



# Appendix 4E: Preliminary Final Report



## **ZIP CO LIMITED**

**Year ended 30 June 2023**

ACN 139 546 428

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## Results for Announcement to the Market

Name of entity:	Zip Co Limited
ACN:	139 546 428
Reporting period:	Financial Year ended 30 June 2023
Previous period:	Financial Year ended 30 June 2022

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

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

		30 June 2023 \$'000	30 June 2022* \$'000
Revenue from ordinary activities from continuing operations	Up (16%)	693,207	596,857
Loss from ordinary activities after income tax attributable to members	Down (63%)	(413,984)	(1,105,093)
Total comprehensive loss attributable to members	Down (61%)	(401,072)	(1,015,468)
		30 June 2023	30 June 2022
Total number of ordinary shares on issue		824,646,536	687,936,061
Net tangible asset backing per ordinary share <sup>1</sup>		(18.61) cents	3.29 cents

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

1. Net tangible assets include right-of-use assets which are recognised by the Group in accordance with AASB 16.

### Brief explanation of the above figures

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

### DETAILS OF ENTITIES WHICH CONTROL HAS BEEN GAINED OR LOST

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

During the financial year ended 30 June 2023, Zip completed the sale of Spotii, Twisto and Payflex. Zip deconsolidated these entities from the dates on which Zip lost control. Detailed information in relation to these disposals and their contributions to the Group's financial performance prior to disposal is contained in the 30 June 2023 Preliminary Final Report.

There were no other changes in controlled entities in the year ended 30 June 2023.

## Results for Announcement to the Market continued

### ASSOCIATES/JOINT VENTURE ENTITIES

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

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

Detailed information in relation to Zip's investments is contained in the 30 June 2023 Preliminary Final Report.

### AUDIT STATUS

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

### DIVIDENDS

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

# Review of Operations

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

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

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

## Consumers

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

## Small and Medium Sized Merchants (SMEs)

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

## REVIEW OF PERFORMANCE

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

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

## Review of Operations continued

### Operational Performance

#### Consumers

Key Metric	2023	2022*	% <sup>1</sup>
<b>For the year ended 30 June</b>			
Transaction Volumes ('\$M)	8,815.9	8,156.8	8.1%
Active Consumers ('M)	6.2	6.4	(3.5%)

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

1. Movement calculations may not equate due to rounding.

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

#### Transaction Volumes

For the year ended 30 June	2023 \$'M	2022* \$'M	Movement %
ANZ <sup>1</sup>	4,158.8	4,040.4	2.9%
AMERICAS <sup>1</sup>	4,657.1	4,116.4	13.1%
	8,815.9	8,156.8	8.1%

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

1. Refer to Note 2 for details of segment information.

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

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

#### Active Consumers

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

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

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

## Review of Operations continued

### SMEs (Business Financing)

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

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

## FINANCIAL PERFORMANCE

### Group Results

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

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

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

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

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

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

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

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

## Review of Operations continued

### Adjusted Group Results

The Group's result for the twelve months to 30 June 2023 includes a number of non-recurring items and items that have had a significant impact on the result. The Group's adjusted loss before tax (which is non-IFRS information) is as follows:

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

### Revenue

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

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

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

## Review of Operations continued

### Cost of Sales

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

1. Interest expense related to customer receivables.

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

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

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

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

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

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

The Group continues to actively manage risk settings, and its portfolio management and collections activities, to ensure net write offs are in line with Zip's medium-term targets whilst maintaining top line growth.

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

### Expenditure

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

## Review of Operations continued

### Cash Expenses

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

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

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

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

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

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

## Review of Operations continued

### Other Expenses

For the year ended 30 June	2023 \$'M	2022* \$'M	Movement \$'M
Depreciation and amortisation expenses	63.4	61.5	1.9
Corporate financing costs <sup>1</sup>	109.4	30.7	78.7
Share-based payments	14.3	26.9	(12.6)
Fair value loss/(gain) on financial instruments	61.1	(129.0)	190.1
Impairment losses	14.5	592.8	(578.3)
Share of loss of associates	4.7	8.3	(3.6)

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

1. Corporate financing costs include \$29.9 million expensed as an incentive on conversion of the Senior Convertible Notes.

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

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

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

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

Following a review of the carrying value of Zip's investments at 30 June 2023, Zip impaired the Zip Business goodwill by \$2.2 million, its associate TendoPay by \$4.7 million, and intangibles across the Group by \$7.7 million.

### RECEIVABLES

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

## Review of Operations continued

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

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

Zip's ANZ line of credit consumer business comprises 86.9% of the gross receivables at 30 June 2023, compared to 83.9% at 30 June 2022. The repayment rate remained healthy averaging 13.5% (of the opening receivables balance repaid each month) during the year ended 30 June 2023, consistent with the previous financial year. The reported arrears rate (accounts over 60 days past due) was 2.79% of the receivables at 30 June 2023, compared with 2.30% at 30 June 2022.

## CAPITAL MANAGEMENT

### Receivables Funding Facilities

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

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

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

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

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

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

## Review of Operations continued

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

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

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

### Corporate Facility

	<b>Currency</b>	<b>Facility Limit \$'M</b>	<b>Drawn at 30 June 2023 \$'M</b>
zipMoney 2017-2 Trust	AUD	90.0	90.0

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

## CONVERTIBLE NOTES

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

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

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

The financial impact of the repayments and conversions is set out in Note 5. The financial impact of Consent Solicitation did not impact the Preliminary Consolidated Financial Statements to 30 June 2023 and an assessment of the impact on the financial statements to financial year ended 30 June 2024 is detailed as a post balance date event in this review and as a subsequent event in Note 20.

## Review of Operations continued

### EQUITY CAPITAL

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

### POST BALANCE DATE EVENTS

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

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

The amendment of the Senior Convertible Notes is a substantial modification of the terms of an existing financial liability, and will be accounted for as an extinguishment of the pre-existing financial liability and the recognition of a new financial liability. A gain of approximately \$163.6 million (before transaction costs) will be recognised on extinguishment of the pre-existing Senior Convertible Notes along with the associated tax impact.

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

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

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

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

# Preliminary Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the period ended 30 June 2023

	Note	Consolidated	
		30 June 2023 \$'000	30 June 2022* \$'000
<b>Continuing operations</b>			
Portfolio interest income		574,018	500,665
Transactional income		119,189	96,192
Revenue		693,207	596,857
Other income		4,895	797
Bad debts and expected credit losses	10	(170,239)	(257,691)
Bank fees and data costs		(121,759)	(107,467)
Interest expense	3	(164,594)	(73,828)
Salaries and employee benefits expenses		(170,378)	(163,512)
Marketing expenses		(41,908)	(107,553)
Information technology expenses		(44,416)	(43,661)
Depreciation and amortisation expenses	3	(63,432)	(61,529)
Share-based payments		(14,250)	(26,926)
Corporate financing costs	3	(109,411)	(30,716)
Other operating expenses	3	(89,667)	(60,639)
Impairment losses	3	(14,490)	(592,857)
Fair value (loss)/gain on financial instruments	3	(61,109)	128,960
Share of loss of associates	4	(4,740)	(8,348)
Loss before income tax expense from continuing operations		(372,291)	(808,113)
Income tax expense	6	(556)	(232)
Loss after income tax expense from continuing operations		(372,847)	(808,345)
<b>Discontinued operations</b>			
Loss after income tax benefit from discontinued operations	18	(41,137)	(296,748)
Loss After Income Tax for the period attributable to the Members of Zip Co Limited		(413,984)	(1,105,093)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange differences on translation		12,912	89,625
Other comprehensive income for the period, net of tax		12,912	89,625
Total Comprehensive Loss for the period attributable to the Members of Zip Co Limited		(401,072)	(1,015,468)
		<b>Cents</b>	<b>Cents</b>
Earnings per share from continuing operations attributable to the Members of Zip Co Limited			
Basic loss per share	7	(51.76)	(132.59)
Diluted loss per share	7	(51.76)	(132.59)
Earnings per share from continuing and discontinued operations attributable to the Members of Zip Co Limited			
Basic loss per share	7	(57.47)	(181.26)
Diluted loss per share	7	(57.47)	(181.26)

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

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

# Preliminary Consolidated Statement of Financial Position

As at 30 June 2023

	Note	Consolidated	
		30 June 2023 \$'000	30 June 2022 \$'000
<b>Assets</b>			
Cash and cash equivalents	8	151,955	241,326
Restricted cash	8	123,955	58,369
Other receivables	9	87,160	72,835
Term deposit		7,196	3,864
Customer receivables	10	2,596,832	2,508,124
Investments at FVTPL	11	13,846	–
Investments in associates	4	2,248	70,741
Property, plant and equipment		5,092	5,246
Right-of-use-assets		18,641	3,813
Intangible assets	12	141,638	192,350
Goodwill	13	209,235	222,744
<b>Total assets</b>		<b>3,357,798</b>	<b>3,379,412</b>
<b>Liabilities</b>			
Trade and other payables	14	213,637	140,547
Employee provisions		8,808	9,068
Deferred consideration	15	1,889	26,184
Lease liabilities		17,717	4,039
Borrowings	16	2,591,208	2,380,909
Financial liabilities – convertible notes and warrants	5	327,168	380,916
<b>Total liabilities</b>		<b>3,160,427</b>	<b>2,941,663</b>
<b>Net Assets</b>		<b>197,371</b>	<b>437,749</b>
<b>Equity</b>			
Issued capital	17	2,121,541	2,041,496
Reserves		158,551	152,385
Convertible notes – equity component	5	114,466	114,466
Non-controlling interest		–	1,015
Accumulated losses		(2,197,187)	(1,871,613)
<b>Total equity</b>		<b>197,371</b>	<b>437,749</b>

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

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# Preliminary Consolidated Statement of Changes in Equity

For the period ended 30 June 2023

Consolidated	Issued Capital \$'000	Treasury Shares \$'000	Share-Based Payments Reserve \$'000	Foreign Currency Translation Reserve \$'000	Convertible Notes \$'000	Accumulated Losses \$'000	Non-Controlling Interests \$'000	Total Equity \$'000
Balance at 1 July 2022	2,041,496	(3,345)	85,475	70,255	114,466	(1,871,613)	1,015	437,749
Loss after income tax for the period	-	-	-	-	-	(413,984)	-	(413,984)
Other comprehensive income for the period, net of tax	-	-	-	12,912	-	-	-	12,912
Total comprehensive loss for the period	-	-	-	12,912	-	(413,984)	-	(401,072)
Recognition of share-based payments	-	-	12,595	-	-	-	-	12,595
Transfer of share-based payments	-	-	(10,803)	-	-	-	-	(10,803)
Issue of treasury shares to Zip Employee Share Trust	8,538	(8,538)	-	-	-	-	-	-
Issue of treasury shares to employees	-	10,637	(10,637)	-	-	-	-	-
Issue of ordinary shares under share-based payment plans	9,173	-	-	-	-	-	-	9,173
Exercise of options	73	-	-	-	-	-	-	73
Issue of shares – business acquisitions	-	-	-	-	-	-	-	-
Issue of shares – capital raising	38,279	-	-	-	-	-	-	38,279
Issue of shares – Payflex contingent consideration (Note 15)	838	-	-	-	-	-	-	838
Issue of shares-Senior convertible notes conversion	4,953	-	-	-	-	88,410	-	93,363
Issue of shares – Twisto holdback considerations (Note 15)	19,965	-	-	-	-	-	-	19,965
Cost of issuing of shares	(1,774)	-	-	-	-	-	-	(1,774)
Derecognition of non-controlling interests	-	-	-	-	-	-	(1,015)	(1,015)
Balance at 30 June 2023	2,121,541	(1,246)	76,630	83,167	114,466	(2,197,187)	-	197,371

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

Preliminary Consolidated Statement of Changes in Equity continued

Consolidated	Issued Capital \$'000	Treasury Shares \$'000	Share- Based Payments Reserve \$'000	Foreign Currency Trans- lation Reserve \$'000	Convert- ible Notes \$'000	Accum- ulated Losses \$'000	Non- Control- ling Interests \$'000	Total Equity \$'000
Balance at 1 July 2021	1,688,785	(10,438)	116,515	(19,370)	114,466	(766,520)	-	1,123,438
Loss after income tax for the period	-	-	-	-	-	(1,105,093)	-	(1,105,093)
Other comprehensive income for the period, net of tax	-	-	-	89,625	-	-	-	89,625
Total comprehensive loss for the period	-	-	-	89,625	-	(1,105,093)	-	(1,015,468)
Recognition of share-based payments	-	-	30,937	-	-	-	-	30,937
Transfer of share-based payments	-	-	(41,544)	-	-	-	-	(41,544)
Issue of shares – PartPay contingent consideration	6,989	-	-	-	-	-	-	6,989
Issue of treasury shares to Zip Employee Share Trust	15,760	(15,760)	-	-	-	-	-	-
Issue of treasury shares to employees	-	22,853	(22,853)	-	-	-	-	-
Issue of ordinary shares under share-based payment plans	19,661	-	-	-	-	-	-	19,661
Exercise of options	310	-	-	-	-	-	-	310
Issue of shares – business acquisitions	137,210	-	2,156	-	-	-	-	139,366
Issue of shares – capital raising	172,729	-	-	-	-	-	-	172,729
Issue of shares – IT development and software purchase	3,440	-	264	-	-	-	-	3,704
Cost of issuing of shares	(3,388)	-	-	-	-	-	-	(3,388)
Acquisition of non-controlling interests	-	-	-	-	-	-	1,015	1,015
Balance at 30 June 2022	2,041,496	(3,345)	85,475	70,255	114,466	(1,871,613)	1,015	437,749

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

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# Preliminary Consolidated Statement of Cash Flows

For the period ended 30 June 2023

	Note	Consolidated	
		30 June 2023 \$'000	30 June 2022 \$'000
<b>Cash flows to operating activities</b>			
Revenue from customers		728,818	620,176
Payments to suppliers and employees		(438,547)	(517,887)
Net increase in receivables		(338,260)	(766,957)
Borrowing transaction costs		(2,764)	(2,390)
Interest received from financial institutions		3,595	1,227
Interest paid		(161,529)	(72,404)
Termination payment fee		(16,340)	-
Acquisition of business costs		-	(14,183)
Net cash flow used in operating activities		(225,027)	(752,418)
<b>Cash flows to investing activities</b>			
Payments for plant and equipment		(3,149)	(4,546)
Payments for software development		(21,419)	(24,968)
Disposal of subsidiaries, net of cash disposed of <sup>1</sup>	18	5,788	-
Payment for acquisitions, net of cash acquired		-	6,847
Deferred consideration		(4,047)	-
Payments for investments in associates	4	(4,324)	(72,048)
Increase in term deposits		(3,331)	(2,358)
Net cash flow used in investing activities		(30,482)	(97,073)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		757,849	1,195,390
Repayment of borrowings		(487,573)	(540,951)
Repayment of CVI Convertible Notes		(53,764)	-
Payment for incentive in relation to the Senior Convertible Notes conversion		(12,502)	-
Repayment of principal of lease liabilities		(3,997)	(3,949)
Proceeds from issue of shares		38,352	173,039
Cost of share issues		(1,774)	(3,388)
Net cash flow from financing activities		236,591	820,141
Net decrease in cash, cash equivalents and restricted cash		(18,918)	(29,350)
Cash, cash equivalents and restricted cash at the beginning of the period		299,695	330,201
Foreign exchange effect		(4,867)	(1,156)
<b>Cash, cash equivalents and restricted cash at the end of the period</b>	9	<b>275,910</b>	<b>299,695</b>

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

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

# Notes to the Preliminary Consolidated Financial Statements

30 June 2023

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES OF PRELIMINARY FINAL REPORT

### A. Business

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

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

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

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

### B. Basis of Preparation

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

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

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

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

### Comparative Figures

#### Prior Period Adjustments

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

#### Discontinued Operations

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

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## Notes to the Preliminary Consolidated Financial Statements continued

**C. Going Concern**

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

The consolidated entity incurred a total comprehensive loss after tax<sup>1</sup> of \$401.1 million (FY22: \$1,015.5 million) and had net cash outflows from operations of \$225.0 million (FY22: \$752.4 million) with net cash inflows from financing activities of \$236.6 million (FY22: \$820.1 million) and net cash outflows from investing activities of \$30.5 million (FY22: \$97.1 million) for the financial year ended 30 June 2023.

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

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

Acquisition and sale of non-core business related:

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

Liability management and funding related:

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

**Cash flows to operating activities**

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

- Restructured all global operations to focus on the core markets of ANZ and Americas;
- Streamlined operations in the core markets to improve business efficiency and deliver cost savings;
- Closed the consolidated entity's operations in Mexico, Singapore and the United Kingdom;
- Sold operations in Eastern Europe (Twisto), South Africa (Payflex) and the Middle East (Spotii);
- Ceased the Zip Business Trade and Trade Plus products;
- Commenced the wind down of Zip Business Capital;

1. Total from both continuing and discontinued operations.

## Notes to the Preliminary Consolidated Financial Statements continued

- Enhanced credit origination and collections focus, resulting in improved bad debt performance in all operations, particularly in the United States; and
- Repriced charges to consumers and merchants to reflect the higher cost of funding.

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

### Borrowings

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

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

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

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

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

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

### D. Adoption of New and Revised Accounting Standards

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current financial year and that have a significant impact on the consolidated entity's preliminary consolidated financial statements. There were no new or revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that have materially impacted the consolidated entity's Preliminary Consolidated Financial Statements for the financial year ended 30 June 2023.

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

## Notes to the Preliminary Consolidated Financial Statements continued

### E. Critical Accounting Estimates and Judgement

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

#### Provision for Expected Credit Loss

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

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

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

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

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

#### Impairment of Non-Financial Assets

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

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

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

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

### Fair Value Measurements and Valuation Processes

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

### F. Principles of Consolidation

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

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

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

### G. Segment Reporting

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

### H. Revenue Recognition

#### Portfolio Interest Income

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

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

### Transactional Income

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

### I. Cash, Cash Equivalents and Restricted Cash

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

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

### J. Intangible Assets

#### Software Development Asset

Software development costs are capitalised only when:

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

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

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

#### Intangibles Acquired in a Business Combination

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

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

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

### Intangibles Acquired Separately

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

### Derecognition of Intangibles

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

### K. Goodwill

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

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

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

### L. Financial Instruments

#### Initial Recognition and Subsequent Measurement of Financial Instruments

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

#### Financial Assets

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

### Financial Liabilities

Financial liabilities are initially measured at fair value.

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

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

### Classification of Debt and Equity Components

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

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

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

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

### Transaction Costs

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

## Notes to the Preliminary Consolidated Financial Statements continued

### Derecognition of Financial Assets and Liabilities

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

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

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

### M. Issued Capital

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

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

### N. Foreign Currencies

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

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

**O. Discontinued Operations**

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

**NOTE 2. SEGMENT INFORMATION**

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

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

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

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

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

Notes to the Preliminary Consolidated Financial Statements continued

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

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

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## Notes to the Preliminary Consolidated Financial Statements continued

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

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

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

Notes to the Preliminary Consolidated Financial Statements continued

NOTE 3. EXPENDITURE

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

## NOTE 4. INVESTMENTS IN ASSOCIATES

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

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

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

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

**TendoPay**

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

### ZestMoney

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

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

### Hemenal Finansman A.Ş.

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

## NOTE 5. FINANCIAL LIABILITIES – CONVERTIBLE NOTES AND WARRANTS

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

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

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## Notes to the Preliminary Consolidated Financial Statements continued

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

**CVI Convertible Notes and Warrants Issued on 1 September 2020**

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

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

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

**Debt Component and Embedded Derivative**

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

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

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

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

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

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

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

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

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

### Warrants

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

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

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

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

**Senior Convertible Notes Issued on 23 April 2021**

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

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

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

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

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

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

### Debt Component

A conversion of a convertible note is considered a derecognition of the liability component. The derecognised debt host of \$93.4 million was transferred into \$88.4 million of retained earnings and \$5.0 million of issued share capital, respectively.

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

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

### Equity Component

The equity component of the Senior Convertible Notes remained at \$114.5 million at 30 June 2023, which is in accordance with AASB 9 in that Zip is not required to revalue the conversion feature recorded as equity at each reporting date.

In June 2023, Zip announced a Consent Solicitation of the Senior Convertible Notes and the existing holders of the outstanding Senior Convertible Notes have approved certain amendments to the terms and conditions of the Senior Convertible Notes. The amendments to the Senior Convertible Notes took effect following execution of the Amending Documents on 31 July 2023. In addition, shareholders approved the physical settlement of the Senior Convertible Notes at the Extraordinary General Meeting of shareholders ("EGM") held on 31 July 2023. The financial impact of Consent Solicitation did not impact the Preliminary Consolidated Financial Statements to 30 June 2023 and an assessment of the impact on the financial statements to financial year ended 30 June 2024 is detailed as a subsequent event in Note 20.

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## Notes to the Preliminary Consolidated Financial Statements continued

## NOTE 6. TAXATION

## Income Tax

	Consolidated	
	30 June 2023 \$'000	30 June 2022* \$'000
Numerical reconciliation of income tax and tax at the statutory rate		
Loss before income tax expense from continuing operations	(372,291)	(808,113)
Tax at the Australian statutory tax rate of 30%	(111,687)	(242,434)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
– Share-based payments	71	337
– Non-deductible expenses	23,239	10,709
– Non-assessable/deductible fair value loss/(gain)	15,486	(2,500)
– Impairment losses	2,288	176,744
– Assessable TOFA gain on financial instruments	23,792	-
– Effect of different tax rates of subsidiaries operating in other jurisdictions	4,250	5,803
	(42,561)	(51,341)
Current year tax losses not recognised	12,677	64,799
Movement in temporary differences not recognised	19,431	(16,427)
Movement in temporary differences recognised	11,009	3,201
Income tax expense from continuing operations	556	232
Loss before income tax from discontinued operations	(41,324)	(297,292)
Income tax benefit from discontinued operations	(187)	(544)

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

## Deferred Tax

The consolidated entity has recognised deferred tax assets arising from temporary differences and tax losses to equal deferred tax liabilities to the extent required to equal deferred tax liabilities. Deferred tax assets and deferred tax liabilities have been offset in the Preliminary Consolidated Statement of Financial Position at 30 June 2023 and were offset in the Consolidated Statement of Financial Position at 30 June 2022, to the extent they are levied by the same taxing authority on the same entity or different entities within a tax consolidated group.

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

## Notes to the Preliminary Consolidated Financial Statements continued

	Consolidated	
	30 June 2023 \$'000	30 June 2022 \$'000
Deferred tax assets comprising temporary differences attributable to:		
– Provision for expected credit losses	47,771	45,967
– Other provision and payables	49,687	41,746
– Fair value movements on financial instruments	(8,600)	(10,985)
Deferred tax assets comprising tax losses:	128,757	119,672
Less: Deferred tax assets not brought to account	(190,848)	(157,353)
<b>Deferred tax assets (recognised from temporary difference) before set off</b>	<b>26,767</b>	<b>39,047</b>
Set off deferred tax liabilities pursuant to set-off provisions	(26,767)	(39,047)
<b>Net deferred tax assets</b>	<b>-</b>	<b>-</b>
Deferred tax liabilities comprise temporary differences attributable to:		
– Acquired intangibles and other	26,767	39,047
<b>Deferred tax liabilities before set off</b>	<b>26,767</b>	<b>39,047</b>
Set off deferred tax assets pursuant to set-off provisions	(26,767)	(39,047)
<b>Net deferred tax liabilities</b>	<b>-</b>	<b>-</b>

### NOTE 7. LOSS PER SHARE

#### A. Reconciliation of Earnings Used in Calculating Loss Per Share

	Consolidated	
	30 June 2023 \$'000	30 June 2022* \$'000
Loss attributable to the Members of the Zip Co Limited used in calculating basic and diluted loss per share		
Continuing operations	(372,847)	(808,345)
Discontinued operations	(41,137)	(296,748)
	(413,984)	(1,105,093)

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

#### B. Weighted Average Number of Shares Used as the Denominator

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

## Notes to the Preliminary Consolidated Financial Statements continued

**C. Earnings Per Share From Continuing Operations**

	30 June 2023 Cents	30 June 2022* Cents
Basic loss per share	(51.76)	(132.59)
Diluted loss per share <sup>1</sup>	(51.76)	(132.59)

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

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

**D. Earnings Per Share From Continuing Operations and Discontinued Operations**

	30 June 2023 Cents	30 June 2022 Cents
Basic loss per share	(57.47)	(181.26)
Diluted loss per share <sup>1</sup>	(57.47)	(181.26)

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

**NOTE 8. CASH, CASH EQUIVALENTS AND RESTRICTED CASH**

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

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

The consolidated entity holds balances (30 June 2023: \$95.4 million, 30 June 2022: \$95.7 million) that are reported as cash and cash equivalents and either provide initial funding for transactions on Zip's virtual card or physical card products or provide a float to support such transactions. Zip considers both of these amounts as unavailable, and together with the \$124.0 million in reported restricted cash are not included in the balances Zip considers as available cash to fund operations (unavailable cash 30 June 2023: \$219.4 million, 30 June 2022: \$154.1 million).

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

## Notes to the Preliminary Consolidated Financial Statements continued

Available cash and liquidity is determined as:

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

### Reconciliation of Loss After Income Tax to Net Cash from Operating Activities<sup>1</sup>

	30 June 2023 \$'000	30 June 2022 \$'000
Loss after income tax for the year	(413,984)	(1,105,093)
<b>Adjustments for:</b>		
Depreciation and amortisation expenses	66,956	68,645
Share-based payments	12,595	30,937
Loss on derecognition of financial liabilities	7,037	–
Share of loss of associates	4,740	8,348
Fair value movements on financial instruments	61,109	(128,960)
Effective interest charged on convertible notes	78,079	29,929
Impairment losses	35,258	821,111
Incentivised conversion – incentive payments	29,856	–
Gain on disposal of subsidiaries	(6,725)	–
<b>Change in operating assets and liabilities:</b>		
Movement in customer receivables	(159,646)	(490,852)
Movement in other receivables	(15,855)	(40,213)
Movement in other payables	75,733	51,247
Movement in employee provisions	(180)	2,980
Movement in deferred tax balances	–	(497)
Net cash from operating activities	(225,027)	(752,418)

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

## Notes to the Preliminary Consolidated Financial Statements continued

## NOTE 9. OTHER RECEIVABLES

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

## NOTE 10. CUSTOMER RECEIVABLES

**AASB 9 Financial Instruments**

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

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

**Impairment**

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

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

**Expected Credit Losses**

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

## Notes to the Preliminary Consolidated Financial Statements continued

### Significant Increase in Credit Risk Since Initial Recognition

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

### Definition of Default and Credit – Impaired Assets

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

### Write-Off Policy

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

### Provisioning Model

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

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

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

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

### Provision Overlay

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

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

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

**Provision Overview**

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

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

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

	ANZ <sup>1</sup> \$'000	AMERICAS \$'000	EMEA \$'000	ZIP BUSINESS \$'000	CONSOLIDATED \$'000
Customer receivables	2,419,542	280,026	–	68,271	2,767,839
Unearned future income	(7,747)	(11,195)	–	–	(18,942)
Provision for expected credit losses	(120,475)	(23,159)	–	(8,431)	(152,065)
Balance at 30 June 2023	2,291,320	245,672	–	59,840	2,596,832

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

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

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

	ANZ \$'000	AMERICAS \$'000	EMEA \$'000	ZIP BUSINESS \$'000	CONSOLIDATED \$'000
Balance at 30 June 2022	116,716	29,158	8,755	5,560	160,189
Provided in the period	103,481	54,663	–	12,095	170,239
Receivables written-off during the period	(118,244)	(80,015)	–	(5,664)	(203,923)
Recoveries during the period	18,523	18,631	–	667	37,821
Foreign exchange and other movement <sup>1</sup>	(1)	722	(8,755)	(4,227)	(12,261)
Balance at 30 June 2023	120,475	23,159	–	8,431	152,065

1. Other movements include the movements from discontinued operations.

## Notes to the Preliminary Consolidated Financial Statements continued

### NOTE 11. INVESTMENTS AT FVTPL

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

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

### NOTE 12. INTANGIBLE ASSETS

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

Consolidated	Brand Name and Trademarks \$'000	Customer Database \$'000	Transacting Partner Database \$'000	IT Development and Software \$'000	Total \$'000
<b>Cost</b>					
Balance at 30 June 2022	7,357	3,660	93,454	265,435	369,906
Additions (continuing operations)	–	–	–	17,648	17,648
Additions (discontinued operations)	–	–	–	3,771	3,771
Written off	(229)	(1,468)	(948)	(16,350)	(18,995)
Disposals (discontinued operations)	(7,066)	(1,538)	(1,488)	(53,288)	(63,380)
Effect of movements in foreign exchange rates	–	–	3,405	(576)	2,829
Balance at 30 June 2023	62	654	94,423	216,640	311,779

## Notes to the Preliminary Consolidated Financial Statements continued

CONSOLIDATED	Brand Name and Trademarks \$'000	Customer Database \$'000	Transacting Partner Database \$'000	IT Development and Software \$'000	Total \$'000
<b>Accumulated amortisation and impairment losses</b>					
Balance at 30 June 2022	(6,502)	(3,041)	(34,580)	(133,433)	(177,556)
Amortisation (Continuing operations)	–	(383)	(17,299)	(40,563)	(58,245)
Amortisation (Discontinued operations)	–	–	(80)	(2,849)	(2,929)
Impairment	–	(63)	(59)	(7,601)	(7,723)
Written off	229	1,468	948	16,350	18,995
Disposals (discontinued operations)	6,273	1,539	513	49,332	57,657
Effects of movements in foreign exchange rates	–	–	(3,133)	2,793	(340)
Balance at 30 June 2023	–	(480)	(53,690)	(115,971)	(170,141)

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

Internally generated intangibles:

- IT development and software 2.5 years.

Acquired intangibles:

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

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

**NOTE 13. GOODWILL**

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

Consolidated	Zip AU \$'000	Zip US \$'000	Zip NZ \$'000	Zip Business \$'000	Payflex \$'000	Consolidated \$'000
Balance at 30 June 2022	4,548	195,806	1,234	2,112	19,044	222,744
Impairment (continuing operations)	–	–	–	(2,112)	–	(2,112)
Impairment (discontinued operations)	–	–	–	–	(18,447)	(18,447)
Effect of movements in foreign exchange rates	–	7,624	23	–	(597)	7,050
Balance at 30 June 2023	4,548	203,430	1,257	–	–	209,235

## Notes to the Preliminary Consolidated Financial Statements continued

### Impairment Assessment for Goodwill, Including Intangible Assets

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

During the financial year, Zip impaired goodwill in the Payflex CGU by \$18.4 million and the Zip Business CGU by \$2.2 million to reflect the differences between the carrying amount and an assessment of market value.

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

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

	Zip AU %	Zip US %	Zip NZ %
Discount rate – post tax <sup>1</sup>	15.8%	15.0%	16.4%
Long-term annual growth rate <sup>2</sup>	4.0%	4.0%	4.0%

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

There has been no impairment recorded in relation to Zip's existing CGUs at 30 June 2023 (30 June 2022: \$768.4 million).

### Sensitivity to Changes in Assumptions

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

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

## NOTE 14. TRADE AND OTHER PAYABLES

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

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

## NOTE 15. DEFERRED CONSIDERATION

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

**Twisto Holdback Consideration**

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

**Payflex Contingent Consideration and BEE Holdback Amount**

Under the terms of the acquisition of Payflex, a maximum contingent consideration of ZAR \$73.8 million was payable to the former Payflex shareholders in Zip shares or cash, subject to the achievement of performance milestones based on growth targets relating to the achievement of total transaction volumes and net transaction margins for the twelve months performance period ending 30 June 2022. As at 30 June 2022, Payflex achieved the performance milestones and accordingly 1,053,608 Zip's shares were issued to Payflex shareholders on 4 October 2022, valued at \$0.8 million and a cash payment of \$3.4 million was made during the financial year ended 30 June 2023. Consequently the balance of the contingent consideration was reduced to \$1.9 million as at 30 June 2023. This amount was settled subsequent to the year end (refer to Note 20).

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

## Notes to the Preliminary Consolidated Financial Statements continued

### NOTE 16. BORROWINGS

#### Borrowings and Securitisation Warehouse

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

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

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

#### Assets Pledged as Security

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

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

- The amount recognised above represents the carrying value of the customer receivables held by securitisation warehouses and special purpose vehicles and is net of the provision for expected credit losses and unearned future income. This excludes customer receivables totalling \$79.2 million held by entities that do not have asset-backed financing programs in place or are ineligible receivables at 30 June 2023 and \$27.2 million at 30 June 2022.
- Including \$202.2 million junior and seller notes held by Zip's corporate entities (\$226.8 million at 30 June 2022).

## Notes to the Preliminary Consolidated Financial Statements continued

## Term of Secured Facilities Financing Arrangements

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

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

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

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

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

## Term of Corporate Facility

	Facility Limit \$'000	Drawn at 30 June 2023 \$'000	Maturity	Facility Type
zipMoney 2017-2 Trust <sup>1</sup>	90,000	90,000	December 2023	BBSW + Margin

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

## Notes to the Preliminary Consolidated Financial Statements continued

### NOTE 17. ISSUED CAPITAL

#### Ordinary Shares

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

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

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

#### Movements in Ordinary Share Capital

Details	Shares '000	\$'000
Balance at 30 June 2022	687,936	2,041,496
Issue of shares – employee incentives	24,263	17,711
Issue of shares – capital raising	74,436	38,279
Issue of shares – exercise of options	225	73
Issue of shares – conversion of the Senior Convertible Notes	9,106	4,953
Issue of shares – Payflex deferred consideration	1,054	838
Issue of shares – Twisto holdback considerations	27,627	19,965
Cost of issuing shares	–	(1,774)
Balance at 30 June 2023	824,647	2,121,541

#### Movements in Options

##### Employee Options

Details	Options '000
Balance at 30 June 2022	960
Exercised during the period	(225)
Forfeited during the period	(115)
Expired during the period	(118)
Balance at 30 June 2023	502

##### Westpac Banking Corporation

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

## Notes to the Preliminary Consolidated Financial Statements continued

## Movements in Performance Rights

## Performance Rights Under at Risk Long-Term Incentives

Details	Rights '000
Balance at 30 June 2022	3,912
Issued during the period	2,559
Exercised during the period	(387)
Lapsed during the period	(636)
Balance at 30 June 2023	5,448

## Performance Rights Under Long Term Equity

Details	Rights '000
Balance at 30 June 2022	5,281
Granted during the period	16,989
Lapsed during the period	(5,780)
Vested during the period	(3,438)
Balance at 30 June 2023	13,052

## Movements in Warrants

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

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

Issue Date	Expiry Date	Exercise Price	Number Remaining
6 November 2019	6 November 2026	\$4.70	10,961,250
1 September 2020 <sup>1</sup>	1 September 2023	\$0.47	19,365,208
Total at 30 June 2023			30,326,458

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

## Notes to the Preliminary Consolidated Financial Statements continued

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

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

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

### Movements in Convertible Notes

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

1. Refer to Note 5 for details of the convertible notes outstanding at 30 June 2023.

2. The Senior Convertible Notes issued on 23 April 2021 are listed on the Singapore Exchange (SGX).

### Additional Information Relating to Unissued Securities

#### Performance Shares that may be Issued to Urge Vendors

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

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

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

#### Tenure Consideration Shares and Performance Consideration Shares Issued to QuadPay Founders

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

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

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

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

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

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

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

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

### NOTE 18. DISCONTINUED OPERATIONS

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

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

#### Sale of Spotii

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

#### Sale of Twisto

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

#### Sale of Payflex

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

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

## Notes to the Preliminary Consolidated Financial Statements continued

## Results of Discontinued Operations

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

## Cash Flows (Used In)/From Discontinued Operations

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

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

## Gain/(loss) on Sale of the Subsidiaries

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

1. Sale consideration of Twisto includes a holdback receivable of \$1.1 million.

Notes to the Preliminary Consolidated Financial Statements continued

Assets and Liabilities of Controlled Entities at Dates of Sales

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

NOTE 19. CONTINGENCIES

On 24 June 2019, Zip announced to the ASX that Firstmac Limited had commenced proceedings in the Federal Court against Zip Co Limited and its subsidiary zipMoney Payments Pty Ltd alleging infringement of Firstmac's "ZIP" trademark, which is registered in respect of financial affairs (loans).

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

## Notes to the Preliminary Consolidated Financial Statements continued

### NOTE 20. SUBSEQUENT EVENTS

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

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

The amendment of the Senior Convertible Notes is a substantial modification of the terms of an existing financial liability, and will be accounted for as an extinguishment of the pre-existing financial liability and the recognition of a new financial liability. A gain of approximately \$163.6 million (before transaction costs) will be recognised on extinguishment of the pre-existing Senior Convertible Notes along with the associated tax impact.

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

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

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

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

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