have been no other significant events occurring after the end of the reporting period.

Directors' Declaration

The Company changed its name to Zip Co Limited (formerly zipMoney Limited) on 7 December 2017.

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 2018 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 26 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,

Larry Diamond
Managing Director & Chief Executive Officer

26 September 2018

Deloitte.

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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 formerly zipMoney Limited) and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2018, 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 a summary of significant 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:

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

(ii) complying with Australian Standards and the *Corporations Regulation 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 *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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.

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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.

Key Audit Matters	How the scope of our audit responded to the Key Audit Matters
Revenue Recognition As at 30 June 2018, Portfolio income of $39.3m million was reported as disclosed in Note 3. Portfolio income contains merchant fees, establishment fees, monthly fees and interest. Revenue recognition is based on a management model with a number of key estimates and assumptions including: • estimated future cash flows; and • historical repayment patterns	Our audit procedures included, but were not limited to: • Obtaining an understanding of the key revenue streams and assessing the accounting policy on revenue recognition for compliance with the applicable accounting standards. • Assessing the key internal controls over the capture and measurement of revenue transactions. • Agreeing a sample of customer loan data recorded in the system to the source information in the customer contracts. • Evaluating the accuracy of the revenue recognition as modelled by management by re-performing the calculations on a sample basis and comparing the methodology used to the requirements of the relevant accounting standards. • Assessing the appropriateness of key assumptions used in the revenue recognition model, including the estimated future cash flows and the expected life of the customer receivables balance. • Comparing assumptions to historical portfolio performance experience, and our own knowledge of market trends. • Assessing the appropriateness of the disclosures to the financial statements.
Recoverability of Customer Receivables As at 30 June 2018, the carrying value of Customer Receivables recorded is $300.6 million as disclosed in Note 8. The assessment of the recoverable value of customer receivables requires significant judgement in making an estimate of the recoverability of the receivables, on a collective basis. Impairment allowances in respect of customer receivables represent management's best estimate of the losses incurred within the customer receivable portfolio at the reporting date. Impairment allowances are calculated on a collective basis for portfolios of loans of a	Our audit procedures included, but were not limited to: • Testing the key controls relating to customer loan approval processes and identification of overdue transactions. • Agreeing a sample of loan information to source documents. • Testing the key controls over the appropriateness of models used to calculate the charge, the process of determining key assumptions and the identification of loans to be included within the calculation. • Evaluating the appropriateness of the modelling policy and methodology used for the customer receivable portfolio with reference to the relevant accounting standards and market practices. • Testing model calculations were through re-performance. • Evaluating management's judgements in respect of calculation methodologies, economic factors and judgmental overlays, the period of historical loss rates used, loss emergence periods, cure rates for

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Key Audit Matters	How the scope of our audit responded to the Key Audit Matters
similar nature. The calculation of collective impairment allowances is inherently judgmental. Collective impairment allowances are calculated using models which approximate the impact of current economic and credit conditions on customer receivables. The inputs to these models are based on historical loss experience with judgement applied to determine the assumptions used to calculate impairment. Model overlays are applied where data driven parameters or calculations are not considered representative of current risks or conditions of the customer receivable portfolio.	impaired loans, and the historical experience of recoveries on distressed loans. • Assessing the appropriateness of the disclosures to the financial statements.

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 2018, 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.

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 has 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.

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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.

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, related safeguards.

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.

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Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 48 to 54 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Zip Co Limited, for the year ended 30 June 2018, 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, 26 September 2018

Shareholder Information

The shareholder information set out below was applicable as at 14 September 2018.

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 unquoted options Price $0.10, Expiry 30.11.2018	Number of holders of unquoted options Price $0.75, Expiry 30.11.2018
1 to 1,000	1,287	–	–
1,001 to 5,000	1,754	–	–
5,001 to 10,000	780	1	–
10,001 to 100,000	1,177	1	–
100,001 and over	171	1	2
Total	**5,169**	**3**	**2**
Holding less than a marketable parcel	–	–	–

Range	Number of holders of unquoted options Price $1.00, Expiry 05.12.2018	Number of holders of unquoted options Price $0.50, Expiry 05.12.2019	Number of holders of unquoted options Price $0.70, Expiry 05.12.2019
100,001 and over	2	1	1
Total	**2**	**1**	**1**
Holding less than a marketable parcel	–	–	–

Range	Number of holders of unquoted performance shares escrow released on 21.09.2017	Number of holders of unquoted performance shares escrow released on 11.09.2016	Number of holders of unquoted performance options Vesting 10.08.2018
100,001 and over	3	11	1
Total	**3**	**11**	**1**
Holding less than a marketable parcel	–	–	–

Range	Number of holders of unquoted performance options Vesting 10.08.2019	Number of holders of unquoted performance options Vesting 10.08.2020	Number of holders of unquoted performance options Vesting 10.08.2021
100,001 and over	1	1	1
Total	**1**	**1**	**1**
Holding less than a marketable parcel	–	–	–

Range	Number of holders of unquoted performance options Vesting 10.08.2022	Number of holders of unquoted options – Employee Short Term Incentive Plan Expiry 19.01.2021
100,001 and over	1	1
Total	**1**	**1**
Holding less than a marketable parcel	–	–

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>	60,615,319	20.49
WESTPAC BANKING CORPORATION	49,382,716	16.69
MR PETER JOHN GRAY	20,006,105	6.76
UBS NOMINEES PTY LTD	9,421,624	3.18
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	8,765,019	2.96
MR ADAM MARC FINGER	8,016,158	2.71
CITICORP NOMINEES PTY LIMITED	6,314,940	2.13
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,832,401	1.97
LIQUIDITY GROUP PTY LIMITED <THE LIQUIDITY A/C>	5,390,457	1.82
ACN 163 625 198 PTY LTD <SR-71 A/C>	4,932,347	1.67
BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	4,808,624	1.63
AET CT PTY LIMITED <HENROTH PTY LIMITED>	3,460,954	1.17
P D CRUTCHFIELD PTY LTD <CRUTCHFIELD SUPER FUND A/C>	2,500,000	0.84
BNP PARIBAS NOMS PTY LTD <DRP>	2,460,235	0.83
MR PHILIP DAVID CRUTCHFIELD	2,200,000	0.74
BRIAR PLACE PTY LTD <MJ FAMILY A/C>	2,164,003	0.73
NALEY PTY LTD	2,100,000	0.71
ACN 163 625 054 PTY LTD <FERNHILL A/C>	1,887,949	0.64
BRIAR PLACE PTY LIMITED <MJ FAMILY A/C>	1,680,000	0.57
Total	**203,255,658**	**68.70**

Unquoted equity securities

	Number on issue	Number of holders
Unlisted Options Exercise Price $0.10, Expiry 30.11.2018	340,000	3
Unlisted Options Price $0.75, Expiry 30.11.2018	445,000	2
Unlisted Options Price $1.00, Expiry 05.12.2018	900,000	2
Unlisted Options Price $0.50, Expiry 05.12.2019	150,000	1
Unlisted Options Price $0.70, Expiry 05.12.2019	150,000	1
Unlisted Performance Shares escrow released on 21.09.2017	29,211,310	3
Unlisted Performance Shares escrow released on 11.09.2016	4,118,690	11
Unlisted Performance Options Vesting 10.08.2018	1,960,000	1
Unlisted Performance Options Vesting 10.08.2019	1,960,000	1
Unlisted Performance Options Vesting 10.08.2020	1,960,000	1
Unlisted Performance Options Vesting 10.08.2021	1,960,000	1
Unlisted Performance Options Vesting 10.08.2022	1,960,000	1
Unlisted Options – Employee Short Term Incentive Plan Expiry 19.01.2021	285,715	1

The following persons holds 20% or more of unquoted equity securities:

Name	Class	Number held
ZELTNER PTY LTD <JL & MV WINTER FAMILY A/C>	Unlisted Options Exercise Price $0.10, Expiry 30.11.2018	300,000
MR MATTHEW SVENSSON	Unlisted Options Price $0.75, Expiry 30.11.2018	300,000
MR PHILIP DAVID CRUTCHFIELD	Unlisted Options Price $1.00, Expiry 05.12.2018	700,000
MR PHILIP DAVID CRUTCHFIELD	Unlisted Options Price $0.50, Expiry 05.12.2019	150,000
MR PHILIP DAVID CRUTCHFIELD	Unlisted Options Price $0.70, Expiry 05.12.2019	150,000
OZTRAL EQUITIES PTY LTD <AUSTRAL EQUITIES UNIT A/C>	Unlisted Performance Shares escrow released on 21.09.2017	20,000,000
MR ADAM MARC FINGER	Unlisted Performance Shares escrow released on 11.09.2016	962,871
WESTPAC BANKING CORPORATION	Unlisted Performance Options Vesting 10.08.2018	1,960,000
WESTPAC BANKING CORPORATION	Unlisted Performance Options Vesting 10.08.2019	1,960,000
WESTPAC BANKING CORPORATION	Unlisted Performance Options Vesting 10.08.2020	1,960,000
WESTPAC BANKING CORPORATION	Unlisted Performance Options Vesting 10.08.2021	1,960,000
WESTPAC BANKING CORPORATION	Unlisted Performance Options Vesting 10.08.2022	1,960,000
LONGMEADOW INVESTMENTS PTY LTD	Unlisted Options – Employee Short Term Incentive Plan Expiry 19.01.2021	285,715

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
Mr Larry Diamond + Mrs Ashlyn Diamond <Diamond SMSF A/C> Diamond Venture Holdings Pty Ltd <Diamond Unit A/C>	61,117,263
Westpac Banking Corporation	49,382,716
Peter John Gray	20,006,105

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 3.13.1 AND 14.3

The Annual General Meeting is scheduled to be held on 22 November 2018.

ASX LISTING RULE 4.10.3

The corporate governance statement that meets the requirements of this rule is located on the Company's website: http://zipmoneylimited.com.au/corporate-governance.html

Corporate Directory

DIRECTORS

Philip Crutchfield (Chairman)

Larry Diamond (Managing Director, CEO)

Peter Gray (Executive Director, COO)

Dianne Challenor (Non-Executive Director)

John Batistich (Non-Executive Director)

COMPANY SECRETARY

Andrew Bursill

REGISTERED OFFICE

Level 14, 10 Spring Street
Sydney, NSW, 2000
Telephone: +61 2 8294 2345
Website: www.Zip.co

SECURITIES EXCHANGE LISTING

ASX Code: Z1P

AUDITORS

Deloitte Touche Tohmatsu
Grosvenor Place, 225 George Street
Sydney, NSW 2000

SOLICITORS

Arnold Bloch Liebler
Level 24, 2 Chifley Square
Sydney NSW 2000

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 11, 172 St Georges Terrace
Perth, WA 6000

INVESTOR ENQUIRIES

Telephone: 1300 850 505
(within Australia)
+61 8 9323 2000
Facsimile: +61 8 9322 2033

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