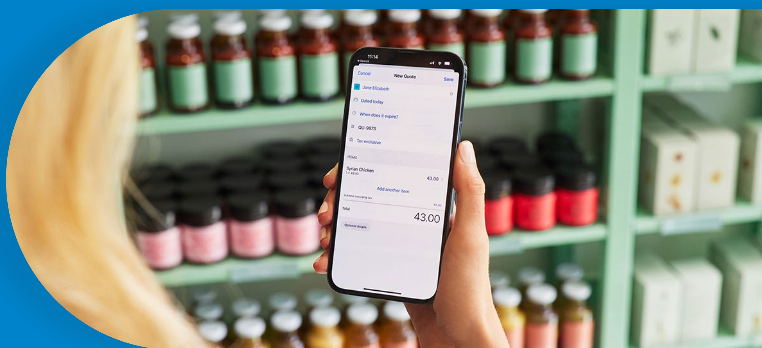
XERO LIMITED

Annual Report 2023



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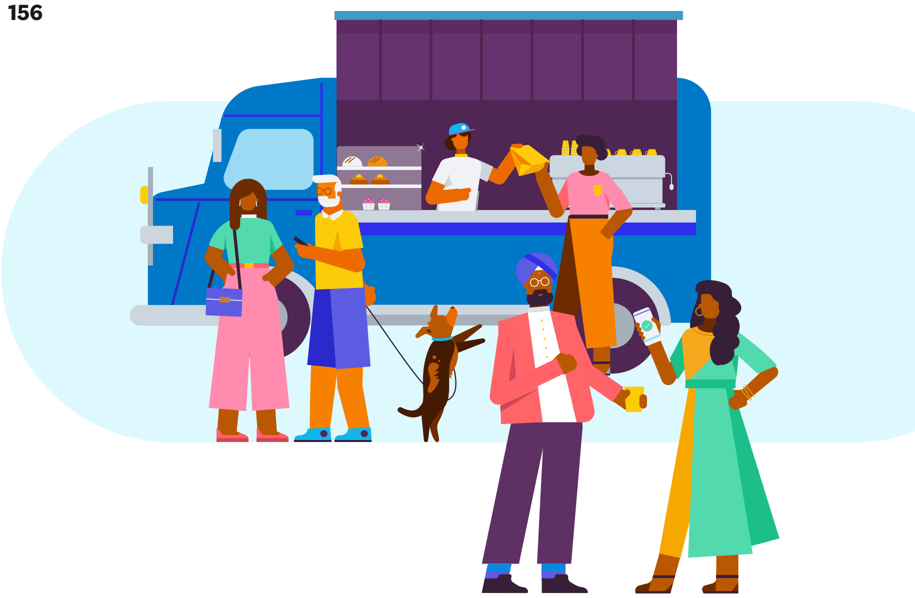


About this Report

Xero's Annual Report for 2023 has been prepared with reference to the International Integrated Reporting Council (IIRC) Framework and has been structured around five key inputs into our business, or capitals as referred to by the framework:

- **People and Culture** – Diverse world-class leadership and talent supported by an equitable and inclusive culture and working environment to do the best work of their lives
- **Customers, Partners and Ecosystem** – Trusted connections with the community of small business customers, partners including small business advisors, ecosystem developers, and other stakeholders including governments and regulators
- **Platform, Technology and Data** – Xero's systems, processes and other knowledge and intellectual property drive innovation at speed to create beautiful products and generate insights
- **Social and Environmental** – Responsible practices across everything we do as a business, including social and environmental impact
- **Financial** – Allocation of capital including revenue and cash flows to optimise financial performance, and access to capital to support the execution of Xero's strategy and long-term value creation

At Xero, we understand the deep connection between our long-term financial performance, social and environmental impact, and organisational culture.

Materiality

This report covers matters material to value creation as identified through stakeholder consultation and a materiality assessment conducted in accordance with the IIRC Framework. For information about the material matters identified and our stakeholder engagement process, please refer to Material Matters on page 18.

Reporting suite

Xero's Annual Report 2023 should be read in conjunction with the other materials that comprise our 2023 annual reporting suite. These are available at Xero's Investor Centre:

Investor Presentation and Databook available at www.xero.com/about/investors/financial-info

Governance and leadership at www.xero.com/about/investors/governance, where full copies of Xero's Corporate Governance Statement, Modern Slavery and Human Trafficking Statement, charters, key governance policies, and full biographies for the board of directors and executive leadership team can be found.

Additional information about Xero's sustainability activities and performance can be found at www.xero.com/sustainability

Throughout this report we have hyperlinked other websites and documents that may be useful. To download a hyperlinked copy of this report, please visit our Investor Centre at www.xero.com/about/investors

Company and reporting information

Xero is listed on the Australian Securities Exchange (ASX) and is a New Zealand incorporated and domiciled company. This means that while the ASX Listing Rules apply to Xero, certain provisions of the Australian Corporations Act 2001 (Cth) do not.

As a New Zealand company, Xero's annual report is primarily governed by the Companies Act 1993 (New Zealand). The Remuneration Report is not intended to fully replicate the statutory disclosure requirements of an Australian company's remuneration report, as these requirements do not apply to Xero. However, the information provided goes beyond New Zealand requirements to provide greater transparency and insight into our remuneration practices.

This report covers the activities of the Xero Group's global operations. Except where otherwise specified, statements should be read as pertaining to the activities of Xero Limited and its subsidiaries (Xero or Xero Group).

Some parts of this report include information regarding Xero's 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.

Non-Generally Accepted Accounting Principles (non-GAAP) measures have been included as Xero believes they provide useful information for readers to assist in understanding the Xero Group's financial 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).

References to the year, period or FY23 are to the financial year ended 31 March 2023. References to the comparative period or FY22 are to the financial year ended 31 March 2022. References to H1 FY23, or the first half, refer to the six-month period ended 30 September 2022. References to H2 FY23, or the second half, refer to the six-month period ended 31 March 2023.

Highlights

Operating revenue

$1,399.9m

↑ Up 28% YoY

Subscribers

3.741m

↑ Up 470,000 YoY

Annualised monthly recurring revenue

$1,553.8m

↑ Up 26% YoY

Total subscriber lifetime value

$13.4b

↑ Up $2.5b YoY

Gross margin percentage

87.3%

Flat YoY

Net loss

$113.5m

↑ Up $104.4m YoY

Adjusted EBITDA

$301.7m

↑ Up $93.0m YoY

Operating income

$57.3m

↑ Up 61% YoY

Free cash flow

$102.3m

↑ Up $100.2m YoY

Total available liquidity

$1.1b

Cash on hand, short-term deposits and undrawn committed debt facilities

Xero set science based **emissions reduction targets** for Scope 1, 2 and 3

Overall emissions intensity per FTE down **42%** from FY20 base year

Xero named **number one** global tech company for gender equality by Equileap

Xero's total global community contribution was more than **$3.5 million**

About Xero

Xero was founded in 2006, leading the charge to bring cloud accounting tools to small businesses globally. The launch of Xero meant accountants and bookkeepers could collaborate with their small business clients in real time through our open platform to monitor their financials, simplify core compliance and run their business.

Since our launch, Xero has grown into a global small business platform that services accountants and bookkeepers and small business customers directly. In addition to our core accounting solution, our platform extends to payroll, workforce management, expenses, projects, payments and other solutions depending on the region. Xero has an extensive ecosystem of connected apps and connections to banks and other financial institutions helping small businesses access a range of solutions from within our platform.

In FY23, Xero generated total operating revenue of $1.4 billion and ended the financial year with 3.74 million global subscribers in Australia, New Zealand, North America, the United Kingdom and more than 180 additional countries across our online platform.

Our vision remains to be the most insightful and trusted small business platform. This is about offering a fully integrated platform that gives customers powerful insights about their business, drives more meaningful discussions with their advisors, and helps them to make more informed business decisions. Our vision is supported by our three strategic priorities, outlined on pages 16-17.

Our people

Our global team is driven by **our purpose to make life better for people in small business, their advisors and communities around the world.** Our objective is to enable our people to do the best work of their lives by aligning and embedding our purpose, values and culture within all our business activities.

Our values and accompanying 'Xero Way' behaviours (shown right) reflect not only how our people work with each other, but how we interact with people and organisations outside of Xero.

Our values

#Human

Xeros are authentic, inclusive and really care

- Kind and assume best intent
- Inclusive, approachable and show empathy
- Are willing to be vulnerable, share fears, failures and learnings

#Challenge

Xeros dream big, lead and embrace change

- Are curious and think big
- Welcome challenging conversations and do it with respect
- Lead and embrace change, seeking new and better ways

#Team

Xeros are great team players

- Champion Xero's purpose and priorities
- Work together to do what's best for Xero and our customers
- Appreciate and celebrate each other and success

#Ownership

Xeros deliver on our commitments

- Do what we say we will do
- Own our mistakes and take positive action
- Move fast to get the right things done

#Beautiful

Xeros create experiences that people love

- Create experiences that inspire and delight
- Do high-quality work
- Go the extra mile

"Xeros" is a term used to refer to Xero employees internally

Our customers

Our focus is on the significant opportunity to drive digital adoption in the small business sector as we continue to grow Xero for the long term.

Xero's objective is to enable our customers to make informed decisions through real-time access to information, along with powerful insights that digital tools enable. This helps our customers to save time, reduce complexity, manage compliance, and better manage their cash flow.

We continuously engage with our customers and partners to help drive further awareness and adoption of digital technologies, such as cloud accounting, across the small business community. Our Xerocon events provide an opportunity for our partner community to connect with their peers and learn more about Xero's latest tools, features and updates to help them better serve their clients and run their practices. We also run roadshow events across our regions, aimed at connecting with the local community and providing education about our platform and the benefits it offers.

For customers, we also provide support within the Xero platform to help them get the most out of the product, and we offer a 24/7 customer support portal called Xero Central. Xero Central has a range of content including how-to articles, videos, community discussions and the option to raise a case with our customer experience team if they need further support.

We continuously collect feedback from customers to help inform the design and development of additional or enhanced functionality to ensure we meet our customers' evolving needs.

Our relationships with partners

The close relationships we have with our partners, from accountants and bookkeepers to third party apps, banks and financial service providers, are an important part of how Xero operates.

Our network of accounting and bookkeeping partners continues to be a key factor to our success across our markets as we work together to introduce Xero to more small businesses.

We continuously engage with our customers and partners to help drive further awareness and adoption of digital technologies, such as cloud accounting, across the small business community

Our ecosystem of connected apps has evolved with the introduction of the Xero App Store. The Xero App Store offers small businesses an easier way to discover and buy apps on the Xero platform, while giving app developers a better way to grow their business, with access to greater insights, tools and billing payment capabilities.

Our sustainability

We are committed to building a sustainable business for the millions of customers we serve, their advisors, our communities, our shareholders and our employees. We are focused on reducing our impact on the environment, and are proud to be certified carbon neutral by the Australian Government's Climate Active program annually since FY20 for our owned and operated businesses globally[1].

In FY23, we set the following emissions reduction targets in line with climate science, aligned to the goals of the Paris Agreement:

- 42% reduction in Scope 1 and 2 emissions from a FY20 base by FY30
- 17% reduction in Scope 3 emissions from a FY20 base by FY30
- Net-zero no later than FY50 (with fewer than 10% of total emissions that require abatement through offsets)

Our targets were designed with Xero's growth ambitions in mind and were established through extensive modelling to provide clear direction to reduce our greenhouse gas emissions across Scopes 1, 2 and 3.

We recognise we have a responsibility to help small businesses become more sustainable. Through our work with Cogo and Ecologi, and by providing access to education and other tools, we are taking steps to help small businesses play their role in supporting the transition to a net-zero economy.

Inclusion is critical to succeeding as a sustainable business, and we are proud that our commitment to gender diversity and inclusion (D&I) was recognised in FY23 through Xero's inclusion in the 2023 Bloomberg Gender-Equality Index. This is the fourth consecutive year Bloomberg has recognised Xero's commitments to gender D&I.

Reflecting our progress in a number of areas, in FY23, Xero was included in the Dow Jones Sustainability Index (DJSI) for the second time.

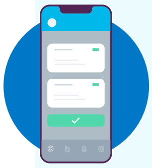
For more information on our approach to sustainability, see the People and Culture and Social and Environmental sections on page 25 and 51 of this report or visit our website www.xero.com/sustainability

Our products

Xero's small business platform includes a range of integrated products, such as:

Accounting and compliance software

Core accounting and compliance software for small businesses and their advisors, providing a trusted, digital system of record, making accounting, tax and other compliance simpler, smarter and more seamless, and allowing small business owners to have greater control and visibility.



Software for small business operations

Software for small businesses that helps them simplify day-to-day operations to better run their business in areas beyond core accounting and compliance needs, such as managing inventory, payroll and employees.

Software for accountants and bookkeepers

Software that helps advisors manage their workflows, serve existing small business clients and support their compliance needs while enabling them to identify and attract new clients.

Access to financial services for small businesses

Software for small businesses to manage cash flow, take and make payments, and scale their business with increased confidence.

Integrations that provide access to third party software

Third party integrations with ecosystem app partners to create an open platform for small businesses and their advisors.

[1] *Xero applies for Climate Active carbon neutral certification annually in arrears in October. In FY23, our certification for FY22 was maintained. We will report the outcome of our FY23 certification application in the FY24 Annual Report*

Chair's Review

David Thodey, AO
Chair of the Board

Dear shareholder

Xero has delivered a strong operating result in FY23 within another year of challenging macroeconomic conditions. We are seeing more small businesses placing their trust in Xero's digital platform to run their business, manage their cashflow and meet critical compliance needs.

In this higher interest rate environment and with our increased focus on operating efficiency, we have taken action to streamline our business. We have also revalued our recent acquisitions, reflecting the current valuation backdrop and the operating performance of these businesses. While this has negatively impacted our FY23 EBITDA, we are confident we are well positioned to balance growth and profitability in the coming years.

Small businesses around the world continue to operate in a complex environment. The Xero Small Business Insights (XSBI) program (now available in five countries) uses anonymised and aggregated data to track the performance of small business and improve understanding of the sector. XSBI shows that small businesses in many of our markets started 2023 in a more challenging position than in 2022[1]. They continue to navigate inflationary and interest rate pressures, and slowing economies, while adapting to the ever-changing needs of their customers.

In this challenging environment, Xero's cloud-based subscription product enables small businesses to work more effectively and efficiently. The value customers place in their Xero subscription is demonstrated by our delivery of strong top-line results and subscriber growth, alongside consistently low churn.

We remain confident about the future growth opportunity for our company.

Xero's next chapter

Xero is one of only a few technology companies of its size and global reach listed on the Australian Securities Exchange. As our global footprint grows, the skill set and experience required of our management team continues to evolve. Our growth ambitions were at the centre of the Board's global recruitment process for a new CEO following Steve Vamos' decision to retire after almost five years. The Board and all the Xero team thank Steve for his significant contribution to Xero. After considering a number of exceptional candidates, we were pleased to appoint Sukhinder Singh Cassidy as Xero's new CEO in November 2022. Sukhinder formally took over from Steve in February to lead us through our next phase of growth.

Sukhinder is an experienced global technology executive with more than 25 years' leadership experience. She has held various leadership positions, including as President, Asia Pacific & Latin America at Google; President at StubHub; founder of the Boardlist; founder of Joyus, where she was CEO; and co-founder of Yodlee. Sukhinder also brings extensive public and private board experience with multiple companies. Sukhinder's expertise in building products and scaling go-to-market businesses across virtually every global region is critical to leading Xero in our next chapter.

It is our intent to continue to grow our global executive capabilities as Xero grows.

[1] *January 2023 Xero Small Business Index for Australia, New Zealand and the UK*

The long-term opportunity for cloud accounting remains significant and under Sukhinder's leadership, Xero is well positioned to take advantage of this. However, the higher interest rate environment and the revaluation effect of companies in our sector has meant there has been greater scrutiny on expenditure, growth and profitability. This, along with inflationary pressures, has meant we have increased our focus on our operating costs and the returns that we generate from our investments.

In March 2023, we announced a program to streamline Xero's operations, realign the business to drive greater operating efficiency, and better balance our growth and profitability. This required an organisational restructure to strengthen our ability to deliver value for all our stakeholders, and position Xero for the future. We believe we are now better placed to become a higher performing global SaaS company and generate disciplined growth. We will continue to foster Xero's unique, purpose-driven culture, and we are committed to providing the right level of support to our people whose roles have been impacted by the changes we have made.

We also understand the deep connection between our long-term financial performance, social and environmental impact, and organisational culture. This year, we have again prepared our Annual Report with reference to the International Integrated Reporting Council (IIRC) Framework. The report is structured around five key inputs into our business, or capitals, as referred to by the framework.

Trust is central to our vision, purpose and values. We build this trust by striving to act with integrity and authenticity and by upholding high standards of governance

Fostering and preserving trust

Our purpose, to make life better for people in small business, their advisors, and communities around the world, remains our driving force.

Trust is central to our vision, purpose and values. We build this trust by striving to act with integrity and authenticity and by upholding high standards of governance.

We recognise that we must be vigilant in protecting our customers' data and acknowledge this challenge requires constant focus. Keeping customers' data secure and handling it responsibly is critical to building and operating a trusted platform. We take a multi-layered and risk-based approach to managing security through the use of cutting-edge security technology, a robust security risk management process, and working to keep security considerations front of mind for all our people. We are resolute in our focus to continuously improve our approach to security – given the constantly changing nature of the external threat landscape – and regularly introduce new capabilities and process enhancements to further strengthen our security posture.

You can read more about Xero's responsible data use practices and our approach to cybersecurity risks and protecting data on pages 46-47.

The quality of customer data in the Xero platform allows us to provide trusted insights based on anonymised and aggregated data. We use this data to deliver XSBI to share an informed perspective on the small business economies in the UK, Australia, New Zealand, and as of this year, Canada and the US. XSBI is trusted by government agencies to support their policy making decisions that impact small business. Institutions that engage with XSBI include the Office for National Statistics (UK) and the Reserve Bank of Australia (RBA).

Sustainability commitment

Minimising our environmental footprint and our impact on the community, while operating in a reliable and transparent way, is vital to maintaining trust and protecting and growing Xero's value. We have a role to play in taking meaningful action on climate change and supporting the transition to a net-zero economy as we continue to grow.

We have taken the next steps towards net-zero and have set company-wide emissions reduction targets in line with climate science, aligned to the goals of the Paris Agreement. The targets were designed with Xero's growth ambitions in mind and were established through extensive modelling. They provide clear pathways for us to reduce our greenhouse gas emissions. From an FY20 baseline, we have set targets to reduce our Scope 1 and 2 emissions by 42% and our Scope 3 emissions by 17% by 2030, and to be net-zero[2] by 2050.

We are also helping small businesses to become more sustainable through our education tools and partnerships. Xero recognises that every business has a role to play in supporting the transition to a net-zero economy and we are in a unique position to help small businesses take steps in their sustainability journey.

In FY23, Xero became a member of the United Nations Global Compact Network Australia and we are committed to supporting the United Nations Sustainable Development Goals.

In recognition of the progress we have made in social, environmental and governance initiatives, Xero was included for the second time in the Dow Jones Sustainability Index (DJSI).

More information about our environmental and social practices is on pages 51-57, and in our separate Taskforce on Climate-related Financial Disclosures (TCFD) Statement.

Supporting diversity, equity and inclusion

The Board is committed to ensuring Xero's people reflect the communities we live and operate in, and to fostering an environment where our people are encouraged to bring their whole selves to work.

While our overall representation of women remains unchanged from FY22, we have made good progress towards our gender diversity target for senior leaders with 38.7% (up from 33.9% in FY22) and people leaders with 45.0% (up from 43.7% in FY22). In line with our commitment to equal pay for equal work, we continued to monitor our gender pay gap. Our median gender pay gap is 9.5%, which has decreased 1.5 percentage points since FY22 and is in our target range.

In 2023, we were ranked by Equileap, a provider of data and insights on gender equality, as the number one information technology company for gender equality globally, and the number one New Zealand headquartered company.

We aim to ensure the retention rate of our people who are from identified underrepresented racial and ethnic groups is proportionate to our broader retention rate at all levels of Xero. We established this as a measurable objective in FY23. Our analysis shows that retention of employees from identified underrepresented racial and ethnic groups is proportionate to our broader retention rates.

Our commitment to diversity, equity and inclusion is an essential component of Xero's unique culture and how we serve our customers and partners. You can read more about diversity, inclusion and belonging at Xero in the People and Culture section of this report, on page 25.

[2] *Fewer than 10% of total emissions that require abatement through offsets*

Xero customer Visual Contrast (US)

Future opportunities

Small business cloud adoption is still low in many countries around the world. Demand for online cloud-based accounting tools remains strong and the opportunity to introduce the benefits of cloud accounting to new customers is significant. We are also focused on helping existing customers to further improve how they manage their business using Xero's tools and the wide business applications offered through our partner ecosystem.

As we prepare for Xero's next chapter of disciplined, customer-focused growth, the Board continues to work closely with Sukhinder and the leadership team to help deliver our vision and our purpose, and drive disciplined growth.

On behalf of the Board, I would like to extend our appreciation to Steve Vamos for his significant contribution and impact on Xero's growth and development as a global business. His authentic leadership style propelled Xero's approach to people leadership, diversity and inclusion, and the introduction of Xero's sustainability and climate targets.

I would also like to thank our great Xero team for their dedication and commitment to our customers and for their development of our innovative products and services.

As Chair of Xero, I am delighted to work with a global team of experienced and engaged directors. Our governance approach reflects the risk appetite set by the Board and aligns directly with Xero's purpose, values and strategic objectives. I would like to thank our directors for their dedication in FY23 and in the future.

The Board and I are encouraged by the opportunity ahead and also to work with someone of Sukhinder's calibre and global experience to lead Xero into its next important chapter of growth.

The Board sincerely appreciates the ongoing trust and support of our Xero team, customers, partners, and the support from you, our shareholders.

Thank you to everyone who supports Xero.

David Thodey

David Thodey
Chair of the Board

CEO's Review

Sukhinder Singh Cassidy
CEO

Dear shareholder

I started my journey as Xero's CEO in February this year, and I'm deeply excited about our opportunity to help power the global small business economy. Xero is a special company and an important business tool for small business and their advisors. It's truly a privilege to be leading a team so dedicated to delivering our purpose for customers, partners, shareholders and our communities around the world.

I'm also pleased to share our strong FY23 operating results. We grew FY23 operating revenue by 28% to $1.4 billion, which contributed to a 45% increase in adjusted EBITDA compared to FY22 to $301.7 million. This drove a significant increase in free cash flow to $102.3 million, reflecting a free cash flow margin of 7.3% compared to 0.2% in FY22.

We also incurred non-cash impairments and associated costs, and restructuring charges in FY23. This led to EBITDA decreasing 26% compared to FY22 to $158.4 million. This includes a $77.9 million impairment to Planday (mainly reflecting a reduction in market valuation multiples along with operational performance), $48.5 million of impairments and other costs related to Waddle, $34.7 million in restructuring costs, and non-cash accounting revaluation gains of $17.9 million.

Our FY23 operating expense to operating revenue ratio was 80.7% (excluding restructuring costs of $34.7 million), consistent with guidance. This resulted in improved operating income, a measure that reflects underlying business performance, which grew 61% to $57.3 million. Excluding restructuring charges, operating income was $92.0 million with an operating income margin of 6.6%.

Our total global subscribers increased 14% to 3.74 million, underpinned by double-digit subscriber growth in all our markets; and we delivered consistently low churn, improved average revenue per user (ARPU), and increased total subscriber lifetime value (LTV).

These operating results demonstrate Xero's resilience in a complex macroeconomic environment, our valuable customer proposition, increasing efficiency, and our move towards even more disciplined, customer-focused growth.

Consistent with these ambitions, in March 2023, we announced a program to streamline and simplify our organisation. This included reshaping our organisational structure by reducing 700-800 roles across our business, and also exiting one of our smaller, early-stage businesses, Waddle. These changes will adjust our operating cost base for FY24 as we seek to take a more balanced approach to growth and profitability going forward, while being more dynamic and measured in the way we allocate capital to drive value creation over the short, medium and longer term.

Moreover, with an estimated global Total Addressable Market (TAM) of more than 45 million small businesses[1], Xero's potential remains enormous. We are committed to building on the strong momentum that you can see in our FY23 result, and pursuing our aspiration to build a higher performing global SaaS company.

Drive cloud accounting

Australia and New Zealand continue to lead the world in small business cloud accounting adoption – as highlighted by our FY23 result. Xero's continued growth in Australia and New Zealand demonstrates the value we can drive in highly penetrated markets.

In our international markets, we continue to localise Xero to meet customer needs and further strengthen our accountant and bookkeeper relationships to take advantage of the large and unpenetrated opportunity. We delivered strong revenue and subscriber growth, and are turning our attention to increasing adoption of our broader product set, as more small businesses adopt digital technology.

In August 2022, we announced a strategic partnership with Avalara, an automated tax compliance software specialist, to build an integration that automates the sales tax compliance journey for US-based customers. We launched a closed beta trial in early 2023 and are encouraged by the positive customer response so far.

In March, we announced a partnership with Allinial Global, the second-largest accounting association in the world. This global agreement makes Xero the preferred cloud accounting solution for Allinial Global's member firms and brings Xero to more small businesses worldwide. This follows a multi-year global partnership signed with the PKF Global accountancy and advisory network, to empower PKF advisors with data and insights to help their clients make more informed decisions.

[1] *Estimated TAM across English-speaking addressable cloud accounting markets, based on publicly available data*

We view our strong relationships with the accounting and bookkeeper communities as a key differentiator. These relationships are an important element of our approach to drive cloud accounting adoption with their small business clients, which also creates a virtuous effect in our direct small business channel.

Another important part of our strategy is bringing customer communities together to connect and collaborate, through events like Xerocons and Xero roadshows. After COVID-19 interrupted Xerocons in recent years, we brought our partner community together in 2022 at Xerocons in London, New Orleans, and Sydney. This year, we announced Xerocon will be a global event that will next be hosted in Sydney in August 2023.

Our total global subscribers increased 14% to 3.74 million, underpinned by double-digit subscriber growth in all our markets

Xero is a FIFA Women's Football Partner. This partnership promotes brand awareness in new and existing markets, while championing women in small business and football. During the year, we announced a commercial partnership with The English Football Association (The FA), making Xero the Official Partner of both the England women's senior team and England Football. As part of The FA partnership, we're helping to build the financial resilience of clubs by providing access to educational tools, resources and expert advice.

Xero customer Visual Contrast (US)

Grow the small business platform

Over recent years, Xero's small business platform has evolved to include payroll, payments, workforce management, and more. We also have an extensive ecosystem of more than 1,000 connected apps and more than 300 direct connections to banks and other financial institutions, including to API providers that then provide access to additional banks and financial institutions. This ecosystem extends our customer engagement further by providing customers with access to a range of solutions from within Xero to help them run their business, efficiently and effectively.

Xero empowers customers to take control of their cash flow by embedding financial tasks into workflows, such as creating invoices, getting paid and making payments. In FY23, we continued to grow our support for customers with their payment needs. This included deepening our relationship with Stripe, a financial infrastructure platform for businesses, and expanding our partnership with GoCardless, a global leader in direct bank payment solutions, to provide the Instant Bank Pay feature to our customers.

In FY23, Xero introduced updates to Xero Payroll in Australia to help customers manage compliance by ensuring all three stages of Single Touch Payroll (STP) Phase 2 transition are available.

We also launched Payroll history in Australia to provide an easy-to-access audit trail of changes made within Xero by a small business owner, advisor or app partner to help understand, track, manage and troubleshoot changes to employee details.

We take pride in being a purpose-led employer, with a diverse, world-class team

In April 2023, Planday launched in Australia, supporting its first two awards – Retail and Clerks. Planday is part of our suite of employee management tools – Xero Payroll, Xero Me and Xero Expenses – that help employers and employees to connect in real time. We're working to make Planday available for Australian customers under the Hospitality Award and plan to expand to more awards over time.

Build for global scale and innovation

People and culture

We take pride in being a purpose-led employer, with a diverse, world-class team. We are known for our culture and values, which was an important factor for me in joining Xero. We're committed to staying true to our values, developing and preserving our culture, and nurturing our people.

I'm proud that Xero's commitment to diversity, inclusion and belonging has driven our inclusion in the Bloomberg Gender-Equality Index for the fourth consecutive year, and also saw us ranked by Equileap as the number one information technology company for gender equality globally, and the number one New Zealand headquartered company.

As we strive to become a higher performing global SaaS company, we've made two new appointments to our executive team. Angad Soin was promoted to Chief Business Operations and Strategy Officer in February 2023. Angad is responsible for leading the cross-business processes that shape the development and execution of Xero's global strategy, and drive operational excellence.

In April 2023, Diya Jolly joined Xero as our Chief Product Officer bringing more than 20 years of market-leading global experience in designing, developing and launching consumer and business products in high-growth tech companies, including Google, YouTube, and Okta. In this critical role, Diya will lead the next generation of Xero's product vision to design and deliver high-value products for our partners and small businesses.

Technology

In addition to the Avalara partnership and Planday Australia launch, in FY23 we delivered a number of product updates and new features for customers. Examples include: practice tools updates to provide a single source of truth for client data across Xero Practice Manager, Xero HQ and Xero Tax; launching Xero Go in the UK to meet the less complex needs of self-employed businesses and their advisors; and South African Rand (ZAR) billing to help customers and partners to consistently plan for subscription costs in their local currency.

We continue to remain focused on delivering value to customers and taking advantage of the significant opportunity ahead for Xero. At the same time, we remain committed to our multi-year platform modernisation strategy, in order to unlock further improvements in efficiency, scalability, productivity and speed to market.

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[2].

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.

Our next chapter

We're pleased with Xero's FY23 performance and we continue to execute well. We enter FY24 with strong momentum, but there is much more to do.

We remain clear about our vision, to be the most trusted and insightful small business platform – and we're positive about the multiple levers Xero has to deliver growth, including driving further adoption of cloud accounting and deepening our customer engagement and experience.

I'm excited about and committed to helping drive Xero's next chapter of growth. We are entering a new phase as a company, focused on being smarter, faster and stronger for our customers and communities. We also strive to be more disciplined and balanced in our growth as we move forward.

I would like to acknowledge and thank Steve Vamos for his valuable contribution as CEO for the past five years, providing me a smooth transition into the role, and also to Xero's Board and leadership team for their confidence in me.

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

Best,

Sukhinder Singh Cassidy
Chief Executive Officer

[2] This applies both including and excluding restructuring charges

How Xero Creates Value

Our purpose

To make life better for people in small business, their advisors and communities around the world

Our vision

To be the most insightful and trusted small business platform

Inputs

What we do

People and Culture
Diverse world-class leadership and talent supported by an equitable and inclusive culture and working environment to do the best work of their lives

Customers, Partners and Ecosystem
Trusted connections with the community of small business customers, partners including small business advisors, ecosystem developers, and other stakeholders including governments and regulators

Platform, Technology and Data
Xero's systems, processes and other knowledge and intellectual property drive innovation at speed to create beautiful products and generate insights

Social and Environmental
Responsible practices across everything we do as a business, including social and environmental impact

Financial
Allocation of capital including revenue and cash flows to optimise financial performance, and access to capital to support the execution of Xero's strategy and long-term value creation

Supported by Governance (see page 62) and Risk Management (see page 19)

Our values

#Human
Xeros are authentic, inclusive and really care

#Challenge
Xeros dream big, lead and embrace change

#Team
Xeros are great team players

#Ownership
Xeros deliver on our commitments

#Beautiful
Xeros create experiences that people love

"Xeros" is a term used to refer to Xero employees internally

Products → Outcomes

Our products are described on page 5

People and Culture

- Attraction, development and retention of top talent is enhanced
- Diversity, equity and an inclusive environment are promoted
- Improved health, safety and wellbeing performance

Value drivers are described on page 25

Customers, Partners and Ecosystem

- Customers and partners are more successful and confident on Xero
- Greater stakeholder trust and customer advocacy through a product experience that exceeds expectations
- Improved brand awareness, perception and value, including trust in platform reliability and the security of data

Value drivers are described on page 35

Platform, Technology and Data

- Xero is the small business platform of choice
- New and improved services (quality, harnessing machine learning capabilities, and business support)
- Increased speed to market
- Reliable, secure and responsibly utilised data, including privacy and cybersecurity

Value drivers are described on page 43

Social and Environmental

- Wellbeing within the small business community
- Improved environmental outcomes
- Responsible procurement practices both within Xero and the wider community are built and promoted
- Improved levels of financial literacy and inclusion

Value drivers are described on page 51

Financial

- Our strategy and vision are supported, and long-term value for shareholders is created
- Strong balance sheet
- Revenue growth and returns in the form of strong cash flows

Value drivers are described on page 59

Strategy

Xero is a long-term oriented business with ambitious growth plans to scale globally with discipline. Our strategy is centred on delivering our vision to be the most trusted and insightful small business platform. It comprises three strategic priorities which guide our decision-making as we navigate the opportunities and risks that exist for our business.

Xero's strategic priorities seek to create sustainable value for our customers, employees and shareholders across the five inputs. These three strategic priorities are:

Drive cloud accounting adoption

Grow the small business platform

Build for global scale and innovation

Drive cloud accounting adoption

Cloud accounting adoption in small businesses remains low in many countries around the world. We are focused on driving adoption of Xero by bringing tangible benefits to small businesses and their advisors by saving time, reducing errors and delivering actionable insights about their business. The market opportunity from driving cloud adoption exceeds 45 million small businesses across the markets Xero operates in[1].

The cloud accounting industry continues to benefit from a number of trends, including government digitisation, innovation within financial services, and continued innovation in small business cloud solutions that drives technology adoption. These initiatives and trends are present in many markets and are fuelling demand for digitally enabled and cloud-based accounting and compliance solutions.

How we drive adoption:

- Introducing small businesses, accountants and bookkeepers to the benefits of cloud accounting through the use of marketing, educational materials, training, and Xero subscription trials
- Connecting with our accounting and bookkeeping partners is an important part of our approach particularly through events such as roadshows and Xerocon events, which we host for cloud accounting leaders
- In line with our vision, we aspire to be the world's most insightful and trusted platform, allowing accountants, bookkeepers and small businesses to collaborate in real time via a single ledger to manage their business, monitor their financials and simplify core compliance. This makes routine parts of running a business easier, faster and more efficient
- We continue to help our customers harness the power of data by investing in growing the artificial intelligence capabilities across our product. This streamlines core accounting tasks such as bank reconciliations and reduces data entry, while also helping customers make better decisions using AI-powered insights

Continuously improving our core product and customer experience making our product easier to use and serving more customer needs:

- Better serving customers with less complex accounting needs. Our launch of Xero Go in the UK allows Xero to be more relevant to these types of customers in the UK. We will learn from our experiences there to consider other markets in the future
- Improving product-market fit in North America including more direct bank feed integrations, integrations to automate sales tax compliance in the US (Avalara partnership) and improved tax solution in Canada (expanded TaxCycle integration)
- Developing practice and compliance tools to help our accounting and bookkeeping partners better serve their existing clients, find and onboard new clients and run their operations. A key area of investment has been working towards a single source of truth for client data across our practice tools which will save time, reduce errors and improve user experience
- Helping small businesses to stay compliant. We have made it easier for small businesses to stay on top of relevant government regulatory changes including Single Touch Payroll (STP) Phase 2 in Australia, GST rates in Singapore, and Making Tax Digital (MTD) compliance in the UK

For further information on product releases, see our Platform, Technology and Data section on page 43

[1] *Estimated TAM across English speaking addressable cloud accounting markets, based on publicly available data*

Grow the small business platform

Our vision is to be the most insightful and trusted small business platform. Our approach is to provide a platform with a healthy ecosystem of apps, integrations, partnerships, and financial services solutions on which small businesses can find solutions to run their business, whether built by Xero or by our ecosystem partners. We believe this open approach of working together with ecosystem partners will deliver a better and faster outcome for small businesses.

Cloud accounting is just one of the many digital tools from which small businesses can benefit. There are many other operational and financial needs such as payroll, payments and invoicing, and workforce management. Xero is well positioned to provide a single integrated platform that allows best-in-class products and services to be integrated into Xero's single, real-time ledger. Providing an integrated platform helps make life easier for small businesses and enhances accountants' and bookkeepers' ability to advise and provide more insights to their clients while simultaneously protecting and extending the value of our core offering.

Our platform is open to the community of ecosystem partners who serve small businesses, not just to Xero-owned solutions. This strategic choice better serves the unique needs of small businesses by offering flexibility to choose the solutions that best serve their needs.

Enhancing our open platform

Xero's ecosystem includes more than 1,000 connected apps and more than 300 direct connections to banks and other financial institutions, including to API providers that then provide access to additional banks and financial institutions. Our customers are increasingly connecting through the Xero App Store, where small businesses and partners can easily find, choose and purchase the right third-party connected apps for their needs. For Xero subscribers in Australia, the UK and New Zealand, the Xero App Store makes it possible to start a trial and securely purchase apps in just a few clicks, all using their Xero login, which can be managed in one place.

Building Xero's financial and operational solutions

We continue to invest in financial and operational solutions including payments and invoicing workflow, payroll solutions and Planday. For example, over the past year we have strengthened the financial solutions we offer to help small businesses take control of their cash flow by embedding financial tasks in existing and new accounting workflows. A key focus is improving the customer experience of our payments and invoicing workflow and customer awareness of our financial solutions, making it easier to get paid and make payments within Xero.

Similarly, we have continued to improve Xero Payroll in Australia with updates to help customers manage compliance for Single Touch Payroll (STP) Phase 2 and the launch of Payroll history. We have also further developed scheduling and compliance tools by extending Planday's offerings to small businesses. A Planday beta was made available in Australia in 2022 and officially launched in April 2023 for Australian small businesses who pay their staff under the Retail and/or Clerks awards. We continue to work on making Planday available for customers under the Hospitality Award. An award is an industrial instrument used in Australia that outlines the minimum employment terms, pay rates and conditions for workers in particular industries and occupations under the Fair Work Act in Australia[2].

Build for global scale and innovation

We are investing in improving our business systems, technologies, people capabilities and operating structure. This provides the opportunity to deliver more innovation, and, in turn, deliver our vision faster and to more places around the world.

We have continued to focus on the following areas:

- Modernisation of our technology platform: We remain focused on delivering ongoing value for customers through our product and technology efforts each year, while continuing to invest in a multi-year platform modernisation strategy to unlock long term efficiency, scalability, productivity and speed to market improvements. *For further information, see our Platform, Technology and Data section on page 43*
- Optimising our operating and financial structure to deliver a better balance of disciplined growth and profitability. Most significant this year has been the reshaping of our organisation structure and the way we work across functions - to operate with greater clarity, speed and effectiveness. *For further information, see our People and Culture section on page 25*

[2] *Awards include entitlements such as penalty rates, overtime and casual rates; annual and other types of leave; hours of work, rosters and breaks; and allowances*

Material Matters

In FY23, we completed Xero's second stakeholder engagement and materiality assessment in accordance with the International Integrated Reporting Council (IIRC) Framework. This was to ensure we are continuing to identify and respond to the sustainability issues, risks and opportunities that are most material to our stakeholders to create long-term value.

The assessment considered a range of inputs, including peer and competitor benchmarking, a review of the Sustainability Accounting Standards Board (SASB) software and IT services sector standard, and Xero's internal policy documents. We reviewed a range of thought leadership documents from leading institutions such as the World Bank, World Economic Forum and Organisation for Economic Development (OECD) to ensure global macroeconomic and geopolitical trends were reflected in the analysis. We also engaged directly with internal and external stakeholders through surveys with more than 1,000 responses from employees, investors, board members, partners, and customers. The initial findings were reviewed by our Environmental, Social and Governance (ESG) Steering Committee, and validated by the Xero leadership team and board of directors.

Through this process we identified the ESG "matters material to value creation" for Xero. How we manage each of these to enhance Xero's value, is described under each of the Inputs in this report on pages 25-68.

The material matters for FY23 identified by the stakeholder engagement and materiality assessment are set out to the right. The assessment identified one new material matter for FY23: *remuneration, incentives and pay transparency. Waste management and responsible use of resources* was identified as being more material in FY23. *Supporting and enabling Xero's ecosystem to do good*, which was included in our FY22 Annual Report, was no longer considered material in FY23.

The material matters identified are grouped under four of Xero's Inputs that are described in further detail in the How Xero Creates Value section of the report on pages 14-15. A fifth grouping of matters has been formed under the category of 'Governance' which also forms a critical component of our value creation process.

People and Culture

- **Diversity and inclusion**
- **Employee health, safety and wellbeing**
- **Employee attraction, training, development and retention**
- **Remuneration, incentives and pay transparency**

Customers, Partners and Ecosystem

- **Stability, reliability and accessibility of information**
- **Customer support, loyalty and engagement**

Platform, Technology and Data

- **Stability, reliability and accessibility of information**
- **Cyber security and data protection**
- **Customer privacy**
- **Technological innovation, artificial intelligence and digitisation**

Social and Environmental

- **Climate action and energy management**
- **Responsible supply chain and modern slavery**
- **Waste management and responsible use of resources**
- **Community support, engagement and partnerships**

Governance

- **Corporate governance, compliance and risk management**
- **Board and management composition, capabilities and remuneration**

These are discussed on pages 19 and 62 of this report.

Key Risks

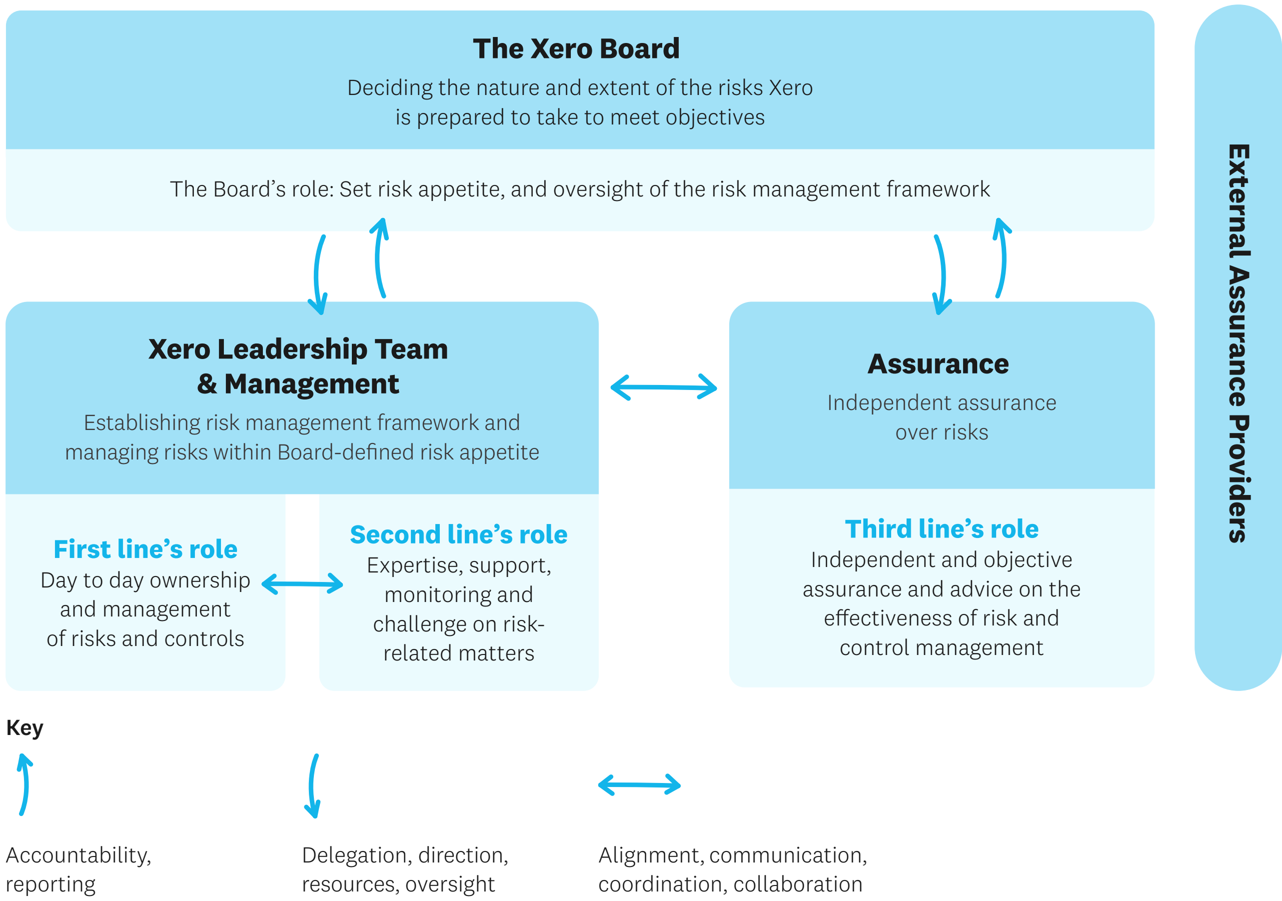
Xero is a high-growth business with operations located around the world. As a result, we address a variety of opportunities and face a range of risks which we consider from a sustainable, long-term value creation perspective.

The Xero risk management framework is designed to identify material financial and non-financial risks that may impact our ability to achieve our strategic priorities.

The Board sets the risk appetite and provides oversight of management's execution of Xero's risk management framework. Responsibility for managing risks within the Board-defined risk appetite is shared between the Xero Leadership Team, management and all our people.

We recognise that all our people have a role to play in this area. Therefore, we have aligned accountability for managing risk to the globally recognised 'Three Lines Model'. Key roles are outlined in the diagram below.

Xero's Risk Management Accountability – Three Lines Model



The table below highlights key strategic, operational and emerging areas of potential risk facing Xero, the high-level mitigation activities we have in place, and the linkage to related inputs.

Financial | **Platform, Technology and Data** | **Customers, Partners and Ecosystem** | **People and Culture** | **Social and Environmental**

Key areas of potential risk	Mitigation strategies and activities	Related inputs
Access to talent/ workforce planning Ability to attract, develop and retain talent to deliver on strategy	• Attraction and retention strategies with broad employee value proposition, including flexible work policies and career development opportunities • Continuously exploring new resourcing options to ensure we have the opportunity to access an expanded potential top talent pool • Recruitment teams across all regions • Succession-planning processes for key roles	Financial; Platform, Technology and Data; Customers, Partners and Ecosystem; People and Culture
Product delivery execution Ability to deliver new products and innovations that meet our customers' needs	• Investment in engineering and product development capability • Prioritisation of initiatives to focus available resources and talent on delivery of highest priority projects • Investment in targeted customer and market research programs, which are used to inform future product development needs and priorities across Xero	Financial; Platform, Technology and Data; Customers, Partners and Ecosystem
Short-term performance (growth and cash) does not meet expectations The risk that our short-term performance falls short of our internal targets and external market expectations resulting in increased cost of capital, negative shareholder/market sentiment impacting future access to capital	• Monitoring of forecasts versus actual performance and market expectations • Opportunity to continuously improve market communication strategy to build understanding of Xero's strategy and focus on long term performance • Allocation of capital in a way that balances short-term performance and investment in long-term strategic objectives, including a company-wide program underway to streamline operations, realign the business to drive greater operating leverage, and better balance of growth and profitability	Financial; Platform, Technology and Data; Customers, Partners and Ecosystem
Platform stability Failure or disruption of our platform, resulting in poor customer experience and potential disruption to customers' businesses, leading to customer churn and/or reputational damage	• Strategic focus on, and investment in, best practice technologies, processes and engineering capabilities to improve robustness of the platform and strengthen stability • Opportunity to continuously enhance customer support offering and communication to strengthen trust • Regular monitoring of, and reporting on, platform and database performance • Disaster recovery, business continuity, and crisis management plans in place and regularly tested	Financial; Platform, Technology and Data; Customers, Partners and Ecosystem

Financial | **Platform, Technology and Data** | **Customers, Partners and Ecosystem** | **People and Culture** | **Social and Environmental**

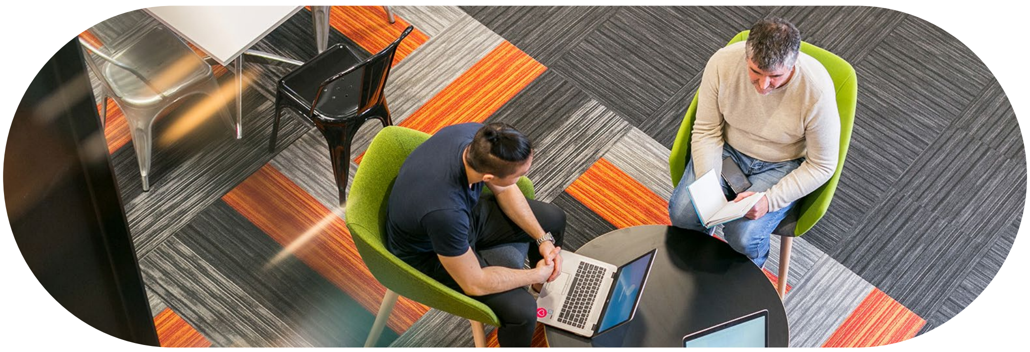
Key areas of potential risk	Mitigation strategies and activities	Related inputs
Data and cybersecurity breaches Security controls and processes are insufficient, leading to a breach and resulting in loss of data or system functionality, and potential disruption to customers' businesses, leading to customer churn and/or reputational damage	• Governance and oversight mechanisms and Audit and Risk Management Committee risk updates • Data security and awareness programs for all Xero employees and partner and customer education, providing an opportunity to empower users of the Xero platform with knowledge of how their actions can help keep their data safe and accounts secure • Investment in best practice tools and processes to provide multi-layer protection against unauthorised access, e.g. multi-factor authentication, security penetration testing • SOC2 and ISO 27001 compliance and certification, including regular external audits • Plans in place to respond to a significant cybersecurity incident • Periodic cybersecurity simulations conducted with management and/or the Board	
Competitive intensity and disruption New technologies and/or competitors that impact Xero's ability to deliver on our strategic priorities and financial performance	• Systems in place for monitoring and responding to competitor and market activity, used to help inform business decision-making • Development of strategic partnerships and pipeline of potential acquisitions • Continual investment in product innovation and development to provide beautiful products that meet customer needs	
Strategic execution Ability to execute our strategic initiatives resulting in customer, operational, financial and reputational impacts	• Program and project governance of strategic initiatives with regular review, oversight and reporting • Continued focus on improving execution through alignment of strategic initiatives with annual operational plans, objectives and key results • Executive sponsorship and accountability for each strategic initiative • Board oversight from regular briefings on progress, challenges and outcomes	

Financial | **Platform, Technology and Data** | **Customers, Partners and Ecosystem** | **People and Culture** | **Social and Environmental**

Key areas of potential risk	Mitigation strategies and activities	Related inputs
M&A and related business integration Ability to successfully realise value and/or integrate new acquisitions as planned	• Board and leadership team oversight of integration activities and performance with corporate development team and Xero Investment Committee • Integration Framework including pre-acquisition due diligence processes • Dedicated M&A Integration Management Office established enhancing ability to identify issues/opportunities	
Social and environmental (including climate) Ability to create a diverse and sustainable business	• Regular review and oversight of ESG initiatives and risks by leadership team and Audit and Risk Management Committee • Road map developed to align with the Task Force on Climate-related Financial Disclosures (TCFD) guidelines for climate reporting • Net Zero @ Xero carbon neutrality commitment and emissions reduction targets aligned to Paris Agreement • Diversity and inclusion policy in place, supported by region-specific programs and Employee Resource Groups (ERGs) to drive inclusion and belonging • Education and support to small business customers on building sustainable businesses	
Wellbeing, health and safety Ability to protect employees' wellbeing, health and safety	• Investment in dedicated programs and resources that support our employees, including Flexible Working, and Respect and Responsibility Policies • Regular surveys and reporting on employee wellbeing, and engagement metrics and trends, including lead and lag indicator analysis • Helping employees through the COVID-19 pandemic by providing a safe and effective working environment including hybrid and remote working • Ongoing monitoring of COVID-19 trends and impacts and the risk of other potential pandemics	
Legal, regulatory and compliance Ability to manage legal, regulatory and compliance risks that may impact Xero's products, brand and/or financial returns	• Regular review and oversight of regulatory and compliance areas by the leadership team and Audit and Risk Management Committee • Regular review and updates undertaken in monthly product risk and regulatory forums, and senior governance forums • Policies, procedures, training and education provided covering key regulatory and compliance areas, supported by internal and external audits • Proactive and regular dialogue with regulators and industry bodies	

Financial | **Platform, Technology and Data** | **Customers, Partners and Ecosystem** | **People and Culture** | **Social and Environmental**

Key areas of potential risk	Mitigation strategies and activities	Related inputs
Capital access and management Ability to allocate resources appropriately and productively and constraints on access to capital	• Maintaining strong relationships with banking partners and investors • Board oversight and regular review of capital management strategy and investment allocation • Governance oversight of capital management and liquidity management by the Board, Audit and Risk Management Committee, and Treasury Governance Committee	
Adverse global economic conditions Impacts and opportunities of adverse global economic conditions	• Regular financial oversight and monitoring across our markets • Detailed financial analysis and scenario modelling to enable responsive changes to spending and investment approaches for changes in economic and business conditions	
Legal and regulatory changes Ability to identify and manage changes to the regulatory environment that may introduce new risks and/or present new opportunities to our business	• Monthly product risk and regulatory forums • Regulatory team provide input on emerging changes and potential business impacts • Global Government Relations function coordinates proactive government and policy engagement strategy	
Machine learning and artificial intelligence Ability to manage risks and opportunities from the application AI and machine learning-related product and platform features	• Governance and focus on ethical and responsible use of data and machine learning • Approach framed by Xero Responsible Data Use Commitments, which include a specific commitment on reducing data and algorithmic bias that may adversely impact small business owners • Promoting internal and external data literacy programs to drive awareness and understanding of best practice and industry-wide current issues across the Xero engineering and analytics community • Monitoring AI developments and investing to continuously evolve our product and technology to fully leverage AI and machine learning	
Channel and product concentration risks Ability to diversify to offset risks related to focus on Accounting & Bookkeeping channel and core product	• Building a deeper relationship with small businesses in Xero's existing markets to bolster additional channels to market • Continuously extending the small business platform to solve more small business challenges beyond core compliance	



People and Culture

Material matters: Employee attraction, training, development and retention | Diversity and inclusion | Employee health, safety and wellbeing | Remuneration, incentives andpay transparency.

We bring together diverse world-class leadership and talent enabled by an inclusive culture and working environment. Xero's culture allows our people to do the best work of their lives, while driving innovation, productivity and value creation.

We believe our strong purpose-led employer brand and a diverse, equitable and inclusive culture are key drivers of our ability to attract, develop and retain the talent we need to deliver innovative technology solutions to our small business customers and in the delivery of our strategy.

There are four key ways in which we create and enhance value through our people and culture:

- Attract, develop and retain top talent
- Promote diversity, equity and inclusion
- Prioritise the health, safety and wellbeing of our people
- Offering fair remuneration, incentives and pay transparency

KPIs	Performance vs target	FY23 performance
Average annual employee net promoter score (eNPS)		32
Annual voluntary employee turnover		15.7%
At least 45% representation of women among our senior leaders, our people leaders and all employees by the end of FY25[1]		CEO and direct reports 40.0% women[2] Women senior leaders 38.7% Women people leaders 45.0% Women employees 44.2%
Xero maintains a gender balance on its Board with not less than 30% women and not less than 30% men. By the end of FY25, the Board aspires to have at least 40% women and 40% men as directors, with the remaining 20% unallocated to allow flexibility for renewal and recognise that gender is not binary		Three women (37.5%) and five men (62.5%) directors
Median gender pay equity gap (like for like basis)[3]		-0.8%, in favour of women
Median gender pay gap		9.5%
We aim to ensure the retention rate of our people who are from identified underrepresented racial and ethnic groups is proportionate to our broader retention rate at all levels of Xero year-on-year		Proportionate

[1] Refer to page 27 for definitions of the terms used in gender representation reporting

[2] Includes the former CEO – Steve Vamos

[3] Refer to page 29 for an explanation of the difference between median gender pay equity gap and median gender pay gap

Attract, develop and retain top talent

Reshaping Xero's organisational structure

Xero has a strong purpose-led employer brand and a diverse and inclusive culture.

In March 2023, we announced a program to streamline our operations, realign the business to drive greater operating leverage and better balance growth and profitability to further strengthen Xero for the future. As we aspire to build a higher performing global SaaS company, we know we must deliver better for our customers and execute against a disciplined growth framework.

This is why we are strengthening our ability to take advantage of the significant growth opportunity presented by cloud accounting. The program included the difficult decision to reduce the number of roles across Xero. We continue to foster Xero's unique, purpose-driven culture, and are committed to providing the right level of support to our people whose roles have been impacted by the restructure.

The impact of the reshaping of our organisational structure and the way we work across functions – to operate with greater clarity, speed and effectiveness – will take effect in FY24. The sections below refer to outcomes and position at the end of FY23.

Attraction and retention of talent

During FY23, we tempered the pace of hiring across Xero, focusing on hiring in areas critical to creating long-term value for Xero, our customers and our partners. This resulted in our global team of full-time equivalent (FTE) employees increasing 6.2% year-on-year to 5,080.

We appointed Sukhinder Singh Cassidy as CEO, replacing Steve Vamos on 1 February 2023. Sukhinder's appointment followed a rigorous global recruitment process. Angad Soin was promoted to Chief Business Operations and Strategy Officer in February 2023. He is responsible for shaping and executing Xero's strategy and driving operational excellence. In March 2023, we also announced the appointment of Diya Jolly as Chief Product Officer to lead Xero's product teams. Diya commenced in the role in April 2023. As we continue to grow and scale our global footprint, the skill set and experience required of our leadership team continues to evolve.

Culture

Xero is known for its culture and the way in which we live our values every day. To ensure alignment with our values from day one, all new employees[4] are onboarded with a focus on Xero's values, behaviours and our Respect and Responsibility training. Our people[4] also undertake training to ensure they understand our Code of Conduct which includes our expected standards around ethics and anti-bribery and corruption.

Annual voluntary turnover and FTE growth

Our annual voluntary employee turnover trended down over FY23 to reach 15.7% compared to 16.1% in FY22[5]. This reflected the impact of the measures we implemented to strengthen our position as an employer of choice. We conducted in-depth analysis on which elements of remuneration and rewards our people value the most to ensure we direct our investment where it will have the most positive impact on their satisfaction and wellbeing. As a result of the insights from our analysis, new and enhanced benefits were introduced including Xtra Leave globally (five days additional paid leave), plus health/medical, life, trauma and salary continuance insurances across New Zealand, Australia and the UK.

Engagement

To empower our people to do the best work of their lives, we seek to foster an equitable and inclusive environment where our people feel like they belong, are supported and recognised. An important aspect of understanding how we are performing is through employee sentiment data. Xero continues to operate above global industry benchmarks of 27[6] for Employee Net Promoter Score (eNPS) with a 12-month rolling average of 32. This measure has decreased when compared to our FY22 score of 41[5]. While still a strong result compared to industry benchmarks, we recognise external factors such as global uncertainty in the technology sector and inflationary pressures along with internal resourcing and prioritisation decisions will have contributed to our people feeling potentially less inclined to promote Xero as a place to work than they did in FY22.

We continuously look to improve the satisfaction of our people and create an exceptional workplace environment by evaluating and seeking to improve key drivers of engagement. These include timely recognition, capability and leadership development, investment in wellbeing, and creating role and career frameworks to help our people map out their future with Xero.

[4] Does not include employees of Planday

[5] FY22 figure does not include employees of Planday

[6] Officevibe 90-day rolling period average as at 4 April 2023 for Computer software, IT and services

Enhance diversity, equity and inclusion

Diversity, equity, inclusion and belonging in the workplace are critical to enabling our people to thrive. A diverse workforce enables us to better understand and serve customers, attract top talent and innovate successfully.

We strive to foster a work environment where different perspectives and contributions are valued, and where our people are encouraged to bring their whole selves to work. Through our data-driven approach, we gain insight on which groups are currently underrepresented at Xero, or may face special challenges. We use this to tailor our diversity, equity, inclusion and belonging strategy and programs to better support these groups, promote equitable decision-making, amplify the voices of underrepresented communities and identify opportunities to continually evolve our approach to diversity and inclusion. For more information on our inclusive programs and practices, please see our website: www.xero.com/sustainability

Gender diversity

We are committed to ensuring people of every gender participate at every level and in every function at Xero. We also believe people of all genders deserve fair and equal treatment, including when it comes to compensation.

In 2023, we were ranked the number one global information technology company, and number one New Zealand headquartered company for gender equality globally by Equileap. We were also included in the Bloomberg Gender-Equality Index for the fourth consecutive year, in recognition of our commitment to supporting gender diversity in the workplace.

Measurable objectives

Xero's FY23 measurable objectives to improve the representation of women were:

Gender diversity in board composition

- Xero maintains a gender balance on its Board with not less than 30% women and not less than 30% men
- By the end of FY25, the Board aspires to have at least 40% women and 40% men as directors, with the remaining 20% unallocated to allow flexibility for renewal and to recognise that gender is not binary

Gender diversity in senior executive and workforce composition by the end of FY25

- Proportion of senior leaders[7] who are women greater than or equal to 45%
- Proportion of people leaders who are women greater than or equal to 45%
- Proportion of all employees who are women greater than or equal to 45%
- Initiatives and activities to attract, develop, promote and retain diverse talent at Xero

[7] *Xero's senior leaders includes the CEO, senior executives with global roles who report directly to the CEO, and their direct reports whose roles meet a minimum role size as determined by a job evaluation methodology*

The charts below demonstrate the progress we have made towards our measurable objectives. For more information regarding the programs we run at Xero to increase representation of women, please visit: www.xero.com/sustainability

Gender representation[8,9,10]

All Xero employees

- Female (**44%**)
- Male (**55%**)
- Gender diverse (**<1%**)
- Non-binary (**<1%**)
- Prefer not to say (**<1%**)

CEO and direct reports

- Female (**40%**)
- Male (**60%**)

Board

- Female (**38%**)
- Male (**63%**)

Senior leaders

- Female (**39%**)
- Male (**61%**)

People leaders

- Female (**45%**)
- Male (**55%**)
- Gender diverse (**<1%**)
- Non-binary (**<1%**)

8 Gender and age data covers Xero's global workforce, excluding contingent workers. All data is self-reported as at 31 March 2023

9 Xero has an optional gender identification question that allows employees to choose from the following options: female, male, gender diverse, non-binary, none of the options offered and prefer not to say. Where employees have selected none of the options offered or prefer not to say, their responses are included in the total. 5 employees (0.1%) were excluded from the total because they did not responded to the gender identification question

10 These figures include permanent full-time, permanent part-time, fixed-term, casual employees and interns

Percentages may not add up to 100% due to rounding

Gender pay equity[11]

One important area for Xero is our strategic and operational focus on gender pay equity because we believe this is one of the most impactful measures of ensuring fair pay for all.

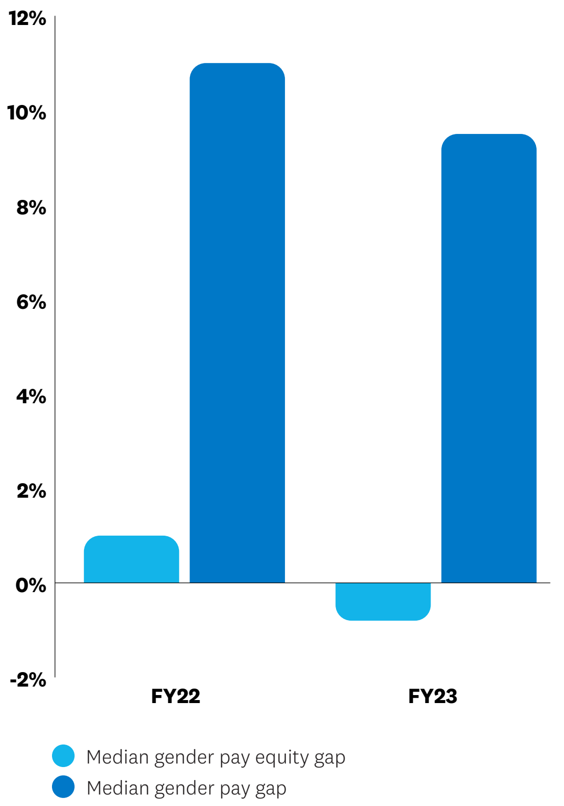
We are committed to equal pay for equal work, and we have several robust practices in place to review our gender pay equity. For more information about our practices, please visit our website: www.xero.com/sustainability/people

At the time of our last review in March 2023, our analysis showed that on a like-for-like basis, we are providing equitable salary outcomes when compared to overall median market remuneration.[12]

Our median gender pay equity gap was -0.8%, in favour of women. Our median gender pay gap is 9.5%[13], which has decreased 1.5 percentage points since FY22 and is in our target range. For more information on the programs we have in place to further address this gender pay gap, please visit our website: www.xero.com/sustainability

Cultural, racial and ethnic diversity

We understand the importance of ensuring that our team reflects the communities we live and operate within. We have started the journey towards broad-based diversity across all our functions and geographies by seeking to better understand ourselves first, and then using these insights to identify priority areas of focus.



[11] Median is calculated as the weighted average of regional medians to ensure the Xero Group number is not impacted by market differences

[12] To calculate gender pay equity, we assess how our employees' remuneration compares to the median remuneration for their equivalent local market role (e.g. how much an Accountant employed by Xero in New Zealand is paid compared to what the market median is for an Accountant in New Zealand). The median position for males is then compared to median position for females to determine the pay equity gap. Does not include employees of Planday for FY22

[13] To calculate our gender pay gap, we review actual total earnings of employees over the past 12 months. We then take the median actual earnings of males, minus the median actual earnings of females, divided by the median actual earnings of males. A weighted average was then used across each region to get to a Xero overall figure. Does not include employees of Planday for FY22

Measurable objective

Xero's FY23 measurable objective in relation to workforce inclusion is as follows:

Inclusion at Xero

Xero is an inclusive work environment where different contributions and perspectives are valued, and everyone can bring their whole self to work. In FY23, we established a measurable objective for identified underrepresented racial and ethnic groups, based on data collected through our cultural diversity survey. 68.6% of our people have self-disclosed their ethnic and racial identity, and we now have a greater understanding of where our people come from, what groups they identify with, and what languages they speak. We aim to ensure the retention rate of Xeros who are from identified underrepresented racial and ethnic groups is proportionate to our broader retention rate at all levels of Xero year-on-year. Our analysis shows that retention of employees from identified underrepresented racial and ethnic groups is proportionate to our broader retention rate.

In FY23, in recognition that our people come from a range of backgrounds and cultures, we introduced a new type of leave – Religious, Ethical or Cultural Leave. This new leave enables our people to swap certain legislated public holidays to a day more relevant to their beliefs, customs and traditions.

We introduced a global education series to foster greater inclusion, designed to build better understanding and capability for our people to demonstrate inclusive behaviours, use inclusive language and have inclusive conversations.

We have implemented a range of initiatives to facilitate broad conversations at work about a range of topics related to race and ethnic diversity. Information about these initiatives can be found on our website: www.xero.com/sustainability

Xero ethnic composition by geography[14]

Australia – All

- No data (**40%**)
- White or European (**38%**)
- Asian (**17%**)
- Other Oceanian (**2%**)
- African and/or Middle Eastern (**1%**)
- People of the Americas (**1%**)
- Aboriginal and/or Torres Strait Islander peoples (**<1%**)

Australia – People leaders

- White or European (**46%**)
- No data (**40%**)
- Asian (**8%**)
- Other Oceanian (**3%**)
- People of the Americas (**2%**)
- African and/or Middle Eastern (**1%**)

Canada – All

- White or European (**36%**)
- Asian (**35%**)
- No data (**21%**)
- Black or African (**5%**)
- Hispanic or Latinx (**2%**)
- Other Oceanian (**2%**)

Canada – People leaders

- White or European (**52%**)
- Asian (**22%**)
- No data (**20%**)
- Other Oceanian (**3%**)
- Black or African (**2%**)
- Hispanic or Latinx (**2%**)

[14] *All reporting on race data is based on voluntary global self-reporting. It does not include any employees where local legislation does not permit voluntary self reporting with respect to racial identity. The race categories used by Xero for self-reporting reflect each region's government reporting standards. However, for the purpose of this report some race categories have been adapted so they are globally relevant. All countries and regions who have reached a minimum self reporting number have been displayed and any reference to 'No data' includes people who have not self-disclosed their racial and ethnic background, or who selected 'none of the options offered', or 'prefer not to say' from the country/region listed. 328 employees (6.3%) were excluded from the graphs as the regions did not reach the minimum reporting number. Does not include contingent workers*

Percentages may not add up to 100% due to rounding

New Zealand – All

- New Zealand European (**35%**)
- No data (**23%**)
- Asian (**21%**)
- Other European (**14%**)
- Māori (**3%**)
- Middle Eastern, Latin American or African (**3%**)
- Pacific Peoples (**<1%**)

New Zealand – People leaders

- New Zealand European (**39%**)
- No data (**26%**)
- Other European (**21%**)
- Asian (**8%**)
- Māori (**4%**)
- Middle Eastern, Latin American or African (**1%**)
- Pacific Peoples (**<1%**)

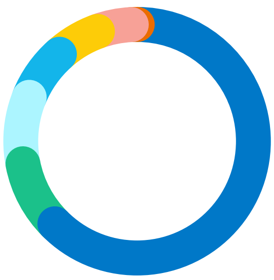
United Kingdom – All

- White or European (**58%**)
- No data (**25%**)
- Asian (**10%**)
- Black, African, Caribbean or Black British (**5%**)
- Two or more races (**2%**)

United Kingdom – People leaders

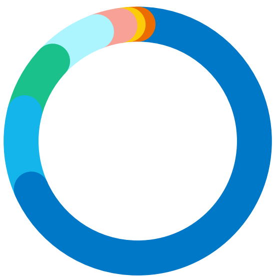
- White or European (**61%**)
- No data (**31%**)
- Asian (**4%**)
- Black, African, Caribbean or Black British (**3%**)
- Two or more races (**<1%**)

United States – All



- White (**63%**)
- Asian (**10%**)
- No data (**9%**)
- Hispanic/Latinx (**7%**)
- Black or African American (**6%**)
- Two or more races (**5%**)
- Native Hawaiian or Other Pacific Islander (**<1%**)

United States – People leaders



- White (**69%**)
- Hispanic or Latinx (**10%**)
- Asian (**8%**)
- No data (**7%**)
- Two or more races (**3%**)
- Black or African American (**1%**)
- Native Hawaiian or Other Pacific Islander (**1%**)

Asia – All

- Chinese (**38%**)
- No data (**28%**)
- White or European (**15%**)
- Indian (**8%**)
- Asian (**5%**)
- Filipino (**3%**)
- Japanese (**3%**)
- Two or more races (**3%**)

Asia – People leaders

- White or European (**44%**)
- No data (**33%**)
- Chinese (**11%**)
- Indian (**11%**)

Percentages may not add up to 100% due to rounding

Ensure the health, safety and wellbeing of our people

Providing a physically and psychologically safe workplace for our people is essential if they are to thrive.

Our global wellbeing program

Xero has long championed the benefits of health and mental wellbeing to our people, our customers and our partners. In FY23, we delivered an organisation-wide program called Time Well Spent to our people, which focused on optimising factors that reduce stress, increase control and improve performance. We introduced a global fitness platform for our people and established a wellbeing champions network to further demonstrate our commitment to our people's wellbeing.

We were also pleased to see a continued year-on-year increase in parental leave taken by fathers and male primary caregivers, since we introduced our gender-neutral parenting benefits in FY21.

We were recognised as one of the best workplaces for wellbeing in the UK[15] in recognition of our efforts in this space.

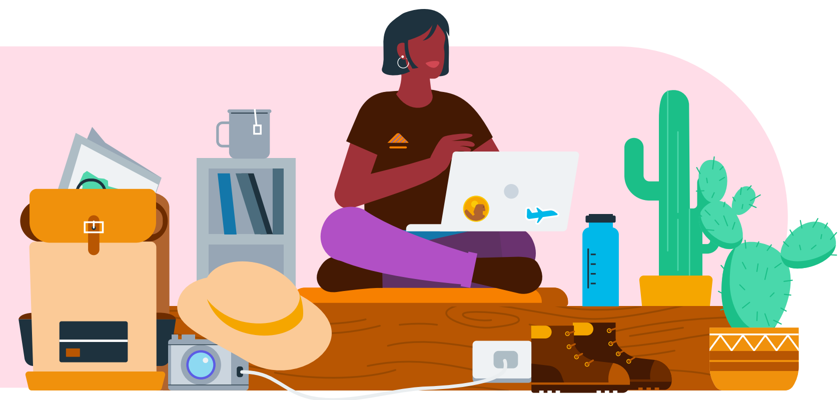
For more information about our mental health and wellbeing initiatives, please visit our website: www.xero.com/sustainability

Remuneration and pay transparency

Xero is committed to transparency around our pay practices. For several years we have run dedicated remuneration foundation sessions – focused on upskilling our people leaders to ensure they understand our remuneration framework and are confident to have constructive, positive conversations about remuneration.

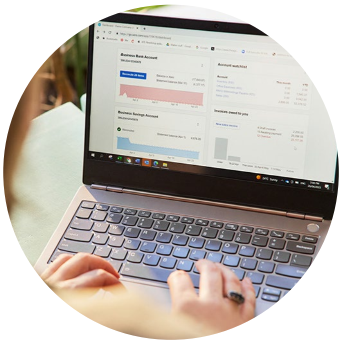
Xero is an inclusive work environment where different contributions and perspectives are valued

In FY23, in response to feedback and in line with our strategy, we offered remuneration foundation sessions to all of our people. These covered everything from our salary review processes, job sizing and benchmarking to gender pay equity and our broader benefits. We also created learning content that provides details on our remuneration processes, how to have conversations about pay, our total rewards and the wider benefits that come from working at Xero.



[15] *UK's Best Workplaces™ for Wellbeing 2023*

Xero customer Lewes FC (UK)




HAMPER ME

Customers, Partners and Ecosystem

Material matters: Customer support, loyalty and engagement | Stability, reliability and accessibility of information.

With 3.74 million subscribers globally, we're focused on building and growing our relationships with our subscribers, and expanding our subscriber base. These relationships are based on the trust we earn by providing subscribers with the connections, support, insights and a reliable and accurate service to help manage their businesses effectively. Our trusted relationships with customers, accounting and bookkeeping partners, third-party app developers, ecosystem partners and other key stakeholders including governments and regulators, are a significant contributor to Xero's long-term value.

We do this through five key activities:

- Small business customer support, advocacy and engagement
- Accounting and bookkeeping partnerships
- Trust in the platform: reliability and support
- Ecosystem relationships
- Government and regulator relationships

We measure our progress in achieving this against a number of key indicators:

KPIs	FY23 performance
Subscriber numbers*	3,741,000
Churn*	0.90%
LTV*	$13.4 billion
Number of apps in ecosystem	Ecosystem of more than 1,000 connected apps and more than 300 direct connections to banks and other financial institutions, including to API providers that then provide access to additional banks and financial institutions

For discussion on performance related to these KPIs, see Our Performance section on pages 69 to 82

Customer support, advocacy and engagement

Building strong relationships, advocacy and trust with our customers is all about ensuring they are well supported while using and discovering the features and functionality of Xero products. We aim to do this by creating a customer and product experience that exceeds expectations. Reflecting our relationship-driven approach, our global customer team supports our customers, from onboarding through education to customer support and success, aiming to provide a beautiful experience at every stage of their journey.

The value we create for our customers through our product, platform, education and support is demonstrated by our low churn that remained consistent year on year at 0.90%. This high degree of customer loyalty reflects the value our customers derive from our long-term relationship with them and the continual evolution of the Xero platform.

We empower our partners with accurate, real-time data so they can help clients achieve their goals, ultimately helping to build and grow sustainable and resilient small businesses

Education

An important part of our approach is education and ensuring our customers feel confident about using Xero to run their business. Our customers have access to a range of learning content, including small business guides, webinars, online videos, and articles via our customer support platform, Xero Central.

Our partners can gain their Xero advisor certification and Xero payroll certification through Xero Central. These learning experiences help our partners become proficient and confident with Xero's core features – and stay up to date with changes and new features through regular product updates events.

Accounting and bookkeeping partnerships

Our aspiration is to ensure more accountants and bookkeepers around the world use Xero to help them drive meaningful conversations with their clients. They hold special relationships with their small business clients – often described as their most trusted advisors – and can have a direct impact on their success.

We empower our partners with accurate, real-time data so they can help their clients achieve their goals, ultimately helping to build and grow sustainable and resilient small businesses. The financial insights delivered through our platform help our partners focus on what matters most to their small business clients – whether that's growing their business, diversifying their products and services, exploring new markets, improving processes, or going completely digital.

The Xero partner program gives our partners the tools and knowledge to improve their practices, and rewards them with a range of benefits that can help them achieve their own practice goals. Connecting with our partners is an important part of our approach and a key element of this is engaging through events like roadshows and Xerocons. After pandemic-related interruptions in recent years, we were delighted to reconnect with more than 6,400 members of our accounting, bookkeeping and app partner communities in 2022 at Xerocons in London, New Orleans, and Sydney.

Trust in the platform: reliability and support

We are committed to retaining the trust our customers' have in us as a key partner in running their business, managing their finances and supporting their compliance needs. This means we need to deliver on their expectation that the Xero platform will be readily available and that we are there to help them out if they encounter issues.

Xero customer Blakeaway (AU)

Reliability

As well as expecting us to provide a high level of support, our customers expect us to be open and honest about the performance of the Xero platform, which forms an important part of the customer value proposition. The Xero Status page provides customers access to real-time updates about action being taken to resolve any performance issues, and historical updates on platform performance. In FY23, we made improvements to real time status monitoring to provide more informative and timely updates to customers. For a more detailed discussion of how we're investing in modernising Xero to make it faster and more reliable, please refer to the Platform, Technology and Data section on page 43 of this report.

Customer support

Our support model is designed to help our customers get the most out of Xero. Xero Central is the home of Xero's support and learning, and gives our customers access to education materials, community discussions and instant answers through our support content articles. In FY23, we introduced support content articles within the dynamic in-Xero help menu, allowing our customers to search for, and read, articles in the page they're working on and without leaving the Xero platform, helping to bring support to where our customers need it.

For more complex customer queries, Xero has a support team available where many of the team answering customer accounting questions have a degree-level accounting background, so customers can get the specialised support they need.

Xero customer Blakeaway (AU)

Xero customer Blakeaway (AU)

Ecosystem relationships

Our open ecosystem is a strategic area of our business, enabling our customers to connect seamlessly with a broader range of interconnected cloud-based products and services. Xero's ecosystem consists of more than 1,000 connected apps and more than 300 direct connections to banks and other financial institutions, including to API providers that then provide access to additional banks and financial institutions.

Our ecosystem of connected apps has evolved with the introduction of the Xero App Store[1]. The Xero App Store offers small businesses an easier way to discover and buy apps that integrate with Xero, while giving app developers a way to promote and grow their business, with access to greater insights, tools, billing and payment capabilities. With improved search and personalised recommendations powered by machine learning, the Xero App Store presents relevant apps for customers at the right time, based on their unique profile.

The Xero App Store operates under a commercial model where Xero earns 15% revenue share on new app subscriptions. We have seen strong uptake in eligible apps migrating to the Xero App Store and we are pleased with our progress in this area. Encouraging a healthy app ecosystem benefits both our customers and our app developer partners.

Third-party app developers

Our relationship with our developer partners is very important to Xero and our customers. On an open platform like Xero, developer partners (often small businesses themselves) can build their own third-party apps and services which form part of our partner ecosystem. Through connecting to Xero, our partners extend Xero's capabilities into new market areas, niche use cases, and anywhere there is a gap in our own offering. Through this open approach to our platform, we empower developers to innovate and solve problems for the benefit of our customers, support developers in scaling their businesses, and enable them to access and add real value to our 3.74 million subscribers.

[1] *Full App Store features are currently available for customers in Australia, New Zealand and the UK*

Government and regulator relationships

Governments in many parts of the world are encouraging digitalisation of small businesses, and we work with and aim to maintain relationships with governments and regulators to enable this transition

In Australia, the Government's appetite for boosting digital capability and adoption among small businesses remains strong. The Technology Investment Boost has been introduced to Parliament and there is progress in the Consumer Data Right (CDR) regime and eInvoicing adoption efforts.

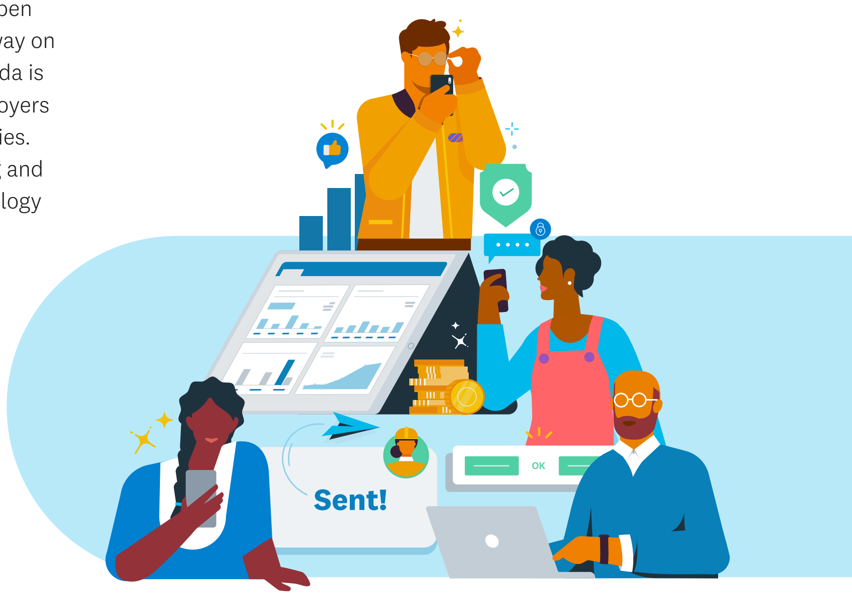
Xero Small Business Insights (XSBI) is used by government agencies to support their policy-making decisions impacting small business

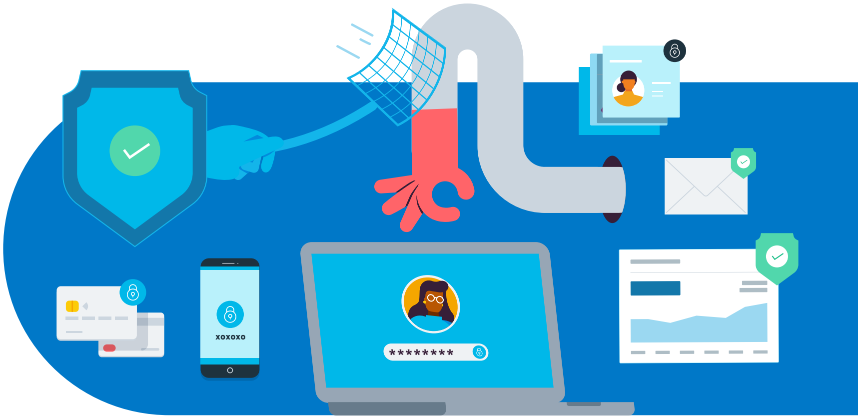
Similar digitalisation initiatives are being pursued in other regions in which Xero operates. Despite implementation delays, the UK Government remains committed to digitising its tax system. The UK Government also remains committed to Open Banking through the establishment of the Open Banking Implementation Entity, with new legislation introduced in Parliament to enable smart data and Open Finance frameworks. There is early stage progress for Open Banking in the United States with a consultation underway on proposed rules for the regime. The Government of Canada is undertaking an ePayroll project to modernise how employers send critical business information to government agencies. The Singapore Government is also promoting eInvoicing and offering incentives for small businesses to adopt technology through its SMEs Go Digital program.

As the global economic environment is expected to remain complex, preparing small businesses to manage cash flow and liquidity challenges is emerging as a worldwide trend. Governments in the UK, Australia and New Zealand are undertaking reviews into payment times to small and medium-sized businesses. While these reviews remain in progress, we expect a range of legislative changes to prepare and protect small businesses from cash flow challenges.

The quality of customer data in the Xero platform allows us to provide insights based on anonymised, aggregated data. We use this data to deliver XSBI to share a perspective on the small business economies in Australia, New Zealand, and the UK, and more recently Canada and the US. XSBI reports and data are available, at no cost, at our website: www.xero.com/xerosbi

XSBI is used by government agencies to support their policymaking decisions impacting small business. Institutions that engage with XSBI include the Office for National Statistics (UK) and the Reserve Bank of Australia (RBA).

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Platform, Technology and Data

Material matters: Stability, reliability and accessibility of information | Cybersecurity and data protection | Customer privacy | Technological innovation, artificial intelligence and digitisation.

We strive to create beautiful products and, in line with our vision, build the most trusted and insightful platform for small business. To deliver this, we design and build systems and processes, and accumulate knowledge and intellectual property. The performance of our platform, strategic investments to support innovation and the delivery of new features, and diligent management of our customers' data are key to fulfilling our aspiration to be the platform of choice for small businesses and their advisors. Value is created by providing a platform for customers, partners and other stakeholders to collaborate on accounting and tax compliance and other small business needs, and by surfacing data-driven insights that enable faster and more informed decision-making.

There are five key ways we deliver value through our platform, technology and customer data:

- Delivering our platform: a reliable, innovative cloud solution
- Product innovation and development
- Managing cybersecurity risks and protecting our customers' data
- Using data responsibly
- Protecting our customers' privacy

We measure our progress in achieving this against a number of key indicators:

KPIs	Performance vs target	FY23 performance
Investment in product design and development, including R&D	N/A	$597 million
Employee completion of security training	●	78.5%
Responsible Data Use: introduced risk assessment for unintended consequences of automated decision making	N/A	Yes
Number of notifiable privacy incidents	N/A	1

Xero customer Must Love (US)

Delivering our platform

Our cloud-based platform allows small business customers and partners to access real-time data to better manage their businesses, support compliance with accounting and tax requirements, collaborate and connect to other parties such as banks, financial services partners or ecosystem apps. We understand how much our customers and partners rely on being able to access the Xero platform at any time, from any location, on any device. Our site performance and customer experience are central to the value we deliver.

Like any software as a service (SaaS) platform, from time to time we do encounter technical issues that impact our platform performance and therefore our customers' experience. In FY23, this included some issues with bank feeds that we have worked to resolve internally and with our providers. During the year, we introduced new ways of monitoring our platform performance, which has remained strong throughout the year.

Product innovation and development

In FY23, we invested $597 million in product design and development. We continue to focus our efforts on delivering Xero's vision to be the most insightful and trusted small business platform. Xero remains focused on delivering ongoing value for customers through our product and technology efforts each year, while continuing to invest in a multi-year platform modernisation strategy to unlock long term efficiency, scalability, productivity and speed to market improvements.

During the year, we introduced new ways of monitoring our platform performance, which has remained strong throughout the year

Innovating to meet our customers' evolving needs is key to maintaining customer loyalty. Our approach is to balance this by responding to today's needs and building products and features that will benefit our customers in the future.

FY23 product initiatives and delivery highlights:

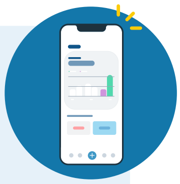
Global

- Progressed implementation of changes across our practice tools to provide a single source of truth for client data across Xero Practice Manager (XPM), Xero HQ and Xero Tax
- Enhanced our reporting functionality to help customers get quick access to the answers they need, enjoy powerful customisations and streamline their analysis
- Incorporated machine learning into Hubdoc to identify when a document may be a credit note and flag it for review
- Launched a new beta for Xero Analytics Plus that harnesses the power of artificial intelligence to predict bill and invoice payments

North America

- Announced a new partnership, and launched a closed beta trial, with Avalara in the US to build an integration that automates the sales tax compliance journey from within the Xero platform
- Launched an integration with Bank of Montreal (BMO) to create a direct bank feed in Canada and the US for small business
- Rolled out updates to our Canadian tax offering to provide a more seamless experience, including an expanded TaxCycle integration, which includes support for the T2125 and T776 forms and an updated tax (GIFI) mapping experience in Xero
- Launched an integration with Envestnet Yodlee that deepens our partnership to access new direct bank feeds in the US and Canada
- Developed a new Hubdoc bank statement extraction feature which supports US and Canada customers to instantly import and reconcile transaction data from PDF bank statements from certain banks

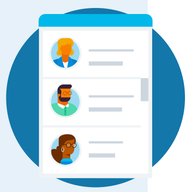
UK



- Launched Xero Go — a mobile app designed to ease the burden of financial administration for self-employed businesses and their advisors in the UK, and introduced bank feeds as an optional paid add-on
- Expanded our partnership with GoCardless, a global leader in direct bank payment solutions, to provide its Instant Bank Pay feature to Xero's customers
- Launched document packs in Xero HQ, which allows accountants and bookkeepers to easily collate documents and gather electronic signatures from clients

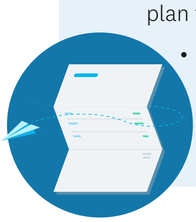
Australia and New Zealand

- Introduced updates to Xero Payroll in Australia to help small businesses manage compliance by ensuring all three stages of the Single Touch Payroll (STP) Phase 2 transition are available
- Launched Payroll history to provide an easy-to-access audit trail of changes made within Xero by a small business owner, advisor or app partner to help understand, track, manage and troubleshoot changes to employee details
- In April 2023, Planday was made available for Australian small businesses who pay their staff under the Retail and Clerks awards. We continue to work on making Planday available for customers under the Hospitality Award
- Added more fields in Xero Tax in Australia to provide richer data and updated the multi-factor authentication process
- Made improvements to eInvoicing including the ability to autocode incoming eInvoices from suppliers



Rest of World

- Launched Rand (ZAR) billing to customers in South Africa to assist customers and partners to consistently plan for subscription costs in their local currency
- Made improvements for Singapore customers to reflect compliance changes, including a new GST rate and changes to tax rates for low-value goods



Managing cybersecurity risks and protecting data

We take a multi-layered and risk-based approach to managing security through the use of cutting edge security technology, a robust security risk management process and working to keep security considerations front of mind for all our people.

We have clear roles and responsibilities with respect to cybersecurity. We continuously improve our approach to security and regularly introduce new capabilities and process enhancements to further strengthen our security posture, including launching a new Bug Bounty program in FY23 and regularly running technical incident response drills. We also established a comprehensive 'Security Champions Program' with representatives from across our business attending monthly workshops and events to enhance our internal security culture, a reflection of our strong commitment to information security.

We have a comprehensive cyber strategy in place which is regularly reviewed and is also updated in the event of material changes to our internal and external environment

Security is everyone's responsibility and all our employees are required to undergo annual security training[1]. As at 31 March 2023, 78.5%[2] of our employees had completed our security training. While we expect all our employees to complete the training, we may not reach every person every year for various reasons such as extended employee leave. We remain focused on uplifting the completion rate and are confident our multi-faceted approach to security provides adequate protection.

The Security Governance Group, comprised of executives with responsibility for Security, Data, Customer, Legal, Product, Technology and Risk, meets regularly and provides management-level governance of security issues. The Board has oversight of security through quarterly updates to the Audit and Risk Management Committee and regularly reviews external cybersecurity frameworks including from the National Institute of Standards and Technology (NIST) and Australian Institute of Company Directors (AICD).

We have a comprehensive cyber strategy in place which is regularly reviewed and is also updated in the event of material changes to our internal and external environment, including external threat level changes, materially significant changes in business direction and heightened legislative and regulatory requirements.

Our information security management system is certified to the International Standards Organization Standard 27001 (ISO/IEC 27001:2013). Our information security management system also meets the Trust Services Criteria for Security, Availability and Confidentiality as defined by the Association of International Certified Professional Accountants (AICPA) which is documented in our SOC2 report. For more information about our security certifications and credentials, please visit our website: www.xero.com/security

Cyber risk is an organisational risk embedded in our overall risk management framework. Given the constantly changing nature of the external threat landscape, we regularly review security risks and controls to confirm they are managed in line with our business risk appetite and responsibility to build and operate a trusted platform.

Data protection and using data responsibly

Our customers and partners play a key role in our overall approach to security. We invest heavily in protecting the data on the Xero platform, all of which is stored with our trusted third-party data storage providers. We work closely with these providers to assess their information security practices against our standards.

We also publish a range of free educational resources to help our customers understand and protect themselves against the risk of cybercrime and data loss.

An important aspect of protecting data is using it responsibly. We believe using data responsibly is in everyone's interest, including our small business customers, advisors, suppliers and our partners. We require all our people[1] to undertake annual Responsible Data Use training.

[1] Does not include employees of Planday

[2] The completion percentage represents the active employees at 31 March 2023 who completed the training during FY23

In FY23, we also undertook several initiatives to support our continued responsible use of data. This included:

- Strengthening our approach to assessing data risk, which included a new approach to considering any 'unintended consequences' of automated decision-making systems
- Updating our Responsible Data Use Policy to set clear expectations for our people on managing our customers' data
- Embedding relevant guidance into our Product Framework to ensure it's available to remind and guide teams on their obligations at the relevant points in the delivery of new features

For more information on how we approach responsible data use, and our commitments to using data responsibly please visit our website: www.xero.com/data/commitments

We also use anonymised customer data for secondary purposes, both to generate insights into the small business economy and to enhance our product and service offerings for our customers. We regularly share these aggregated and anonymised insights, for instance through the Xero Small Business Insights (XSBI) program. We do not charge a fee for access to XSBI. Our use of customer data aligns with our Responsible Data Use Commitments.

Supporting customers

We continued the work of the Responsible Data Use Advisory Council, welcoming two additional members with a specialist focus on Data Privacy, and Strategic Data Use[3]. The council met quarterly throughout the year to explore current topics and develop materials to assist small businesses to protect their customers' data and use it in responsible ways.

Protecting our customers' privacy

To be the most trusted and insightful small business platform means we must respect our customers' privacy. We process a lot of personal data – about our customers, their employees, vendors and other parties. How we treat personal data is important to make sure we meet the expectations of those who have entrusted us with it and to comply with legal requirements.

During FY23 we notifid the Office of the Australian Information Commissioner (OAIC) of one privacy incident that occurred in June 2022. The matter was closed by the OAIC in October 2022 without further investigation. Affected customers were also notified. We are not aware of any further privacy incidents in FY23 that met the threshold for notification to a relevant authority[4]. Therefore, no other notifications were required to be made to the relevant authority in FY23.

Privacy and data governance framework

We have a robust privacy and data governance framework. This includes security, privacy, and data governance policies, as well as data classification and control standards which ensure that more sensitive data gets higher and appropriate levels of protection. New projects that potentially involve new or changed data use complete a data use assessment. Projects that are identified as potentially higher-risk must undergo a data protection impact assessment (DPIA) to identify the privacy impact, and set out recommendations for managing, minimising or eliminating that impact. The DPIA also forms a critical element of our approach to responsible data use and our data controls for personal data. This process was further enhanced in FY23 with the introduction of a privacy and risk management program.

All Xero employees[5] are required to undertake annual privacy training, to understand what personal data is and what we can all do to help protect it. This training includes an assessment that they are required to pass upon completion of the course. We also run periodic awareness campaigns with our people.

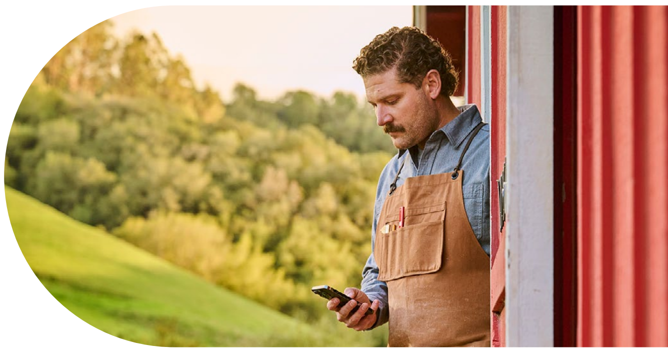
For more information on how we collect, store, retain, share and manage customer data, please refer to our Privacy Notice.

[3] *www.xero.com/data/for-small-businesses*

[4] *Australia - Office of the Australian Information Commissioner; Canada - Office of the Privacy Commissioner of Canada; New Zealand - Privacy Commissioner; Singapore - Personal Data Protection Commission; South Africa - Office of the Information Regulator; UK - Information Commissioner's Office; USA (California) - State of California Department of Justice; Sweden - Swedish Authority for Privacy Protection*

[5] *Does not include employees of Planday*

Xero customer Must Love (US)



Social and Environmental

Material matters: Climate action and energy management | Responsible supply chain and modern slavery | Community support, engagement and partnerships | Waste management and responsible use of resources

Trust is central to our vision and our strategic priority to build for global scale and innovation. We strive to act with integrity, authenticity and in line with our values in order to maintain and further nurture trust with everyone connected to our business. This trust allows us to be considered as a partner of choice for our customers, the employer of choice for our people and future employees, responsible stewards for our shareholders, and the platform of choice by users and developers.

One key way we build stakeholder trust is by caring for the environment and helping our customers, partners, suppliers and communities thrive within a resilient and sustainable value chain.

The key ways in which we deliver this are:

- Climate action and energy management[1]
- Waste management and responsible use of resources
- Commitment to a responsible supply chain and to preventing modern slavery
- Provision of community support, engagement and partnerships

We measure our progress in achieving this against a number of key indicators:

KPIs	Performance vs target	FY23 performance
Maintain carbon neutral certification through the purchase of Verified Carbon Standard offsets of carbon emissions[2]	●	Certification for FY22 achieved in FY23
Implement the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)[3]	●	Progress has been made against all of Xero's TCFD roadmap activities identified for FY23
Reduce Scope 1 and 2 carbon emissions by 42% by 2030 from FY20 baseline	In progress	973 tCO_2e -1.3% on FY20 base year
Reduce Scope 3 carbon emissions by 17% by 2030 from FY20 baseline	In progress	11,242 tCO_2e -4.1% on FY20 base year
Reduce carbon emissions intensity	●	2.4 tCO_2e / FTE -42.2% on FY20 base year
Diversion of waste from landfill	N/A	58.4%
Employee completion of modern slavery awareness training	●	81.1%
Global community contributions	N/A	More than $3.5 million

[1] *Including supporting and disclosing under the framework of the Task Force on Climate-Related Financial Disclosures (TCFD)*

[2] *We apply for Climate Active carbon neutral certification annually in arrears in October. In FY23, our certification for FY22 was maintained. We will report the outcome of our FY23 certification application in the FY24 Annual Report*

[3] *Refer to our TCFD statement on our website: www.xero.com/sustainability for details around progress against our TCFD activities identified for FY23*

Climate action and energy management

Minimising our environmental footprint and operating in a reliable and transparent way are important to attracting and retaining talent, maintaining the trust of our customers and shareholders, and to protecting and growing the value of Xero. We have an active role to play in taking meaningful action on climate change and supporting the transition to a net-zero economy as Xero continues to grow.

In 2019, we launched our Net Zero @ Xero program. We started by offsetting 100% of our carbon emissions across Scopes 1, 2 and 3 annually, allowing us to receive carbon neutral certification by the Australian Government's Climate Active program. While we've made progress, we acknowledge we still have more to do.

We have now taken the next steps towards net-zero and have set company-wide emissions reduction targets in line with climate science, aligned to the goals of the Paris Agreement. The targets we've committed to were designed with Xero's growth ambitions in mind. They were established through extensive modelling and provide clear pathways for us to reduce our greenhouse gas emissions. From an FY20 baseline, we have committed to reduce our Scope 1 and 2 emissions by 42% and our Scope 3 emissions by 17% by 2030, and to be net-zero by 2050[4]. We have signed our commitment to having our targets validated by the Science Based Targets initiative (SBTi) and our targets were submitted to the SBTi organisation for validation in FY23.

Carbon emissions[5]

We measure our Scope 1, 2 and 3[6] emissions according to the Greenhouse Gas (GHG) Protocol for organisations from a baseline year of FY20. We have seen a decrease of 3.9% in our emissions since FY20[7]. Our FY23 emissions[7] increased compared to FY22, driven primarily by a resumption of global travel (flights) and the return of international Xerocon events. Our FY23 information and communications technology (ICT) emissions[8] are down 63.1% compared to FY22 as a result of the decarbonisation actions undertaken by our cloud hosting suppliers. In FY23, working from home emissions[9] decreased and emissions from upstream leased assets[10] increased, reflecting a return to more office-based working. Our emissions intensity (tCO_2e per FTE) was 2.40 in FY23, 42.2% lower than FY20 base year.

Reducing business travel, improving the sustainability of our events and transitioning to renewable energy remain key priorities to achieve our 2030 emissions reduction targets.

Due to differences in Climate Active Technical guidance and Science Based Target Net-Zero guidance, we are transitioning to reporting in alignment with the Greenhouse Gas (GHG) Protocol in our Annual Report and supporting documents. This inventory will be used to report our progress against our 2030 emissions reduction targets. Our Climate Active inventory will continue to be provided in our annual Climate Active public disclosure summary available on the Australian Government's Climate Active website.

For more information on the composition of, and actions to reduce, our carbon emissions, please refer to our TCFD Statement on our website: www.xero.com/sustainability

[4] Fewer than 10% of total emissions that require abatement through offsets

[5] Xero is a participant in the Australian Government's Climate Active carbon neutral program. Emissions which have been previously reported have been calculated under guidance associated with this scheme and have some variations in alignment with the Greenhouse Gas (GHG) Protocol. In FY23, reporting GHG protocol aligned figures will be provided for historical years in our Databook, which align with the SBTi target setting approach. These will be distinct from the Climate Active inventories

[6] We have adopted Scope 3 emission categories from the GHG protocol. These categories capture the following sub categories relevant to Xero: business travel (flights, taxi, rideshare, rental car, grey fleet and accommodation), employee commuting (employee commute and working from home), purchased goods and services (ICT including cloud services, paper, food & catering and events), upstream leased assets (shared/base building electricity and natural gas), waste generated in operations (general waste, recycled waste, organic waste and water), fuel and energy-related activities (fleet fuel and purchased electricity not included in Scope 1 or 2)

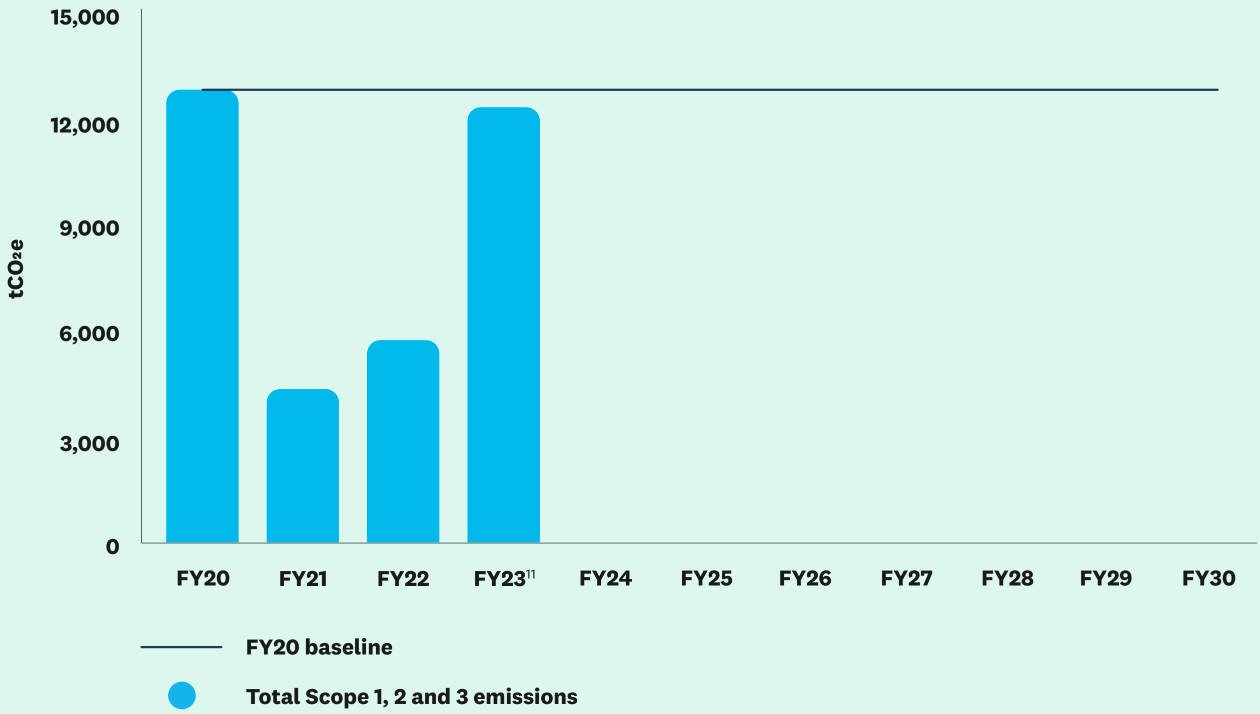
[7] FY23 emissions for this report have been calculated using an extrapolation of activity data from the 9 months of the financial year (1 April to 31 December). This number will be amended in the FY24 Annual Report using the full financial year activity data

[8] ICT emissions are categorised in alignment with GHG Protocol under purchased goods and services in the Scope 3 emissions sources graph below

[9] Working from home emissions are categorised in alignment with GHG Protocol under employee commuting in the Scope 3 emission sources graph below

[10] Shared/base building electricity and natural gas

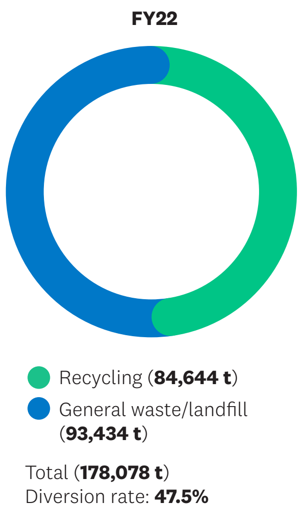
Carbon emissions (metric tonnes of CO_2 equivalent)

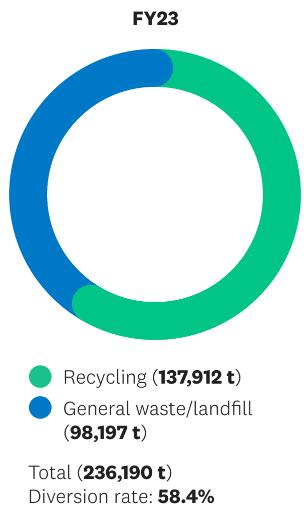


Waste management and responsible use of resources

We continuously improve our recycling methods and look for ways to reduce overall waste, including through recycling and composting, and sourcing sustainable materials where possible. We saw an overall increase in total waste in FY23 as a result of a return to increased office-based working. Our focus in this area has been on diversion of waste from landfill and in FY23, through our initiatives and employee commitment to waste minimisation and recycling, we diverted 58.4% of overall waste from landfill – an improvement of more than 10% year-on-year from FY22.

For more information on our recycling and waste management practices please visit our website: www.xero.com/sustainability





[11]FY23 emissions for this report have been calculated using an extrapolation of activity data from the 9 months of the financial year (1 April to 31 December). This number will be amended in the FY24 Annual Report using the full financial year activity data

Xero customer Good Wood (US)

Responsible supply chain and modern slavery

By behaving ethically and responsibly in every aspect of our global operations, right across our value chain, we seek to build and maintain the trust of our stakeholders. This means holding ourselves accountable for the direct and indirect impacts of our actions on the human rights, wellbeing and resilience of our partners, customers, suppliers and their communities. It also means understanding where the risks are in our value chain and what actions we can take to mitigate these, or remediate issues we might identify. Developing and promoting responsible procurement practices is an important part of living our values and building greater trust in Xero.

We are committed to working to prevent any form of slavery and human trafficking in our operations and supply chains. We remain vigilant against key modern slavery risks. We are working to refine and implement policies and processes to help us monitor and mitigate them, and we regularly assess the effectiveness of our actions. We require all our people[12] to undertake Modern Slavery Awareness training in order to educate them on forms of modern slavery, help to identify the risks, and provide information on how to raise concerns. As at 31 March 2023, 81.1% of our employees had completed our Modern Slavery Awareness training before the required date. For more information about how we manage the risk of modern slavery and human trafficking, please refer to our FY23 Modern Slavery and Human Trafficking Statement.

Community support, engagement and partnerships

In FY23, our community contributions totalled more than $3.5 million, up 57.6% on our FY22 contributions. This increase was driven primarily by uptake of the Xero Assistance Program (XAP), discounts given to non-profit organisations and paid employee volunteering hours.

We take a holistic approach to calculating our contribution to communities, combining cash donations, foregone revenue related to discounts given to non-profit organisations, community support, volunteering contributions, and partnership investments[13]. We use this metric to understand the positive impact we are having on building the resilience of the global communities in which we operate, and to inform the development of our overall philanthropy strategy.

Bringing to life our #human value, our people embrace these opportunities and are often the driving force behind this work. As part of our Community Connect volunteering program, every permanent Xero employee is encouraged to take a day of paid volunteering leave each year to dedicate to community causes that matter to them. We have a global network of social and environmental impact heroes who help us to engage our people with the communities in which they live and work, and prioritise the initiatives that make the most impact.

Community contribution FY23: more than $3.5 million

- Volunteering – in kind contribution (**$375,873**)
- Foregone revenue (**$2,283,491**)
- Cash donations made to non-profit organisations (**$90,078**)
- Partnership investments (**$710,601**)
- Tech outreach community investments (**$104,500**)

[12] *Does not include employees of Planday*
[13] *Partnership investments are instances where we have invested financially in a partnership with a 'for purpose' organisation, such as a non-profit, or a specific activity like sponsoring a campaign that creates positive social or environmental impact*

Xero customer Good Wood (US)

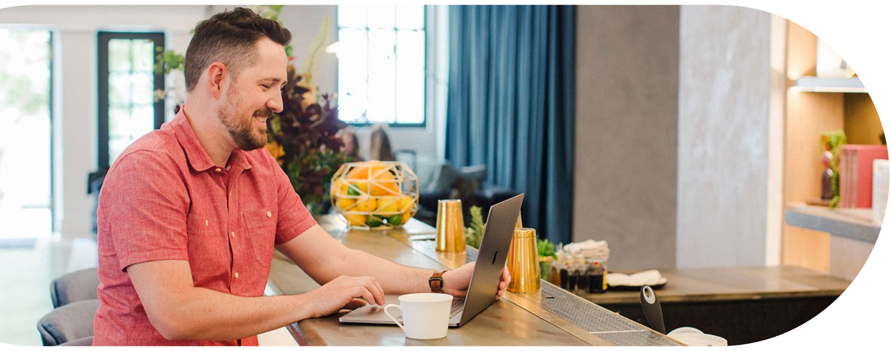
Supporting the UN Sustainable Development Goals

In FY23, we joined the United Nations Global Compact Network Australia (UNGCNA). The UN Global Compact is the world's largest corporate sustainability initiative – working to transform businesses and encouraging adoption of Sustainable Development Goals (SDGs). UNGCNA convenes participants and leading practitioners from business, government, academia, and the community to create opportunities for knowledge exchange across sectors. Through this membership, we will work collaboratively with peers to advance our sustainability priorities including; human and labour rights, environment and climate change, bribery prevention, and governance. For more information please visit our website: www.xero.com/sustainability

Supporting small businesses to become more sustainable

We are also investing in helping small businesses to become more sustainable, through our education tools and partnerships. Xero recognises that every business has a role to play in supporting the transition to a net-zero economy and we are in a unique position to help small businesses take steps in their sustainability journey. In FY23, we announced a partnership with sustainability fintech Cogo in Australia and welcomed UK-based climate tech start-up Ecologi into our ecosystem. Working with companies like Cogo and Ecologi will help provide small businesses in Australia and the UK with tools to better understand their carbon footprint and take action to reduce it.

For more information on how we support small business sustainability please visit our website: www.xero.com/sustainability/small-business



Financial

The significant opportunity in our markets means our priority is to drive disciplined growth and long-term value creation. We support the execution of our vision and strategy by aligning to these in the operational and financial decisions we make, through our annual planning, budgeting and capital allocation process.

We regularly monitor our financial performance and position through detailed financial analysis. This enables a responsive approach to spending and investment, according to the economic environment and business conditions in which we operate. We have well-established governance and oversight practices including through our Board and Audit and Risk Management Committee.

There are three key ways we seek to deliver financial value:

- Generating returns in the form of strong cash flows within the business
- Allocating cash generated into growth opportunities to drive revenue and future cash flows subject to our investment criteria
- Maintaining a strong balance sheet and access to liquidity

We measure our progress, support our strategy and vision, and create long-term value for our shareholders using a number of key indicators:

KPIs	FY23 performance
Operating revenue growth	28% (25% in constant currency)
Gross profit	$1,222 million
LTV/CAC	6.5 times
EBITDA	$158 million
Adjusted EBITDA	$302 million
Free cash flow	$102 million
Available liquidity	$1.1 billion

The financial strength of our business model is demonstrated through our Generally Accepted Accounting Principles (GAAP) as well as non-GAAP financial measures including SaaS metrics, which should be considered together and are discussed in the sections Our Performance (pages 69 - 82) and Financial Statements (pages 83 - 121).

Generating returns

Our strategic priorities and focus on building for global scale and innovation guide the way we invest to generate long-term financial value. As we seek to take a more balanced approach to growth and profitability, while delivering value to customers, we adopt a disciplined approach to cost management. This enables us to be dynamic and measured in the way we drive value creation over the short, medium and longer term, balancing short-term performance and long-term growth. These initiatives include building new products and functionality, entering into partnerships, and acquiring businesses that are a strategic fit. When considering where to invest our capital, we take into account a balance across gross profit, free cash flow, return on investment, and Lifetime Value (LTV)/ Customer Acquisition Cost (CAC).

In FY23, Xero's gross profit increased $265 million to $1,222 million, due to revenue growth (as discussed in the next section), along with maintaining efficiency in Xero's customer support teams and hosting costs for our cloud-based products.

Xero's LTV/CAC ratio fell to 6.5 at 31 March 2023, driven by a 14% increase in the average cost of acquiring a subscriber, offset by a 10% increase in Average Revenue per User (ARPU). The increase in the average customer acquisition cost was due to the impact of three Xerocon events in FY23, inflationary pressures and investment to drive growth across all regions. We also continued to focus on growing our International markets, which are comparatively less efficient than those in ANZ.

In March 2023, we announced a program to streamline and simplify our operations, realign the business to drive greater efficiency, and better balance growth and profitability for the future. The financial benefits of reshaping our organisational structure are expected to take effect in FY24, with costs associated with this program incurred in FY23.

EBITDA, which is another earnings-based indicator we use to assess financial performance, decreased by 26% to $158 million in the period. This reduction mainly reflected the impact of non-cash impairments, along with the impact of our restructuring program.

Adjusted EBITDA increased by 45% to $302 million in the period. This increase was due to operating revenue growth exceeding the growth in operating expenses excluding restructuring costs. Further details can be found in the Our Performance section on page 71.

During FY23 free cash flow improved by more than $100 million, from $2.1 million in FY22 to $102.3 million in FY23. This reflects operational efficiencies while disciplined customer focused growth is balanced with profitability.

See the Our Performance section on pages 69-82 for further information on gross profit, LTV/CAC, EBITDA, adjusted EBITDA and free cash flow.

Allocating cash generated into growth opportunities

Revenue growth can be considered in the context of two of our strategic priorities – driving cloud accounting adoption and growing the small business platform. We measure the contribution to revenue from the first of these strategic priorities primarily through growth in subscriber numbers. The contribution of the second strategic priority is measured through growth in ARPU and other operating revenues. Together, these are core drivers of operating revenue growth, for which our key performance indicators also include Average Monthly Recurring Revenue (AMRR).

Operating revenue grew 28% (25% in constant currency) in FY23, and AMRR grew by 26% (23% in constant currency). This was primarily driven by subscriber growth of 14%.

In addition, operating revenue and ARPU increased as a result of:

- Price changes to reflect the value of enhanced features and functions of the Xero offering
- Financial services-related revenue such as bill and invoice payments through financial service providers
- Other platform revenue such as Planday and Xero add-ons, including Payroll
- Favourable FX movements

See the Our Performance section on pages 69-82 for further information on Operating Revenue, ARPU and AMRR.

Maintaining a strong balance sheet and access to liquidity

Maintaining a strong balance sheet ensures value creation by providing a foundation to sustainably support investments that are aligned to our strategic priorities. Xero's balance sheet is structured to support our business model, maximise financial performance, and withstand potential adverse changes to operating conditions. We do this through investment in assets that generate positive cash flows, while maintaining access to liquidity.

Xero's Treasury Policy sets out parameters for management to operate within in order to protect Xero's financial assets and manage risk within approved limits. The policy covers our key treasury risks including liquidity, treasury counterparty credit, and foreign exchange management, and governs the day-to-day treasury operations. Compliance with the policy is overseen by the Audit and Risk Management Committee and the policy is reviewed annually.

Our balance sheet is further strengthened by the role our people and culture play in driving innovation to create our most valuable assets – our software development, or the new products and functionality we have built, that are tools for small businesses and their advisors. For more information on investment in these areas, see the People and Culture section (page 25) and the Platform, Technology and Data section on (page 43).

Cash flows from investing activities, as per the Statement of Cash Flows in the Financial Statements (page 91), decreased by 29%, or $125 million, from FY22. This decrease was due to business acquisition costs, due to the purchases of the Planday, Tickstar, LOCATE, and TaxCycle businesses that occurred in the prior year.

Total available liquidity (defined as cash and cash equivalents, short-term deposits, and undrawn committed debt facilities) is broken down below:

Available Liquidity	**Amount as at 31 March 2023**
Cash and cash equivalents	$231 million
Short-term deposits	$887 million
Undrawn committed debt facilities	$0 million
Total	**$1.1 billion**

During the year, Xero reduced its short-term debt facilities as part of ongoing capital management. This included decisions not to renew its undrawn NZD150 million standby debt facility and cancelling facilities related to the Waddle direct lending portfolio, due to the decision to exit the Waddle business.

Approach to tax

Xero takes its responsibilities as a participant in the New Zealand and international tax systems seriously. We seek to comply with all applicable tax laws and regulations that apply to the Xero Group, and to pay the amount of tax that is required to be paid in the countries where we operate.

We manage our tax affairs in accordance with the Xero Tax Risk Strategy and Control Framework, which was approved by the Xero Board this year. The purpose of that framework is to ensure that Xero:

- Manages its tax obligations within the law, and in a manner that builds trust with Xero's stakeholders
- Undertakes all transactions with a clear business purpose or commercial rationale
- Develops and maintains open, transparent and collaborative relationships with the tax authorities in the countries in which we operate

More information about Xero's approach to tax can be found in our Xero Tax Strategy Statement.

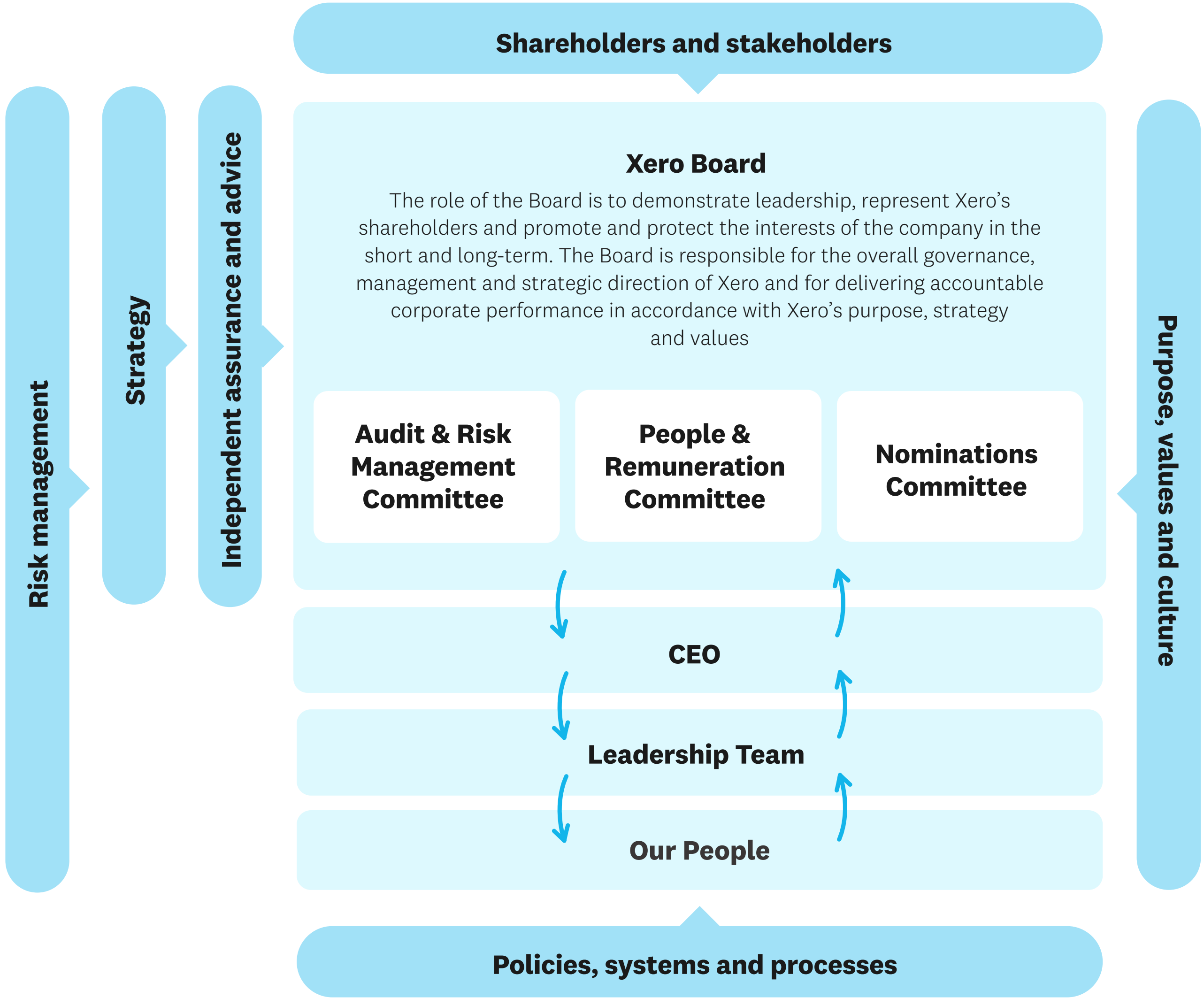
Governance

Xero's purpose is to make life better for people in small business, their advisors and communities around the world. Xero is a purpose-led, values-driven business and the Board of Xero (Board) is committed to a culture that seeks to embed and uphold high standards of corporate governance. The Board recognises the importance of this to good decision-making and long-term value creation.

Xero's corporate governance framework is designed to deliver on Xero's purpose and strategy, support Xero's operations, monitor performance, and manage risk. The framework does this in a manner that reflects Xero's values and the digital, global and high-growth nature of Xero's business. As Xero grows and evolves, so do the expectations of Xero's shareholders and other stakeholders, and the Board is committed to a continuous improvement approach to corporate governance.

The Board continues to be well supported by its three standing Committees: the Audit and Risk Management Committee (ARM Committee), the People and Remuneration Committee (P&R Committee), and the Nominations Committee.

Xero's Governance Framework



Key

Further information about Xero's Corporate Governance Framework, including the responsibilities of each Committee, is set out in our Corporate Governance Statement. This is available on Xero's Investor Centre at www.xero.com/about/investors/governance, together with our key governance policies, Code of Conduct, and Board and Committee Charters.

Xero Board

David Thodey, AO
Chair of the Board

Australia
Independent director since June 2019 and Chair since February 2020
Nominations Committee (Chair)
People and Remuneration Committee

David is a business leader focused on innovation, technology and telecommunications, with more than 30 years' experience creating brand and shareholder value. He is Chair of the Xero Board and a non-executive director of Ramsay Health Care, a global hospital group.

David was CEO of IBM Australia and New Zealand and Telstra, and has wide experience as a board director including as a past director of Vodafone Group, CSIRO, CSL, and TelstraClear. David has a Bachelor of Arts in Anthropology and English from Victoria University of Wellington and completed the post-graduate General Management Program at Northwestern University's Kellogg School of Management. David received an honorary Doctorate in Science from Deakin University in 2016, an honorary Doctorate in Technology from University of Technology in 2018, and was recognised for his services to business and ethical business leadership with an Order of Australia (AO) in 2017.

Steven Aldrich
Non-executive director

United States
Independent director since October 2020
People and Remuneration Committee

Steven is an entrepreneur and professional director with more than 25 years' experience in creating and delivering products within the technology and accounting software industries. Steven is currently a non-executive director of Semrush, an online visibility management SaaS platform, and a previous non-executive director of Avantax.

Steven has held a range of senior executive roles, including at GoDaddy, the world's largest services platform for entrepreneurs, where most recently he was chief product officer. Prior to this, Steven was the CEO of Outright, an online bookkeeping service, which was acquired by GoDaddy. Steven has also held various senior management roles at Intuit, including vice president of strategy and innovation for the small business division. Steven holds a Bachelor of Arts in Physics from the University of North Carolina and a Master of Business Administration from Stanford University.

Mark Cross
Non-executive director

New Zealand
Independent director since April 2020
Audit and Risk Management Committee (Chair)
People and Remuneration Committee

Mark is an experienced professional director with more than 20 years of international experience in corporate finance and investment banking. He is currently the chair of Chorus, a board member of the Accident Compensation Corporation (ACC) New Zealand, and chair of the ACC Investment Committee. His recent previous directorships include Z Energy and Milford Asset Management (chair).

Mark was at Deutsche Bank for 10 years, initially based in Sydney in mergers and acquisitions, then in London as a managing director and co-head of a European M&A industry group. Mark holds a Bachelor of Business Studies (Accounting & Finance) from Massey University New Zealand, is a member of Chartered Accountants Australia and New Zealand, a chartered member of the New Zealand Institute of Directors, and a member of the Australian Institute of Company Directors.

Rod Drury
Xero founder / Non-executive director

New Zealand
Director since July 2006
Nominations Committee

For more than a decade, Rod led Xero to be a global software business and S&P/ASX 100 company. Rod started his career at Ernst & Young and went on to establish and lead a number of innovative technology businesses. Rod was formerly an independent director of the NZX and Trade Me. He holds a Bachelor of Commerce and Administration (Accounting, Information Systems) from Victoria University of Wellington. At the Deloitte Top 200 Awards in 2017, Rod was named Visionary Leader of the Year. He was named Ernst & Young New Zealand Entrepreneur of the Year in 2013, and is a member of the New Zealand Hi-Tech Hall of Fame.

Lee Hatton
Non-executive director

Australia
Independent director since April 2014
Audit and Risk Management Committee

Lee has more than 20 years' experience internationally in the financial services industry and has held senior executive roles in marketing, strategy and risk in large-scale customer-facing businesses. In 2022, Lee joined Block - she holds the roles of lead, Cash App Financial Operations and Co-Lead of Global. Lee was recognised by IBM as one of 40 Women Leaders in Artificial Intelligence across the globe for her work in delivering world-first innovations. Lee holds a Bachelor of Business from the Auckland University of Technology, and is an alumni of the Berkeley Haas School of Business. She is also a member of Chief Executive Women, which represents Australia's most senior and distinguished female leaders.

Dale Murray, CBE
Non-executive director

United Kingdom
Independent director since April 2018
Audit and Risk Management Committee

Dale is an experienced non-executive director and former technology entrepreneur and CEO. Dale is currently a non-executive director at the Cranemere Group, Jupiter Fund Management, Rated People, LendInvest, and Lightspeed Commerce and is a board advisor to Accelerate:Her. She was formerly a non-executive director and trustee for the Peter Jones Foundation, a non-executive director at Sussex Place Ventures and at the Department for Business, Innovation & Skills (UK).

Dale co-founded and was CEO of mobile pioneer Omega Logic in 1999, which co-launched prepay top-ups in the UK, leading the growth of top-up transactions to £450m within five years. She then turned to investing and advising startups and won the British Angel Investor of the Year award in 2011. She holds a Master of Business Administration from the London Business School and served on the Business Taskforce on EU Redtape for the British Prime Minister in 2013. Dale was made Commander of the Most Excellent Order of the British Empire (CBE) by Her Majesty Queen Elizabeth II in 2013, for services to business.

Brian McAndrews
Non-executive director

United States
Independent director since February 2022
Audit and Risk Management Committee

Brian is a professional director who has extensive experience from his career as an executive and CEO driving growth and innovation for leading technology, software-as-a-service and cloud-based companies. His experience includes leading Pandora Media, a streaming music provider in the US, and aQuantive, a digital marketing services and technology company that was acquired by Microsoft.

Brian is currently lead director of Frontdoor, the largest provider of home service plans in the United States, and is presiding director on the board of The New York Times. He was previously a director of Chewy and Teledoc Health and chairman of Grubhub.

Brian has been included in the National Association of Corporate Directors Directorship 100, which recognises the most influential board members. He holds a Bachelor of Arts with Honors in Economics from Harvard College and a Master of Business Administration from the Stanford Graduate School of Business.

Susan Peterson
Non-executive director

New Zealand
Independent director since February 2017
People and Remuneration Committee (Chair)
Nominations Committee

Susan is an experienced non-executive director and business leader with a particular interest in helping companies to drive growth through technology, innovation and organisational culture. Susan is currently the chair of Vista Group and an independent director of Arvida Group, Mercury NZ, and Craigs Investment Partners.

Susan is also a board member of non-profit Global Women and was previously a member of the New Zealand Markets Disciplinary Tribunal. Susan is a past director of ASB Bank and Trustpower and a past ministerial appointee to the National Advisory Council on the Employment of Women. Susan holds a Bachelor of Commerce and Bachelor of Laws from the University of Otago.

Board diversity and tenure

Gender

- Male **62.5%** (5 directors)
- Female **37.5%** (3 directors)

Location

- NZ **37.5%** (3 directors)
- AU **25.0%** (2 directors)
- UK **12.5%** (1 director)
- US **25.0%** (2 directors)

Race and ethnicity

- White and/or European heritage **100%**

Tenure

- 0-3 years **37.5%** (3 directors)
- 3-6 years **25.0%** (2 directors)
- 6-9 years **25.0%** (2 directors)
- 9+ years **12.5%** (1 director)

Skills matrix

The Board regularly considers the desired mix of skills, experience, knowledge and capabilities to effectively govern Xero now and in the future. In FY23, these capabilities were updated and the current directors' relevant skills and experience were assessed with reference to the desired capabilities. The result of this assessment is set out in the table below. Following this assessment, the Board is satisfied that it continues to have the appropriate mix of skills and experience necessary to fulfil the Board's role in leading a global SaaS business.

The Board skills assessment helps inform the Board's renewal and succession planning and helps identify opportunities for professional development for existing directors. When considering Board composition, the Board also has regard to the desired personal attributes of directors, including alignment with Xero's values, and the benefits of geographic diversity, cultural, ethnic or racial diversity, gender diversity, age diversity, and diversity of thought.

Capability	**Number of directors with the capability**	
	High capability[1]	Moderate capability[2]
Global Markets Experience in Xero's current and emerging global markets including scaling global businesses with large customer bases	2	6
Software as a service (SaaS) Technology and Data Experience in SaaS, cloud, digital platforms and data	3	5
Digital Product Management Experience in digital product management, technology trends, and implications and the software and technology product value chain	4	4
Sales, Marketing and Customer Experience Experience in customer insight and advocacy, sales, marketing and business development	6	2
Strategy Strategy and corporate development including M&A and strategic partnerships	8	-
Financial Acumen Qualifications or experience in corporate finance, financial accounting, and capital markets	2	5
Governance and Risk Management Experience as a director on a listed company board including expertise in investor engagement, governance, compliance, sustainability and risk management principles, policies and frameworks	6	2
People and culture Experience in setting remuneration frameworks, workforce planning, talent management, culture, and the promotion of diversity, equity and inclusion	7	1
Executive Leadership Experience as a senior executive in a large organisation or listed company	8	-

[1] *High capability: High level of knowledge or experience in the relevant skill area. High level of proficiency and experience in applying the skill, including in complex situations, as a senior executive or board member*

[2] *Moderate capability: Sound knowledge and understanding of the relevant skill through either experience, application in Board and Committee activities and/or through training and professional development activities*

Key areas of Board focus

Strategy and investment for sustainable long-term growth

The Board remains focused on the significant long-term opportunity for cloud accounting, and overseeing Xero's strategy and capital allocation to take advantage of this. The Board has recognised that investors are more focused on balancing growth and profitability in our sector. In this context, along with inflationary pressures, we have increased our focus on operating costs and the returns that we generate from our investments. As noted in the Chair's Review, the Board worked with management to streamline Xero's operations, realign the business to drive greater operating efficiency, and better balance growth and profitability.

Further detail on Xero's strategy can be found on pages 16 and 17.

Board and executive succession

In FY23, the Board appointed Sukhinder Singh Cassidy as Xero's new CEO from 1 February 2023, following the retirement of Steve Vamos. Sukhinder's appointment followed a rigorous global recruitment process led by the Nominations Committee and recognises that as we continue to grow and scale our global footprint, the experience requirements of our leadership continues to evolve.

The Board, supported by the P&R Committee, oversees senior executive succession and development planning to ensure that the leadership team has the skills required to deliver on Xero's strategy, underpinned by a robust talent pipeline. In FY23, Angad Soin (Chief Business Operations & Strategy Officer) was appointed to Xero's executive leadership team, and in March 2023 we were pleased to announce the appointment of Diya Jolly (Chief Product Officer) who joined the team in April 2023.

Board performance and governance

Each year the Board undertakes an evaluation of its performance. In FY23, the Board conducted an externally facilitated performance review. The process included the use of confidential in-depth questionnaires and one-on-one interviews with directors and management. Overall, this review concluded that the performance of the Board and its Committees continues to be sound. The Board has identified actions to continue to support its focus on being a consistently high-performing Board, including actions related to setting up and supporting the new CEO for success, ongoing Board succession planning and capability, and continuing to refine the Board's operating rhythm.

During the year the Board invested time to consider opportunities for continuous improvement in its overall governance practices and the efficiency of its decision making as a global board. As a result, it will work with management to implement a number of improvements to its operating rhythm during FY24.

Further details on Xero's Board can be found in Xero's Corporate Governance Statement, available on Xero's Investor Centre.

Risk

The Board, supported by the ARM Committee, continued to oversee the implementation of Xero's risk management framework and the effectiveness of systems, controls and processes. The ARM Committee receives regular 'deep dive' updates on key risk areas including strategic, operational, legal and compliance, financial and emerging risks. The Board and ARM Committee received regular updates on focus areas including cyber and considered macro-level impacts that may present risks or opportunities to Xero meeting our long-term strategic objectives.

In FY23, the Board approved 'Risk Guardrails", including the key risk appetite principles, that build on Xero's existing risk appetite guidance to support decision-making, planning and risk management activities across Xero.

Further details on Xero's approach to risk can be found on pages 19 to 23.

People and culture

The organisational changes announced in March 2023 included the difficult decision to reduce 700-800 roles across Xero globally. Xero remains focused on developing and preserving our culture and cultivating our talent. The impact of reshaping our organisational structure will flow through in FY24.

Xero's people remain critical to our success and the Board is committed to having regular and meaningful engagement with our people, including through site visits and "ask me anything" sessions, and the insights from this inform the Board's decision-making and strategy development. The Board closely monitors key people metrics including employee net promoter score (eNPS) and engagement for our people, both globally and by senior leadership team member.

In FY23, an Employee Rewards Optimisation Survey was launched to inform the continued growth and evolution of our employee value proposition globally. As a result, new and enhanced benefits were introduced including enhanced leave globally, and health/medical, life, trauma, and salary continuance insurances across New Zealand, Australia and the UK, providing a more competitive and globally consistent reward offering.

Xero values diversity, equity and inclusion (DEI) and recognises the importance of increasing awareness and understanding across a range of diversity, equity and inclusion issues. In September 2022, the Board participated in an education session with thought leaders and inclusion experts focused on the growth and evolution of DEI in a business context, the challenges and opportunities existing for global organisations in DEI, and how Xero and the Board could challenge their thinking and approaches to DEI.

Further detail on Xero's approach to People and Culture can be found on pages 25 to 32.

Customers

Xero's customers are central to our purpose: to make life better for people in small business, their advisors and communities around the world. In FY23, the Board was pleased to be able to again meet with our small business customers and accounting and bookkeeping partners in person at customer engagement events in London and Denver and at Xerocon in Sydney.

The Board closely monitors key customer metrics including churn and net promoter scores (NPS) for our small business customers and our accounting and bookkeeping partners, both globally and by region. Other metrics such as subscriber numbers and lifetime value (LTV) provide an indication of the value we are providing to our customers and the strength of our customer and partner relationships. The performance of Xero's platform, innovation and protecting and using our customers' data responsibly are essential to maintaining those trusted relationships and guide the decisions we make in relation to strategy execution and capital allocation.

Further detail on our Customers, Partners and Ecosystem can be found on pages 35 to 41.

Reporting performance against Xero's climate roadmap

In November 2022, the Board approved emissions reduction targets consistent with the recommendations of the Science Based Targets initiative (SBTi) and identified emission reduction plans to be achieved by FY30. In FY22, Xero developed a three-year roadmap to implement a climate approach that is consistent with the four core elements of the TCFD framework, and the Board is pleased to report Xero's performance against that roadmap this year in our standalone TCFD Statement.

Further detail on Xero's approach to sustainability can be found on pages 51 to 57 and on Xero's website at www.xero.com/sustainability

Our Performance

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

Non-GAAP measures have been included as Xero believes they provide useful information for readers to assist in understanding Xero's (the Xero Group) 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 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

Year ended 31 March	2023 ($000s)	2022 ($000s)	change
Subscription revenue	1,326,278	1,049,618	26%
Other operating revenue	73,606	47,201	56%
Total operating revenue	**1,399,884**	**1,096,819**	**28%**
Cost of revenue	(177,943)	(139,388)	28%
Gross profit	**1,221,941**	**957,431**	**28%**
Gross margin percentage	87.3%	87.3%	0.0pp*
Sales and marketing	(471,831)	(405,653)	16%
Product design and development	(490,048)	(372,024)	32%
General and administration	(168,077)	(144,172)	17%
Restructuring costs	(34,692)	–	NM**
Total operating expenses	**(1,164,648)**	**(921,849)**	**26%**
Percentage of operating revenue	83.2%	84.0%	-0.8pp
Operating income	**57,293**	**35,582**	**61%**
Other income and expenses	5,590	31,087	-82%
Asset impairments and disposals	(122,680)	(24,695)	NM
Earnings before interest and tax	**(59,797)**	**41,974**	**NM**
Percentage of operating revenue	-4.3%	3.8%	-8.1pp
Net finance expense	(15,880)	(39,611)	-60%
Income tax expense	(37,855)	(11,477)	NM
Net loss	**(113,532)**	**(9,114)**	**NM**
Percentage of operating revenue	-8.1%	-0.8%	-7.3pp

**pp stands for percentage points*
***NM stands for not meaningful*

Xero's FY23 results demonstrate the strength of our business in a complex macroeconomic environment with operating revenue growth of 28% (25% in constant currency) and subscriber growth of 14%. This outcome was delivered alongside a greater focus on operating efficiency with operating expenses as a percentage of operating revenue reducing by 3.3 percentage points to 80.7% (excluding restructuring costs).

In March 2023, Xero announced a program to streamline its operations, realign the business to drive greater operating efficiency, and better balance growth and profitability. Restructuring costs associated with this program of $34.7 million are included in these results.

Operating revenue growth was primarily driven by subscriber growth, as Xero continued to see growth across both its ANZ and International markets. In total, 470,000 net subscribers were added during FY23, bringing total subscribers to 3,741,000 at 31 March 2023. Operating revenue growth outpaced subscriber growth by 14%, primarily reflecting the benefit of price changes through the year alongside increased financial services related revenue, and revenue from Xerocon events.

Gross profit of $1.2 billion grew 28% from FY22, aligned with the growth in operating revenue, resulting in gross margin holding flat year-on-year at 87.3%.

Operating income[1], a measure of operating performance, increased 61% to $57.3 million compared to FY22. This metric was impacted by restructuring costs of $34.7 million. Excluding these, operating income would have been $92.0 million representing an operating income margin of 6.6%.

EBITDA[1] decreased by $54.3 million, or 26%, year-on-year to $158.4 million. This was driven by the impact of items not included in operating income including a $77.9 million non-cash impairment relating to Planday, mainly reflecting a reduction in market valuation multiples along with operational performance, $48.5 million of non-cash impairments and other costs related to Waddle, non-cash accounting revaluation gains of $17.9 million alongside the restructuring charges of $34.7 million.

Adjusted EBITDA[1], which excludes the items above, was $301.7 million, for FY23, an improvement of $93.0 million, or 45%, compared to the prior year, as costs grew at a lower rate than revenue.

Cash receipts from customers grew 28% from FY22, in line with operating revenue growth. Other operating cash flows grew 18%, reflecting improved operational efficiency as hiring slowed. This resulted in an increase in free cash flow of $100.2 million, from $2.1 million in FY22 to $102.3 million.

Net loss for FY23 was $104.4 million higher than FY22 despite revenue growth and improvements in operating expense ratios. This was primarily due to the impacts of non-cash items including impairments and disposals of $122.7 million, alongside the restructuring costs of $34.7 million.

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.

Year ended 31 March	2023 ($000s)	2022 ($000s)	change
Total operating revenue	1,399,884	1,096,819	28%
Cost of revenue	(177,943)	(139,388)	28%
Operating expenses excluding restructuring costs	(1,129,956)	(921,849)	23%
Restructuring costs	(34,692)	–	NM
Operating income	**57,293**	**35,582**	**61%**
Operating income margin	4.1%	3.2%	0.9pp

Operating income increased 61% to $57.3 million compared to FY22. This metric was impacted by restructuring costs of $34.7 million. Excluding these, operating income would have been $92.0 million representing an operating income margin of 6.6%. This was more than double the 3.2% margin in FY22 as operating revenue growth of 28% was higher than operating expense growth excluding restructuring costs of 23%, this reflects emerging operating efficiencies in our business.

Earnings before interest, tax, depreciation, and amortisation (EBITDA) and adjusted 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 expense, depreciation and amortisation, and income tax expense to net profit/(loss).

Year ended 31 March	2023 ($000s)	2022 ($000s)	change
Net loss	**(113,532)**	**(9,114)**	**NM**
Add back: net finance expense	15,880	39,611	-60%
Add back: depreciation and amortisation	218,196	170,687	28%
Add back: income tax expense	37,855	11,477	NM
EBITDA	**158,399**	**212,661**	**-26%**
EBITDA margin	11.3%	19.4%	-8.1pp

[1] *Non-GAAP financial measure, see relevant section for definition*

EBITDA decreased by $54.3 million, or 26%, from FY22. The EBITDA margin decreased by 8.1 percentage points from 19.4% in FY22 to 11.3% in FY23. This was driven by $126.5 million non-cash impairments and other costs related to Waddle and Planday, $34.7 million in restructuring costs, and non-cash accounting revaluation gains of $17.9 million.

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 net finance expense, depreciation and amortisation, and income tax expense, as well as certain non-cash, revaluation and other accounting adjustments and charges to net profit/(loss).

Year ended 31 March	2023 ($000s)	2022 ($000s)	change
EBITDA	**158,399**	**212,661**	**-26%**
Add back: restructuring costs	34,692	–	NM
Add back: non-cash impairments of Planday	77,927	–	NM
Add back: non-cash impairments and other costs relating to the exit of Waddle	48,527	22,122	119%
Add back: non-cash revaluations	(17,856)	(26,063)	-31%
Adjusted EBITDA	**301,689**	**208,720**	**45%**
Adjusted EBITDA margin	21.6%	19.0%	2.6pp

Adjusted EBITDA was $301.7 million, an increase of $93.0 million, or 45%, compared to FY22. Operating revenue growth of 28% exceeded the growth in operating expenses excluding restructuring costs of 23%. This resulted in a 2.6 percentage point increase in adjusted EBITDA margin.

Included within the Waddle add back is a $41.3 million impairment of the Waddle business, a $1.6 million disposal of related software and recognition of onerous contract of $5.6 million. Non-cash revaluations consist of revaluations of contingent consideration, Planday revenue incentive and revaluation of derivatives.

Cash flows

Free cash flow is a non-GAAP financial measure that has been 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.

Year ended 31 March	2023 ($000s)	2022 ($000s)	change
Receipts from customers	1,394,237	1,089,806	28%
Other operating cash flows	(1,003,788)	(853,435)	18%
Total cash flows from operating activities	**390,449**	**236,371**	**65%**
Investing activities	(304,896)	(430,044)	-29%
Add back: acquisition consideration	15,879	185,423	-91%
Add back: investment into businesses and strategic assets	908	10,323	-91%
Free cash flow	**102,340**	**2,073**	**NM**
Percentage of operating revenue	7.3%	0.2%	7.1pp

Receipts from customers increased by $304.4 million, or 28%, to $1.4 billion, consistent with operating revenue growth of 28%. Total cash flows from operating activities increased by $154.1 million, or 65%, to $390.5 million. Receipts from customers outpaced growth in operating cash outflows of 18%, demonstrating improvements in operational efficiency, higher interest income, and lower tax payments compared to FY22.

Cash outflows from investing activities decreased by $125.1 million, or 29%, compared to FY22. The decrease reflected lower cash flows related to acquisitions in FY23 compared to the acquisitions of Planday, Tickstar, LOCATE and TaxCycle during FY22. Investing cash flows excluding acquisitions increased by $44.4 million, or 18%, as capitalised spend on product design and development increased by $57.1 million, or 28%, compared to FY22, offset by lower purchases of property, plant and equipment.

Free cash flow improved by $100.2 million from $2.1 million in FY22 to $102.3 million in FY23. This was a 7.1 percentage point increase as a percentage of total operating revenue, from 0.2% in FY22 to 7.3% in FY23. $86.8 million, or 85%, of FY23 free cash flow was derived in the second half of FY23, as operating expenses as a percentage of operating revenue decreased as operational efficiencies were delivered.

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 FY23 at the effective exchange rates for FY22.

Year ended 31 March	2023 ($000s)	2022 ($000s)	change	change in constant currency
Subscription revenue	1,326,278	1,049,618	26%	23%
Other operating revenue	73,606	47,201	56%	52%
Total operating revenue	**1,399,884**	**1,096,819**	**28%**	**25%**

Total operating revenue grew 28% to $1,399.9 million in FY23 from $1,096.8 million in FY22. Due to the comparatively weaker NZD against both the Australian Dollar (AUD) and the United States Dollar (USD), in constant currency terms, operating revenue grew 25%.

Subscription revenue increased by $276.7 million, or 26%, in FY23, driven predominately by organic subscriber growth of 470,000, or 14%. The remainder of the growth largely came from price increases that occurred throughout the year along with increases in platform products such as Planday and Payroll. Price changes occurred for business edition plans in New Zealand, Australia, and the United Kingdom in September 2022, North America and Rest of World in November 2022, and in March 2023 for partner edition plans in most regions.

Other operating revenue increased by $26.4 million, or 56%, compared to FY22, largely as a result of growth in financial services related revenue such as bill and invoice payments through financial service providers. Additionally, revenue was generated by the return of Xerocon events across Australia, the UK and North America, and Xero roadshows. Growth in TaxCycle and ecosystem revenue also contributed to this increase.

Operating revenue by geography

Year ended 31 March	2023 ($000s)	2022 ($000s)	change	change in constant currency
Australia	623,768	483,288	29%	25%
New Zealand	173,951	149,392	16%	16%
Australia and New Zealand (ANZ) total	**797,719**	**632,680**	**26%**	**23%**
United Kingdom	370,751	291,614	27%	29%
North America	95,909	72,571	32%	21%
Rest of World	135,505	99,954	36%	26%
International total	**602,165**	**464,139**	**30%**	**27%**
Total operating revenue	**1,399,884**	**1,096,819**	**28%**	**25%**

ANZ – Operating revenue increased by $165.0 million, or 26% (23% in constant currency), from the comparative period.

Australia's operating revenue grew by $140.5 million, or 29% (25% in constant currency), mainly driven by subscriber growth of 17%. Revenue growth was higher than subscriber growth driven by price changes, growth in financial services related revenue, and the resumption of Xerocon.

New Zealand operating revenue grew by $24.6 million, or 16%. This was higher than subscriber growth of 11%, driven mainly by price changes and an uptake in adjacent products.

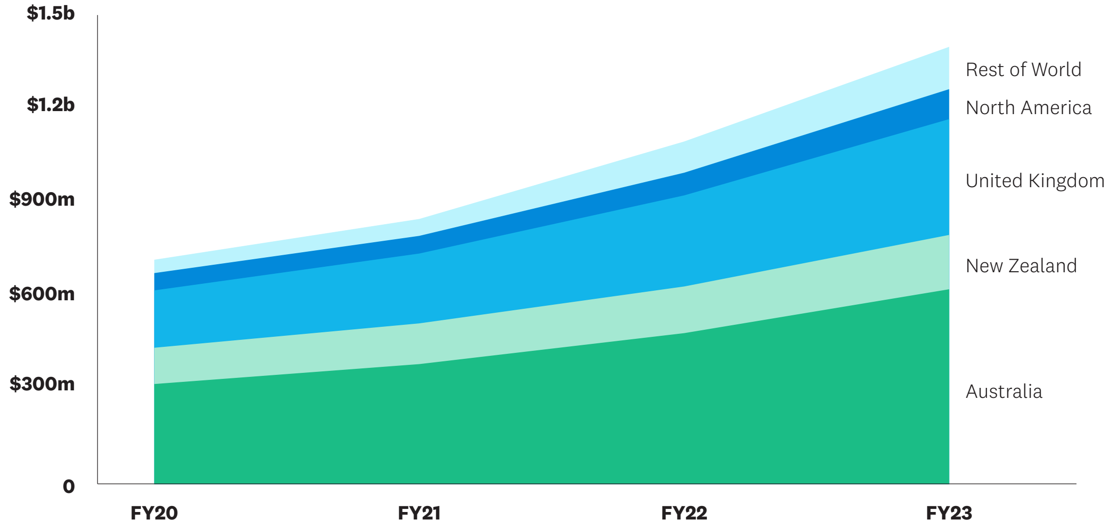
International – Operating revenue grew 30% (27% in constant currency) compared to subscriber growth of 14%. International markets now contribute 43% to total operating revenue compared to 42% in FY22.

UK operating revenue grew 27% (29% in constant currency) compared to subscriber growth of 14% against the prior year. This was driven by price changes, growth in financial services related revenue, Xerocon London, Planday and other add-ons.

North America operating revenue increased by 32% (21% constant currency) compared to FY22, compared to subscriber growth of 13%. The growth was driven by price changes, Xerocon New Orleans, and growth in financial services.

Operating revenue in Xero's Rest of World markets increased by 36% from FY22 (26% in constant currency) compared to subscriber growth of 12%. The largest contributing market for subscriber growth was South Africa. Local billing was launched in South Africa in November 2022 which provides an opportunity to drive future growth. Revenue growth exceeded subscriber growth mainly due to price changes.

Total group operating revenue by geography*



**Represents each regions' contribution to total 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 31 March	2023	2022	change
Australia	1,566,000	1,344,000	17%
New Zealand	567,000	512,000	11%
Australia and New Zealand (ANZ) total	**2,133,000**	**1,856,000**	**15%**
United Kingdom	970,000	850,000	14%
North America	384,000	339,000	13%
Rest of World	254,000	226,000	12%
International total	**1,608,000**	**1,415,000**	**14%**
Total paying subscribers	**3,741,000**	**3,271,000**	**14%**

Xero Group - 470,000 subscribers were added in FY23, bringing total subscribers to 3.74 million. All regions had double-digit growth with Australia continuing to be the highest growing market.

ANZ - Subscriber numbers grew by 277,000, or 15%, to a total of 2.1 million reflecting the strength of our product offering and market presence in this region. Continued low churn levels further highlight the value customers place in Xero's offering.

Australia continues to deliver strong subscriber growth with 222,000 added in FY23.

New Zealand added 55,000 subscribers (11% growth) in FY23, in a complex economic environment with high cloud penetration.

International - The International segment added 193,000 subscribers during FY23, bringing total subscribers to 1.6 million. 118,000 subscribers were added in the second half of the year compared to 75,000 added in H1 FY23, reflecting an improvement in the international market performance.

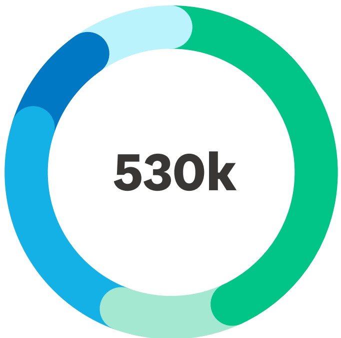
UK subscribers grew by 120,000, or 14%, with 76,000 subscribers added in the second half of the year. This was higher than the second half of FY22 impacted by various factors including favourable uptake of Making Tax Digital (MTD).

North America subscriber numbers increased by 45,000, or 13%, during FY23 with 30,000 added in the second half of the year. Subscriber additions in the second half were in line with the same period of FY22, reflecting some seasonality of subscriber additions.

Rest of World markets grew by 28,000 subscribers, or 12%, with 254,000 subscribers at 31 March 2023. The largest contributing market was South Africa. Local currency billing was launched in South Africa in FY23, allowing subscribers to consistently plan for subscription costs and demonstrating Xero's commitment to localise our offering as markets grow.

Net subscriber additions

FY23
Region (% of total net additions)
- Australia (**47%**)
- New Zealand (**12%**)
- United Kingdom (**25%**)
- North America (**10%**)
- Rest of World (**6%**)



FY22
Region (% of total net additions)
- Australia (**43%**)
- New Zealand (**12%**)
- United Kingdom (**25%**)
- North America (**10%**)
- Rest of World (**10%**)

Regional subscriber numbers at 31 March 2023*

Australia
1,566,000
2022 | 1,344,000
▲ Up 17%

New Zealand
567,000
2022 | 512,000
▲ Up 11%

United Kingdom
970,000
2022 | 850,000
▲ Up 14%

North America
384,000
2022 | 339,000
▲ Up 13%

** Rest of World subscribers at 31 March 2023: 254,000 (31 March 2022: 226,000)*

Annualised monthly recurring revenue

Annualised monthly recurring revenue (AMRR) is a non-GAAP financial measure, which represents monthly recurring revenue at 31 March, 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 31 March 2023 at the foreign exchange rates at 31 March 2022 and is provided to assist in understanding and assessing year-on-year growth rates, excluding the impact of foreign currency fluctuations.

At 31 March	2023 ($000s)	2022 ($000s)	change	change in constant currency
ANZ	876,477	712,652	23%	23%
International	677,326	518,435	31%	23%
Total	**1,553,803**	**1,231,087**	**26%**	**23%**

Total Group – AMRR grew by 26% (23% in constant currency) to $1,553.8 million at 31 March 2023. This was driven by subscriber growth and a 10% improvement in Average Revenue Per User (ARPU). As a result, AMRR growth outpaced subscriber growth by 12 percentage points.

ANZ – AMRR of $876.5 million at 31 March 2023 grew 23% compared to FY22. This was mainly driven by subscriber growth, as well as price changes and an uptake in ecosystem and financial service related products.

International – AMRR increased 31% to $677.3 million at 31 March 2023. This was driven by subscriber growth, favourable FX impacts, price changes, and growth in financial services related products.

In constant currency terms, AMRR grew by 23% compared to 31 March 2022, due to the stronger USD and Great British Pound (GBP) against the NZD at 31 March 2023.

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.

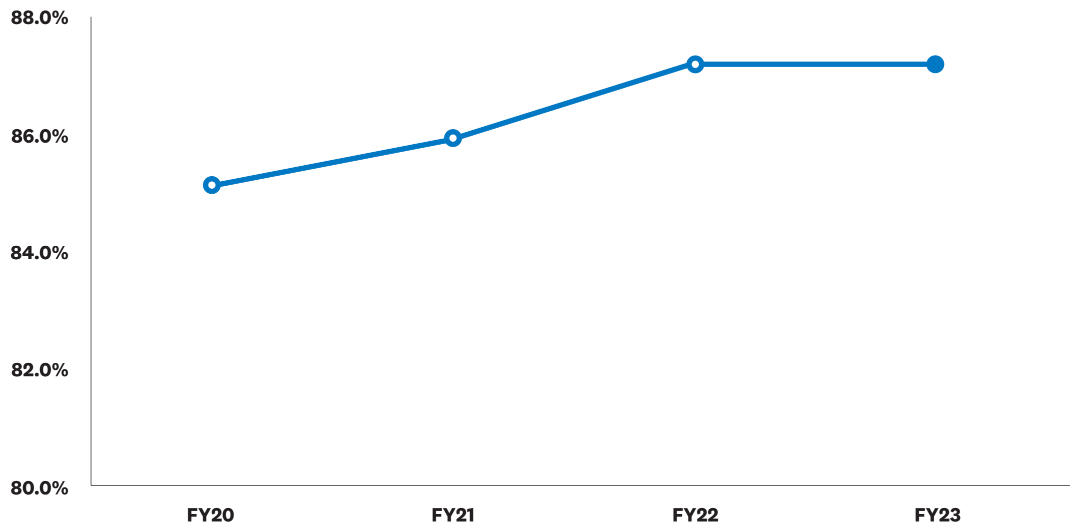
The costs include hosting costs, bank feed costs, personnel and related expenses (including salaries, benefits, bonuses, and share-based payments) directly associated with cloud infrastructure and subscriber support, contracted third-party vendor costs, related depreciation and amortisation, and allocated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

Year ended 31 March	2023 ($000s)	2022 ($000s)	change
Operating revenue	1,399,884	1,096,819	28%
Cost of revenue	(177,943)	(139,388)	28%
Gross profit	**1,221,941**	**957,431**	**28%**
Gross margin percentage	87.3%	87.3%	0.0pp

Gross profit increased by $264.5 million, or 28%, from FY22 to $1.2 billion, while gross margin percentage remained high at 87.3%.

Cost of revenue increased by 28% compared to FY22, in line with operating revenue. The increase was driven by additional hosting costs, inflationary impacts from suppliers and increased personnel costs as Xero continued investing in our customer experience team to support continued subscriber growth.

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.

Year ended 31 March	2023 ($000s)	2022 ($000s)	change
Sales and marketing expenses	471,831	405,653	16%
Percentage of operating revenue	33.7%	37.0%	-3.3pp

Sales and marketing costs include:

- costs incurred in acquiring new subscribers
- costs associated with upselling to existing customers, and
- initiatives to educate existing customers to reduce churn.

These costs are 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 more than nine years on average).

Sales and marketing costs increased by 16% to $471.8 million for FY23, compared to operating revenue growth of 28%, reflecting improvements in a number of operational metrics. The increase in sales and marketing expenses of $66.2 million in FY23 reflected the resumption of Xerocon events in H1 FY23, inflationary pressures, increased personnel costs, and a return to travel following the opening up of international borders.

Sales and marketing expenses as a percentage of operating revenue decreased by 3.3 percentage points to 33.7%, compared to 37.0% in FY22. Sales and marketing expenses as a percentage of operating revenue for the second half of FY23 was 31.4%, which was 5.2 percentage points lower compared to the same period in FY22. This decrease reflected targeted efficiencies in sales and marketing costs.

The average cost of acquiring a subscriber, which is one component of our sales and marketing costs, increased to $551 per gross subscriber added, compared to $484 in FY22. The impact of three Xerocon events, compared with none in FY22, and overall increased costs have driven this increase. We also had 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 capitalisable 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.

Year ended 31 March	2023 ($000s)	2022 ($000s)	change
Total product design and development costs (including amounts capitalised)	**597,181**	**471,990**	**27%**
Percentage of operating revenue	42.7%	43.0%	-0.3pp
Less capitalised development costs	(259,767)	(211,683)	23%
Product design and development expense (excluding amortisation of amounts capitalised)	**337,414**	**260,307**	**30%**
Less government grants	(2,130)	(3,350)	-36%
Add amortisation of capitalised development costs	154,764	115,067	34%
Product design and development expenses	**490,048**	**372,024**	**32%**
Percentage of operating revenue	35.0%	33.9%	1.1pp

Xero is committed to investing in product innovation and development to deliver new products, features and experiences to customers to enable seamless work across the Xero platform.

Xero is also committed to investment in platform delivery to make the platform faster, more functional and more flexible, as well as to support future platform growth and strategy delivery. For further details including product initiatives and delivery highlights, see the Platform, Technology and Data section on page 43.

Total product design and development costs increased $125.2 million (27%) to $597.2 million for FY23. This was slightly lower than operating revenue growth of 28% in the same period. Of this, $259.8 million was capitalised, with the balance of $337.4 million included in the Income Statement. The amount capitalised represents a capitalisation rate of 43.5% of total product design and development costs for FY23, a decrease of 1.3 percentage points compared to 44.8% in FY22. As a percentage of operating revenue, total product design and development costs for FY23 (including amounts capitalised) were 42.7%, a decrease of 0.3 percentage points on FY22.

The amortisation of capitalised development costs of $154.8 million reflects the impact of previously capitalised costs. This was included as a non-cash expense in the Income Statement, resulting in total net expenses (after the netting off of government grants) of $490.0 million for the year. As a percentage of operating revenue, product design and development expenses were 35.0%, an increase of 1.1 percentage points compared to FY22.

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.

Year ended 31 March	2023 ($000s)	2022 ($000s)	change
General and administration expenses	168,077	144,172	17%
Percentage of operating revenue	12.0%	13.1%	-1.1pp

General and administration expenses increased by $23.9 million, or 17%, compared to FY22. This was driven by an increase in personnel-related costs due to inflationary pressures and increased FTEs compared to FY22. The recruitment and overlap of the new Chief Executive and the former Chief Executive's service period also contributed to this increase.

General and administration expenses as a percentage of operating revenue decreased 1.1 percentage points compared to FY22, to 12.0%. The reduction in expenses as a percentage of operating revenue is driven by lower professional services and integration related costs, along with moderated hiring across the general and administration teams.

Employees

At 31 March	2023	2022	change
Xero Group	5,080	4,784	6%

Full-time equivalent (FTE) employees increased by 296, or 6%, in FY23 compared to 1,142 added in FY22, which included 266 FTEs from acquired entities. This reflects a targeted approach to moderate hiring as Xero delivers economies of scale.

FTEs at 31 March 2023 largely exclude the impact of the program to streamline Xero's operations announced and commenced in March 2023. This will result in a reduction in FTEs in the first quarter of FY24. This is in contrast to the costs associated with this program which have been recognised in FY23.

Net finance expense

Year ended 31 March	2023 ($000s)	2022 ($000s)	change
Interest income on deposits	29,101	4,080	NM
Finance lease interest income	18	–	NM
Total finance income	**29,119**	**4,080**	**NM**
Amortisation of discount and debt issuance costs	(34,640)	(29,682)	17%
Lease liability interest	(8,155)	(6,423)	27%
Unwind of contingent consideration	(992)	(5,112)	-81%
Bank standby facility costs	(652)	(2,134)	-69%
Other finance expense	(560)	(340)	65%
Total finance expense	**(44,999)**	**(43,691)**	**3%**
Net finance expense	**(15,880)**	**(39,611)**	**-60%**

Finance income increased significantly by $25.0 million to $29.1 million in FY23. This was due to higher global interest rates in addition to an increase in cash and short-term deposit balances compared to FY22. Higher interest income was the key driver in net finance expense decreasing by $23.7 million (60%).

Total finance expense increased by 3% to $45.0 million in FY23. This was largely due to an increase in amortisation of discount and debt issuance costs of $5.0 million (17%) following a weaker NZD relative to the USD. This was partly offset by lower unwind of discount on contingent consideration due to a lower contingent consideration liability relating to acquisitions, as well as lower bank standby facility costs as a result of the $150 million facility not being renewed in H1 FY23.

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)
Year ended 31 March 2023			
Operating revenue	797,719	602,165	1,399,884
Expenses	(245,710)	(404,064)	(649,774)
Segment contribution	**552,009**	**198,101**	**750,110**
Contribution margin percentage	69.2%	32.9%	53.6%
Year ended 31 March 2022			
Operating revenue	632,680	464,139	1,096,819
Expenses	(201,864)	(343,177)	(545,041)
Segment contribution	**430,816**	**120,962**	**551,778**
Contribution margin percentage	68.1%	26.1%	50.3%

ANZ - Operating revenue for FY23 grew by $165.0 million, or 26% (23% in constant currency), compared to FY22. This was driven by subscriber growth, price changes and higher financial services related revenue.

Expenses in the ANZ segment increased by 22% from FY22, primarily due to an increase in cost of revenue. These expenses increased 29%, driven by increases in hosting costs to provide greater site stability to support Xero's growing customer base.

Segment contribution increased by $121.2 million (28%) to $552.0 million in FY23. The segment contribution margin percentage was impacted by the return of Xerocon Sydney in the first half of the year, but still improved when compared to FY22. For the second half of the year the contribution margin was 71.7%, compared to 68.9% in the same period of FY22.

International - Operating revenue for FY23 grew by $138.0 million, or 30% (27% in constant currency), compared with FY22. This was a result of continued subscriber growth, price changes, and strong performances in financial services related revenue and add-on revenue streams such as payroll.

Expenses in the International segment increased by $60.9 million, or 18%, from FY22, primarily due to a 16% increase in sales and marketing spend. A key component of the increase in sales and marketing spend was related to Xerocon events in the UK and the US, which returned in FY23. Excluding Xerocon expenses, sales and marketing expenses for the segment increased 11% over FY22, compared to revenue growth of 30%.

The segment's contribution for FY23 increased by $77.1 million, or 64%, to $198.1 million, compared with FY22. This resulted in an increased contribution margin of 32.9% for FY23, up 6.8 percentage points on FY22. For the second half of the year the contribution margin was 35.8%, compared to 27.0% in the same period of FY22.

Although the International segment contribution margin is increasing, it remains comparatively lower than that of ANZ. Xero's investment in the International segment reflects a greater focus on growing brand recognition and developing stronger distribution channels.

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. 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 75) at 31 March, 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 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 6.5 times the cost of acquiring that subscriber.

Xero strives to maximise total LTV while optimising the level of CAC investment it undertakes in order 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 31 March 2023	ANZ	International	Total
ARPU ($)	34.24	35.10	34.61
CAC months	9.1	23.3	15.9
Churn	0.68%	1.21%	0.90%
LTV per subscriber ($)	4,374	2,542	3,587
LTV/CAC	14.0	3.1	6.5
At 31 March 2022	ANZ	International	Total
ARPU ($)	32.00	30.53	31.36
CAC months	8.8	22.9	15.5
Churn	0.66%	1.23%	0.90%
LTV per subscriber ($)	4,225	2,164	3,333
LTV/CAC	14.9	3.1	6.9

Xero Group – Xero Group ARPU increased 10% compared to 31 March 2022, driven by price increases and favourable FX impacts. In constant currency terms, ARPU increased 8% on FY22.

Churn for the Xero Group remained at a low level and was flat compared to FY22 at 0.90%. Slight improvements in the International segment offset a small increase in ANZ.

CAC months increased year-on-year to 15.9. This was due to lower subscriber growth and increased sales and marketing compared to FY22. Year-on-year comparisons are impacted by Xerocon-related expenses. Excluding the impact of Xerocon, CAC months remained consistent with FY22 at 15.5 months.

Total Subscriber LTV at 31 March 2023 increased by $2.5 billion, or 23% (21% in constant currency), to $13.4 billion compared to 31 March 2022. This increase was driven by growth in subscriber numbers and a 10% increase in ARPU. This resulted in a LTV per subscriber of $3,587, 8% higher than FY22.

The LTV/CAC ratio decreased to 6.5 at 31 March 2023, from 6.9 at the end of FY22, due to the 14% increase in CAC per gross subscriber added, offset by the 8% improvement in subscriber LTV.

ANZ - ARPU increased by 7% to $34.24 compared to FY22 (7% increase in constant currency). This was primarily driven by price increases in both Australia and New Zealand and increased uptake in ecosystem and financial services related products.

CAC months increased year-on-year to 9.1 months, in line with increased sales and marketing costs. This was offset by increased ARPU combined with higher gross subscriber additions compared to FY22.

Churn for FY23 increased slightly to 0.68%, from 0.66% for FY22, and remains at historically low levels.

The increase in ARPU, offset by the increase in churn, resulted in a 4% (4% in constant currency) increase in LTV per subscriber from $4,225 in prior year to $4,374. Total ANZ subscriber LTV increased by $1.5 billion, or 19% (19% in constant currency), to $9.3 billion at 31 March 2023.

An increase in sales and marketing expenditure and a slight increase in churn drove the decrease in the LTV/CAC ratio from 14.9 to 14.0 year-on-year, partially offset by increased gross additions year-on-year.

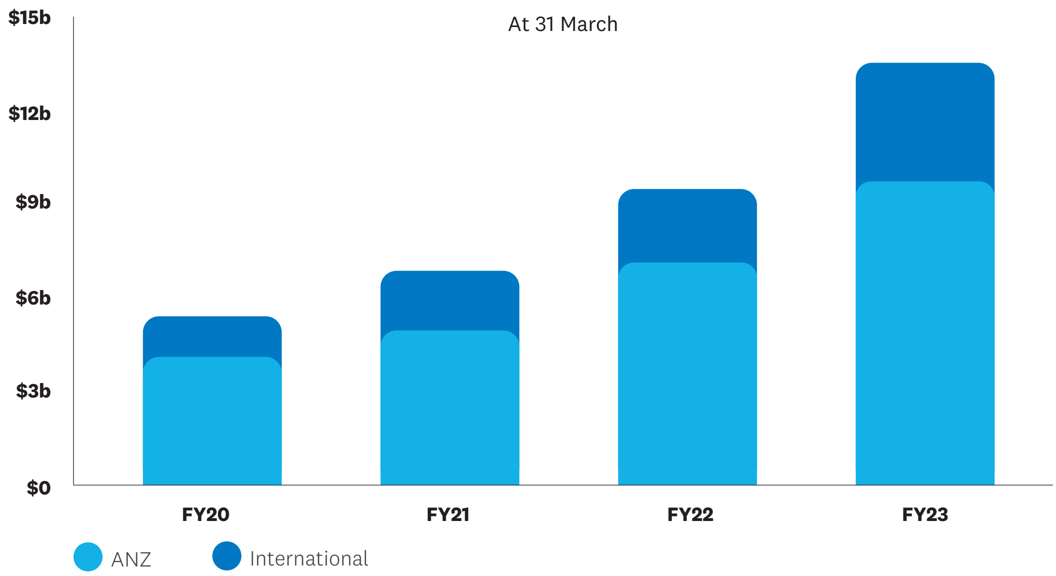
International - ARPU increased by 15% (9% in constant currency) to $35.10 compared to FY22. Price increases, adjacent products and FX had a positive impact on International ARPU growth.

CAC months increased from 22.9 months in FY22 to 23.3 months in FY23, primarily driven by a 17% increase in CAC per gross subscriber addition compared to the comparative period. Excluding Xerocon events in the UK and US, CAC months were 22.7 for FY23, a 1% improvement on FY22.

Subscriber LTV for the International segment increased by 33% (26% in constant currency) compared to FY22 due to improvements in ARPU and churn. This led to total International subscriber LTV of $4.1 billion, an increase of $1.0 billion, or 33% (26% in constant currency) compared to FY22.

LTV/CAC remained consistent at 3.1 in FY23. Increased sales and marketing expenditure in the International segment balanced increased subscriber LTV, driven by higher ARPU, lower churn and increased gross margin percentage.

Total lifetime value



Audit Report, Financial Statements and Notes

Independent auditor's report to the Shareholders of Xero Limited

Opinion

We have audited the financial statements of Xero Limited ("the company") and its subsidiaries (together "the Group") on pages 88 to 121, which comprise the consolidated statement of financial position of the Group as at 31 March 2023, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 88 to 121 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2023 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's 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 audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

During the year Ernst & Young has provided other assurance services related to the Group's compliance with ISO 27001 and has provided market remuneration data. 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Capitalised Software Development Costs

Why significant

Capitalised software development costs make up 48% of the Group's non-current assets.

The Group capitalises costs incurred in the development of its software when certain criteria are met, as explained in Note 11. These costs are then amortised over the estimated useful life of the software.

The Group's process for calculating the cost of internally developed software involves judgment as it includes estimating time staff spent developing software and determining the cost attributable to that time.

NZ IAS 36 *Impairment of Assets* requires finite life intangible assets (including capitalised software development costs) to be tested for impairment whenever there is an indication that the intangible assets may be impaired. This assessment requires judgment including consideration of both internal and external sources of information.

Disclosures relating to capitalised software development costs, including key assumptions, are included in Note 11 of the consolidated financial statements.

How our audit addressed the key audit matter

In obtaining sufficient appropriate audit evidence, we:

- Assessed the nature of a sample of projects against the requirements of NZ IAS 38 *Intangible Assets* to determine if they were capital in nature;
- Assessed the procedures used to determine the rates applied to capitalise payroll costs; and
- Assessed capitalised costs with reference to payroll information for a sample of employees.

We assessed the factors the Group considered regarding potential impairment of capitalised software development costs and whether any indicators of impairment existed. This included having regard to:

- Significant changes in the extent or manner in which associated software is used;
- Potential or actual redundancy or disposal of developed software;
- Amortisation periods applied to developed software relative to past experience of software lifecycles; and
- Significant changes in the market in which the assets are used.

We assessed the adequacy of the disclosures related to capitalised software development costs and related impairment considerations in the consolidated financial statements.

Goodwill Impairment Testing

Why significant

The Group's statement of financial position includes $331 million of goodwill at 31 March 2023 allocated across the following four cash generating units (CGUs):

- $139 million for Planday
- $92 million for International
- $63 million for Australia and New Zealand
- $37 million for TaxCycle

NZ IAS 36 *Impairment of Assets* requires goodwill be tested for impairment annually irrespective of whether there are any indicators of impairment. This assessment requires judgment including consideration of both internal and external sources of information.

Goodwill in relation to the Planday and Waddle CGUs were both impaired in the current year. The impairment loss recognised totalled $95m.

In considering whether goodwill was impaired, the group estimated the recoverable amount of each CGU using either a revenue multiple approach or a discounted cash flow approach to assess its fair value. Both of these approaches require significant judgment in assessing the appropriate valuation inputs.

Disclosures relating to goodwill impairment, including key assumptions used and sensitivity of the assessment to certain judgmental inputs, are included in Note 11 of the consolidated financial statements.

How our audit addressed the key audit matter

In obtaining sufficient appropriate audit evidence, we:

- Used our valuation specialists to:
  - assess whether the methods applied met the requirements of NZ IAS 36 *Impairment of Assets*;
  - for CGUs where a multiples approach has been used, consider the appropriateness of the revenue multiples used in the impairment models in relation to observed multiples for other businesses considered comparable;
  - for CGUs where a discounted cash flow approach was used, consider the appropriateness of the discount rate and terminal growth rate applied
- Considered free cash flows incorporated in discounted cash flow models with reference to historical performance;
- Checked whether revenue used in revenue multiple calculations aligned to actual revenue for the year;
- Performed sensitivity analysis for key drivers of the impairment models, including the sensitivity of the results to changes in the revenue multiples, discount rate and terminal growth rates used;
- Assessed the adequacy of the disclosures related to goodwill impairment considerations and impairment recognised in the consolidated financial statements. This included assessing whether the assumptions which have the most significant effect on the determination of the recoverable amount of CGUs have been appropriately disclosed in the consolidated financial statements.

Information other than the financial statements and auditor's report

The directors of the company are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing on behalf of the entity the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/. This description forms part of our auditor's report.

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

Ernst + Young

Chartered Accountants

Wellington

18 May 2023

Financial Statements

Income Statement

Year ended 31 March	Notes	2023 ($000s)	2022 ($000s)
Subscription revenue		1,326,278	1,049,618
Other operating revenue		73,606	47,201
Total operating revenue	**4**	**1,399,884**	**1,096,819**
Cost of revenue	5	(177,943)	(139,388)
Gross profit		**1,221,941**	**957,431**
Operating expenses			
Sales and marketing		(471,831)	(405,653)
Product design and development		(490,048)	(372,024)
General and administration		(168,077)	(144,172)
Restructuring costs		(34,692)	–
Total operating expenses	**5**	**(1,164,648)**	**(921,849)**
Operating income		**57,293**	**35,582**
Other income	6	18,130	45,177
Other expenses	6	(12,540)	(14,090)
Asset impairments and disposals	10, 11	(122,680)	(24,695)
Earnings before interest and tax		**(59,797)**	**41,974**
Finance income	7	29,119	4,080
Finance expense	7	(44,999)	(43,691)
Net profit/(loss) before tax		**(75,677)**	**2,363**
Income tax expense	23	(37,855)	(11,477)
Net loss		**(113,532)**	**(9,114)**
Basic and diluted loss per share	8	($0.76)	($0.06)

Statement of Comprehensive Income

Year ended 31 March	Note	2023 ($000s)	2022 ($000s)
Net loss		(113,532)	(9,114)
Other comprehensive income*			
Movement in cash flow hedges (net of tax)	19	(2,403)	6,604
Translation of foreign operations (net of tax)		(8,361)	2,084
Total other comprehensive income/(loss) for the year		**(10,764)**	**8,688**
Total comprehensive loss for the year		**(124,296)**	**(426)**

** 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 financial statements

Statement of Financial Position

	Notes	At 31 March 2023 ($000s)	At 31 March 2022 ($000s)
Assets			
Current assets			
Cash and cash equivalents		230,624	404,192
Short-term deposits		886,563	531,866
Trade and other receivables	9	128,998	112,311
Derivative assets	19	5,570	6,233
Income tax receivable		4,406	8,551
Other current assets		7,450	8,601
Total current assets		**1,263,611**	**1,071,754**
Non-current assets			
Property, plant and equipment	10	138,094	158,317
Intangible assets	11	963,032	959,354
Derivative assets	19	31,853	56,269
Deferred tax assets	23	92,000	97,069
Other non-current assets		1,565	577
Total non-current assets		**1,226,544**	**1,271,586**
Total assets		**2,490,155**	**2,343,340**
Liabilities			
Current liabilities			
Trade and other payables	12	52,204	55,461
Employee entitlements		95,708	82,727
Provisions	14	42,925	560
Lease liabilities	15	17,258	14,292
Derivative liabilities	19	5,544	2,511
Income tax payable		3,607	936
Other current liabilities	13	37,819	40,003
Total current liabilities		**255,065**	**196,490**
Non-current liabilities			
Term debt	17	1,019,794	884,839
Lease liabilities	15	106,163	121,926
Derivative liabilities	19	28,147	56,624
Deferred tax liabilities	23	12,859	13,377
Contingent consideration	16	1,152	13,817
Other non-current liabilities		13,069	22,344
Total non-current liabilities		**1,181,184**	**1,112,927**
Total liabilities		**1,436,249**	**1,309,417**
Equity			
Share capital	21	1,710,392	1,580,858
Reserves		(213,078)	(217,059)
Accumulated losses		(443,408)	(329,876)
Total equity		**1,053,906**	**1,033,923**
Total liabilities and shareholders' equity		**2,490,155**	**2,343,340**

The accompanying notes form an integral part of these financial statements

Statement of Changes in Equity

	Notes	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 2021		**1,295,211**	**(1,891)**	**80,758**	**(320,762)**	**(2,495)**	**(3,619)**	**(301,256)**	**745,946**
Net loss		–	–	–	(9,114)	–	–	–	(9,114)
Other comprehensive income		–	–	–	–	2,084	6,604	–	8,688
Total comprehensive loss		**–**	**–**	**–**	**(9,114)**	**2,084**	**6,604**	**–**	**(426)**
Transactions with owners:									
Share-based payments, net of tax	25	62,344	5,987	16,876	–	–	–	–	85,207
Share options exercised	25	52,415	–	(16,011)	–	–	–	–	36,404
Issue of shares – acquisition related	21	166,792	–	–	–	–	–	–	166,792
Balance at 31 March 2022		**1,576,762**	**4,096**	**81,623**	**(329,876)**	**(411)**	**2,985**	**(301,256)**	**1,033,923**
Net loss		–	–	–	(113,532)	–	–	–	(113,532)
Other comprehensive loss		–	–	–	–	(8,361)	(2,403)	–	(10,764)
Total comprehensive loss		**–**	**–**	**–**	**(113,532)**	**(8,361)**	**(2,403)**	**–**	**(124,296)**
Transactions with owners:									
Share-based payments, net of tax	25	80,589	3,129	28,852	–	–	–	–	112,570
Share options exercised	25	45,816	–	(14,107)	–	–	–	–	31,709
Balance at 31 March 2023		**1,703,167**	**7,225**	**96,368**	**(443,408)**	**(8,772)**	**582**	**(301,256)**	**1,053,906**

The accompanying notes form an integral part of these financial statements

Statement of Cash Flows

Year ended 31 March	Note	2023 ($000s)	2022 ($000s)
Operating activities			
Receipts from customers		1,394,237	1,089,806
Other income		1,422	3,161
Interest received		21,768	2,926
Payments to suppliers and employees		(1,006,411)	(830,568)
Interest paid		(9,271)	(8,715)
Income tax paid		(11,296)	(20,239)
Net cash flows from operating activities	**24**	**390,449**	**236,371**
Investing activities			
Capitalised development costs		(262,496)	(205,348)
Purchase of property, plant and equipment		(6,752)	(19,029)
Capitalised contract acquisition costs		(16,587)	(16,344)
Business acquisitions		(15,879)	(185,423)
Other investing activities		(3,182)	(3,900)
Net cash flows from investing activities		**(304,896)**	**(430,044)**
Financing activities			
Proceeds from short-term deposits		1,427,144	963,878
Payments for short-term deposits		(1,742,659)	(1,044,173)
Proceeds from borrowings		2,146	4,279
Repayment of borrowings		(4,888)	(2,433)
Share options exercised		31,709	35,981
Payment of lease liabilities		(16,547)	(13,599)
Payments for buyback of convertible notes		–	(5,455)
Net cash flows from financing activities		**(303,095)**	**(61,522)**
Net decrease in cash and cash equivalents		**(217,542)**	**(255,195)**
Foreign currency translation adjustment		43,974	1,538
Cash and cash equivalents at the beginning of the period		**404,192**	**657,849**
Cash and cash equivalents at the end of the period		**230,624**	**404,192**

The accompanying notes form an integral part of these financial statements

Notes to the 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 Market Conducts Act 2013 and the Financial Reporting Act 2013.

The consolidated financial statements of the Company and its subsidiaries (together 'the Group' or 'Xero') for the year ended 31 March 2023 were authorised in accordance with a resolution of the directors for issue on 18 May 2023.

2. Basis of accounting

(a) Basis of preparation

The audited consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and the Financial Reporting Act 2013. The Group is a for-profit entity for the purposes of complying with NZ GAAP. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards, and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards.

Other than where described below, or in the notes, the consolidated financial statements have been prepared using the historical cost convention.

The consolidated financial statements are presented in New Zealand dollars ($) (the 'presentation currency'). Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency').

(b) Changes in accounting policies and disclosures

Operating income disclosures have been added to the Income Statement for the current and comparative periods. The disclosures represent total operating revenue less cost of revenue and operating expenses, and demonstrate the operating performance of the Group.

Certain comparative information in the Income Statement, Statement of Financial Position and Notes 7, 11 and 13 has been reclassified to conform with the current period’s presentation.

All other accounting policies and disclosures adopted are consistent with those of the previous year.

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

In April 2020 the New Zealand Accounting Standards Board issued amendments to NZ IAS 1: *Presentation of Financial Statements*. The amendments are effective for Xero from 1 April 2024. The amendments will result in the current classification of the term debt and embedded conversion feature derivative liability components of Xero's convertible notes.

There are no other standards or amendments that have been issued but are not yet effective that are expected to have a significant impact on the Group.

The Group has not adopted, and currently does not anticipate adopting, any standards prior to their effective dates.

(d) Critical accounting estimates

In applying the Group's accounting policies, management continually evaluates judgements, estimates, and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates, and assumptions made are believed to be reasonable based on the most current set of circumstances available to the Group. Actual results may differ from the judgements, estimates, and assumptions.

The significant judgements, estimates, and assumptions made by management in the preparation of these financial statements are outlined within the financial statement notes to which they relate.

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.

	ANZ ($000s)	International ($000s)	Total ($000s)
Year ended 31 March 2023			
Operating revenue	797,719	602,165	1,399,884
Expenses	(245,710)	(404,064)	(649,774)
Segment contribution	**552,009**	**198,101**	**750,110**
Year ended 31 March 2022			
Operating revenue	632,680	464,139	1,096,819
Expenses	(201,864)	(343,177)	(545,041)
Segment contribution	**430,816**	**120,962**	**551,778**

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

Year ended 31 March	2023 ($000s)	2022 ($000s)
Segment contribution	750,110	551,778
Product design and development	(490,048)	(372,024)
General and administration	(168,077)	(144,172)
Restructuring costs	(34,692)	–
Other income	18,130	45,177
Other expenses	(12,540)	(14,090)
Asset impairments and disposals	(122,680)	(24,695)
Finance income	29,119	4,080
Finance expense	(44,999)	(43,691)
Net profit/(loss) before tax	**(75,677)**	**2,363**

Depreciation and amortisation by segment

Year ended 31 March	2023 ($000s)	2022 ($000s)
ANZ	14,445	14,801
International	27,072	23,204
Corporate (not allocated to a segment)	176,679	132,682
Total	**218,196**	**170,687**

At 31 March 2023, $618.8 million, or 56%, of the Group's property, plant and equipment and intangible assets was domiciled in New Zealand (2022: $517.0 million, or 45%).

Share-based payments by segment

Year ended 31 March	2023 ($000s)	2022 ($000s)
ANZ	12,525	11,704
International	17,815	13,876
Corporate (not allocated to a segment)	50,522	35,477
Total	**80,862**	**61,057**

4. Revenue

Operating revenue by geographic location

Year ended 31 March	2023 ($000s)	2022 ($000s)
Australia	623,768	483,288
United Kingdom	370,751	291,614
New Zealand	173,951	149,392
North America	95,909	72,571
Rest of World	135,505	99,954
Total operating revenue	**1,399,884**	**1,096,819**

Subscription revenue

Subscription revenue comprises recurring monthly fees from subscribers to Xero's cloud-based software products. Subscribers are invoiced monthly. Unbilled revenue earned at balance date is recognised in the Statement of Financial Position as accrued income and included within trade and other receivables. Unearned revenue received at balance date is recognised in the Statement of Financial Position as income in advance and included within other current liabilities.

Subscription revenue is recognised over time as performance obligations under contracts with customers are met. Performance obligations for subscriptions to Xero's cloud-based software consist of the provisioning of the software and related support services over the term of the contract. Where the performance obligations of add-ons are usage-based (such as payroll and expenses), revenue is recognised consistent with the usage profile.

Other operating revenue

Other operating revenue primarily comprises revenue from related non-subscription services such as financial services products, of which the majority are provided under agency relationships, and ecosystem arrangements along with income from conferences. For the year ended 31 March 2023, 58%, or $42.5 million (2022: 60%, or $28.4 million) of other operating revenue was recognised on a usage basis over time, and 13%, or $9.9 million, (2022: nil) related to conference revenue recognised at a point in time.

Performance obligations under financial services and ecosystem arrangements include the referral of customers to the revenue share counterparty and the continued servicing of that customer by the counterparty. Performance obligations for conference revenue consist of the delivery of the conference.

5. Expenses

Overhead allocation

The presentation of the Income Statement by function requires certain overhead costs to be allocated to functions. These allocations require management to apply judgement. Facilities, internal use information technology costs, and depreciation and amortisation relating to internal use software have been allocated to functions on a headcount basis. Recruitment costs have been allocated according to the number of employees hired in each function during the period.

Sales tax

The Income Statement and the Statement of Cash Flows have been prepared so that all components are stated exclusive of sales tax, except where sales tax is not recoverable. All items in the Statement of Financial Position are stated net of sales tax with the exception of trade receivables and trade payables, which include sales tax payable. Sales tax includes Goods and Services Tax and Value Added Tax where applicable.

Cost of revenue and operating expenses

Year ended 31 March	2023 ($000s)	2022 ($000s)
Employee entitlements	766,166	608,219
Employee entitlements capitalised	(221,241)	(171,648)
Share-based payments	106,920	80,355
Share-based payments capitalised	(26,058)	(19,298)
Advertising and marketing	167,012	144,646
Platform costs	91,639	72,871
Platform costs capitalised	(9,980)	(9,668)
Consultants and contractors	75,524	86,289
Consultants and contractors capitalised	(44,915)	(46,035)
Computer equipment and software	50,463	40,433
Superannuation costs	38,651	28,953
Travel-related costs	16,208	2,972
Recruitment and other personnel costs	12,218	13,848
Communication, insurance and office administration	12,200	10,706
Rental costs	9,395	9,283
Auditor's remuneration	818	778
Restructuring costs	34,692	–
Other operating expenses	44,683	37,846
Total cost of revenue and operating expenses excl. depreciation and amortisation*	**1,124,395**	**890,550**

**Net of $302.2 million of costs capitalised as intangible assets (2022: $246.6 million) and grant income of $2.2 million (2022: $3.5 million)*

Depreciation and amortisation

Year ended 31 March	2023 ($000s)	2022 ($000s)
Relating to:		
Amortisation of development costs	170,816	127,323
Amortisation of other intangible assets	17,281	15,510
Depreciation of property, plant and equipment	30,099	27,854
Total depreciation and amortisation	**218,196**	**170,687**
Total cost of revenue and operating expenses	**1,342,591**	**1,061,237**
Depreciation and amortisation included in function expenses:		
Product design and development	171,316	126,579
Sales and marketing	31,676	29,363
Cost of revenue	9,841	8,642
General and administration	5,363	6,103
Total depreciation and amortisation	**218,196**	**170,687**

Auditor's remuneration

The auditor of the Group is Ernst & Young New Zealand.

Year ended 31 March	2023 ($000s)	2022 ($000s)
Fees for auditing the statutory financial statements	682	633
Fees for other assurance and agreed-upon-procedures services under legislation or contractual arrangements not required to be performed by the auditor		
Assurance-related*	131	107
Fees for other services		
Tax compliance	–	36
Other non-audit services**	5	2
Total auditor's remuneration	**818**	**778**

** Assurance-related services relate to ISO 27001 certification*

*** Other non-audit services relate to the provision of remuneration market data*

6. Other income and expenses

Other income

Year ended 31 March	2023 ($000s)	2022 ($000s)
Revaluation of contingent consideration	8,921	38,874
Planday revenue incentive	4,836	–
Derivative revaluation gain	4,129	–
Other income	244	6,303
Total other income	**18,130**	**45,177**

Other expenses

Year ended 31 March	2023 ($000s)	2022 ($000s)
Onerous contract provision	5,575	–
Other expenses	6,965	1,280
Derivative revaluation loss	–	2,274
Planday revenue incentive	–	10,536
Total other expenses	**12,540**	**14,090**

7. Finance income and expense

Finance income

Finance income comprises interest income on cash and cash equivalents and short-term deposits. Interest income is recognised as it is accrued using the effective interest method. The effective interest method calculates the amortised cost of the financial asset and allocates the interest income over its expected life.

Finance expense

Year ended 31 March	2023 ($000s)	2022 ($000s)
Amortisation of discount and debt issuance costs	34,640	29,682
Lease liability interest	8,155	6,423
Unwind of discount on contingent consideration	992	5,112
Bank standby facility costs	652	2,134
Other finance expense	560	340
Total finance expense	**44,999**	**43,691**

8. 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 loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares on issue during the year, excluding shares held as treasury shares.

Year ended 31 March	2023 (000s)*	2022 (000s)*
Weighted average number of ordinary shares	150,037	148,396
Net loss attributable to equity holders of the Group	($113,532)	($9,114)
Basic loss per share	**($0.76)**	**($0.06)**

** Except for per share amounts*

Diluted EPS is determined by adjusting the net 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 convertible notes, 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.

For the years ended 31 March 2023 and 31 March 2022, there were no differences between diluted and basic EPS.

9. Trade and other receivables

At 31 March	2023 ($000s)	2022 ($000s)
Prepayments	44,485	43,700
Accrued income	41,965	35,132
Trade receivables	13,919	16,164
Provision for doubtful debts	(954)	(1,291)
Interest receivable	9,311	1,873
Other receivables	20,272	16,733
Total trade and other receivables	**128,998**	**112,311**

Trade and other receivables are initially recognised at the fair value of the amounts to be received. They are subsequently measured at amortised cost (using the effective interest method) less impairment losses.

Trade receivables relate primarily to subscriptions to Xero's software products, the majority paid by direct debit. At 31 March 2023, trade receivables of the Group of $0.9 million were past due and are considered partially impaired (2022: $1.0 million).

Other receivables at 31 March 2023 include $19.4 million receivable in relation to shares that were sold to cover employees' withholding obligations under Xero's employee share-based compensation plans (2022: $15.9 million). A corresponding liability is recognised in employee entitlements.

Key estimates and assumptions

In accordance with NZ IFRS 9: *Financial Instruments*, the Group recognises impairment losses using an Expected Credit Loss (ECL) model. The Group calculates the impairment for trade receivables using lifetime ECL, which is the expected credit loss resulting from all possible default events over the expected life of the trade receivable.

A six-month historical default rate is applied to the current period trade receivable balance to calculate any impairment. Where relevant, forward-looking information is also included in the ECL assessment. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised in the Income Statement. When a receivable is uncollectible, it is written off against the provision account for receivables. Subsequent recoveries of amounts previously written off are credited to the Income Statement.

10. Property, plant and equipment

	Right of use asset ($000s)	Leasehold improvements ($000s)	Furniture and equipment ($000s)	Computer equipment ($000s)	Total ($000s)
Year ended 31 March 2023					
Opening net book value	116,853	26,887	9,214	5,363	158,317
Additions	10,405	2,667	328	3,115	16,515
Impairments and disposals*	(2,314)	(107)	(146)	(75)	(2,642)
Reassessment of lease liabilities	(8,046)	-	-	-	(8,046)
Depreciation expense	(19,433)	(4,190)	(2,494)	(3,982)	(30,099)
Foreign exchange adjustment	3,157	406	219	267	4,049
Closing net book value	**100,622**	**25,663**	**7,121**	**4,688**	**138,094**
At 31 March 2023					
Cost	153,490	44,083	15,325	10,485	223,383
Accumulated depreciation	(52,868)	(18,420)	(8,204)	(5,797)	(85,289)
Closing net book value	**100,622**	**25,663**	**7,121**	**4,688**	**138,094**

**$1.0 million of right of use asset disposals relates to finance lease receivable (2022: $0.2 million of right of use asset disposals related to disposal of lease liabilities)*

	Right of use asset ($000s)	Leasehold improvements ($000s)	Furniture and equipment ($000s)	Computer equipment ($000s)	Total ($000s)
Year ended 31 March 2022					
Opening net book value	77,048	20,177	8,554	3,579	109,358
Additions	49,896	11,423	2,718	5,077	69,114
Acquisitions	8,473	466	558	210	9,707
Impairments and disposals	(197)	(22)	(220)	(45)	(484)
Depreciation expense	(16,870)	(5,138)	(2,417)	(3,429)	(27,854)
Foreign exchange adjustment	(1,497)	(19)	21	(29)	(1,524)
Closing net book value	**116,853**	**26,887**	**9,214**	**5,363**	**158,317**
At 31 March 2022					
Cost	153,223	41,997	15,915	10,082	221,217
Accumulated depreciation	(36,370)	(15,110)	(6,701)	(4,719)	(62,900)
Closing net book value	**116,853**	**26,887**	**9,214**	**5,363**	**158,317**

Key estimates and assumptions

Property, plant and equipment are stated at historical cost less accumulated depreciation.

Depreciation on assets is charged on a straight-line basis to allocate the differences between their original cost and the residual values over their estimated useful lives, as follows:

Right of use asset*	Term of lease**
Leasehold improvements	Term of lease**
Furniture and equipment	2–7 years
Computer equipment	2–3 years

** Substantially all of the right of use asset relates to building leases*

*** Lease terms range between 2–12 years*

There were no changes to the useful lives of property, plant and equipment compared to the year ended 31 March 2022.

11. Intangible assets

	Software development ($000s)	Contract acquisition asset ($000s)	Other intangible assets ($000s)	Goodwill ($000s)	Total ($000s)
Year ended 31 March 2023					
Opening net book value	490,171	35,997	13,252	419,934	959,354
Additions*	284,461	15,769	1,964	–	302,194
Amortisation expense	(170,816)	(14,230)	(3,051)	–	(188,097)
Impairments	(21,691)	–	(2,443)	(94,904)	(119,038)
Disposals	(2,234)	–	–	–	(2,234)
Foreign exchange adjustment	2,735	1,854	280	5,984	10,853
Closing net book value	**582,626**	**39,390**	**10,002**	**331,014**	**963,032**
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 $54.9 million of external costs capitalised (2022: $55.3 million)*

	Software development ($000s)	Contract acquisition asset ($000s)	Other intangible assets ($000s)	Goodwill ($000s)	Total ($000s)
Year ended 31 March 2022					
Opening net book value	318,608	31,901	7,398	126,110	484,017
Additions	228,720	17,087	842	–	246,649
Acquisitions	72,222	–	10,807	314,252	397,281
Amortisation expense	(127,323)	(12,571)	(2,939)	–	(142,833)
Impairments	(983)	–	(2,736)	(20,381)	(24,100)
Disposals	(595)	–	–	–	(595)
Foreign exchange adjustment	(478)	(420)	(120)	(47)	(1,065)
Closing net book value	**490,171**	**35,997**	**13,252**	**419,934**	**959,354**
At 31 March 2022					
Cost	741,874	77,932	16,973	419,934	1,256,713
Accumulated amortisation	(251,703)	(41,935)	(3,721)	–	(297,359)
Closing net book value	**490,171**	**35,997**	**13,252**	**419,934**	**959,354**

Key estimates and assumptions

Software development

Costs that are directly associated with the development of software are recognised as intangible assets where the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use
- Management intends to complete the software product and use or sell it
- There is an ability to use or sell the software product
- It can be demonstrated how the software product will generate probable future economic benefits
- Adequate technical, financial, and other resources to complete the development and to use or sell the software product are available
- The expenditure attributable to the software product during its development can be reliably measured

Other development expenditure that does not meet the above criteria is recognised as an expense when incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period. Research costs, and costs associated with maintenance, are recognised as an expense when incurred.

At 31 March 2023, if software development capitalisation rates had been 10% higher/lower with all other variables held constant, the impact on operating expenses would have been $26.0 million lower/higher (2022: $21.2 million).

Contract acquisition costs
In accordance with NZ IFRS 15: *Revenue from Contracts with Customers*, Xero capitalises incremental costs of obtaining customer contracts. Capitalisable costs consist of sales commissions that have a direct relationship to new revenue contracts obtained. Costs capitalised are amortised to sales and marketing and expensed over the average period of benefit associated with the costs. The period of benefit for the contract acquisition asset is determined to be five years (2022: five years). Management have determined this as appropriate with reference to estimated customer lifespans and the useful lives of the software sold to which the commissions relate.

Other intangible assets
Other intangible assets consist of patents, domains, brands, and trademark costs, along with customer contracts. Other intangible assets acquired in a business combination are initially measured at cost, which is their fair value at the date of acquisition. Internally generated assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Income Statement when it is incurred.

Useful lives of intangible assets
With the exception of goodwill, the useful lives of the Group's intangible assets are assessed to be finite. Assets with finite lives are amortised over their useful lives and tested for impairment whenever there are indications that the assets may be impaired.

Amortisation is recognised in the Income Statement on a straight-line basis over the estimated useful life of the intangible asset, from the date it is available for use. The estimated useful lives are as follows:

Software development	3–7.5 years
Contract acquisition asset	5 years
Customer contracts	7.5 years
Patents, domains, brands, and trademark costs	5–10 years

There were no differences to the estimated useful lives of intangible assets compared to the year ended 31 March 2022, other than customer contracts which had useful lives ranging from 3-7.5 years.

Impairment considerations
At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In accordance with NZ IAS 36: *Impairment of Assets*, the recoverable amount of an asset is the greater of fair value less costs of disposal or value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Goodwill is tested at least annually for impairment, or whenever indicators of impairment exist.

Finite life intangible asset impairment testing
Further to the impairment disclosed within the goodwill impairment testing section below, an indicator of impairment was identified in March 2023 for the Waddle CGU in connection with the decision to exit the Waddle business. As a result, an impairment test was performed over the Waddle CGU at 31 March 2023.

The recoverable amount of the Waddle CGU of $10.1 million at 31 March 2023 was calculated on the basis of fair value less costs of disposal in accordance with NZ IFRS 13: *Fair Value Measurement*. This methodology yielded a higher recoverable amount than that obtained using a value in use approach and therefore was required to be used in impairment testing under NZ IAS 36. Fair value was determined using a 12-month look back peer company revenue multiple of 1.6, including a control premium of 40%. The recoverable amount is classified as level two on the fair value hierarchy.

As the fair value less costs of disposal is less than the carrying value of the CGU of $25.4 million, an impairment of $15.3 million has been recognised in the current year. Of this impairment, $14.9 million, $0.3 million and $0.1 million was recognised against capitalised software, other intangible assets and property, plant and equipment, respectively. The impairment charge is recorded within asset impairments and disposals in the Income Statement for the year ended 31 March 2023.

A sensitivity analysis has been performed over the key inputs to the determined revenue multiple, being the publicly traded multiples of peer companies and the control premium. With all other variables held constant, a 10% decrease in the peer company revenue multiple would result in a increase to the impairment loss of $1.2 million. With all other variables held constant, a 10% decrease in the control premium would result in an increase to the impairment loss of $0.3 million.

Goodwill impairment testing
Goodwill is allocated to cash-generating units (CGUs), which are the lowest level of assets that generate cash inflows that are largely independent of the cash inflows of other assets. The Group performed a detailed impairment review of goodwill for the year ended 31 March 2023. The allocation of goodwill to CGUs and methodology applied for the current year testing are outlined below. There were no changes to the allocation of goodwill from business combinations in previous years.

At 31 March, goodwill is allocated to CGUs within the Group as follows:

At 31 March	2023 ($000s)	2022 ($000s)
ANZ CGU	63,212	61,552
International CGU	91,886	89,372
Planday CGU	138,612	216,539
TaxCycle CGU	37,304	36,297
Waddle CGU	–	16,174
Total goodwill	**331,014**	**419,934**

ANZ and International CGUs

The recoverable amounts of the ANZ and International CGUs were calculated on the basis of fair value less costs of disposal in accordance with NZ IFRS 13. Fair value was determined using a 12-month look back peer company revenue multiple of 5.9 for ANZ and 7.7 for International (2022: 15.4), including a control premium of 40% for ANZ and 38% for International (2022: 20%). The recoverable amount is classified as level two on the fair value hierarchy. A sensitivity analysis has been performed over the key inputs to the determined revenue multiple, being the publicly traded multiples of peer companies and the control premium. A reasonably possible change in the key inputs would not give rise to an impairment.

Planday CGU

The recoverable amount of the Planday CGU of $195.7 million at 31 March 2023 was calculated on the basis of fair value less costs of disposal in accordance with NZ IFRS 13. This valuation methodology yields a higher recoverable amount than that obtained using a value in use valuation approach and therefore is the approach required to be used in calculating impairment under NZ IAS 36. Fair value was determined using a 12-month look back peer company revenue multiple of 5.2 (2022: 12.2), including a control premium of 32% (2022: 20%). The recoverable amount is classified as level two on the fair value hierarchy.

As the fair value less costs of disposal is less than the carrying value of the CGU of $273.7 million, an impairment of $77.9 million has been recognised in the current year.

As a result of the impairment, goodwill relating to the Planday CGU was reduced from $216.5 million to $138.6 million. The impairment charge is recorded within asset impairments and disposals in the Income Statement for the year ended 31 March 2023. The impairment results from a reduction in market valuation multiples, along with operational performance.

A sensitivity analysis has been performed over the key inputs to the determined revenue multiple, being the publicly traded multiples of peer and the control premium. With all other variables held constant, a 10% decrease in the peer company revenue multiple would result in an increase to the impairment loss of $20.6 million. With all other variables held constant, a 10% decrease in the control premium would result in an increase to the impairment loss of $5.0 million.

TaxCycle CGU

The recoverable amount of the TaxCycle CGU was calculated based on a value in use valuation using a discounted cash flow model. The major inputs and assumptions used in performing the assessment that require judgement are included in the table below.

Cash flow forecast period	5 years
Average annual cash flow growth	75%
Terminal growth rate	4%
Discount rate (post-tax)	12%
Discount rate (pre-tax)	16%

Growth in cash flows reflects the fact that revenues are expected to increase at a much higher rate than expenses as economies of scale are achieved. The forecast financial information was based on both past experience and future expectations of CGU performance. The terminal growth rate is determined based on the long-term anticipated growth rate of the business and was determined with reference to external benchmarks. The discount rate used is based on the CGU's weighted average cost of capital and was determined by an external valuation specialist.

A sensitivity analysis was performed over the key inputs to the value in use valuation, being the discount rate, terminal growth rate and cash flow forecasts. With all other variables held constant, the discount rate would need to increase by 1.5 percentage points, the terminal growth rate would need to decrease by 2.0 percentage points, or the forecast cash flows would need to be discounted by 18.0 percentage points before the recoverable amount of the CGU would be less than its carrying value.

For the year ended 31 March 2022, the recoverable amount of the TaxCycle CGU was calculated on the basis of fair value less costs of disposal. The peer company revenue multiple used in determining the recoverable amount under the fair value less costs of disposal valuation was 10.1, including a control premium of 20%. With all other variables held constant, the peer company multiple would have needed to decrease by 2.0 before the recoverable amount of the CGU was less than its carrying value. With all other variables held constant, no possible decreases to the control premium would have resulted in the recoverable amount being less than its carrying amount.

Waddle CGU

An indicator of impairment was identified at 30 September 2022 for the Waddle CGU, due to changed operational and market conditions. As a result, an impairment test was performed over the Waddle CGU at 30 September 2022.

The recoverable amount of the Waddle CGU of $23.9 million at 30 September 2022 was calculated based on a value in use valuation using a discounted cash flow model. This valuation methodology yielded a higher recoverable amount than that obtained using a fair value less costs of disposal approach and therefore was required to be used in impairment testing calculations under NZ IAS 36.

The major inputs and assumptions used in performing the assessment at 30 September 2022 that require judgement are included in the table below.

Cash flow forecast period	5 years
Average annual revenue cash flow growth	43%
Average annual costs cash flow growth	22%
Terminal growth rate	4%
Discount rate (post-tax)	16%
Discount rate (pre-tax)	23%

Growth in cash flows reflected the fact that revenues were expected to increase at a much higher rate than expenses as economies of scale were achieved. The forecast financial information was based on both past experience and future expectations of CGU performance. The terminal growth rate was determined based on the long-term anticipated growth rate of the business. The discount rate was determined by an external valuation specialist. A sensitivity analysis was performed over the key inputs to the value in use valuation being the discount rate, terminal growth rate and cash flow forecasts. With all other variables held constant a 1.0 percentage point increase in discount rate, or a 1.0 percentage point decrease in terminal growth rate would have resulted in an additional impairment of $4.1 million and $3.0 million, respectively. A 10% reduction in forecasted cash flows would have resulted in an additional $5.5 million impairment.

As the recoverable amount determined using the value in use valuation methodology was less than the carrying amount of the Waddle CGU of $49.8 million, an impairment of $25.9 million was recognised in the current year. Of this impairment, $17.0 million, $2.2 million and $6.8 million was recognised against goodwill, customer contracts and software development, respectively. The impairment charge is recorded within asset impairments and disposals in the Income Statement for the year ended 31 March 2023.

For the year ended 31 March 2022, the recoverable amount of the Waddle CGU of $48.0 million was calculated on the basis of fair value less costs of disposal. The peer company revenue multiple used in determining the recoverable amount under the fair value less cost of disposal valuation approach was 5.7, inclusive of a control premium of 20%. As the fair value less costs of disposal was less than the carrying value of the CGU of $68.4 million, an impairment of $20.4 million was recognised. With all other variables held constant, a 10% decrease in the peer company revenue multiple would have resulted in an increase to the impairment loss of $4.9 million. With all other variables held constant, a 10% decrease in the control premium would have resulted in an increase to the impairment loss of $0.8 million.

12. Trade and other payables

At 31 March	2023 ($000s)	2022 ($000s)
Trade payables	17,819	15,297
Accrued expenses	27,629	30,359
Sales tax payable	6,756	9,805
Total trade and other payables	**52,204**	**55,461**

The Group recognises trade and other payables initially at fair value and subsequently at amortised cost using the effective interest method. The amounts are unsecured and non-interest bearing.

13. Other current liabilities

At 31 March	Note	2023 ($000s)	2022 ($000s)
Income in advance		27,961	25,968
Contingent consideration	16	271	10,399
Other current liabilities		9,587	3,636
Total other current liabilities		**37,819**	**40,003**

The Group recognises other current liabilities, excluding contingent consideration and acquisition holdbacks payable included in other current liabilities, initially at fair value and subsequently at amortised cost, using the effective interest method. Contingent consideration and acquisition holdbacks payable are recognised initially at the present value of expected future cash flows and subsequently at fair value. Adjustments are made to the fair value where expected achievement against targets changes.

Income in advance is recognised when the Group has received consideration prior to services being rendered. All income in advance from the prior period was subsequently recognised as revenue in the year.

14. Provisions

At 31 March 2023	Restructuring provision ($000s)	Onerous contracts ($000s)	Other provisions ($000s)	Total ($000s)
Opening balance	–	–	6,223	6,223
Provisions made during the year	32,114	5,575	8,636	46,325
Provisions utilised during the year	–	–	(36)	(36)
Provisions reversed during the year	–	–	(415)	(415)
Unwinding of discount	–	–	275	275
Foreign exchange adjustment	(349)	(20)	193	(176)
Closing balance	**31,765**	**5,555**	**14,876**	**52,196**
Current	31,765	3,071	8,089	42,925
Non-current	–	2,484	6,787	9,271

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 a program announced to streamline the Group's operations and realign the business. The provision for restructuring has been recognised as the Group has approved a detailed and formal restructuring plan, and the restructuring has commenced and been announced publicly. Future operating costs are not provided for. Estimation uncertainty relates to the specific employees who will exit the business, and timing of the plan being carried out.

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

15. Lease liabilities

At 31 March	2023 ($000s)	2022 ($000s)
Balance at 1 April	136,218	94,530
Leases entered into during the period	8,361	43,600
Principal repayments	(16,547)	(13,599)
Change in future lease payments	(8,046)	4,897
Foreign exchange adjustment	3,435	(1,683)
Acquisitions	–	8,473
Balance at 31 March	**123,421**	**136,218**
Current	17,258	14,292
Non-current	106,163	121,926

Under NZ IFRS 16: *Leases*, the Group is required to recognise lease liabilities for contracts identified as containing a lease, except when the lease is for 12 months or less, or the underlying asset is of low value. The majority of the Group's leases relate to buildings.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the Income Statement. The expense relating to short-term leases for the year ended 31 March 2023 was $3.2 million (2022: $2.7 million). Low-value assets comprise IT equipment and small items of office furniture. The expense relating to low-value assets for the year ended 31 March 2023 was $5.2 million (2022: $4.8 million).

Lease liabilities are initially measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate. Subsequently, the carrying value of the liability is adjusted to reflect interest and lease payments made. Lease liabilities may be re-measured if there is a change in future lease payments arising from a change in an index or market rate, if there is a change in the Group's estimate of the amount expected to be payable, or if the Group changes its assessment of whether it will exercise a renewal or termination option.

At lease commencement, the Group assesses whether it expects to exercise renewal or termination options included in contracts. Where it is reasonably certain that such options will be exercised, these are included in the determination of the lease term. The lease term is reassessed if there is a significant event or change in circumstances, that is within the Group's control, which affects whether the Group is reasonably certain to exercise an option.

16. Contingent consideration

At 31 March	2023 ($000s)
Balance at 1 April	24,216
Unwinding of discount	992
Contingent consideration payments	(15,879)
Change in fair value estimate	(8,921)
Foreign exchange adjustment	1,015
Balance at 31 March	**1,423**
Current	271
Non-current	1,152

Contingent consideration comprises the Group's probability-weighted assessment of discounted amounts payable to vendors in respect of business acquisitions. Payments of contingent consideration during the year comprised payments to the previous shareholders of Waddle and Tickstar for the completion of a number of product development and business integration milestones.

Changes in fair value estimates for the year ended 31 March 2023 includes revaluation gains relating to expected payments for revenue and product milestones. The revenue milestone revaluations result from updated revenue forecasts, while revaluations relating to product milestones result from changes in probability of achievement of product development milestones.

$0.7 million of the balance at 31 March 2023 is expected to be settled in cash, with the remaining expected to be settled in shares of Xero Limited. The non-current portion of contingent consideration is expected to become payable following the achievement of specified revenue milestones by June 2024.

17. Term debt

Convertible notes and conversion feature derivative

On 2 December 2020, Xero Investments Limited, a wholly owned subsidiary of the Company, issued USD700 million of convertible notes. The notes are listed on the SGX-ST.

The notes have a zero coupon interest rate, are unsubordinated, unsecured obligations of Xero, and will redeem at par at the final maturity date of 2 December 2025. The noteholders have the right to redeem the notes at any time, in cash or in ordinary shares at the election of Xero. The cash settlement amount will be calculated based on the number of reference shares multiplied by the volume-weighted average price of the ordinary shares over the preceding 75-day trading period. The number of reference shares is determined by the face value of the notes divided by the conversion price of the notes (USD134.72 per ordinary share at 31 March 2023), rounded down to the nearest share.

The conversion feature of the notes is required to be separated from the notes and is accounted for as a derivative financial liability. The principal amount, unamortised debt discount, unamortised issue costs, and net carrying amount of the liability component of the convertible notes at 31 March are as follows:

At 31 March	2023 ($000s)	2022 ($000s)
Principal amount	1,117,711	1,003,721
Unamortised debt discount	(88,605)	(107,576)
Unamortised issuance costs	(9,312)	(11,306)
Term debt	**1,019,794**	**884,839**

Amortisation of discount and debt issuance costs for the year ended 31 March 2023 was $34.6 million (2022: $29.7 million).

Call spread options

In connection with the issuance of the convertible notes, Xero purchased call spread options which are expected to reduce potential dilution to shareholders upon conversion of the notes, by offsetting any cash payments Xero may be required to make in excess of the principal amounts on conversion. The call spread options will be effective at offsetting dilution on conversion of the notes up to a share price of USD174.64 (AUD237.76). The call spread options consist of 0.7 million lower strike call options purchased with an average strike price equal to the conversion price of the notes, and 0.7 million upper strike call options sold with an average strike price of USD174.64. Both the lower call and upper call options are exercisable into a total of approximately 5.2 million ordinary shares. The call spread options have expiry dates between 13 August 2025 and 25 November 2025.

The upper strike call options are accounted for as equity, and are recognised at their initial fair value, less transaction costs. On initial recognition, the upper strike call options were recognised at a fair value of $63.7 million and were not subsequently revalued.

18. Financial instruments, capital and financial risk management

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 policy is that no speculative trading in financial instruments may be undertaken.

Classification and fair values

Xero has carried out a fair value assessment of its financial assets and liabilities at 31 March 2023 in accordance with NZ IFRS 9.

Under NZ IFRS 9, financial instruments are classified as either measured at amortised cost, fair value through other comprehensive income, or fair value through profit or loss. The classification of the Group's financial instruments into these categories is included within the table below.

At initial recognition, the fair value 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 fair value of the debt component of the notes at 31 March 2023 was $919.1 million (2022: $826.7 million).

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.

Key estimates and assumptions

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.

The fair value of contingent consideration is determined using valuation techniques such as probability-weighted forecasts of meeting certain product development and revenue targets (level three on the fair value hierarchy), and is discounted using the acquired entity's weighted average cost of capital.

	Financial assets at amortised cost ($000s)	Financial instruments at fair value through profit or loss ($000s)	Financial liabilities at amortised cost ($000s)	Total carrying value ($000s)
At 31 March 2023				
Assets				
Cash and cash equivalents	230,624	–	–	230,624
Term deposits	886,563	–	–	886,563
Trade and other receivables	42,548	–	–	42,548
Derivative assets (foreign currency derivatives)*	–	6,267	–	6,267
Derivative assets (call spread options)	–	31,156	–	31,156
Other current assets	7,104	–	–	7,104
Other non-current assets	812	–	–	812
Total financial assets	**1,167,651**	**37,423**	**–**	**1,205,074**
Liabilities				
Trade and other payables	–	–	17,819	17,819
Derivative liabilities (foreign currency derivatives)*	–	5,949	–	5,949
Derivative liabilities (conversion feature on convertible notes)	–	27,742	–	27,742
Term debt	–	–	1,019,794	1,019,794
Other current liabilities	–	9,370	–	9,370
Other non-current liabilities	–	1,285	–	1,285
Total financial liabilities	**–**	**44,346**	**1,037,613**	**1,081,959**
At 31 March 2022				
Assets				
Cash and cash equivalents	404,192	–	–	404,192
Term deposits	531,866	–	–	531,866
Trade and other receivables	33,479	–	–	33,479
Derivative assets (foreign currency derivatives)*	–	6,594	–	6,594
Derivative assets (call spread options)	–	55,908	–	55,908
Other current assets	7,538	–	–	7,538
Other non-current assets	577	–	–	577
Total financial assets	**977,652**	**62,502**	**–**	**1,040,154**
Liabilities				
Trade and other payables	–	–	15,297	15,297
Derivative liabilities (foreign currency derivatives)*	–	2,876	–	2,876
Derivative liabilities (conversion feature on convertible notes)	–	56,259	–	56,259
Term debt	–	–	884,839	884,839
Other current liabilities	–	10,399	2,692	13,091
Other non-current liabilities	–	22,464	–	22,464
Total financial liabilities	**–**	**91,998**	**902,828**	**994,826**

** Foreign currency derivatives are hedge accounted when possible with unrealised gains and losses recognised in other comprehensive income until the underlying cash flows are realised, at which point the gains and losses are reclassified to the Income Statement*

Capital management

For the purposes of capital management, the Group's capital primarily consists of equity raised by the issue of ordinary shares in the Company and issued debt. Xero manages its capital in order to maintain an appropriate capital structure to support the business and maximise shareholder value. The Group's capital structure is adjusted based on business needs and economic conditions.

As part of ongoing capital management Xero reduced its short-term debt facilities during the period. This reflected a decision to cancel its undrawn NZD150 million standby facility in July 2022 and to replace the AUD30 million facility in place to support the Waddle direct lending portfolio with a smaller AUD10 million facility to provide short-term liquidity. The AUD10 million facility was cancelled in March 2023.

Financial risk management

The Group is exposed to the following risks through the normal course of business and from its use of financial instruments:

a. Market risk
b. Liquidity risk
c. Credit risk

The following presents both qualitative and quantitative information on the Group's exposure to each of the above risks, along with policies and processes for managing risk.

(a) Market risk

The Group is exposed to market risk primarily through changes in foreign currency exchange rates and interest rates.

Foreign currency risk

Nature of risk

Foreign currency risk is the risk that the changes to foreign currency exchange rates negatively impact the Group's New Zealand dollar (NZD) net cash flows.

Exposure and risk management

Xero is exposed to currency risk from the operations of foreign subsidiaries and foreign currency denominated expenses in the parent Company. The Group has significant operations in five foreign currencies, being Australian dollars (AUD), United States dollars (USD), Great British pounds (GBP), Canadian dollars (CAD), and Euros (EUR) with exposures to other currencies to a lesser degree. The material exposures are USD, CAD and EUR outflows, as well as AUD and GBP inflows. In order to reduce the impact of short-term movements in exchange rates, the Group's treasury policy requires a portion of the next 18 months' net USD and CAD cash flows, and 24 months' net AUD and GBP cash flows, to be hedged with forward exchange contracts and vanilla options (outright purchased options and vanilla collars).

The Group's exposure to monetary foreign currency financial instruments and lease liabilities is outlined below in NZD:

	AUD ($000s)	USD ($000s)	GBP ($000s)	CAD ($000s)	EUR ($000s)
At 31 March 2023					
Exposures					
Cash and cash equivalents, and short-term deposits	61,705	762,857	17,247	980	594
Trade and other receivables	2,167	7,977	2,903	1,931	100
Other current assets	6,667	–	–	–	–
Trade and other payables	(2,254)	(3,944)	(6,612)	(88)	(103)
Other current liabilities	(140)	–	–	–	–
Other non-current liabilities	–	(2,710)	–	(6,451)	–
Lease liabilities	(37,259)	(7,379)	(27,791)	(1,044)	(168)
Term debt (including conversion feature)	–	(1,117,711)	–	–	–
Derivative financial instruments (foreign currency derivatives)	136,617	(68,556)	168,663	(25,064)	(4,320)
Total foreign currency exposure	**167,503**	**(429,466)**	**154,410**	**(29,736)**	**(3,897)**
At 31 March 2022					
Exposures					
Cash and cash equivalents, and short-term deposits	16,772	691,917	10,963	3,878	174
Trade and other receivables	5,063	1,938	2,929	1,645	159
Other current assets	6,681	–	–	–	–
Trade and other payables	(5,407)	(708)	(1,974)	(589)	(68)
Other current liabilities	(6,427)	–	–	–	–
Other non-current liabilities	(511)	–	–	(6,044)	(3,066)
Lease liabilities	(41,466)	(11,110)	(27,345)	(1,291)	–
Term debt (including conversion feature)	–	(1,003,721)	–	–	–
Derivative financial instruments (foreign currency derivatives)	134,530	(55,871)	125,264	(1,980)	(4,320)
Total foreign currency exposure	**109,235**	**(377,555)**	**109,837**	**(4,381)**	**(7,121)**

At 31 March, a movement of 10% in the NZD would impact the Income Statement and Statement of Changes in Equity (after hedging) as detailed in the table below:

	10% decrease		10% increase	
	2023 ($000s)	2022 ($000s)	2023 ($000s)	2022 ($000s)
Impact on:				
Net loss before income tax (increase/(decrease))	(5,849)	7,682	4,786	(6,286)
Equity (before income tax) (increase/(decrease))	(1,601)	(2,967)	1,311	2,427

This analysis assumes a movement in the NZD across all currencies and only includes the effect of foreign exchange movements on financial instruments. All other variables remain constant.

Interest rate risk

Nature of risk

Interest rate risk is the risk that changes in interest rates negatively impact the Group's financial performance or the value of its financial instruments.

Exposure and risk management

The Group's interest rate risk arises from its cash and cash equivalents and short-term deposit balances, and when term debt is refinanced. Cash and cash equivalents comprise cash in hand, deposits held on call with banks, funds invested in money market funds, and other short-term and highly liquid investments with original maturities of 90 days or less. Surplus balances are placed in short-term investments with high credit quality counterparties. The repricing of these at maturity exposes the Group to interest rate risk. Money market funds invested into include a broad range of highly rated short-term fixed income securities and calculate investment returns on a daily basis. Changes to interest rates will impact the returns generated by each fund. The convertible notes would give rise to interest rate risk at maturity (December 2025) if the Group were to refinance at prevailing interest rates, with higher interest rates increasing the cost of debt financing should they be in effect at this time.

The Group does not currently enter into interest rate hedges. However, management regularly reviews its investment and funding arrangements to ensure it achieves the best returns on its funds while maintaining access to necessary liquidity levels to service the Group's day-to-day activities.

Sensitivity to interest rate risk

If interest rates for the year ended 31 March 2023 had been 1.0% higher/lower with all other variables held constant, the impact on the interest income would have been $10.0 million higher/lower, net loss of the Group $10.0 million lower/higher and accumulated losses $10.0 million lower/higher (2022: $9.3 million). This analysis assumes that the cash and cash equivalents and short-term deposits balance was consistent with the year end balance throughout the year.

(b) Liquidity risk

Nature of risk

Liquidity risk is the risk that the Group cannot pay contractual liabilities as they fall due.

Exposure and risk management

At 31 March 2023 the Group held cash and cash equivalents of $230.6 million and term deposits of $886.6 million, which are available to be used to service the Group's day-to-day activities, and for investments into strategic and complementary businesses and assets.

The liquidity risk that arises on maturity of the convertible notes in December 2025 is being closely monitored by management, with the intention that there will be repayment or refinancing plans in advance of this to ensure that the Group has sufficient liquidity to meet its contractual obligations as they fall due.

The Group's exposure to liquidity risk based on undiscounted contractual cash flows relating to financial liabilities and lease liabilities is summarised below:

	Less than 12 months ($000s)	Between 1 and 2 years ($000s)	Between 2 and 5 years ($000s)	Over 5 years ($000s)	Total contractual cash flows ($000s)	Carrying amount ($000s)
At 31 March 2023						
Non-derivative financial liabilities						
Trade and other payables	17,819	–	–	–	17,819	17,819
Lease liabilities	24,721	23,383	54,820	52,857	155,781	123,421
Other current liabilities	9,211	–	–	–	9,211	9,099
Other non-current liabilities	–	–	133	–	133	133
Term debt	–	–	1,117,711	–	1,117,711	1,019,794
Contingent consideration	150	678	–	–	828	712
Contractual cash flows	**51,901**	**24,061**	**1,172,664**	**52,857**	**1,301,483**	**1,170,978**
Derivative financial liabilities						
Forward exchange contracts	–	–	–	–	–	(5,949)
Inflows	150,576	23,747	–	–	174,323	–
Outflows	(150,827)	(23,436)	–	–	(174,263)	–
Contractual cash flows	**(251)**	**311**	**–**	**–**	**60**	**(5,949)**
At 31 March 2022						
Non-derivative financial liabilities						
Trade and other payables	15,297	–	–	–	15,297	15,297
Lease liabilities	18,361	19,359	54,930	68,458	161,108	136,218
Other current liabilities	2,692	–	–	–	2,692	2,692
Other non-current liabilities	–	8,916	–	–	8,916	8,647
Term debt	–	–	1,003,721	–	1,003,721	884,839
Contingent consideration	3,926	7,715	1,365	–	13,006	12,108
Contractual cash flows	**40,276**	**35,990**	**1,060,016**	**68,458**	**1,204,740**	**1,059,801**
Derivative financial liabilities						
Forward exchange contracts	–	–	–	–	–	(2,877)
Inflows	102,894	35,657	–	–	138,551	–
Outflows	(101,505)	(34,754)	–	–	(136,259)	–
Contractual cash flows	**1,389**	**903**	**–**	**–**	**2,292**	**(2,877)**

(c) Credit risk

Nature of risk

Credit risk arises in the normal course of Xero's business on financial assets if a counterparty fails to meet its contractual obligations.

Exposure and risk management

Financial instruments that potentially subject the Group to credit risk principally consist of cash and cash equivalents, short-term deposits, derivatives, bonds and deposits, and receivables.

The Group manages credit risk by placing cash, short-term deposits, and derivative contracts with high-quality financial institutions. The exposure to the credit risk of the call option counterparties means that in the event of default, the Group may have to pay an increased amount on settlement of the convertible notes. The Group manages liquidity factoring in any risk of default. The credit risk associated with trade receivables is small, due to the inherently low transaction value and the distribution over a large number of customers.

Group financial assets subject to credit risk at balance date are as follows:

At 31 March	2023 ($000s)	2022 ($000s)
Cash and cash equivalents	230,624	404,192
Short-term deposits	886,563	531,866
Trade and other receivables	42,548	33,479
Derivative financial assets	37,423	62,502
Other current assets	7,104	7,538
Non-current assets	812	577
Total financial assets subject to credit risk	**1,205,074**	**1,040,154**

A summary of the Group's exposure to credit risk on cash and cash equivalents, short-term deposits, and derivative assets categorised by external credit risk grading is as follows:

At 31 March	2023 ($000s)	2022 ($000s)
Cash and cash equivalents and short-term deposits		
AAAm	95,794	227,485
A-1+	785,408	561,855
A-1	231,757	119,668
A-2	4,228	27,050
Total cash and cash equivalents and short-term deposits	**1,117,187**	**936,058**
Derivative assets		
A-1+	4,945	698
A-1	32,478	46,431
A-2	–	15,373
Total derivative assets	**37,423**	**62,502**
Total exposure to credit risk	**1,154,610**	**998,560**

$19.4 million of the Group's trade and other receivables, other current assets, and non-current assets, are with counterparties with an A-1 external credit risk rating (2022: $15.9 million with counterparties with an A-2 external credit risk rating). The remaining amounts are with counterparties who have no external credit risk rating. Due to the nature of the Group's business, the balances do not consist of any concentration of risk that is considered individually material.

19. Derivatives and hedge accounting

The Group's derivative financial instruments consist of forward exchange contracts, vanilla foreign exchange options (outright purchased options and vanilla collars), conversion feature of the convertible notes, and call spread options entered into in connection with the convertible notes.

At 31 March	2023 ($000s)	2022 ($000s)
Current derivative assets		
Foreign exchange contracts	5,555	6,233
Foreign exchange options	15	–
Non-current derivative assets		
Call spread options	31,156	55,908
Foreign exchange contracts	697	361
Total derivative assets	**37,423**	**62,502**
Current derivative liabilities		
Foreign exchange contracts	(5,544)	(2,511)
Non-current derivative liabilities		
Conversion feature of convertible notes	(27,742)	(56,259)
Foreign exchange contracts	(405)	(365)
Total derivative liabilities	**(33,691)**	**(59,135)**

Foreign currency hedges

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. The Group determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currency and timing of respective cash flows. Derivatives in hedge relationships are designated as hedging instruments based on a hedge ratio of 1:1. Ineffectiveness arises if there is a change in the forecasted timing or amount of cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are reclassified to the Income Statement in the periods when the hedged transaction affects profit and loss. Only the intrinsic value of options are designated in hedge relationships with movements in the time value of foreign exchange options recognised immediately in the Income Statement. The Group has taken up the option under NZ IFRS 9 to defer forward points into other comprehensive income.

During the year, a net hedging gain of $3.6 million (before taxation) was recognised in other comprehensive income (2022: gain of $11.7 million). During the year, a gain of $7.0 million (before taxation) was reclassified out of other comprehensive income to the Income Statement (2022: gain of $2.5 million). The remaining balance will be reclassified to the Income Statement in future reporting periods as the relevant hedging instruments mature.

Hedge position

The Group's financial instruments designated as hedging instruments are as follows:

At 31 March	2023 Average forward price	2023 Fair value ($000s)	2023 Notional amount hedged (NZD) ($000s)	2022 Average forward price	2022 Fair value ($000s)	2022 Notional amount hedged (NZD) ($000s)
Derivative assets						
Buy USD – Sell NZD	0.6537	1,904	42,836	0.7100	1,315	50,702
Buy CAD – Sell NZD	0.8550	42	2,339	0.8837	39	1,980
Buy NZD – Sell AUD	0.8988	3,958	131,284	0.9192	97	33,726
Buy NZD – Sell GBP	0.4987	337	42,106	0.4989	4,985	125,264
Total		**6,241**			**6,436**	
Derivative liabilities						
Buy USD – Sell NZD	0.5825	(1,994)	30,041	0.6644	(661)	17,309
Buy CAD – Sell NZD	0.7921	(1,351)	22,725	–	–	–
Buy NZD – Sell AUD	0.9377	(23)	5,332	0.9326	(1,630)	104,541
Buy NZD – Sell GBP	0.5136	(2,062)	126,557	–	–	–
Total		**(5,430)**			**(2,291)**	

Conversion feature and call option derivatives

The conversion feature derivative liability of the convertible notes represents an embedded derivative financial instrument in the host debt contract. The conversion feature represents the Group's obligation to issue Xero Limited shares (or an equivalent amount of cash) should noteholders exercise their conversion option. The embedded conversion derivatives are carried in the Statement of Financial Position at their estimated fair value and adjusted at the end of each reporting period, with any unrealised gain or loss reflected in the Income Statement. During the year ended 31 March 2023, the Group recognised a $37.9 million revaluation gain in the Income Statement relating to the conversion feature derivative (2022: gain of $65.4 million).

In connection with the issue of the convertible notes, the Group entered into call spread options. The lower strike call options mirror the conversion option embedded in the convertible notes, and are accounted for as derivative assets in the Statement of Financial Position at their estimated fair value. The derivative assets are adjusted to fair value each reporting period, with unrealised gains or losses reflected in the Income Statement. During the year ended 31 March 2023, the Group recognised a $33.8 million revaluation loss in the Income Statement relating to the lower strike call options (2022: loss of $67.7 million).

20. Changes in financial assets and liabilities arising from financing activities

Year ended 31 March 2023	At 1 April 2022 ($000s)	Proceeds ($000s)	Payments ($000s)	Amortisation expense ($000s)	Foreign exchange movement ($000s)	Fair value movements ($000s)	At 31 March 2023 ($000s)
Short-term deposits	531,866	(1,427,144)	1,742,659	–	39,182	–	886,563
Call spread option derivative assets	55,908	–	–	–	9,019	(33,771)	31,156
Term debt and conversion feature	(941,098)	–	–	(34,640)	(109,697)	37,899	(1,047,536)
Other current liabilities	(2,692)	(2,146)	4,888	–	(50)	–	–

Year ended 31 March 2022	At 1 April 2021 ($000s)	Proceeds ($000s)	Payments ($000s)	Amortisation expense ($000s)	Foreign exchange movement ($000s)	Fair value movements ($000s)	At 31 March 2022 ($000s)
Short-term deposits	452,814	(963,878)	1,044,173	–	(1,243)	–	531,866
Call spread option derivative assets	122,123	–	–	–	1,443	(67,658)	55,908
Term debt and conversion feature	(979,810)	–	(5,455)	(29,682)	8,465	65,384	(941,098)
Other current liabilities	(826)	(4,279)	2,433	–	(20)	–	(2,692)

21. Share capital

	Note	2023 AUD Price*	2023 (000s)	2022 AUD Price*	2022 (000s)
Balance at 1 April		–	149,547	–	146,964
Issue of ordinary shares – exercising of employee share options	25	42.39	677	41.27	832
Issue of ordinary shares – restricted stock unit schemes	25	86.98	841	115.19	512
Issue of ordinary shares – acquisition of Planday		–	–	120.87	908
Issue of ordinary shares – acquisition of TaxCycle		–	–	137.86	159
Issue of ordinary shares – acquisition of LOCATE Inventory		–	–	138.73	110
Issue of ordinary shares – acquisition of Tickstar		–	–	123.63	37
Issue of ordinary shares – deferred consideration for acquisition of Waddle		–	–	130.83	24
Issue of ordinary shares – deferred consideration for acquisition of Tickstar		–	–	111.72	1
Ordinary shares on issue at 31 March		**–**	**151,065**	**–**	**149,547**
Treasury shares		–	(31)	–	(62)
Ordinary shares on issue at 31 March excluding treasury shares		**–**	**151,034**	**–**	**149,485**

**Prices shown for acquisition-related payments and restricted stock units are the weighted average issue prices. The price shown for options is the weighted average exercise price*

All shares have been issued, are fully paid, and have no par value.

22. Group entities

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

Inter-company transactions and balances between Group companies are eliminated on consolidation.

The financial statements of each of the Group's subsidiaries are prepared in the functional currency of that entity. The functional currency is determined for each entity based on factors such as the principal trading currency. The assets and liabilities of these entities are translated at exchange rates existing at balance date. Revenue and expenses are translated at rates approximating the exchange rates ruling at the dates of the transactions. The exchange gains or losses arising on translation are recorded in other comprehensive income and accumulated in the foreign currency translation reserve in equity.

The table below contains the significant subsidiaries of the Group, along with any subsidiaries where control was lost or gained during the period. The Group also has operations in other jurisdictions to a lesser extent.

	Country of incorporation	Balance date	Interest 2023 (%)	Interest 2022 (%)
Xero (NZ) Limited	New Zealand	31 March	100	100
Xero (UK) Limited	United Kingdom	31 March	100	100
Xero Australia Pty Limited	Australia	31 March	100	100
Xero, Inc.	United States	31 March	100	100
Xero Software (Canada) Ltd	Canada	31 March	100	100
Xero Investments Limited	New Zealand	31 March	100	100
Planday A/S	Denmark	31 March	100	100
Trilogy Software Inc.*	Canada	31 December	–	100
Hubdoc Pty Limited**	Australia	31 March	–	100
Xero Software Solutions (India) Private Limited***	India	31 March	100	–

** Amalgamated with Xero Software (Canada) Ltd June 2022*

*** Voluntarily deregistered June 2022*

**** Incorporated November 2022*

23. Current and deferred tax

Tax expense comprises current and deferred tax. Income tax is recognised in the Income Statement or Statement of Comprehensive Income, except when it relates to items recognised directly in equity (in which case the income tax is recognised in equity). Income tax is based on tax rates and regulation enacted in the jurisdictions in which the Group operates.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax is based on the expected manner of realisation of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available, against which the asset can be utilised.

Income tax expense

The tax on the Group's net profit/(loss) before tax differs from the theoretical amount that would arise using the New Zealand statutory income tax rate as follows:

Year ended 31 March	2023 ($000s)	2022 ($000s)
Accounting profit/(loss) before income tax	(75,677)	2,363
At the New Zealand statutory income tax rate of 28%	(21,190)	662
(Non-taxable)/non-deductible (income)/expenditure	25,267	(4,035)
Prior period adjustment	6,166	2,261
R&D benefit	(279)	(2,955)
Tax rate variance of subsidiaries and revaluations of deferred tax	6,492	(3,922)
Current year tax losses/deferred expenditure not recognised	21,399	19,466
Income tax expense	**37,855**	**11,477**
Comprising:		
Current tax expense	35,456	28,464
Deferred tax expense	2,399	(16,987)
Income tax expense	**37,855**	**11,477**

Income tax expense/(credit) charged to equity and other comprehensive income

Year ended 31 March	2023 ($000s)	2022 ($000s)
Current tax		
Share-based payments	8,049	16,406
Fair value movement on financial instruments	8,964	6,626
Total	**17,013**	**23,032**
Deferred tax		
Share-based payments	(3,086)	(18,087)
Fair value movement on cash flow hedges	934	(369)
Total	**(2,152)**	**(18,456)**

Deferred tax

	Derivatives ($000s)	Provisions and employee benefits ($000s)	Tax depreciation ($000s)	Tax losses and R&D expenditure ($000s)	Total ($000s)
Year ended 31 March 2023					
Net deferred tax balances					
At 1 April 2022	(1,161)	41,894	(51,165)	94,124	83,692
Prior period adjustment	–	(2,808)	(4,566)	4,298	(3,076)
Charged to Income Statement	–	3,713	(8,287)	5,542	968
Charged to equity	934	(3,086)	–	–	(2,152)
Impact of change in tax rates	–	412	(369)	(334)	(291)
At 31 March 2023	**(227)**	**40,125**	**(64,387)**	**103,630**	**79,141**
Comprising:					
Deferred tax asset	(227)	37,931	(49,334)	103,630	92,000
Deferred tax liability	–	2,194	(15,053)	–	(12,859)
Year ended 31 March 2022					
Net deferred tax balances					
At 1 April 2021	(792)	51,470	(34,653)	80,942	96,967
Prior period adjustment	–	1,227	(417)	(4,565)	(3,755)
Recognition of deferred tax on business combination	–	–	(11,805)	–	(11,805)
Charged to Income Statement	–	6,673	(3,970)	17,751	20,454
Charged to equity	(369)	(18,087)	–	–	(18,456)
Impact of change in tax rates	–	611	(320)	(4)	287
At 31 March 2022	**(1,161)**	**41,894**	**(51,165)**	**94,124**	**83,692**
Comprising:					
Deferred tax asset	(1,161)	40,543	(36,047)	93,734	97,069
Deferred tax liability	–	1,351	(15,118)	390	(13,377)

Key estimates and assumptions

Recognised tax losses and temporary differences

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available, against which the deductible temporary differences can be offset.

The Group's recognised deferred tax asset and deferred tax liability are expected to be recovered and realised by $32.1 million and $1.6 million, respectively within the next 12 months (2022: $21.4 million and $1.6 million, respectively). Deferred tax assets and liabilities have been offset where the balances are due to/receivable from the same counterparties.

Carried forward R&D expenditure

The Group has elected to defer the deduction of research and development expenditure in accordance with sections DB 34(7) and EE 1(5) of the Income Tax Act 2007.

The estimated deferred research and development expenditure available to the Group is $100.7 million (2022: $85.6 million). The deferred research and development expenditure can be deducted from taxable income in future periods, and the ability to carry forward deferred research and development expenditure is not dependent on maintaining shareholder continuity.

Unrecognised tax losses and temporary differences

The Group has estimated unrecognised tax losses available to carry forward and other unrecognised temporary differences in overseas jurisdictions of $368.4 million (2022: $246.5 million) subject to shareholder continuity being maintained (as applicable), noting that deferred tax assets are recognised for carried forward tax losses to the extent of deferred tax liabilities.

24. Reconciliation of operating cash flows

Year ended 31 March	2023 ($000s)	2022 ($000s)
Net loss	(113,532)	(9,114)
Adjustments:		
Depreciation	30,099	27,854
Amortisation	188,097	142,833
Share-based payments	80,862	61,057
Amortisation of discount and debt issuance costs on term debt and contingent consideration	35,632	34,794
Deferred tax and current taxes recognised in equity	14,861	(4,576)
Asset impairments and disposals	122,680	24,695
Revaluation of contingent consideration	(8,921)	(38,874)
Bad debts	4,358	2,432
Other non-cash items	(11,834)	(260)
Changes in working capital:		
Decrease/(increase) in receivables and prepayments	2,824	(16,097)
Increase in interest receivable	(7,333)	(1,154)
Increase/(decrease) in trade payables and other related items	(3,954)	12,788
Increase/(decrease) in provisions	44,049	(912)
Increase/decrease in current tax receivable and payable	7,356	(7,355)
Increase in employee entitlements	4,040	4,295
Increase in income in advance	1,165	3,965
Net cash flows from operating activities	**390,449**	**236,371**

25. Share-based payments

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

Restricted stock units

On the allocation date, an RSU agreement is entered into between employee and Company stipulating the number of units granted and their vesting schedules. On the vest date, the RSUs are converted to ordinary shares in the Company.

No cash consideration is required to be paid on vesting of the RSUs. The fair value of RSUs granted is determined using the volume-weighted average share price. The RSUs are conditional on the employees completing a specified period of service (the vesting period) and are, for the most part, converted to shares in equal amounts over the vesting period. The weighted average vesting period for RSUs granted in the year was 1.35 years (2022: 1.9 years). The Group has no legal or constructive obligation to repurchase or settle RSUs in cash.

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

	2023 Weighted average grant date fair value (AUD)	2023 RSUs (000s)	2022 Weighted average grant date fair value (AUD)	2022 RSUs (000s)
Opening balance	128.37	450	84.36	351
Granted	81.96	1,197	137.64	727
Forfeited	102.47	(136)	112.33	(114)
Converted to shares	86.98	(841)	115.19	(512)
Surrendered to settle payroll withholding obligations	–	–	69.08	(2)
Closing balance	**102.68**	**670**	**128.37**	**450**

Share options scheme

Options granted are conditional on the completion of the necessary years of service (the vesting period) as appropriate to that tranche.

The options tranches vest within four years from the grant date. No options can be exercised later than the ninth anniversary of the final vesting date. There were 58 holders of options at 31 March 2023 (2022: 73). The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2023 Weighted average exercise price (AUD)	2023 Options (000s)	2022 Weighted average exercise price (AUD)	2022 Options (000s)
Opening balance	74.45	1,606	55.27	2,277
Granted	78.93	639	137.33	283
Forfeited/expired	123.79	(140)	88.58	(122)
Exercised	42.39	(677)	41.27	(832)
Closing balance	**85.80**	**1,428**	**74.45**	**1,606**
Exercisable at 31 March	61.92	381	49.73	347

The weighted average share price on date of exercise for options exercised in the year ended 31 March 2023 was AUD86.49 (2022: AUD137.32). The weighted average remaining contractual term of options outstanding at 31 March 2023 is 4.5 years (2022: 2.3 years).

Options outstanding at 31 March fall within the following ranges:

Granted	Exercise price	2023 Options (000s)	2022 Options (000s)
2017–18	NZD25.75 – NZD32.48	–	14
2018–19	AUD34.00 – AUD48.33	98	603
2019–20	AUD51.82 – AUD83.04	241	389
2020–21	AUD79.50 – AUD138.28	250	331
2021–22	AUD121.39 – AUD146.99	205	269
2022–23	AUD 71.09 – AUD88.88	634	–
		1,428	**1,606**

The weighted average fair value of options granted during the year, determined using the Black-Scholes valuation model, was AUD29.89 per option (2022: AUD41.11).

The significant inputs into the model were the market share price at grant date, the exercise price as shown above, expected annualised volatility of between 40.3% and 45.3%, a dividend yield of 0%, an expected option life of between two and six years, and an annual risk-free interest rate of between 2.6% and 3.3% (2022: volatility of between 36.7% and 38.5%, dividend yield of 0%, expected option life of between three and five years, risk-free rate of between 0.5% and 1.4%).

The volatility input is measured as the standard deviation of continuously compounded share returns and is based on a statistical analysis of daily share prices over a period consistent with the options' expected life. The risk-free rate is measured using Australian Government bond rates, and applying linear interpolation over a period consistent with the options' expected life.

Employee restricted share plan

Under the employee restricted share plan, ordinary shares in the Company are issued to a trustee, Xero Limited Employee Restricted Share Trust, a wholly owned subsidiary, and allocated to participants on grant date, using funds lent to them by the Company.

The shares are beneficially owned by the participants. The length of retention period before the shares vest is up to three years. If the individual is still employed by the Group at the end of each specific period, the employee is given a bonus that must be used to repay the loan, and shares are then transferred to the employee. No new restricted shares were granted during the period. The weighted average grant date fair value of restricted shares granted during the year ended 31 March 2022 was AUD146.46. Shares with a grant date fair value of AUD2.9 million vested during the year (2022: AUD5.6 million). The Group has no legal or constructive obligation to repurchase or settle the shares for cash.

Movements in the number of restricted shares outstanding are as follows:

	2023 Number of shares (000s)	2022 Number of shares (000s)
Outstanding restricted shares at 1 April	36	126
Granted	–	1
Forfeited	(6)	(20)
Vested	(30)	(71)
Outstanding restricted shares at 31 March – allocated to employees	**–**	**36**
Forfeited shares not yet reallocated – held by Trustee	31	26
Total outstanding at 31 March	**31**	**62**
Percentage of total ordinary shares	0.0%	0.0%

All unvested shares at 31 March 2022 were due to vest within one year.

26. Key management personnel and related parties

Key management personnel

Key management personnel (KMP) are defined as those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly, and include the directors, the Chief Executive Officer*, and the Chief Financial Officer.

The following table summarises remuneration paid to key management personnel:

Year ended 31 March	2023 ($000s)	2022 ($000s)
Directors' fees	2,291	1,820
Short-term employee benefits	3,398	2,961
Share-based payments – options	4,008	1,869
Share-based payments – restricted stock units	1,439	654

**KMP includes the new Chief Executive Officer, Sukhinder Singh Cassidy, from the date she commenced employment with the Xero Group. More specifically she is included as KMP for the periods she held both the CEO and CEO Designate positions*

Related party transactions

Other than remuneration paid to key management personnel above, there have been no other related party transactions, outstanding balances or commitments during the period ending 31 March 2023. During the year ended 31 March 2022 Atomic.io Limited, a related party, provided product development and support services to the Group of $151,000.

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. A number of these entities subscribe to services provided by the Group. None of these related party transactions are significant to either party, and are completed on arm's length terms. There were no related party transactions during the year as detailed above.

No amounts with any related parties have been written off or foregone during the year (2022: nil).

27. Commitments and contingencies

Capital commitments

Capital commitments of $0.9 million for building fit-outs were contracted for but not yet incurred at 31 March 2023 (2022: nil).

Contingent liabilities

There were no contingent liabilities at 31 March 2023 (2022: nil).

28. Events after the balance sheet date

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

Directors' Responsibilities Statement

The directors are required to prepare financial statements for each financial year that present fairly the financial position of the Group and its operations and cash flows for that period.

The directors consider these financial statements have been prepared using accounting policies suitable to the Group's circumstances, that these have been consistently applied and are supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1993 (New Zealand). They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

During the year ended 31 March 2023, the principal activities of the Group were for the provision of online business solutions for small businesses and their advisors. Other than as disclosed in this Annual Report, there were no significant changes in the state of affairs or activities of the Group during the year.

The Board authorised these financial statements for issue on 18 May 2023.

For and on behalf of the Board

David Thodey
Chair
Xero Limited
18 May 2023

Mark Cross
Director
Xero Limited
18 May 2023

Disclosures

All financial figures in this section of the Annual Report are in New Zealand dollars except where indicated otherwise. References to FY23 are to the financial year ended 31 March 2023. References to FY22 are to the financial year ended 31 March 2022. Xero Group means Xero Limited (Xero) and its subsidiaries.

Equity holdings of directors, CEO and CFO

The table below sets out the equity of Xero's directors, CEO and CFO, held nominally and through their associates or related parties.

At 31 March 2023	Number of ordinary shares (shares)	Number of unlisted options (Options)	Number of restricted stock units (RSUs)
Non-executive directors			
David Thodey	10,000	–	–
Steven Aldrich	-	–	–
Mark Cross	4,300	–	–
Rod Drury	9,914,789	–	–
Lee Hatton	5,378	–	–
Brian McAndrews	2,994	–	–
Dale Murray	1,636	–	–
Susan Peterson	3,340	–	–
CEO and CFO			
Sukhinder Singh Cassidy	–	445,697	46,752
Kirsty Godfrey-Billy	10,202	29,761	12,127
Former CEO			
Steve Vamos	25,813	55,880	23,922

Entries recorded in the interests register

Xero maintains an interests register in accordance with the Companies Act 1993 (New Zealand).

Directors' interests

Directors disclosed the following relevant interests, or cessations of interest, during FY23.

Director/Entity	Relationship
David Thodey	
Tyro Payments Limited	ceased to be chair and director
Steven Aldrich	
Semrush Holdings, Inc.	director
Mark Cross	
Chorus Limited	chair
Z Energy Limited	ceased to be director
Milford Asset Management Limited	ceased to be director
Susan Peterson	
Property For Industry Limited	ceased to be director
Mercury NZ Limited	director

Share dealings of directors

No directors disclosed acquisitions or disposals of interests in Xero shares during FY23.

Insurance

In accordance with the Companies Act 1993 (New Zealand), Xero has continued to insure its directors and officers (through renewal of its D&O insurance policy) against potential liability or costs incurred in any proceeding, except to the extent prohibited by law.

Deeds of indemnity

Xero has provided deeds of indemnity to all directors and officers of Xero and all directors of its subsidiaries for potential liabilities and costs they may incur for acts or omissions in their capacity as directors or officers of Xero or its subsidiaries, to the extent permitted by law.

Remuneration reporting

Xero's remuneration policy and practices are summarised on pages 131 to 154 of this Annual Report.

Shareholder information

The shareholder information set out below is current as at 6 April 2023, unless otherwise specified.

Issued capital The total number of issued shares in Xero was 151,065,416, of which 31,081 shares were held on a restricted basis in connection with Xero's share-based compensation plans.

Distribution of shareholdings

Range	Number of holders	%	Shares	%
1 to 1,000	47,887	94.14	7,458,019	4.94
1,001 to 5,000	2,544	5.00	5,205,193	3.45
5,001 to 10,000	249	0.49	1,766,675	1.17
10,001 to 100,000	158	0.31	3,961,546	2.62
100,001 and over	31	0.06	132,673,983	87.82
Total	**50,869**	**100**	**151,065,416**	**100**

There were 1,546 holders of less than a marketable parcel of shares as at 6 April 2023, based on a market price of AUD $91.03 per share.

Distribution RSUs and Options There were 58 individuals holding a total of 1,428,176 Options and 2,421 individuals holding a total of 669,661 RSUs. RSUs are a conditional contractual right to be issued an equivalent number of shares in Xero.

Distribution of Options

Range	Number of holders	%	Shares	%
1 to 1,000	0	0.00	0	0.00
1,001 to 5,000	18	31.03	53,976	3.78
5,001 to 10,000	10	17.24	73,031	5.11
10,001 to 100,000	29	50.00	855,472	59.90
100,001 and over	1	1.73	445,697	31.21
Total	**58**	**100.00**	**1,428,176**	**100.00**

Distribution of RSUs

Range	Number of holders	%	Shares	%
1 to 1,000	2,320	95.83	160,044	23.90
1,001 to 5,000	78	3.22	190,302	28.42
5,001 to 10,000	12	0.50	84,907	12.68
10,001 to 100,000	11	0.45	234,408	35.00
Total	**2,421**	**100.00**	**669,661**	**100.00**

On-market purchases No securities were purchased on-market for the purposes of an employee incentive scheme or to satisfy the entitlements of securities holders to acquire securities granted under an employee incentive scheme during FY23.

Substantial holdings and limitations on the acquisition of securities Xero is a New Zealand incorporated and domiciled company listed on the ASX. From a regulatory perspective, this means that while the ASX Listing Rules apply to Xero, certain provisions of the Australian Corporations Act 2001 (Cth) do not. Xero is not subject to chapters 6, 6A, 6B, and 6C of the Australian Corporations Act 2001 (Cth) dealing with the acquisition of its shares (including substantial holdings and takeovers). The Companies Act 1993 (New Zealand) applies to Xero and certain provisions of the Financial Markets Conduct Act 2013 (New Zealand) also apply to Xero (including in relation to financial reporting, but not including the provisions relating to substantial shareholdings).

There is no requirement on Xero's substantial shareholders to provide substantial product holder notices to Xero. Any such notices Xero receives during the year are available through the ASX website and Xero's investor centre.

Key limitations on the acquisition of shares in Xero are imposed by the following New Zealand legislation: Commerce Act 1986, Overseas Investment Act 2005, and Takeovers Act 1993, together with various regulations and codes promulgated under such legislation.

Top 20 holders The names of the 20 largest holders of Xero shares as at 6 April 2023 are listed below.

Name	Number of shares held	% of issued capital
1. HSBC Custody Nominees (Australia) Limited	48,987,029	32.43
2. J P Morgan Nominees Australia Pty Limited	27,518,132	18.22
3. Citicorp Nominees Pty Limited	20,138,245	13.33
4. Ms Anna Margaret Clare Stuck & Rodney Kenneth Drury & Scott Moran	9,914,789	6.56
5. National Nominees Limited	5,571,438	3.69
6. BNP Paribas Noms Pty Ltd <DRP>	4,273,818	2.83
7. Givia Pty Limited	2,773,045	1.84
8. Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,110,244	1.40
9. Custodial Services Limited <Beneficiaries Holding A/C>	1,926,798	1.28
10. Mr Nelson Nien Sheng Wang & Ms Pei-Chun Ko <Wang Family A/C>	1,036,088	0.69
11. BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	1,032,554	0.68
12. HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	924,829	0.61
13. Australian Foundation Investment Company Limited	890,500	0.59
14. Solium Nominees (Australia) Pty Ltd <VSA A/C>	778,219	0.52
15. Solium Nominees (Australia) Pty Ltd <Allocated A/C>	598,452	0.40
16. HSBC Custody Nominees (Australia) Limited <Euroclear Bank SA NV A/C>	553,456	0.37
17. BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	501,510	0.33
18. HSBC Custody Nominees (Australia) Limited - A/C 2	480,658	0.32
19. BNP Paribas Noms (NZ) Limited	422,763	0.28
20. BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd <DRP A/C>	397,308	0.26
Top 20 holders of fully paid shares (total)	**130,829,875**	**86.60**
Other shareholders (balance on register)	20,235,541	13.40
Grand total	**151,065,416**	**100.00**

Voting rights Xero has a single class of shares on issue. Where voting at a meeting of shareholders is by voice or a show of hands, every shareholder present in person, or by representative, has one vote. On a poll, every shareholder present in person, or by representative, has one vote for each fully paid share. In practice, Xero ensures that all resolutions at shareholder meetings are decided by a poll rather than a show of hands. There are no voting rights attached to RSUs or Options.

On-market buy-back There is no current on-market buy-back for Xero shares.

Voluntary escrow Voluntary escrow provisions apply to the securities set out in the following table. 688 fully paid ordinary shares were released from voluntary escrow on 10 February 2023.

Securities	Issue date	Restriction ends
84,080	30 December 2021	1 November 2023

Company information

Donations The Xero Group made charitable donations totalling $90,077 during FY23. The Xero Group made no donations to political parties during FY23.

Company directors The following persons held office as directors of Xero Limited during FY23.

Directors
David Thodey (Chair)
Steven Aldrich
Mark Cross
Rod Drury
Lee Hatton
Brian McAndrews
Dale Murray
Susan Peterson

No directors of Xero ceased to hold office during FY23.

Company subsidiaries and directors Xero has 30 wholly owned subsidiaries as shown in the table below. The following persons held office as directors of Xero's subsidiary companies during FY23.

Jurisdiction	Subsidiary	Directors	Directors who ceased to hold office during FY23
Australia	Planday Australia Pty Ltd	Anders Frederiksen Kirsty Godfrey-Billy Rachael Powell	
	Waddle Holdings Pty Limited	Simon Creighton Kirsty Godfrey-Billy	Chaman Sidhu (resigned effective 22 August 2022)
	Waddle IP Pty Ltd	Simon Creighton Kirsty Godfrey-Billy	Chaman Sidhu (resigned effective 22 August 2022)
	Waddle Loans Pty Ltd	Simon Creighton Kirsty Godfrey-Billy	Chaman Sidhu (resigned effective 22 August 2022)
	Waddle SaaS Pty Ltd	Simon Creighton Kirsty Godfrey-Billy	Chaman Sidhu (resigned effective 22 August 2022)
	Waddle Servicing Pty Ltd	Simon Creighton Kirsty Godfrey-Billy	Chaman Sidhu (resigned effective 22 August 2022)
	Xero (Australia) Holdings Pty Limited	Kirsty Godfrey-Billy Rachael Powell	Chaman Sidhu (resigned effective 22 August 2022)
	Xero Australia Pty Limited	Kirsty Godfrey-Billy Joseph Lyons (appointed 1 November 2022) Rachael Powell	Chaman Sidhu (resigned effective 22 August 2022)
Canada	Hubdoc Inc.	Kirsty Godfrey-Billy Faye Pang	Andrew Burner (resigned effective 6 May 2022)
	Xero Software (Canada) Ltd	Kirsty Godfrey-Billy Faye Pang	Andrew Burner (resigned effective 6 May 2022)
Denmark	Planday A/S	Kirsty Godfrey-Billy Chris Micklethwaite Chris O'Neill (appointed 21 September 2022)	Simona Turin (resigned effective 31 July 2022) Damien Tampling (resigned effective 31 January 2023) Christian Brondum (resigned effective 30 March 2023) Gary Turner (resigned effective 30 March 2023)
	Xero Denmark A/S	Kirsty Godfrey-Billy Birgitte Pihl Alexander Von Schirmeister (appointed 30 December 2022)	Christian Brøndum (resigned effective 30 December 2022)
Germany	Planday GmbH	Kirsty Godfrey-Billy Chris O'Neill (appointed 6 February 2023)	Christian Brøndum (resigned effective 6 February 2023) Gary Turner (resigned effective 6 February 2023)
Hong Kong	Xero (HK) Limited	Kirsty Godfrey-Billy Koren Wines (appointed 31 January 2023)	Damien Tampling (resigned effective 31 January 2023)

Jurisdiction	Subsidiary	Directors	Directors who ceased to hold office during FY23
India (Incorporated 19 October 2022)	Xero Software Solutions (India) Private Limited	Colin Brown Kirsty Godfrey-Billy Kumar Iyer (non-executive Indian resident director)	
New Zealand	Waddle Loans Limited	Kirsty Godfrey-Billy Chris O'Neill (appointed 31 March 2023)	Damien Tampling (resigned effective 31 January 2023) Anna Curzon (resigned effective 31 March 2023)
	Xero (NZ) Holdings Limited	Kirsty Godfrey-Billy Chris O'Neill (appointed 31 March 2023)	Craig Hudson (resigned effective 30 August 2022) Anna Curzon (resigned effective 31 March 2023)
	Xero (NZ) Limited	Kirsty Godfrey-Billy	Craig Hudson (resigned effective 30 August 2022) Anna Curzon (resigned effective 31 March 2023)
	Xero Investments Limited	Kirsty Godfrey-Billy	Craig Hudson (resigned effective 26 May 2022) Anna Curzon (resigned effective 31 March 2023)
	Xero Trustee Limited	Kirsty Godfrey-Billy	
Norway	Planday Norway AS	Kirsty Godfrey-Billy Clarence Willard (appointed 30 January 2023)	Christian Brøndum (resigned effective 30 January 2023) Gary Turner (resigned effective 30 January 2023)
Poland	Planday Sp ZO.O	Chris O'Neill (appointed 2 February 2023)	Christian Brøndum (resigned effective 2 February 2023)
Singapore	Xero (Singapore) Pte. Ltd	Kirsty Godfrey-Billy Koren Wines (appointed 31 January 2023)	Damien Tampling (resigned effective 31 January 2023)
South Africa	Xero South Africa Proprietary Limited	Kirsty Godfrey-Billy Colin Timmis	
Sweden	Tickstar AB	Hans Berg Anna Curzon Kirsty Godfrey-Billy Ake Oberg	
United Kingdom	Planday Limited	Kirsty Godfrey-Billy Chris O'Neill (appointed 31 December 2022)	Christian Brøndum (resigned effective 31 December 2022) Gary Turner (resigned effective 31 December 2022)
	Xero (UK) Limited	Kirsty Godfrey-Billy Alexander Von Schirmeister (appointed 1 June 2022)	Damon Anderson (resigned effective 3 June 2022)

Jurisdiction	Subsidiary	Directors	Directors who ceased to hold office during FY23
United States	Xero CA Acquisitions Inc.	Chris O'Neill (appointed 30 August 2022)	Anthony Ward (resigned effective 30 August 2022)
	Planday, Inc.	Kirsty Godfrey-Billy Chris O'Neill (appointed 31 August 2022)	Anthony Ward (resigned effective 31 August 2022) Christian Brøndum (resigned effective 31 December 2022)
	Xero, Inc.	Kirsty Godfrey-Billy Chris O'Neill (appointed 30 August 2022)	Andrew Burner (resigned effective 5 May 2022) Anthony Ward (resigned effective 30 August 2022)

Directors of Xero's subsidiaries disclosed the following relevant interests, or cessations of interest, during FY23.

Director/Entity	Relationship
Chris O'Neill	
Gap Inc.	director

Kumar Iyer received total remuneration of US$8,250 in his role as non-executive director of Xero Software Solutions (India) Private Limited during FY23. Kumar Iyer received no other benefits from Xero or any Xero subsidiary company during FY23.

No employee appointed as a director of Xero's subsidiary companies receives any remuneration or other benefits from Xero in their role as a director. The remuneration and other benefits of such employees, received as employees, are included in the relevant bandings for employee remuneration disclosed on page 153 and 154 of this Annual Report.

Remuneration Report

Sections 1 – 7

Sections 8 – 13

1. People and Remuneration Committee Chair Letter

Xero has delivered a strong operating result in FY23, within another year of challenging macroeconomic conditions. This includes operating revenue growth of 28%, subscriber growth of 14%, and operating expenses excluding restructuring costs as a percentage of operating revenue reducing by 3.3 percentage points to 80.7%. This performance highlights the value our customers place in their Xero subscription (as demonstrated through the double-digit subscriber growth in all regions and growth in Average Revenue Per User (APRU)) and also the dedicated commitment from our talented team from all across the world.

Xero's operating income grew strongly to $57.3 million, up 61%. Excluding restructuring costs of $34.7 million, operating income would have been $92.0 million representing an operating income margin of 6.6%, more than double the 3.2% margin in FY22. Xero's FY23 EBITDA of $158.4 million decreased 26% compared to FY22. This reduction mainly reflected the impacts of a non-cash impairment to Planday ($77.9 million), non-cash impairments and other costs related to exiting the Waddle business ($48.5 million), restructuring charges ($34.7 million), and other non-cash revaluations ($17.9 million). (See Financial Statements for further detail).

We remain committed to providing an environment where our people, customers, and communities can thrive. Xero continues to operate above global industry benchmarks for employee Net Promoter Score (eNPS) with a 12-month rolling average of 32 and engagement of 7.9. Our culture is pivotal to our success as is evident in our eNPS outcome in what was a challenging year for our people.

Xero is set up to drive better value for our customers, people, shareholders, and communities and we enter FY24 in a stronger position to deliver on our purpose of making life better for people in small business, their advisors, and communities around the world.

Farewelling Steve Vamos

After serving nearly five years as Xero's CEO, Steve Vamos retired on 31 January 2023. Steve remains available as an advisor to the business until 31 May 2023. We are very grateful to Steve for his dedication and commitment to all things Xero and wish him all the very best for his future.

Steve's FY21 options and FY22 deferred Short-Term Incentive (STI) will vest 100% as per the schedule. The cash component of his FY23 STI will be paid in May as scheduled. The Board has exercised its discretion to allow his deferred STI (FY23) and his Long-Term Equity and Incentives (LTE and LTI) to remain on foot, pro-rating his FY22 options and FY23 Restricted Stock Units (RSUs) for the period of employment, and any vested options to be exercised within two years of the applicable vesting date.

Appointment of Sukhinder Singh Cassidy

Xero is one of only a few technology companies of its size and global reach listed on the ASX. As Xero expands globally, the skills and experience required of our management team also evolve. Following a rigorous global recruitment process, where the Board considered a number of exceptional candidates, we were delighted to appoint Sukhinder Singh Cassidy as CEO on 1 February 2023.

Sukhinder is an experienced technology executive with more than 25 years of global leadership experience. She has held various leadership positions, including President, Asia Pacific & Latin America at Google, and has extensive public and private board experience with multiple companies. Her expertise in building products and scaling go-to-market businesses will be critical in leading Xero to its next stage of growth globally, particularly in North America and the UK.

Sukhinder's remuneration reflects a market competitive package for a US-based technology executive. The benchmark data used to determine this package reflects the median of a group of listed US technology companies with similar characteristics to Xero, based on Software as a Service (SaaS) industry peers, revenue, EBITDA and market capitalisation.

Xero has become a global organisation with offices in more than ten countries, and generating more than 40% of its revenue from outside of Australia and New Zealand. We have found that the remuneration structures of most ASX-listed peers, which are domestic corporations or international businesses managed from Australia, have not been appropriate to secure the talent and experience required for some of our most senior roles that have an international remit. It is important that we adjust our frameworks as required to ensure that we can attract and retain the talent required to successfully execute on our global strategy.

Overview of the year

We were pleased with our strong operating revenue and AMRR growth for FY23. Operating revenue was up 28% YoY to $1.4 billion, while AMRR was up 26% YoY to $1.6 billion. Subscriber growth was also strong, up 14% YoY to 3.7 million subscribers. Gross margin remained steady at 87.3%.

Xero has been recognised as one of the best workplaces in the regions we operate in, including being named one of the best workplaces for wellbeing in the UK[1] and featuring among Built In's Best Places to Work in Colorado, New York City, and San Francisco (Large Places to work). You can read about our full list of accolades on www.xero.com/media/awards.

Xero continues to exceed global industry benchmarks for eNPS with a 12-month rolling average of 32 (41 in FY22[2]) and voluntary turnover of 15.7% (16.1% in FY22[3]).

The wellbeing of our people is a key priority, and we are always looking for ways to improve it. That's why we have introduced new and enhanced benefits, such as Xtra Leave

[1] UK's Best Workplaces™ for Wellbeing 2023

[2] eNPS excluded Planday in FY22

[3] Voluntary turnover excluded Planday in FY22

globally (five days additional paid leave), as well as health/ medical, life, trauma, and salary continuance insurances across New Zealand, Australia, and the UK. In FY23, we launched an organisation-wide program called Time Well Spent, which focuses on optimising factors that reduce stress, increase control, and improve performance.

While our overall representation of women remains unchanged from FY22, we have made good progress towards our gender diversity target for senior leaders with 38.7% (up from 33.9% in FY22) and people leaders with 45.0% (up from 43.7% in FY22). We have also made good progress towards reducing our median gender pay gap, down 1.5 percentage points to 9.5% (from 11% in FY22). You can read a more detailed summary on page 25 of the Annual Report.

Xero has been named on the Bloomberg Gender-Equality Index for the fourth consecutive year and was named the top global technology company for gender equity by Equileap. In FY23, we introduced an 'Inclusive Communities' program to support our people and leaders to have inclusive conversations, using inclusive language, and fostering inclusive communities. We also expanded our network of Employee Resource Groups (ERGs) supporting a range of communities across the world, including LGBTQI+, neurodiverse, women, disability, carers, and race.

Outcomes for the year

We take performance and accountability seriously, especially when it comes to delivering value to our shareholders. Our incentive plans are specifically designed to motivate our most senior leaders to strive for sustainable success through a carefully selected set of measures. These measures not only reflect the financial performance of the company but also consider the quality of earnings achieved through practices that support our employees and customers. We aim to further refine our incentive plan designs to support our focus on balancing growth and profitability.

Despite having delivered a strong operating result for FY23 (growth in operating revenue, operating income and subscriber growth, and a reduction in operating expenses as a percentage of operating revenue), EBITDA achievement was below target. EBITDA forms part of the STI plan (along with Net Promoter Score (NPS) and eNPS, both of which were also below target). Consequently the STI outcomes for FY23 were between 56.9% and 62.2% of maximum for the three executive KMPs. Further detail on STI outcomes is available on page 149 of the Annual Report.

The final tranche of legacy options vested to the former CEO, and the CFO in June 2022. A new RSU-based equity plan was introduced from FY23, with the LTE value contingent on service and LTI value contingent on performance targets over a three-year period (ending 31 March 2025). LTI measures are operating revenue growth (weighted 75%) and relative total shareholder return (weighted 25%). LTE and LTI granted for FY23 will vest, once tested, on or around 31 May 2025. Further detail on the LTE and LTI plan is available on page 144 and legacy equity arrangements on page 146 of the Annual Report.

Resetting for the future

In March 2023, we announced a program to better balance growth and profitability and to strengthen Xero for the future.

We are realigning Xero to create greater clarity for our people and better prioritise resources to improve how we execute for our customers. As we aspire to build a higher performing global SaaS company, we will work in ways that empower and enable our people to deliver better outcomes for our customers. Execution against a disciplined growth framework will also enable us to be more efficient and build greater operating leverage. The program included the difficult decision to reduce by 700-800 roles across Xero.

These changes will improve our ability to take advantage of the significant growth opportunity presented by cloud accounting. We remain purpose driven and focused on developing and protecting our culture and cultivating our talent, as well as supporting those employees who have been impacted by the changes.

The majority of the impact of the reshaping of our organisational structure and the way we work across functions – to operate with greater clarity, speed and effectiveness – will take effect in FY24. This report details the position at the end of FY23.

We hope you find this Remuneration Report useful. We intend to further evolve it as we move forward and welcome your feedback on how you believe we're progressing.

Yours sincerely

Susan Peterson
Chair
People and Remuneration Committee

Disclosures: This report is not intended to fully replicate the statutory disclosure requirements of an Australian-domiciled company's remuneration report as these requirements do not apply to Xero. We have sought to include information that provides a good understanding around how we prioritise the work to support our culture and connect our reward and recognition frameworks with the successful execution of our strategy. The information provided therefore exceeds the requirements for a New Zealand-domiciled company.

2. Remuneration highlights

Xero's values are fundamental to everything we do, including our approach to remuneration and this report. We continue to seek feedback on our approach to remuneration and voluntary disclosure in this report and consider it in light of what is right for Xero and our shareholders. The remuneration highlights for FY23 are:

- **Performance targets in executive Long-Term Incentive:** Introduction of a new Restricted Stock Unit (RSU) based equity plan with a Long-Term Incentive (LTI) component contingent on performance targets (operating revenue growth and relative total shareholder return (TSR)) over a three-year period) and Long-Term Equity (LTE) component contingent on service further aligning executive remuneration with shareholder outcomes
- **CEO remuneration reweighted for performance:** Review of the CEO's remuneration package, resulting in a higher weighting towards variable (performance-based) pay, with equity in particular, making up a significant proportion of target total remuneration compared to the former CEO's package
- **Executive accountability:** The Short-Term Incentive (STI) plan is designed to align the financial interests of Xero's senior leadership team with those of our shareholders, customers and employees, and recognise them for meeting company and individual performance objectives. Overall STI outcomes for FY23 were between 56.9% and 62.2% of maximum for the three executive KMPs reflecting a balance between strong operating results for FY23 and accountability for the factors that led to below target achievement on EBITDA, NPS and eNPS measures

3. Directors and senior leadership team

This report focuses on the FY23 remuneration of Xero's CEO, former CEO, CFO, and non-executive directors as identified in the table below. Broader details of Xero's remuneration framework and structure are also included in this report and those details relate to Xero's broader leadership team – executives who report directly to the CEO.

	Country of residence	Position	Period position was held during the year
Senior leaders			
Sukhinder Singh Cassidy	United States	CEO	Joined Xero 28 November 2022 Commenced as CEO 1 February 2023
Kirsty Godfrey-Billy	New Zealand	CFO	Full year
Former senior leader			
Steve Vamos[1]	New Zealand	CEO	Ceased as CEO 31 January 2023 Departing Xero 31 May 2023
Non-executive directors			
David Thodey, AO	Australia	Independent non-executive Chair	Full year
Steven Aldrich	United States	Independent non-executive director	Full year
Mark Cross	New Zealand	Independent non-executive director	Full year
Rod Drury	New Zealand	Founder, non-executive director	Full year
Lee Hatton	Australia	Independent non-executive director	Full year
Brian McAndrews	United States	Independent non-executive director	Full year
Dale Murray, CBE	United Kingdom	Independent non-executive director	Full year
Susan Peterson	New Zealand	Independent non-executive director	Full year

[1] FY23 includes a period of time for which Steve Vamos remained CEO (1 April 2022 - 31 January 2023) and a period of time for which Steve Vamos was no longer the CEO (1 February 2023 - 31 March 2023)

4. Remuneration governance

Xero's remuneration governance framework is overseen by the People and Remuneration Committee (P&R Committee) on behalf of the Board. The P&R Committee is tasked with ensuring that Xero's people strategy including our remuneration framework, policies and practices are aligned with Xero's purpose, values, strategic objectives, risk appetite, and good governance principles and practice. This includes supporting the Board in representing Xero's shareholders and promoting and protecting the interests of the company in the short and long term. The P&R Committee considers the interplay between remuneration structures and risk when reviewing remuneration frameworks and outcomes.

4.1 Role of the People and Remuneration Committee

The P&R Committee operates under a charter, which is available on Xero's website at www.xero.com/about/investors/governance. The P&R Committee oversees Xero's strategies and policies relating to:

- People and culture, including Xero's code of conduct, whistleblower policy, and policies relating to health, safety and wellbeing
- Remuneration and benefits
- Executive performance and development
- Succession planning for Xero's executive leadership team other than the CEO (succession planning for the CEO is managed by the Nominations Committee)
- Diversity and inclusion

The P&R Committee's overall objective is to oversee the implementation of principles and frameworks aimed at:

- Attracting and retaining high quality directors and employees and ensuring they are fairly, reasonably and transparently remunerated
- Ensuring our people are motivated to perform to the best of their abilities in the interests of Xero and in alignment with Xero's desired culture
- Ensuring conduct is only rewarded where it aligns with Xero's code of conduct, values and risk appetite

The P&R Committee reviews and makes recommendations to the Board regarding Xero's remuneration framework, policies and practices, remuneration budgets, employee incentive plans, material employee benefits, non-executive director remuneration, and diversity objectives.

The P&R Committee's oversight of the remuneration of the CEO, and leadership team, involves close scrutiny of remuneration amounts and performance outcomes, including recommending to the Board the remuneration outcomes for the CEO and any changes to the CEO's remuneration. The P&R Committee also supports the Chair of the Board to evaluate the CEO's performance and make recommendations to the Board to set the performance objectives for the CEO. The P&R Committee approves and informs the Board of the remuneration of the CFO and other members of the leadership team, including the vesting of incentives, and oversees their performance.

4.2 People and Remuneration Committee independence

Consistent with the ASX Corporate Governance Principles and Recommendations and the P&R Committee charter, the P&R Committee consists of four members, all of whom are independent non-executive directors, including the Chair. The current membership comprises:

Susan Peterson (Chair)

David Thodey, AO

Mark Cross

Steven Aldrich

All directors have a standing invitation to attend P&R Committee meetings. Members of management may be invited to attend meetings of the P&R Committee where appropriate.

4.3 External and independent advice

Xero engages external consultants for market data on salary benchmarking and relevant pay practices.

During the year, external consultants were engaged to provide guidance on Xero's remuneration framework having regard to our growth ambitions. This included reviewing the leadership team's remuneration structures against relevant industry peer groups, reviewing Xero's incentive plan structures, and researching market practice on performance-based long-term incentive plans.

As well as seeking input from management, the P&R Committee may obtain independent advice directly from external advisers to support the performance of its role on behalf of the Board. No formal 'remuneration recommendations' (as defined in the Australian Corporations Act) were received during FY23.

4.4 No dealing or protection arrangements

Xero's Share Trading Policy prohibits employees and directors from entering into transactions that are intended to hedge or otherwise limit the economic risk of unvested or restricted Xero securities.

Employees, internally referred to as "Xeros", are not permitted to deal with their RSUs or options. All dealing of shares received on vesting of RSUs or exercise of options is subject to the Share Trading Policy.

A copy of Xero's Share Trading Policy is available on Xero's website at www.xero.com/about/investors/governance

5. Remuneration strategy

5.1 Our purpose, values and remuneration principles

Xero's purpose is to make life better for people in small business, their advisors, and communities around the world. This purpose is underpinned by five values that are fundamental to everything we do, including our approach to remuneration and rewards:

#Human	#Challenge	#Team	#Ownership	#Beautiful
Xeros are authentic, inclusive and really care	**Xeros dream big, lead and embrace change**	**Xeros are great team players**	**Xeros deliver on our commitments**	**Xeros create experiences that people love**
Kind and assume best intent	Are curious and think big	Champion Xero's purpose and priorities	Do what we say we will do	Create experiences that inspire and delight
Inclusive, approachable and show empathy	Welcome challenging conversations and do it with respect	Work together to do what's best for Xero and our customers	Own our mistakes and take positive action	Do high-quality work
Are willing to be vulnerable, share fears, failures and learnings	Lead and embrace change, seeking new and better ways	Appreciate and celebrate each other and success	Move fast to get the right things done	Go the extra mile

As a global technology company, Xero is dependent on highly skilled, specialist team members who demonstrate these values to execute our strategy. Our ability to attract, retain, reward, and motivate our people is fundamental to our long-term success. In order to achieve this, our leadership team's remuneration is made up of the following components:

- Fixed remuneration
- STI based on individual and company-wide targets, with a deferred equity component in the form of RSUs
- A new LTI plan that is contingent on performance targets over a three-year period and awarded in RSUs
- A new LTE plan that is contingent on service and awarded in RSUs
- Options may be granted to acquire ordinary shares in Xero (on a 1:1 basis). These are occasionally used for one-off purposes such as initial equity grants for new hires

Xero's remuneration structure reflects the following principles:

Principle	Remuneration structure
Alignment	A significant proportion of the leadership team's remuneration is aligned with shareholder interests. Equity forms 80.2% and 40.4% of target total remuneration for the CEO and CFO, respectively In addition, the new LTI plan includes performance measures that further align the leadership team's remuneration with shareholder outcomes. Two performance measures (operating revenue growth and relative total shareholder return rTSR)) have been selected in light of Xero's long-term strategy
Fairness	Domicile-based market competitive, up-front cash-based remuneration is balanced by equity remuneration with significant potential upside
Collaboration	Performance conditions attached to STI and LTI are largely company-wide to reflect the importance of teamwork and collaboration across the business
Simplicity	STI performance measures are clear, easily assessed and aligned with the voices of the shareholder, customer, and employee The LTE plan is simple to understand, being 100% service contingent and using RSUs which are a common equity vehicle in our Australia/United States peers and the wider ASX300
Flexibility	Xero's STI and LTI performance measures provide flexibility for Xero to respond to changing needs and circumstances, recognising that each role, market, and team member is unique, while always having regard to Xero's strategy, purpose, and long-term value creation

Incentivising appropriate risk-taking and risk-management further underpins our remuneration principles and structure. This approach to managing risk is borne out in a number of ways including (but not limited to) P&R Committee review and approval, the use of at-risk remuneration, malus and clawback rules, and available Board discretion. Sections 6.3 and 6.4 contain further information about risk-taking and risk management as it relates to Xero's STI, LTE and LTI arrangements.

5.2 Remuneration structure

To foster alignment between the interests of the leadership team and shareholders, Xero's leadership team remuneration structure is deliberately weighted to have a substantial proportion of target total remuneration at risk. A large part of this at-risk component consists of LTE and LTI awards, providing an effective multi-year incentive aligned with Xero's long-term strategy.

Cash		Equity	

FR
Fixed Remuneration

Reviewed annually based on individual skills, experience, accountabilities, performance, leadership, and behaviours

STI
Short-Term Incentive

Rewards delivery of key strategic and financial objectives, in line with the annual business plan, and rewards outcomes aligned to Xero's goals for growth and operational discipline

LTE & LTI
Long-Term Equity & Incentive

Rewards delivery against longer-term strategy and sustained shareholder value creation. Fosters alignment between shareholder, customer, and leadership team outcomes

FR comprises base salary and other benefits including pension (superannuation/ KiwiSaver or local equivalent)	STI comprises 50% cash	STI comprises 50% deferred equity in the form of RSUs Each RSU entitles the executive to receive one Xero share on vesting. Deferred equity vests one year after grant, subject to continuing employment and confirmation that no award adjustment events have occurred	LTE is 100% contingent on service in alignment with the global pay practices of similar organisations based in the US where our CEO is based and where we compete for broader senior talent	LTI is 100% contingent on service and performance measures Performance measures are operating revenue growth and rTSR over the three-year performance period LTI metrics and composition will be reviewed each year (for future year grants) The rTSR is based on a bespoke SaaS peer group, which includes a blend of best-in-class and broader SaaS companies that are both smaller and larger than us. This allows for a benchmark of Xero's performance against companies who are seeking similar investors and talent

STI:

An at-risk component set as a percentage of base salary

Calculated based on achievement against a range of company-wide performance measures (financial and non-financial) and individual objectives

Paid after a one-year performance period (1 April to 31 March, aligned with Xero's financial year)

LTE & LTI:

An at-risk component set as a percentage of base salary and granted annually in the form of RSUs to participating executives, which entitles the executive to Xero shares on vesting

RSUs vest over a three-year performance period on the third May following grant

New hires/promotions may be invited to participate in the LTE and LTI plans, with a pro-rata allocation to reflect their entry into the plans part way through the year

5.3 Use of discretion

The Board has discretion in relation to granting and testing variable remuneration, including in relation to assessing whether the performance hurdles for STI (cash and equity) and LTI have been satisfied. The Board also has discretion in relation to how variable remuneration is treated in a change of control or cessation of employment scenario. The treatment of the CEO's variable remuneration has already been determined in certain cessation of employment scenarios. Further information about variable remuneration and change of control and cessation of employment is in sections 6.3 and 6.4.

In addition, all leadership team variable remuneration is subject to malus and clawback provisions, which apply to vested and unvested equity awards and incentive payments. These provisions give Xero's Board broad discretion to adjust, lapse/forfeit, or require repayment of equity award or incentive payments to ensure no unfair benefit is obtained by a member of the leadership team. This is one of the ways that Xero embeds risk management into its remuneration framework.

Malus and clawback provisions will be relevant in a range of potential award adjustment events, for example where:

- A leadership team member has acted fraudulently, dishonestly, or is in breach of their obligations to Xero
- Xero becomes aware of a material misstatement or omission in Xero's financial statements
- A leadership team member has failed to act consistently with Xero's risk appetite and risk management priorities
- In any other circumstances where the Board determines in good faith there is an unfair benefit to the leadership team member, e.g. relating to behaviour or conduct

5.4 Remuneration benchmarking and review

Xero is a truly global organisation with 33% of all employees now residing outside of New Zealand and Australia, across more than ten countries. Xero is one of only a few multinational technology companies listed on the ASX of its size and reach competing in a global market for talent.

Leadership team remuneration is benchmarked against ASX listed and US peer groups (referencing market data of Australia and US-based executives with the capabilities needed for leadership roles).

Each year, Xero engages an independent consultant to review and update the peer groups and perform a comparative analysis of the leadership team's remuneration against reported roles within those identified peer groups (Australia/US as considered appropriate for the respective leadership team member's location). Xero's aim is to always pay competitively.

The ASX and US peer groups were selected from technology companies, listed on the ASX or in the US, with similar size and reach globally. The peer group selection had regard to market cap, total/net assets, revenue, EBITDA, business activity and operational scale. Xero is uniquely positioned as a global technology company of its size listed on the ASX.

Following that review, changes to the leadership team's remuneration structure or amounts may be proposed, to ensure they remain appropriate and market competitive. Details of the FY23 review are outlined in sections 6.2, 6.3 and 6.4.

6. Key remuneration components for the CEO, former CEO, and CFO

Further detail is outlined below on how the remuneration structure described in section 5.2 applies to the CEO, former CEO, and CFO.

6.1 CEO, former CEO, and CFO remuneration mix

CEO (and all leadership team) remuneration is deliberately weighted to have a substantial proportion of target total remuneration at risk in order to align executive remuneration with shareholder outcomes and ensure that Xero can continue to attract, motivate and retain talented executives in the global talent landscape to deliver on Xero's strategic objectives.

Sukhinder Singh Cassidy was appointed by the Board as CEO, replacing Steve Vamos on 1 February 2023. The CEO has a much higher weighting towards variable pay compared to the former CEO, with equity in particular, making up a significant proportion of target total remuneration.

- The CEO's remuneration mix is as follows: Variable pay forms 86.7% of target total remuneration (89.1% of maximum total remuneration); and equity forms 80.2% of target total remuneration (82.2% of maximum total remuneration)
- The former CEO's remuneration mix is as follows: Variable pay forms 63.5% of target total remuneration (68.9% of maximum total remuneration); and equity forms 47.6% of target total remuneration (51.3% of maximum total remuneration)
- The CFO's remuneration mix is as follows: Variable pay forms 53.8% of target total remuneration (59.8% of maximum total remuneration); equity forms 40.4% of target total remuneration (44.5% of maximum total remuneration)

CEO

Target

- Fixed annual remuneration (**13.3%**)
- STI cash (**6.5%**)
- STI equity (**6.5%**)
- LTE: three-year rights based service plan (**36.9%**)
- LTE: three-year rights based performance plan (**36.9%**)

Maximum

- Fixed annual remuneration (**10.9%**)
- STI cash (**6.9%**)
- STI equity (**6.9%**)
- LTE: three-year rights based service plan (**30.2%**)
- LTE: three-year rights based performance plan (**45.2%**)

former CEO

Target

- Fixed annual remuneration (**36.5%**)
- STI cash (**15.9%**)
- STI equity (**15.9%**)
- LTE: three-year rights based service plan (**15.9%**)
- LTE: three-year rights based performance plan (**15.9%**)

Maximum

- Fixed annual remuneration (**31.1%**)
- STI cash (**17.6%**)
- STI equity (**17.6%**)
- LTE: three-year rights based service plan (**13.5%**)
- LTE: three-year rights based performance plan (**20.3%**)

CFO

Target

- Fixed annual remuneration (**46.2%**)
- STI cash (**13.5%**)
- STI equity (**13.5%**)
- LTE: three-year rights based service plan (**13.5%**)
- LTE: three-year rights based performance plan (**13.5%**)

Maximum

- Fixed annual remuneration (**40.2%**)
- STI cash (**15.2%**)
- STI equity (**15.2%**)
- LTE: three-year rights based service plan (**11.7%**)
- LTE: three-year rights based performance plan (**17.6%**)

6.2 Fixed annual remuneration

Leadership team remuneration is benchmarked against ASX/US peer groups. The ASX and US peer groups were selected from ASX/US listed technology companies with similar size and reach globally. The peer groups were selected with regard to market cap, total/net assets, revenue, EBITDA, business and operational scale.

Fixed annual remuneration is set in the context of Xero's wider, growth-orientated remuneration strategy and considers an individual's skills, experience, accountabilities, performance, leadership, and behaviours.

The outcome of the FY23 remuneration benchmarking review highlighted that fixed remuneration for the former CEO, and CFO was considerably lower than the median of our peer group. As a result of the review, the following changes were made, bringing both the former CEO's, and CFO's fixed remuneration closer to the median of the peer group:

- The former CEO's base salary increased to $1,485,000 from $1,350,000, effective 1 April 2022
- The CFO's base salary increased to $800,000 from $718,750, effective 1 July 2022

The CEO was appointed 1 February 2023. Target median remuneration was based on the US benchmarked peer group. The peer group was selected from US listed technology companies with similar size and reach globally. The CEO's base salary is US$700,000 (NZ$1,121,435).

6.3 At risk – Short-Term Incentive (STI)

STI is an at-risk component of remuneration structured to reward achievement against Xero's strategic and financial objectives in the financial period. The selected objectives reward delivery of key strategic and financial objectives, in line with the annual business plan, and reward outcomes aligned to Xero's goals for growth and operational discipline.

We review our STI measures and weightings each year to ensure they are reflective of, and linked to, strategic outcomes including customer NPS, eNPS and engagement. STI opportunities are set as a percentage of base salary, based on level of responsibility and country of residence.

The STI performance measures have been chosen to focus the CEO and CFO on growing global revenue and creating customer value and engaged teams, while maintaining disciplined operational and financial outcomes. Vesting outcomes also have regard to whether the leadership team member has acted in accordance with Xero's values.

- The CEO was appointed 1 February 2023. Her target STI is 100% of her base salary at US$700,000 (NZ$1,121,435). This has been pro-rated 33% for FY23 due to the CEO's start date
- For the former CEO, the FY23 remuneration review process resulted in his target STI increasing to $1,336,500 (90% of base salary) from $1,080,000 (80% of base salary), with effect from 1 April 2022
- For the CFO, the FY23 remuneration review process resulted in her target STI increasing to $480,000 (60% of base salary) from $359,375 (50% of base salary), with effect from 1 April 2022

The following table provides an overview of the key features of the STI structure.

Element	Details
Purpose	Focus participants on delivery of business objectives over a one-year period
Target opportunity (% base salary)	CEO 100%, former CEO 90%, CFO 60%
Maximum opportunity (% base salary)	CEO 130%, former CEO 117%, CFO 78%
Performance period	Performance is measured from 1 April to 31 March
Performance measures	Performance metrics measure success in relation to our key stakeholders, reflecting the voices of shareholders, customers and employees
Financial objectives (60%)	Financial objectives reflect the voice of shareholders – EBITDA and net new monthly recurring revenue (MRR) targets
Non-financial objectives (40%)	Non-financial metrics are based on: • voice of the customer – partner and direct NPS targets • voice of the employee – employee NPS and engagement targets • individual objectives – operational objectives including a global adjacents target and leadership attributes targets
Target setting	Measures, weightings and targets set at the beginning of each financial year are reviewed by the P&R Committee and approved by the Board annually. Performance measures are calibrated to ensure they are aligned to our values, longer-term strategic priorities and risk appetite. They are set thoughtfully and fairly and, depending on expected performance, may increase, decrease or stay the same from the previous year
Evaluation of performance	Performance against financial and non-financial objectives is determined at the end of the financial year. Financial outcomes are only confirmed after audited results are finalised. Leadership team performance, including acting in accordance with Xero's values, is reviewed by the CEO, in consultation with the P&R Committee (and in the case of the CEO, by the Board)
Pay vehicle	50% of STI awarded is paid in cash with the remaining 50% issued in RSUs under the terms of the Xero Limited Restricted Stock Unit and Option Plan or the Xero Limited USA Incentive Scheme (as relevant)

Grant date	RSUs are typically granted annually in or around May For FY23, RSUs will be granted in May 2023
Vesting conditions	RSUs vest one year from grant date, subject to continued service and confirmation from the P&R Committee that no award adjustment events have occurred
Cessation of employment	Unless the Board determines otherwise, if the leadership team member ceases employment, all unvested RSUs lapse and all STI awards not yet paid are forfeited CEO: The CEO's cash and equity STI will be forfeited if they are dismissed for cause or resign (other than for good reason or genuine retirement) unless the Board determines otherwise. If the CEO terminates their employment for good reason or their employment is terminated without cause, the cash component will be pro-rated and the equity component will remain on foot and be eligible to vest in the ordinary course (as if employment had not ceased). If the CEO ceases for any other reason (e.g. genuine retirement) the cash component will be pro-rated and the equity component will remain on foot and be eligible to vest (as if employment had not ceased), unless the Board determines otherwise
Sale of vested shares	Our people are subject to Xero's Share Trading Policy and dealing restrictions as outlined in section 4.4. Shares cannot be sold during a closed period for share trading
Change of control	The Board has broad discretion to determine the appropriate treatment of unvested RSUs on a change of control. Amongst other things, the Board may decide to vest/lapse unvested RSUs or settle them in cash instead of shares If the Board does not exercise its discretion, unvested RSUs will vest pro-rata, based on the proportion of the vesting period that has passed at the time of the change of control and the extent to which any applicable conditions have been satisfied
Malus and clawback provisions	Adjustment, delay or withholding may occur in, but is not limited to, circumstances where: • an employee has acted fraudulently or dishonestly or is in material breach of their obligations • where Xero becomes aware of a material misstatement or omission in the financial statements of the Xero Group • where an executive has failed to act consistently with Xero's risk appetite and risk management priorities • in any other circumstances where the Board determines in good faith there is an unfair benefit to the employee, e.g. relating to behaviour or conduct, such as risk management
Dividends and voting	RSUs do not carry an entitlement to dividends or voting prior to vesting
Amendments and adjustments	Other than as set out above, the Board has discretion to make changes to the terms of RSUs, the Xero Limited Restricted Stock Unit and Option Plan, and the Xero Limited USA Incentive Scheme subject to the law and ASX Listing Rules applicable from time to time. The Board also has power to make adjustments to the number of RSUs in certain circumstances

6.3.1 Link between remuneration, strategy and value creation

The following table outlines the STI measures and weightings that applied to the CEO's, former CEO's, and CFO's FY23 STI awards.

Performance measure	Weighting	Rationale for choice of measure
Voice of the shareholder (60% of total)		
Group Net New Monthly Recurring Revenue (MRR)	45%	• Key indicator of financial performance driving AMRR • Supports execution on growth objectives • Drives value creation through Xero's Financial key outcomes – 'Strong balance sheet, revenue growth, gross margin contribution and strong cash flows to provide options for reinvestment to support our strategy and vision and create long-term value for shareholders' • Aligns with our 'Challenge', 'Team', and 'Ownership' values
EBITDA	15%	• Key indicator of financial performance • Ensures continued focus on disciplined allocation of capital • Rewards appropriate balance between return generation and reinvestment in growth • Drives value creation through Xero's Financial key outcomes – 'Strong balance sheet, revenue growth, gross margin contribution and strong cash flows to provide options for reinvestment to support our strategy and vision and create long-term value for shareholders' • Aligns with our 'Challenge', 'Team', and 'Ownership' values
Voice of the customer (10% of total)		
Partner and Small Business NPS	10%	• Key indicator of customer and partner satisfaction • Ensures continued focus on customer retention • Drives value creation through Xero's Customers, Partners and Ecosystem key outcome – 'Greater stakeholder trust and customer advocacy through a product experience that exceeds expectations. Improved brand awareness, perception and value, including trust in the reliability and security of data' • Aligns with our 'Human', 'Challenge', 'Team', 'Ownership', and 'Beautiful' values
Voice of the employee (10% of total)		
Employee NPS and Engagement	10%	• Key indicator of employee satisfaction • Ensures continued focus on employee engagement • Drives value creation through Xero's People and Culture key outcome – 'Attraction, development and retention of top talent is enhanced. Targeted initiatives and flexible ways of working to promote diversity, pay equity and an inclusive environment. Improved health, safety and wellbeing performance' • Aligns with our 'Human', 'Challenge,' and 'Team' values
Individual objectives (20% of total)		
Individual objectives including a global adjacents target and leadership attributes targets	20%	• Key indicator of individual leadership team performance • Ensures continued focus on individual goals • Rewards individual performance • Drives value creation through all of Xero's key outcomes • Aligns with our 'Challenge' and 'Ownership' values

6.4 Long-Term Equity (LTE) and Long-Term Incentive (LTI)

LTE and LTI are at-risk components of leadership remuneration that are structured to reward the effective execution of Xero's strategic plan and sustained shareholder value creation.

Xero is one of only a few technology companies listed on the ASX of both its size and reach globally. As we continue to grow our global footprint, the skills and experience required of our management team also evolves.

The CEO's target median remuneration was based on the US benchmarked peer group (market data of US-based executives with the capabilities needed for the CEO role). The peer group was selected from US listed technology companies with similar size and reach globally. The lower base salary and higher variable remuneration weighting (LTE and LTI) was driven by the typical package breakdown of a US-based CEO.

The CEO's target LTE and LTI is 571% of base salary at US$4,000,000 (NZ$6,408,202). This was set having regard to peer benchmarking as noted earlier in this report. The CEO's LTE and LTI has been pro-rated 50% for FY23 due to her start date (1 February 2023). For FY23, this was US$2,500,000 (being a pro-rated opportunity based on a full year maximum of US$5,000,000) and representing a 40% LTE and 60% LTI split. The CEO's initial LTE and LTI grant was made in January 2023 and vests in May 2025.

For the former CEO, the FY23 remuneration review process resulted in his target LTE and LTI increasing to $1,336,500 (90% of base salary) from $1,080,000 (80% of base salary) as of 1 April 2022.

For the CFO, the FY23 remuneration review process resulted in her target LTE and LTI increasing to $480,000 (60% of base salary) from $359,375 (50% of base salary) as of 1 July 2022.

The following table provides an overview of the key features of the LTE and LTI structure.

Element	Details
Purpose	Rewards delivery against longer-term strategy and sustained shareholder value creation. Provides alignment between shareholder, customer, and leadership team outcomes and time-based retention through multi-year vesting
Target opportunity (% base salary)	CEO 571.4%, former CEO 90%, CFO 60%
Maximum opportunity (% base salary)	CEO 714.3%, former CEO 112.5%, CFO 75%
Pay vehicle	LTE and LTI are provided in the form of RSUs under the Xero Limited Restricted Stock Unit and Option Plan or the Xero Limited USA Incentive Scheme (as relevant). The number of RSUs granted is calculated by reference to the LTE and LTI value (% of base salary) divided by the 30-day volume-weighted-average-price (VWAP) of Xero shares on the grant date
Grant date	RSUs are typically granted annually in or around July For FY23, RSUs were granted in July 2022 for the former CEO, and CFO, and in January 2023 for the CEO[1]
Vesting conditions	LTE – value is contingent on service (being employed and not having resigned on the vest date) LTI – value is contingent on performance targets over a three-year period (commencing 1 April 2022 and ending 31 March 2025) as well as service Performance contingent component measures and weightings: • Operating revenue growth – 75% • Relative total shareholder return (TSR) – 25% RSUs typically vest in the third May following the grant LTE and LTI granted for FY23 will vest on or around 31 May 2025

[1] *To correct for a miscalculation in the number of RSUs granted, 1,841 RSUs will be granted to the CEO in May 2023. The original offer terms continue to apply to all RSUs*

Cessation of employment	Former CEO, and CFO: in the event of termination all unvested RSUs are forfeited CEO: The CEO's LTI will be forfeited if they are dismissed for cause or resign (other than for good reason or genuine retirement) unless the Board determines otherwise. If the CEO terminates their employment for good reason or their employment is terminated without cause, a pro-rata amount of LTI will remain on foot and be eligible to vest in the ordinary course (as if employment had not ceased). If the CEO ceases for any other reason (e.g. genuine retirement) a pro-rata amount of LTI will remain on foot and be eligible to vest in the ordinary course (as if employment had not ceased), unless the Board determines otherwise
Sale of vested shares	Employees are subject to Xero's Share Trading Policy and dealing restrictions as outlined in section 4.4. Shares cannot be sold during a closed period for share trading
Change of control	The Board has broad discretion to determine the appropriate treatment of vested shares and unvested RSUs on a change of control. Amongst other things, the Board may decide to vest/lapse unvested RSUs or settle them in cash instead of shares If the Board does not exercise its discretion, unvested RSUs will vest pro-rata based on the proportion of the vesting period that has passed at the time of the change of control and the extent to which any applicable conditions have been satisfied
Malus/clawback provisions	Adjustment, delay or withholding may occur, but is not limited to, circumstances where: • an employee has acted fraudulently or dishonestly or is in material breach of their obligations • where Xero becomes aware of a material misstatement or omission in the financial statements of the Xero Group • where an executive has failed to act consistently with Xero's risk appetite and risk management priorities • in any other circumstances where the Board determines in good faith there is an unfair benefit to the employee, e.g. relating to behaviour or conduct, such as risk management
Dividends and voting	RSUs do not carry entitlement to dividends or voting prior to vesting
Amendments and adjustments	Other than as set out above, the Board has discretion to make changes to the terms of RSUs, the Xero Limited Restricted Stock Unit and Option Plan, and the Xero Limited USA Incentive Scheme subject to the law and ASX Listing Rules applicable from time to time. The Board also has power to make adjustments to the number of RSUs in certain circumstances

6.4.1 CEO initial equity grant

The CEO received a one-off initial equity grant of US$10,000,000 (NZ$16,020,506) in the form of options. Details of the CEO's initial equity grant are outlined below.

Element	Details
Purpose	One-off initial equity grant for CEO intended to reward delivery against longer-term strategy and sustained shareholder value creation. Provides alignment between shareholder, customer, and executive outcomes and time-based retention through multi-year vesting
Pay vehicle	Options with an exercise price based on the 30-day VWAP leading up to grant date. Options lapse ten years from grant date. This expiry date is intended to apply for options granted from January 2023 onwards. Previous grants had an expiry period of five years from grant. This change was made to align option expiry with typical US market practice
Grant details	445,697 options were granted in January 2023[1]
Vesting conditions	Options vest in three equal tranches on the first, second and third anniversaries of the employment date (November 2022). Vesting is contingent upon continued service and subject to malus and clawback. The exercise price acts as a built-in hurdle to drive longer-term strategy and sustained shareholder value creation
Outcome	No options have yet vested. The first tranche of options will vest in November 2023
Change of control	If the Company is subject to change of control, the Board may decide how to treat options at its discretion
Cessation of employment	The CEO's unvested options will be forfeited if the CEO is dismissed for cause or resigns (other than for good reason or genuine retirement) unless the Board determines otherwise. If the CEO terminates their employment for good reason or their employment is terminated without cause or the CEO ceases for any other reason (e.g. genuine retirement) all unvested options remain on foot and are eligible to vest in the ordinary course (as if employment had not ceased)
Amendments and adjustments	Other than as set out above, the Board has discretion to make changes to the terms of RSUs and options, the Xero Limited Restricted Stock Unit and Option Plan, and the Xero Limited USA Incentive Scheme subject to the law and ASX Listing Rules applicable from time to time

[1] As disclosed in November 2022, the CEO was entitled to receive options in three equal tranches, each valued at USD$3,333,333 at grant. Xero has identified that a miscalculation impacted the options issued to the CEO (to the CEO's disadvantage). Xero is assessing the miscalculation and its impact and will disclose the steps taken to remedy the error in the 2024 Remuneration Report

6.5 Legacy former CEO, and CFO equity arrangements

Details of equity grants for the former CEO, and CFO before the current LTE and LTI plans were adopted are outlined below. This legacy grant was offered in 2018 as a one-off plan with the final tranche vesting in FY23.

6.5.1 Legacy former CEO options

Element	Details
Purpose	Executive team retention plan intended to reward delivery against longer-term strategy and sustained shareholder value creation. Provides alignment between shareholder, customer, and executive outcomes and time-based retention through multi-year vesting
Pay vehicle	Options with an exercise price based on the 20-day VWAP leading up to grant date Options lapse five years from grant date
Grant details	Under the FY19 executive block options grant, 180,000 options were granted in August 2018
Vesting conditions	Options vest in two equal tranches in June in each of the third and fourth years after grant. Vesting is contingent upon continued service and subject to malus and clawback
Outcome	The final tranche of 90,000 options vested in June 2022 with a value at vesting of $4.79 million

6.5.2 Legacy CFO options arrangements

Element	Details
Purpose	Executive team retention plan intended to reward delivery against longer-term strategy and sustained shareholder value creation. Provides alignment between shareholder, customer, and executive outcomes and time-based retention through multi-year vesting
Pay vehicle	Options with an exercise price based on the 20-day VWAP leading up to grant date Options lapse five years from grant date
Grant details	Under the FY19 executive block options grant, 80,000 options were granted in June 2018, and a further 20,000 options were granted in October 2018
Vesting conditions	Options vest in three equal tranches in June in each of the second, third, and fourth years after grant. Vesting is contingent upon continued service
Outcome	The final grant of 33,334 options vested in June 2022 with a value at vesting of $1.69 million

7. Xero's performance

Xero's financial results over the last five years are shown below, along with STI outcomes:

Measure	FY19	FY20	FY21	FY22	FY23
Subscribers	1,818,000	2,285,000	2,741,000	3,271,000	3,741,000
Annualised Monthly Recurring Revenue ($000s)	$638,179	$820,557	$963,597	$1,231,087	$1,553,803
Operating Revenue ($000s)	$552,819	$718,231	$848,782	$1,096,819	$1,399,884
Free Cash Flow ($000s)	$6,451	$27,105	$56,946	$2,073	$102,340
Average STI received as % of maximum	79%	56%	90%	85%	59%

Xero's share price, Xero share price movement, Xero total shareholder return and average STI outcomes over the last five years are shown below:

Measure	FY19	FY20	FY21	FY22	FY23
Xero Share Price (AU$)*	48.65	67.91	126.53	102.75	89.42
Xero Share Price Movement (AU$)	15.21	19.26	58.62	-23.78	-13.33
Xero Total Shareholder Return	45.5%	39.6%	86.3%	-18.8%	-13.0%
Average STI received as % of maximum	79%	56%	90%	85%	59%

** Closing price for the last trading day in the financial year*

8. CEO, former CEO, and CFO remuneration

The following table provides details of the actual remuneration **received** by the CEO, former CEO, and CFO during FY23 and FY22. This represents the 'take home pay' of the CEO, former CEO, and CFO during those years, rather than the accounting values recognised by applicable accounting standards. The CEO, former CEO, and CFO received no other monetary benefits, other than those stated below.

Actual remuneration received by the CEO, former CEO, and CFO disclosed in the table below for FY23 is based on the following:

- Fixed annual remuneration earned between 1 April 2022 and 31 March 2023
- Realisable cash and deferred RSU STI based on FY22 and FY21 performance, respectively. Cash was received in May 2022. Deferred RSUs were granted in May 2021 and vested in May 2022. The number of RSUs granted is dependent on the share price at grant: 110.2 percent of target STI (90.0 percent of maximum) was awarded to the former CEO, and CFO based on FY21 performance
- Value of the former CEO's options that vested during FY23: 90,000 options from the FY19 executive block options grant
- Value of the CFO's options that vested during FY23: 33,334 options from the FY19 executive block options grant

Fixed remuneration				**Variable remuneration**[1]				
				Accounting value of grants vested during the year, in the form of:				
	Salary ($000s)	**Pension ($000s)**	**Other[2] ($000s)**	**Cash STI ($000s)**	**Option/ share grants ($000s)**	**RSU grants ($000s)**	**Additional value of all grants vested in the year, attributable to share price appreciation ($000s)**	**Total remuneration received inclusive of share price appreciation ($000s)**
S Singh Cassidy FY23	388[3]	11	-	-	-	-	-	399
S Vamos FY23	1,485	53	52	564	2,182	379	2,506	7,221
S Vamos FY22	1,350	54	31	379	2,182	549	8,500	13,045
K Godfrey-Billy FY23	780	18	10	188	707	147	944	2,794
K Godfrey-Billy FY22	695	16	9	147	707	90	2,910	4,574

[1] *Includes the value of options and RSUs granted in prior years that vested in the year*

[2] *Relates to payout of annual leave under New Zealand requirements, which includes STI received in calculation of payments*

[3] *Xero's FY23 Annual Report filed on the ASX on 18 May 2023 has 348 rather than the correct number, being 388*

Further details on STI outcomes for the CEO, former CEO, and CFO are outlined in section 9.

Further details on other remuneration elements and outcomes for the FY23 year for the CEO, former CEO, and CFO are outlined in section 10.

9. STI outcomes in detail

The annual outcomes achieved for the CEO, former CEO, and CFO are based on Xero's FY23 performance as below. Voices of the shareholder, customer, and employee are formulaic.

Objectives	**Weighting**	**Commentary**	**Outcome (% of target)**	**Outcome (% of max)**
Voice of the shareholder	60%	Net new MRR was $24.1m for FY23. This exceeded target EBITDA was $158.4m for FY23. This was below target	93%	62%
Voice of the customer	10%	Accountant/Bookkeeper (Partner) NPS was below target for FY23 Small Business (Direct) NPS was below target for FY23 The targets must be met for payment to be made	0%	0%
Voice of the employee	10%	Employee NPS was above global industry benchmarks with a 12-month rolling average of 32 for FY23 but did not reach 100% of target Employee Engagement was 7.9 for FY23. This exceeded target. There is no stretch (payment is at 100% if target is achieved)	50%	50%
Individual objectives	20%	Individual objectives comprise a global adjacents target, leadership attributes targets and individual OKRs. Individual objectives achievement for the three executive KMPs were: 100% for the CEO, 66% for the former CEO, and 73.5% for the CFO	66%–100%	66%–100%
Total outcome (CEO)			80.8%	62.2%
Total outcome (former CEO)			74.0%	56.9%
Total outcome (CFO)			75.5%	58.1%

10. CEO, former CEO, and CFO equity holdings

The following tables present current at-risk equity and holdings for the CEO, former CEO, and CFO.

At-risk equity as at 31 March 2023

	Opening balance[1]	Granted during the year	Vested	Exercised	Lapsed/ forfeited	Closing balance[1]
Options						
CEO	-	445,697[2]	-	-	-	445,697
Former CEO	145,880	-	90,000	90,000	-	55,880
CFO	50,593	12,502	33,334	33,334	-	29,761
RSUs						
CEO	-	46,752[3]	-	-	-	46,752
Former CEO	2,740	23,922	2,740	-	-	23,922
CFO	1,062	12,127	1,062	-	-	12,127

[1] *For options, includes all vested/unvested options that have not been exercised. For RSUs, only includes what has not vested*

[2] *As disclosed in November 2022, the CEO was entitled to receive options in three equal tranches, each valued at USD$3,333,333 at grant. Xero has identified that a miscalculation impacted the options issued to the CEO (to the CEO's disadvantage). Xero is assessing the miscalculation and its impact and will disclose the steps taken to remedy the error in the 2024 Remuneration Report*

[3] *To correct for a miscalculation in the number of RSUs granted, 1,841 RSUs will be granted to the CEO in May 2023. The original offer terms continue to apply to all RSUs*

Total equity holdings at 31 March 2023

	Options	RSUs
CEO	445,697	46,752
Former CEO	55,880	23,922
CFO	29,761	12,127

11. CEO and CFO employment conditions

The following tables outline the employment conditions pertaining to the CEO and CFO.

11.1 CEO employment conditions

Item	Details
Basis of contract	Ongoing (no fixed term)
Notice period	Twelve months by either party Shorter notice may apply by agreement
Base salary	Subject to annual review (but no adjustments to base salary are guaranteed)
Incentive opportunities	Eligible to participate in short-term incentive arrangements, long-term incentive arrangements, and a one-off initial equity grant. FY23 opportunities are outlined in this report. For FY24, and future years, a full year short-term (target) opportunity of 100% of base salary will be available. For FY24, a full year (maximum) long-term opportunity of not less than USD$5,000,000 will be available
Payment in lieu of notice period	Xero may pay the CEO in lieu of all or part of her notice period or require her to work for part of her notice period and pay her in lieu of the balance

11.2 CFO employment conditions

Item	Details
Basis of contract	Ongoing (no fixed term)
Notice period	Three months by either party Shorter notice may apply by agreement
Base salary	Subject to annual review (but no adjustments to base salary are guaranteed)

12. Non-executive director remuneration

The total remuneration available to non-executive directors is fixed by shareholders.

The annual total aggregate non-executive director remuneration is capped at $2.7 million, as approved by shareholders at Xero's Annual Meeting in August 2021.

The Board sets the fees for the non-executive directors at a level that provides Xero with the ability to attract and retain directors of a high calibre.

The fees paid to non-executive directors are structured to reflect time commitment, responsibilities, and workloads. Fees are benchmarked to the local market and set accordingly reflecting the global composition of Xero's Board. To preserve independence and impartiality, non-executive directors have not received any performance-related or at-risk compensation (such as options) since 2016. Xero does not provide any scheme for retirement benefits, other than statutory superannuation, for non-executive directors.

Below are the target annual fees payable to non-executive directors during FY23. Directors' fees are paid in New Zealand dollars in order to avoid exchange rate fluctuations impacting the annual fee cap.

Country of residence	Chair ($000s)	Director ($000s)	Audit & Risk Management Committee Chair[1] ($000s)	Audit & Risk Management Committee member[1] ($000s)	People & Remuneration Committee Chair[1] ($000s)	People & Remuneration Committee member[1] ($000s)
New Zealand	450	190	38	19	38	19
Australia	450	190	38	19	38	19
United States	500	360	38	19	38	19
United Kingdom	650	190	38	19	38	19

[1] *No additional fees are currently paid for the Chair or members of the Nominations Committee. The Board Chair does not receive any additional fees for serving on committees*

Fees are reviewed every two years, with the last review concluding in 2021. Fees are currently under review and any proposed resolution to change the non-executive directors' fee pool cap will be put to shareholders at Xero's annual meeting in August 2023.

The total remuneration[1] of, and the value of other benefits received by, each non-executive director during FY23 was:

Director	Country of residence	Role	Committee Chair	FY23 Base fees ($000s)	FY23 Committee fees ($000s)	FY23 Total fees ($000s)
David Thodey, AO	Australia	Chair	Nominations Committee	450	-	450
Rod Drury	New Zealand	NED	-	190	-	190
Lee Hatton	Australia	Independent NED	-	190	19	209
Dale Murray, CBE	United Kingdom	Independent NED	-	190	19	209
Susan Peterson	New Zealand	Independent NED	P&R Committee	190	38	228
Mark Cross	New Zealand	Independent NED	ARM Committee	190	57	247
Steven Aldrich	United States	Independent NED	-	360	19	379
Brian McAndrews	United States	Independent NED	-	360	19	379
Total				**2,120**	**171**	**2,291[1]**

[1] *Total remuneration is presented based on accounting expense and may include amounts earned, but not yet received*

The total remuneration[1] of, and the value of other benefits received by, each non-executive director during FY22 was:

Director	Country of residence	Role	Committee Chair	FY22 Base fees ($000s)	FY22 Committee fees ($000s)	FY22 Total fees ($000s)
David Thodey, AO	Australia	Chair	Nominations Committee	404	-	404
Rod Drury	New Zealand	NED	-	168	-	168
Lee Hatton	Australia	Independent NED	-	168	19	187
Dale Murray, CBE	United Kingdom	Independent NED	-	168	19	187
Susan Peterson	New Zealand	Independent NED	P&R Committee	168	38	206
Mark Cross	New Zealand	Independent NED	ARM Committee	168	47	215
Brian McAndrews[2]	United States	Independent NED	-	59	3	62
Steven Aldrich	United States	Independent NED	-	305	19	324
Former directors						
Craig Winkler[3]	Australia	NED	-	53	14	67
Total				**1,661**	**159**	**1,820[1]**

[1] *Total remuneration is presented based on accounting expense and may include amounts earned, but not yet received*

[2] *Appointed director 2 February 2022*

[3] *Ceased as director 12 August 2021*

13. Our team's remuneration

The following table shows the number of current and former employees of Xero whose remuneration and benefits for FY23 were within the specified bands above $100,000.

Remuneration including share-based remuneration	Number of employees
100,000 to 109,999	283
110,000 to 119,999	306
120,000 to 129,999	315
130,000 to 139,999	299
140,000 to 149,999	309
150,000 to 159,999	294
160,000 to 169,999	268
170,000 to 179,999	223
180,000 to 189,999	161
190,000 to 199,999	144
200,000 to 209,999	112
210,000 to 219,999	108
220,000 to 229,999	100
230,000 to 239,999	96
240,000 to 249,999	59
250,000 to 259,999	55
260,000 to 269,999	59
270,000 to 279,999	59
280,000 to 289,999	47
290,000 to 299,999	37
300,000 to 309,999	32
310,000 to 319,999	20
320,000 to 329,999	38
330,000 to 339,999	21
340,000 to 349,999	23
350,000 to 359,999	23
360,000 to 369,999	13
370,000 to 379,999	19
380,000 to 389,999	14
390,000 to 399,999	10
400,000 to 409,999	11
410,000 to 419,999	7
420,000 to 429,999	12
430,000 to 439,999	13
440,000 to 449,999	6
450,000 to 459,999	9
460,000 to 469,999	9
470,000 to 479,999	8

Remuneration including share-based remuneration	Number of employees
480,000 to 489,999	2
490,000 to 499,000	7
500,000 to 509,999	7
510,000 to 519,999	4
520,000 to 529,999	3
530,000 to 539,999	3
540,000 to 549,999	1
550,000 to 559,000	2
560,000 to 569,000	7
580,000 to 589,999	3
590,000 to 599,999	3
600,000 to 609,999	3
610,000 to 619,999	1
630,000 to 639,999	2
650,000 to 659,999	1
660,000 to 669,999	1
680,000 to 689,999	2
690,000 to 699,999	3
700,000 to 709,999	1
720,000 to 729,999	2
760,000 to 769,999	1
800,000 to 809,999	1
830,000 to 839,999	1
850,000 to 859,999	1
870,000 to 879,999	1
880,000 to 889,999	3
890,000 to 899,999	2
900,000 to 909,999	1
910,000 to 919,999	3
940,000 to 949,999	1
950,000 to 959,999	2
980,000 to 989,999	1
1,000,000 to 1,000,999	1
1,050,000 to 1,050,999	2
1,100,000 to 1,100,999	1
1,140,000 to 1,140,999	2
1,160,000 to 1,169,999	2
1,190,000 to 1,199,999	1

Remuneration including share-based remuneration	Number of employees	Remuneration including share-based remuneration	Number of employees
1,350,000 to 1,359,999	1	2,460,000 to 2,469,999	1
1,550,000 to 1,559,999	1	2,790,000 to 2,799,999	1
1,670,000 to 1,679,999	1	2,820,000 to 2,829,999	1
2,120,000 to 2,129,999	1	3,030,000 to 3,039,999	1
2,200,000 to 2,209,999	1	3,500,000 to 3,509,999	1
2,230,000 to 2,239,999	1	7,220,000 to 7,229,999	1

The remuneration covered in the table includes monetary payments received and share-based payments vested (i.e. restricted shares, RSUs and vested options). The table above includes remuneration received by the CEO, former CEO, and CFO.

The value of options vested during the year has been calculated as the difference between the exercise price of those options and the share price on the day the options vest (become exercisable). Our methodology in calculating the value of equity for employees has been chosen as it provides a closer representation of the actual remuneration received during the year and is consistent with the approach made within the CEO, former CEO, and CFO remuneration disclosures detailed above.

Corporate directory

Registered offices

New Zealand
19-23 Taranaki Street
Te Aro, Wellington 6011
New Zealand

Australia
Level 3, 260 Burwood Road
Hawthorn, Vic 3122
Australia

Contact:
www.xero.com/about/contact

Directors

David Thodey, AO
(Chair)

Steven Aldrich

Mark Cross

Rod Drury

Lee Hatton

Brian McAndrews

Dale Murray, CBE

Susan Peterson

Company secretary

Damien Coleman

Leadership team

Sukhinder Singh Cassidy
Chief Executive Officer

Damien Coleman
Acting Chief Legal Officer

Kirsty Godfrey-Billy
Chief Financial Officer

Diya Jolly
Chief Product Officer

Chris O'Neill
Chief Growth Officer

Rachael Powell
Chief Customer Officer

Mark Rees
Chief Technology Officer

Nicole Reid
Chief People Officer

Angad Soin
Chief Business Operations & Strategy Officer

Other company information

Company numbers
183 0488 (New Zealand)
ARBN 160 661 183 (Australia)

Web address
www.xero.com

Auditor
Ernst & Young

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

Share registrar
Link Market Services Limited

Tower 4, 727 Collins Street
Melbourne, Vic 3008
Australia
Telephone: +61 1300 554 474