

# Appendix 4D Half Year Financial Report

<b>Name of entity:</b>	Zip Co Limited
<b>ACN:</b>	139 546 428
<b>Reporting period:</b>	Half Year ended 31 December 2023
<b>Previous period:</b>	Half Year ended 31 December 2022

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

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

			31 December 2023 \$'000	31 December 2022 Restated <sup>*</sup> \$'000
Revenue from ordinary activities	Up	29%	429,999	333,533
Profit/(Loss) from ordinary activities after income tax attributable to members	Up	NM <sup>1</sup>	73,033	(242,514)
Total comprehensive income/(loss) attributable to members	Up	NM <sup>2</sup>	57,205	(241,208)

\* Comparative information has been restated to exclude discontinued operations.

The company does not have a dividend policy.

	31 December 2023	31 December 2022
Total number of ordinary shares on issue	991,621,973	765,365,865
Net tangible asset backing per ordinary share <sup>3</sup>	9.75 cents	(11.13) cents

1. Not meaningful. Actual movement is 130%.

2. Not meaningful. Actual movement is 124%.

3. 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 CONTROLLED ENTITIES

There were no changes in controlled entities in this report.

## ASSOCIATES/JOINT VENTURE ENTITIES

In December 2023, Zip completed the sale of its investment in Hemenal Finansman A.Ş. and the investment was derecognised.

Detailed information in relation to Zip's investment is contained in the 31 December 2023 Half Year Report.

**Appendix 4D Half Year Financial Report continued****REVIEW CONCLUSION**

This report is based on the condensed financial statements for the half year ended 31 December 2023.

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

**DIVIDENDS**

No dividends have been declared for the half year ended 31 December 2023 or for the previous corresponding period.

Signed



**Cynthia Scott**  
Group CEO and Managing Director

27 February 2024



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## HALF YEAR FINANCIAL REPORT

31 December 2023

Zip Co Limited

ACN 139 546 428

Level 7, 180 George Street, Sydney NSW 2000

[zip.co/home](https://zip.co/home)

## CONTENTS

Directors' Report	03
Auditor's Independence Declaration	14
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	15
Condensed Consolidated Statement of Financial Position	16
Condensed Consolidated Statement of Changes in Equity	17
Condensed Consolidated Statement of Cash Flows	19
Notes to the Condensed Consolidated Financial Statements	20
Directors' Declaration	53
Independent Auditor's Report to the Members	54
Corporate Directory	56



# Directors' Report

The Directors are pleased to present their report on Zip Co Limited and its controlled entities (consolidated entity or Group) for the half year ended 31 December 2023.

## DIRECTORS

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

- Diane Smith-Gander AO
- Meredith Scott
- John Batistich
- Cynthia Scott (Appointed on 24 August 2023)
- Larry Diamond
- Peter Gray (Resigned on 24 August 2023)

## REVIEW OF OPERATIONS

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

			31 December 2023 \$'000	31 December 2022 Restated <sup>1</sup> \$'000
Revenue from ordinary activities from continuing operations	Up	29%	429,999	333,533
Profit/(Loss) from ordinary activities after income tax attributable to members	Up	NM <sup>2</sup>	73,033	(242,514)
Total comprehensive income/(loss) attributable to members	Up	NM <sup>3</sup>	57,205	(241,208)

1. Comparative information has been restated to exclude discontinued operations.
2. Not meaningful. Actual movement is 130%.
3. Not meaningful. Actual movement is 124%.

## PRINCIPAL ACTIVITIES

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

## REVIEW OF OPERATIONS

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

### Consumers

Zip provides unsecured loans 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 fees.

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## Directors' Report continued

### Small and Medium-Sized Merchants (SMEs)

During the half year Zip continued with the wind down of Zip Business Capital in Australia and New Zealand.

### REVIEW OF PERFORMANCE

Zip has reported a strong performance in the first half of this year, reflecting the successful implementation of its strategic initiatives, resulting in improved financial metrics and continued growth across its core markets. This result is characterised by:

- An increase in transaction volumes, indicating growing customer adoption and engagement; and
- Ongoing margin expansion, reflecting the Company's focus on operational efficiency and cost optimization; and
- Continued cost discipline across the business, contributing to improved profitability.

Operations in Mexico, Singapore and the United Kingdom have been closed and businesses in the Czech Republic, Poland, Saudi Arabia, South Africa and the United Arab Emirates were sold during the financial year ended 30 June 2023. Consequently, all figures quoted in the Review of Performance comprise Zip's continuing operations for the half year ended 31 December 2023. Comparatives have been adjusted to reflect this throughout the Report.

### Operational Performance

#### Consumers

##### Key Metric

For the Half Year Ended 31 December	2023	2022*	% <sup>1</sup>
Transaction Volumes ('\$M)	5,042.9	4,543.0	11.0%
Active Consumers ('M)	6.3	6.3	(2.5%)

\* Comparative information has been restated to exclude discontinued operations.

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 Half Year Ended 31 December	2023 \$'M	2022* \$'M	Movement %
ANZ <sup>1</sup>	1,912.3	2,194.3	(12.9%)
Americas <sup>1</sup>	3,130.6	2,348.7	33.3%
	5,042.9	4,543.0	11.0%

\* Comparative information has been restated to exclude discontinued operations.

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

Total transaction volumes generated by consumers have grown to \$5.0 billion for the half year, an increase of 11.0% compared to the previous corresponding period.

Transaction volumes generated by the Americas increased by 33.3%, which comprised 62.1% of Group's volumes, compared to 51.7% in the previous corresponding period.

## Active Consumers

For the Half Year Ended 31 December	2023 M	2022* M	Movement %
ANZ	2.3	2.3	(3.1%)
Americas	4.0	4.0	(2.2%)
	6.3	6.3	(2.5%)

\* Comparative information has been restated to exclude discontinued operations.

The number of active consumer accounts across Zip's operations has decreased marginally by 2.5% compared to the previous corresponding period.

## SMEs (Business Financing)

Originations by Zip Business ceased during the financial year ended 30 June 2023.

For the Half Year Ended 31 December	2023 \$'M	2022* \$'M	Movement %
Originations	-	57.0	(100.0%)

In line with ongoing efforts to simplify and focus on the core business announced during the financial year 2023, Zip is in the process of the wind down of Zip Business Capital in Australia and New Zealand during the half year ended 31 December 2023.

## FINANCIAL PERFORMANCE

### Group Results

Revenue grew by 28.9% to \$430.0 million for the six months to 31 December 2023 when compared to the six months to 31 December 2022. This was driven predominantly by the 33.3% growth in transaction volumes in the Americas Consumer operations to \$3,130.6 million.

### Underlying Volumes

For the Half Year Ended 31 December	2023 \$'M	2022* \$'M	Movement %
Consumers	5,042.9	4,543.0	11.0%
SMEs	-	57.0	(100.0%)
Underlying Volumes	5,042.9	4,600.0	9.6%

\* Comparative information has been restated to exclude discontinued operations.

Reported Gross Profit has increased by 45.5% and reported Gross Profit as a percentage of Underlying Volumes has increased to 3.8% compared to 2.8% in the previous corresponding period. As a percentage of Underlying Volume, an increase in revenue of 1.3%, and improvements in bad debts of 0.1%, have offset a 0.5% 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 3.5% from 2.6% in the previous corresponding period.

## Directors' Report continued

For the Half Year Ended 31 December	2023 \$'M	2022* \$'M	Movement %
Revenue	430.0	333.5	28.9%
Cost of sales <sup>1</sup>	(240.7)	(203.4)	18.3%
Gross profit	189.3	130.1	45.5%
Expenditure	(105.7)	(337.3)	(68.7%)
Profit/(Loss) before income tax	87.5	(205.0)	142.7%
Gross profit	189.3	130.1	45.5%
Movement in bad debt provision and amortisation of funding costs	(13.1)	(9.4)	39.4%
Cash gross profit	176.2	120.7	45.9%

\* Comparative information has been restated to exclude discontinued operations.

1. Cost of sales includes interest expense related to customer receivables (including \$2.7 million of amortisation of funding related cost for half year ended 31 December 2023, and \$2.3 million for half year ended 31 December 2022), bad debts and expected credit losses, bank fees and data costs.

**Adjusted Group Results**

The Group's result for the six months to 31 December 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 Half Year Ended 31 December 2023	\$'M	
Reported profit before tax	87.5	
Adjusted for:		
Gain on extinguishment of financial liabilities	(139.7)	Gain on extinguishment of pre-existing Senior Convertible Notes
Unrealised loss of financial liability	4.6	Unrealised loss recognised as a result of corporate debt facility exit fee
Fair value movement on investment at FVTPL	15.4	Fair value loss on investment in ZestMoney
Incentivised conversion – Incentive payments	31.5	Payments for incentivised conversion of convertible notes
Fair value movement on financial liabilities	(0.4)	Fair value movement recognised for embedded derivatives of CVI convertible notes and CVI warrants
Loss on derecognition of financial liabilities	1.0	Loss recognised on derecognition of \$10.8 million CVI Convertible Notes and accrued interest in September 2023
Share of loss of associates	2.2	Share of loss of investment in Hemenal Finansman A.Ş (Turkey) which has been sold in current half year
Gain on sale of investment in an associate	(3.1)	Gain on the sale of Zip's investment in Hemenal Finansman A.Ş (Turkey)
Adjusted loss before income tax	(1.0)	

## Revenue

For the Half Year Ended 31 December	2023 \$'M	2022* \$'M	Movement %
Revenue	430.0	333.5	28.9%
% of Underlying Volumes	8.5%	7.2%	1.3%

\* Comparative information has been restated to exclude discontinued operations.

Revenue has increased by 28.9% compared to the previous corresponding period reflecting a 9.6% increase in Underlying Volumes. Reported revenue as a percentage of Underlying Volumes was 8.5% compared to 7.2% in the previous corresponding period.

## Cost of Sales

For the Half Year Ended 31 December	2023 \$'M	2022* \$'M	Movement %
Interest expense <sup>1</sup>	101.0	67.6	49.3%
% of Underlying Volumes	2.0%	1.5%	0.5%
Bad debts and expected credit losses	77.7	74.5	4.3%
% of Underlying Volumes	1.5%	1.6%	(0.1%)
Bank fees and data costs	62.0	61.3	1.2%
% of Underlying Volumes	1.2%	1.3%	(0.1%)
Total cost of sales	240.7	203.4	18.3%
% of Underlying Volumes	4.8%	4.4%	0.4%

\* Comparative information has been restated to exclude discontinued operations.

1. Interest expense related to customer receivables.

Cost of sales increased to 4.8% of Underlying Volumes in the financial period, an increase of 0.4%. A 0.5% increase in interest expense as a percentage of Underlying Volumes was partly offset by an improvement in both bad debt and expected credit losses of 0.1%, and bank fees and data costs of 0.1%.

Interest expense as a percentage of Underlying Volumes increased by 0.5%, reflecting increases in base interest rates across all markets in which Zip operates.

The bad debts and expected credit losses as a percentage of Underlying Volumes have improved to 1.5% compared to 1.6% in the previous corresponding period. Excluding the movement in the provision for expected credit losses, net bad debts written off totalled 1.9% of Underlying Volumes consistent with 1.9% in the previous corresponding period. The Group is below its medium term target of 2% of Underlying Volumes noting that the net bad debt write-offs in the half are reported against peak seasonal volumes and net bad debt write-offs associated with these volumes are reported in the second half of the financial year.

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

Bank fees and data costs improved by 0.1% as a percentage of Underlying Volumes, reflecting an improvement in the Underlying Volume-driven costs.

## Directors' Report continued

**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 proportionate cash impact or are the result of cash outflows in previous or future reporting periods.

**Cash Expenses**

For the Half Year Ended 31 December	2023 \$'M	2022* \$'M	Movement %
Salaries and employee benefits expense	72.5	83.2	(12.9%)
% of Underlying Volumes	1.4%	1.8%	(0.4%)
Marketing expenses	21.1	25.7	(18.0%)
% of Underlying Volumes	0.4%	0.6%	(0.2%)
Information technology expenses	20.8	23.5	(11.2%)
% of Underlying Volumes	0.4%	0.5%	(0.1%)
Other operating expenses	32.5	47.1	(31.0%)
% of Underlying Volumes	0.6%	1.0%	(0.4%)

\* Comparative information has been restated to exclude discontinued operations.

There was a reduction in headcount in the second half of the financial year ended 30 June 2023, and in line with the expectation of the financial benefits to flow into the current financial year, salary and employee benefits as a percentage of Underlying Volumes have decreased by 0.4% as compared to the previous corresponding period. Average headcount has decreased from 1,392 (over the six months to December 2022) to 985 (over the six months to December 2023), as the Group simplified its operations and focused on its core markets.

Marketing costs, which comprise customer marketing initiatives, including rewards programs, rebates, co-marketing projects with enterprise merchants, and direct integration costs, have fallen from \$25.7 million (0.6% of Underlying Volumes) in the six months to December 2022 to \$21.1 million (0.4% of Underlying Volumes) in the current half year.

Information technology costs have fallen from \$23.5 million (0.5% of Underlying Volumes) in the six months to December 2022 to \$20.8 million (0.4% of Underlying Volumes) in the current half year. The Group continues to invest in improving its IT infrastructure whilst rationalising costs as the Group simplifies its operations.

Other operating expenses include interest for Zip's corporate borrowings of \$5.8 million in the half year ended 31 December 2023, together with professional services, general administration, and other costs associated with the operation and management of the Group.

**Other Expenses and Gain or Loss**

For the Half Year Ended 31 December	2023 \$'M	2022* \$'M	Movement \$'M
Depreciation and amortisation expenses	32.4	31.7	0.7
Corporate financing costs	41.8	75.4	(33.6)
Share-based payments	5.5	13.2	(7.7)
Fair value movement	15.0	30.3	(15.3)
Net other gains	(138.2)	–	(138.2)
Impairment losses	–	4.7	(4.7)
Share of loss of associates	2.2	2.6	(0.4)

\* Comparative information has been restated to exclude discontinued operations.

Corporate financing costs in the last six months to 31 December 2023 include a one-off cost related to the incentive payments for the incentivised conversion of the convertible note of \$31.5 million and an effective interest charged on convertible notes of \$7.8 million.

To attract, retain and reward Zipsters, Zip offers a combination of short and long-term incentives that are delivered through equity. The reduction in share based payments expense relates primarily to the release of excess provision of employees related share based payments.

The fair value movement of \$15.0 million was driven by a fair value loss recognised during the current half year of \$15.4 million on the write down of ZestMoney (India), partly offset by the fair value gain recognised for the fair value movement on embedded derivatives in CVI Convertible Notes and CVI Warrants.

Net other gains of \$138.2 million include a gain of \$139.7 million recognised on settlement of the Consent Solicitation from Senior Convertible Notes, and a gain of \$3.1 million on sale of Zip's investment in Hemenal Finansman A.Ş (Turkey), offset by an unrealised loss of the exit fee included in the Group's corporate debt facility.

Under Zip's corporate debt facility agreement, Zip may elect to repay the corporate loan note before maturity, in which case a premium may be payable by Zip. In accordance with AASB 9 *Financial Instruments*, Zip accounted for the portion of the facility exit fee linked to Zip's share price as an embedded derivative which is separated from the borrowing, and classified it as a financial liability through profit and loss, recognising an unrealised loss of \$4.6 million.

As announced to the ASX on 8 June 2023, Zip launched a liability management exercise on its \$330,000,000 outstanding pre-existing Senior Convertible Notes. The exercise included an incentivised conversion of pre-existing Senior Convertible Notes into ordinary shares (Conversion Invitation) with the financial impacts reflected in the financial year ended 30 June 2023, and a consent solicitation to amend the terms and conditions of the pre-existing Senior Convertible Notes (Consent Solicitation).

Upon settlement of the Consent Solicitation on 31 July 2023, a net gain of \$139.7 million (net of transaction costs) was recognised.

- A gain of \$163.5 million was recognised which represents the difference between the carrying amount of the debt host of the pre-existing Senior Convertible Notes (\$279.6 million) and the fair value of the debt host of the pre-existing Senior Convertible Notes (\$116.1 million).
- A loss of \$21.7 million which represents the difference between the fair value of the pre-existing Senior Convertible Notes of \$116.1 million and the fair value of the amended Senior Convertible Notes of \$137.8 million.
- A transaction cost of \$2.1 million allocated to debt host component.

In December 2023, Zip completed the sale of its investment in Hemenal Finansman A.Ş (Turkey). A gain on sale of \$3.1 million has been recognised, being the difference between the sale proceeds of \$3.1 million (net of transaction costs) and the carrying amount of the investment of Nil.

## RECEIVABLES

	31 December 2023 \$'M	30 June 2023 \$'M	Movement %
Gross customer receivables	2,782.3	2,767.8	0.5%
Unearned future income	(22.2)	(18.9)	17.5%
Provision for expected credit losses	(135.2)	(152.1)	(11.1%)
	2,624.9	2,596.8	1.1%

## Directors' Report continued

The Group's net receivables portfolio increased 1.1% to \$2,624.9 million at 31 December 2023, up from \$2,596.8 million at 30 June 2023 due to the strong growth in Underlying Volumes during the half year ended 31 December 2023.

The provision for expected credit losses has reduced to 4.9% of gross customer receivables, from 5.5% at 30 June 2023 due to the improved performance of the receivables portfolio over the six months to 31 December 2023 and the forward-looking information considered when assessing the expected credit losses, compared to the previous financial year.

Zip's Australia and New Zealand consumer credit business comprises 83.4% of the gross receivables at 31 December 2023, compared to 83.0% at 30 June 2023. The repayment rate remained healthy, averaging 13.7% (of the opening receivables balance repaid each month) during the six months to 31 December 2023, consistent with the previous financial year.

## CAPITAL MANAGEMENT

## Receivables Funding Facilities

Consumer Facilities <sup>1</sup>	Currency	Facility Limit \$'M	Drawn at 31 December 2023 \$'M
Zip Master Trust (Australian business)			
– Rated Note Series		1,613.5	1,595.5
– Variable Funding Notes		679.1	478.6
2017-1 Trust (Australian business)		116.6	80.2
Total	AUD	2,409.2	2,154.3
AR2LLC (US business)	USD	225.0	147.0
NZ Trust 2022-1 (NZ business)	NZD	20.0	16.0

1. Refer to Note 16 for the maturity of the borrowing facilities.

The Group had total facilities of \$2,409.2 million available to fund its Australian consumer receivables at 31 December 2023, of which \$2,154.3 million was drawn (\$254.9 million undrawn and available).

In November 2023, Zip completed its sixth rated note issue, Zip Master Trust 2023-2 with a transaction size of \$300.0 million maturing in October 2026. The proceeds from this issue were used to repay the Zip Master Trust 2022-1 note which matured in November 2023. In December 2023, Zip refinanced Variable Funding Note 2 in the Master Trust, with a revised limit of \$143.7 million, maturing in March 2025.

Zip has a facility totalling US\$225.0 million to fund its US consumer receivables which was drawn to US\$147.0 million at 31 December 2023. Subject to mutual agreement, this facility may be extended to US\$300.0 million.

Zip New Zealand facility has a limit of NZ\$20.0 million available to fund receivables in New Zealand, drawn to NZ\$16.0 million at 31 December 2023.

SME Facilities <sup>1</sup>	Currency	Facility Limit \$'M	Drawn at 31 December 2023 \$'M
Zip Business			
– Capital Australia	AUD	15.3	15.3
– Capital New Zealand	NZD	17.0	17.0

1. Refer to Note 16 for the maturity of the borrowing facilities.

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. In January 2024, the senior funder in the Zip Business Trust 2022-1 facility was fully repaid following the sale of Zip Capital Australia customer receivables to a third party buyer.

### Corporate Debt Facilities

Corporate Facility	Currency	Facility Limit \$'M	Drawn at 31 December 2023 \$'M
Corporate debt facility	AUD	150.0	150.0

Zip executed an agreement for \$150.0 million to refinance its existing corporate debt facility with funds managed by Ares Management Corporation, a global alternative investment manager. The facility has a term of four years, featuring an interest rate of 15.0% per annum, subject to adjustment after 30 June 2024 based on Zip's financial performance. Interest payments are made quarterly, and Zip retains the option, at its discretion, to refinance or repay the facility prior to maturity.

Under Zip's corporate debt facility agreement, Zip may elect to repay earlier, in which case a premium may be payable to the lenders. On full repayment of the facility, Zip will pay an exit fee calculated as "\$25.0 million × A/B", where "A" is the 30-day volume-weighted average price of Zip's ordinary shares on the date of repayment of the facility, subject to customary adjustments; "B" is the 30-day volume-weighted average price of Zip's ordinary shares on the date of entry into the facility.

The 30-day volume-weighted average price of Zip's ordinary shares on the date of entry into the corporate debt facility was \$0.45, while the calculation of 30-day volume-weighted average price of Zip's ordinary shares on the date of repayment is a future event. In accordance with AASB 9, Zip accounted for the portion of the facility exit fee linked to Zip's share price as an embedded derivative which is separated from the borrowing, and classified it as a financial liability, and fair valued through profit and loss.

At 31 December 2023, the value of the corporate debt facility exit fee comprises of an embedded derivative of \$4.6 million and a non-current payable of \$25.0 million.

### CONVERTIBLE NOTES AND WARRANTS

#### Senior Convertible Notes

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 (EGM) on 31 July 2023. At the Extraordinary General Meeting shareholders approved the amendments and the physical settlement of the Senior Convertible Notes and the Amending Documents governing the Senior Convertible Notes were subsequently executed.

On 31 July 2023, the Consent Solicitation was approved at the EGM and settled, reducing the face value of the pre-existing Senior Convertible Notes from \$290.2 million to \$137.8 million, and adjusting the conversion price of the Amended Senior Convertible Notes (referred to as Senior Convertible Notes) to \$0.5170 per Zip's share.

The Senior Convertible Notes have the 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. At the Final Maturity Date of 23 April 2028, noteholders may redeem the amended Senior Convertible Notes at 129.30% of the principal amount.

## Directors' Report continued

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 net gain of \$139.7 million has been recognised on extinguishment of the pre-existing Senior Convertible Notes.

From the Consent Solicitation date to 31 December 2023, Senior Convertible Notes holders converted a principal amount of \$69.0 million, resulting in a reduction of Senior Convertible Notes from a notional principal amount of \$137.8 million to a principal amount of \$68.8 million.

As part of the Consent Solicitation, a fee of \$2.1 million was paid by Zip, recorded in corporate financing costs in the half year ended 31 December 2023.

### CVI Convertible Notes and Warrants

In September 2023, Zip made a payment of \$10.8 million, which included accrued interest of \$0.8 million, under the terms of the CVI Convertible Notes. Following the repayment, 400 Convertible Notes with a face value of \$40.0 million remained outstanding and held by CVI Investments Inc. (CVI).

On 1 September 2023, Zip cancelled 19,365,208 warrants issued to CVI due to their expiration. A gain of \$1.0 million on extinguishment of the financial liability-warrants has been recorded for the half year ended 31 December 2023.

On 18 December 2023, Zip undertook an incentivised conversion with CVI to convert the existing \$40.0 million of outstanding notes into 21,688,445 Zip ordinary shares at an issue date share price of \$0.615. Given the conversion price on the notes was \$1.8443, Zip made payment of \$29.4 million to CVI to incentivise the conversion, resulting in the reduction of the outstanding face value and all other amounts owing under the CVI Convertible Notes reduced to zero.

The incentive payment of \$29.4 million offered by Zip to CVI has been recorded as corporate financing costs in the half year ended 31 December 2023.

Upon the conversion of the remaining 400 CVI Convertible Notes, Zip derecognised the carrying amount of debt host of \$38.5 million and the embedded derivative of \$1.8 million. Simultaneously, Zip recognised issued capital of \$13.3 million and retained earnings of \$27.0 million. No financial liabilities in relation to CVI Convertible Notes existed at 31 December 2023.

Details of the accounting treatment for convertible notes are contained in Note 5.

### Equity Capital

On 12 December 2023, Zip completed its Small Shareholding Sale Facility, first announced on 4 October 2023 and closed as scheduled on 20 November 2023. The Sale Facility enabled shareholders who held less than \$500 worth of fully paid ordinary shares (Small Shareholdings) on 3 October 2023 (Record Date) to sell their Small Shareholdings without having to act through a broker or incurring any brokerage costs. As a result of the Small Shareholding Facility sale, this reduced the administrative costs associated with maintaining a large number of Small Shareholdings on the Company's shareholder register. On the Record Date, Zip had approximately 78,000 shareholders with a Small Shareholding. At the close of the Sale Facility there were 30,861,767 ordinary shares to be sold held by 69,669 shareholders. The shares were sold at a volume-weighted average price in the ordinary course of trading on the ASX at \$0.4034 per share between 23 November and 7 December 2023. Sale proceeds were paid to participants on 20 December 2023.

## POST BALANCE DATE EVENTS

In December 2023, Zip executed an agreement to refinance its US receivables funding facility of US\$225.0 million for a three-year term to December 2026 with the facility going live on 10 January 2024. Subject to mutual agreement, this facility may be extended to US\$300.0 million.

In January 2024, the senior funder in the Zip Business Trust 2022-1 facility was fully repaid following the sale of Zip Capital Australia customer receivables to a third-party buyer.

To the date of the release of this report, there have been no other material items, transactions or events subsequent to 31 December 2023 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

## AUDITOR'S INDEPENDENCE DECLARATION

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

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



**Cynthia Scott**  
Group CEO and Managing Director  
27 February 2024

# Auditor's Independence Declaration

**Deloitte.**

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

Quay Quarter Tower  
50 Bridge Street  
Sydney, NSW 2000  
Australia

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

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

27 February 2024

Dear Board Members

**Auditor's Independence Declaration to Zip Co Limited**

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

As lead audit partner for the review of the financial report of Zip Co Limited for the half year ended 31 December 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Jason Thorne  
Partner  
Chartered Accountant

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

For the period ended 31 December 2023

	Note	Consolidated	
		31 December 2023 \$'000	31 December 2022* \$'000
<b>Continuing operations</b>			
Portfolio interest income		352,401	270,925
Transactional income		77,598	62,608
Revenue		429,999	333,533
Other Income		3,875	2,217
Bad debts and expected credit losses	10	(77,668)	(74,461)
Bank fees and data costs		(62,023)	(61,307)
Interest expense	3	(106,733)	(68,725)
Salaries and employee benefits expenses		(72,535)	(83,240)
Marketing expenses		(21,060)	(25,681)
Information technology expenses		(20,847)	(23,488)
Depreciation and amortisation expenses	3	(32,426)	(31,671)
Share-based payment expenses		(5,540)	(13,244)
Corporate financing costs	3	(41,826)	(75,433)
Other operating expenses	3	(26,699)	(45,908)
Impairment losses		-	(4,655)
Net other gains	3	138,238	-
Fair value loss	3	(15,020)	(30,314)
Share of loss of associates	4	(2,248)	(2,593)
Profit/(loss) before income tax from continuing operations		87,487	(204,970)
Income tax expense	6	(14,454)	(434)
Profit/(loss) after income tax from continuing operations		73,033	(205,404)
Loss after income tax from discontinued operations		-	(37,110)
Profit/(loss) after income tax for the period attributable to the Members of Zip Co Limited		73,033	(242,514)
Other Comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange differences on translation		(15,828)	1,306
Other Comprehensive (loss)/income for the period, net of tax		(15,828)	1,306
Total Comprehensive income/(loss) for the period attributable to the Members of Zip Co Limited		57,205	(241,208)
		<b>Cents</b>	<b>Cents</b>
Earnings/(losses) per share from continuing operations attributable to the Members of Zip Co Limited			
Basic earnings/(loss) per share	7	8.37	(29.31)
Diluted earnings/(loss) per share	7	7.08	(29.31)
Earnings/(losses) per share from continuing and discontinued operations attributable to the Members of Zip Co Limited			
Basic earnings/(loss) per share	7	8.37	(34.61)
Diluted earnings/(loss) per share	7	7.08	(34.61)

\* Comparative information has been restated to exclude discontinued operations.

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

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# Condensed Consolidated Statement of Financial Position

As at 31 December 2023

	Note	Consolidated	
		31 December 2023 \$'000	30 June 2023 \$'000
<b>Assets</b>			
Cash and cash equivalents	8	160,662	151,955
Restricted cash	8	143,174	123,955
Other receivables	9	98,337	87,160
Term deposits		5,342	7,196
Customer receivables	10	2,624,856	2,596,832
Investments at FVTPL	11	–	13,846
Investments in associates	4	–	2,248
Property, plant and equipment		2,743	5,092
Right-of-use assets		16,657	18,641
Intangible assets	12	116,534	141,638
Goodwill	13	203,021	209,235
Deferred tax assets	6	2,848	36,969
<b>Total assets</b>		<b>3,374,174</b>	<b>3,394,767</b>
<b>Liabilities</b>			
Trade and other payables	14	331,034	213,637
Employee provisions		8,481	8,808
Lease liabilities		16,205	17,717
Deferred consideration	15	–	1,889
Borrowings	16	2,535,042	2,591,208
Financial liabilities – convertible notes and warrants	5	34,783	327,168
Other financial liabilities	16	29,584	–
<b>Total liabilities</b>		<b>2,955,129</b>	<b>3,160,427</b>
<b>Net assets</b>		<b>419,045</b>	<b>234,340</b>
<b>Equity</b>			
Issued capital	17	2,200,283	2,121,541
Reserves		142,557	158,551
Convertible notes – equity component	5	163,848	114,466
Accumulated losses		(2,087,643)	(2,160,218)
<b>Total equity</b>		<b>419,045</b>	<b>234,340</b>

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

# Condensed Consolidated Statement of Changes in Equity

For the period ended 31 December 2023

Consolidated	Issued Capital \$'000	Treasury Shares \$'000	Share-Based Payments Reserve \$'000	Foreign Currency Translation Reserve \$'000	Convertible Notes \$'000	Accumulated Losses \$'000	Total Equity \$'000
Balance at 1 July 2023	2,121,541	(1,246)	76,630	83,167	114,466	(2,160,218)	234,340
Profit after income tax for the period	-	-	-	-	-	73,033	73,033
Other Comprehensive Loss for the period, net of tax	-	-	-	(15,828)	-	-	(15,828)
Total Comprehensive (loss)/income for the period	-	-	-	(15,828)	-	73,033	57,205
Recognition of share-based payments	-	-	3,770	-	-	-	3,770
Issue of treasury shares to Zip Employee Share Trust	3,936	(3,936)	-	-	-	-	-
Issue of treasury shares to employees	-	4,690	(4,690)	-	-	-	-
Issue of shares – CVI convertible Notes conversion	13,338	-	-	-	-	26,997	40,335
Issue of shares – Senior Convertible Notes conversion	61,468	-	-	-	-	(27,455)	34,013
Derecognition of pre-existing and recognition of new convertible notes	-	-	-	-	71,196	-	71,196
Deferred tax on equity component of Senior Convertible Notes	-	-	-	-	(21,814)	-	(21,814)
Balance at 31 December 2023	2,200,283	(492)	75,710	67,339	163,848	(2,087,643)	419,045

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

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## Condensed Consolidated Statement of Changes in Equity continued

Consolidated	Issued Capital \$'000	Treasury Shares \$'000	Share- Based Pay- ments Reserve \$'000	Foreign Currency Trans- lation Reserve \$'000	Conver- tible Notes \$'000	Accum- ulated Losses \$'000	Non- Control- ling Interests \$'000	Total Equity \$'000
Balance at 1 July 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	-	-	-	-	-	(242,514)	-	(242,514)
Other comprehensive income for the period, net of tax	-	-	-	1,306	-	-	-	1,306
Total Comprehensive income/(loss) for the period	-	-	-	1,306	-	(242,514)	-	(241,208)
Recognition of share-based payments	-	-	13,526	-	-	-	-	13,526
Exercise of share- based payments	-	-	(11,677)	-	-	-	-	(11,677)
Issue of treasury shares to Zip Employee Share Trust	6,560	(6,560)	-	-	-	-	-	-
Issue of treasury shares to employees	-	8,999	(8,999)	-	-	-	-	-
Issue of ordinary shares under share-based payment plans	9,272	-	-	-	-	-	-	9,272
Exercise of options	63	-	-	-	-	-	-	63
Issue of shares – capital raising	13,613	-	-	-	-	-	-	13,613
Issue of shares – Payflex contingent consideration	838	-	-	-	-	-	-	838
Issue of shares – Senior convertible notes conversion	3,599	-	-	-	-	51,656	-	55,255
Issue of shares – Twisto holdback	19,965	-	-	-	-	-	-	19,965
Cost of issuing of shares	(616)	-	-	-	-	-	-	(616)
Derecognition of NCI	-	-	-	-	-	-	(1,015)	(1,015)
<b>Balance at 31 December 2022</b>	<b>2,094,790</b>	<b>(906)</b>	<b>78,325</b>	<b>71,561</b>	<b>114,466</b>	<b>(2,062,471)</b>	<b>-</b>	<b>295,765</b>

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

# Condensed Consolidated Statement of Cash Flows

For the period ended 31 December 2023

	Note	Consolidated	
		31 December 2023 \$'000	31 December 2022* \$'000
<b>Cash flows from/(used in) operating activities</b>			
Revenue from customers		431,005	352,010
Payments to partners, suppliers and employees		(99,324)	(165,364)
Net increase in receivables		(105,690)	(328,350)
Borrowing transaction costs		(2,276)	(1,455)
Interest received from financial institutions		2,869	1,634
Interest paid		(112,840)	(68,322)
Termination payment fee		-	(16,340)
Net cash flow from/(used in) operating activities		113,744	(226,187)
<b>Cash flows used in investing activities</b>			
Payments for plant and equipment		(270)	(914)
Payments for software development		(9,626)	(11,210)
Deferred consideration	15	(2,028)	(2,169)
Proceeds from sale of/(purchase of) investments in associates	4	3,132	(4,324)
Decrease/(Increase) in term deposits		1,853	(4,327)
Purchase of investments at FVTPL	11	(1,544)	-
Net cash flow used in investing activities		(8,483)	(22,944)
<b>Cash flows (used in)/from financing activities</b>			
Proceeds from borrowings		495,841	569,462
Repayment of borrowings		(512,976)	(297,292)
Transaction cost related to corporate borrowing		(6,915)	-
Repayment of CVI Convertible Notes	5	(10,753)	(43,011)
Payment for incentive in relation to convertible notes conversion	3	(31,496)	(12,502)
Transaction costs related to modification of convertible notes		(3,632)	-
Repayment of principal of lease liabilities		(1,522)	(1,814)
Proceeds from issue of shares		-	13,677
Cost of share issues		-	(616)
Net cash flow (used in)/from financing activities		(71,453)	227,904
Net increase/(decrease) in cash and cash equivalents		33,808	(21,227)
Cash, cash equivalents, restricted cash at the beginning of the financial period		275,910	299,695
Foreign exchange effect		(5,882)	(8,814)
<b>Cash, Cash Equivalents, Restricted Cash at the end of the financial period</b>	<b>8</b>	<b>303,836</b>	<b>269,654</b>

\* Comparative information has not changed as 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.

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

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# Notes to the Condensed Consolidated Financial Statements

## NOTE 1. MATERIAL ACCOUNTING POLICIES OF THE HALF YEAR FINANCIAL 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 in Australia, New Zealand, the United States and Canada.

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

### (b) Statement of Compliance

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

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

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

The condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 27 February 2024.

### (c) Basis of Preparation

The report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars and Zip is of a kind referred to in ASIC *Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, and in accordance with that Corporations Instrument amounts in the half year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated. The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in Zip's 2023 annual financial report for the financial year ended 30 June 2023 except as discussed in Note (e) Adoption of New and Revised Accounting Standards. The accounting policies are consistent with Australian Accounting Standards and with IFRS Accounting Standards.

### 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 comparative period's 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 from discontinued operations" in the condensed consolidated statement of profit or loss and other comprehensive income. As disclosed in the consolidated entity's Annual Report 2023, Zip ceased operations including Singapore, the United Kingdom, Mexico, Spotii, Twisto and Payflex during the financial year ended 30 June 2023. For the six months ended 31 December 2022, financial results of businesses reclassified as discontinued operations included revenue of \$17.7 million, expenditure of \$54.9 million and loss after tax of \$37.1 million. As required by AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, the condensed consolidated statement of financial position is not restated when a business is reclassified as a discontinued operation.

#### (d) Going Concern

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

The process of assessing going concern requires significant judgment in the identification of material uncertainties and assessment of mitigating factors. The Directors have identified material uncertainties relating to:

- (i) \$2.3 billion of financing facilities due to mature in the period from balance date to 31 March 2025 being successfully refinanced and that being dependent upon successful sourcing of funds and negotiation of terms;
- (ii) Continued delivery of improved operating results;
- (iii) Continued economic buoyancy in the primary source of Zip's revenue, being the consumer products retail sector; and
- (iv) No significant adverse changes to the Group's operating model due to regulatory changes imposed on the Buy Now Pay Later (BNPL) sector.

The Directors have identified mitigating actions to the material uncertainties and believe these mitigating actions, if successful, will appropriately moderate those uncertainties and therefore the going concern basis is an appropriate accounting application. If unsuccessful it may cast significant doubt on the Group'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 half year condensed financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

#### Maturity of financing facilities

The Group's business model is to borrow funds through secured consumer borrowing facilities to fund the consolidated group's receivables portfolio. The Directors going concern judgement includes the renewal or refinance of \$2.3 billion of secured consumer borrowing facilities that are due to mature in the period 1 January 2024 to 31 March 2025. This is dependent on successful sourcing of funds and negotiation of terms. If these facilities are not renewed or refinanced they will otherwise commence amortisation.

The Group has demonstrated its ability to obtain funding in the capital markets in the half year ended 31 December 2023 and has refinanced and/or raised \$985.5 million of debt. Post 31 December 2023 the Group has refinanced its US receivables funding facility of US\$225.0 million for a three-year term to December 2026 and repaid \$15.3 million of receivables funding from the sale of the Zip Business AU loan book.

Of the remaining \$2.0 billion of maturities at date of signing this Half Year Report, the Group continues to progress these upcoming expiries and new debt transactions as part of its ongoing business operations. \$1.0 billion of the upcoming maturities to 31 March 2025 are at advanced stages of execution. The Directors expect that maturing borrowing facilities will be renewed with existing or new financiers at appropriate terms.

#### Continued delivery of improved operating results

Zip has predominately executed its strategy of focusing on core markets in Australia, New Zealand and the Americas and continues to focus on right sizing its global cost base and on delivering self-sustaining profitability. This has contributed to the Group achieving positive Group Cash EBTDA of \$30.8 million for 1H24 (1H23: loss of \$43.4 million) and net cash inflows from operations for 1H24 of \$113.7 million (1H23: cash outflows of \$226.2 million).

## Notes to the Condensed Consolidated Financial Statements continued

The Directors have considered the Group's Cash EBTDA and cash flow forecasts, which include continued delivery of overall positive operating results for 2H24 and FY25, which support the preparation of the financial statements on a going concern basis, based on the assumptions of achieving Total Transaction Volume (TTV) targets, maintaining revenue yields and moderating cash costs of sales and cash operating expenditure as a percentage of TTV.

### Continued economic buoyancy in the primary source of Zip's revenue

Continued economic buoyancy in the primary source of Zip's revenue, being the consumer products retail sector, influences the Group's ability to continue as a going concern. The primary markets that the Group operates in are Australia and the USA:

- **Australia:** Consumer sentiment continues to remain weak, at levels recorded comparable to the global financial crisis.
- **USA:** USA consumer confidence is increasing as inflation is moderating and consumers have increased confidence around business conditions, labour market and improved personal income prospects.

The Group has several mitigating actions that have been executed or are in stages of execution that, if successful, will mitigate this uncertainty:

- The Group has strengthened its credit position through management action in both ANZ and Americas, which has lowered arrears and credit losses, building capacity and resilience in the business for the period ahead.
- The Group has launched new, or varied existing, products to increase yields earned.
- In the ordinary course of business, the Group continues to develop and execute strategy to grow Total Transaction Volume, which would counteract effects of subdued consumer sentiment.
- The Group's USA business has focused on customer engagement, lifting transactions per Monthly Transacting User (MTU) by 17.7% year-on-year in 2Q24. This has strengthened its existing revenue base and has also seen customers adopted higher margin channels such as app and in-store transactions.
- The Group continues to target increased merchant activity to further strengthen its revenue base.

### Adverse impact of changes to regulation

As a participant in the finance industry, a natural operating risk of the Group is responding to changes in regulation in the markets in which it operates. If future regulatory changes imposed on the Buy Now Pay Later sector have an adverse effect on the Group's operating model it may cause uncertainty on the Group's ability to continue as a going concern.

In each jurisdiction the Group operates, the tendency to regulate consumer finance products is increasing. The Group proactively works with regulators to address their queries and actively tracks, monitors, and participates, where applicable, in any such BNPL inquiries and proposed regulatory changes. The Group also is increasing its direct engagement with regulators and lawmakers to discuss the consumer benefits of BNPL.

### **(e) Adoption of New and Revised Accounting Standards**

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current half year and that have a significant impact on the consolidated entity's financial statements. There were no new or revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that have materially impacted the consolidated entity's condensed financial statements for the half year ended 31 December 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 condensed financial statements.

### **(f) Critical Accounting Estimates and Judgement**

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

#### **Provision for Expected Credit Loss**

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

An expected credit loss model is used for the assessment of impairment of customer receivables under AASB 9 *Financial Instruments*. 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 condensed 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 half year ended 31 December 2023. Refer to Note 10 for further details.

## Notes to the Condensed Consolidated Financial Statements continued

### Impairment of Non-Financial Assets

Non-financial assets including goodwill and other indefinite life intangible assets are reviewed at 31 December 2023 for indicators of impairment. Goodwill and other indefinite life intangible assets are tested for impairment annually or more frequently if there are indications that goodwill and indefinite life intangible assets might be impaired. If an intangible asset is recognised during the current annual period, that intangible asset is tested for impairment before or at the end of the current annual period.

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

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

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

Intangible assets such as customer relationships and trademarks used by the consolidated entity for its own activities are unlikely to generate largely independent cash inflows and are therefore tested at a CGU level.

### 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 either engages qualified third-party valuers to assist with the valuation and work closely with management, or conduct the valuation based on management judgment, 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. Key management judgement in the valuation of the embedded derivative in Zip's corporate facility has been disclosed in Note 16.

### (g) 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.

## (h) Financial Instruments

### Initial Recognition and Subsequent Measurement of Financial Instruments

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

#### Financial Assets

Financial assets are initially measured at fair value. Financial assets are subsequently measured at amortised cost and include cash, cash equivalents, restricted cash, term deposits, other receivables (excluding prepayments) and customer receivables. Customer receivables are non-derivative financial assets which are measured at amortised cost using the effective interest method, less any impairment. Financial assets that do not meet the criteria for being measured at amortised cost or Fair Value through Other Comprehensive Income (FVTOCI) are measured at Fair Value at Profit or Loss (FVTPL). Investments in equity instruments are classified as investments at FVTPL, unless the consolidated entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition. The consolidated entity did not have any financial assets measured at FVTOCI at 31 December 2023 and 30 June 2023.

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

#### Financial Liabilities

Financial liabilities are initially measured at fair value.

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

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

#### Classification of Debt and Equity Components

Convertible loan notes issued by the consolidated entity have components which 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 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.

## Notes to the Condensed Consolidated Financial Statements continued

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 options embedded in the convertible notes and the corporate debt facility are assessed to determine whether they are to be separated from the 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.

### Derecognition of Financial Assets and Liabilities

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

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

The consolidated entity derecognises financial liabilities when, and only when, the consolidated entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss. On conversion of a convertible instrument, the entity derecognises the liability component and recognises it as equity. The recognition of equity comprises a market value of the ordinary shares issued on the conversion, recorded as issued capital, and the remaining balance recorded in retained earnings being the difference between the derecognised liability component and the amount recorded in issued capital. The original equity component remains as equity. There is no gain or loss on conversion. Refer to Note 5 for details.

## (i) Income Tax

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

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

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The consolidated entity recognised deferred tax assets arising from temporary differences and tax losses to the extent required to equal deferred tax liabilities for the half years ended 31 December 2023 and 30 June 2023. In the half year ended 31 December 2023, the consolidated entity has derecognised the majority of the deferred tax asset in respect of Australian tax losses as there is sufficient taxable profit crystallised from the Amendment of the Terms of the Senior Convertible Notes following the Consent Solicitation exercise during the half year. The remaining deferred tax asset in relation to unutilised tax losses was not subject to offsetting as there were no further deferred tax liabilities as at 31 December 2023.

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

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

Deferred tax is recognised in profit or loss, except when it relate to items that is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

**Notes to the Condensed Consolidated Financial Statements continued****Tax Consolidation Legislation**

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

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

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

**(j) Earnings Per Share****Basic Earnings Per Share**

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

**Diluted Earnings Per Share**

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

**(k) Discontinued Operations**

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

**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 four operating segments being ANZ, Americas, Zip Business and Corporate in the half year ended 31 December 2023 and five in the half year ended 31 December 2022, with EMEA (instalment products offered to customers in Europe, the Middle East and South Africa) discontinued in the financial year 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 instalment or line of credit products <sup>2</sup> to consumers in Australia and New Zealand <sup>1</sup> . Operations in Singapore were discontinued in the financial year ended 30 June 2023 and previously reported APAC segment in the 2023 half year report changed to ANZ.
<b>Americas<sup>1</sup></b>	Offers instalment products to customers in the US and Canada. Operations in Mexico were 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 from 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. These instalments are of equal value for each order and are interest-free.
2. Line of credit products offer customers a flexible customer loan that consists of a defined amount of money that customer can access as needed and repay over time.

The consolidated entity made a reclassification across operating segments due to discontinued operations for the prior reporting period. These changes have not impacted the consolidated entity's net profit but resulted in changes to the presentation of the statement of profit or loss and other comprehensive income of the affected segments for the prior reporting periods.

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## Notes to the Condensed Consolidated Financial Statements continued

Half Year Ended 31 December 2023	ANZ \$'000	Americas \$'000	Zip Business \$'000	Corporate \$'000	Total \$'000
Revenue	210,797	214,650	4,552	–	429,999
Cost of sales <sup>1</sup>	(132,041)	(104,635)	(3,995)	–	(240,671)
Gross profit	78,756	110,015	557	–	189,328
Other income	2,676	287	268	644	3,875
Operating expenses	(56,711)	(75,354)	(787)	(15,562)	(148,414)
Effective interest charged on convertible notes	–	–	–	(7,762)	(7,762)
Segment EBTDA (excluding reconciling items)	24,721	34,948	38	(22,680)	37,027
Depreciation of right-of-use assets	(1,990)	–	–	–	(1,990)
Depreciation of PP&E	(699)	(280)	–	–	(979)
Amortisation of intangibles	(5,126)	(24,331)	–	–	(29,457)
Segment profit/(loss) before income tax	16,906	10,337	38	(22,680)	4,601
Reconciling corporate items from operating to statutory loss:					
Share-based payment expenses					(5,540)
Incentives conversion – Incentive payments					(31,496)
Share of loss of associates					(2,248)
Fair value loss					(15,020)
Loss on derecognition of financial liabilities					(1,048)
Gain on extinguishment of pre-existing Senior Convertible Notes					139,689
Unrealised loss of financial liability					(4,583)
Gain on sale of an investment in an associate					3,132
Profit before income tax from continuing operations					87,487

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

Half Year Ended 31 December 2022	ANZ \$'000	Americas \$'000	Zip Business \$'000	Corporate \$'000	Total* \$'000
Revenue	171,849	152,972	8,712	–	333,533
Cost of sales <sup>1</sup>	(95,567)	(99,282)	(8,539)	–	(203,388)
Gross profit	76,282	53,690	173	–	130,145
Other income	1,959	106	103	49	2,217
Operating expenses	(54,350)	(79,885)	(5,447)	(14,936)	(154,618)
Effective interest charged on convertible notes	–	–	–	(62,575)	(62,575)
Segment EBTDA (excluding reconciling items)	23,891	(26,089)	(5,171)	(77,462)	(84,831)
Depreciation of right-of-use assets	(1,695)	–	–	–	(1,695)
Depreciation of PP&E	(996)	(261)	(2)	–	(1,259)
Amortisation of intangibles	(5,534)	(22,806)	(377)	–	(28,717)
Segment profit/(loss) before income tax	15,666	(49,156)	(5,550)	(77,462)	(116,502)
Reconciling corporate items from operating to statutory loss:					
Share-based payments					(13,244)
Termination payment fee					(16,340)
Incentives conversion – Incentive payments					(12,502)
Share of loss of associates					(2,593)
Fair value loss on financial instruments					(30,314)
Impairment losses					(4,655)
Loss on derecognition of financial assets					(3,069)
Loss on derecognition of financial liabilities					(5,751)
Loss before income tax from continuing operations					(204,970)
Loss before income tax for discontinued operations					(37,218)
Loss before income tax from continuing and discontinued operations					(242,188)

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 Condensed Consolidated Statement of Profit or Loss.

\* Comparative information has been restated to exclude discontinued operations.

## Notes to the Condensed Consolidated Financial Statements continued

## NOTE 3. EXPENDITURE, GAINS AND LOSSES

	Consolidated	
	31 December 2023 \$'000	31 December 2022* \$'000
Profit/Loss before income tax from continuing operations includes the following specific expenses:		
<b>Interest expense:</b>		
Interest expense related to customer receivables	100,981	67,620
Interest expense related to funding for operations	5,752	1,105
Total interest expenses	106,733	68,725
<b>Depreciation and amortisation expenses:</b>		
Depreciation of property, plant and equipment	979	1,259
Depreciation of right-of-use assets	1,990	1,695
Amortisation of acquired intangibles	19,325	20,280
Amortisation of internally generated IT development and software	10,132	8,437
Total depreciation and amortisation expenses	32,426	31,671
<b>Corporate financing costs:</b>		
Effective interest charged on convertible notes (normal course)	7,762	14,730
Effective interest charged on convertible notes (accelerated)	–	47,732
Interest on leasing liabilities	494	46
Incentivised conversion – incentive payments	31,496	12,502
Other corporate financing costs	2,074	423
Total corporate financing costs	41,826	75,433
<b>Other operating expenses:</b>		
Professional services fees	13,270	10,315
Occupancy expense	1,366	1,695
Termination payment fee	–	16,340
Loss on derecognition of financial assets	–	3,069
Loss on derecognition of financial liabilities (Note 5)	1,048	5,751
Other operating expenses	11,015	8,738
Total other operating expenses	26,699	45,908
<b>Fair value (gain)/loss:</b>		
Fair value (gain)/loss on embedded derivative and warrants (Note 5)	(370)	10,575
Fair value loss on investment at FVTPL (Note 11)	15,390	19,739
Fair value loss	15,020	30,314
<b>Net other gains:</b>		
Gain on extinguish of pre-existing Senior Convertible Notes (Note 5)	(139,689)	–
Unrealised loss of financial liability (Note 16)	4,583	–
Gain on sale of an investment in an associate	(3,132)	–
Net other gains	(138,238)	–

\* Comparative information has been restated to exclude discontinued operations.

## NOTE 4. INVESTMENTS IN ASSOCIATES

	Hemenal Finansman A.Ş. \$'000
Balance at 30 June 2023	2,248
Share of loss of associates	(2,248)
Foreign exchange gain	–
Balance at 31 December 2023	–

The associates of the consolidated entity existing during the half year ended 31 December 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. 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.

Associates	Location of Incorporation of Holding Company	Location of Principal of Business	% of Ownership Interest	
			31 December 2023 %	30 June 2023 %
TendoPay	Singapore	Philippines	35.00%	35.00%
Hemenal Finansman A.Ş.	Turkey	Turkey	–	50.20%

### TendoPay

At 31 December 2023, the consolidated entity held a 35.0% interest in TendoPay and the value of the investment in TendoPay was Nil.

### Hemenal Finansman A.Ş. (Turkey)

During the half year ended 31 December 2023, a share of loss of \$2.2 million was recorded which brought down the value of investment to Nil before Zip sold its investment in Hemenal Finansman A.Ş (Turkey). In December 2023, Zip completed the sale of its investment in Hemenal Finansman A.Ş (Turkey). A gain on sale of \$3.1 million has been recorded, being the difference between the sale proceeds of \$3.1 million (net of transaction costs) and the carrying amount of the investment of Nil.

## NOTE 5. CONVERTIBLE NOTES AND WARRANTS

### Movements in Convertible Notes

Details	Convertible Notes
Balance at 30 June 2023	1,951
Modification of Senior Convertible Notes	273,739
Repayment and conversion of CVI Convertible Notes	(500)
Conversion of Senior Convertible Notes	(137,561)
Balance at 31 December 2023	137,629
Representing as:	
CVI Convertible Notes issued on 1 September 2020	–
Senior Convertible Notes issued on 23 April 2021 and modified on 31 July 2023 <sup>1</sup>	137,629
	137,629

1. The Senior Convertible Notes issued on 23 April 2021 and modified on 31 July 2023 are listed on the Singapore Exchange (SGX).

## Notes to the Condensed Consolidated Financial Statements continued

## Financial Impact of the Convertible Notes and Warrants

	31 December 2023 \$'000	30 June 2023 \$'000
Debt hosts:		
– Convertible notes issued on 1 September 2020	–	46,932
– Convertible notes issued on 23 April 2021 (amended on 31 July 2023)	34,783	277,873
<b>Total debt hosts</b>	<b>34,783</b>	<b>324,805</b>
Embedded derivative:		
– Convertible notes issued on 1 September 2020	–	1,314
Warrants:		
– Warrants issued on 1 September 2020	–	1,049
<b>Total financial liabilities component</b>	<b>–</b>	<b>327,168</b>
Equity component:		
– Senior convertible notes issued 23 April 2021 (amended on 31 July 2023)	163,848	114,466
<b>Total equity component</b>	<b>163,848</b>	<b>114,466</b>

	Financial Liability	Financial Liability	Financial Liability	Total Financial Liabilities	Convertible Notes
	Embedded Derivative \$'000	Warrants \$'000	Net Debt Host \$'000	Convertible Notes and Warrants \$'000	Equity Component \$'000
30 June 2023	1,314	1,049	324,805	327,168	114,466
Effective interest on Convertible Notes	–	–	7,762	7,762	–
Fair value Loss/(gain) recognised	679	(1,049)	–	(370)	–
Repayment of CVI Convertible Notes	(129)	–	(9,575)	(9,704)	–
Conversion of CVI Convertible Notes	(1,864)	–	(38,472)	(40,336)	–
Derecognition of Senior Convertible Notes	–	–	(279,648)	(279,648)	–
Recognition of new Senior Convertible Notes (net of transaction costs)	–	–	65,131	65,131	71,196
Deferred tax recognised directly in equity	–	–	–	–	(21,814)
Coupon payment for Senior Convertible Notes	–	–	(1,264)	(1,264)	–
Conversion of Senior Convertible Notes	–	–	(33,956)	(33,956)	–
<b>31 December 2023</b>	<b>–</b>	<b>–</b>	<b>34,783</b>	<b>34,783</b>	<b>163,848</b>

## Convertible Notes and Warrants Issued on 1 September 2020

	Issue Date	Expiry Date	Number Issued	Number Remaining
CVI Convertible Notes	1 September 2020	1 September 2025	1,000	–
Warrants	1 September 2020	1 September 2023	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 five 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.

From 1 July 2023 to the incentivised conversion on 18 December 2023, the conversion price remained at \$1.8443, due to Zip's share price being lower than the floor price.

At each Instalment date (commencing on the date falling six months after 1 September 2020 and every six 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.

	Financial Liability	Financial Liability	Financial Liability	Total Financial Liabilities
	Embedded Derivative \$'000	Warrants \$'000	Net Debt Host \$'000	Convertible Notes and Warrants \$'000
30 June 2023	1,314	1,049	46,932	49,295
Effective interest	–	–	1,115	1,115
Fair value Loss/(gain) recognised	679	(1,049)	–	(370)
Repayment	(129)	–	(9,575)	(9,704)
Conversion	(1,864)	–	(38,472)	(40,336)
31 December 2023	–	–	–	–

## Notes to the Condensed Consolidated Financial Statements continued

**Repayment of CVI Convertible Notes on 1 September 2023**

Under the terms of the CVI Convertible Notes, a payment of \$10.8 million was made on 1 September 2023, resulting in a cancellation of 100 CVI Convertible Notes. Following this repayment, 400 CVI Convertible Notes remained outstanding.

As a result of the repayment on 1 September 2023, Zip derecognised 20% of the remaining the embedded derivative options feature (\$0.1 million) and the carrying amount of the debt host (\$9.6 million). This derecognition resulted in a loss of \$1.0 million, representing the difference between the carrying amount of the financial liabilities before extinguishment and the repayment amount of \$10.8 million.

**Incentivised Conversion of CVI Convertible Notes on 18 December 2023**

On 18 December 2023, Zip undertook an incentivised conversion with CVI Investments to convert the existing \$40.0 million of outstanding notes into 21,688,445 Zip ordinary shares, an issue date share price of \$0.615. Given the conversion price was \$1.8443, Zip made payment of \$29.4 million to CVI Investments to induce early conversion of the CVI Convertible Notes. This resulted in the complete reduction of the outstanding face value and all other amounts owing under the CVI Convertible Notes to zero.

The incentive payment of \$29.4 million offered by Zip to CVI Investments has been recorded as corporate financing costs in the half year ended 31 December 2023.

Upon the conversion of the remaining 400 CVI Convertible Notes, Zip derecognised the carrying amount of debt host of \$38.5 million and the embedded derivative of \$1.8 million. Simultaneously, Zip recognised issued capital of \$13.3 million, allocating the remaining \$27.0 million to retained earnings.

**Warrants**

Warrants issued to CVI at the time of the CVI Convertible Note issue were issued for Nil cash consideration, featuring a three-year exercise period and 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).

The warrants issued to CVI expired on 1 September 2023 and were cancelled. A gain of \$1.0 million on derecognition of the financial liability-warrants has been recorded for the half year ended 31 December 2023.

**Senior Convertible Notes Amended on 31 July 2023**

	Modification Date	Expiry Date	Conversion Price	Number after Modification	Number Remaining
Senior Convertible Notes	31 July 2023	23 April 2028	\$0.517	275,690	137,629

Zip issued \$400.0 million zero coupon senior convertible notes (referred to as pre-existing Senior Convertible Notes) on 23 April 2021, which are listed on the Singapore Securities Trading Exchange (SGX-ST).

The pre-existing Senior Convertible Notes had a seven-year maturity with an option for investors to put the pre-existing Senior Convertible Notes back to Zip after four years at 109.36% of the principal amount. The yield of 2.25% per annum is calculated on a semi-annual basis. At maturity, noteholders have the option of converting the pre-existing 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 \$12.0576 at 30 June 2023.

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

	<b>Financial Liability</b>	<b>Convertible Notes</b>
	<b>Net Debt Host \$'000</b>	<b>Equity Component \$'000</b>
30 June 2023	277,873	114,466
Effective interest	6,647	–
Derecognition of pre-existing Senior Convertible Notes	(279,648)	–
Recognition of new Senior Convertible Notes (net of transaction costs)	65,131	71,196
Deferred tax recognised directly in equity	–	(21,814)
Coupon payment	(1,264)	–
Conversions	(33,956)	–
31 December 2023	34,783	163,848

#### Consent Solicitation

As announced to the ASX on 8 June 2023, Zip launched a liability management exercise on its \$330,000,000 outstanding pre-existing Senior Convertible Notes. The exercise included an incentivised conversion of pre-existing Senior Convertible Notes into ordinary shares (Conversion Invitation) with the financial impacts reflected in the financial year ended 30 June 2023, and a consent solicitation to amend the terms and conditions of the pre-existing Senior Convertible Notes (Consent Solicitation).

On 31 July 2023, the Consent Solicitation was approved at the Extraordinary General Meeting (EGM) and subsequently settled, reducing the face value of the pre-existing Senior Convertible Notes from \$330.0 million to \$137.8 million, and adjusting the conversion price of the Amended Senior Convertible Notes (referred to as Senior Convertible Notes) to \$0.5170 per Zip's share.

The Amended Senior Convertible Notes have a maturity to 23 April 2028, a coupon of 5% per annum and a yield of 10% per annum calculated on a semi-annual basis in arrears. Investors have options to put the Senior Convertible Notes back to Zip on 23 April 2025 to achieve a yield of 10% of the principal amount.

In accordance with AASB 9, a substantial modification of the terms of the pre-existing Senior Convertible Notes has been accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The Amended Senior Convertible Notes consists of a debt contract classified as a financial liability measured at amortised cost and a separate conversion feature classified as equity in accordance with AASB 132. The investor put option was not separated and is accounted for as part of the debt host contract.

Transaction costs of \$3.6 million have been apportioned to the debt and the equity components. The transaction costs that are attributed to the debt component, are included in the carrying amount of the financial liability and are amortised as part of effective interest. Transaction costs attributed to the equity component are accounted for as a deduction from equity component.

## Notes to the Condensed Consolidated Financial Statements continued

Consequently, Zip derecognised a debt host of \$279.6 million the pre-existing Senior Convertible Notes. A debt host component of \$65.1 million (net of transaction cost of \$0.7 million, and with a discount rate of 23.9%) and an equity component in relation to the conversion option of \$71.2 million (net of transaction cost of \$0.8 million) were recognised. A deferred tax of \$21.8 million has been recognised directly in equity on recognition of the equity component as a result of the Consent Solicitation. Each embedded call option was valued at \$0.27 using the Black-Scholes model based on the share price of \$0.445, risk-free rate 4.7%, and volatility of Zip's share price 80%.

Upon settlement of the Consent Solicitation, a net gain of \$139.7 million (net of transaction costs) was recognised:

- A gain of \$163.5 million was recognised which represents the difference between the carrying amount of the debt host of the pre-existing Senior Convertible Notes (\$279.6 million) and the fair value of the debt host of the pre-existing Senior Convertible Notes (\$116.1 million).
- A loss of \$21.7 million which represents the difference between the fair value of the pre-existing Senior Convertible Notes of \$116.1 million and the fair value of the amended Senior Convertible Notes of \$137.8 million.
- A transaction cost of \$2.1 million allocated to the extinguishment of the pre-existing Senior Convertible Notes debt host.

As part of the Consent Solicitation, an Early Bird Fee of \$2.1 million was paid by Zip, recorded in corporate financing costs in the half year ended 31 December 2023.

#### Subsequent Measurement

From the Consent Solicitation date to 31 December 2023, Senior Convertible Notes holders converted a principal amount of \$69.0 million, resulting in a reduction of the principal amount of Senior Convertible Notes from \$137.8 million to \$68.8 million.

The debt host has been measured at amortised cost using the effective interest method, with accretion to its final redemption amount based on the effective interest rate. Zip derecognises the carrying amount of the debt host proportionally to the notes converted out of the total outstanding, recognising a corresponding amount in equity allocated between issued capital and retained earnings, with no gain or loss on conversion.

At 31 December 2023, Zip reported a debt host of \$34.8 million. This is derived from the carrying amount of \$277.9 million at 30 June 2023, plus \$6.6 million of effective interest, recognition of new debt host of \$65.1 million, minus the derecognition of \$279.6 million debt host on Consent Solicitation, and the derecognition of \$35.2 million from subsequent conversion.

The equity component was reported at \$163.8 million (net of deferred tax of \$21.8 million) at 31 December 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.

## NOTE 6. TAXATION

### Income Tax

	Consolidated	
	31 December 2023 \$'000	31 December 2022* \$'000
Reconciliation of income tax expense/(benefit) and tax at the statutory rate		
Profit/(Loss) before income tax benefit from continuing operations	87,487	(204,970)
Tax at the statutory tax rate of 30%	26,246	(61,491)
– Share-based payments	(76)	73
– Non-deductible expenses	3,319	24,594
– Non-deductible fair value loss	4,617	5,554
– Impairment losses	817	1,655
– Assessable TOFA gain on financial instruments	9,182	16,170
– Effect of different tax rates of subsidiaries operating in other jurisdictions	(311)	1,735
	<b>43,794</b>	<b>(11,710)</b>
Prior year tax losses (utilised)/current year tax losses not recognised	(10,150)	3,904
Movement in temporary differences not previously recognised	(2,137)	3,146
Movement in temporary differences recognised	(17,053)	5,094
<b>Income tax expense from continuing operations</b>	<b>14,454</b>	<b>434</b>
Loss before income tax from discontinued operations	–	(37,218)
Income tax benefit from discontinued operations	–	(108)

\* Comparative information has been restated to exclude discontinued operations.

### Deferred Tax

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

## Notes to the Condensed Consolidated Financial Statements continued

	Consolidated	
	31 December 2023 \$'000	30 June 2023 \$'000
Deferred tax assets comprise temporary differences attributable to:		
Timing differences		
– Provision for expected credit losses	43,829	47,771
– Other provision and payables	33,631	49,687
– Fair value movements on financial instruments	11,977	(79)
Deferred tax assets comprising tax losses:	74,583	128,757
Less: Deferred tax assets not brought to account	(128,562)	(153,877)
<b>Deferred tax assets (recognised from temporary difference) before set off</b>	<b>35,458</b>	<b>72,259</b>
Set off deferred tax liabilities pursuant to set-off provisions	(32,610)	(35,290)
<b>Net deferred tax assets</b>	<b>2,848</b>	<b>36,969</b>
Deferred tax liabilities comprise temporary differences attributable to:		
– Acquired intangibles and other	22,008	26,767
– Financial instruments	10,602	8,523
<b>Deferred tax liabilities before set off</b>	<b>32,610</b>	<b>35,290</b>
Set off deferred tax assets pursuant to set-off provisions	(32,610)	(35,290)
<b>Net deferred tax liabilities</b>	<b>-</b>	<b>-</b>

In the half year ended 31 December 2023, in addition to the amount charged to profit or loss, a deferred tax of \$21.8 million has been recognised directly in equity on recognition of the equity component as a result of the Consent Solicitation of the Senior Convertible Notes.

Based on the calculation of the Group's tax position, the Group had \$271.7 million of tax losses at 31 December 2023 and \$416.0 million of tax losses at 30 June 2023. The net movement during the period was a utilisation of \$138.3 million.

**NOTE 7. EARNINGS PER SHARE****(a) Reconciliation of earnings used in calculating earnings/(loss) per share**

	Consolidated	
	31 December 2023 \$'000	31 December 2022 \$'000 <sup>1</sup>
<b>Profit/(Loss) attributable to the Members of the Zip Co Limited used in calculating basic and diluted earnings/(loss) per share</b>		
Continuing operations	73,033	(205,404)
Discontinued operations	-	(37,110)
	73,033	(242,514)

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

**(b) Weighted average number of shares used as the denominator**

	31 December 2023 '000	31 December 2022 '000 <sup>1</sup>
Weighted average number of ordinary shares used as the denominator in calculating basic earnings/(loss) per share	872,650	700,677
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings/(loss) per share	1,031,888	700,677

**(c) Earnings/(loss) per share from continuing operations**

	31 December 2023 Cents	31 December 2022* Cents <sup>1</sup>
Basic earnings/(loss) per share	8.37	(29.31)
Diluted earnings/(loss) per share	7.08	(29.31)

**(d) Earnings/(loss) per share from continuing operations and discontinued operations**

	31 December 2023 Cents	31 December 2022 Cents <sup>1</sup>
Basic earnings/(loss) per share	8.37	(34.61)
Diluted earnings/(loss) per share	7.08	(34.61)

\* Comparative information has been restated to exclude discontinued operations.

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

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

	Consolidated	
	31 December 2023 \$'000	30 June 2023 \$'000
Cash and cash equivalents	160,662	151,955
Restricted cash	143,174	123,955
	303,836	275,910

At 31 December 2023 the consolidated entity had cash of \$303.8 million of which \$143.2 million was restricted cash (30 June 2023: cash of \$275.9 million of which \$124.0 million was restricted cash). Restricted cash is held by the securitisation warehouses and special purpose vehicles and is not available to pay creditors of the consolidated entity.

The consolidated entity holds balances (31 December 2023: \$80.4 million, 30 June 2023: \$95.4 million) that are reported as cash and cash equivalents and are held on Zip's balance sheet to either provide initial funding for transactions on Zip's virtual card or physical card products or provide a float to support such transactions. Zip considers these amounts as unavailable, and together with the restricted cash are not included in the balances Zip considers as available cash to fund operations (unavailable cash 31 December 2023: \$223.6 million, 30 June 2023: \$219.4 million).

Zip invests funds in its securitisation warehouses and when required withdraws funds in excess of those required to meet subordination requirements to fund its operations, drawing a corresponding amount from funding providers (31 December 2023: \$1.1 million, 30 June 2023: \$0.8 million). Zip considers this amount to be available cash to fund operations.

## Notes to the Condensed Consolidated Financial Statements continued

Available cash and liquidity is determined as:

	<b>Consolidated</b>	
	<b>31 December 2023 \$'000</b>	<b>30 June 2023 \$'000</b>
Cash, cash equivalents and restricted cash	303,836	275,910
Less: unavailable cash		
– Restricted cash	(143,174)	(123,955)
– Operational floats	(80,418)	(95,400)
Add: excess invested securitisation warehouses and special purpose vehicles	1,083	763
Available cash	81,327	57,318
Total cash and liquidity	81,327	57,318

### Reconciliation of Profit/(Loss) After Income Tax to Net Cash from/(in) Operating Activities

	<b>Consolidated</b>	
	<b>31 December 2023 \$'000</b>	<b>31 December 2022<sup>1</sup> \$'000</b>
Profit/(Loss) after income tax for the half year	73,033	(242,514)
<b>Adjustments for:</b>		
Depreciation and amortisation expense	32,426	33,919
Share-based payments	5,540	13,526
Loss on derecognition of financial liabilities	1,048	5,751
Share of losses of associates	2,248	2,593
Fair value movements on financial instruments	15,020	30,314
Effective interest charged on convertible notes	7,762	62,575
Impairment losses	–	23,102
Incentive payments	31,496	12,502
Gain on disposal of an associate	(3,132)	–
Gain on extinguish of pre-existing Senior Convertible Notes	(139,689)	–
Unrealised loss of financial liability	4,583	–
<b>Change in operating assets and liabilities:</b>		
Movement in customer receivables	(28,024)	(248,922)
Movement in other assets and receivables	(9,536)	(8,735)
Movement in other liabilities and payables	108,987	90,127
Movement in employee provisions	(327)	(425)
Movement in deferred tax balances, net of deferred tax recognised in equity	12,309	–
Net cash flow from/(used in) operating activities	113,744	(226,187)

1. The consolidated entity has elected to present the reconciliation to operating activities in total – i.e. including both continuing and discontinued operations.

## NOTE 9. OTHER RECEIVABLES

	Consolidated	
	31 December 2023 \$'000	30 June 2023 \$'000
Amounts due from payment platform providers	52,840	40,859
Prepayments	9,148	10,098
Accrued Income	23,247	15,444
Other receivables	13,102	20,759
<b>Total</b>	<b>98,337</b>	<b>87,160</b>

## NOTE 10. CUSTOMER RECEIVABLES

### Provision Overview

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	Zip Business \$'000	Consolidated \$'000
Customer receivables	2,339,693	401,847	40,750	2,782,290
Unearned future income	(6,424)	(15,823)	–	(22,247)
Provision for expected credit losses	(103,991)	(24,530)	(6,666)	(135,187)
<b>Balance at 31 December 2023</b>	<b>2,229,278</b>	<b>361,494</b>	<b>34,084</b>	<b>2,624,856</b>

1. The customer receivables information is presented in line with the classification of the consolidated entity's operating segments. The instalment products customer receivables in the ANZ segment comprise 0.9% 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	Zip Business \$'000	Consolidated \$'000
Customer receivable	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)
<b>Balance at 30 June 2023</b>	<b>2,291,320</b>	<b>245,672</b>	<b>59,840</b>	<b>2,596,832</b>

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

	ANZ \$'000	Americas \$'000	Zip Business \$'000	Consolidated \$'000
Balance at 30 June 2023	120,475	23,159	8,431	152,065
Provided in the period	42,711	33,054	1,903	77,668
Receivables written-off during the period	(70,370)	(38,635)	(4,005)	(113,010)
Recoveries during the period	11,166	8,001	308	19,475
Foreign exchange movements	9	(1,049)	29	(1,011)
<b>Balance at 31 December 2023</b>	<b>103,991</b>	<b>24,530</b>	<b>6,666</b>	<b>135,187</b>

## Notes to the Condensed Consolidated Financial Statements continued

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

The provision for expected credit losses as a percentage of receivables for 31 December 2023 decreased from 5.5% at 30 June 2023 to 4.9% at 31 December 2023, reflecting the performance of the receivables portfolio during the six months period ended 31 December 2023 and forward-looking information considered in assessment of the expected credit losses.

	ANZ \$'000	Americas \$'000	Zip Business \$'000	Consolidated \$'000
<b>Gross customer receivables</b>				
Stage 1	2,181,072	367,376	37,382	2,585,830
Stage 2	118,013	24,834	2,181	145,028
Stage 3	40,608	9,637	1,187	51,432
Balance at 31 December 2023	2,339,693	401,847	40,750	2,782,290
<b>Provision for expected credit losses</b>				
Stage 1	(32,248)	(7,029)	(4,121)	(43,398)
Stage 2	(46,252)	(11,700)	(1,693)	(59,645)
Stage 3	(25,491)	(5,801)	(852)	(32,144)
Balance at 31 December 2023	(103,991)	(24,530)	(6,666)	(135,187)
	ANZ \$'000	Americas \$'000	Zip Business \$'000	Consolidated \$'000
<b>Gross customer receivables</b>				
Stage 1	2,237,280	254,970	61,543	2,553,793
Stage 2	136,899	16,681	4,899	158,479
Stage 3	45,363	8,375	1,829	55,567
Balance at 30 June 2023	2,419,542	280,026	68,271	2,767,839
<b>Provision for expected credit losses</b>				
Stage 1	(26,418)	(8,673)	(5,158)	(40,249)
Stage 2	(65,504)	(9,648)	(1,393)	(76,545)
Stage 3	(28,553)	(4,838)	(1,880)	(35,271)
Balance at 30 June 2023	(120,475)	(23,159)	(8,431)	(152,065)

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

	Consolidated			
	31 December 2023 \$'000	% of Customer Receivables	30 June 2023 \$'000	% of Customer Receivables
Past due under 30 days	89,473	3%	85,209	3%
Past due 31 days to under 60 days	38,469	1%	49,547	2%
Past due 61 to under 90 days	27,068	1%	32,429	1%
Past due 91 under 180 days	41,450	1%	46,861	2%

## NOTE 11. INVESTMENTS AT FVTPL

	31 December 2023 \$'000
Balance at 30 June 2023	13,846
Additional investments	1,544
Fair value loss	(15,390)
Balance at 31 December 2023	-

During the half year ended 31 December 2023, Zip invested additional \$1.5 million in ZestMoney and held 10.2% of interest in ZestMoney. Subsequently Zip recorded a fair value loss of \$15.4 million based on the assessment of market value, bringing the value of investment in ZestMoney to Nil at 31 December 2023.

## NOTE 12. INTANGIBLE ASSETS

	Consolidated	
	31 December 2023 \$'000	30 June 2023 \$'000
<b>Carrying amounts</b>		
Trademarks	62	62
Customer database	109	174
Transacting partner database	30,338	40,733
IT development and software	86,025	100,669
	116,534	141,638

Consolidated	Trademarks \$'000	Customer Database \$'000	Transacting Partner Database \$'000	IT Development and Software \$'000	Total \$'000
<b>Cost</b>					
Balance at 30 June 2023	62	654	94,423	216,640	311,779
Additions	-	-	-	9,626	9,626
Effect of movements in foreign exchange rates	-	-	(2,883)	(5,372)	(8,255)
Balance at 31 December 2023	62	654	91,540	220,894	313,150
<b>Accumulated amortisation and impairment losses</b>					
Balance at 30 June 2023	-	(480)	(53,690)	(115,971)	(170,141)
Amortisation	-	(65)	(8,509)	(20,882)	(29,456)
Effects of movements in foreign exchange rates	-	-	997	1,984	2,981
Balance at 31 December 2023	-	(545)	(61,202)	(134,869)	(196,616)

## Notes to the Condensed Consolidated Financial Statements continued

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

Internally generated intangibles:

- IT development and software 2.5 years.

Acquired intangibles:

- Trademarks indefinite;
- Customer database 5 years;
- Transacting partner database 4 to 5 years; and
- IT development and software 6 years.

**NOTE 13. GOODWILL**

The consolidated entity has three cash-generating units (CGUs) at 31 December 2023 as set out in the following table. Goodwill has been allocated to these CGUs.

Consolidated	Zip AU \$'000	Zip US \$'000	Zip NZ \$'000	Consolidated \$'000
Balance at 30 June 2023	4,548	203,430	1,257	209,235
Effect of movements in foreign exchange rates	-	(6,226)	12	(6,214)
Balance at 31 December 2023	4,548	197,204	1,269	203,021

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 half year ended 31 December 2023, an assessment of impairment indicators was performed for each of the consolidated entity's CGUs, considering both internal and external factors, and management concluded that there were no indications that goodwill may be impaired.

**NOTE 14. TRADE AND OTHER PAYABLES**

	Consolidated	
	31 December 2023 \$'000	30 June 2023 \$'000
Trade payables	62,851	63,710
Amounts due to merchants and other partners	263,898	126,170
Incentivised conversion - incentive payments	-	17,354
Other	4,285	6,403
Total	331,034	213,637

The increase in amounts due to merchants and other partners reflects an increase in volumes in the US predominantly in December 2023 and the increase in pre-funding of transaction volumes by partners to cover trading days prior to 31 December 2023.

## NOTE 15. DEFERRED CONSIDERATION

	<b>Consolidated</b>
	<b>31 December 2023 \$'000</b>
Balance at 30 June 2023	1,889
Settlement of Payflex contingent consideration	(2,028)
Foreign exchange impact	139
Balance at 31 December 2023	–

### Payflex Contingent Consideration

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. Payflex achieved the performance milestones and accordingly Zip made payments to Payflex during the financial year ended 30 June 2023, reducing the outstanding balance to \$1.9 million at 30 June 2023. This amount was settled in July 2023 and the liability reduced to Nil.

## NOTE 16. BORROWINGS

### Borrowings and Securitisation Warehouse

	<b>Consolidated</b>	
	<b>31 December 2023 \$'000</b>	<b>30 June 2023 \$'000</b>
Secured consumer facilities	2,384,053	2,440,325
Secured SME facilities	31,125	51,876
Corporate debt facility	150,000	90,000
	2,565,178	2,582,201
Add: accrued interest	9,243	11,878
Less: unamortised costs	(39,379)	(2,871)
	2,535,042	2,591,208

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

## Notes to the Condensed Consolidated Financial Statements continued

## Assets Pledged as Security

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

	Consolidated	
	31 December 2023 \$'000	30 June 2023 \$'000
Customer receivables <sup>1</sup>	2,445,020	2,517,658
Cash held through asset-backed financing program	143,174	123,955
	2,588,194	2,641,613
Borrowings related to receivables <sup>2</sup>	2,608,446	2,694,438

- 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 \$179.8 million held by entities that do not have asset-backed financing programs in place or are ineligible receivables at 31 December 2023 and \$79.2 million at 30 June 2023.
- Including \$193.3 million junior and seller notes held by Zip's corporate entities (\$202.2 million at 30 June 2023).

## Term of Secured Facilities Financing Arrangements

Consumer Facilities	Facility Limit \$'000	Drawn at 31 December 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	663,500	663,500	September 2024	BBSW + Margin
– 2023-1	190,000	190,000	May 2026	BBSW + Margin
– 2023-2	285,000	267,000	October 2026	BBSW + Margin
– Variable Funding Note	535,420	352,620	March 2024	BBSW + Margin
– Variable Funding Note 2	143,700	125,980	March 2025	BBSW + Margin
zipMoney 2017-1 Trust	116,620	80,225	July 2024	BBSW + Margin
AR2LLC <sup>1,2</sup>	328,947	214,869	May 2024	SOFR + Margin
Zip NZ Trust 2021-1 <sup>3</sup>	18,574	14,859	July 2024	BKBM + Margin
Total	2,756,761	2,384,053		

- Facility limit of US\$225.0 million translated to AUD at exchange rate of 0.6840.
- Refinanced for a three-year term to December 2026 as disclosed in Note 19.
- Facility limit of NZ\$20.0 million translated to AUD at exchange rate of 1.0768.

SME Facilities	Facility Limit \$'000	Drawn at 31 December 2023 \$'000	Maturity	Facility Type
Zip Business Trust 2022-1	15,293	15,293	March 2024	BBSW + Margin
Funding Box NZ <sup>1</sup>	15,832	15,832	Run-off	BKBM + Margin
Total	31,125	31,125		

1. Facility limit of NZ\$17.0 million translated to AUD at exchange rate of 1.0768.

### Term of Corporate Facility

	Facility Limit \$'000	Drawn at 31 December 2023 \$'000	Maturity	Facility Type
Corporate debt facility	150,000	150,000	December 2027	Fixed

During the half year ended 31 December 2023, Zip executed an agreement for \$150.0 million to refinance its existing corporate debt with funds managed by Ares Management Corporation, a global alternative investment manager, providing corporate funding certainty, diversification and duration to Zip. The facility has a term of four years, featuring an interest rate of 15.0% per annum, subject to adjustment after 30 June 2024 based on Zip's financial performance. Interest payments are made quarterly, and Zip retains the option, at its discretion, to refinance or repay the facility prior to maturity. The corporate debt facility has a registered charge over certain Australian and New Zealand subsidiaries of the consolidated entity.

Under Zip's corporate debt facility agreement, Zip may elect to repay earlier, in which case a premium may be payable to the lenders. On full repayment of the facility, Zip will pay an exit fee calculated as "\$25.0 million × A/B", where "A" is the 30-day volume-weighted average price (VWAP) of Zip's ordinary shares on the date of repayment of the facility, subject to customary adjustments; "B" is the 30-day volume-weighted average price of Zip's ordinary shares on the date of entry into the facility.

The 30-day volume-weighted average price of Zip's ordinary shares on the date of entry into the corporate debt facility was \$0.45, while the calculation of 30-day volume-weighted average price of Zip's ordinary shares on the date of repayment is a future event. In accordance with AASB 9, Zip accounted for the corporate debt facility exit fee as an embedded derivative, which is separated from the borrowing, and classified it as a financial liability, and fair valued through profit and loss.

At 31 December 2023, the value of the corporate debt facility exit fee has been determined to be \$29.6 million, comprising an embedded derivative of \$4.6 million and a non-current payable of \$25.0 million.

The fair value of the corporate debt facility exit fee is based on the 30-day VWAP for Zip's ordinary shares at 31 December 2023. The Group will fair value this item each reporting date. Relevant valuation inputs will be taken into consideration, the most significant being share price movement.

In accordance with AASB 13 *Fair Value Measurement*, the value of borrowing was initially recognised at fair value of \$125.0 million, being the principal of the debt facility of \$150.0 million net of a borrowing cost of \$25.0 million, and subsequent carried at amortised cost. The embedded derivative associated with the debt facility exit fee is classified as a level 1 financial instrument within the fair value hierarchy of fair value measurement.

## Notes to the Condensed 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.

	31 December 2023 Shares '000	31 December 2023 \$'000	30 June 2023 Shares '000	30 June 2023 \$'000
Ordinary shares – fully paid	991,622	2,200,283	824,647	2,121,541
	991,622	2,200,283	824,647	2,121,541

## Movements in Ordinary Share Capital

Details	Shares '000	\$000
Balance at 30 June 2023	824,647	2,121,541
Issue of shares – employee incentives	13,700	3,936
Issue of shares – conversion of convertible notes	153,275	74,806
Balance at 31 December 2023	991,622	2,200,283

## Movements in Options

## Employee Options

Details	Options '000
Balance at 30 June 2023	502
Forfeited during the period	(2)
Expired during the period	(10)
Balance at 31 December 2023	490

## Movements in Performance Rights

## Performance Rights Under at Risk Long-Term Incentives

Details	Rights '000
Balance at 30 June 2023	5,448
Issued during the period	5,526
Lapsed during the period	(483)
Balance at 31 December 2023	10,491

## Performance Rights Under Long-Term Equity

Details	Rights '000
Balance at 30 June 2023	13,052
Issued during the period	659
Lapsed during the period	(569)
Vested during the period	(3,105)
Balance at 31 December 2023	10,037

## Movements in Warrants

Details	Warrants '000
Balance at 30 June 2023	30,326
Expired during the period	(21,192)
Balance at 31 December 2023	9,134

The following table shows details of warrants issued outstanding at 31 December 2023:

Issue Date	Expiry Date	Exercise Price	Number Remaining
6 November 2019	6 November 2026	\$4.70	9,134,375
1 September 2020 <sup>1</sup>	1 September 2023	\$0.47	–
Total at 31 December 2023			9,134,375

1. Refer to Note 5 for details of the warrants issued to CVI expired during the period ended 31 December 2023.

On 6 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.

During the period ending 31 December 2023, 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 performance milestone on the fourth anniversary date, being 6 November 2023, 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. There were no other Amazon Warrants exercised or expired during the period ended 31 December 2023.

**Notes to the Condensed Consolidated Financial Statements continued****NOTE 18. 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 31 December 2023.

**NOTE 19. SUBSEQUENT EVENTS**

In December 2023, Zip executed an agreement to refinance its US receivables funding facility of US\$225.0 million for a three-year term to December 2026 with the facility going live on 10 January 2024. Subject to mutual agreement, this facility may be extended to US\$300.0 million.

In January 2024, the senior funder in the Zip Business Trust 2022-1 facility was fully repaid following the sale of Zip Capital Australia customer receivables to a third-party buyer.

To the date of the release of this report, there have been no other material items, transactions or events subsequent to 31 December 2023 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

# Directors' Declaration

In the Directors' opinion:

- The attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- The attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in to the financial statements;
- The attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2023 and of its performance for the financial period ended on that date; and
- There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors



**Cynthia Scott**  
Group CEO and Managing Director

27 February 2024

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# Independent Auditor's Report to the Members

## Deloitte.

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

Quay Quarter Tower  
50 Bridge Street  
Sydney, NSW 2000  
Australia

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

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

#### *Conclusion*

We have reviewed the half-year financial report of Zip Co Limited (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2023, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 15 to 53.

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

- (a) giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### *Basis for Conclusion*

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

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

#### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 (d) in the condensed consolidated financial statements, which sets forth the events or conditions that indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

#### *Directors' Responsibilities for the Half-year Financial Report*

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

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

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Jason Thorne  
Partner  
Chartered Accountants  
Sydney  
27 February 2024

# Corporate Directory

## DIRECTORS

Diane Smith-Gander AO (Chair)  
Meredith Scott (Non-Executive Director)  
John Batistich (Non-Executive Director)  
Cynthia Scott (Group CEO & Managing Director)  
Larry Diamond (CEO US & Executive Director)

## COMPANY SECRETARY

Sarah Brown

## REGISTERED OFFICE

Level 5, 126 Phillip Street  
Sydney NSW 2000  
Website: [www.zip.co](http://www.zip.co)

## SECURITIES EXCHANGE LISTING

ASX Code: ZIP

## AUDITORS

**Deloitte Touche Tohmatsu**  
Quay Quarter Tower  
50 Bridge Street  
Sydney NSW 2000

## SOLICITORS

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

## SHARE REGISTRY

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

## INVESTOR ENQUIRIES

[investors@zip.co](mailto:investors@zip.co)

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