APPENDIX 4D
Half Year Financial Report

Name of entity	Zip Co Limited
ACN	139 546 428
Reporting period	Half year ended 31 December 2020
Previous corresponding period	Half year ended 31 December 2019

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 2020 $'000	31 DECEMBER 2019 $'000
Revenue from ordinary activities	Up	130%	160,028	69,629
Loss from ordinary activities after income tax attributable to members	Up	1,395%	(453,769)	(30,347)
Total comprehensive loss attributable to members	Up	1,403%	(455,929)	(30,341)

The company does not have a dividend policy.

	31 DECEMBER 2020	31 DECEMBER 2019
Total number of ordinary shares on issue	541,603,343	390,389,675
Net tangible asset backing per ordinary share[1]	12.12 cents	29.06 cents

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

BRIEF EXPLANATION OF THE ABOVE FIGURES

Zip recorded revenue growth of 130% over the previous corresponding period (pcp), driven by a 42% increase in revenue reported by the Australian consumer business and $57.6 million in revenue generated by US based BNPL provider QuadPay Inc in the period following acquisition on 31 August 2020.

The Group reported a loss before tax, depreciation, amortisation and share based payments of $14.9 million (excluding non-recurring items) compared to a loss of $11.3 million in the prior corresponding half year. The Group has invested in employment, marketing and other expenses in the six months to 31 December 2020 to support the growth in revenue during the half year, and expansion into new markets.

Zip reported a statutory loss before tax of $453.8 million including a number of non recurring items.

APPENDIX 4D
Half Year Financial Report

Continued

Excluding these items Zip reported an adjusted loss (which is non-IFRS information) of $139.8 million, as follows:

Reported loss before tax	$453.8 million	
Add back:		
Net adjustments relating to the acquisition of QuadPay	$306.2million	Revaluation and Day 1 adjustment as detailed in the half year financial report
Acquisition costs	$7.8 million	On acquisitions in the period
Adjusted loss before tax	$139.8 million	

DETAILS OF CONTROLLED ENTITIES

On 31 August 2020, Zip increased its ownership interest in QuadPay, Inc. (QuadPay), a leading high growth Buy Now Pay Later (BNPL) player in the United States to 100%, acquiring the 85.91% of QuadPay that it did not already own.

On 26 October 2020, Zip acquired a 100% interest in Sydney-based technology company, Urge Holdings Pty Ltd (Urge). Urge helps shoppers to find and buy the items they are looking for, driving increased sales, reach and exposure for its retail partners.

Detailed information in relation to these acquisitions and their contributions to the Group's financial performance since acquisitions are contained in the 31 December 2020 Half year Report.

ASSOCIATES/JOINT VENTURE ENTITIES

In December 2020, Zip invested $3.1 million to acquire a 20% interest in Spotii – a leading tech enabled payments platform operating in the Middle East. On acquisition, Zip accounted for the investment in Spotii as an associate.

During the half year ended 31 December 2020, Zip increased the interest in its associate Payflex from 25.2% to 26.2% and reported a share of loss of $0.1 million for the half year ended 31 December 2020.

Detailed information is contained in the 31 December 2020 Half year Report.

REVIEW CONCLUSION

This report is based on the condensed financial statements for the half year ended 31 December 2020.

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

DIVIDENDS

No dividends have been declared for the half year ended 31 December 2020 or for the previous corresponding period.

Larry Diamond
Managing Director & Chief Executive Officer

24 February 2021

Half Year Financial Report 2021

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

Purpose:
The Freedom
to Own It.

Mission:
To be the first payment
choice everywhere
and every day.

FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

This financial report does not include all the notes of the type normally included in an annual financial report. This report is to be read in conjunction with the Annual Report for the year ended 30 June 2020 and any public announcements made by Zip Co Limited during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Contents

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 2020.

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 (appointed 1 February 2021)
Larry Diamond
Peter Gray
Philip Crutchfield
John Batistich
Dianne Challenor (resigned 1 October 2020)
Pippa Downes (appointed 1 October 2020)

REVIEW AND RESULTS OF OPERATIONS

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

	31 DECEMBER 2020		31 DECEMBER 2019	
HALF YEAR ENDED	REVENUE $'000	LOSS AFTER TAX $'000	REVENUE $'000	LOSS AFTER TAX $'000
Zip Co Limited	160,028	(453,769)	69,629	(30,347)

The results for the half year ended 31 December 2020 include the results of acquired entities QuadPay Inc and its subsidiaries (Quad or QuadPay), and Urge Holdings Pty Ltd and its subsidiaries (Urge), for the period since the acquisition dates, being four months and two months respectively. Further details on these acquisitions are included in this report.

PRINCIPAL ACTIVITIES

Zip is a leading global player in the digital retail finance and payments industry. Established in 2013, the Group is headquartered in Sydney, Australia with operations in the United States, United Kingdom, and New Zealand.

The principal activity of the Group is offering point-of-sale credit and digital payment service to customers and providing a variety of integrated retail finance solutions to merchants both online and in-store.

CONSUMERS

Across Australia and New Zealand, Zip provides lines of credit through its Zip digital wallet. It has two products: Zip Pay (with limits up to $2,000) and Zip Money (with limits between $1,000 and $50,000). Revenue is generated from Merchants (merchant fees), Consumers (predominantly monthly fees, establishment fees and interest) and by way of affiliate fees and interchange. The Group has a strong focus on interest-free payment behaviour, encouraged through higher minimum monthly repayments, and promotional interest-free periods.

In the United States, United Kingdom, and New Zealand, Zip provides a Buy Now Pay Later (BNPL) service whereby consumers can split repayments into equal fortnightly instalments. Revenue is generated from merchant fees, affiliate fees, interchange, and service fees. In the event a consumer misses a payment, a late fee applies.

SMALL AND MEDIUM SIZED MERCHANTS (SMEs)

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

- Merchants can offer Zip, an interest free payment method at checkout, to increase basket sizes, conversion rates, drive repeat purchases and affiliate referrals.
- Zip offers SMEs the ability to sign up for Zip Business, an interest free digital wallet up to $25,000, that allows businesses to pay for everyday purchases in instalments, selecting a repayment schedule that suits their business.
- Zip also provides unsecured loans of up to $500,000 under the Zip Business offering (formally Spotcap).

REVIEW OF OPERATIONS

OPERATIONAL PERFORMANCE

Zip continues to see significant growth across all operating metrics. Over the last twelve months:

- Active consumer accounts have increased to over 5.7 million compared to 1.8 million reported at 31 December 2019;
  - US consumer numbers total 3.2 million, up from 1.1 million at 31 December 2019, a 180% increase year on year;
  - ANZ consumer numbers total 2.5 million, up from 1.8 million at 31 December 2019, a 39% increase year on year; and
- Merchant numbers have increased to over 38,500, up from 20,800 at 31 December 2019, a 85% increase year on year.

Transaction volumes have increased to $2,320.6 million for the half, compared to $964.7 million in the half year to 31 December 2019, a 141% increase.

- US transaction volumes totalled $790.7 million; and
- ANZ transaction volumes totalled $1,529.9 million a 59% increase on pcp.

QuadPay

Zip's US business QuadPay has performed extremely strongly since joining the Group on 1 September 2020.

Notably:

- Reported revenue as a percentage of transaction volumes remains over 7%.
- Strong unit economics with a net transaction margin more than 2% over the half.
- New merchants added to the platform include GameStop, Fanatics, Mercari, Calares, Newegg, Modell's Sports, Sunglass Hut, and PGA Sport.
- The app continues to perform strongly, ranking in the top 20 of the shopping category for the majority of the holiday period.
- The QuadPay Chrome extension was launched, an industry first enabling consumers to pay in instalments on any website.

Zip AU

The Australian consumer business has also performed strongly, building deeper customer engagement and launched a number of significant new product features in the period:

- Reported revenue yield of on receivables remained stable at of 15.4% in line with the prior half year to 30 June 2020, and 16.4% in the corresponding period.
- Generated a cash gross profit (gross profit excluding the movement in the expected credit loss provision) of 54.5% of revenue compared to 49.2% in the prior half year ended 31 December 2019.
- Net bad write-offs 1.93% compared to 1.68% at 31 December 2019.
- A record number of new consumers joined the platform in the half.
- New merchants added to the platform included Lighthouse brands – Harvey Norman, Pizza Hut, Priceline and Winning Appliances.
- The Zip App was the most downloaded BNPL app in Australia in December 2020.
- Secured a Principal Issuer license with Visa, supporting Zip's launch of Tap and Zip which enables Zip Pay users to shop anywhere that accepts Visa.

Zip New Zealand added Kogan, Dick Smith and Chemist Warehouse in the period, following referrals from the Australian business. The strength of the merchant base continues to grow, with 15 of the top 30 retailers being new to Zip in the six months to 31 December 2020.

Zip launched its UK operations in December 2020, and has numerous enterprise launch partners including Boohoo, JD Sports and Fanatics in the process of going live or integrating. The UK will leverage Zip's global channel partnerships including Adyen, Big Commerce, Stripe and Shopify to help it scale in 2021.

Zip announced the official launch of Zip Business in August, partnering with eBay Australia to offer its 40,000 Australian small and medium sized businesses the opportunity to access working capital through the eBay marketplace. Zip also partnered with Facebook in the period, enabling small and medium sized businesses in Australia to use Zip Business to pay for advertising on the global social platform. Zip also rebranded Spotcap during the period, to Zip Business Capital, to align the branding of its suite of product offerings to SME's.

FINANCIAL PERFORMANCE

Zip reported revenue for the six months ending 31 December 2020 of $160.0 million, a 130% increase over the $69.6 million reported in the six months ending 31 December 2019.

Cost of Sales increased to $82.8 million from $46.4 million for the six months ended 31 December 2019 reflecting the acquisition of QuadPay and subsequent growth in transactions and receivables. Reported gross profit was 48.2% of operating income, compared to 32.9% in the six months to December 2019. Excluding the impact of the movement in the provision for expected credit losses, gross profit was 52.7%, compared with 50.0% in the six months to 31 December 2019. Interest costs increased $7.6 million due to the growth in receivables, the average interest rate paid decreased from 4.7% in the six months to 31 December 2019 to 3.9% in the six months to 31 December 2020. The Bad and doubtful debts expense increased to $29.5 million reflecting the significant growth in receivables and includes $22.4 million in bad debts written off (net of recoveries) and a reduction in the provision for expected credit losses from 4.4% at 30 June 2020 to 3.8%. Bank fees and data costs increased to $25.8 million from $4.4 million in the prior year due primarily to the addition of QuadPay to the Group.

Including the operating costs of QuadPay since acquisition, operating costs excluding one-off costs of $314.0 million ($10.2 million in the prior corresponding half year) increased from $43.4 million to $216.9 million for the six months to 31 December 2020.

Administration costs totalled $13.3 million. Marketing costs, including the launch of Tap and Zip, direct consumer marketing, and promotional activities undertaken in conjunction with merchants to maximise transaction volumes, totalled $26.4 million. IT costs totalled $9.7 million reflecting the expansion of the Group's infrastructure globally, and further investment in resilience and security. Professional services costs rose by $3.8 million including increased legal costs, and other advisory services supporting Zip's expansion.

The amortisation of intangibles increased by $9.9 million to $14.6 million. The amortisation of acquired intangibles arising on the acquisition of QuadPay and Urge totalled $10.0 million for the period since acquisitions, the remaining increase reflecting an increase in the amortisation of software development during the six months.

Headcount increased to 612, a 73% increase when compared to 31 December 2019, resulting in an increase in salaries and employee benefits costs of $18.2 million to $38.7 million. The acquisition of QuadPay added 122 employees, and the Group now has 191 employees located outside of Australia.

Share-based payments increased by $64.0 million primarily due to a $63.4 million expense relating to the provision of retention and performance incentives, arising on the acquisition of QuadPay, approved by shareholders at the EGM in August 2020. The remaining increase reflects an increase in the accrual for both short-term and long-term employee incentives arising from the increase in headcount, net of the once off issue of warrants to Amazon Australia, amounting to $6.0 million, in the prior half year ended 31 December 2019.

Acquisition costs of $7.8 million reflect the costs of professional advisors supporting Zip in the acquisition of QuadPay, as well as in making the investments in new markets during the period and the costs associated with the issuance of the warrants and convertible notes to the extent they are not required to be capitalised and amortised.

The fair value loss on financial instruments of $33.2 million reflects the revaluation of the warrants, and the embedded derivative contained within the convertible notes, issued during the half year to CVI Investments, Inc. (CVI), an affiliate of Heights Capital Management, which is part of the US–based Susquehanna International Group, as at 31 December 2020.

Zip reported once off net adjustments relating to the acquisition of QuadPay totalling $306.2 million, as detailed later in this report.

The net loss for the six months ending 31 December 2020 attributable to members of Zip Co Limited was $453.8 million.

ADJUSTED NET LOSS

The Group's result for the six months to 31 December 2020 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:

Reported loss before tax	$453.8 million	
Add back:		
Net adjustments relating to the acquisition of QuadPay	$306.2 million	Revaluation and Day 1 adjustment as detailed later in this report
Acquisition costs	$7.8 million	On acquisitions in the period
Adjusted loss before tax	$139.8 million	

RECEIVABLES

As at 31 December 2020, the receivables portfolio totalled $1,683.6 million, an increase of 42.4% on the balance of $1,181.9 million reported at 30 June 2020. The portfolio comprises consumer receivables totalling $1,648.4 million, and SME receivables of $35.2 million. Consumer receivables include $186.2 million reported in QuadPay Inc and $5.4 million across Zip's operations in the United Kingdom and New Zealand.

The Group wrote off $22.4 million in bad debts (after bad debt recoveries) for the six months to 31 December 2020 compared to $11.2 million in the six months ending 31 December 2019.

Zip's Australian consumer business reported receivables of $1,456.8 million a 27.5% increase on the balance of $1,143.0 million reported at 30 June 2020 and an increase of 46.1% when compared to the prior half year at 31 December 2019. The repayment profile remains healthy at 16.1% (of prior month end balance) in monthly collections suggesting a pay back period of approximately six months. The reported arrears rate was 0.95% at 31 December 2020 compared to 1.33% at 30 June 2020 and 1.58% at 31 December 2019. Net bad debts written off in the last twelve months were 1.93% of customer receivables compared to 2.24% at 30 June 2020 and 1.68% at 31 December 2019.

QuadPay recorded receivables of $186.2 million at the end of December 2020 up from $80.3 million at the time of acquisition. Write offs in the period since acquisition totalled $6.2 million.

Zip Business recorded receivables of $35.2 million at the end of December 2020 down from $37.1 million at 31 December 2019. Reported arrears (payments overdue by greater than 60 days) at 31 December 2020 were 2.51% compared to 3.13% at 30 June 2020. Write offs in the period totalled $0.8 million, and net bad debts written off were 4.6% for the six months to 31 December 2020.

CORPORATE ACTIVITY

During the period, Zip completed the acquisition of US BNPL payment provider QuadPay Inc, acquiring the shares that it did not already own, following shareholder approval in August 2020. Zip issued 118,776,189 new Zip Co Limited shares and 10,480,369 options to acquire shares in Zip Co Limited to QuadPay Option holders to complete the acquisition. In accordance with the terms of the acquisition of QuadPay approved by Zip's shareholders, the number of shares issued to shareholders of QuadPay was equivalent to 23.3% of the issued share capital of Zip at completion on a non diluted basis.

In accordance with the requirements of AASB 3 – *Business Combinations* and AASB 13 *Fair Value Measurement*, the acquisition price must be calculated based on Zip's share price on the date it obtained control of QuadPay Inc, being 31 August 2020. As the closing share price on 31 August 2020 was $9.16, the acquisition price of the shares in QuadPay Inc that Zip did not already own was calculated as $1,174.4 million comprising $1.088.0 million in relation to the new shares issued, cash of $1.1 million, $63.9 million in relation to the 7,105,752 options issued to recipients that were not employees of QuadPay, and $21.4 million relating to the value of replacement options provided to employees included as part of consideration.

Replacement options issued to employees were valued at $30.2 million, and of the balance of $8.8 million not included in consideration, $2.4 million was expensed in the period since acquisition, and the balance of $6.4 million will be expensed over the remaining vesting period. Zip will also record the estimated expense of the tenure and performance shares (as set out in Note 19 in this half year report) over the periods in which the recipients are forecast to achieve the agreed tenure and performance hurdles. An expense of $63.4 million has been recorded in the half year ended 31 December 2020 in relation to these hurdles.

The directors do not consider that the fair value at the acquisition date of the equity instruments granted for the purchase of QuadPay Inc, as measured per AASB 13 *Fair Value Measurement*, is reflected in the subsequent equity value of the instruments granted or the underlying assets acquired, and accordingly in conjunction with independent valuers, Zip has determined that a Day 1 adjustment of $415.9 million should be made to the carrying value of goodwill. The Day 1 adjustment was calculated using a share price of $6.50 (compared to $9.16 at acquisition date) following an assessment of the fair market value of Zip's shares based on a review of Zip's VWAP (volume-weighted average price) over various periods up to and including the 31 August 2020.

As required by accounting standards Zip revalued its pre-existing shareholding in QuadPay to reflect the acquisition price at 31 August 2020 of $9.16, resulting in a revaluation gain of $109.7 million. The once off net adjustments relating to QuadPay Inc included in the reported operating profit totalling $306.2 million.

The Company has provisionally valued acquired intangibles arising from the acquisition of QuadPay in conjunction with independent valuers, and goodwill has been provisionally determined. The valuation has resulted in acquired intangibles totalling $253.7 million ($187.7 million net of taxation) being recognised, and an amortisation charge of $9.4 million in the six months to 31 December 2020 being reported. The Group has recorded goodwill of $734.8 million in relation to the acquisition of QuadPay at 31 December 2020.

Zip acquired Sydney based technology company Urge Holdings Pty Limited in October 2020 issuing 432,516 ordinary shares in Zip Co Limited. Urge helps shoppers find what they're looking for, driving increased sales, reach and exposure for its retail partners. The acquisition price was $2.7 million, acquired intangibles have been provisionally valued at $2.7 million, and goodwill of $0.7 million has been recorded.

In addition, during the financial period Zip has made the following investments:

- Invested a further $0.2 million in Payflex Pty Limited, Zip associate in South Africa, taking Zip's equity interest to 26.2%;
- Acquired a 20% interest in Spotii a leading tech enabled payments platform operating in the Middle East for $3.1 million; and
- Invested $3.2 million to acquire a minority interest in Twisto a cashflow management and payments app headquartered in the Czech Republic.

CAPITAL MANAGEMENT

The Group had total facilities available of $1,499.3 million available to fund its Australian consumer receivables at 31 December 2020, of which $1,339.5 million was drawn. Subsequent to the year end the facilities were increased to $1,703.7 million.

Zip successfully completed the second rated note issuance within the Zip Master Trust in October 2020, raising $285 million from debt investors. As a result of the continued strong performance of the receivables portfolio the rating of the senior notes improved by two notches when compared to Zip's first issuance in August 2019.

In the US Zip has a facility totalling US$150.0 million, drawn US$121.9 million.

To fund receivables generated by Zip Business the Group has facilities totalling $46.3 million ($33.5 million drawn) to fund its Zip Business Capital product, and $100.0 million ($1.0 million drawn), to fund its new SME BNPL products, Zip Business Trade.

Following shareholder approval at the EGM in August 2020, Zip raised $100.0 million ($96.8 million net of costs) through the issue of convertible notes, and issued 19,365,208 warrants (equating to $100.0 million in cash on exercise) in connection with the issue of the convertible notes, to CVI Investments, Inc.

The convertible notes have a 5 year maturity, and a fixed coupon of $0.75 million payable each 6 months. Under the terms of the notes, every 6 months, 10% of the initial principal amount (i.e. $10m) and accrued interest amounts (i.e. aggregate of A$10.75m) can, at the election of the Noteholder be converted into Shares in Zip at a price equals to 93% of the then current market price subject to the ceiling price of $5.5328 and a floor price of $1.8443, or deferred until the next instalment date. The Noteholder also holds the option to convert the convertible notes into shares in Zip after the occurrence of certain conversion events at the then prevailing conversion price, with an initial conversion price of $5.5328, a 50% premium to the 1-day VWAP of Zip's shares on 29 May 2020. The semi-annual fixed coupon of $0.75 million on the convertible notes can be paid in Shares in Zip issued at the then current market price (provided certain conditions are met) or be settled in cash. The conversion price (other than for the semi-annual instalments) adjusts for certain prescribed terms and dilutive events and resets semi-annually to a price equal to 93% of the prevailing current market price subject to a maximum ceiling price of $5.5328 and a minimum floor price of $1.8443, a 50% discount to the VWAP of Zip's Shares on 29 May 2020.

The warrants were issued for nil consideration, with a 3 year exercise period, and an exercise price being the lower of $5.1639 and the price of any equity securities issued (excluding issues for prescribed business as usual and agreed strategic transactions) in the exercise period. The exercise price represented a 40% premium to the 1-day volume weighted average price of Zip's shares on 29 May 2020.

In conjunction with independent valuers Zip has fair valued the derivative embedded in the convertible note agreement, and the warrants, with the residual value being the underlying debt component of the convertible note, at the time the respective agreements were struck in May 2020. The embedded derivative and the warrants have also been revalued at 31 December 2020 in accordance with AASB 9 – *Financial Instruments*.

Following the revaluation at 31 December 2020, Zip has reported a financial liability in relation to the underlying debt component of the convertible note of $61.6 million, and the embedded derivative and warrants issued have been valued at fair values of $38.7 million and $33.4 million respectively using the Black Scholes option valuation model. The fair values have been based on a closing share price at 31 December 2020 of $5.29, volatility of 50%, and a risk free rate of 0.3% for the embedded derivative, and 0.1% for the warrants. The different risk free rates reflecting the different expiry dates of the instruments.

As a result, Zip has reported a fair value loss of $33.2 million, being the difference in fair value of the embedded derivative and the warrants between the date of issue and 31 December 2020, in accordance with the requirements of AASB 9 based on the details outlined above.

The fair value of the embedded derivative and warrants are directly aligned to Zip's share price. Were the share price to increase by 100%, from the $5.29 detailed above, their fair value would increase by approximately $160.5 million and result in a fair value adjustment equivalent to the increase being recognised as an expense in the financial statements.

The Group raised $120.0 million ($118.2million net of costs) in equity from new and existing, institutional, sophisticated and professional investors during the half year ended 31 December 2020, and a further $56.7 million from retail investors from an oversubscribed Share Purchase Plan that closed in early January 2021. The funds were raised to support Zip's growth in the US, expansion in the UK and additional new markets, and to invest in product expansion in Australia, including the further development of Zip's offering to small businesses.

CASHFLOWS

Cash inflows from operating activities totalled $13.9 million ($20.5 million excluding acquisition costs) for the six months ended 31 December 2020, compared to a cash inflow of $4.4 million ($6.7 million excluding acquisition costs) in the six months ended 31 December 2019.

Income from customers increased to $160.0 million, from $69.3 million in the half year ended 31 December 2019. Payments to suppliers and employees totalled $114.3 million up from $46.0 million in the prior corresponding half year, and Interest paid totalled $25.2 million compared to $16.7 million in the six months ending 31 December 2019.

Cash outflows to investing activities for the period were $438.8 million. Zip paid $0.7 million for plant and equipment during the period, predominantly IT equipment, and paid an additional $4.5 million to further develop the Group's software applications and architecture, down from $5.1 million in the prior corresponding half year due to a reduced spend on contract resources. The acquisition of QuadPay and Urge resulted in a net cash inflow to the Group of $26.2 million, and the net movement in receivables totalled $453.3 million. In addition, Zip invested a further $6.5 million to develop its international footprint, $3.1 million in Spotii in EMEA, a further $0.2 million in Payflex Pty Limited in South Africa, and $3.2 million in Twisto in the Czech Republic.

Cash inflows from financing activities for the period were $612.1 million. Proceeds from the issue of shares totalled $121.1 million, $120.0 million from the capital raise and $1.1 million from the conversion of options. Costs relating to the capital raise totalled $1.8 million. The issuance of the convertible notes resulted in a cash inflow of $96.8 million net of costs and costs of $2.1 million were incurred in the establishment of warehouse facilities to fund the growth in receivables during the period. Zip increased its borrowings to fund the growth in receivables by $466.0 million and repaid $66.2 million during the period.

POST BALANCE DATE EVENTS

As noted above, Zip completed the Share Purchase Plan in January 2021 raising $56.7 million from retail shareholders and increased the facilities available to fund its Australian consumer receivables by $204.4 million.

Subsequent to the year end Zip invested a further $5.4 million in Twisto payments a.s.

Other than this, there have been no other material items, transactions or events subsequent to 31 December 2020 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 on page 10.

This report is made in accordance with a resolution of directors.

Larry Diamond
Managing Director & Chief Executive Officer

24 February 2021

Auditor’s Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

24 February 2021

Dear Board Members

Zip Co Limited

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

As lead audit partner for the review of the financial statements of Zip Co Limited for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountant

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

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 31 December 2020

For personal use only

	NOTE	31 DECEMBER 2020 $'000	31 DECEMBER 2019 $'000
Operating Income	3	**159,842**	**69,131**
Cost of Sales			
Interest expense		(25,498)	(17,918)
Bad and doubtful debts expense		(29,522)	(23,170)
Bank fees and data costs		(25,832)	(4,430)
Amortisation of funding costs		(1,991)	(835)
Total Cost of Sales		**(82,843)**	**(46,353)**
Gross Profit		**76,999**	**22,778**
Other income	3	186	498
Expenditure			
Administration expenses	4	(13,270)	(4,695)
Depreciation expense	4	(2,546)	(1,632)
Amortisation of intangibles	4	(14,627)	(4,701)
Information technology expenses		(9,728)	(4,679)
Marketing expenses		(26,437)	(5,758)
Corporate financing costs	4	(2,692)	(212)
Occupancy expenses		(1,188)	(1,005)
Salaries and employee benefits expenses		(38,727)	(18,223)
Share-based payments	4	(74,356)	(10,387)
Acquisition of business costs		(7,837)	(2,290)
Share of loss of associate	5	(149)	(41)
Fair value loss on financial instruments	6	(33,162)	–
Net adjustments relating to the acquisition of QuadPay	7	(306,235)	–
Loss Before Income Tax		**(453,769)**	**(30,347)**
Income tax (expense)/benefit		–	–
Loss After Income Tax Attributable to Members of Zip Co Limited		**(453,769)**	**(30,347)**
Other comprehensive income for the period			
Foreign exchange differences on translation		(2,160)	6
Total Other Comprehensive Income for the Period, Net of Tax		(2,160)	6
Total Comprehensive Loss for the Period Attributable to Members of Zip Co Limited		**(455,929)**	**(30,341)**
Earnings per Share		**Cents**	**Cents**
Basic loss per share	8	(95.52)	(8.41)
Diluted loss per share	8	(95.52)	(8.41)

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

Condensed Consolidated Statement of Financial Position

As at 31 December 2020

	NOTE	31 DECEMBER 2020 $'000	30 JUNE 2020 $'000
Assets			
Cash and cash equivalents	9	217,754	32,712
Other receivables	10	26,671	6,876
Term deposit		1,507	1,507
Customer receivables	11	1,603,615	1,116,618
Investments at FVTPL	12	3,231	82,930
Investments in associates	5	4,304	1,184
Property, plant and equipment		3,347	3,512
Right-of-use assets	13	7,926	8,160
Intangible assets	14	271,621	25,093
Goodwill	15	788,933	53,441
Total Assets		**2,928,909**	**1,332,033**
Liabilities			
Trade and other payables	16	53,734	19,533
Employee provisions		4,069	2,753
Deferred contingent consideration	17	6,990	13,979
Leasing liability	13	8,300	8,414
Borrowings	18	1,530,046	1,081,954
Financial liabilities – convertible notes and warrants	6	133,625	–
Deferred tax liability	7	65,959	–
Total Liabilities		**1,802,723**	**1,126,633**
Net Assets		**1,126,186**	**205,400**
Equity			
Issued capital	19	1,503,833	274,151
Reserves		164,494	19,621
Accumulated losses		(542,141)	(88,372)
Total Equity		**1,126,186**	**205,400**

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

Condensed Consolidated Statement of Changes in Equity

For the half year ended 31 December 2020

	ISSUED CAPITAL $'000	SHARE-BASED PAYMENTS RESERVES $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	ACCUMULATED LOSSES $'000	TOTAL $'000
Balance at 1 July 2019	**141,211**	**3,520**	**–**	**(68,431)**	**76,300**
Loss for the period	–	–	–	(30,347)	(30,347)
Other comprehensive loss	–	–	6	–	6
Total Comprehensive Loss	**–**	**–**	**6**	**(30,347)**	**(30,341)**
Recognition of share-based payments	–	10,387	–	–	10,387
Exercise of share-based payments	–	(4,213)	–	–	(4,213)
Issue of ordinary shares under share-based payments plans	4,213	–	–	–	4,213
Issue of shares – capital raising	61,871	–	–	–	61,871
Issue of shares – acquisitions	68,805	–	–	–	68,805
Exercise of options	180	–	–	–	180
Costs of issuing shares	(2,058)	–	–	–	(2,058)
Balance at 31 December 2019	**274,222**	**9,694**	**6**	**(98,778)**	**185,144**
Balance at 1 July 2020	**274,151**	**19,700**	**(79)**	**(88,372)**	**205,400**
Loss for the period	–	–	–	(453,769)	(453,769)
Other comprehensive loss	–	–	(2,160)	–	(2,160)
Total Comprehensive Loss	**–**	**–**	**(2,160)**	**(453,769)**	**(455,929)**
Recognition of replacement options issued on the acquisition of QuadPay	–	85,292	–	–	85,292
Recognition of share-based payments	–	74,356	–	–	74,356
Exercise of share-based payments	–	(12,615)	–	–	(12,615)
Issue of ordinary shares under share-based payments plans	12,615	–	–	–	12,615
Issue of shares – capital raising	120,000	–	–	–	120,000
Exercise of options	1,094	–	–	–	1,094
Issue of shares – acquisitions	1,090,741	–	–	–	1,090,741
Issue of shares – PartPay Contingent Consideration (refer to Note 17)	6,989	–	–	–	6,989
Costs of issuing shares	(1,757)	–	–	–	(1,757)
Balance at 31 December 2020	**1,503,833**	**166,733**	**(2,239)**	**(542,141)**	**1,126,186**

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

Condensed Consolidated Statement of Cash Flows

For the half year ended 31 December 2020

	NOTE	31 DECEMBER 2020 $'000	31 DECEMBER 2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income from customers		160,028	69,329
Payments to suppliers and employees		(114,290)	(46,020)
Interest received from financial institutions		–	83
Interest paid		(25,205)	(16,739)
Acquisition of business costs		(6,601)	(2,290)
Net Cash Flow from Operating Activities	**9**	**13,932**	**4,363**
CASH FLOWS TO INVESTING ACTIVITIES			
Payments for plant and equipment		(721)	(2,764)
Payments for software development		(4,515)	(5,054)
Net increase in receivables		(453,307)	(328,725)
Payments for acquisitions, net of cash acquired		26,210	2,667
Payment for investments in associates		(3,269)	(16,566)
Payment for investments		(3,231)	(41)
Net Cash Flow to Investing Activities		**(438,833)**	**(350,483)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowing transaction costs		(2,106)	(2,404)
Proceeds from borrowings		465,981	316,018
Repayment of borrowings		(66,200)	–
Proceeds from issue of convertible notes		96,824	–
Repayments of principal of lease liabilities		(1,733)	(984)
Proceeds from the issue of shares		121,094	62,051
Costs of share issues		(1,757)	(2,058)
Net Cash Flow from Financing Activities		**612,103**	**372,623**
Net increase in cash and cash equivalents		187,202	26,503
Cash and Cash Equivalents at the Beginning of the Half Year		32,712	12,611
Foreign exchange effect		(2,160)	6
Cash and Cash Equivalents at the End of the Half year	**9**	**217,754**	**39,120**

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

Notes to the Condensed Consolidated Financial Statements

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

A. STATEMENT OF COMPLIANCE

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

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

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

The condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 24 February 2021.

B. BASIS OF PREPARATION

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

C. GOING CONCERN

The Directors have prepared the half year financial report on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The condensed consolidated statement of profit or loss and other comprehensive income for the half year ended 31 December 2020 shows a consolidated entity's loss after tax of $453.8 million. The condensed consolidated statement of cash flows for the half year ended shows net cash from operations of $13.9 million.

The Directors have reviewed cash flow forecasts for the consolidated entity through to 31 March 2022 The cash flow forecast indicate that the consolidated entity will have sufficient funding to operate as a going concern during the forecast period. The Directors have concluded that it is appropriate to prepare the condensed financial statements on the going concern basis, as they are confident that the consolidated entity will be able to pay its debts as and when they become due and payable from operating cash flows and available finance facilities.

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

D. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Revenue recognition

Portfolio interest income

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

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

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

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

Transactional income

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

Provision for Expected Credit Loss

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

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

When measuring expected credit losses the consolidated entity uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. Judgement has been applied in the assessment of the macroeconomic overlay in the current half year taking into account a higher than usual level of uncertainty during the COVID-19 pandemic period. Refer to Note 11 for further details.

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Intangible assets

Software development asset

Software development costs are capitalised only when:

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

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

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

Acquired intangibles

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

Acquired intangibles are independently valued by an external valuer and the fair values are recorded at initial recognition. Refer to Note 7 for the valuation of intangibles acquired during the half year.

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

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

Impairment of non-financial assets

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

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

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit (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. Intangible assets such as brands, customer relationships and trademarks used by the consolidated entity for its own activities are unlikely to generate largely independent cash inflows and will therefore be tested at a CGU level. Please refer to Note 14 for detailed assumptions and assessment of impairment for goodwill and intangible assets.

Assessments of impairment for investment in associate and impairment for right-of-use asset are detailed in Note 5 and Note 12, respectively.

Notes to the Condensed Consolidated Financial Statements

Continued

Fair value measurements and valuation processes

The consolidated entity measures certain assets and liabilities at fair value for financial reporting purposes. In estimating the fair value of these assets and liabilities, the consolidated entity uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the consolidated entity engages qualified third party valuers to assist with the valuation and work closely with management to establish the appropriate valuation techniques and inputs to the valuation model. Key inputs to the model include Zip's share price, volatility and the risk free rate. Refer to Note 6 for details.

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 impacted the consolidated entity's condensed financial statements for the half year ended 31 December 2020.

F. PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Zip Co Limited ('parent entity') as at 31 December 2020 and the results of all subsidiaries for the six months then ended (for acquired subsidiaries since acquisition dates). Zip Co Limited and its subsidiaries together are referred to in these condensed financial statements as the 'consolidated entity'.

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

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

G. SEGMENT REPORTING

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

H. BUSINESS COMBINATIONS

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

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

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

I. GOODWILL

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

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

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

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

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

J. FINANCIAL INSTRUMENTS

Recognition and measurement of financial instrument

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

Financial assets

Financial assets measured at amortised cost include cash and cash equivalents, term deposits, other receivables (excluding prepayments) and other financial assets which are explained in this note. Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Investments in equity instruments are classified as 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 2020 and 31 December 2019.

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

Financial liabilities

Financial liabilities including trade and other payables, deferred contingent considerations and the debt host component of convertible notes are measured subsequently at amortised cost using the effective interest method.

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 and points 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.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The convertible loan notes issued by the consolidated entity are classified as financial liabilities in accordance with the substance of the contractual arrangements and the definitions of a financial liability. 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 call option derivatives embedded in the convertible notes are separated from its debt host contract on the basis of the stated terms of the option feature. The debt host component of convertible notes is subsequently measured at amortised cost as described above. The effective interest charged on the debt host contract is reported in corporate finance costs. The conversion features that fail the equity classification are accounted for as derivative liabilities, and are accounted for separately from their host debt component. Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

Transaction costs

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.

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.

Derecognition of financial assets and liabilities

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

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

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

Customer receivables and other receivables

Customer receivables are non-derivative financial assets which are measured at amortised cost using the effective interest method, less any impairment. Refer to Note 10 for further details of customer receivables and impairment of such financial assets.

The consolidated entity applies a simplified approach in calculating the ECLs for other receivables based on lifetime expected credit losses. Other receivables that are at risk of non-recovery are written off. The provision for expected credit losses related to other receivables was nil (2019: nil).

K. FOREIGN CURRENCIES

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

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

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

Notes to the Condensed Consolidated Financial Statements

Continued

NOTE 2: SEGMENT INFORMATION

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

The consolidated entity had three operation segments being Zip AU, Zip Global and Zip Business (formerly Spotcap) in the half year ended 31 December 2019 and in the half year ended 31 December 2020. The operating segments may change in the future as the consolidated entity continues to re-assess its operating model, reporting systems, and the financial information presented to the CODM for decision making purposes. The consolidated entity has the following operating segments and reported the results of each segment in table that follows:

ZIP AU: Offers consumers in Australia lines of credit thought its Zip digital wallets and includes the consolidated entity's Pocketbook operations.

Zip Global: Offers BNPL instalment products to consumers outside of Australia.

Zip Business: Provides unsecured loans and lines of credit to small and medium-sized businesses.

YEAR ENDED 31 DECEMBER 2020	ZIP AU $'000	ZIP GLOBAL $'000	ZIP BUSINESS $'000	TOTAL $'000
Operating income	94,648	60,870	4,324	159,842
Cost of sales	(43,444)	(38,674)	(725)	(82,843)
Gross profit	51,204	22,196	3,599	76,999
Other income	146	36	4	186
Operating expenses	(54,137)	(33,556)	(4,349)	(92,042)
Segment EBTDA (excluding corporate items)	**(2,787)**	**(11,324)**	**(746)**	**(14,857)**
Depreciation of right-of-use assets	(1,459)	(394)	–	(1,853)
Depreciation of PP&E	(647)	(40)	(6)	(693)
Amortisation of intangibles	(5,104)	(9,521)	(2)	(14,627)
Segment loss before income tax	**(9,997)**	**(21,279)**	**(754)**	**(32,030)**
Reconciling items from operating to statutory loss:				
Employee remuneration related share-based payments				(73,477)
Other share-based payments				(879)
Acquisition of business costs				(7,837)
Share of loss of associate				(149)
Fair value loss on financial instruments				(33,162)
Net adjustments relating to acquisition of QuadPay				(306,235)
Loss before income tax				**(453,769)**

HALF YEAR ENDED 31 DECEMBER 2019	ZIP AU $'000	ZIP GLOBAL $'000	ZIP BUSINESS $'000	TOTAL $'000
Operating income	66,223	597	2,311	69,131
Cost of sale	(45,315)	(258)	(780)	(46,353)
Gross profit	20,908	339	1,531	22,778
Other income	495	1	2	498
Operating expense	(31,725)	(1,213)	(1,634)	(34,572)
Segment EBTDA (excluding corporate items)	**(10,322)**	**(873)**	**(101)**	**(11,296)**
Depreciation of right-of-use assets	(1,018)	–	–	(1,018)
Depreciation of PP&E	(607)	(3)	(4)	(614)
Amortisation and write-off of intangibles	(2,251)	(2,215)	(235)	(4,701)
Segment loss before income tax	**(14,198)**	**(3,091)**	**(340)**	**(17,629)**
Reconciling items from operating to statutory loss:				
Employee remuneration related share-based payments				(3,742)
Other share-based payments				(6,645)
Acquisition of business costs				(2,290)
Share of loss of associate				(41)
Loss before income tax				**(30,347)**

NOTE 3: REVENUE

	CONSOLIDATED	
	31 DECEMBER 2020 $'000	31 DECEMBER 2019 $'000
Operating income		
Portfolio income	143,242	68,786
Transactional income	16,600	345
Total operating income	**159,842**	**69,131**
Other income		
Finance income	–	83
R&D tax incentives	–	217
Other	186	198
Total other income	**186**	**498**
Total revenue	**160,028**	**69,629**

NOTE 4: EXPENSES

	CONSOLIDATED	
	31 DECEMBER 2020 $'000	31 DECEMBER 2019 $'000
Loss before income tax includes the following specific expenses:		
Administration expenses		
Professional services fees	5,446	1,650
Other administration expense	7,824	3,045
Total administration expenses	**13,270**	**4,695**
Depreciation expense		
Depreciation of property, plant and equipment	693	614
Depreciation of right-of-use assets	1,853	1,018
Total depreciation expense	**2,546**	**1,632**
Amortisation of intangibles		
Amortisation of acquired intangibles	10,020	936
Write-off of acquired intangible[1]	–	1,944
Amortisation of internally generated IT development and software	4,607	1,821
Total amortisation of intangibles	**14,627**	**4,701**
Corporate financing costs		
Effective interest charged on convertible notes	2,404	–
Interest on leasing liabilities	133	113
Other finance costs	155	99
Total corporate financing costs	**2,692**	**212**
Share-based payments		
Employee remuneration related share-based payments[2]	73,478	3,742
Recognition of Amazon warrants (refer to Note 19)	878	6,645
Total share-based payments	**74,356**	**10,387**

1. The acquired PartPay brand of $1.9 million was written off as a result of the business re-branding to Zip during the half year ended 31 December 2019.
2. Includes $63.4 million in the current period in relation to Tenure and Performance shares issued on the acquisition of QuadPay (refer to Note 19), and short and long term incentives provided to employees.

NOTE 5: INVESTMENTS IN ASSOCIATES

	CONSOLIDATED $'000
Balance at 30 June 2020	1,184
Additional investments	3,269
Share of loss of associate	(149)
Balance at 31 December 2020	4,304

At 31 December 2020, the consolidated entity held a 26.2% interest in Payflex, being the 25.2% interest held at 30 June 2020 plus a further 1.0% interest acquired in July 2020 for an investment of $0.14 million. At 31 December 2020, the consolidated entity continued to account for the investment in Payflex as an associate due to the consolidated entity's significant influence.

For the half year ended 31 December 2020, the consolidated entity recognised its share of loss of Payflex amounting to $0.15 million. The carrying amount of the consolidated entity's investment in Payflex at 31 December 2020 was reported at $1.17 million, being the cost of the investment less its share of loss since the investment date.

On 24 December 2020, the consolidated entity invested $3.13 million to acquire a 20% interest in Spotii – a leading tech enabled payments platform operating in the Middle East. On acquisition, the consolidated entity accounted for the investment as an associate due to the consolidated entity's significant influence and initially measured the investment at cost, being the fair value upon acquisition of $3.13 million.

For the half year ended 31 December 2020, the share of the profit and loss of Spotii was immaterial and the carrying amount of the consolidated entity's investment in Spotii was recorded at $3.13 million.

NOTE 6: FINANCIAL LIABILITIES – CONVERTIBLE NOTES AND WARRANTS

MOVEMENTS IN CONVERTIBLE NOTES

CONVERTIBLE NOTES	DATE	NUMBER ISSUED
Balance	30 June 2020	–
Issue of convertible notes		1,000
Balance	31 December 2020	1,000

DETAILS OF CONVERTIBLE NOTES

ISSUE DATE	EXPIRY DATE	CONVERSION PRICE	NUMBER ISSUED
1 September 2020	1 September 2025	see below	1,000
Total			1,000

On 1 September 2020, Zip issued 1,000 convertible notes and 19,365,208 warrants to CVI Investments, Inc. (CVI), an affiliate of Heights Capital Management, which is part of the US-based Susquehanna International Group. The convertible notes issued to CVI are referred as Susquehanna Convertible Notes, and have a face value of $100,000 each. The convertible notes bear interest payable semi-annually at a fixed amount of $0.75 million.

Notes to the Condensed Consolidated Financial Statements

Continued

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 (VWAP) 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 price of $1.8443 (the "Floor Price") and a maximum price equal to the initial conversion price of $5.5328 (the "Ceiling Price").

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

- Defer the conversion of the instalment amount to a later Instalment date (up until the maturity date); or
- Subject to certain conditions being met, to convert the instalment amount into shares.

The convertible notes may be converted into a maximum of 58,302,282 fully paid ordinary shares, based on a conversion price of 1.8443 per share, being the floor price under the terms of the Convertible Notes (unless the floor price is adjusted in accordance with the terms of the agreement).

The convertible notes may be settled by the exchange of a fixed amount of cash for a variable number of Zip's own equity instruments and therefore it is classified as a financial liability. The convertible notes include a debt host component which is reported a financial liability measured at amortised cost and a conversion option which is considered an embedded derivative measured at FVTPL.

The warrants issued to CVI were issued for nil consideration and with an exercise price being the lower of $5.1639 and the price of any equity securities (excluding issues for prescribed business as usual and agreed strategic transactions) in the period to September 2023. The warrants issued to CVI are classified as financial liabilities measured at FVTPL.

In conjunction with independent valuers, Zip has fair valued the derivative embedded in the convertible note agreement, and the warrants, with the residual value being the fair value of the underlying debt component of the convertible note at the date of inception (1 September 2020). The fair values were assessed based on Zip's share price at the time the respective agreements were struck, which is considered a fair and true reflection of the fair values at the time of the transaction. The fair value of the embedded derivative included in the Convertible Notes recorded on issuance was $21.7 million and the fair value of the warrants was $17.2million. The debt component was recorded at $61.1 million ($59.2 million net of transaction costs).

The embedded derivative and the warrants have also been revalued at 31 December 2020 in accordance with Accounting Standard AASB 9 – *Financial Instruments*. Following the revaluation at 31 December 2020, Zip has reported a financial liability in relation to the underlying debt component of the convertible note of $61.6 million, and the embedded derivative and warrants issued have been valued at fair values of $38.7 million and $33.4 million respectively using the Black Scholes option valuation model. The fair values have been based on a closing share price at 31 December 2020 of $5.29, volatility of 50%, and a risk free rate of 0.3% for the embedded derivative, and 0.1% for the warrants. The different risk free rates reflecting the different expiry dates of the instruments.

A fair value loss of $33.2 million has been recorded, being the movement in the fair values of the embedded derivatives and warrants between 1 September 2020 and 31 December 2020.

The fair value of the embedded derivative and warrants are directly aligned to the Zip share price. Their fair value at 31 December 2020 was based on the applicable share price at the time of $5.29. Were the share price to increase by 100%, their fair value would increase by approximately $160.5 million and result in a fair value adjustment equivalent to the increase being recognised as an expense in the financial statements.

Transaction costs have been apportioned to the debt host component, the embedded derivative, and the warrants. The portion attributed to the embedded derivatives and warrants is immediately expensed. For the portion of transaction costs that are attributed to the debt host component, these are included in the consideration of the carrying amount of the financial liability and are amortised as part of the effective interest rate.

The interest expense for the year on the convertible notes is calculated using the effective interest method so that on maturity, the carrying amount is equal to the principal repayment that could be required to be made. On this basis, an effective interest rate of 12.7% has been applied to the debt host liability component for the four month period since the convertible notes were issued. The debt host liability component is measured at amortised cost. The difference between the carrying amount of the liability component at the date of issue and the amount reported at 31 December 2020 represents the effective interest rate less interest paid between those dates.

A reconciliation of the financial impact of the issuance of the convertible notes and warrants is as follows:

NET PROCEEDS FROM ISSUE OF CONVERTIBLE NOTES:

1 SEPTEMBER 2020	$'000
Proceeds of the issue of convertible notes	100,000
Transaction costs – recognised as expenses	(1,236)
Transaction costs – attributed to debt host component	(1,940)
Net proceeds from issue of convertible loan notes	96,824

FAIR VALUES OF FINANCIAL INSTRUMENT AT INITIAL RECOGNITION:

1 SEPTEMBER 2020	$'000
Convertible notes – Debt host (net of transaction costs)	59,152
Convertible notes – Embedded derivative	21,698
Financial liability – Warrants to CVI	17,210

	CONVERTIBLE NOTES – NET DEBT HOST $'000	CONVERTIBLE NOTES – EMBEDDED DERIVATIVE $'000	FINANCIAL LIABILITY – WARRANTS TO CVI $'000	TOTAL $'000
30 June 2020	–	–	–	–
Issued during the period	59,152	21,698	17,210	98,060
Interest on convertible notes (using effective interest rate)	2,404	–	–	2,404
Fair value loss recognised	–	16,957	16,205	33,162
31 December 2020	61,556	38,655	33,415	133,626

NOTE 7: ACQUISITIONS

A. SUMMARY OF ACQUISITIONS

QuadPay

On 31 August 2020, the consolidated entity increased its ownership interest in QuadPay, Inc.(QuadPay), a leading high growth Buy Now Pay Later (BNPL) player in the United States to 100%, acquiring the 85.91% of QuadPay that it did not already own. Upon acquisition, the consolidated entity acquired a 100% interest in the following entities:

- QuadPay, Inc;
- QuadPay Pty Ltd;
- QuadPay AR1 LLC;
- AR2 Holdco LLC;
- AR2 LLC;
- QuadPay Canada Holdings, Inc.; and
- QuadPay ULC.

Total consideration for the acquisition of QuadPay comprised:

- Cash consideration of $1.1 million;
- 118,776,189 new Zip Co Limited shares issued, valued at $1,088 million, based on an issue price of $9.16, the closing price on the day shareholders approved the acquisition;
- Replacement options issued to employees and non-employees valued at $85.3 million.

The replacement options issued to employees were valued at $30.2 million, with $21.4 million included in consideration above, and the balance of $8.8 million will be expensed over the remaining vesting period.

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

Urge

On 26 October 2020, the consolidated entity acquired a 100% interest in Sydney-based technology company, Urge Holdings Pty Ltd (Urge). Urge helps shoppers to find and buy the items they are looking for, driving increased sales, reach and exposure for its retail partners. Upon the acquisition of Urge, the consolidated entity acquired a 100% interest in the following entities:

- Urge Holdings Pty Ltd;
- Urge Technologies Pty Ltd; and
- Schnap Pty Ltd.

Total consideration for the acquisition of Urge comprised:

- 432,516 new Zip Co Limited shares valued at $2.8 million issued at an issue price of $6.36.

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

The initial accounting for the acquisitions of both QuadPay and Urge has been provisionally determined at the end of the half year ended 31 December 2020. Final accounting will be finalised by 30 June 2021 which is within the required measurement period outlined in AASB 3 *Business Combinations*.

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

The independent market valuations of acquired intangibles arising from the acquisition of QuadPay and Urge have been provisionally completed at 31 December 2020. The amounts of revenue and profit or loss of QuadPay and Urge since the acquisition dates are included in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income in the reporting period.

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

Acquisition-related costs totalling $4.4 million have been excluded from the consideration transferred and have been recognised as an expense in profit or loss in the half year ended 31 December 2020.

Details of the acquisition are as below:

DETAILS OF THE ACQUISITIONS ARE AS FOLLOWS:	QUADPAY 2020 $'000	URGE 2020 $'000	TOTAL 2020 $'000
Cash and cash equivalents	27,290	3	27,293
Customer receivables	60,409	–	60,409
Other receivables	4,562	2	4,564
Trade and other payables	(13,367)	(652)	(14,019)
Borrowings	(50,384)	–	(50,384)
Deferred tax liability	(65,959)	–	(65,959)
Acquired brand names and trademarks	42,570	–	42,570
Acquired IT development and software	126,460	2,731	129,191
Acquired transaction partner database	84,655	–	84,655
Goodwill	1,150,736	667	1,151,403
Acquisition date value of the total consideration transferred	**1,366,972**	**2,751**	**1,369,723**
Representing:			
Zip Co Limited pre-existing investment	192,606	–	192,606
Zip Co Limited shares issued to vendor	1,087,990	2,751	1,090,741
Zip Co Limited options issued allocated to consideration	85,292	–	85,292
Cash paid to vendor	1,084	–	1,084
Total	**1,366,972**	**2,751**	**1,369,723**
Cash used to acquire business, net of cash acquired:			
Acquisition date value of the total consideration transferred	1,366,972	2,751	1,369,723
Less: cash and cash equivalent acquired	(27,291)	(3)	(27,294)
Less: Zip Co Limited shares issued to vendor	(1,087,990)	(2,751)	(1,090,741)
Less: Zip Co Limited options issued allocated to consideration	(85,292)	–	(85,292)
Less: Zip Co Limited pre-existing investment	(192,606)	–	(192,606)
Payments for acquisitions, net of cash acquired	**(26,207)**	**(3)**	**(26,210)**

B. QUADPAY ACQUISITION FAIR VALUE ADJUSTMENTS

In accordance with the requirements of AASB 3 – *Business Combinations* and AASB 13 – *Fair Value Measurement*, the acquisition price for QuadPay must be based on Zip's share price of $9.16 on the date it obtained control of QuadPay, being 31 August 2020. Accordingly, Zip revalued its pre-existing shareholding in QuadPay, and valued the equity and replacement options issued to acquire the remaining shareholding based on a share price of $9.16.

The directors do not consider that the fair value at the acquisition date of the equity instruments granted for the purchase of QuadPay, as measured per AASB 13, is reflected in the subsequent equity value of the instruments granted or the underlying assets acquired, and accordingly in conjunction with independent valuers, the directors determined that a Day 1 adjustment should be made to the carrying value of goodwill.

The Day 1 adjustment was calculated based on an independent valuation and equated to a share price of $6.50 (compared to $9.16 at acquisition date), which aligned to Zip's VWAP (volume-weighted average price) over a period up to and including the 31 August 2020.

The adjustment is reflective of management's view during a period of volatility in Zip's share price, that the share price on a particular day may not be representative of its fair value, and therefore in this instance a Day 1 fair value adjustment was reflected in goodwill of $415.9 million.

On the acquisition of QuadPay, Zip derecognised its investment in QuadPay (as set out in Note 12) and in accordance with AASB 3 revalued its investment to its fair value as determined by AASB 13 – *Fair Value Measurement*. This revaluation, based on a share price of $9.16, increased the valuation of Zip's existing investment pre-acquisition to $192.6 million. This resulted in a fair value gain of $109.7 million for Zip's existing investment in QuadPay on acquisition.

The goodwill adjustment of $415.9 million was offset by the fair value gain on the pre-existing interest in QuadPay of $109.7 million. As a result, Zip reported a one off net adjustment relating to the acquisition of QuadPay of $306.2 million.

The fair market value of Zip's investment in QuadPay following the net adjustment relating to the acquisition of QuadPay is $951.0 million, including both Zip's existing investment prior to acquisition, and the acquisition of the shares it did not already own. The consolidated entity has recorded goodwill of $734.8 million in relation to the acquisition of QuadPay at 31 August 2020 on this basis (Refer to Note 15).

The once off adjustments relating to the acquisition of QuadPay are summarised in the following tables:

	31 AUGUST 2020 $'000
Goodwill recorded at acquisition Zip's price	1,150,736
Share value not reflected in goodwill	(415,910)
Goodwill recorded at fair value of consideration transferred	734,826

	31 AUGUST 2020 $'000
Fair value of pre-existing investment on acquisition	192,606
Less: Carrying value of investment pre-acquisition	(82,931)
Fair value gain on investment on acquisition	109,675

Net adjustment relating to the acquisition of QuadPay:

	31 AUGUST 2020 $'000
Share value not reflected in goodwill	(415,910)
Fair value gain on investment on acquisition	109,675
Net adjustment relating to the acquisition of QuadPay	(306,235)

NOTE 8: LOSS PER SHARE

A. RECONCILIATION OF EARNINGS USED IN CALCULATING LOSS PER SHARE

	31 DECEMBER 2020 $'000	31 DECEMBER 2019 $'000
Loss attributable to the owners of the consolidated entity used in calculating basic and diluted loss per share	(453,769)	(30,347)

B. WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

NUMBER OF SHARES	31 DECEMBER 2020 '000	31 DECEMBER 2019 '000
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	475,050	361,004

C. BASIC AND DILUTED LOSS PER SHARE

	31 DECEMBER 2020 CENTS	31 DECEMBER 2019 CENTS
Basic loss per share	(95.52)	(8.41)
Diluted loss per share[1]	(95.52)	(8.41)

1. As the consolidated entity reported losses for the half year ended 31 December 2020 and 31 December 2019, no dilutive shares have been included in the EPS calculation.

NOTE 9: CASH AND CASH EQUIVALENTS

At 31 December 2020, the consolidated entity had cash of $217.8 million of which $75.3 million was restricted cash (30 June 2020: cash of $32.7 million of which $8.4 million was restricted cash).

Cash held in corporate accounts, considered as unrestricted, includes amounts subsequently remitted to securitisation warehouses and special purpose vehicles post reporting period end (31 December 2020: $16.3 million; 30 June 2020: $15.1 million). Restricted cash is held by the securitisation warehouses and special purpose vehicles and is not available to pay creditors of the consolidated entity.

Notes to the Condensed Consolidated Financial Statements

Continued

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

	31 DECEMBER 2020 $'000
Loss after income tax benefit for the half year	**(453,769)**
Adjustments for:	
Depreciation and amortisation expense	17,173
Bad and doubtful debts expense	29,522
Amortisation of funding costs	1,991
Share-based payments	74,356
Share of loss of associate	149
Fair value movements on financial instruments	33,162
Net adjustment relating to the acquisition of QuadPay	306,235
Effective interest charged on convertible notes	2,404
Transaction costs on financial instruments	1,236
Unrealised loss on foreign currency	3,531
Change in operating assets and liabilities:	
Increase in other receivables	(17,268)
Increase in other payables	13,987
Increase in employee provisions	1,223
Net cash flow from operating activities	**13,932**

NOTE 10: OTHER RECEIVABLES

	31 DECEMBER 2020 $'000	30 JUNE 2020 $'000
Prepayments	10,275	2,306
Accrued income	10,575	505
Other	5,821	4,065
Total	**26,671**	**6,876**

NOTE 11: CUSTOMER RECEIVABLES

AABS 9 – FINANCIAL INSTRUMENTS

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

- The consolidated entity provides accounts with lines of credit and instalments products to customers, and the business model is to hold such accounts and collect contractual cash flows until the account is closed. There have been no historic sales and there are no current plans to sell the accounts for fair value gains; and

- The contractual terms of the accounts give rise on specified dates to cash flows that are solely payments of principal and "effective interest" and when providing lines of credit permit customers to vary the dates and frequency of payments.

IMPAIRMENT

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

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

Stage 2: instruments that have experienced a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but "effective interest" revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3: includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and "effective interest" revenue is calculated on the net carrying amount.

Expected credit losses

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

Significant increase in credit risk since initial recognition

The provisioning model utilises customer receivables 30 days past due or customer receivables in hardship cases as criteria to identify significant increases in credit risk.

Definition of default and credit-impaired assets

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

Write off policy

The consolidated entity's policy is to write off balances that are outstanding for over 180 days for its line of credit products and 84 days for its instalment products, in accordance with historical experience and industry practice. The consolidated entity's instalment product has a short term duration for customer repayments, being up to 56 days.

Notes to the Condensed Consolidated Financial Statements

Continued

Provisioning model

In determining the appropriate level of provision for expected credit losses, the consolidated entity has considered receivables attributable to each of its product offerings separately and also aggregated by segment in this note. For each classification of receivable, the consolidated entity has applied historic roll rates (the percentage of receivables that move into the next ageing bucket), averaged over a 12 month period, to the credit limits of those customers that are considered current and to the respective receivable balances for those customers accounts over 30 days past due.

Accordingly, under the requirements of AASB 9, a provision has been recognised for performing customer receivables to the extent that expected life time losses emerge within a 12-month period by applying historical roll rates to the credit facility limits. For customers overdue, historical roll rates are applied to the overdue balances over the expected life of the credit facility to determine an amount of expected credit losses.

In the assessment of the provision for expected credit losses at 31 December 2020, management took into consideration all available information relevant to the assessment, including information about past events, current economic conditions and reasonable and supportable information about future events and economic conditions at the report date.

Provision overlay

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

In the assessment of expected credit losses at 31 December 2020, management considered base, good and bad scenarios applying a weighted probability when determining the reported expected credit losses. The base scenario was based on the actual performance of the customer receivable book. The good and bad scenarios were assessed by applying upside/downside movements to key variables which could have a significant impact on the credit risk. These variables include the probability of default, the rate of customer repayments, the customer repayment lifecycle and the bad debts recovery rate. The movement in the variables was supported by modelling macroeconomic scenarios based on forward looking information.

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

COVID-19 consideration

As at 31 December 2020, the impact of COVID-19 still existed and in consideration of the economic environment, a high level of economic overlay was maintained to reflect the continued uncertainty that exists as a result of the impact of COVID-19.

Provision overview

From 30 June 2020 to 31 December 2020, the provision for expected credit losses increased by $12.2 million (including $5.0 million taken on the acquisition of QuadPay), which was primarily driven by the $501.6 million increase in the value of receivables across the consolidated entity.

The provision for expected credit losses as a percentage of receivables was 3.8% at 31 December 2020 compared to 4.4% of the gross customer receivables balance at 30 June 2020 mainly due to improved roll rates in the Australian consumer receivables portfolio, and a reduction in the repayment profile of the Zip Money product.

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 and will continue to maximise its effort to minimise the risk of actual bad debts through its robust debtor management practices.

Whilst continued uncertainty still exists in the economy as a result of COVID–19, Zip's experience in the half year ended 31 December 2020 included:

- an increased repayment rate in the Australian consumer receivables portfolio of 15.8% in the half year ended 31 December 2020, compared to 13.8% in last half year to 30 June 2020;
- hardship cases in the Australian consumer receivables portfolio representing 0.09% of the receivable portfolio at December 2020 compared to 0.08% at 30 June 2020; and
- hardship cases in Spotcap's receivables portfolio falling significantly from 34.3% at 30 June 2020 to 5.2% at 31 December 2020.

Zip Business (formerly Spotcap)

The consolidated entity has modified the terms of Spotcap's customer receivables that are in hardship. On a case by case basis, repayment periods have been extended, interest has been capitalised, and repayments have been varied.

Zip Global

Under the terms of an agreement with a merchant in the Zip Global segment, the consolidated entity contractually bears the credit risk for receivables totalling $11.7 million at 31 December 2020 that are not consolidated into the consolidated entity's balance sheet. These segments of the portfolio have been provided for in accordance with AASB 9.

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

$'000	ZIP AU $'000	ZIP GLOBAL $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
Gross customer receivables	1,143,033	1,892	37,055	1,181,980
Unearned future income	(12,379)	(179)	(785)	(13,343)
Provision for expected credit losses	(47,779)	(381)	(3,859)	(52,019)
Balance at 30 June 2020	**1,082,875**	**1,332**	**32,411**	**1,116,618**

	ZIP AU $'000	ZIP GLOBAL $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
Gross customer receivables	1,456,799	191,606	35,194	1,683,599
Unearned future income	(14,111)	(1,552)	(135)	(15,798)
Provision for expected credit losses	(46,909)	(15,272)	(2,005)	(64,186)
Balance at 31 December 2020	**1,395,779**	**174,782**	**33,054**	**1,603,615**

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

PROVISION FOR EXPECTED CREDIT LOSSES	ZIP AU $'000	ZIP GLOBAL $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
Balance at 30 June 2020	47,779	381	3,859	52,019
Taken on acquisition of QuadPay	–	5,002	–	5,002
Provided for the period	12,800	17,765	(1,043)	29,522
Receivables written-off during the period	(15,979)	(8,047)	(814)	(24,840)
Recoveries during the period	2,309	171	3	2,483
Balance at 31 December 2020	46,909	15,272	2,005	64,186

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

	ZIP AU $'000	ZIP GLOBAL $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
GROSS CUSTOMER RECEIVABLES				
Stage 1	1,102,069	1,710	22,409	1,126,188
Stage 2	30,827	105	13,756	44,688
Stage 3	10,137	77	890	11,104
Balance at 30 June 2020	1,143,033	1,892	37,055	1,181,980
PROVISION FOR EXPECTED CREDIT LOSSES				
Stage 1	(23,806)	(338)	(1,877)	(26,021)
Stage 2	(16,134)	(24)	(1,495)	(17,653)
Stage 3	(7,839)	(19)	(487)	(8,345)
Balance at 30 June 2020	(47,779)	(381)	(3,859)	(52,019)

	ZIP AU $'000	ZIP GLOBAL $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
GROSS CUSTOMER RECEIVABLES				
Stage 1	1,404,688	171,173	32,310	1,608,171
Stage 2	43,904	13,043	2,031	58,978
Stage 3	8,207	7,391	852	16,450
Balance at 31 December 2020	1,456,799	191,607	35,193	1,683,599
PROVISION FOR EXPECTED CREDIT LOSSES				
Stage 1	(23,830)	(11,719)	(961)	(36,510)
Stage 2	(17,620)	(1,902)	(712)	(20,234)
Stage 3	(5,459)	(1,650)	(333)	(7,442)
Balance at 31 December 2020	(46,909)	(15,271)	(2,006)	(64,186)

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 2020 $'000	30 JUNE 2020 $'000
Past due under 30 days	43,419	20,934
Past due 31 days to under 60 days	13,902	6,408
Past due 61 to under 90 days	8,241	5,396
Past due 91 to under 180 days	9,058	11,027

NOTE 12: INVESTMENTS AT FVTPL

	CONSOLIDATED $'000
Balance at 30 June 2020	82,930
Derecognition on acquisition of QuadPay	(82,930)
Addition	3,231
Balance at 31 December 2020	3,231

At 30 June 2020, the investment in QuadPay was recorded at $82.9 million as an investment measured at FVTPL, which represented the fair value of Zip's 14.09% interest in QuadPay. At the time of Zip's acquisition of the remaining 85.91% interest in QuadPay, Zip's existing investment was derecognised as Zip obtained control over QuadPay at the acquisition date of 31 August 2020. QuadPay became a fully owned subsidiary of the consolidated entity from this date, with its financial position and profit and loss consolidated into the consolidated entity for reporting.

Zip invested $3.2 million in Twisto – a Czech Republic based payments and wallet platform company in December 2020. The investment is reported as an investment measured at FVTPL as the Directors of the consolidated entity did not consider that the consolidated entity was able to exercise significant influence over or control the invested company at 31 December 2020.

NOTE 13: LEASES

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

The consolidated entity has not received any rent concessions for its property leases during the half year ended 31 December 2020. As the COVID-19 pandemic still exists, management consider the shift to working from home and the resulting impact on office space requirements is an impairment indicator for the right-of-use assets. With the consolidated entity's continuing growth and recruitment plans, the floor space is expected to be fully utilised in the future and consequently the right-of-use assets have not been impaired at 31 December 2020. The consolidated entity does not intend to break or early terminate any of its property leases. Extension options have not been included in the assessment as exercising the options is not considered reasonably certain.

RIGHT-OF-USE ASSETS

The tables below show the right-of-use assets at the beginning and end of the periods:

CONSOLIDATED	PROPERTY $'000
Carrying amount	
Balance at 30 June 2020	8,160
Balance at 31 December 2020	**7,926**

CONSOLIDATED	PROPERTY $'000
Cost	
Balance at 30 June 2020	10,637
Additions – new leases	1,619
Balance at 31 December 2020	**12,256**

CONSOLIDATED	PROPERTY $'000
Accumulated depreciation	
Balance at 30 June 2020	2,477
Depreciation	1,853
Balance at 31 December 2020	**4,330**

LEASE LIABILITIES

The tables below show the lease liabilities at the beginning and end of the periods:

CONSOLIDATED	LEASE LIABILITIES $'000
Lease liabilities	
Balance at 30 June 2020	8,414
Taken on the acquisition of QuadPay	1,619
Interest expense on lease liabilities	133
Repayment of lease liabilities	(1,866)
Balance at 31 December 2020	**8,300**

Amounts recognised in profit and loss for the periods:

CONSOLIDATED	CONSOLIDATED 31 DECEMBER 2020 $'000	31 DECEMBER 2019 $'000
Depreciation expense on right-of-use assets	1,853	1018
Interest expense on lease liabilities	133	113
Expense relating to short-term leases	759	558

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

NOTE 14: INTANGIBLE ASSETS

CONSOLIDATED	31 DECEMBER 2020 $'000	30 JUNE 2020 $'000
Carrying amounts		
Brand names and trademarks	42,666	128
Customer database	1,263	1,501
Transacting partner database	83,648	1,207
IT development and software	144,044	22,257
	271,621	**25,093**

CONSOLIDATED	BRAND NAMES AND TRADEMARKS $'000	CUSTOMER DATABASE $'000	TRANSACTING PARTNER DATABASE $'000	IT DEVELOPMENT AND SOFTWARE $'000	TOTAL $'000
Cost					
Balance at 1 July 2020	298	2,122	1,472	37,129	41,021
Taken on acquisition	42,570	–	84,655	129,191	256,416
Additions	–	–	–	4,739	4,739
Balance at 31 December 2020	**42,868**	**2,122**	**86,127**	**171,059**	**302,176**

CONSOLIDATED	BRAND NAMES AND TRADEMARKS $'000	CUSTOMER DATABASE $'000	TRANSACTING PARTNER DATABASE $'000	IT DEVELOPMENT AND SOFTWARE $'000	TOTAL $'000
Accumulated amortisation					
Balance at 1 July 2020	170	621	265	14,872	15,928
Additions	32	238	2,214	12,143	14,627
Balance at 31 December 2020	**202**	**859**	**2,479**	**27,015**	**30,555**

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

Internally generated intangibles:

- IT development and software 2.5 years

Acquired intangibles:

- Brand names and trademarks 1 to 5 years
- Customer database 4 to 5 years
- Transacting partner database 4 to 14 years
- IT development and software 5 to 6 years

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

NOTE 15: GOODWILL

The consolidated entity had four cash-generating units (CGUs) at 31 December 2020 as set out in the following table. Goodwill has been allocated to these CGUs. Goodwill recognised in the half year ended 31 December 2020 arises on the acquisitions of QuadPay and Urge and reflects potential synergies and the growth potential of the acquired entities.

CONSOLIDATED	ZIP AU $'000	ZIP NZ&UK[1] $'000	ZIP US[1] $'000	ZIP BUSINESS $'000	CONSOLIDATED $'000
Balance at 30 June 2020	**4,548**	**46,781**	**–**	**2,112**	**53,441**
Add: Amount recognised on acquisitions	–	–	1,151,402	–	1,151,402
Less: Share value not reflected in goodwill[2]	–	–	(415,910)	–	(415,910)
Balance at 31 December 2020	**4,548**	**46,781**	**735,492**	**2,112**	**788,933**

1. Zip NZ and UK were acquired as part of acquisition of PartPay and are considered as one CGU for impairment assessment. Quad and Urge operations are allocated as Zip US CGU for impairment assessment. Zip US, NZ and UK are included in Zip Global in the consolidated entity's segment reporting and other reporting presentations in this half year report.
2. The share value not reflected in goodwill of $415.9 million was recognised for the half year ended 31 December 2020 for the Zip US CGU due to the net adjustment relates to acquisition of QuadPay. Refer to Note 7 for details.

Impairment assessment for goodwill, including intangible assets:

For the purpose of impairment testing, goodwill together with intangibles assets are allocated to each of the consolidated entity's CGUs.

As at 31 December 2020, for each of the consolidated entity's CGUs, the recoverable amount has been calculated based on value in use using cash flow projections based on financial budgets and forecasts covering a five-year period and an estimated terminal value, using a pre-tax discount rate reflecting an estimate of the weighted average cost of capital (WACC). Cash flows beyond the five-year period were extrapolated using a steady long term annual growth rate which did not exceed the long term average for the sectors and economies in which the CGUs operate. The steady long term growth rate was estimated by the directors based on past performance of the cash-generating unit and the growth expectations for the markets in which they operate.

Cash flow projections during the forecast period are based on forecast revenue growth arising from increasing total transactions volumes for the Zip AU, Zip NZ&UK and Zip US CGUs, and future originations for the Zip Business CGU. Forecast increases in gross margin and operating costs have been included to support the forecast growth in volumes. The impact of COVID-19 on the markets in which the CGUs operate has been considered in determining the forecasts.

Management have conducted sensitivity analysis by increasing/decreasing the long term annual growth rate assumptions +/ – 100 basis points to assess the effect on the recoverable amount of changes in this assumption. Following this analysis, the directors are satisfied that a decrease in the long term growth rate by 100 basis points would not reduce the headroom in the CGUs to below zero and therefore would not result in an impairment charge.

Key rates included in the sensitivity analysis are set out in the following table:

AT DECEMBER 2020	ZIP AU	ZIP NZ&UK	ZIP US	ZIP BUSINESS
Pre-tax discounting rate	12.2%	20.1%	20.1%	29.6%
Long term annual growth rate	2.5%	2.5%	4.0%	2.5%
Sensitivity analysis (+/– basis points)	100	100	100	100

Forecast transaction volumes and originations are the key drivers in determining the cash flow projections for each CGU. In the event that transaction volumes do not reach the levels forecast there is a risk that the forecast cash flows are not sufficient to support the carrying value of goodwill and an impairment charge will be reported in a future accounting period.

For each of the CGUs, the carrying amount does not exceed the recoverable amount therefore no impairment of goodwill and intangible assets at 31 December 2020 has been recorded.

At 30 June 2020, the consolidated entity had three CGUs, Zip AU, Zip Global and Spotcap and no impairment charge was reported.

NOTE 16: TRADE AND OTHER PAYABLES

	31 DECEMBER 2020 $'000	30 JUNE 2020 $'000
Trade payables	13,189	9,744
Amounts due to merchants and other partners	37,539	7,554
Other	3,006	2,235
Total	**53,734**	**19,533**

Included in other payables is an amount of $1.5 million received by QuadPay prior to acquisition under the US Paycheck Protection Program established under the CARES Act.

NOTE 17: DEFERRED CONSIDERATION

DETAILS	DATE	$'000
Balance	30 June 2020	13,979
Issue of shares		(6,989)
Balance	31 December 2020	6,990

Under the terms of the acquisition of PartPay Limited, Zip agreed to issue up to a maximum of NZ$15 million of deferred consideration in Zip shares or cash to the PartPay shareholders, subject to the achievement of minimum transaction volumes on the PartPay platform during the FY20 and FY21 financial years.

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

PartPay satisfied the performance milestones in the FY20 financial year and accordingly 1,091,742 shares were issued to the PartPay shareholders on 14 October 2020, valued at $7.0 million. Accordingly the balance of the contingent consideration has reduced to $7.0 million as at 31 December 2020.

NOTE 18: BORROWINGS

BORROWINGS AND SECURITISATION WAREHOUSE

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

	CONSOLIDATED	
	31 DECEMBER 2020 $'000	30 JUNE 2020 $'000
Secured loans	1,532,252	1,082,087
Add: Accrued interest	2,796	2,370
Less: Unamortised costs	(5,003)	(2,503)
	1,530,045	1,081,954

ASSETS PLEDGED AS SECURITY

The table below presents the assets and underlying borrowings relating to the securitisation warehouses and special purpose vehicles:

	CONSOLIDATED	
	31 DECEMBER 2020 $'000	30 JUNE 2020 $'000
Customer receivables[1]	1,592,353	1,111,711
Cash held by securitisation warehouses and special purpose vehicles	62,941	8,393
	1,655,294	1,120,104
Borrowings related to receivables[2]	1,660,253	1,162,486

1. The amount recognised above represents the carrying value of the customer receivables held by securitisation warehouses and special purpose vehicles and is net of provision for expected losses and unearned future income. This excludes customer receivables totalling $11.3 million held by entities that are not securitisation vehicles at 31 December 2020 and $4.9 million at 30 June 2020.
2. Including $128.0 million junior notes held by Zip's corporate entities ($86.4 million at 30 June 2020).

TERM OF FACILITIES FINANCING ARRANGEMENTS

Consumer Receivables

	FACILITY LIMIT $'000	DRAWN AT 31 DECEMBER 2020 $'000	MATURITY
Zip Master Trust			
• Rated Note Series			
– 2019-1	475,000	475,000	August 2021
– 2020-1	285,000	285,000	October 2022
• Variable Funding Note	309,250	209,500	February 2022
zipMoney 2017-1 Trust	360,000	323,000	May 2021
zipMoney 2017-2 Trust	70,000	47,000	December 2022
AR2LLC	194,755[1]	158,232	December 2021
Total	**1,694,005**	**1,497,732**	

SME Receivables

	FACILITY LIMIT $'000	DRAWN AT 31 DECEMBER 2020 $'000	MATURITY
Securitisation Warehouses			
Funding Box 3 Australia	35,000	25,974	January 2022
Funding Box NZ	11,252[2]	7,546	February 2022
Zip Biz 2020-1 Trust	100,000	1,000	February 2022
Total	**146,252**	**34,520**	

1. Facility NZD $12.0 million translated to AUD at exchange rate of 1.0665.
2. Facility USD $150.0 million translated to AUD at exchange rate of 0.7702.

Interest payable under all funding arrangements is based on an agreed margin plus BBSW/Libor with the exception of Funding Box 3 and Funding Box NZ which are subject to fixed rates.

NOTE 19: 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 2020 SHARES '000	31 DECEMBER 2020 $'000	30 JUNE 2020 SHARES '000	30 JUNE 2020 $'000
Ordinary shares – fully paid	541,603	1,503,833	390,390	274,151
Performance shares	20,000	–	20,000	–
	561,603	1,503,833	410,390	274,151

MOVEMENTS IN ORDINARY SHARE CAPITAL

DETAILS	DATE	SHARES '000	$'000
Balance	1 July 2020	390,390	274,151
Issue of shares – employee incentives		935	5,640
Issue of shares – exercise of options		6,487	1,094
Issue of shares – acquisitions		119,208	1,090,741
Issue of shares – contingent consideration		1,092	6,989
Issue of shares – marketing and promotional services		1,019	6,975
Issue of shares – capital raising		22,472	120,000
Costs of issuing shares		–	(1,757)
Balance	31 December 2020	541,603	1,503,833

MOVEMENTS IN PERFORMANCE SHARES

DETAILS	DATE	SHARES '000
Balance	30 June 2020	20,000
Conversion to ordinary shares	–	–
Balance	31 December 2020	20,000

The consolidated entity issued 20,000,000 performance shares to Columbus Capital in 2015 in connection with the facilitation of an institutional financing facility (Warehouse Facility). The provision of the Warehouse Facility was not completed and accordingly the performance milestones are unable to be met. The performance shares expired in September 2020 and are in the process of being cancelled.

MOVEMENTS IN OPTIONS

DETAILS	DATE	OPTIONS '000
Balance	30 June 2020	9,800
Issue of options on the acquisition of QuadPay		10,480
Options exercised		(6,487)
Options expired not exercised		(3,920)
Balance	31 December 2020	9,873

The options issued during the half year ended 31 December 2020 were the replacement awards issued to employees and non-employees on the acquisition of QuadPay. Details of the issue are set out in the following table:

GRANT DATE	PRICE	ISSUED
31 August 2020	$0.06	892,574
31 August 2020	$0.13	230,809
31 August 2020	$0.17	7,953,219
31 August 2020	$0.49	1,403,767
Total		10,480,369

Each option expires on the earlier of:

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

There are 3,993,000 options issued to employees and non-employees on the acquisition of QuadPay that remained un-exercised at 31 December 2020.

The remaining 5,880,000 options are held by Westpac Banking Corporation and vest based on the achievement of certain revenue hurdles. In the event a hurdle is achieved, the associated options vest, and lapse 12 months after vesting. Options relating to any hurdle not achieved by 10 August 2022 automatically lapse. Additionally, if the first revenue hurdle is not achieved by 10 August 2020, then 3,920,000 options will lapse. The first revenue hurdle was not met on 10 August 2020 and accordingly 3,920,000 options lapsed. As at 31 December 2020, none of the revenue hurdles have been met and no options have vested.

MOVEMENTS IN PERFORMANCE RIGHTS

DETAILS	DATE	RIGHTS '000
Balance	30 June 2020	3,109
Issue of performance rights		1,267
Lapsed performance rights		(350)
Balance	31 December 2020	4,026

PERFORMANCE RIGHTS LAPSED IN THE HALF YEAR ENDED 31 DECEMBER 2020:

ISSUE DATE	VESTING DATE	EXPIRY DATE	NUMBER LAPSED
15 February 2019	15 September 2021	15 February 2025	(116,667)
15 February 2019	15 September 2022	15 February 2025	(116,667)
15 February 2019	15 September 2023	15 February 2025	(116,666)
Total			(350,000)

Notes to the Condensed Consolidated Financial Statements

Continued

PERFORMANCE RIGHTS ISSUED IN THE HALF YEAR ENDED 31 DECEMBER 2020:

ISSUE DATE	VESTING DATE	EXPIRY DATE	FAIR VALUE AT GRANT DATE	NUMBER ISSUED
2 July 2020	15 September 2023	24 June 2026	1.56	388,164
2 July 2020	15 September 2024	24 June 2026	1.63	388,162
2 July 2020	15 September 2025	24 June 2026	1.65	388,160
26 October 2020	14 September 2023	22 October 2026	4.68	102,487
Total				1,166,973

Performance rights of 1,126,973 were issued for no consideration under the Employee Long Incentive Plan during the half year ended 31 December 2020. The performance rights have a nil exercise price and vest based on the achievement of Total Shareholder Return hurdles and time based hurdles.

MOVEMENTS IN WARRANTS

DETAILS	DATE	WARRANTS '000
Balance	30 June 2020	14,615
Issue of warrants		19,365
Balance	31 December 2020	33,980

The following table shows details of warrants on issue as at 31 December 2020:

ISSUE DATE	EXPIRY DATE	EXERCISE PRICE	NUMBER ISSUED '000
6 November 2019 (Amazon Warrants)	6 November 2026	$4.70	14,615
1 September 2020 (CVI Warrants)	1 September 2023	$5.16[1]	19,365[1]
Total			33,980

1. Please refer to Note 6 for details of the warrants issued to CVI.

In November 2019, Zip entered a strategic agreement with Amazon Commercial Services Pty Limited (Amazon Australia) whereby Zip is 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.

The Amazon Warrants have been 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 warrant issued to Amazon Australia has been valued at $1.65 which approximates the value of the service received. Of the warrants issued, 3,653,750 warrants (25% of the total) vested concurrently with Zip's entry into the strategic agreement, and the remainder of the warrants vest based on performance milestones relating to transaction volumes being achieved over the 7 years from issue date. On vesting, the warrants may be exercised any time up to 7 years from the issue date. An expense of $0.9 million has been recognised for the half year ended 31 December 2020 based on management's assessment of the likelihood of the performance milestones being met over the 7 years from issue date. Further assessments will be made at each future reporting date and adjustments made to the amounts recognised based on this assessment.

There were no Amazon Warrants exercised or expired during the half year ended 31 December 2020, and no milestones were met in the period up to 31 December 2020.

MOVEMENTS IN CONVERTIBLE NOTES

DETAILS	DATE	CONVERTIBLE NOTES
Balance	30 June 2020	–
Issue of convertible notes		1,000
Balance	31 December 2020	1,000

Refer to Note 6 for details of the convertible notes issued to CVI.

ADDITIONAL INFORMATION RELATING TO UNISSUED SECURITIES

PERFORMANCE SHARES THAT MAY BE ISSUED TO URGE VENDORS

Under the terms of the acquisition of Urge Holdings Pty Ltd, Zip agreed to issue up to a maximum of $5.5 million of shares to the vendors as the 'milestone consideration' based on the achievement of certain prescribed performance milestones. The measurement period for determining whether the milestones have been satisfied commences in April 2021. Accordingly, no milestones were satisfied during the reporting period, and no shares were issued as the milestone consideration during the reporting period.

The full terms of the milestone consideration, including the requirement for the vendors to remain employed, and details of the Urge acquisition were included in Zip's ASX announcement on 26 October 2020. In summary, depending on the relevant milestone that is achieved, shares will be issued at either an issue price of $6.8439 per share, or an issue price equal to the higher of $6.00 per share, and Zip's volume weighted average price of its shares in the 30 trading days prior to their applicable issue date. The milestone consideration may also become payable early as a result of specific acceleration events. The maximum number of shares that may be issued on the achievement of the milestones is 916,660 (which was determined based on an agreed minimum price of $6.00 per share). If, when any shares are issued as the milestone consideration, Zip's share price is less than $6.00, Zip will be required to pay a 'true up' amount in cash to the vendors for the difference. The milestones must generally be satisfied by no later than 3.5 years after the acquisition date of 26 October 2020, as otherwise, the right to receive the milestone consideration will lapse.

TENURE AND PERFORMANCE SHARES THAT MAY BE ISSUED TO QUADPAY FOUNDERS

Under the terms of the acquisition of QuadPay Inc., Zip agreed to issue the QuadPay Founders a maximum of 5,000,000 Shares (split equally) (Tenure Consideration Shares). The shares will be issued in equal instalments on the first and second anniversaries of the completion of the transaction, which occurred on 31 August 2020, subject to the QuadPay Founders continuing to remain employed with QuadPay.

In addition, Zip agreed to issue up to a maximum amount of US$60 million at Zip's discretion either in cash or by the issue of up to a maximum of 24,570,024 shares (Performance Consideration Shares), split equally between each QuadPay Founder subject to the achievement of certain prescribed minimum TTV performance targets on the QuadPay platform during the period from 1 January 2020 to 30 June 2022, and remaining employed.

The first performance target has been met by the QuadPay Founders, with the TTV on the QuadPay platform for the rolling three months to 31 December 2020 exceeding the TTV performance targets. Accordingly, US$15.0 million worth of shares will be issued to each QuadPay Founder no later than 15 September 2021. The number of shares to be issued will be calculated based on the higher of

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$3.70 per share and the volume weighted average price of Zip's shares on the ASX in the 15 trading days prior to the date of issuance.

A share-based payment expense of $63.4 million has been recognised in the period in relation to the Tenure and Performance shares (refer to Note 4).

NOTE 20: CONTINGENCIES

Other than reported in the condensed consolidated financial statements, there are no contingent liabilities or contingent assets as at 31 December 2020.

NOTE 21: SUBSEQUENT EVENTS

Zip completed the Share Purchase Plan in January 2021 raising $56.7 million from retail shareholders and increased the facilities available to fund its Australian consumer receivables by $204.4 million.

Subsequent to the year end Zip invested a further $5.4 million in Twisto payments a.s.

Other than this, there have been no other material items, transactions or events subsequent to 31 December 2020 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

Directors' Declaration

1. The financial statements and notes set out on pages 11 to 48 are in accordance with the *Corporations Act 2001*, including:
   (a) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the half year ended on that date; and
2. Based on the matters set out in Note 1 there are reasonable grounds to believe that Zip Co Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Larry Diamond
Managing Director & Chief Executive Officer

24 February 2021

Independent Auditor’s Report to the Members

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor’s Review Report to the Members of Zip Co Limited

Conclusion

We have reviewed the half-year financial report of Zip Co Limited (the “Company”) and its subsidiaries (the “Group”), which comprises the condensed consolidated statement of financial position as at 31 December 2020, 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 11 to 49.

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 2020 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

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

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

Directors’ Responsibilities for the Half-year Financial Report

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

Deloitte.

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 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants
Sydney, 24 February 2021

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Corporate Directory

DIRECTORS

Diane Smith-Gander (Chairman)

Larry Diamond (Managing Director, CEO)

Peter Gray (Executive Director, COO)

Philip Crutchfield (Non-Executive Director)

Pippa Downes (Non-Executive Director)

John Batistich (Non-Executive Director)

COMPANY SECRETARY

David Franks

REGISTERED OFFICE

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