

ASX ANNOUNCEMENT (ASX: LBY)

Quarterly Update and Appendix 4C

27 October 2022

Record income and strong NTM sees Laybuy on track to achieve consistent EBITDA profitability by end of FY23

Laybuy Group Holdings Limited (ASX:LBY) (**Laybuy** or **the Company**) is pleased to provide its quarterly business update and Appendix 4C for the period ended 30 September 2022¹.

Key Highlights - Q2 FY23:

- **Strong recovery in Net Transaction Margin (NTM)**
 - NTM rose 260bps to reach 4.00%, up from 1.40% in Q1 FY23 and -0.5% in Q4 FY22.
- **Significant reduction in gross losses driven by falls in fraud and defaults**
 - Gross losses fell to 1.50% of GMV, down from 2.80% in Q1 FY23 and 4.90% in Q4 FY22.
- **Solid growth in Group income**
 - Income increased 28% quarter-on-quarter to reach a record \$14.5 million.
- **Ongoing growth in GMV per customer**
 - GMV per customer continues steady climb, lifting 14% year-on-year.
- **Significant savings realised from cost reduction programme**
 - *Save to Invest* anticipated to result in over \$20m in annualised savings that will be reinvested back into the business.
- **On-track to achieve EBITDA profitability by end of FY23**
 - Strong results, including a positive EBITDA for the Group in September, allows Laybuy to reconfirm commitment to EBITDA profitability by the end of FY23.

Operational Performance

Managing Director Gary Rohloff commented: *"Laybuy has made strong progress this quarter as we implement our strategy to achieve EBITDA profitability by the end of this financial year."*

¹ All numbers stated are in New Zealand dollars (NZ\$) and comparisons relate to the quarter ended 30 June 2022 (Q1 FY23 or **quarter-on-quarter**) or the quarter ended 30 September 2021 (Q2 FY22 or **year-on-year**), unless otherwise stated.

“We achieved significant improvement in our EBITDA performance across this quarter, with performance each month showing a positive trajectory as we continue to execute on our new strategy. This culminated in the underlying September result being a small positive result.

“This quarter also saw record revenue and a strong recovery in our NTM. We are continuing to implement our Save to Invest programme, freeing up funds to be reinvested back into the business, and our fraud prevention strategy and improved credit risk management processes are continuing to drive a significant reduction in both losses and defaults.

“The small reduction in GMV this quarter, as well as a reduction in active customers, was anticipated and is part of our strategy to achieve EBITDA profitability as we proactively exit bad actors off our platform and tighten our credit processes.

“Despite this, we are seeing continued strong growth in the UK of both GMV per customer and average orders per customer, which are indicators of the improving quality of our customer base.

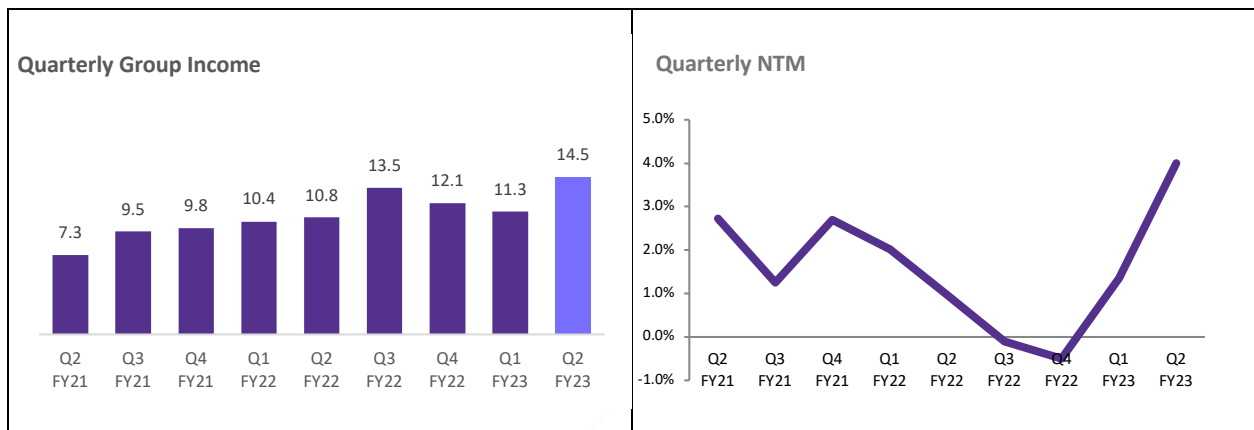
“The strength of our results this quarter mean that we can reaffirm our commitment to achieve EBITDA profitability by the end of this financial year, putting us on track to be one of the first publicly-listed pure play BNPL providers to achieve profitability.”

Key Operating and Financial Metrics

The table below presents Laybuy's key operational metrics for Q2 FY23 and has been prepared based on unaudited results.

Group	Q2 FY23	Q1 FY23	% change QoQ	Q2 FY22	% change YOY
GMV	\$198m	\$215m	(7.8%)	\$206m	(3.8%)
Annualised GMV	\$793m	\$860m	(7.8%)	\$825m	(3.8%)
Active Customers	866,500	918,500	(5.7%)	889,000	(2.5%)
Active Merchants	14,400	14,200	1.4%	11,700	23%
Income	\$14.5m	\$11.3m	28%	\$10.8m	34%
Net Transaction Margin (NTM) as % of GMV	4.0%	1.4%	260bps	1.9%	210bps
Gross Losses as % of GMV	(1.5%)	(2.8%)	130bps	(2.2%)	70bps
UK					
GMV	\$117m	\$128m	(8.5%)	\$111m	6%
Annualised GMV	\$470m	\$513m	(8.5%)	\$446m	6%
Active Customers	562,000	603,000	(6.8%)	566,100	(0.7%)
Active Merchants	4,100	4,100	0%	2,900	41%
ANZ					
GMV	\$81m	\$87m	(6.7%)	\$95m	(14.8%)
Annualised GMV	\$323m	\$346m	(6.7%)	\$380m	(14.8%)
Active Customers	304,000	315,000	(3.5%)	322,400	(5.7%)
Active Merchants	10,200	10,100	1.0%	8,800	16%

Strong growth in income and NTM



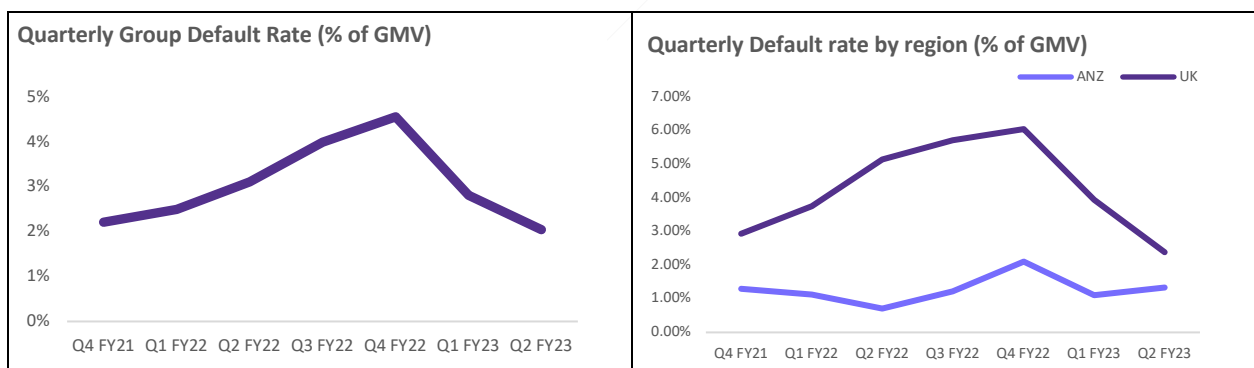
Income grew strongly this quarter, reaching a record \$14.5 million, an increase of 28 % quarter-on-quarter and 34% year-on-year. The growth in income reflects ongoing improvement in the performance of our UK Affiliate (indirect) program.

This quarter also saw a strong recovery in our NTM, which reached 4.00% compared to 1.40% in Q1 FY23, an improvement of 260bps. The strong recovery in NTM was the result of increasing revenue and the continued success of our fraud prevention strategy.

It is noted that we do anticipate this quarter's NTM to have been a peak because of the lag effect of falling defaults being realised. We anticipate NTM to settle at a level between 3% and 4% in future quarters.

A marked reduction in defaults

Our ongoing investment in fraud and credit risk management tools, alongside a focus on improving the quality of the customer base by tightening the credit funnel and exiting bad actors off the platform, has resulted in a marked reduction in our default rate. Our default rate fell to 2.05% of GMV in Q2 FY23 after peaking at 4.57% in Q4 FY22.



An EBITDA tracking toward profitability

Our improved income and NTM, alongside the reduction in defaults and the implementation of our *Save to Invest* programme, has resulted in significant improvements in our EBITDA, culminating in a small positive result in September.

Our *Save to Invest* programme is seeing the Board and management looking at all areas of our operations to proactively identify areas to reduce costs, improve efficiencies and reprioritise spending. In addition, we have undertaken a significant restructure of our business to streamline operations and reduce duplication. This has seen a reduction in our headcount by about one-third, delivering significant savings while ensuring we are appropriately sized to deliver profitable and sustainable growth.

This *Save to Invest* programme and changes to the organisational structure are expected to deliver approximately \$20 million in annual savings by the end of FY23. These savings, alongside ongoing savings achieved through reduced fraud and defaults, will be reinvested back into the business and will continue to support an improved EBITDA.

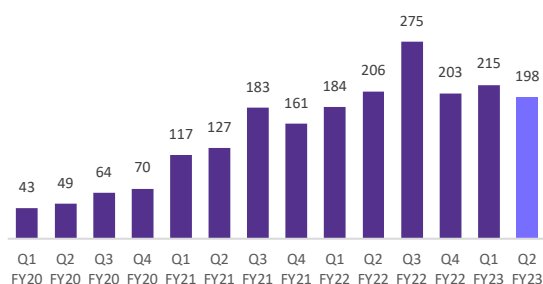
Stable group GMV and an improved customer base

GMV for the quarter was \$198 million, a reduction of 7.8 percent from the previous quarter. The softening in GMV this quarter was anticipated as we shifted our strategy away from focussing on rapid growth and towards achieving EBITDA profitability.

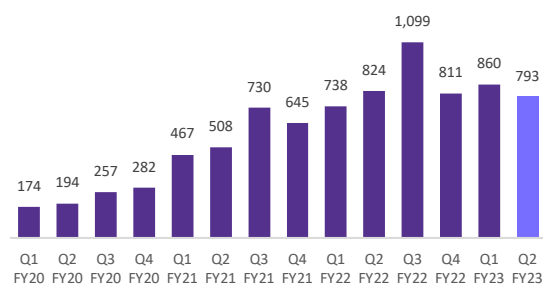
As a result of this shift in strategy, credit risk management processes have been tightened and suspected bad actors have been exited off the platform to reduce fraudulent activity and defaults and to improve the quality of the customer base, particularly in the UK.

While this has resulted in a reduction in active customers by 1.4% this quarter, GMV per customer continues to grow. There has also been strong growth in orders per active customer in the UK during the past year.

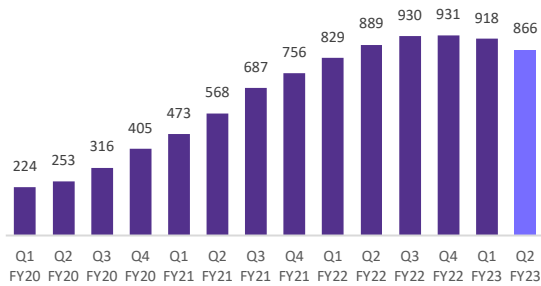
Quarterly GMV (\$m)



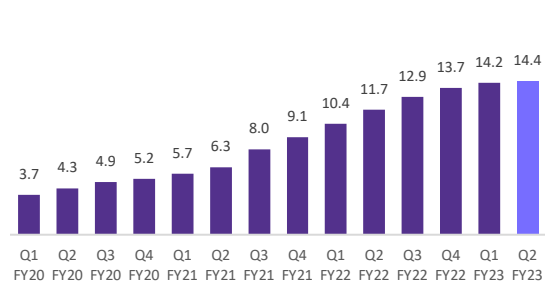
Annualised GMV (\$m)



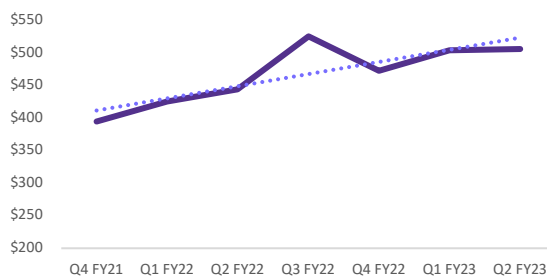
Active Customers ('000)



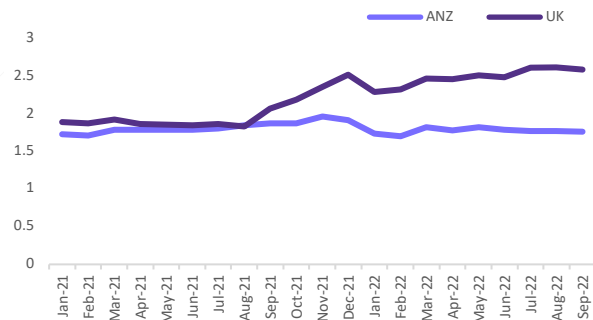
Active Merchants ('000)



GMV Per Customer



Orders Per Active Customer



Regional Update

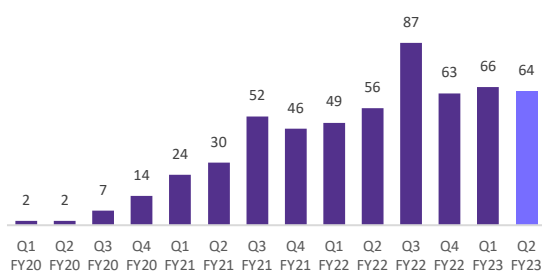
UK Numbers – Falling defaults and growing GMV per customer

GMV in the UK remains stable despite a reduction in active customers. GMV for the quarter was £64 million. There continues to be strong and sustained growth in GMV per customer, which has increased 32% year-on-year.

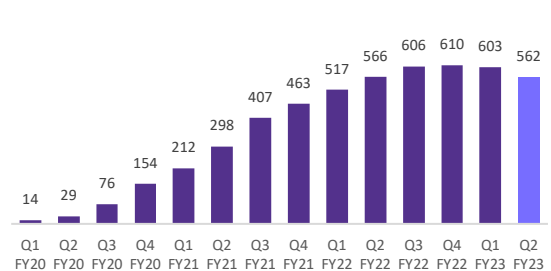
The reduction in active customers reflects the work underway in the UK to improve the quality of the customer base to reduce defaults and fraud. This work has seen a significant tightening of credit risk management processes and the active exiting of suspected bad actors off the Laybuy platform.

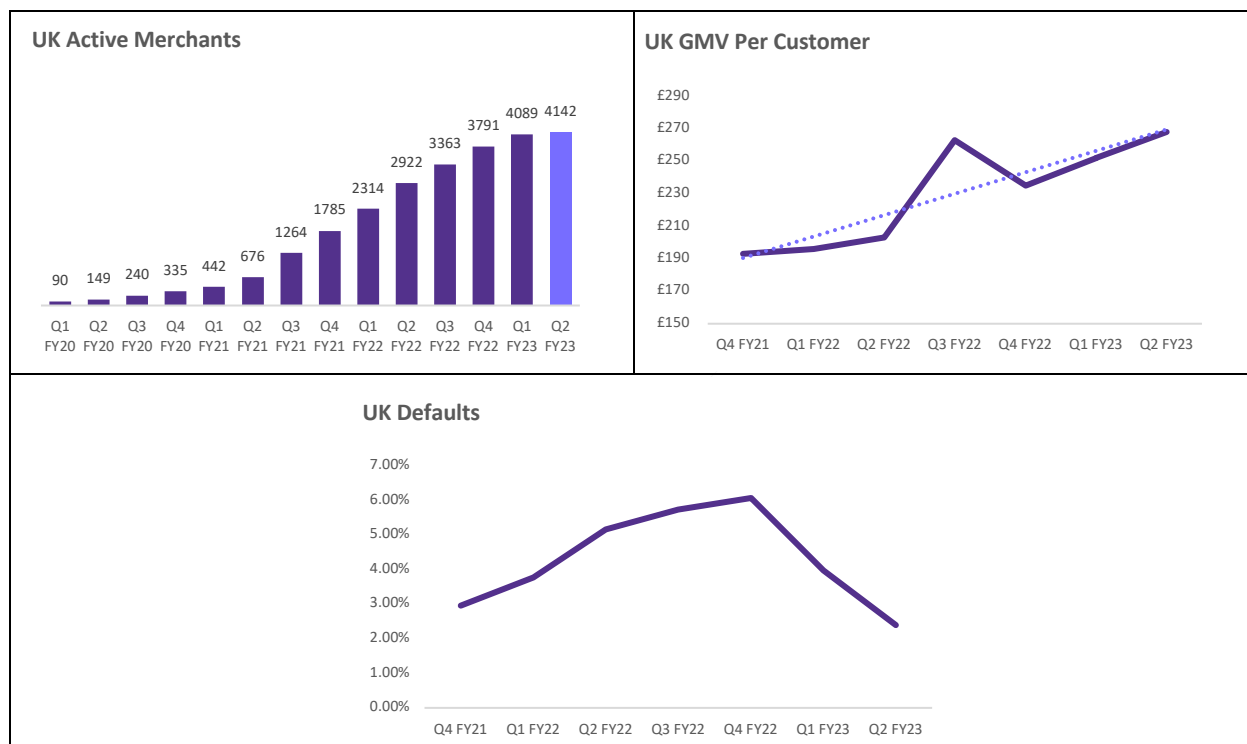
As a result, defaults and fraud in the UK have fallen from 6.06% in Q4 FY22 to 2.39% in Q2 FY23.

UK GMV (£m)



UK Active Customers ('000)

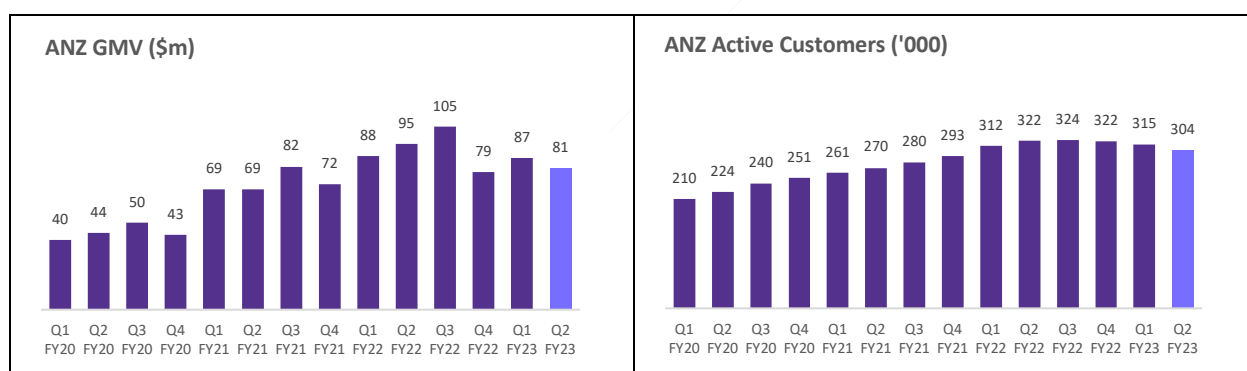


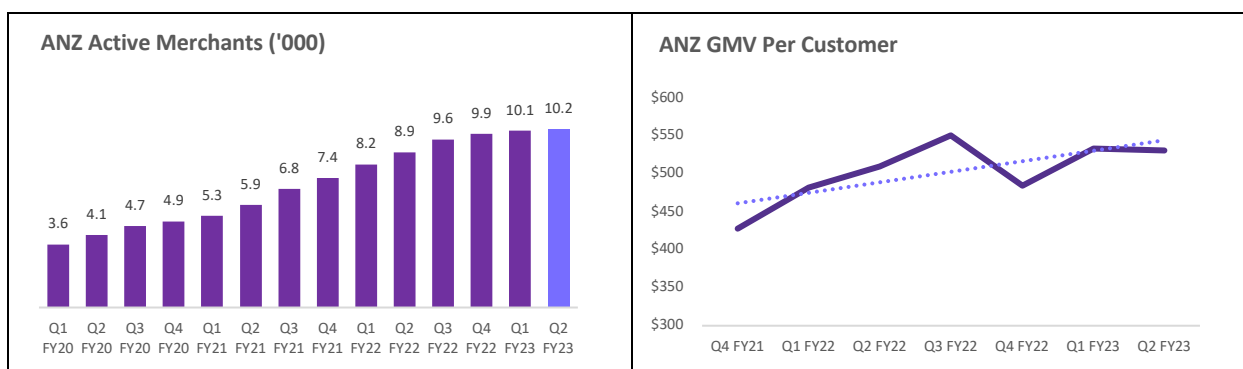


ANZ - Stable GMV in a softening retail market

GMV in ANZ was \$81 million this quarter, representing a reduction of 6.7% from the previous quarter. There has also been a reduction in active customers, reflecting a tightening of credit risk management processes in Australia to reduce relatively higher default rates in that country.

The softening of GMV also likely reflects that there were no significant retail events in ANZ during this quarter. When comparing GMV year-on-year, it should also be noted that New Zealand experienced a period of lockdown in the same quarter in 2022, which drove higher levels of e-commerce. In addition, we are currently experiencing a more constrained macroeconomic environment that is resulting in a reduced retail spend.





Capital management and debt facility update

During the quarter, we maintained a £30 million debt facility with Partners for Growth (PFG), which supports our UK customer loan book, and a \$30 million debt facility with Kiwibank, which supports our ANZ customer loan book. Kiwibank has recently confirmed a 1-year extension to this facility, now expiring in June 2024.

In line with our changing strategic objectives and our focus on achieving EBITDA profitability rather than rapid growth in GMV, we have agreed with Partners for Growth to reduce our Facility Limit from £30m to £20m. The debt facility will have the same maturity date. This revised debt facility better aligns with our revised requirements for the UK market. The revised Facility Limit is currently in the process of having the document execution formalities completed.

Facility	Facility Limit	Drawn as at 30 September 2022	Maturity
Kiwibank	\$30.0m	\$10.6m	Jun-24
Partners for Growth	\$56.5m (£30m)	\$18.9m	Oct-24
Total	\$86.5m	\$29.5m	

The receivables ledger decreased by \$1.6 million this quarter to \$41.8 million in line with more subdued GMV growth.

Our weekly repayment cycle means we are one of the most capital efficient BNPL providers in the market. As a result, our exposure to rising interest rates continues to be minimal with scenario modelling showing that a 2% increase in interest rates will have less than a 0.04 percent on NTM.

In addition, our UK debt facility with Partners for Growth has a fixed interest rate, which reduces as the drawn facility increases.

Cashflows

Our aggregate cash available was \$10.6 million as of 30 September 2022. This comprised of \$9.7 million of cash and cash equivalents² and \$0.9 million in funds available to draw on debt facilities based on the receivables ledger.

Operating Activities

Operating cash outflows were \$1.9 million this quarter. This is a significant decrease when compared to Q1 FY23 when operating cash flow was \$5.4 million. The reduction in the operating cash outflow this quarter reflects the work undertaken to improve efficiencies and reduce costs.

Research and development costs totalled \$0.3 million, \$0.8m lower than the previous quarter. These costs represent the external and internal costs relating to the development of the core Laybuy platform.

Expenditure includes salary and contractor costs as well as any related technology costs.

Product manufacturing and operating costs, which includes all the variable transaction costs, were \$3.7 million this quarter, approximately the same as Q1 FY23.

Advertising and marketing spend totalled \$2.3 million this quarter, slightly up from \$2.1 million from the previous quarter. Advertising and marketing spend includes amortization of costs previously paid as well as previous merchant incentive payments.

Employee costs were \$4.8 million this quarter, up from \$4.3 million for Q1 FY23. This increase reflects final payments made as part of the restructuring process undertaken by the company this quarter. A total of \$0.4 million was paid to related parties and their associates, comprising \$0.3 million by way of salary and wages under their terms of employment and a further \$0.1 million by way of fees payable to non-executive directors.

Administrative and corporate costs were \$0.8 million this quarter, compared to \$1.6 million in the prior quarter. Administrative and corporate costs include recruitment fees, legal fees, accounting and audit fees.

Investing Activities

Total payments capitalised this quarter were \$0.03 million, compared to \$0.07 million in the previous quarter.

² Includes \$0.3m of money held on trust with EML Payments in Australia and the UK to fund transactions through Tap to Pay and App Exclusives.

Financing Activities

Financing activities had a cash outflow of \$1.4 million this quarter, compared to a cash inflow of \$5.9 million in the previous quarter. The outflow this quarter was driven by a net repayment of debt facilities in line with the reduction in our receivables book during the quarter.

Outlook

The results this quarter allows Laybuy to reaffirm its commitment to achieve EBITDA profitability by the end of this financial year.

The work undertaken to reduce business costs and improve efficiencies, increase the quality of the customer base, and reduce fraudulent activity are already delivering significant improvements to the EBITDA. While we anticipate that our NTM will normalise between 3% and 4%, we expect a continued improvement in EBITDA as the financial benefits of the various changes that have been made are realised.

The Board and management team remain focussed on building on the results delivered this quarter. This includes continued cost management and appropriate reprioritisation of funds into those activities that can further support the company's pathway to EBITDA profitability.

It is acknowledged that the global macroeconomic environment continues to deteriorate as both governments and central banks respond to ongoing inflationary pressure. Inevitably this will have an impact on both consumers and on the retail sector. As a result, and consistent with our commitment to being the most responsible BNPL lender in the market, we do expect a higher possibility that GMV will be more subdued in the medium term.

The proactive actions taken by the Board and management have already demonstrated that we can continue to deliver against our strategy despite experiencing a tightening economic environment in each of the countries we operate.

Achieving EBITDA profitability does not rely on rapid GMV growth. A targeted and sustainable GMV growth trajectory, as well as the tightening of our credit risk management processes, helps mitigate against the risk of rising defaults and markedly improves NTM.

In addition, our capital efficient business model ensures we are protected from the impact of rising interest rates. A 2% increase in underlying interest rates is modelled to have less than a 0.04% impact on NTM.

Laybuy Managing Director Gary Rohloff commented: "Laybuy has made significant progress on its pathway to EBITDA profitability this quarter and this allows us to face the future with growing confidence.



“It is testament to the focus and commitment of our team that we have recorded a positive EBITDA result for the Group in September. We remain committed to building on our September result and reporting consistent EBITDA profitability by the end of this financial year. The results we have delivered this quarter show that we are well on track to achieve this.

“While the progress we have made to date has been extremely positive, we do know that we have more work to do. The Board is focussed on ensuring Laybuy achieves its goal of being a profitable and self-sustaining business. This means we will make the necessary decisions required to achieve this, including reprioritising spending into those areas that deliver a high return on investment.

“Doing this will ensure that we can deliver ongoing EBITDA profitability, sustainable growth and long-term shareholder value.”

ENDS

Zoom webinar

Event: LBY Investor Webinar

Presenters: Managing Director, Gary Rohloff, and Chief Financial Officer, Mark Conelly

Time: Wednesday 2 November 11.00 AEST / 13:00 NZST

Where: Zoom Webinar, details to be provided upon registration. To register your interest for the webinar please click through to the link below.

Registration Link:

https://laybuy.zoom.us/webinar/register/WN_Zlq7B2X2QXWHbRjntg_LhQ

After registering your interest, you will receive a confirmation email with information about joining the webinar. Participants will be able to submit questions via the Panel throughout the presentation, however, given we are expecting a large number of attendees we encourage shareholders to send through questions via email beforehand to investors@laybuy.com

For more information, please contact:

Gary Rohloff
Managing Director

Mark Conelly
Chief Financial Officer

Stephen Jones
Head of Corporate Communications

investors@laybuy.com

investors@laybuy.com

stephen.jones@laybuy.com

This announcement was approved for release by the Board of Directors of Laybuy Group Holdings Limited.

About Laybuy

Launched in 2017, Laybuy is a rapidly growing fintech company providing buy now, pay later services partnering with over 14,000 retail merchants. Laybuy is available in New Zealand, Australia and the UK. The unique, fully integrated payment platform is helping to revolutionise the way consumers spend. Laybuy is simple. Customers can shop now, receive their purchase straight away, and pay it off over six weekly payments without paying interest. For more information visit laybuyinvestors.com.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B



Name of entity:

Laybuy Group Holdings Limited

ABN

ARBN 642 138 476

Quarter ended ("current quarter")

30 September 2022

Consolidated statement of cash flows		Current quarter NZ\$'000	Year to date (6 months) NZ\$'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	181,804	366,729
1.2	Payments for		
	(a) research and development	(306)	(1,379)
	(b) product manufacturing and operating costs	(3,657)	(7,380)
	(c) advertising and marketing	(2,281)	(4,346)
	(d) leased assets	(284)	(592)
	(e) staff costs	(4,831)	(9,113)
	(f) administration and corporate costs	(753)	(2,341)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	(684)	(1,262)
1.6	Income taxes (paid)/refunded	584	798
1.7	Government grants and tax incentives	-	-
1.8	Other (payments to merchants)	(171,518)	(348,494)
1.9	Net cash from / (used in) operating activities	(1,926)	(7,380)
Consolidated statement of cash flows (continued)		Current quarter NZ\$'000	Year to date (6 months) NZ\$'000
2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		

	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	(12)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets (payments for development of intangible assets)	(33)	(91)
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(33)	(103)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	1,984	11,994
	Consolidated statement of cash flows (continued)	Current quarter NZ\$'000	Year to date (6 months) NZ\$'000
3.6	Repayment of borrowings	(3,207)	(7,307)
3.7	Transaction costs related to loans and borrowings	(150)	(150)
3.8	Dividends paid	-	-
3.9a	Other (payment to original shareholders from sell down of shares)	-	-

3.9b	Other (payments for lease liabilities)	(5)	(10)
3.10	Net cash from / (used in) financing activities	(1,378)	4,527

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	13,109	12,354
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,926)	(7,380)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(33)	(103)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,378)	4,527
4.5	Effect of movement in exchange rates on cash held	(59)	315
4.6	Cash and cash equivalents at end of period	9,713	9,713

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter NZ\$'000	Previous quarter NZ\$'000
5.1	Bank balances	8,731	12,875
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details) ³	982	234
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	9,713	13,109

6.	Payments to related parties of the entity and their associates	Current quarter NZ\$'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	401
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

³ Money held on trust with EML Payments in Australia and the UK to fund transactions through Tap to Pay and App Exclusives. These funds were received in April 2022.

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end NZ\$'000	Amount drawn at quarter end NZ\$'000
7.1 Loan facilities	88,434	29,404
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	88,434	29,404
7.5 Unused financing facilities available at quarter end		866
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
<p>Laybuy had two debt facilities in place at 30 September 2022. The NZ\$30 million debt facility with Kiwibank funded the Laybuy New Zealand and Australia loan book while the £30 million debt facility with Partners for Growth funded the Laybuy UK loan book.</p> <p>The Kiwibank facility is advanced against the New Zealand and Australian receivables ledgers. The interest rate for the quarter was 5.53%. The facility has been extended to mature in June 2024. The drawn down balance at 30 September 2022 was NZ\$10.6 million. The Kiwibank facility interest rate is calculated as being the sum of the cost of funds + 2.5% margin. Therefore, though it is likely that the ANZ economies will see increased interest rates, the impact to Laybuy is likely to be minimal, coupled with the high book turn Laybuy experiences.</p> <p>The Partners for Growth (PFG) facility is advanced against the UK receivables ledger. The interest rate for the quarter and YTD was 11%. The facility matures in October 2024. The drawn down balance at 30 September 2022 was £9.7 million. The interest rate on this facility is fixed at 11% and then reduces to 10% once >£15 million is drawn. Laybuy and PFG have agreed to reduce the facility total to £20m and are currently in the process of completing document execution formalities.</p> <p>In addition, Laybuy had funds of NZ\$2.7 million in transit from payment processing providers. Therefore, with the inclusion of these funds, total cash resources available at 30 September 2022 was NZ\$12.4million.</p>		

8. Estimated cash available for future operating activities	\$NZ\$'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,926)

8.2 Cash and cash equivalents at quarter end (item 4.6)	9,713
8.3 Unused finance facilities available at quarter end (item 7.5)	866
8.4 Total available funding (item 8.2 + item 8.3)	10,579
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	5.5

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:
	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?
	Answer: N/A
	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
	Answer: N/A
	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
	Answer: N/A
	<i>Where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 27 October 2022

Authorised by: Authorised by the Board of Directors
(Name of body or officer authorising release – see note 4).

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 107: *Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.