APPENDIX 4D
Half Year Financial Report

Name of entity	Zip Co Limited
ACN	139 546 428
Reporting period	Half year ended 31 December 2019
Previous corresponding period	Half year ended 31 December 2018

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 2019 $'000	31 DECEMBER 2018 $'000
Revenue from ordinary activities	Up	103%	69,629	34,233
Loss from ordinary activities after income tax attributable to members	Up	349%	(30,347)	(6,758)
Total comprehensive loss attributable to members	Up	349%	(30,341)	(6,758)

The company does not have a dividend policy.

	31 DECEMBER 2019 $'000	31 DECEMBER 2018 $'000
Total number of ordinary shares on issue	390,389,675	352,137,991
Net tangible asset backing per ordinary share	29.06 cents	4.74 cents

BRIEF EXPLANATION OF THE ABOVE FIGURES

Zip recorded revenue growth of 103% over the previous corresponding period (pcp), a 80% increase in customer accounts compared to pcp and over 8,300 merchants have joined the platform since December 2018, a 66% increase. Transaction volumes were up 95% and Receivables up 112%, respectively when compared to pcp. In addition, the Group acquired New Zealand based global Buy Now Pay Later ("BNPL") technology provider, PartPay Limited and global SME lender Spotcap's businesses in Australia and New Zealand.

In line with its stated strategy, the Group invested for growth which saw an increase in marketing spend throughout the period. Initiatives included promotional campaigns to drive transaction volume, the re-branding of PartPay to Zip and an 'above the line' brand campaign in Australia to drive awareness. Headcount increased to 354, including the appointment of additional Executives in marketing, commercial, product, people and culture to support the founders in growing and scaling Zip globally. Including the impact of these increases in the period, Zip reported a net cash flow from operating activities of $6.7 million.

Zip continues to invest in the development of its software applications and architecture, improving both the customer and merchant experience, and positioning the technology platform for global adoption and scale.

A strategic agreement was struck with Amazon Australia during the period, and major retailers including Kmart Australia, Just Group, Big W, Bing Lee, Freedom, Ola and Optus – all joined the Zip payments platform.

APPENDIX 4D
Half Year Financial Report

Continued

The result for the six months to 31 December 2019 includes a number of non-recurring items and items that have had a significant impact on the result but have a reduced impact going forward. Excluding these items Zip reported an adjusted loss (which is non-IFRS information) of $20.1 million, as follows:

Reported loss before tax	$30.3 million	
Add back:		
Acquisition costs	$2.3 million	On acquisitions made in the period
Write-off of acquired intangible	$1.9 million	PartPay brand, written off on re-branding to Zip
Share-based payments	$6.0 million	Warrants vesting to Amazon Australia on signing the Amazon agreement. The remaining warrants to vest over the 7 years from award date, based on the achievement of performance hurdles.
Adjusted loss before tax	$20.1 million	

Details of Controlled Entities

In the half year ended 31 December 2019, Zip acquired 100% of the Australian and New Zealand businesses of Spotcap Global and New Zealand based PartPay Limited. Detailed information in relation to these acquisitions is contained in the 31 December 2019 Half Year Report.

Associates/Joint Venture Entities

In the half year ended 31 December 2019, Zip acquired a 24.7% interest in South African based Payflex (PTY) Ltd through the acquisition of PartPay Limited, and has accounted for the investment in Payflex (PTY) LTD as an investment in an associated entity. Detailed information is contained in the 31 December 2019 Half year Report.

Review Conclusion

This report is based on the financial statements for the half year ended 31 December 2019. The financial statements have been subject to a review by an independent auditor and the review is not subject to qualification.

Dividends

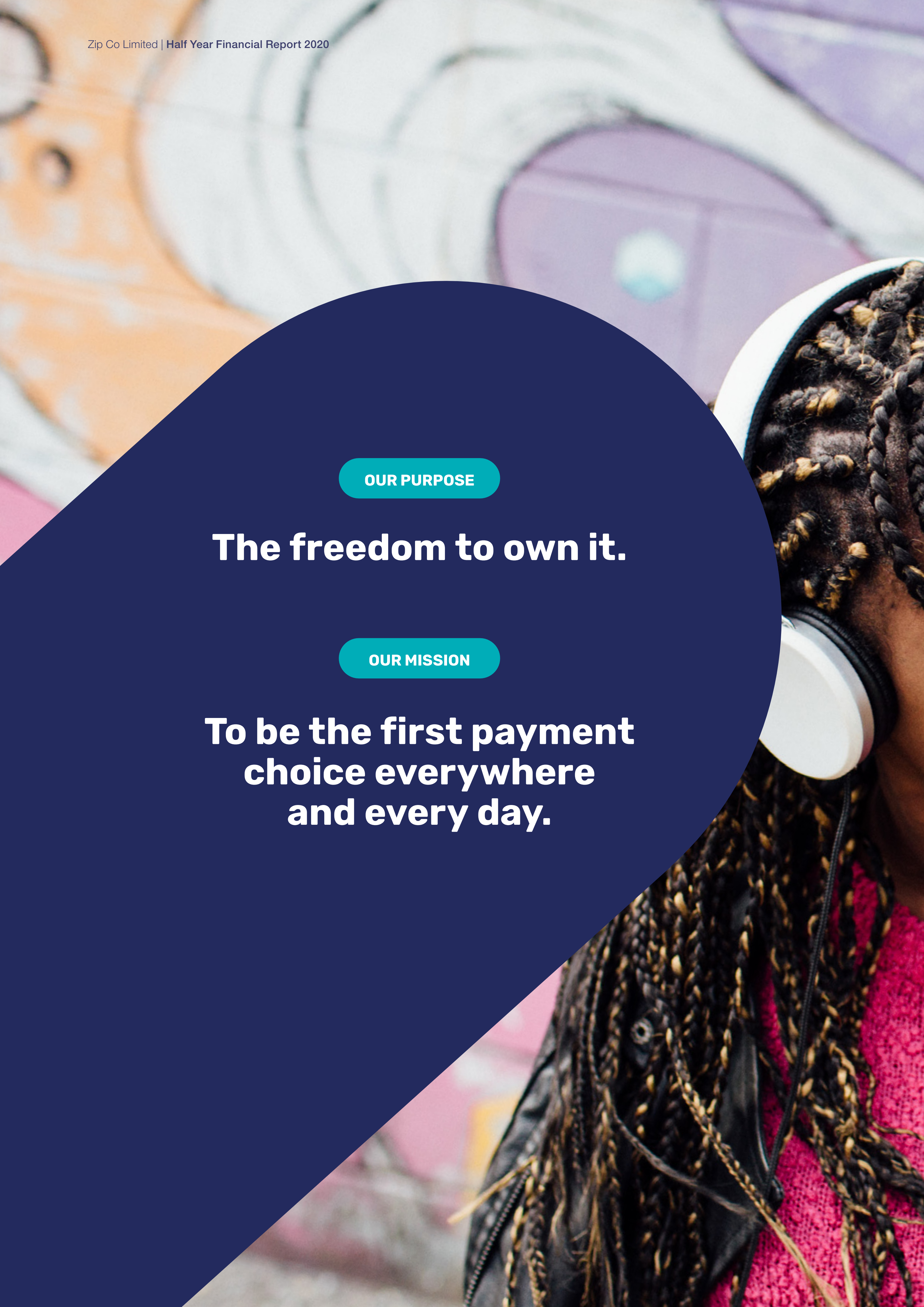
No dividends have been declared for the half year ended 31 December 2019 or for the previous corresponding period.

Larry Diamond
Managing Director & Chief Executive Officer

27 February 2020

Half Year Financial Report 2020

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



OUR PURPOSE

The freedom to own it.

OUR MISSION

To be the first payment choice everywhere and every day.

FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

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 2019 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 2019.

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:

Philip Crutchfield
Larry Diamond
Peter Gray
Dianne Challenor
John Batistich

REVIEW AND RESULTS OF OPERATIONS

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

	31 DECEMBER 2019		31 DECEMBER 2018	
HALF YEAR ENDED	REVENUE $'000	LOSS AFTER TAX $'000	REVENUE $'000	LOSS AFTER TAX $'000
Zip Co Limited	69,629	(30,347)	34,233	(6,758)

The results for the half year ended 31 December 2019 include the results of acquired entities PartPay Limited ("PartPay") and the Australian and New Zealand operations of Spotcap Global ("Spotcap"), for the period since the acquisition dates, being two months and three months respectively. PartPay offers a Buy Now Pay Later ("BNPL") solution to customers and Spotcap provides unsecured finance to small and medium sized businesses. Further details on these acquisitions are included in this report.

PRINCIPAL ACTIVITIES

Zip is a leading player in the digital retail finance and payments industry. Established in 2013, the Group is headquartered in Sydney, Australia with offices in Melbourne, Brisbane, Perth, Auckland and London.

The principal activity of the Group is offering point-of-sale credit and payments to customers and providing a variety of integrated retail finance solutions to merchants in the retail, education, health and travel industries, both online and in-store.

The Group also operates Pocketbook, one of Australia's leading personal financial management Apps with a user base of over 747,000 at 31 December 2019.

Customers

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 $1,500) and Zip Money (with limits between $1,000 and $50,000). Revenue is generated from both Merchants (Merchant Service Fees) and Customers (predominantly Monthly Fees, Establishment Fees and Interest). The Group has a strong focus on interest-free payment behaviour, encouraged through higher minimum monthly repayments, and promotional interest-free periods.

Following the acquisition of PartPay, Zip now also offers a BNPL service globally whereby customers can split repayments into equal fortnightly instalments. Merchants pay a Merchant Services Fee, and the product is free to customers unless they miss a payment, in which case a late fee applies.

Small and Medium Sized Merchants (SMEs)

With over 20,000 SMEs on the platform both in Australia and New Zealand, Zip has a number of credit and payment services to support its SME base 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 Biz, an interest free digital wallet, allowing businesses to pay for everyday purchases in instalments up to $25,000.
- Through the recently acquired Spotcap operations, Zip can now provide unsecured loans of between $20,000 and $500,000 to its merchant base supporting their growth.

REVIEW OF OPERATIONS

Operational Performance

Zip has seen significant growth across all operating metrics over the last twelve months:

- Active Customer accounts have increased to over 1.8 million a 80% increase since 31 December 2018
- Merchant numbers have increased by over 8,300 from the position at 31 December 2018 to over 20,800, a 66% increase since 31 December 2018
- Transaction volumes have increased to $964.7 million, a 95% increase compared to the six months to 31 December 2018
- Receivables increased to $1,035.2 million, up 112% on pcp

Zip went live and struck a strategic relationship with Amazon Australia in November 2019, becoming the first instalment offering in the region on its platform. Many other Australian retailers joined the platform in the period, include: Kmart Australia, Just Group, Big W, Bing Lee, Freedom, Ola and Optus. There are now over 50,000 points of presence across the region accepting Zip payments.

Zip has over 165,000 customers in New Zealand transacting across 1,100 merchants. Leading merchants on the platform, including The Warehouse Group, The Market, Spark, Rockshop, Saben and Lighting Plus. Since acquisition, Zip has been successful at referring a number of Australian businesses to the New Zealand platform, supporting cross-Tasman trade.

Zip's UK operations are at a very early stage, with the platform currently being localised and in the process of hiring key roles in preparation for a launch in the second half of the financial year. Anthony Drury was appointed as Managing Director in January 2020, formerly with leadership roles at Amex, PayPal, and Easyjet.

Spotcap has over 1,400 customers across Australia and New Zealand, and processed over 400 new loans in the half year to December 2019 from over 3,000 distribution partners.

Financial Performance

Zip reported record group revenue for the six months ending 31 December 2019 of $69.6 million, a 103% increase over the $34.2 million reported in the six months ending 31 December 2018. Excluding the impact of revenue reported by entities acquired in the six months to 31 December 2019, of $2.9 million, revenue grew by 95%.

Revenue is driven by the increase in customer numbers and increased engagement, delivering growth in both transaction volumes and receivables. Transaction volumes increased from $495.2 million reported in the six months to 31 December 2018 to $964.7 million for the six months ending 31 December 2019, an increase of 95%. Excluding the impact of acquisitions, transaction volumes increased 91% to $946.0 million.

Directors' Report

Continued

Cost of Sales increased to $46.4 million from $21.8 million for the six months ended 31 December 2018 reflecting the growth in transactions and receivables. Reported gross profit was 33% of portfolio income, compared to 35% in the six months to December 2018. Gross profit was 50%, in line with the six months to 31 December 2018 of 51% excluding the impact of the movement in the provision for expected credit losses. Interest costs increased $8.6 million due to the growth in receivables, but the average interest rate paid decreased from 4.9% in the six months to 31 December 2018 to 4.7% in the six months to 31 December 2019. With the significant growth in receivables the expected credit losses increased to $23.2 million, reflecting a $6.6 million increase in bad debts written off (net of recoveries with a net bad debt rate of 1.68%) and an $18.8 million increase in the provision for expected credit losses compared to the six months to 31 December 2018. The reported provision for expected credit losses is 3.69% compared to the net bad debt rate of 1.68%. Bank fees and data costs increased to $4.4 million from 2.4 million at 31 December 2018.

In line with its strategy, Zip invested for growth during the half year. Operating costs increased in line with the growth of the business from $19.2 million in the six months to 31 December 2018 to $24.7 million in the six months to 30 June 2019, and $53.6 million in the six months to 31 December 2019. The Group incurred a number of one off costs during the period, excluding one off costs totalling $10.2 million (as detailed later in this report), operating costs were $43.3 million for the six months to 31 December 2019.

Administration costs increased by $10.3 million, including marketing costs by $4.4 million, IT costs up by $2.8 million and professional services up by $0.9 million. The increased marketing spend included a brand campaign, the re-brand of PartPay to Zip, and promotional activities to maximise transaction volumes.

The amortisation of intangibles increased by $3.0 million to $4.7 million. Amortising acquired intangibles resulting from the PartPay and Spotcap acquisitions increased the charge for the six months by $2.3 million, including $1.9 million to write off the PartPay brand. The remaining increase reflected an increase in the amortisation of software development during the six months.

The impact of the introduction of AASB 16 Leases (refer Note 10) on Zip's result has been to increase depreciation charged for the six months by $1.0 million and reduce Occupancy costs by $0.9 million. Excluding the impact of AASB 16, Zip's occupancy costs increased by $0.9 million as Zip has increased the amount of floorspace leased to accommodate the increased headcount.

Headcount increased to 354, a 74% increase when compared to 31 December 2018. On the back of this growth salaries and employee benefits increased 92% to $18.2 million. The largest increases by function were in Product and Technology, Data and Risk, and Sales and Marketing. In addition, Zip has extended the Executive Team to grow and develop Zip's operations globally. The acquisition of PartPay and Spotcap added 50 to the Group's headcount at 31 December 2019.

Share-based payments increased by $8.9 million primarily due to the expense related to the issue of warrants to Amazon Australia, amounting to $6.6 million. The remaining increase reflects an increase in the accrual for both short-term and long-term employee incentives.

Acquisition costs of $2.3 million mainly comprise the costs of professional advisors supporting Zip in the acquisition of both PartPay and Spotcap.

The net loss for the six months ending 31 December 2019 attributable to members of Zip Co Limited was $30.3 million ($20.1 million after one off adjustments) compared to $6.8 million for the six months ending 31 December 2018.

Zip's operations in New Zealand and the United Kingdom, reported revenue of $0.6 million in the two months since acquisition on transaction volumes of $18.7 million. The net loss for the two months since acquisition totalled $0.9 million excluding the impact of the amortisation of acquired intangibles of PartPay.

Spotcap, Zip's SME lending business generated revenue of $2.3 million in the three months since acquisition and reported a loss of $0.1 million excluding the impact of the amortisation of acquired intangibles of Spotcap.

Adjusted Net Loss

The Group's result for the six months to 31 December 2019 includes a number of non-recurring items and items that have had a significant impact on the result but have a reduced impact going forward. The Group's adjusted loss before tax (which is non-IFRS information) is as follows:

Reported loss before tax	$30.3 million	
Add back:		
Acquisition costs	$2.3 million	On acquisitions made in the period
Write-off of acquired intangible	$1.9 million	PartPay brand, written off on re-branding to Zip
Share-based payments	$6.0 million	Warrants vesting to Amazon on signing the Amazon agreement. The remaining warrants to vest over the 7 years from award date, based on the achievement of performance hurdles
Adjusted loss before tax	$20.1 million	

Receivables

As at 31 December 2019, the receivables portfolio totalled $1,035.2 million, an increase of 52% on the balance of $682.6 million reported at 30 June 2019. The portfolio comprises customer receivables totalling $998.3 million, including $1.3 million reported in Zip's global operations (formerly PartPay), and SME receivables of $36.9 million.

The Group wrote off $11.2 million in bad debts (after bad debt recoveries) for the six months to 31 December 2019 compared to $4.6 million in the six months ending 31 December 2018.

Zip's Australian business reported receivables of $997.0 million a 46% increase on the balance reported at 30 June 2019 of $682.6 million and an increase of 104% when compared to the pcp. The repayment profile remains healthy at approximately 13% (of prior month end portfolio) in monthly collections suggesting a pay back period of approximately seven and a half months. The reported arrears rate was 1.58% at 31 December 2019 (30 June 2019: 1.89%) and 1.40% at 31 December 2018. Net bad debts written off in the last twelve months were 1.68% of customer receivables and gross bad debts written off were 1.91% in line with management's expectation, compared to 1.63% and 1.82%, respectively for the twelve months to 30 June 2019.

Spotcap recorded receivables of $36.9 million at the end of December up from $30.8 million at the time of acquisition. The reported arrears rate (payments overdue by greater than 60 days) at 31 December was 1.94%. Write offs in the period since acquisition totalled $0.1 million, and gross bad debts written off were 2.51% for the 12 months to 31 December 2019.

Corporate Activity

The Company acquired global BNPL technology platform PartPay Limited ("PartPay") in the period. The acquisition provides Zip with exposure to four key geographies, New Zealand, United Kingdom, United States and South Africa. PartPay is a significant player in New Zealand, has established an early stage business in the UK, owned 8.9% (at date of acquisition) of Quadpay Inc ("QuadPay"), a New York based BNPL provider, and 24.7% of Payflex (PTY) Limited a BNPL provider in South Africa.

Concurrently with the acquisition of PartPay the Company invested $16.6 million (US$11.4 million) in QuadPay, which took Zip's interest in QuadPay to 15% and increased the Group's exposure to the large US market. The investment was settled in cash.

Directors' Report

Continued

Zip issued shares to the value of $59.9 million to acquire PartPay and will issue additional shares to the value of approximately $14.0 million (NZ15.0 million) based on the achievement of certain performance-based milestones. Zip has recorded a cost of acquisition of $73.9 million on the basis the performance-based milestones are achieved.

The Company has provisionally valued intangible assets acquired as a result of the PartPay acquisition at $10.6 million, and recognised an amortisation charge of $2.2 million in the period to 31 December 2019, including a charge of $1.9 million to write off the PartPay brand as a result of the business re-branding to Zip during the period. Intangible assets acquired will be formally valued by an external valuer in the period to 30 June 2020 and any adjustments required reported in Zip's Annual Report for the year to 30 June 2020. PartPay's net assets at the time of acquisition totalled $21.1 million, consequently, the Company has recorded Goodwill of $42.2 million on the acquisition of PartPay.

Zip acquired the Australian and New Zealand businesses of global SME lending provider Spotcap in the period providing Zip with both an SME lending business and a proven SME credit decisioning platform to support the "go to market" strategy for its Zip Biz BNPL product in Australia and New Zealand.

Shares to the value of $8.9 million were issued for the acquisition of Spotcap, and cash of $0.4 million paid. Acquired intangible assets have been provisionally valued at $1.9 million and an amortisation charge of $0.2 million recognised in the period to 31 December 2019. Intangible assets acquired will be formally valued by an external valuer in the period to 30 June 2020 and any adjustments required reported in Zip's Annual Report for the year to 30 June 2020. Spotcap's net assets at the time of acquisition totalled $2.6 million, consequently, the Company has recorded Goodwill of $4.8 million on the acquisition of Spotcap.

Capital Management

At 31 December 2019 the Group had total facilities available of $1,030.9 million, drawn $925.1 million. Available facilities have increased by $153.5 million subsequent to the year end, to total $1,184.4 million.

In August, the Group launched the Zip Master Trust, and closed the first rated issuance in the Trust, raising $475.0 million from debt investors, the largest issuance of its nature by a Fintech in Australia. The facility was fully drawn from inception. Subsequent to the half year end Zip finalised the Variable Funding Note (VFN) within the Trust, with a facility limit of $139.5 million. The VFN within the Trust structure provides funding flexibility to the receivables pool and is available to fund originations on both existing accounts within the Trust and new accounts acquired by the Trust.

In addition to the Zip Master Trust, the Group also has the zipMoney Trust 2017-1 in place, with a total facility available at the end of December 2019 of $460.0 million, drawn $371.0 million and the zipMoney Trust 2017-2 with a total facility amount at the end of December 2019 of $71.5 million, drawn $57.5 million.

The Group also has additional funding facilities in place totalling $24.4 million at the end of December 2019, of which $21.6 million was drawn to fund Zip's instalment product and lending to SMEs. Subsequent to the half year end, this was increased by $14.0 million.

During the period, the Group raised a total of $61.9 million ($59.8 million net of costs) in equity from new and existing retail, institutional, sophisticated and professional investors. The funds were raised to support Zip's global expansion into the UK market, expand Zip's product range including the launch of Zip Biz, increase investment in product and technology, and strengthen the Group's Balance Sheet.

Cashflows

Cash inflows from operating activities totalled $6.7 million for the six months ended 31 December 2019, compared to a cash inflow of $7.6 million in the six months ended 31 December 2018, reflecting Zip's strategy of investing in growth.

Payments to merchants, suppliers and employees totalled $46.0 million up from $17.8 million in the prior half year, and Interest paid totalled $16.7 million compared to $8.7 million in the six months ending 31 December 2018.

Cash outflows from investing activities for the period were $352.8 million. Zip paid $2.8 million for plant and equipment during the period including the fit out of additional leased premises and IT equipment. Zip paid an additional $5.1 million to further develop the Group's software applications and architecture to improve both the customer and merchant experience and position system functionality for global adoption. The acquisition of PartPay and Spotcap resulted in a net cash inflow to the Group of $2.7 million, and the acquisitions incurred a cost of $2.3 million. Zip invested $16.6 million to increase its investment in Quadpay in the USA to a 15% equity holding, and the net movement in receivables totalled $328.7 million.

Cash inflows from financing activities for the period were $372.6 million. Proceeds from the issue of shares totalled $62.1 million, $61.9 million from the capital raise and $0.2 million from the conversion of options. Costs relating to the capital raise totalled $2.1 million. Zip identified the Zip Master Trust as the structure to support Zip's funding growth and requirements for the future, and the cost associated with the establishment of this structure totalled $2.4 million. Zip increased its borrowings to fund the growth in receivables by $316.0 million.

Zip remained cash flow breakeven throughout the period.

POST BALANCE DATE EVENTS

As noted above, subsequent to the year end, Zip reached agreement with its financiers to increase the facilities available within its funding programs by $153.5 million.

Other than this, there have been no other material items, transactions or events subsequent to 31 December 2019 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 8.

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

Larry Diamond
Managing Director & Chief Executive Officer

27 February 2020

Auditor's Independence Declaration

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

27 February 2020

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 2019, 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

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 31 December 2019

	NOTE	31 DECEMBER 2019 $'000	31 DECEMBER 2018 $'000
Portfolio Income	3	**68,786**	**33,653**
Cost of Sales	4	**(46,353)**	**(21,780)**
Gross Profit		**22,433**	**11,873**
Other income	3	843	580
Expenditure			
Administration expenses	5	(15,344)	(5,008)
Depreciation expense		(1,632)	(472)
Amortisation of intangibles	5	(4,701)	(1,724)
Occupancy expenses		(1,005)	(1,000)
Salaries and employee benefits expenses		(18,223)	(9,467)
Share-based payments	5	(10,387)	(1,540)
Acquisition costs		(2,290)	–
Share of loss of associate	6	(41)	–
Loss Before Income Tax		**(30,347)**	**(6,758)**
Income tax (expense)/benefit		–	–
Loss After Income Tax Attributable to Members of Zip Co Limited		**(30,347)**	**(6,758)**
Other comprehensive income for the period			
Foreign exchange differences on translation		6	–
Total Other Comprehensive Income for the Period, Net of Tax		6	–
Total Comprehensive Loss for the Period Attributable to Members of Zip Co Limited		**(30,341)**	**(6,758)**

Earnings per Share		**Cents**	**Cents**
Basic loss per share	7	(8.41)	(2.27)
Diluted loss per share	7	(8.41)	(2.27)

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 2019

	NOTE	31 DECEMBER 2019 $'000	30 JUNE 2019 $'000
Assets			
Cash and cash equivalents	8	39,120	12,611
Other receivables		3,084	10,920
Term deposit		1,507	1,179
Customer receivables	9	984,137	647,544
Property, plant and equipment		4,746	2,547
Right-of-use assets	10	9,619	–
Intangible assets	11	20,165	5,813
Investments	12	35,425	–
Investments in associate	6	1,260	–
Goodwill	13	51,514	4,548
Total Assets		**1,150,577**	**685,162**
Liabilities			
Trade and other payables		14,826	19,657
Employee provisions		2,011	1,368
Deferred R&D tax incentives		175	392
Deferred contingent consideration		13,979	–
Leasing liability	10	9,738	–
Borrowings	15	924,704	587,445
Total Liabilities		**965,433**	**608,862**
Net Assets		**185,144**	**76,300**
Equity			
Issued capital	16	274,222	141,211
Reserves		9,700	3,520
Accumulated losses		(98,778)	(68,431)
Total Equity		**185,144**	**76,300**

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 2019

	ISSUED CAPITAL $'000	SHARE-BASED PAYMENTS RESERVES $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	ACCUMULATED LOSSES $'000	TOTAL $'000
Balance at 1 July 2018	**81,328**	**4,380**	**–**	**(57,298)**	**28,410**
Loss for the period	–	–	–	(6,758)	(6,758)
Total Comprehensive Loss	**–**	**–**	**–**	**(6,758)**	**(6,758)**
Recognition of share-based payments	–	1,540	–	–	1,540
Exercise of share-based payments	–	(4,075)	–	–	(4,075)
Issue of ordinary shares under share-based payments plans	2,343	–	–	–	2,343
Issue of ordinary shares upon achievement of performance milestones relating to the acquisition of Pocketbook	1,500	–	–	–	1,500
Exercise of options	1,606	–	–	–	1,606
Costs of issue	(12)	–	–	–	(12)
Balance at 31 December 2018	**86,765**	**1,845**	**–**	**(64,056)**	**24,554**
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 income	**–**	**–**	**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**

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 2019

	NOTE	31 DECEMBER 2019 $'000	31 DECEMBER 2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Portfolio income from customers		69,329	33,976
Payments to suppliers and employees		(46,020)	(17,820)
Interest received		83	74
Interest paid		(16,739)	(8,668)
Net Cash Flow from Operating Activities		**6,653**	**7,562**
CASH FLOWS TO INVESTING ACTIVITIES			
Payments for plant and equipment		(2,764)	(44)
Payments for software development		(5,054)	(1,640)
Payment for acquisitions, net of cash acquired		2,667	–
Net increase in receivables		(328,725)	(172,280)
Payment for investments		(16,607)	–
Acquisition costs		(2,290)	–
Net Cash Flow to Investing Activities		**(352,773)**	**(173,964)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of shares		62,051	1,037
Costs of share issues		(2,058)	(12)
Borrowing transaction costs		(2,404)	–
Proceeds from borrowings		316,018	172,000
Repayment of lease liabilities		(984)	–
Net Cash Flow from Financing Activities		**372,623**	**173,025**
Net increase in cash and cash equivalents		26,503	6,623
Cash and cash equivalents at the beginning of the half year		12,611	12,658
Foreign exchange effect		6	–
Cash and Cash Equivalents at the End of the Half year	8	**39,120**	**19,281**

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 Half 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 27 February 2020.

Basis of preparation

The Report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. When necessary, comparative figures will be adjusted to comply with the changes in presentation in the current period. Comparatives have been realigned to the current half-year presentation. There is no net effect on profit and net assets for the comparative period.

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 2019 shows a consolidated entity's loss after tax of $30.3 million. The condensed consolidated statement of cash flows for the half year ended shows net cash from operations of $6.7 million.

The Directors have reviewed cash flow forecasts for the consolidated entity through to 31 March 2021. The cash flow forecast indicates that the consolidated entity will have sufficient funding to operate as a going concern during the forecast period. The Directors have concluded that it is appropriate to prepare the condensed consolidated 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.

Critical accounting estimates

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.

Revenue recognition

The consolidated entity recognises revenue on customer receivables using the effective interest method (in accordance with AASB 9), based on estimated future cash receipts over the expected life of the financial asset. In exercising their judgement of 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. These estimates require significant judgment and will be reviewed on an ongoing basis and where required, appropriate adjustments to recognition of revenue will be made in future reporting periods.

Notes to the Condensed Consolidated Financial Statements

Continued

Provision for expected credit losses

The carrying amounts of certain assets are determined based on estimates and assumptions of future events. The key sources of estimation uncertainty relate to the provision for expected credit losses against loans receivable. The risk of impairment to customer receivables requires the consolidated entity to assess impairment regularly. The consolidated entity measures the provision for expected credit losses for customer receivables at an amount equal to the lifetime expected credit losses (ECL). Refer to Note 9 for further details.

Intangible assets

Software development asset

Software development costs are capitalised only when:

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

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

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

Acquired intangibles

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

Intangibles acquired during the half year ended 31 December 2019 have been provisionally determined based on management's best estimates of the likely fair value of the acquired intangibles. Management applied a discounted cash flow methodology including assumptions relating to transaction volumes, royalty rates, processing rates, growth and discount rates.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

Acquired intangibles will be independently valued and any adjustments required will be recorded in the consolidated entity's Annual report for the year ended 30 June 2020.

Impairment of non-financial assets

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

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

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Adoption of new and revised Accounting Standards

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half year.

New and amended Accounting Standards that are effective for the current half year

AASB 16 Leases

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

There are some optional exemptions for leases with a period of 12 months or less and for low value leases.

The application date of this standard is for annual reporting periods beginning on or after 1 January 2019.

AASB 16 has been initially adopted by the consolidated entity for the half year ended 31 December 2019.

Under AASB 16, right-of-use assets will be tested for impairment in accordance with AASB 136 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

The consolidated entity has chosen the modified retrospective application of AASB 16 in accordance with AASB 16 C5(b). Consequently, the consolidated entity has not restated the comparative information.

On initial application of AASB 16, for all leases (except as noted below), the consolidated entity has:

- Recognised right-of-use assets and lease liabilities in the condensed consolidated statement of financial position, initially measured at the present value of the future lease payments that are not paid at the initial application date, discounted by using the incremental borrowing rate;
- Recognised depreciation of right-of-use assets and interest on lease liabilities in the condensed consolidated statement of profit and loss;

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- The amount expected to be payable by the lessee under residual value guarantees;
- Lease payments applicable under extension options if reasonably certain to exercise.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the consolidated entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The consolidated entity applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

There are some optional exemptions for leases with a period of 12 months or less and for low value leases. For short term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the consolidated entity has recognised lease expenses on a straight-line basis as permitted by AASB 16. The consolidated entity chooses to use the practical expedient not to separate contracts into lease and non-lease components as at 1 July 2019.

Notes to the Condensed Consolidated Financial Statements

Continued

b. Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Zip Co Limited ('parent entity') as at 31 December 2019 and the results of all subsidiaries for the six months then ended. Zip Co Limited and its subsidiaries together are referred to in these 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.

c. 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.

d. Business Combinations

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

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

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as 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. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the consolidated entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

e. Goodwill

Goodwill arising on 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 cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

f. Portfolio Income

The Directors consider that revenue from Merchants 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.

In making their judgement around 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. These estimates are reviewed on an ongoing basis and where required; appropriate adjustments will be made in future reporting periods.

g. Financial Instruments

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

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Customer receivables

Customer receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the consolidated entity did not intend to sell immediately or in the near term. Customer receivables are measured at amortised cost using the effective interest method, less any impairment.

Notes to the Condensed Consolidated Financial Statements

Continued

Impairment of customer receivables

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. An expected credit loss model is used for assessment of impairment of customer receivables under AASB 9. Expected credit losses 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 lifetime of the customer receivables.

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

Please refer to Note 9 for further details of customer receivables and impairment of financial assets.

h. 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 condensed 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.

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.

Following the acquisition of Spotcap and PartPay, the Group has increased the number of operating segments it has. The operating segments may change in the future as the Group continues to re-assess its operating model, reporting systems, and the financial information presented to the CODM for decision making purposes. For the half year ended 31 December 2019, the Group has identified the following segments:

ZIP: Operations in Australia and New Zealand offering customers a line of credit wallet including the consolidated entity's Pocketbook operations.

Zip Global: Formerly PartPay, offering BNPL instalment products to customers outside of Australia.

Spotcap: Provides unsecured loans to small and medium sized businesses.

The CODM reviews EBTDA for decision making. Whilst a non-IFRS measure, EBTDA is defined as earnings before tax, depreciation, amortisation, impairment. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

HALF YEAR ENDED 31 DECEMBER 2019	ZIP $'000	ZIP GLOBAL $'000	SPOTCAP $'000	TOTAL $'000
Portfolio income	65,878	597	2,311	68,786
Cost of sale	(45,315)	(258)	(780)	(46,353)
Gross profit	20,563	339	1,531	22,433
Other income	840	1	2	843
Operating expense	(31,725)	(1,213)	(1,634)	(34,572)
EBTDA (excluding Corporate items)	(10,322)	(873)	(101)	(11,296)
Employee remuneration related share-based payments	(3,742)	–	–	(3,742)
Other share-based payments	(6,645)	–	–	(6,645)
Acquisition costs	(2,290)	–	–	(2,290)
Share of loss of associate	(41)	–	–	(41)
EBTDA	(23,040)	(873)	(101)	(24,014)
Depreciation of right-of-use assets	(1,018)	–	–	(1,018)
Depreciation of PP&E	(607)	(3)	(4)	(614)
Amortisation of intangibles	(2,251)	(2,215)	(235)	(4,701)
Loss before income tax	(26,916)	(3,091)	(340)	(30,347)

Note 3: Revenue

	CONSOLIDATED	
	31 DECEMBER 2019 $'000	31 DECEMBER 2018 $'000
Portfolio income	**68,786**	**33,653**
Other income		
Interest income from financial institutions	83	74
R&D tax incentives	217	183
Other	543	323
Total other income	**843**	**580**
Total revenue	**69,629**	**34,233**

Notes to the Condensed Consolidated Financial Statements

Continued

Note 4: Cost of Sales

	CONSOLIDATED	
	31 DECEMBER 2019 $'000	31 DECEMBER 2018 $'000
Interest expense	17,918	9,280
Expected credit losses	23,170	9,535
Bank fees and data costs	4,430	2,405
Amortisation of funding costs	835	560
Total cost of sales	**46,353**	**21,780**

Note 5: Expenses

	CONSOLIDATED	
	31 DECEMBER 2019 $'000	31 DECEMBER 2018 $'000
Loss before income tax includes the following specific expenses:		
Amortisation of intangibles:		
Amortisation of acquired intangibles	936	350
Write-off of acquired intangible	1,944	–
Amortisation of internally generated intangibles	1,821	1,374
Total amortisation of intangibles	**4,701**	**1,724**
Administration expenses:		
Professional services	1,650	780
Information technology expense	4,679	1,878
Marketing expense	5,758	1,342
Recruitment costs	717	312
Other administration expense	2,540	696
Total administration expenses	**15,344**	**5,008**
Share-based payments:		
Employee remuneration related share-based payments	3,742	1,540
Other share-based payments	6,645	–
Total share-based payments	**10,387**	**1,540**

Note 6: Investments in Associate

As a result of the acquisition of PartPay, the consolidated entity has a 24.7% interest in Payflex (Pty) Ltd ("Payflex") a provider of BNPL services to customers in South Africa. On the acquisition of PartPay, the investment was fair valued at $1,301,321. 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 in associate at cost, being the fair value upon acquisition of PartPay.

For the half year ended 31 December 2019, the consolidated entity recognised its share of the loss of Payflex amounting to $41,098. At 31 December 2019, the carrying amount of the consolidated entity's investment in associate was recorded at $1,260,223, being the cost of the investment at acquisition less its share of loss since the acquisition date.

Note 7: Loss Per Share

a. Reconciliation of earnings used in calculating loss per share

	31 DECEMBER 2019 $'000	31 DECEMBER 2018 $'000
Loss attributable to the owners of the consolidated entity used in calculating basic and diluted loss per share	(30,347)	(6,758)

b. Weighted average number of shares used as the denominator

NUMBER OF SHARES	31 DECEMBER 2019 '000	31 DECEMBER 2018 '000
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	361,004	298,313

c. Basic and diluted loss per share

	31 DECEMBER 2019 CENTS	31 DECEMBER 2018 CENTS
Basic loss per share	(8.41)	(2.27)
Diluted loss per share	(8.41)	(2.27)

Note 8: Cash and Cash Equivalents

At 31 December 2019, the consolidated entity had cash of $39.1 million of which $20.2 million was restricted cash (30 June 2019: cash of $12.6 million of which $6.4 million was restricted cash).
Cash held in corporate accounts, considered as unrestricted, includes amounts subsequently remitted to securitisation warehouses and special purpose vehicles. Restricted cash is held by the securitisation warehouses and special purpose vehicles and is not available to pay creditors of the consolidated entity.

Note 9: Customer Receivables

Classification and Measurement

Under AASB 9, customer receivables are initially recognised at fair value upon recognition. 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.

Notes to the Condensed Consolidated Financial Statements

Continued

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.

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. 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 months period, to the credit limits of those customers that are considered current and to the respective overdue balances for those customers in arrears.

The consolidated entity's policy is to write off balances that are outstanding for over 180 days for its line of credit products and 60 days for its instalment products, in accordance with historical experience and industry practice.

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 calculating a provision for expected credit losses, 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, inflation rate, etc.) and modelling risks.

Significant increase in credit risk since initial recognition

The provisioning model utilises customer receivables 30 days past due as the absolute criteria to identify 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 when the Group is unlikely to receive the outstanding contractual amount in full based on internal or external indicators.

The following table summarises customer receivables as at reporting date:

	CONSOLIDATED	
	31 DECEMBER 2019 $'000	30 JUNE 2019 $'000
Gross customer receivables	1,035,218	682,556
Unearned future income	(12,895)	(9,421)
Provision for expected credit losses	(38,186)	(25,591)
	984,137	**647,544**

The following tables summarise the gross carrying amount of customer receivables and the provision for expected credit losses by stages:

	31 DECEMBER 2019 $'000	30 JUNE 2019 $'000
Gross customer receivables		
12 month expected losses	988,816	649,427
Lifetime	46,402	33,129
Total gross carrying amount	**1,035,218**	**682,556**
Unearned future income	(12,895)	(9,421)
Total gross carrying value	**1,022,323**	**673,135**
Less provision for expected credit losses		
12 month expected losses	(7,578)	(4,728)
Lifetime	(30,608)	(20,863)
Total provision for expected credit losses	**(38,186)**	**(25,591)**
Net balance sheet carrying value	**984,137**	**647,544**

The table below provides information about customer receivables from customers by payment due status.

	CONSOLIDATED	
	31 DECEMBER 2019 $'000	30 JUNE 2019 $'000
Past due under 30 days	25,247	17,059
Past due 31 days to under 60 days	7,982	5,684
Past due 61 to under 90 days	4,960	3,888
Past due 91 to under 180 days	8,213	6,498

Notes to the Condensed Consolidated Financial Statements

Continued

Provision for expected credit losses movement

From 30 June 2019 to 31 December 2019, the provision for expected credit losses have increased by $12.6 million, which was primarily driven by the $352.7 million increase in the value of receivables. The provision for expected credit losses as a percentage of receivables was 3.69% at 31 December 2019 compared to 3.75% of the gross customer receivables balance at 30 June 2019.

DETAILS	$'000
Balance at 30 June 2019	25,591
Balance taken on acquisitions	600
Expected credit losses recognised during the half year to profit or loss	23,170
Receivables written-off during the half year	(12,112)
Recoveries during the half year	937
Balance at 31 December 2019	**38,186**

Note 10: 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 such leases is 4 years. Short term leases were not included in accordance with AASB 16 Leases exemptions.

The operating lease commitment reported in the consolidated entity's Annual Report to 30 June 2019 was $10.1 million, of which $10.0 million related to property leases with over 12 months to expiry. The consolidated entity's preliminary assessment of the impact of AASB 16 indicated a lease liability of approximately $8.9 million in relation to these leases. Upon adoption of AASB 16, the consolidated entity applied a single incremental borrowing rate of 3.08% when discounting lease payments, as compared to differing rates used in the initial assessment. Applying this single rate and discounting the remaining lease payments to their present value resulted in the recognition of an initial lease liability of $6.6 million at 1 July 2019.

Additions during the half year ended 31 December 2019 included additional property leases entered into during the half year with terms exceeding 12 months in duration.

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 current half year:

DETAILS	PROPERTY $'000
Cost	
Balance at 1 July 2019	6,623
Additions	4,014
Balance at 31 December 2019	**10,637**

DETAILS	PROPERTY $'000
Accumulated depreciation	
Balance at 1 July 2019	–
Depreciation	1,018
Balance at 31 December 2019	**1,018**

DETAILS	PROPERTY $'000
Carrying amount	
Balance at 1 July 2019	6,623
Balance at 31 December 2019	**9,619**

Lease liabilities

The tables below show the lease liabilities at the beginning and end of the current half year:

DETAILS	LEASE LIABILITIES $'000
Lease liabilities	
Balance at 1 July 2019	6,623
Additions	3,986
Interest	113
Repayment of lease liabilities	(984)
Balance at 31 December 2019	**9,738**

Amounts recognised in profit and loss for the half year ended 31 December 2019.

DETAILS	$'000
Depreciation expense on right-of-use assets	1,018
Interest expense on lease liabilities	113
Expense relating to short term leases	558

Expenses relating to short term leases are reported in occupancy expenses together with the cost of utilities and other office expenses.

Notes to the Condensed Consolidated Financial Statements

Continued

Note 11: Intangible Assets

CONSOLIDATED	31 DECEMBER 2019 $'000	30 JUNE 2019 $'000
Carrying amounts		
Brand names and trademarks	476	116
Customer database	638	207
IT development and software	19,051	5,490
	20,165	**5,813**

	BRAND NAMES AND TRADEMARKS $'000	CUSTOMER DATABASE $'000	IT DEVELOPMENT AND SOFTWARE $'000	TOTAL $'000
Cost				
Balance at 30 June 2019	213	460	13,923	14,596
Additions through acquisitions	2,404	556	9,578	12,538
Additions	33	–	6,482	6,515
Balance at 31 December 2019	**2,650**	**1,016**	**29,983**	**33,649**

	BRAND NAMES AND TRADEMARKS $'000	CUSTOMER DATABASE $'000	IT DEVELOPMENT AND SOFTWARE $'000	TOTAL $'000
Accumulated amortisation				
Balance at 30 June 2019	97	253	8,433	8,783
Additions	2,077	125	2,499	4,701
Balance at 31 December 2019	**2,174**	**378**	**10,932**	**13,484**

Note 12: Investments

	CONSOLIDATED	
	31 DECEMBER 2019 $'000	30 JUNE 2019 $'000
Investment measured at FVTPL	35,425	–
	35,425	**–**

The consolidated entity holds 15% of the preferred shares of QuadPay Inc ("QuadPay"), a company incorporated in the United States operating in the Buy Now Pay Later industry. The directors of the Company do not consider that the Group is able to exercise significant influence over QuadPay. The investment was measured at fair value which equals its purchase cost, which was the best estimate of fair value as at 31 December 2019.

Note 13: Goodwill

CONSOLIDATED	ZIP $'000	ZIP GLOBAL $'000	SPOTCAP $'000	CONSOLIDATED $'000
Balance at 30 June 2019	**4,548**	**–**	**–**	**4,548**
Add: Amount recognised on acquisition	–	42,167	4,799	46,966
Less: Accumulated impairment losses	–	–	–	–
Balance at 31 December 2019	**4,548**	**42,167**	**4,799**	**51,514**

The consolidated entity has three cash-generating units as set out in Note 2. Goodwill has been allocated to these cash-generating units.

Note 14: Acquisitions

Spotcap:

On 18 September 2019, the consolidated entity acquired a 100% interest in the Australian and New Zealand businesses of global SME lending provider Spotcap ("Spotcap"), providing significant capability lending to small and medium sized enterprises ("SME"). Upon acquisition, the consolidated entity acquired a 100% interest in the following entities:

- Spotcap Australia Pty Ltd
- Funding Box 3 (Australia) Pty Limited
- Spotcap New Zealand Ltd

Total consideration for the acquisition of Spotcap comprised:

- Cash consideration of $0.4 million.
- 2,576,643 new Zip Co Limited shares valued at $8.9 million at an issue price of $3.44 were issued.

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

PartPay:

On 7 November 2019, the consolidated entity acquired a 100% interest in global instalment technology platform PartPay Limited ("PartPay"), providing exposure to four key geographies – New Zealand, United Kingdom, United States and South Africa. Upon acquisition of PartPay, the consolidated entity acquired a 100% interest in the following entities:

- Zip Co Payments UK Limited (formerly PartPay Limited UK)
- Zip Co Finance UK Limited (formerly PartPay Finance Limited UK)
- Zip Co NZ Finance Limited (formerly PartPay Finance Limited NZ)
- Zip Co NZ Limited (formerly PartPay Limited NZ)

Total consideration for the acquisition of PartPay comprised:

- 17,424,801 new Zip Co Limited shares valued at $59.9 million at an issue price of $3.44 were issued.
- Deferred contingent consideration of $14.0 million in Zip Co Limited shares to be issued within 24 months after 30 June 2019, subject to various transaction volume milestones being achieved and based on a 10-day volume weighted average price immediately preceding the deferred consideration payment dates.

Notes to the Condensed Consolidated Financial Statements

Continued

The consolidated entity made two adjustments to the pre-acquisition book values of the assets of PartPay to reflect fair market value:

- The carrying value of the investment in Quadpay was revalued from $0.1 million to $18.8 million based on the fair value paid by Zip for its direct holding in Quadpay
- The carrying value of the investment in associate Payflex was revalued from $0.5 million to $1.3 million based on the fair value of Payflex as determined by the most recent equity issuance.

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

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

The initial accounting for the acquisition of both Spotcap and PartPay has been provisionally determined at the end of the half year. Final accounting will be finalised by 30 June 2020 which is within the required measurement period outlined in AASB 3 Business Combinations.

At the end of the half year, independent market valuations of acquired intangibles have not been completed, and goodwill has therefore only been provisionally determined. In making the provisional determination management applied a discounted cash flow methodology based on various assumptions including transaction volumes, royalty rates, processing rates, growth and discount rates. Acquired intangibles will be formally valued in the period to 30 June 2020 and any adjustments required reported in the Annual Report for the year ended 30 June 2020.

Had the revenue and results of Spotcap and PartPay prior to the acquisition been included in the consolidated entity's results for the half year to 31 December 2019, the impact would not have been material.

Goodwill recognised on acquisition of Spotcap and PartPay was calculated as the considerations transferred less fair value of net assets acquired, and reflects the growth potential of the acquired entities.

Acquisition-related costs totalling $2.3 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 2019.

Details of the acquisition are as below:

DETAILS OF THE ACQUISITIONS ARE AS FOLLOWS (FAIR VALUE):	SPOTCAP 2019 $'000	PARTPAY 2019 $'000	TOTAL 2019 $'000
Cash and cash equivalents	2,008	1,064	3,072
Customer receivables	30,834	1,021	31,855
Other receivables	38	297	335
Plant and equipment	23	22	45
Investments	–	18,819	18,819
Investments in associate	–	1,301	1,301
Trade and other payables	(9,063)	(803)	(9,866)
Employee provisions	(157)	(77)	(234)
Borrowings	(21,109)	(533)	(21,642)
Net assets acquired	2,574	21,111	23,685
Acquired brand names and trademarks	460	1,944	2,404
Acquired IT development and software	1,435	8,143	9,578
Acquired customer database	–	556	556
Goodwill	4,799	42,167	46,966
Acquisition date fair value of the total consideration transferred	**9,268**	**73,921**	**83,189**
Representing:			
Cash paid to vendor	405	–	405
Zip Co Limited shares issued to vendor	8,863	59,942	68,805
Deferred contingent consideration	–	13,979	13,979
Total	**9,268**	**73,921**	**83,189**
Cash used to acquire business, net of cash acquired			
Acquisition date fair value of the total consideration transferred	9,268	73,921	83,189
Less: cash and cash equivalent acquired	(2,008)	(1,064)	(3,072)
Less: shares issued by Zip Co limited as part of consideration	(8,863)	(59,942)	(68,805)
Less: Deferred contingent consideration	–	(13,979)	(13,979)
Net cash used	**1,603**	**1,064**	**2,667**

Notes to the Condensed Consolidated Financial Statements

Continued

Note 15: 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 2019 $'000	30 JUNE 2019 $'000
Secured loans	925,051	587,500
Add: Accrued interest	2,782	1,431
Less: Unamortised costs	(3,129)	(1,486)
	924,704	**587,445**

At 31 December 2019 the undrawn facility amounted to $105.8 million (30 June 2019: $44.0 million).

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 2019 $'000	30 JUNE 2019 $'000
Customer receivables(1)	968,212	644,277
Cash held by securitisation warehouses	20,249	6,436
	988,461	**650,713**
Borrowings related to receivables(2)	**1,010,860**	**660,000**

(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 $15.9 million held by entities that are not securitisation vehicles at 31 December 2019 and $3.3 million at 30 June 2019.

(2) Including $86.4 million junior notes held by Zip's corporate entities ($72.5 million at 30 June 2019).

Financing arrangements

Unrestricted access was available at the reporting date to the following facilities:

	31 DECEMBER 2019 $'000	30 JUNE 2019 $'000
Total facility size		
Total facility size – securitisation warehouse	1,020,850	621,500
Total facility size – working capital	10,000	10,000
Used at the reporting date		
Used facility – securitisation warehouse	925,051	587,500
Used facility – working capital	–	–
Unused at the reporting date		
Unused facility – securitisation warehouse	95,799	34,000
Unused facility – working capital	10,000	10,000

Note 16: Issued Capital

	CONSOLIDATED			
	31 DECEMBER 2019 SHARES '000	31 DECEMBER 2019 $'000	30 JUNE 2019 SHARES '000	30 JUNE 2019 $'000
Ordinary shares – fully paid	390,390	274,222	352,138	141,211
Performance shares	20,000	–	20,000	–
	410,390	**274,222**	**372,138**	**141,211**

Movements in ordinary share capital

DETAILS	SHARES '000	$'000
Balance at 30 June 2019	**352,138**	**141,211**
Issue of shares – employee incentives	1,229	4,213
Issue of shares – capital raising	16,722	61,871
Issue of shares – exercise of options	300	180
Issue of shares – Acquisitions	20,001	68,805
Costs of issue during the period	–	(2,058)
Balance at 31 December 2019	**390,390**	**274,222**

Notes to the Condensed Consolidated Financial Statements

Continued

Movements in performance shares

DETAILS	SHARE NUMBERS '000
Balance at 30 June 2019	**20,000**
Balance at 31 December 2019	**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 milestones are unable to be met. The consolidated entity's shareholders approved the cancellation of the performance shares at the AGM in November 2017. The consolidated entity is awaiting the completion of formal documentation by Columbus Capital to formally cancel the shares. In the event that formal documentation is not completed by Columbus Capital, the performance shares will expire on 28 July 2020.

Movements in options

DETAILS	OPTION NUMBERS '000
Balance at 30 June 2019	**10,100**
Options exercised	(300)
Balance at 31 December 2019	**9,800**

Movements in performance rights

DETAILS	RIGHTS NUMBERS '000
Balance at 30 June 2019	**2,750**
Issue of performance rights	359
Balance at 31 December 2019	**3,109**

Movements in Warrants

DETAILS	WARRANTS NUMBERS '000
Balance at 30 June 2019	**–**
Issue of warrants	14,615
Balance at 31 December 2019	**14,615**

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.

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 will 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 $6.0 million was recognised for the half year ended December 2019 in relation to the warrants that vested on entering the agreement. An additional share-based payment expense of $0.6 million has been recognised 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 reporting date and adjustments made to the amounts recognised based on this assessment.

Note 17: Contingencies

Other than reported in the condensed consolidated financial statements, there are no contingent liabilities or contingent assets as at 31 December 2019.

Note 18: Subsequent Events

Subsequent to the half year end, Zip reached agreement with its financiers to increase the facilities available within its funding programs by $153.5 million.

Other than this, there have been no other material items, transactions or events subsequent to 31 December 2019 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 9 to 33 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 2019 and of its performance for the half year ended on that date; and
2. Based on the matters set out in Note 1(a) 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

27 February 2020

Independent Auditor’s Report to the Members

Deloitte.

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Zip Co Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2019, 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 of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 9 to 34.

Directors’ Responsibility 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.

Auditor’s Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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 Zip Co Limited’s financial position as at 31 December 2019 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*. As the auditor of Zip Co Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

Auditor’s Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Zip Co Limited, would be in the same terms if given to the directors as at the time of this auditor’s review report.

Independent Auditor's Report to the Members

Continued

Deloitte.

Conclusion

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 Zip Co Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 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*.

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants
Sydney, 27 February 2020

Corporate Directory

DIRECTORS

Philip Crutchfield (Chairman)

Larry Diamond (Managing Director, CEO)

Peter Gray (Executive Director, COO)

Dianne Challenor (Non-Executive Director)

John Batistich (Non-Executive Director)

COMPANY SECRETARY

David Franks

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INVESTOR ENQUIRIES

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