XERO LIMITED

Interim Report FY24

Contents

Highlights

Operating revenue

$799.5m

Up 21% YoY

Subscribers

3.945m

Up 449,000 YoY

Annualised monthly recurring revenue

$1,769.5m

Up 19% YoY

Average revenue per user

$37.38

Up 6% YoY

Total subscriber lifetime value

$14.8b

Up $1.8b YoY

Net profit

$54.1m

Up $70.2m YoY

Gross margin percentage

87.5%

Up 0.5pp YoY

EBITDA

$206.1m

Up 90% YoY

Operating income

$67.4m

Up $46.7m YoY

Free cash flow

$106.7m

Up $91.1m YoY

Chair and CEO Review

Xero Chief Executive Officer, Sukhinder Singh Cassidy with Xero Chair, David Thodey AO

Dear shareholder,

Xero continued to deliver strong revenue growth during the first half of our 2024 financial year (H1 FY24), which contributed to the emerging profitability of our business.

This strong result was delivered during Sukhinder's very active first eight months as CEO. This included implementing our organisational restructure, evolving our executive leadership team, exiting Waddle, and completing a review of our US operations and customer segmentation — while continuing to deliver business growth and products for our customers.

In the six months to 30 September 2023, we delivered strong operating results. We grew operating revenue by 21% to $799.5 million. This, along with disciplined cost management and the flow through of our restructuring, supported a 90% increase in EBITDA compared to H1 FY23 to $206.1 million. This reflected our focus on balancing growth and profitability, which resulted in an increase in free cash flow to $106.7 million, representing a free cash flow margin of 13.3% compared to 2.4% in the six months to 30 September 2022 (H1 FY23). This focus was also reflected in our net profit, which increased to $54.1 million compared to a net loss of $16.1 million in H1 FY23.

Our operating expense to operating revenue ratio for the half was 79.1%, down from 83.9% in H1 FY23. This lower ratio improved operating income — a measure that reflects underlying business performance — which grew to $67.4 million. Total subscribers increased 13% since H1 FY23 to 3.95 million. We delivered low churn, improved average revenue per user (ARPU), and increased total subscriber lifetime value (LTV).

The opportunity ahead for Xero is significant. We have a product customers love and value, shown by our continued revenue growth and improving profitability. We know our business critical tools can help customers navigate the complex global macroeconomic environment, enabling them to run their businesses more efficiently.

We remain confident that Xero is well positioned to take advantage of this significant opportunity, while focusing on balancing growth and profitability, and delivering value for all stakeholders. We continue to look to Rule of 40[1] as a useful performance evaluation measure in managing the balance of growth and profitability.

1. Rule of 40 is defined as the sum of annual revenue growth percentage and annual free cash flow margin percentage (free cash flow as a percentage of revenue)

FIFA Women's World Cup 2023™

Xero customer Blakeaway

Market highlights

Australia and New Zealand — We delivered 21% revenue growth (22% in constant currency) from H1 FY23 to $456.3 million, outpacing subscriber growth of 13%, to bring total subscribers to 2.27 million. ARPU expanded 4% to $36.99 but increased 9% on a constant currency basis, mainly from price rises. Australia revenue grew by 22% year on year, with 122,000 subscribers added in the half. New Zealand revenue increased by 15% and we added 17,000 subscribers in the half. This is a great outcome in a region with high cloud accounting penetration.

International — Our international markets delivered 22% revenue growth (18% in CC) to $343.2 million, with ARPU expanding 8% to $37.91 (7% in CC). Total subscribers reached 1.67 million. Revenue growth was partly impacted by the absence of Xerocon revenue as no Xerocons took place in the International markets in H1 FY24. Excluding this, revenue growth was higher at 25% (21% in CC).

Our UK business continued to deliver strong revenue growth, which increased 23% (18% in CC) to $215.6 million. Net subscriber additions were 40,000 in the half, with total subscribers up 13% year on year. Subdued subscriber growth largely reflected a lack of Making Tax Digital (MTD) demand, and accountants and bookkeepers managing undeployed inventory[2] which had limited impact on revenue growth due to the low ARPU of these subscriptions. We continue to see a strong opportunity to digitise small business cloud accounting in the UK, and remain focused on product and go-to-market initiatives.

In North America, headline revenue growth was 9% (6% in CC), with underlying growth of 19% to $47.3 million[3]. Total subscribers grew 12% to 396,000, with net additions in the first half of 12,000. Our US business has good momentum and delivered a good balance between subscriber growth and ARPU expansion. Our subscriber outcome in Canada was disappointing. We have been working through changes to our teams and sales motions in this market. This translated to a good revenue outcome but impacted subscriber additions.

In our Rest of World markets, revenue grew 29%. Net subscriber additions were 13,000 in the half, with total subscribers up 10% year on year. The largest driver of subscriber growth was South Africa, where we continue to see good momentum.

Xero's H1 FY24 achievements

During the half, we launched a number of new product features and updates. These included:

- Single client record, which provides one source of truth for client records across Xero Practice Manager and Xero HQ globally, and Xero Tax (Australia and New Zealand). This helps to streamline advisor workflows and remove duplicates and double-handling of data
- Opening our closed beta trial for sales tax features to all US customers, which gives early access to our auto sales tax feature powered by Avalara
- Expanding Planday's offering for small businesses in Australia, including supporting three more awards, and inclusion in Xero add-ons, and billing support
- The successful migration of all customers to our new reporting tool that offers enhanced flexibility and customisation, as part of our multi-year platform modernisation strategy

2. Undeployed inventory or idle subscriptions are those purchased by accountants and bookkeepers as part of their digitisation process, but are yet to be attached to an underlying small business

3. Underlying revenue growth excludes revenue associated with Xerocon New Orleans and LOCATE in H1 FY23

Key business highlights for the half include:

- Completing the sale of one of our smaller, early-stage businesses, Waddle, to the Commonwealth Bank of Australia's venture-scaling arm, x15ventures
- Xerocon in Sydney, which attracted several thousand accounting, bookkeeping and ecosystem partners from across our markets. Xerocon continues to be an important partner engagement opportunity. We're excited to bring Xerocon to London and Nashville in 2024
- Our support of the FIFA Women's World Cup 2023™ as an Official FIFA Women's Football Partner. The tournament was watched by more than two billion people worldwide and was the most attended women's sporting event in history. The event helped boost Xero's visibility and promote our brand across our markets
- For the first time, original research written by our Xero Small Business Insights (XSBI) team was published in an academic journal, the *Australian Economic Review*
- Entering into a global partnership with Sumday, an Australian carbon accounting start-up, to bring carbon accounting software and education to more advisors worldwide
- The launch of the first ever Xero Beautiful Business Fund as part of our efforts to give back to our small business communities. The fund provides the opportunity for small businesses to access more than NZ$750,000 in funding across four categories, with 28 regional winners and four global winners to be announced in mid November

Xero Beautiful Business Fund results

We are delighted to have received more than 5,500 applications from small businesses in Australia, Canada, New Zealand, Singapore, South Africa, the UK and the US in the first year of the Xero Beautiful Business Fund. We're impressed with the applicants' diversity, vision and passion. We look forward to announcing the winners shortly.

The fund spans four categories:

- Innovating for sustainability
- Trailblazing with technology
- Strengthening community connection
- Upskilling for the future

The Xero Beautiful Business Fund closely connects to our purpose to make life better for small businesses, their advisors and communities around the world.

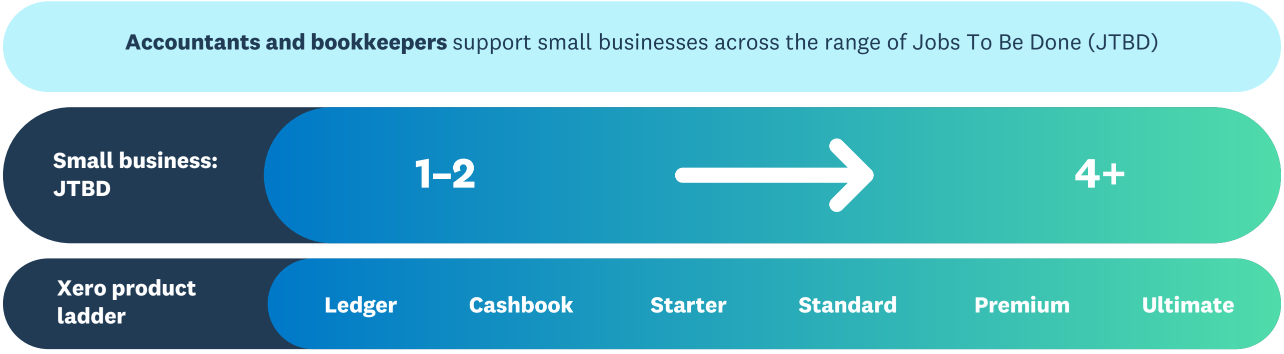
xero BEAUTIFUL BUSINESS FUND

Evolving Xero to deliver on our Global Aspirations

As we shared in our FY23 annual results, Xero is evolving to become more focused and customer centric, to achieve a better balance of growth and profitability, and to become a higher performing global SaaS company. In this new chapter, we will look to optimise our levers for growth and deepen customer engagement across our portfolio. As part of this evolution, we are sharing updates on four key areas:

1. Sharpening our focus on segments and mix as a key lever for growth

We have a good understanding of our customers, how they use Xero, and how they work with accountants and bookkeepers. From small businesses with simpler needs, to those with more jobs to be done, Xero has a range of product offerings used by small business customers and the accountants and bookkeepers who support them.



Going forward our opportunity is to sharpen our focus on our customer segments and mix further. This means we will seek to achieve revenue growth with a better balance of subscriber volume and mix.

In reviewing our segments and mix, we have identified a small pool of long idle[4] lower value subscriptions, held by digitising accounting and bookkeeping practices, that we no longer expect to deploy in a reasonable timeframe. Removing these subscriptions will support an evolution of our sales motions by allocating resources towards improving mix and working with accountants and bookkeepers to acquire and deploy their Xero inventory through smaller and more frequent sales motions.

We estimate this pool is between 150,000-200,000 subscriptions. The majority are located in our International segment across North America and the UK with a smaller portion in Australia and Rest of World. We plan to remove these subscriptions after the end of FY24, during H1 FY25. Based on the midpoint of that range, at 30 September 2023 these subscriptions had an ARPU of approximately $3.70 and, if they were removed at that date, group ARPU would increase by approximately 3-5%. These long undeployed subscriptions are a small percentage of our overall base and we expect their removal to have minimal impact on FY25 revenue.

2. US business review shows focused growth opportunity in two key segments with more consistent execution

Over the half, we undertook work to form a deeper and more nuanced view of our US strategy and execution. We continue to see a strong opportunity to deliver value for US customers.

Our review identified varied approaches in the US over a number of years, with inconsistent sales motions (such as targeting multiple segments with sub-optimal onboarding), frequent sales leadership changes, and an inconsistent product and technology investment approach. We've learned from our experience but also identified our strengths, which include:

- Good product fit that is desired and offers value to two key US customer segments: small businesses with multiple jobs to be done, and accountants and bookkeepers with a focus on Client Advisory Services (CAS)
- Our go-to-market approach where we are increasingly aligning our sales motions to our customer segments and mix
- Our open ecosystem and partnering approach as a key differentiator, which serves us well in a market where customers use a variety of platforms and want choice in their app stack

Our level of investment has been measured with average annual net investment in the US over the last 10 years of NZD ~$30 million[5], which we believe is comparable to US venture backed businesses.

We now have a better understanding of where we can add value, specifically within this large and complex market. Looking ahead, we will be targeted and invest at a reasonable rate relative to top line growth generated, with a focus on investment in the right products, for the right segments, with the right go-to-market motions.

We'll execute on this approach through a revised operating structure which is designed to better respond to North America needs. This has included giving our US and Canadian country heads direct accountability by reporting to our new Chief Revenue Officer, and enhancing our product and technology efforts with more US-based product and engineering support for improved localisation.

We believe this targeted approach will enable us to grow with more focus, while delivering value to the right customers in this important market.

4. Long idle subscriptions are those that have been undeployed for more than 24 months and that are not expected to be deployed in a reasonable timeframe

5. Net investment refers to direct Sales and marketing, and Product design and development costs in the US business netted off against Revenue and Costs to serve the US business

Xero customer Butter&

Xerocon Sydney August 2023

3. Evolving Xero's executive leadership team to manage a global portfolio

Over the last several months, we have made changes to our executive leadership team and structure to bring new capabilities to Xero, and more effectively manage our global portfolio. We welcomed several new executives, including:

- Ashley Grech joined us in August as our new Chief Revenue Officer responsible for our go-to-market functions, including global sales operations, regional managing directors and leadership, customer experience, ecosystem and partnerships, and revenue operations across all geographies. Before Xero, Ashley was Chief Operating Officer for Recharge, a payments solution provider, and Global Head of Sales for Square (now Block)
- Michael Strickman joined us in October as our new Chief Marketing Officer, driving our performance marketing, brand marketing and communications teams globally. Michael joined us from Uber where he was Vice President, Performance Marketing and Growth, and prior to that led global demand generation for TripAdvisor
- Diya Jolly joined us in April as our new Chief Product Officer to lead our product management, product marketing and user experience globally. Prior to Xero, Diya was Chief Product Officer at Okta, a global SaaS security provider, and previously led YouTube's advertising monetisation products. In September, Diya assumed additional responsibilities for our global product engineering team. Diya is closely supported in her expanded portfolio by Chris Patalano who joined Xero's senior leadership team in October as Executive Vice President for Engineering. Prior to Xero, Chris was Chief Technology Officer of Realtor.com, and previously was an engineering executive at Pandora

These new leaders complement our existing, tenured and deeply experienced executive leadership team, which includes:

- Damien Coleman, Chief Legal Officer & Company Secretary
- Kirsty Godfrey-Billy, Chief Financial Officer
- Nicole Reid, Chief People Officer
- Angad Soin, Chief Business Operations & Strategy Officer

As part of our leadership evolution, Rachael Powell, Chief Customer Officer; Mark Rees, Chief Technology Officer; and Chris O'Neill, Chief Growth Officer, decided to leave Xero to pursue new opportunities. We want to sincerely thank Rachael, Mark and Chris for their contributions to Xero, our customers and people, and wish them all the best in the future.

4. AI — a key part of Xero's current offerings and opportunity to invest and experiment further

We have always been committed to innovating to help businesses streamline time consuming and manual processes, while delivering useful and timely insights to help them make more informed decisions. AI is a core technology that delivers on this commitment and already powers many of Xero's products. Our approach to AI, including the opportunity presented by generative AI, is focused on four key areas:

- Helping customers reduce toil and run their businesses more efficiently and effectively by automating and streamlining repetitive, time-consuming work
- Delivering the right insights at the right time using AI powered insights to help customers thrive
- Introducing conversational or next-generation interfaces that can better assist customers and improve their experience with Xero
- Increasing the productivity of our teams so they can deliver faster for our customers

We will also continue to use AI in ways that are secure, safe and maintain our responsibility as a trusted platform for our customers.

In line with our strategy, this half we:

- Improved Xero's bank reconciliation tool, which now applies machine learning to populate new contacts that aren't already in a customer's Xero contact list, saving small businesses time on repetitive, manual data entry
- Introduced short-term cash flow forecasting in Xero Analytics Plus to now include predictions for recurring invoice and bill payments. These insights give small businesses more clarity of their potential future cash flow
- Launched new functionality using generative AI in Xero Central, our customer support and learning portal, to deliver accurate support answers faster. It's early days but we have already seen positive signs from customers using the functionality
- Commenced experimentation in the marketing and engineering functions

We're excited by the opportunity to expand our own use of AI into the future to create beautiful customer experiences.

We'll share more updates on Xero's evolution and aspirations at our inaugural Investor Day in February 2024. This will also be an opportunity for investors to meet and interact with our full leadership team.

Outlook

Along with reinvestment in strategic priorities, management is targeting an operating expense to operating revenue ratio in FY24 of around 75%. This will improve operating income margin compared to FY23.

Xero's long-term aspiration is to continue to improve its operating expense ratio and its operating income margin, although a specific timeline has not been set. These ratios, and their component parts, may vary from period to period as we identify opportunities for disciplined, customer-focused growth.

Looking ahead

We've demonstrated strong momentum throughout the half and we continue to put in place the right foundations to take advantage of the significant opportunity ahead for Xero. As we evolve, we remain focused on our vision, to be the world's most insightful and trusted small business platform, and we're committed to bringing the benefits of doing business in the cloud to more small businesses around the world. We're positive about our multiple levers to deliver growth into the future, focusing on improved balance between subscriber growth and mix. We continue to deliver faster and smarter for our customers, and we're working to deepen their engagement and experience with Xero as a critical business tool.

On behalf of Xero's Board and leadership team, we'd like to thank our shareholders, people, customers and partners for your ongoing loyalty and support of our vision.

Thanks to everyone who supports Xero.

David Thodey
Chair

Sukhinder Singh Cassidy
Chief Executive Officer

Our Performance

You should read the following commentary with the interim financial statements and the related notes in this report.

Some parts of this report include information regarding Xero's (the Xero Group) plans and strategy, and include forward-looking statements about Xero and the environment in which it operates that involve risks and uncertainties. Actual results and the timing of certain events may differ materially from future results expressed or implied by the forward-looking statements contained in this report. All amounts are in New Zealand dollars (NZD) except where indicated. References to the period or H1 FY24 are for the six months ended 30 September 2023. References to the comparative period or H1 FY23 are for the six months ended 30 September 2022. References to H2 FY23 are for the six months ended 31 March 2023.

Non-GAAP measures have been included as Xero considers they provide useful information for readers to assist in understanding Xero's financial performance and are used when management measures performance. Non-GAAP financial measures should not be viewed in isolation or considered as substitutes for measures reported in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Non-GAAP financial measures do not have a standardised meaning prescribed by NZ IFRS or Generally Accepted Accounting Practice (GAAP) and therefore may not be comparable to similar financial information presented by other entities. Xero's Non-GAAP financial information has not been subject to audit or review.

Business results

Six months ended 30 September	2023 ($000s)	2022 ($000s)	change
Subscription revenue	762,908	622,195	23%
Other operating revenue	36,639	36,317	1%
Total operating revenue	**799,547**	**658,512**	**21%**
Cost of revenue	(99,757)	(85,600)	17%
Gross profit	**699,790**	**572,912**	**22%**
Gross margin percentage	87.5%	87.0%	0.5pp*
Sales and marketing	(277,220)	(238,980)	16%
Product design and development	(256,392)	(230,710)	11%
General and administration	(96,634)	(82,501)	17%
Restructuring costs	(2,131)	-	NM**
Total operating expenses	**(632,377)**	**(552,191)**	**15%**
Percentage of operating revenue	79.1%	83.9%	-4.8pp
Operating income	**67,413**	**20,721**	**NM**
Other income and expenses	10,403	12,188	-15%
Asset impairments, impairment reversals and disposals	1,636	(26,532)	NM
Earnings before interest and tax	**79,452**	**6,377**	**NM**
Percentage of operating revenue	9.9%	1.0%	8.9pp
Net finance income/(expense)	7,412	(14,649)	-151%
Income tax expense	(32,780)	(7,858)	NM
Net profit/(loss)	**54,084**	**(16,130)**	**NM**
Percentage of operating revenue	6.8%	-2.4%	9.2pp

** pp stands for percentage point*

*** NM stands for not meaningful*

Xero has delivered continued revenue momentum with emerging profitability in H1 FY24. Operating revenue growth was 21% (20% in constant currency) compared to H1 FY23, illustrating the strength of Xero's value proposition.

Gross profit grew 22% in H1 FY24 from the comparative period, broadly consistent with operating revenue growth. This resulted in a gross margin of 87.5%, up 0.5 percentage points on H1 FY23.

Operating income increased by $46.7 million to $67.4 million in H1 FY24. EBITDA[1] increased by $97.5 million, or 90%, to $206.1 million. This outcome reflects our focus on balancing growth and profitability, as well as continued revenue momentum and the flow through of the restructuring program announced in March 2023. It also benefits from a reduction in non-cash impairments, with $25.9 million incurred in H1 FY23.

Following the restructuring program and natural attrition, offset by our investment in key strategic areas, the number of Xero's full-time equivalent employees reduced from 5,080 at 31 March 2023 to 4,242 at 30 September 2023[2]. This, along with disciplined cost management, contributed to total operating expenses as a proportion of operating revenue falling from 83.9% in H1 FY23 to 79.1% in H1 FY24. Operating expenses in H1 FY24 included the impacts of Xerocon Sydney as well as costs relating to Xero's partnership with the FIFA Women's World Cup 2023™.

Xero added 204,000 subscribers in H1 FY24, bringing total subscribers to just under four million, a 13% increase, or 449,000 net subscribers added since 30 September 2022[3]. Operating revenue growth outpaced subscriber growth, largely as a result of price changes in FY23. Growth in our platform products including financial services-related revenue as well as Xero add-ons such as payroll, and favourable foreign exchange movements also contributed.

Net finance expenses of $14.6 million in H1 FY23 swung to net finance income of $7.4 million in H1 FY24, driven by higher interest income. This was due to a combination of higher global interest rates and an increase in short-term deposit balances compared to the comparative period.

The group recognised a net profit for H1 FY24 of $54.1 million compared to a net loss of $16.1 million in H1 FY23, which was impacted by the impairment of Waddle. The improved H1 FY24 result was driven by the reshaping of our organisation, with a reduced cost base combined with strong revenue growth resulting in better profitability. This was achieved while still investing in product development and customer-centric tools.

Cash receipts from customers grew 22% from the comparative period, consistent with revenue growth. Free cash flow increased by $91.1 million, from $15.6 million in H1 FY23 to $106.7 million, with $24.5 million of this increase due to higher net interest income received with the residual reflecting improved profitability[4].

Operating Income

Operating income is a non-GAAP financial measure that has been included to demonstrate the operating performance of the business. Xero defines operating income as total operating revenue less cost of revenue less total operating expenses.

Six months ended 30 September	2023 ($000s)	2022 ($000s)	change
Total operating revenue	799,547	658,512	21%
Cost of revenue	(99,757)	(85,600)	17%
Operating expenses excluding restructuring costs	(630,246)	(552,191)	14%
Restructuring costs	(2,131)	-	NM
Operating income	**67,413**	**20,721**	**NM**
Operating income margin	8.4%	3.1%	5.3pp

Operating income increased $46.7 million compared to H1 FY23, to $67.4 million in H1 FY24. This resulted in a 5.3 percentage point increase in the operating income margin. This demonstrates our continued revenue momentum alongside emerging operating efficiencies as we seek to better balance growth and profitability.

1. Details on EBITDA can be found on page 11

2. FTEs can be found on page 18

3. Subscribers can be found on page 14

4. Free cash flow can be found on page 11

Earnings before interest, tax, depreciation, and amortisation (EBITDA)

EBITDA disclosures (which are non-GAAP financial measures) have been included as Xero believes they provide useful information for readers in understanding Xero's financial performance. EBITDA is calculated by adding back net finance (income)/expense, depreciation and amortisation, and income tax expense to net profit/(loss).

Six months ended 30 September	2023 ($000s)	2022 ($000s)	change
Net profit/(loss)	**54,084**	**(16,130)**	**NM**
Add back: net finance (income)/expense	(7,412)	14,649	-151%
Add back: depreciation and amortisation	126,638	102,174	24%
Add back: income tax expense	32,780	7,858	NM
EBITDA	**206,090**	**108,551**	**90%**
EBITDA margin	25.8%	16.5%	9.3pp

EBITDA increased by $97.5 million, or 90%, compared to H1 FY23 driving an EBITDA margin improvement of 9.3 percentage points, from 16.5% in H1 FY23 to 25.8% in H1 FY24. This was largely due to operating revenue growth of 21% exceeding the growth in operating expenses of 15%, and non-cash impairments of $25.9 million incurred in H1 FY23.

Adjusted EBITDA (a non-GAAP financial measure) is provided as Xero believes it provides useful information for users to understand and analyse the underlying business performance. Adjusted EBITDA is calculated by adding back certain non-cash, revaluation and other accounting adjustments and charges to EBITDA.

Six months ended 30 September	2023 ($000s)	2022 ($000s)	change
EBITDA	**206,090**	**108,551**	**90%**
Add back: restructuring costs	2,131	-	NM
Add back: non-cash impairments, impairment reversals; and costs relating to the exit of Waddle	(6,777)	25,940	-126%
Add back: non-cash revaluations	3,078	(10,782)	-129%
Adjusted EBITDA	**204,522**	**123,709**	**65%**
Adjusted EBITDA margin	25.6%	18.8%	6.8pp

Adjusted EBITDA increased by 65%, or $80.8 million, from $123.7 million in H1 FY23 to $204.5 million in H1 FY24. This reflects cost of revenue and operating expenses excluding depreciation and amortisation increasing by 13%, and revenue increasing by 21% compared to H1 FY23. As a result, adjusted EBITDA margin increased 6.8 percentage points.

Cash flows and liquidity

Free cash flow is a non-GAAP financial measure that is included to demonstrate net cash generated by, and invested into, the business. Xero defines free cash flow as cash flows generated from operating activities less cash flows used for investing activities, excluding cash used for acquisitions of, and investments into, businesses and strategic assets.

Six months ended 30 September	2023 ($000s)	2022 ($000s)	change
Receipts from customers	804,238	660,200	22%
Net interest received	24,578	45	NM
Income tax paid	(5,962)	(6,255)	-5%
Other operating cash flows	(592,892)	(494,276)	20%
Total cash flows from operating activities	**229,962**	**159,714**	**44%**
Investing activities	(127,364)	(145,136)	-12%
Add back: acquisitions	8,663	-	NM
Add back: investment into businesses and strategic assets	(4,595)	991	NM
Free cash flow	**106,666**	**15,569**	**NM**
Percentage of operating revenue	13.3%	2.4%	10.9pp

Free cash flow increased by $91.1 million from $15.6 million in H1 FY23 to $106.7 million in H1 FY24. As a percentage of total operating revenue, this was a 10.9 percentage point increase from 2.4% in H1 FY23 to 13.3% in H1 FY24.

Receipts from customers increased by 22%, or $144.0 million, to $804.2 million, which was consistent with operating revenue growth of 21%. Total cash flows from operating activities increased by 44%, or $70.2 million, to $230.0 million as payments to suppliers and employees grew more slowly (20%) than receipts from customers (22%). Payments to employees were impacted by our restructuring program as we utilised provisions raised in FY23, excluding these redundancy payments of $31.0 million, payments to suppliers and employees would have grown 14%. This reflects the cost saving benefits of our restructuring program over H1 FY24. Free cash flow was also positively impacted by an increase in net interest received of $24.5 million.

Cash outflows from investing activities decreased by 12%, or $17.8 million, compared to H1 FY23. Investing cash flows excluding acquisitions and investments into businesses and strategic assets, decreased by $20.8 million, or 14%. This was largely due to lower capitalised spend on product design and development in H1 FY24 reflecting the timing of projects.

Total available liquidity (defined as cash and cash equivalents, and short-term deposits) at 30 September 2023 was $1.3 billion, compared to $1.1 billion at 30 September 2022, mostly due to free cash flow generation.

Operating revenue

Subscription revenue comprises recurring fees from subscribers to Xero's cloud-based platform, products and services. Within a subscription, customers also receive support services and product updates.

Total operating revenue includes subscription revenue as well as revenue from other related services including revenue share agreements with financial services providers, software licences, and the implementation of online accounting and other software services.

Constant currency operating revenue (a non-GAAP financial measure) is provided to assist readers in understanding and assessing Xero's financial performance, excluding the impact of foreign currency fluctuations. Constant currency operating revenue is calculated by translating operating revenue for H1 FY24 at the effective exchange rates for H1 FY23.

Six months ended 30 September	2023 ($000s)	2022 ($000s)	change	change in constant currency
Subscription revenue	762,908	622,195	23%	22%
Other operating revenue	36,639	36,317	1%	-1%
Total operating revenue	**799,547**	**658,512**	**21%**	**20%**

Total operating revenue grew 21%, or $141.0 million, to $799.5 million in H1 FY24. The comparatively weaker NZD against the United States dollar (USD) and the Great British Pound (GBP) had a favourable impact on reported revenue. In constant currency, operating revenue grew 20%.

Subscription revenue increased by $140.7 million, or 23%, in H1 FY24. This was mostly driven by subscriber growth of 13%, or 449,000, compared to 30 September 2022. The other key driver was price changes in FY23, across both our business and partner edition plans to reflect the value of Xero's products.

Other operating revenue increased 1% compared to H1 FY23. This was due to hosting one Xerocon in H1 FY24 compared to three Xerocons in H1 FY23. Excluding Xerocon revenue, other operating revenue would have increased by 23% compared to H1 FY23.

Operating revenue by geography

Six months ended 30 September	2023 ($000s)	2022 ($000s)	change	change in constant currency
Australia	359,885	294,258	22%	24%
New Zealand	96,463	83,615	15%	15%
Australia and New Zealand (ANZ) total	**456,348**	**377,873**	**21%**	**22%**
United Kingdom	215,572	174,975	23%	18%
North America	47,320	43,501	9%	6%
Rest of World	80,307	62,163	29%	27%
International total	**343,199**	**280,639**	**22%**	**18%**
Total operating revenue	**799,547**	**658,512**	**21%**	**20%**

Xero Group – Operating revenue grew 21% (20% in constant currency) to $799.5 million for H1 FY24 compared to $658.5 million in H1 FY23. This was driven by subscriber growth and price changes in FY23 across all of Xero's markets.

ANZ – Operating revenue increased by $78.5 million, or 21% (22% in constant currency) from H1 FY23, outpacing subscriber growth of 13%. This was mainly due to price changes in FY23 for both our business and partner edition products.

Australia's operating revenue grew $65.6 million, or 22%, mainly driven by subscriber growth of 15% and supplemented by price changes in FY23. The comparatively stronger NZD against the Australian dollar (AUD) had an unfavourable impact on reported revenue, with constant currency revenue growth of 24% on H1 FY23.

Operating revenue growth in New Zealand was 15%, or $12.8 million, compared to H1 FY23. This was driven by a combination of price changes in FY23 and subscriber growth of 9%.

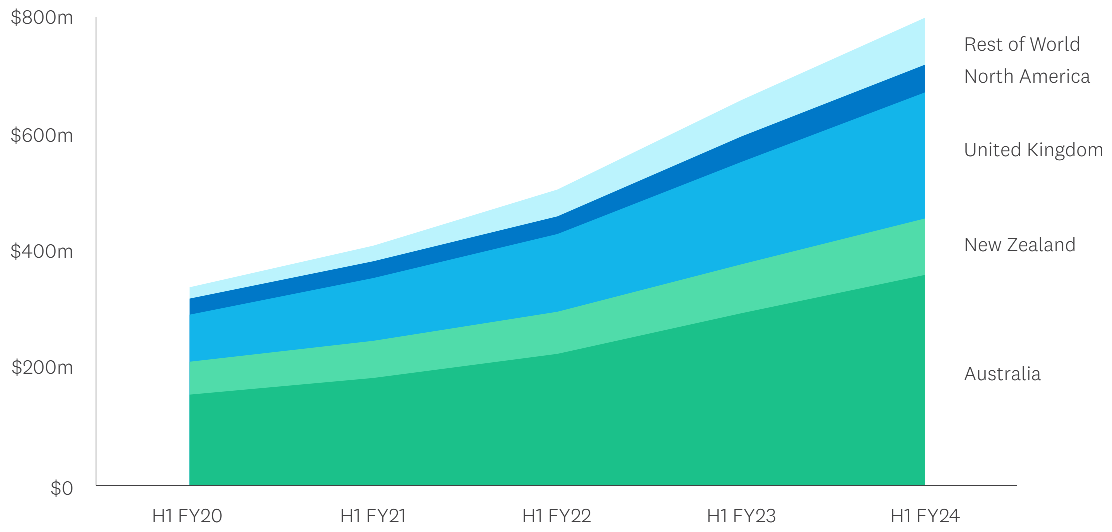
International – The International segment contributed 43% of total operating revenue, in line with the comparative period. Operating revenue grew 22% (18% in constant currency), driven by subscriber growth of 12% and price changes in FY23.

UK operating revenue grew 23% (18% in constant currency), comprising subscriber growth of 13% from H1 FY23, along with price changes and growth in financial services related revenue. H1 FY23 included revenue from Xerocon London, with no event held in H1 FY24. Excluding FY23 Xerocon revenue, UK operating revenue grew 25% (20% in constant currency).

North America operating revenue increased 9% compared to H1 FY23. Comparisons to H1 FY23 are impacted by Xerocon New Orleans in H1 FY23, with no Xerocon events held in H1 FY24, as well as LOCATE revenue in H1 FY23 (which was discontinued in H2 FY23). Excluding these impacts, operating revenue growth for North America was 19% (16% in constant currency) due to subscriber growth of 12%, increased prices and favourable foreign exchange movements.

Operating revenue in Xero's Rest of World markets increased by 29% from H1 FY23 (27% in constant currency). South Africa was the largest contributor of subscription revenue, followed by Singapore.

Total group operating revenue by geography*



Represents each regions' contribution to total Xero Group operating revenue for the respective period

Subscriber numbers

The definition of 'subscriber' is: Each unique subscription to a Xero-offered product that is purchased by a user (e.g. small business or accounting partner) and which is, or is available to be, deployed. Subscribers that have multiple subscriptions to integrated products on the Xero platform are counted as a single subscriber.

At 30 September	2023	2022	change
Australia	1,688,000	1,470,000	15%
New Zealand	584,000	536,000	9%
Australia and New Zealand (ANZ) total	**2,272,000**	**2,006,000**	**13%**
United Kingdom	1,010,000	894,000	13%
North America	396,000	354,000	12%
Rest of World	267,000	242,000	10%
International total	**1,673,000**	**1,490,000**	**12%**
Total paying subscribers	**3,945,000**	**3,496,000**	**13%**

Xero Group - 204,000 subscribers were added in H1 FY24, bringing total subscribers to 3.9 million at 30 September 2023. 449,000 subscribers were added in the 12 months ended 30 September 2023, compared to 483,000 added in the 12 months ended 30 September 2022.

ANZ - We continued to strengthen our presence in markets with high cloud penetration, with 2.3 million subscribers at 30 September 2023. ANZ subscribers grew by 13%, or 266,000, from 30 September 2022, with 52%, or 139,000, added in H1 FY24. This was compared to 287,000 added in the 12 months ended 30 September 2022.

Australia continues to deliver strong subscriber growth, adding 122,000 net subscribers in H1 FY24 to reach 1.7 million subscribers. New Zealand added 48,000 subscribers from 30 September 2022, a 9% increase on total subscribers in a region with high cloud penetration.

International - The International segment added 183,000 subscribers from 30 September 2022, bringing total subscribers to 1.7 million.

UK subscribers grew by 13%, or 116,000, from 30 September 2022, compared to 14%, or 109,000, added in the 12 months ended 30 September 2022. Subscriber growth was subdued for H1 FY24, reflecting the lack of demand from the UK HMRC Making Tax Digital initiative and our accounting and bookkeeping partners actively managing their subscription inventory.

North America subscriber numbers increased by 12%, or 42,000, from 30 September 2022. Subdued growth in H1 FY24 reflected a change in our sales approach in Canada alongside some seasonality associated with tax year end in the US.

Rest of World markets grew by 10%, or 25,000 subscribers, from 30 September 2022, ending H1 FY24 with 267,000 subscribers. South Africa and Singapore were the largest contributors, reflecting Xero's focus on growth in these markets.

Net Subscriber Additions

H1 FY24
Region (% of total net additions)
- Australia (**60%**)
- New Zealand (**8%**)
- United Kingdom (**20%**)
- North America (**6%**)
- Rest of World (**6%**)

H1 FY23
Region (% of total net additions)
- Australia (**56%**)
- New Zealand (**11%**)
- United Kingdom (**20%**)
- North America (**6%**)
- Rest of World (**7%**)

Regional subscribers at 30 September 2023*

Australia

1,688,000

2022 | 1,470,000

Up 15%

New Zealand

584,000

2022 | 536,000

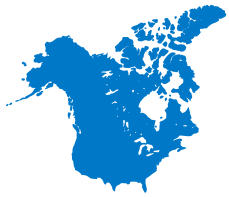
Up 9%

United Kingdom

1,010,000

2022 | 894,000

Up 13%



North America

396,000

2022 | 354,000

Up 12%

**Rest of World subscribers at 30 September 2023: 267,000 (30 September 2022: 242,000)*

Annualised monthly recurring revenue

Annualised monthly recurring revenue (AMRR) is a non-GAAP financial measure, which represents monthly recurring revenue at 30 September multiplied by 12. It provides a 12-month forward view of revenue, assuming any promotions have ended and other factors such as subscriber numbers, transaction volumes, pricing, and foreign exchange remain unchanged during the year.

Constant currency AMRR (also a non-GAAP financial measure) is calculated by translating AMRR at 30 September 2023 at the foreign exchange rates at 30 September 2022. It is provided to assist in understanding and assessing year on year growth rates, excluding the impact of foreign currency fluctuations.

At 30 September	2023 ($000s)	2022 ($000s)	change	change in constant currency
ANZ	1,008,529	855,968	18%	23%
International	760,995	624,944	22%	20%
Total	**1,769,524**	**1,480,912**	**19%**	**22%**

Total Group – AMRR grew by 19% (22% in constant currency) to $1.8 billion at 30 September 2023. This was an increase of $288.6 million over the comparative period, driven by subscriber growth and a 6% (8% in constant currency) increase in average revenue per user (ARPU). Price changes in March 2023 for partner edition products and September 2023 for business edition products, were the main driver of the ARPU increase, as the value of Xero's offering was further realised.

ANZ – AMRR grew 18% (23% in constant currency), or $152.6 million, compared to H1 FY23, to $1.0 billion. Across ANZ, subscriber growth and price changes contributed to an overall increase to AMRR.

International – AMRR increased 22% (20% in constant currency), or $136.1 million, to $761.0 million at 30 September 2023. The majority of this increase was attributed to the UK, with continued subscriber growth, increased use of financial services related products and price changes all contributing.

Gross profit

Gross profit represents operating revenue less cost of revenue. Cost of revenue consists of expenses directly associated with securely hosting Xero's services, sourcing relevant data from financial institutions, and providing support to subscribers.

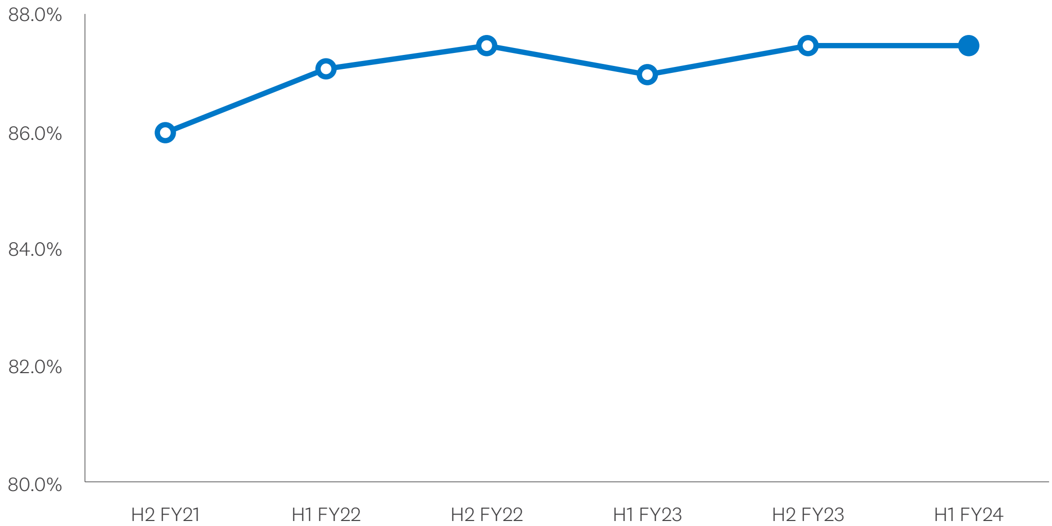
The costs include hosting costs, bank feed costs, personnel and related expenses (including salaries, benefits, bonuses, and share-based payments) directly associated with cloud infrastructure and subscriber support, contracted third-party vendor costs, related depreciation and amortisation, and allocated overheads.

Six months ended 30 September	2023 ($000s)	2022 ($000s)	change
Operating revenue	799,547	658,512	21%
Cost of revenue	(99,757)	(85,600)	17%
Gross profit	**699,790**	**572,912**	**22%**
Gross margin percentage	87.5%	87.0%	0.5pp

Gross margin percentage increased 0.5 percentage points to 87.5% in H1 FY24 compared to H1 FY23. Operating revenue growth of 21%, along with efficiencies in cost of revenue, resulted in gross profit increasing by $126.9 million, or 22%, to $699.8 million.

Cost of revenue increased by 17% from H1 FY23, which was four percentage points lower than operating revenue growth of 21%. The increase was the result of higher hosting costs to support more subscribers and products on the platform, as well as an increase in costs associated with our customer support function as subscribers continue to grow. Despite the increase in costs, the improvement in gross margin percentage was the result of continuing efficiencies in Xero's customer support function along with further efficiency gains in hosting and bank feed costs.

Gross margin percentage



Sales and marketing

Sales and marketing expenses consist of personnel and related expenses (including salaries, benefits, bonuses, the amortisation of capitalised commission costs, and share-based payments) directly associated with the sales and marketing teams, and the cost of educating and onboarding both partners and small business customers. Costs also include relationship management costs incurred to support the existing subscriber base. Other costs included are external advertising costs, marketing costs, and promotional event costs, as well as allocated overheads.

Six months ended 30 September	2023 ($000s)	2022 ($000s)	change
Sales and marketing expenses	277,220	238,980	16%
Percentage of operating revenue	34.7%	36.3%	-1.6pp

Sales and marketing costs include:

- Costs incurred in acquiring new subscribers, and investing in our brand for future subscribers
- Costs associated with upselling and cross-selling to existing customers
- Initiatives to educate existing customers to encourage retention

These costs are predominantly expensed in the period. This is in contrast to the associated revenue from those subscribers, which is recognised over the life of the subscriber (currently expected to be slightly under nine years on average).

Sales and marketing costs increased by 16%, to $277.2 million for H1 FY24, compared to operating revenue growth of 21% for the same period. This was driven by growth in external marketing costs of 40% largely associated with our partnership with the FIFA Women's World Cup Australia and New Zealand 2023™, offset by a fall in employee-related spend following reduced centralised sales and marketing support headcount. As a proportion of revenue, sales and marketing costs were 34.7%, 1.6 percentage points lower than H1 FY23.

There were three Xerocon events in H1 FY23 (Australia, the UK, and the US), and one event (Australia) in H1 FY24. Xerocons are scheduled in the UK and the US for FY25. Excluding the impacts of Xerocon revenue generated and expenses incurred, sales and marketing costs as a percentage of operating revenue would have been 0.2 percentage points higher at 33.9% for H1 FY24, compared to 33.7% for H1 FY23. As outlined above, this was largely due to our sponsorship activities, the costs of which were attributed across our segments.

The average cost of acquiring a subscriber, which is one outcome of our sales and marketing costs, has increased to $581 per gross subscriber added for the 12 months ended 30 September 2023, compared to $539 for the 12 months ended 30 September 2022. This reflects a continued focus on growing our international markets, which are comparatively less efficient than those in ANZ.

Product design and development

Product design and development costs consist primarily of personnel and related expenses (including salaries, benefits, bonuses, and share-based payments) directly associated with product design and development teams, teams building and enhancing the platform and related infrastructure, as well as allocated overheads.

The proportion of product design and development expenses that creates a benefit in future years, and meets certain requirements under NZ IFRS, is capitalised as an intangible asset and is then amortised to the Income Statement over the estimated life of the asset created. The amount amortised relating to the Xero product and platform is included as a product design and development expense.

Six months ended 30 September	2023 ($000s)	2022 ($000s)	change
Total product design and development costs (including amounts capitalised)	**279,004**	**291,929**	**-4%**
Percentage of operating revenue	34.9%	44.3%	-9.4pp
Less capitalised development costs	(113,360)	(131,324)	-14%
Product design and development expense (excluding amortisation of amounts capitalised)	**165,644**	**160,605**	**3%**
Less government grants	(748)	(1,617)	-54%
Add amortisation of capitalised development costs	91,496	71,722	28%
Product design and development expenses	**256,392**	**230,710**	**11%**
Percentage of operating revenue	32.1%	35.0%	-2.9pp

Xero continues to invest in product innovation and development to deliver value-enhancing products, features and experiences for our customers. Xero is also committed to investment in platform delivery to make its platform faster, more functional and more flexible. Key platform enhancements in H1 FY24 included migrating all customers to our new reporting platform which offers enhanced flexibility and customisation, a streamlined practice tools experience using a single client record across Xero Practice Manager and Xero HQ, and further enhancing our use of AI to drive deeper insights including in bank reconciliations and Xero Analytics Plus short-term cash flow forecasting.

Total product design and development costs were $279.0 million in H1 FY24, $12.9 million or 4% lower than H1 FY23. This was largely due to the reshaping of our organisational structure over H1 FY24, to streamline and simplify our organisation to deliver value for all stakeholders. Product design and development costs (including amounts capitalised) as a percentage of operating revenue were 34.9%, a decrease of 9.4 percentage points on H1 FY23. This reflects progress on our aim of driving more balanced and profitable growth as an organisation.

The amount capitalised of $113.4 million represents a capitalisation rate of 40.6% of total product design and development costs compared to 45.0% in H1 FY23. The main driver for the lower rate was the reduction in use of external contractors and consultants in product areas that are typically capitalised at higher rates. This was largely related to project timing.

The amortisation of previously capitalised product design and development expenditure of $91.5 million was included as a non-cash expense in the Income Statement, resulting in total net expenses (after the netting of government grants) of $256.4 million for the year. As a percentage of operating revenue, product design and development expenses were 32.1%, a decrease of 2.9 percentage points compared to H1 FY23.

General and administration

General and administration expenses consist of personnel and related expenses (including salaries, benefits, bonuses, and share-based payments) for executive, finance, billing, legal, human resources, corporate communications, strategy, and corporate development employees, and the Xero Board. It also includes legal, accounting, and other professional services fees, insurance premiums, other corporate expenses, and allocated overheads.

Six months ended 30 September	2023 ($000s)	2022 ($000s)	change
General and administration expenses	96,634	82,501	17%
Percentage of operating revenue	12.1%	12.5%	-0.4pp

General and administration expenses were $96.6 million, an increase of $14.1 million, or 17%, compared to H1 FY23. A large driver of this increase was personnel costs, due to changes in Xero's executive team. There was also an increase in professional fees, driven by the sale of Waddle in October 2023.

General and administration expenses as a proportion of operating revenue decreased by 0.4 percentage points to 12.1% in H1 FY24. This reflects some efficiencies in our cost base as a result of the restructuring program during H1 FY24.

Employees

At 30 September	2023	2022	change
Total Group	4,242	4,915	-14%

In the 12 months from 30 September 2022 full-time equivalent (FTE) employees decreased by 673, or 14%. Since announcing our restructuring program in March 2023, FTEs have decreased by 838, with the majority of the reduction related to streamlining and simplifying our operations. However, we have continued to invest in hiring new people in key strategic areas as we evolve our business.

Net finance income/expense

Six months ended 30 September	2023 ($000s)	2022 ($000s)	change
Interest income on cash and deposits	29,860	8,011	273%
Finance lease interest income	37	-	NM
Total finance income	**29,897**	**8,011**	**273%**
Amortisation of discount and debt issuance costs	(18,113)	(16,970)	7%
Lease liability interest	(4,013)	(4,080)	-2%
Unwind of contingent consideration	(82)	(679)	-88%
Bank facility costs	(72)	(651)	-89%
Other finance expense	(205)	(280)	-27%
Total finance expense	**(22,485)**	**(22,660)**	**-1%**
Net finance income/(expense)	**7,412**	**(14,649)**	**-151%**

Finance income increased by $21.9 million to $29.9 million in H1 FY24, driven by higher global interest rates in combination with increased cash and short-term deposit balances compared to H1 FY23.

Total finance expense of $22.5 million remained relatively flat compared to H1 FY23, decreasing by 1%. Amortisation of discount and debt issuance costs related to our Convertible Notes, which are non-cash, increased by $1.1 million mainly due to the impact of the weaker NZD against the USD.

Segment information

Operating revenue is allocated to a segment depending on where the subscriber resides. Expenses include cost of revenue, sales and marketing costs incurred directly in-region, and an allocation of centrally managed costs and overheads, such as hosting and user support costs.

	ANZ ($000s)	International ($000s)	Total ($000s)
Six months ended 30 September 2023			
Operating revenue	456,348	343,199	799,547
Expenses	(136,229)	(240,748)	(376,977)
Segment contribution	**320,119**	**102,451**	**422,570**
Contribution margin percentage	70.1%	29.9%	52.9%
Six months ended 30 September 2022			
Operating revenue	377,873	280,639	658,512
Expenses	(126,915)	(197,665)	(324,580)
Segment contribution	**250,958**	**82,974**	**333,932**
Contribution margin percentage	66.4%	29.6%	50.7%

ANZ - Segment contribution increased $69.2 million, or 28%, to $320.1 million in H1 FY24. This resulted in the contribution margin increasing 3.7 percentage points from 66.4% in H1 FY23 to 70.1% in H1 FY24.

Operating revenue for H1 FY24 grew by $78.5 million, or 21% (22% in constant currency), compared to H1 FY23. In contrast, expenses in the ANZ segment increased by 7% from H1 FY23 with sales and marketing cost growth of 6% as we continued to invest in brand recognition. The lower growth in these expenses compared to the International segment reflects the efficiency of having higher cloud accounting penetration in the ANZ markets.

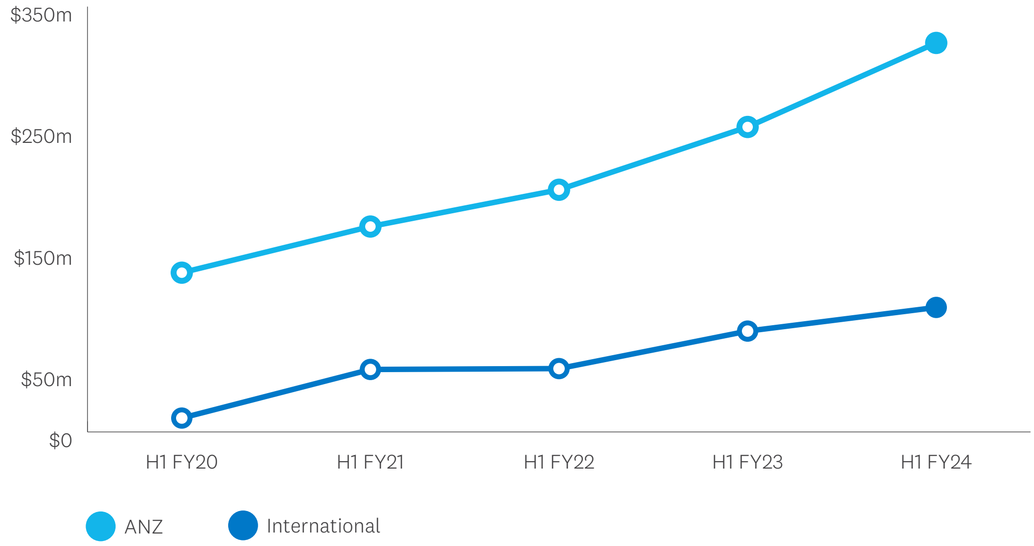
International - The International segment's contribution for H1 FY24 was $102.5 million, an increase of $19.5 million, or 23%, compared to $83.0 million in H1 FY23. This resulted in a contribution margin of 29.9% for H1 FY24, a 0.3 percentage point improvement from the comparative period.

Operating revenue for H1 FY24 grew by $62.6 million, or 22% (18% in constant currency), compared to H1 FY23. This was a result of continued subscriber growth, price changes and financial services revenue growth.

Expenses in the International segment grew by $43.1 million, or 22%, from H1 FY23. This was due to an increase in cost of revenue resulting from higher hosting costs, and growth in sales and marketing spend. The sales and marketing increase was from investment in brand recognition particularly in the UK, through partnering with organisations such as FIFA Women's Football, to drive future growth in the International segment.

The International segment contribution margin remained comparatively lower than that of ANZ, reflecting Xero's continued focus on growing in our International markets through improving brand recognition.

Segment Contribution



Key SaaS metrics

SaaS companies like Xero operate on many of the same performance metrics as traditional companies, such as revenue, cash flow, and customer numbers. However, evaluating the performance of SaaS companies and being able to benchmark them is assisted by an understanding of SaaS-specific metrics. Included below are some of the headline metrics Xero uses to manage and drive its performance.

Average revenue per user (ARPU) is calculated as AMRR (see definition on page 15) at 30 September, divided by subscribers at that time and divided by 12 to get a monthly view.

Customer acquisition costs (CAC) months are the months of ARPU to recover the cost of acquiring each new subscriber. The calculation represents the sales and marketing costs for the year, excluding the capitalisation and amortisation of contract acquisition costs, less Xerocon revenue, divided by gross new subscribers added during the same period, divided by ARPU.

Churn is the value of monthly recurring revenue (MRR) from subscribers who leave Xero in a month as a percentage of the total MRR at the start of that month. The percentage provided is the average of the monthly churn for the previous 12 months.

Lifetime value (LTV) is the gross margin expected from a subscriber over the lifetime of that subscriber. This is calculated by taking the average subscriber lifetime (one divided by churn), multiplied by ARPU, multiplied by the gross margin percentage. Xero Group LTV is calculated as the sum of the individual segment LTV, multiplied by their respective segment subscribers, divided by total Xero Group subscribers.

LTV/CAC is the ratio between the LTV per subscriber and the cost to acquire that subscriber. For example, the LTV derived from a subscriber is currently on average 6.4 times the cost of acquiring that subscriber.

Xero strives to maximise total LTV while optimising the level of CAC investment it undertakes to achieve a desirable LTV/CAC ratio. Xero can improve total LTV in multiple ways, such as increasing subscriber numbers, enhancing products and services for existing subscribers thereby increasing ARPU and/or reducing churn, and improving gross margin through cost efficiencies.

The table below outlines key metrics across Xero's segments:

At 30 September 2023	ANZ	International	Total
ARPU ($)	36.99	37.91	37.38
CAC months	8.4	23.5	15.6
Churn	0.72%	1.24%	0.94%
LTV per subscriber ($)	4,543	2,654	3,742
LTV/CAC	14.6	3.0	6.4
At 30 September 2022	ANZ	International	Total
ARPU ($)	35.56	34.95	35.30
CAC months	8.7	22.8	15.3
Churn	0.66%	1.26%	0.91%
LTV per subscriber ($)	4,664	2,416	3,706
LTV/CAC	15.1	3.0	6.9

Xero Group

Xero Group ARPU increased by 6% (8% in constant currency) compared to H1 FY23, mainly driven by price increases and growth in financial services revenue.

Churn for the Xero Group increased to 0.94% in H1 FY24, from 0.91% in the comparative period, driven by an increase in churn in the ANZ segment, offset by a reduction in churn in the International segment compared to H1 FY23. While this is higher than recent periods, it is still well below pre-pandemic levels.

CAC months increased from 15.3 months in H1 FY23 to 15.6 months in H1 FY24. Total sales and marketing investment increased in H1 FY24 contributed to by the partnership with FIFA Women's Football enhancing brand recognition across new and existing markets.

Total Subscriber LTV at 30 September 2023 was $14.8 billion, an increase of $1.8 billion, or 14% (17% in constant currency), compared to 30 September 2022. Xero Group LTV/CAC ratio decreased to 6.4 at 30 September 2023 from 6.9 at 30 September 2022, driven by the increase in sales and marketing spend to enhance brand awareness.

ANZ

ARPU increased to $36.99, or 4% (9% in constant currency), compared to the H1 FY23. This was primarily driven by price increases in both Australia and New Zealand, in March 2023 for partner edition plans, and September 2023 for business edition plans.

CAC months decreased to 8.4 months in H1 FY24, from 8.7 months in H1 FY23, with the growth in ARPU more than offsetting the increase in sales and marketing spend.

Churn increased from 0.66% in H1 FY23 to 0.72% in H1 FY24, a slight increase from the historically low levels seen in recent years.

The slightly higher churn, partially offset by an increase in ARPU and gross margin efficiencies, resulted in a reduction in LTV per subscriber from $4,664 to $4,543. Total ANZ subscriber LTV increased from $9.4 billion at 30 September 2022 to $10.3 billion at 30 September 2023, up $0.9 billion, or 10% (15% in constant currency), due to growth in subscriber numbers. The LTV/CAC ratio decreased from 15.1 to 14.6 months, however this was largely due to FX impacts with LTV/CAC improving to 15.4 on a constant currency basis.

International

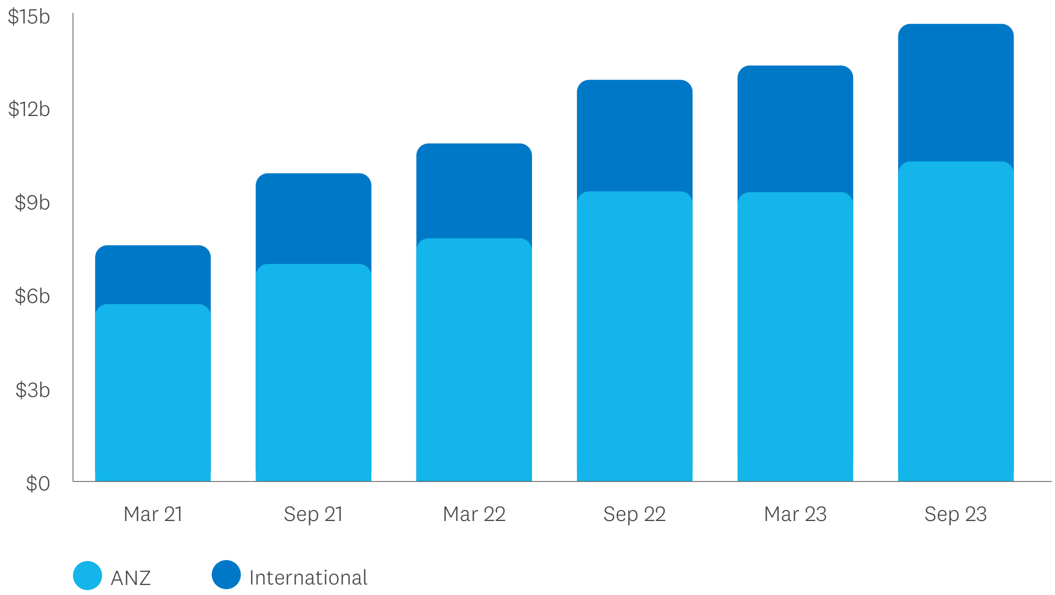
ARPU increased to $37.91, or 8% (7% in constant currency), compared to H1 FY23. Price increases across all markets, alongside favourable FX and growth in financial services revenue, had a positive impact on International ARPU.

CAC months increased to 23.5 for H1 FY24, up from 22.8 in H1 FY23, as investment in sales and marketing increased.

Total International subscriber LTV increased by $0.8 billion, or 23% (22% in constant currency), compared to H1 FY23 to $4.4 billion at 30 September 2023. This was mainly due to subscriber growth and higher ARPU. This led to a 10% increase in LTV per subscriber to $2,654 in H1 FY24, compared to $2,416 in H1 FY23.

LTV/CAC remained constant at 3.0 between periods, as sales and marketing investment grew at the same rate as subscriber LTV, which was primarily driven by ARPU growth.

Total lifetime value



Independent Auditor's Review Report

Building a better working world

To the Shareholders of Xero Limited

Conclusion

We have reviewed the interim financial statements of Xero Limited ("the company") and its subsidiaries (together "the Group") on pages 24 to 35 which comprise the statement of financial position as at 30 September 2023, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended on that date, and a summary of significant accounting policies and other explanatory information. Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements on pages 24 to 35 of the Group do not present fairly, in all material respects the financial position of the Group as at 30 September 2023, and its financial performance and its cash flows for the six-month period ended on that date, in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting.

This report is made solely to the Company's shareholders, as a body. Our review has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our review procedures, for this report, or for the conclusion we have formed.

Basis for Conclusion

We conducted our review in accordance with NZ SRE 2410 (Revised) Review of Financial Statements Performed by the Independent Auditor of the Entity. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Interim Financial Statements section of our report. We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements.

Ernst & Young has provided other assurance services related to the Group's compliance with ISO 27001 and pre-assurance in relation to greenhouse gas emissions. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. Ernst & Young uses the Group's platform in delivering services to some clients. We have no other relationship with, or interest in, the Group.

Directors' Responsibilities for the Interim Financial Statements

The Directors are responsible, on behalf of the Entity, for the preparation and fair presentation of the interim financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting.

A review of interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently do 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 on those interim financial statements.

The engagement partner on the review resulting in this independent auditor's review report is Simon O'Connor.

Ernst + Young

Ernst & Young
Chartered Accountants
Wellington
9 November 2023

Interim Financial Statements

Income Statement

Six months ended 30 September	Notes	2023 Unaudited ($000s)	2022 Unaudited ($000s)
Subscription revenue		762,908	622,195
Other operating revenue		36,639	36,317
Total operating revenue	**4**	**799,547**	**658,512**
Cost of revenue	5	(99,757)	(85,600)
Gross profit		**699,790**	**572,912**
Operating expenses			
Sales and marketing		(277,220)	(238,980)
Product design and development		(256,392)	(230,710)
General and administration		(96,634)	(82,501)
Restructuring costs		(2,131)	–
Total operating expenses	**5**	**(632,377)**	**(552,191)**
Operating income		**67,413**	**20,721**
Other income		13,775	12,188
Other expenses		(3,372)	–
Asset impairments and disposals	8	(298)	(26,532)
Reversal of asset impairments	8	1,934	–
Earnings before interest and tax		**79,452**	**6,377**
Finance income		29,897	8,011
Finance expense		(22,485)	(22,660)
Net profit/(loss) before tax		**86,864**	**(8,272)**
Income tax expense		(32,780)	(7,858)
Net profit/(loss)		**54,084**	**(16,130)**
Basic earnings/(loss) per share	6	$0.36	($0.11)
Diluted earnings/(loss) per share	6	$0.35	($0.11)

Statement of Comprehensive Income

Six months ended 30 September	Note	2023 Unaudited ($000s)	2022 Unaudited ($000s)
Net profit/(loss)		54,084	(16,130)
Other comprehensive income*			
Movement in cash flow hedges (net of tax)	10	2,958	2,492
Translation of foreign operations (net of tax)		(154)	(6,164)
Total other comprehensive income/(loss)		**2,804**	**(3,672)**
Total comprehensive income/(loss)		**56,888**	**(19,802)**

** Items of other comprehensive income may be reclassified to the Income Statement when specific conditions are met*

The accompanying notes form an integral part of these interim financial statements

Statement of Financial Position

	Notes	At 30 September 2023 Unaudited ($000s)	At 31 March 2023 Audited ($000s)
Assets			
Current assets			
Cash and cash equivalents		365,278	230,624
Short-term deposits		896,407	886,563
Trade and other receivables		146,733	128,998
Derivative assets		8,551	5,570
Income tax receivable		2,540	4,406
Assets held for sale	7	8,151	–
Other current assets		1,905	7,450
Total current assets		**1,429,565**	**1,263,611**
Non-current assets			
Property, plant and equipment		133,920	138,094
Intangible assets	8	983,392	963,032
Derivative assets		30,218	31,853
Deferred tax assets		69,772	92,000
Other non-current assets		1,478	1,565
Total non-current assets		**1,218,780**	**1,226,544**
Total assets		**2,648,345**	**2,490,155**
Liabilities			
Current liabilities			
Trade and other payables		75,874	52,204
Employee entitlements		76,653	95,708
Provisions	9	2,541	42,925
Lease liabilities		19,065	17,258
Derivative liabilities		4,508	5,544
Income tax payable		3,463	3,607
Liabilities directly associated with assets held for sale	7	2,335	–
Other current liabilities		44,068	37,819
Total current liabilities		**228,507**	**255,065**
Non-current liabilities			
Term debt		1,082,673	1,019,794
Lease liabilities		101,888	106,163
Derivative liabilities		29,110	28,147
Deferred tax liabilities		10,403	12,859
Other non-current liabilities		11,039	14,221
Total non-current liabilities		**1,235,113**	**1,181,184**
Total liabilities		**1,463,620**	**1,436,249**
Equity			
Share capital		1,744,788	1,710,392
Reserves		(170,739)	(213,078)
Accumulated losses		(389,324)	(443,408)
Total equity		**1,184,725**	**1,053,906**
Total liabilities and shareholders' equity		**2,648,345**	**2,490,155**

The accompanying notes form an integral part of these interim financial statements

Statement of Changes in Equity

Unaudited	Note	Share capital ($000s)	Treasury shares ($000s)	Share-based payment reserve ($000s)	Accumulated losses ($000s)	Foreign currency translation reserve ($000s)	Cash flow hedge reserve ($000s)	Call spread options reserve ($000s)	Total equity ($000s)
Balance at 1 April 2023		**1,703,167**	**7,225**	**96,368**	**(443,408)**	**(8,772)**	**582**	**(301,256)**	**1,053,906**
Net profit		–	–	–	54,084	–	–	–	54,084
Other comprehensive income/(loss)		–	–	–	–	(154)	2,958	–	2,804
Total comprehensive income		**–**	**–**	**–**	**54,084**	**(154)**	**2,958**	**–**	**56,888**
Transactions with owners:									
Share-based payments, net of tax	13	9,821	–	45,560	–	–	–	–	55,381
Share options exercised	13	23,775	–	(6,025)	–	–	–	–	17,750
Issue of shares – acquisition related		800	–	–	–	–	–	–	800
Balance at 30 September 2023		**1,737,563**	**7,225**	**135,903**	**(389,324)**	**(8,926)**	**3,540**	**(301,256)**	**1,184,725**
Balance at 1 April 2022		**1,576,762**	**4,096**	**81,623**	**(329,876)**	**(411)**	**2,985**	**(301,256)**	**1,033,923**
Net loss		–	–	–	(16,130)	–	–	–	(16,130)
Other comprehensive income/(loss)		–	–	–	–	(6,164)	2,492	–	(3,672)
Total comprehensive loss		**–**	**–**	**–**	**(16,130)**	**(6,164)**	**2,492**	**–**	**(19,802)**
Transactions with owners:									
Share-based payments, net of tax	13	2,345	47	40,742	–	–	–	–	43,134
Share options exercised	13	35,200	–	(10,826)	–	–	–	–	24,374
Balance at 30 September 2022		**1,614,307**	**4,143**	**111,539**	**(346,006)**	**(6,575)**	**5,477**	**(301,256)**	**1,081,629**

The accompanying notes form an integral part of these interim financial statements

Statement of Cash Flows

Six months ended 30 September	Note	2023 Unaudited ($000s)	2022 Unaudited ($000s)
Operating activities			
Receipts from customers		804,238	660,200
Other income		2,657	1,309
Interest received		28,877	4,927
Payments to suppliers and employees		(595,549)	(495,585)
Interest paid		(4,299)	(4,882)
Income tax paid		(5,962)	(6,255)
Net cash flows from operating activities	**12**	**229,962**	**159,714**
Investing activities			
Capitalised development costs		(110,342)	(130,097)
Capitalised contract acquisition costs		(7,548)	(9,063)
Purchase of property, plant and equipment		(5,029)	(2,738)
Business acquisitions		(8,663)	–
Other investing activities		4,218	(3,238)
Net cash flows from investing activities		**(127,364)**	**(145,136)**
Financing activities			
Proceeds from short-term deposits		1,037,192	457,754
Payments for short-term deposits		(1,020,991)	(562,261)
Share options exercised		17,750	24,374
Payment of lease liabilities		(9,097)	(7,976)
Proceeds from borrowings		–	1,477
Repayment of borrowings		–	(3,469)
Net cash flows from financing activities		**24,854**	**(90,101)**
Net increase/(decrease) in cash and cash equivalents		**127,452**	**(75,523)**
Foreign currency translation adjustment		7,202	66,423
Cash and cash equivalents at the beginning of the period		**230,624**	**404,192**
Cash and cash equivalents at the end of the period		**365,278**	**395,092**

The accompanying notes form an integral part of these interim financial statements

Notes to the Interim Financial Statements

1. Reporting entity and statutory base

Xero Limited (‘the Company’) is registered under the New Zealand Companies Act 1993 and is listed on the Australian Securities Exchange (ASX). The Company is required to be treated as an FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

The unaudited interim financial statements of the Company and its subsidiaries (together ‘the Group’ or ‘Xero’) for the six months ended 30 September 2023 were authorised in accordance with a resolution of the directors for issue on 9 November 2023.

2. Basis of accounting

(a) Basis of preparation

The unaudited interim financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and comply with the requirements of New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*. The Group is a for-profit entity for the purposes of complying with NZ GAAP.

(b) Changes in accounting policies and disclosures

The unaudited interim financial statements have been prepared using the same accounting policies and methods of computation as, and should be read with, the financial statements and related notes included in the Group’s annual report for the year ended 31 March 2023.

(c) Standards or interpretations issued but not yet effective and relevant to the Group

In July 2023 the New Zealand Accounting Standards Board issued the amending standard *International Tax Reform – Pillar Two Model Rules* in relation to NZ IAS 12: *Income Taxes*. The standard introduces requirements to recognise and disclose information about deferred tax assets and liabilities arising from the Organisation for Economic Co-operation and Development’s (OECD) international tax reform, known as Pillar Two. The amendment is effective for Xero for the year ending 31 March 2024.

Internationally, countries are at various stages of implementing the OECD Pillar Two model rules, including tax law that implements qualified domestic minimum top-up taxes described in those rules, with the UK having enacted its Pillar Two legislation on 11 July 2023. The Xero Group applies the temporary mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendment (paragraphs 4A and 88A).

(d) Critical accounting estimates

The preparation of financial statements requires judgements and estimates that impact the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

3. Segment information

The Group operates in one business segment, providing online business solutions for small businesses and their advisors. Xero has two operating segments: Australia and New Zealand (ANZ) and International. These segments have been determined based on how the chief operating decision-maker reviews financial performance.

Segment operating expenses represent sales and marketing costs and service delivery costs, including both in-country costs and an allocation of centrally managed costs.

Unaudited	ANZ ($000s)	International ($000s)	Total ($000s)
Six months ended 30 September 2023			
Operating revenue	456,348	343,199	799,547
Expenses	(136,229)	(240,748)	(376,977)
Segment contribution	**320,119**	**102,451**	**422,570**
Six months ended 30 September 2022			
Operating revenue	377,873	280,639	658,512
Expenses	(126,915)	(197,665)	(324,580)
Segment contribution	**250,958**	**82,974**	**333,932**

Reconciliation from segment contribution to net profit/(loss) before tax

Six months ended 30 September	2023 Unaudited ($000s)	2022 Unaudited ($000s)
Segment contribution	422,570	333,932
Product design and development	(256,392)	(230,710)
General and administration	(96,634)	(82,501)
Restructuring costs	(2,131)	–
Other income	13,775	12,188
Other expenses	(3,372)	–
Asset impairments and disposals	(298)	(26,532)
Reversal of asset impairments	1,934	–
Finance income	29,897	8,011
Finance expense	(22,485)	(22,660)
Net profit/(loss) before tax	**86,864**	**(8,272)**

4. Revenue

Operating revenue by geographic location

Six months ended 30 September	2023 Unaudited ($000s)	2022 Unaudited ($000s)
Australia	359,885	294,258
United Kingdom	215,572	174,975
New Zealand	96,463	83,615
North America	47,320	43,501
Rest of World	80,307	62,163
Total operating revenue	**799,547**	**658,512**

5. Expenses

Cost of revenue and operating expenses

Six months ended 30 September	2023 Unaudited ($000s)	2022 Unaudited ($000s)
Employee entitlements	374,169	374,284
Employee entitlements capitalised	(102,442)	(110,304)
Share-based payments	55,290	45,521
Share-based payments capitalised	(11,150)	(11,449)
Advertising and marketing	126,278	90,278
Platform costs	49,058	45,801
Platform costs capitalised	(5,357)	(5,491)
Consultants and contractors	29,593	39,986
Consultants and contractors capitalised	(11,706)	(25,193)
Computer equipment and software	27,018	24,374
Superannuation costs	18,575	18,329
Travel-related costs	9,846	9,925
Recruitment and other personnel costs	6,829	6,109
Communication, insurance and office administration	6,195	5,767
Rental costs	4,768	5,476
Restructuring costs	2,131	–
Other cost of revenue and operating expenses	26,401	22,204
Total cost of revenue and operating expenses excl. depreciation and amortisation*	**605,496**	**535,617**

** Net of $130.7 million of costs capitalised as intangible assets (2022: $152.4 million) and grant income of $0.7 million (2022: $1.7 million)*

Depreciation and amortisation

Six months ended 30 September	2023 Unaudited ($000s)	2022 Unaudited ($000s)
Relating to:		
Amortisation of development costs	101,717	78,980
Amortisation of other intangible assets	9,003	8,548
Depreciation of property, plant and equipment	15,918	14,646
Total depreciation and amortisation	**126,638**	**102,174**
Total cost of revenue and operating expenses	**732,134**	**637,791**
Depreciation and amortisation included in function expenses:		
Product design and development	101,903	79,399
Sales and marketing	16,336	15,468
Cost of revenue	5,252	4,588
General and administration	3,147	2,719
Total depreciation and amortisation	**126,638**	**102,174**

6. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares.

Basic EPS is calculated by dividing the net profit/(loss) attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares on issue during the period, excluding shares held as treasury shares.

Diluted EPS is determined by adjusting the net profit/(loss) attributable to ordinary shareholders and the weighted average number of ordinary shares on issue for the effects of all potential dilution to ordinary shares, which comprise restricted shares, options, and restricted stock units (RSUs). Instruments are only treated as dilutive when their conversion to ordinary shares would decrease EPS or increase the loss per share.

Six months ended 30 September	2023 Unaudited (000s)*	2022 Unaudited (000s)*
Net profit/(loss) attributable to equity holders of the Group	**$54,084**	**($16,130)**
Weighted average number of ordinary shares for basic EPS	151,263	149,709
Effect of dilution from:		
Restricted stock units	924	832
Share options	299	413
Restricted shares	31	61
Weighted average number of ordinary shares adjusted for the effect of dilution	**152,517**	**151,015**
Basic earnings/(loss) per share	**$0.36**	**($0.11)**
Diluted earnings/(loss) per share	**$0.35**	**($0.11)**

** Except for per share amounts*

7. Disposal group held for sale

During the year ended 31 March 2023 the Group announced its intention to exit the Waddle business. On 3 October 2023, Xero completed the sale of 100% of the ordinary shares in Xero (Australia) Holdings Pty Ltd and its subsidiaries (collectively "the Waddle Group") to CBA New Digital Businesses Pty Ltd. Accordingly, the Waddle Group is presented as a disposal group held for sale at 30 September 2023. The Waddle Group forms part of the ANZ segment.

At 30 September 2023, the disposal group was stated at fair value less costs to sell and comprised the following assets and liabilities.

At 30 September	2023 Unaudited ($000s)
Assets	
Trade and other receivables	683
Other current assets	604
Intangible assets	6,864
Assets held for sale	**8,151**
Liabilities	
Trade and other payables	674
Employee entitlements	1,661
Liabilities directly associated with assets held for sale	**2,335**

During the year ended 31 March 2023 the Group recognised a $41.3 million impairment loss in relation to the Waddle CGU. At 30 September 2023 the carrying amount of the disposal group held for sale was determined to be lower than its recoverable amount. The recoverable amount has been determined using a fair market value less costs of disposal methodology. Fair market value has been determined with reference to the purchase price agreed with CBA and is classified as level three on the fair value hierarchy. Accordingly, a $1.9 million reversal of the impairment loss was recognised against the intangible assets in the disposal group reflecting the increase in the recoverable amount from 31 March 2023.

8. Intangible assets

Unaudited	Software development ($000s)	Contract acquisition asset ($000s)	Other intangible assets ($000s)	Goodwill ($000s)	Total ($000s)
Six months ended 30 September 2023					
Opening net book value	582,626	39,390	10,002	331,014	963,032
Additions*	122,819	7,340	496	–	130,655
Amortisation expense	(101,717)	(7,540)	(1,463)	–	(110,720)
Disposals	(275)	–	–	–	(275)
Reversal of impairment loss	1,934	–	–	–	1,934
Reclassification to assets held for sale	(6,864)	–	–	–	(6,864)
Foreign exchange adjustment	968	200	114	4,348	5,630
Closing net book value	**599,491**	**39,390**	**9,149**	**335,362**	**983,392**
At 30 September 2023					
Cost	1,005,499	74,495	14,811	335,362	1,430,167
Accumulated amortisation	(406,008)	(35,105)	(5,662)	–	(446,775)
Closing net book value	**599,491**	**39,390**	**9,149**	**335,362**	**983,392**
At 31 March 2023					
Cost	932,662	73,862	15,684	331,014	1,353,222
Accumulated amortisation	(350,036)	(34,472)	(5,682)	–	(390,190)
Closing net book value	**582,626**	**39,390**	**10,002**	**331,014**	**963,032**

** Included in software development additions is $17.1 million of external costs capitalised (2022: $30.7 million)*

9. Provisions

Unaudited	Restructuring provision ($000s)	Onerous contract ($000s)	Other provisions ($000s)	Total ($000s)
Six months ended 30 September 2023				
Opening balance	31,765	5,555	14,876	52,196
Provisions made during the period	5,558	–	200	5,758
Provisions utilised during the period	(31,957)	(1,088)	–	(33,045)
Provisions reversed during the period	(3,427)	(4,607)	(7,931)	(15,965)
Unwinding of discount	–	132	64	196
Reclassification to liabilities associated with assets held for sale	–	-	(17)	(17)
Foreign exchange adjustment	-	8	431	439
Closing balance	**1,939**	**–**	**7,623**	**9,562**
Current	1,939	–	602	2,541
Non-current	–	–	7,021	7,021

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Restructuring provisions relate to the estimated costs of employee termination benefits and other exit costs related to business restructuring. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or been announced publicly. Future operating costs are not provided for.

Non-current provisions are included in other non-current liabilities in the Statement of Financial Position.

10. Hedge accounting

The Group uses derivatives in the form of forward exchange contracts and vanilla foreign exchange options (outright purchased options and vanilla collars) to reduce the risk that movements in foreign exchange rates will affect the Group's NZD cash flows. Whenever possible, these derivatives have been designated as a hedging instrument in a cash flow hedge of a highly probable forecast transaction under NZ IFRS 9: *Financial Instruments*. The Group's policy is to hedge a portion of the next 18 months' forecasted cash flows.

During the period, a net hedging gain of $0.8 million (before taxation) was recognised in other comprehensive income (2022: gain of $5.0 million). During the period, a loss of $3.3 million (before taxation) was reclassified out of other comprehensive income to the Income Statement (2022: gain of $1.6 million). The remaining balance will be reclassified to the Income Statement in future reporting periods as the relevant hedging instruments mature.

11. Financial instruments

Financial instruments recognised in the Statement of Financial Position include cash and cash equivalents, short-term deposits, receivables and payables, contingent consideration, term debt, and derivative financial instruments.

The Group's foreign exchange derivatives, conversion feature, call option derivative assets, and contingent consideration liabilities are recognised at fair value. Fair value of foreign exchange derivatives are determined using forward exchange rates that are quoted in an active market (level two on the fair value hierarchy).

The fair values of the conversion feature and call option derivative assets relating to the convertible notes are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates (level two on the fair value hierarchy). Inputs into the valuation include share price volatility and time to expiration.

At initial recognition, the fair value of the debt component of the convertible notes was determined using a market interest rate for an equivalent non-convertible bond. The notes are subsequently recognised at amortised cost. The carrying value and the fair value of the debt component of the convertible notes at 30 September 2023 were $1,082.7 million and $994.8 million, respectively. At 30 September 2023 the fair value of the conversion feature derivative liability was $28.7 million and the fair value of the call option derivative assets was $28.9 million.

For the six months ended 30 September 2023, a revaluation loss of $3.7 million was recognised on the call option derivative assets, and a revaluation gain of $0.3 million was recognised on the conversion feature derivative liability. Revaluations are reflective of an increase in the Xero Limited share price over the period.

The carrying values of the Group's other financial instruments do not materially differ from their fair value.

There were no transfers between classes of financial instruments during the period.

12. Reconciliation of operating cash flows

Six months ended 30 September	2023 Unaudited ($000s)	2022 Unaudited ($000s)
Net profit/(loss)	54,084	(16,130)
Adjustments:		
Depreciation	15,918	14,646
Amortisation	110,720	87,528
Share-based payments	44,140	34,072
Amortisation of discount and debt issuance costs	18,113	16,970
Deferred tax and current taxes recognised in equity	5,342	(21,410)
Bad debts	2,927	2,338
Asset impairments and disposals	298	26,532
Reversal of asset impairments	(1,934)	–
Other non-cash items	16,963	(10,653)
Changes in working capital:		
(Increase)/decrease in trade receivables and prepayments	(19,405)	(2,256)
(Increase)/decrease in interest receivable	(1,020)	(3,084)
Increase/(decrease) in trade payables and other related items	42,718	24,739
Increase/(decrease) in provisions	(43,073)	(117)
Increase/(decrease) in employee entitlements	(17,655)	2,858
Increase/(decrease) in current tax payable	1,826	3,681
Net cash flows from operating activities	**229,962**	**159,714**

13. Share-based payments

The Group operates equity-settled, share-based compensation plans, under which employees provide services in exchange for non-transferable options or RSUs. The value of the employee services rendered for the grant of non-transferable options and RSUs is recognised as an expense over the vesting period, and the amount is determined by reference to the fair value of the options and RSUs granted.

Restricted stock units

Movements in the number of RSUs outstanding and their related weighted average grant prices were as follows:

Unaudited	2023 Weighted average grant date fair value (AUD)	2023 RSUs (000s)	2022 Weighted average grant date fair value (AUD)	2022 RSUs (000s)
Six months ended 30 September				
Opening balance	102.68	670	128.37	450
Granted	116.02	950	83.26	1,049
Forfeited	111.54	(104)	108.32	(80)
Converted to shares	87.00	(103)	123.65	(18)
Closing balance	**112.14**	**1,413**	**95.80**	**1,401**

Share options scheme

Movements in the number of options outstanding and their related weighted average exercise prices are as follows:

Unaudited	2023 Weighted average exercise price (AUD)	2023 Options (000s)	2022 Weighted average exercise price (AUD)	2022 Options (000s)
Six months ended 30 September				
Opening balance	85.80	1,428	74.45	1,606
Granted	118.10	18	88.15	184
Forfeited/expired	129.95	(62)	124.85	(116)
Exercised	60.47	(274)	42.53	(516)
Closing balance	**91.40**	**1,110**	**85.81**	**1,158**
Exercisable at 30 September	92.52	431	55.30	509

14. Events after the balance sheet date

On 3 October 2023, Xero completed the sale of 100% of the ordinary shares in Xero (Australia) Holdings Pty Ltd and its subsidiaries (collectively 'the Waddle Group') to CBA New Digital Businesses Pty Ltd.

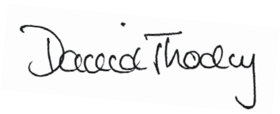
There were no other significant events between balance date and the date these financial statements were authorised for issue.

Directors' Declaration

The unaudited interim financial statements of Xero Limited and its subsidiaries ('the Group') for the six months ended 30 September 2023 were authorised for issue on 9 November 2023 in accordance with a resolution of the directors. In accordance with ASX Listing Rule 4.2A.2A, the directors declare that, as at that date, and in the directors' opinion:

1. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
2. the relevant interim financial statements and notes comply with accepted accounting standards in New Zealand.

For and on behalf of the Board



David Thodey
Chair
Xero Limited
9 November 2023

Mark Cross
Director
Xero Limited
9 November 2023

Corporate Directory

Registered offices

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Contact:
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Directors

David Thodey, AO
(Chair)

Steven Aldrich

Mark Cross

Anjali Joshi

Brian McAndrews

Dale Murray, CBE

Susan Peterson

Company secretary

Damien Coleman

Leadership team

Sukhinder Singh Cassidy
Chief Executive Officer

Damien Coleman
Chief Legal Officer

Kirsty Godfrey-Billy
Chief Financial Officer

Ashley Grech
Chief Revenue Officer

Diya Jolly
Chief Product Officer

Nicole Reid
Chief People Officer

Angad Soin
Chief Business Operations & Strategy Officer

Michael Strickman
Chief Marketing Officer

Other company information

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ARBN 160 661 183 (Australia)

Web address
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Auditor
Ernst & Young

Stock exchange
Xero's ordinary shares are listed on the ASX

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