Beautiful business

MARKET RELEASE

FY24 Annual Report and Appendix 4E

WELLINGTON, 23 May 2024 - Xero Limited (ASX: XRO), in accordance with the ASX Listing Rules, attaches its FY24 Annual Report and Appendix 4E.

Authorised for release to the ASX by the Chair of the Board & Chair of the Audit and Risk Management Committee

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About Xero

Xero is a global small business platform with 4.2 million subscribers. Xero's smart tools help small businesses and their advisors to manage core accounting functions like tax and bank reconciliation, and complete other important small business tasks like payroll and payments. Xero's extensive ecosystem of connected apps and connections to banks and other financial institutions provide a range of solutions from within Xero's open platform to help small businesses run their business and manage their finances more efficiently.

Appendix 4E

23 May 2024

Xero Limited

ARBN 160 661 183 (incorporated in New Zealand)

Reporting period	12 months to 31 March 2024
Previous reporting period	12 months to 31 March 2023

Results for announcement to the market

	Amount (000s)	change
Revenues from ordinary activities	NZ$1,713,767	up 22%
Net profit from ordinary activities	NZ$174,640	NM*
Net profit attributable to security holders	NZ$174,640	NM*

**NM stands for not meaningful*

The Company does not propose to pay a dividend and no dividends were declared or paid for the reporting period.

Net tangible assets per share was NZ$2.68 per share at 31 March 2024 (31 March 2023: NZ$0.60 per share).

For additional Appendix 4E disclosure requirements, refer to Xero Limited's 2024 Annual Report which contains the 2024 consolidated financial statements and accompanying notes.

This report is based on the consolidated financial statements for the year ended 31 March 2024, which have been audited by Ernst & Young.

Authorised for release to the ASX by the Chair of the Board and the Chair of the Audit and Risk Management Committee.

XERO LIMITED

ANNUAL REPORT 2024

xero

ABOUT THIS REPORT

Xero's Annual Report for Financial Year 2024 (FY24) is structured around the five key inputs into our business:

People and Culture — Diverse world-class leadership and talent supported by an inclusive culture and working environment

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

Customers, Partners and Ecosystem — Trusted connections with our community of small business customers, and accounting and bookkeeping partners, including small business advisors and ecosystem partners

Social and Environmental — Responsible practices relating to our social and environmental impact across everything we do as a business

Financial — Access to, and allocation of, capital to optimise financial performance and 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 with reference to the International Sustainability Standards Board (ISSB) S1 standard. For information about the material matters identified and our stakeholder engagement process, see Material Matters on page 19.

Reporting suite

Xero's Annual Report FY24 should be read in conjunction with the other materials that comprise our FY24 annual reporting suite:

- Investor presentations at www.xero.com/investors
- Governance and leadership at www.xero.com/investors/governance where full copies of the following can be found:
  - Xero's Corporate Governance Statement
  - Modern Slavery and Human Trafficking Statement
  - Relevant charters
  - Key governance policies
  - Full biographies for the Board of Directors and Executive Leadership Team
- Xero's sustainability activities and performance can be found at www.xero.com/sustainability, and our Investor Centre at www.xero.com/investors
- Xero's Databook summarising progress on a range of financial, environmental, social and governance metrics 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/investors

Company and reporting information

Xero is listed on the Australian Securities Exchange (ASX) and is a New Zealand incorporated and domiciled company. Xero's Annual Report is primarily governed by the Companies Act 1993 (New Zealand). While the ASX Listing Rules apply to Xero, certain provisions of the Australian Corporations Act 2001 (Cth) do not.

The Remuneration Report included within this report is not intended to fully replicate the statutory disclosure requirements of an Australian company, 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 Xero Limited and its subsidiaries' (Xero or Xero Group) global operations. Except where otherwise specified, statements should be read as pertaining to the activities of the 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.

Operating revenue
$1.7b
↑ Up 22% YoY

Average revenue per user
$39.29
↑ Up 14% YoY

Subscribers
4.2m
↑ Up 419,000 YoY

Adjusted EBITDA
$527m
↑ Up $225m YoY

Annualised monthly recurring revenue
$1.96b
↑ Up 26% YoY

Operating expense ratio
73.3%
↓ Down 9.9pp YoY

Total subscriber lifetime value
$15.5b
↑ Up $2.1b YoY

Free cash flow
$342m
↑ Up $240m YoY

ABOUT XERO

Xero was founded in 2006, bringing cloud accounting tools to small businesses globally. Xero's launch meant accountants and bookkeepers could collaborate with their small business clients in real time, to help them manage their businesses more effectively.

Xero has evolved into a global small business platform. In addition to accounting, our platform extends to payroll, payments and other solutions. Xero's ecosystem of connected apps and connections to banks and other financial institutions helps small businesses access a range of solutions within our platform.

In FY24, Xero generated operating revenue of $1.7 billion and ended the financial year with 4.2 million global subscribers across Australia, the UK, the US and more than 180 other countries.

Our vision is to be the most insightful and trusted small business platform.

This means offering a fully integrated platform that gives customers powerful insights, drives meaningful discussions with their advisors, and helps them make informed decisions. Our vision is supported by our strategy, outlined on pages 16-18, and is realised through our relationships with customers and partners, our products, our people, and our commitment to sustainability.

Our customers

Xero is focused on helping customers in our primary segments — small businesses with 1-20 employees — to complete their most important Jobs to be Done (JTBD), accounting, payroll and payments. We design primarily for these segments, but we also continue to support our customers who use our products across all segments — self-employed businesses with higher revenues and medium (21-100 employees) businesses who have multiple JTBD — who also value our product.

We regularly engage with our customers and partners to help drive further digital adoption. Our Xerocon and regional roadshow events provide an opportunity for our partner community to connect and learn more about Xero's latest features.

We also use digital channels to connect directly with small business customers who use Xero without a connected partner, as another important aspect of our growth. We support our direct customer channel acquisition through digital marketing, and retention through support and education.

We provide support within the Xero platform and offer a 24/7 customer learning and support portal, Xero Central. On Xero Central, customers can browse support questions, access videos and guides, join community discussions and raise cases with our customer experience team.

For more information on our relationship with our customers, see Customers, Partners and Ecosystem on pages 36-38.

Our products

Xero's product vision aligns with our company strategy to create winning solutions for the three most critical JTBD for small businesses — accounting, payroll and payments — and to support adjacent JTBD through embedded capabilities and strategic partnerships. Many of our products use artificial intelligence to streamline tasks, deliver insights and help our customers get the answers they need.

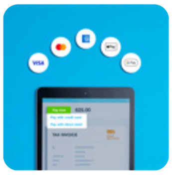
Xero's small business platform includes a range of integrated products to help small businesses complete their JTBD, such as:

Accounting

Accounting and compliance software for small businesses and their advisors, providing a trusted digital system of record that supports data ingestion, bookkeeping, annual tax management and filing, and reporting and insights.

Payroll

Software for small businesses that helps simplify paying employees and contractors, so they can better run their business.

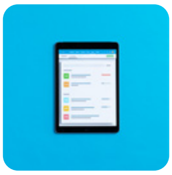


Payments

Software for small businesses that helps them collect and make payments, to manage cash flow. This includes allowing small businesses to invoice (or eInvoice) their customers, and manage and pay their bills through Xero and other payment services integrated with Xero.

Adjacent Jobs to be Done

Software for small businesses that helps them improve how they manage day-to-day operations beyond accounting and compliance needs, such as time, attendance and scheduling, expenses, projects and inventory.



For more information on our products, see Platform, Technology and Data on pages 32-34.

Our relationships with partners

Trusted relationships with our partners — including accountants and bookkeepers, third-party app developers, and banks and financial service providers — are an important part of how we operate. Our network of accounting and bookkeeping partners continues to be a key factor to our success as we work together to introduce Xero to more small businesses.

Our strategic partnerships, such as our recently announced partnerships with BILL in the US and Deputy in Australia, and existing partnerships with Avalara and Stripe, allow us to expand our capabilities beyond products that we build ourselves. We leverage these strong ecosystem and strategic partnerships by embedding services into the Xero platform to create a seamless experience.

Our ecosystem partner relationships are supported through the Xero App Store, which allows small businesses to find, try and buy apps based on their needs. It also gives app developers access to insights, tools, and billing payment capabilities, to help them grow their business.

For more information on our relationships with our partners, see Customers, Partners and Ecosystem on pages 36-38.

Xero partners, Elite Bookkeeping Solutions and Kazron Bookkeeping and BAS Services

Our people

Our 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 help our people to do the best work of their lives by embedding our purpose, values and culture within all our activities.

Diversity, inclusion and belonging in the workplace supports our people to thrive and help us to better understand and serve our customers, attract top talent, and innovate successfully.

Our values reflect how our people work with each other, and our aspirations to better serve our customers and communities.

For more information on our people approach, see People and Culture on pages 27-30.

Our commitment to sustainability

We are committed to building a socially responsible and environmentally sustainable business, throughout our operations and supply chain. We recognise we also have a responsibility to help small businesses become more sustainable. We do this through our Xero App Store, and by providing access to education and other tools.

In FY23, we set emissions reduction targets in line with climate science, aligned to the goals of the Paris Agreement. In line with best practice, we have undertaken a technical review of our targets and disclosures, the details of which are included in the Climate Appendix on our website: www.xero.com/sustainability

For more information on our approach to sustainability, see Social & Environmental on pages 40-44.

Xero Small Business Insights (XSBI)

We use anonymised and aggregated customer data for secondary purposes, including to generate insights into the small business economy through the XSBI program. Operating within Xero's Responsible Data Use Commitments, XSBI improves understanding about small businesses and is widely shared with governments, researchers and advisors. Anyone can access this anonymised and aggregated data and the XSBI analysis, at no cost, at www.xero.com/xerosbi

CHAIR'S REVIEW

David Thodey, AO
Chair of the Board

Dear shareholder,

Xero has delivered a pleasing operating result in FY24, highlighted by our strong revenue growth balanced with significantly improved profitability. These results demonstrate Xero's momentum, our ability to execute towards our future aspirations, and above all, the trust our customers place in our platform to complete critical business tasks.

During FY24, our CEO Sukhinder Singh Cassidy, working with the Board, evolved our Executive Leadership Team (XLT), Senior Leadership Team (SLT) and our organisational structure to help us realise our future ambitions. We welcomed several new leaders to the XLT and SLT who have proven capabilities to lead our global portfolio of businesses and execute our strategy. They complement our existing, tenured and deeply experienced leadership team. The talent that exists in Xero, and the people we continue to attract, is testament to the opportunity before us.

The progress made over the last year culminated in the announcement of our FY25-27 strategy, ***Winning on Purpose*** at our inaugural Investor Day in February 2024. ***Winning on Purpose***, which Sukhinder covers in more detail in her CEO Review, comprises four strategic priorities: ***Win the 3x3; Build a Winning GTM Playbook; Focused Bets to Win the Future; and Unleash Xero(s) to Win***. The strategy is simple, focused, and anchored in our purpose — to make life better for people in small business, their advisors and communities around the world. We believe this will be defined by delivering winning customer solutions, purposefully allocating capital and living our purpose consistently.

Core to this strategy is evolving Xero's culture. At the end of FY24 we evolved Xero's values to best represent our core behaviours and our aspirational goals, with plans to introduce a new performance framework for our people in FY25. The Board has played an active role in this process, as it seeks to nurture Xero's special culture, and support its evolution as we grow. For more information, see the People and Culture section on pages 27-30.

Future opportunity

There continues to be a significant opportunity to introduce the benefits of cloud accounting to new customers in our key markets, while increasing the use of our platform among existing customers. We have a large untapped Total Addressable Market of ~$100 billion[1, 2] that demonstrates the opportunity before us.

In the markets in which Xero operates, small businesses face a changing operating environment that is impacted by interest rate pressures, persistent inflation, productivity challenges, and other macro environmental and geopolitical influences. However, it is inspiring to see how well our customers navigate this environment while continuing to meet the needs of their own customers. Xero's integrated cloud-based platform is a critical tool that helps small businesses run more efficiently and effectively within these changing environments, delivering powerful insights that help them make informed decisions. The value our customers place in Xero continues to be reflected in our consistently strong performance and operating results.

We are confident about the significant opportunity ahead for Xero. The business has entered FY25 with a clear strategic focus, solid foundations, and a strong global team. This positions us well to pursue our aspirations for future growth.

Fostering and preserving trust

Our vision is to be the most insightful and trusted small business platform. Our Board is committed to supporting Xero to build and maintain trust with our stakeholders by acting with integrity, transparency and authenticity.

Xero processes a significant amount of personal and customer data and we understand we must be vigilant about protecting it and treating it responsibly. We take a rigorous approach to managing security, through multiple layers of data protection, a robust cybersecurity management process, and education for our people to understand that security is everyone's responsibility.

[1] *Total Addressable Market estimated using available government statistics, public market data, internal Xero data and commercial assumptions in relation to the relevant product(s)*

[2] *Based on Australia, NZ, UK, US and Canada across accounting (bookkeeping, annual tax, data ingestion, reporting and insights), payments and payroll*

"THE VALUE OUR CUSTOMERS PLACE IN XERO CONTINUES TO BE REFLECTED IN OUR CONSISTENTLY STRONG PERFORMANCE AND OPERATING RESULTS"

As new technologies emerge, we strive to use them in ways that are secure, safe and maintain our responsibilities as a trusted platform. For example, AI already powers many products across our platform, and is built and treated with the same high security and privacy standards as all other Xero products. We continue to embrace new tech innovation — like generative AI — responsibly, with our customers at the heart of what we do.

For more information on Xero's responsible data use commitments and our approach to cybersecurity risks, see the Platform, Technology and Data section on pages 32-34.

The high quality of data in the Xero platform also allows us to deliver an informed perspective on the small business economy. Using this data responsibly helps deepen our relationships with stakeholders in the markets in which we operate. Xero Small Business Insights (XSBI) uses anonymised and aggregated customer data to track the performance of small businesses across Australia, the UK, the US, Canada and New Zealand. It is trusted by government agencies to help them with their assessment of policy decisions, and used by academics to better understand the small business economy. In FY24, for the first time, original research written by our XSBI team was published in an academic journal, the *Australian Economic Business Review*.

Xero customer, Oat Float

Sustainability

We are committed to building a socially responsible and sustainable business. The Board understands the importance of upholding high standards of governance to create long-term value for all our stakeholders.

We maintained our United Nations Global Compact Network Australia membership in FY24, and are committed to supporting the principles underpinning the United Nations Sustainable Development Goals, advancing them in areas where Xero can make a positive impact.

In line with the global shift towards standardised climate disclosures, led by the International Sustainability Standards Board (ISSB), we continue to evolve Xero's climate disclosures. We aim to provide comparable, consistent and transparent information about the impacts of the changing climate on our business and how we are responding. Xero's FY24 Climate Appendix represents our efforts to align with the ISSB Standard. For more information, see the Climate Appendix on our website: www.xero.com/sustainability

In FY24, following an external technical review of our carbon emissions reduction processes and targets, we expanded our Scope 3 emissions boundary. In the year ahead, we will be rebaselining our targets at our FY24 footprint with the expanded boundary. Overall, our emissions performance in FY24 fell short of our aspirations, even when excluding the expanded boundary, due primarily to significant changes in the geographic distribution of our people, which necessitated increased international travel.

We also recognise we have a responsibility to help small businesses become more sustainable themselves. Through third-party applications in the Xero App Store, education and other tools, we are helping small businesses play a role in supporting the transition to a net-zero economy.

For more information see the Social and Environmental section on pages 40-44 or visit our website: www.xero.com/sustainability

Diversity, inclusion and belonging

Xero is focused on having an inclusive work environment where different contributions and perspectives from our people are valued, and everyone can bring their whole selves to work. We believe diversity, inclusion and belonging are critical to attracting top talent and helping our people thrive, while also helping us better understand and serve our customers, and innovate successfully.

In FY24, we introduced a new diversity-focused key performance indicator. It sets a target for Xero to have 10% of our workforce identify within Underrepresented Racial/Ethnic groups globally by the end of FY27. At the end of FY24, 5.5% of Xeros identified within these groups. We have progressed a number of initiatives to help achieve this goal. We are proud that in 2023, Xero was included in the Dow Jones Sustainability Index for the third time.

For more information on our approach to diversity, inclusion and belonging, see the People and Culture section on pages 27-30.

Board update

As Chair of Xero's Board, I am proud to lead a team of experienced international directors who provide valued support to our CEO and XLT. We are committed to having a Board of Directors with a diverse mix of skills, knowledge and experience as Xero grows globally, to help realise Xero's long-term opportunity.

In July, we announced the appointment of Anjali Joshi as an independent non-executive director to the Board, effective 3 July, and the retirement of non-executive director Lee Hatton, effective at the close of Xero's August 2023 Annual Meeting. After nine years, Lee was one of Xero's longest serving directors. We sincerely thank Lee for her significant contribution to Xero.

At Xero's Annual Meeting, Rod Drury also retired as a non-executive director from the Xero Board. Rod founded Xero in 2006, serving as an executive director for 12 years, and as a non-executive director for five. In this time, Xero has grown into a global company with a clear vision and purpose that has digitally disrupted an industry. Rod has been a vital member of our Board, and I want to acknowledge his visionary leadership to drive the substantial growth of the business.

We sincerely thank Rod for his vision, expertise and significant contribution, and we are grateful he continues as an advisor to Xero.

Governance

In FY24, the Board implemented several changes following a review of governance practices in FY23 to strengthen its oversight, strategic focus and capability. The Nominations Committee was changed to the Nominations and Governance Committee, and the committee charter was updated to reflect the expanded remit to assist the Board in relation to our corporate governance practices. The Board meeting cadence and governance calendar were reviewed to drive efficiencies and more closely align with Xero's business cycle. This included a focus on agendas to drive increased strategic focus on areas including customer and product. The Board will continue to evaluate its practices as our business and the governance landscape and stakeholder expectations continue to evolve.

For more information see the Governance section on pages 45-50.

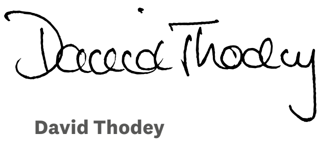
Thank you

I am encouraged about the opportunities ahead for Xero. I am looking forward to the business executing its strategy in FY25 and beyond, supported by our deeply experienced and committed team of directors, leaders and people.

I would also like to thank Sukhinder, in her first full year as Xero's CEO, and the XLT for their dedication and the way they ensure Xero remains focused on its purpose and vision. I am encouraged by the progress we are making under Sukhinder's leadership. I also offer my personal gratitude to the entire Xero team who every day bring their expertise and work hard to make the lives of our customers better.

I am delighted by the positive impact Xero continues to make on small businesses and their advisors around the world.

On behalf of the Board, I extend my sincere appreciation for the ongoing trust and support provided by our customers, partners and shareholders.



David Thodey
Chair

CEO'S REVIEW

Sukhinder Singh Cassidy
CEO

Dear shareholder,

Just over 15 months ago, I had the privilege of becoming Xero's new CEO, to help lead the company into its next chapter of growth. This is a special opportunity.

Over the past 17 years, we've grown from a small startup in Wellington, New Zealand — where Rod Drury first dreamed of creating a real-time, collaborative, cloud-based small business accounting platform — into a global SaaS business supporting 4.2 million small businesses, and accountants and bookkeepers, in more than 180 countries around the world. During this time, Xero has also grown its purpose-driven brand and workplace, with an inclusive, collaborative culture that defines our people wherever in the world you may meet them.

Today, Xero's vision remains unchanged — to be the most trusted and insightful small business platform. As is our purpose — to make life better for people in small business, their advisors and communities around the world.

FY24, my first full fiscal year as CEO, was a year of continued strong financial performance and customer growth. Importantly, it was also a year of significant change, of resetting and reshaping our ambitions and resources, to build an even stronger foundation to capture the future opportunity.

As we look back on the last year, and what we said we would do, we are pleased to share the following highlights which include:

- Reshaping of our financial profile towards more balanced, profitable growth, by right-sizing Xero and reshaping our teams across different functions, while also improving productivity and efficiency

Xero customer, Casa Humilde Cerveceria and Lance CPA Group

- Purposefully allocating capital by prioritising areas and making difficult but necessary decisions, including discontinuing non-core businesses: Waddle, WorkflowMax, and Planday in Australia
- Evolving the next generation of our global leadership team (across both our executive and senior leadership levels), adding capabilities to enable our growth and support our strategy
- Accelerating our product and technology velocity to deliver customer value, modernisation and innovation
- Completing a review of our US business, defining areas of focused investment to enable us to grow, while delivering value to the right customers — small businesses with multiple Jobs to be Done (JTBD), and accountants and bookkeepers, with a focus on Client Advisory Services (CAS)
- Starting our journey to utilise our multiple growth levers with an increasing focus on mix, product ladders and pricing
- Launching our FY25-27 strategy and aspirations for future growth, as we sharpen our focus and position Xero for the next chapter. Importantly, we also refreshed our values, as we evolve our culture towards our aspirations as a purpose and performance-driven company

The opportunity ahead for Xero is significant. We have strong foundations. We are committed to delivering for our customers and partners as we continue to build Xero for the long term, and aspire to be a world-class SaaS business.

Winning on Purpose

I couldn't be more excited about our strategy for the next three years: **Winning on Purpose**. We believe this chapter will be defined by: creating ***winning solutions*** for customers, ***living our purpose consistently*** as a company and ***purposefully allocating capital***.

There are four key priorities within our FY25-27 strategy that underpin our ambitions:

1. **Win the 3x3:** Complete the three most critical JTBD (accounting, payroll and payments) in our three largest markets (Australia, the UK and the US), and reimagine customer journeys including embedding and extending to adjacent JTBD
2. **Build a Winning GTM Playbook:** Make it easier for customers to find, use and grow with Xero
3. **Focused Bets to Win the Future:** Invest purposefully to help Xero keep winning longer term
4. **Unleash Xero(s) to Win:** Enable Xero to move faster, and help Xeros to do the best work of their lives

FY24 achievements

Alongside everything we delivered in FY24, I'm also pleased to share our strong operating results.

We grew FY24 operating revenue by 22% (21% in constant currency (CC)) to $1.7 billion, and delivered an operating expense to revenue ratio of 73.3% (in line with guidance). This supported a 75% increase in adjusted EBITDA compared to FY23, to $526.5 million, with EBITDA of $497.4 million (impacted by the non-cash impairment of Xero Go of $28.9 million). This resulted in free cash flow increasing to $342.1 million and a free cash flow margin of 20.0%, improving from 7.3% in the prior period. As a result, we delivered a Rule of 40[1] outcome of 41.0%, demonstrating our ability to drive growth and profitability.

Annualised monthly recurring revenue (AMRR) grew by 26% (22% in CC) to $1.96 billion. Total subscriber lifetime value (LTV) grew 16% (12% in CC) to $15.5 billion. Average monthly churn continues to remain below pre-pandemic levels at 0.99%, and ARPU improved a further 14% (10% in CC), underscoring the value customers place in Xero to help them manage in changing environments.

Our results show we're doing what we said we would do. We're pleased to deliver a strong and profitable FY24 result and Rule of 40 outcome, demonstrating our commitment to balancing growth and profitability. We have a clear and focused strategy to *win on purpose* that positions us well as we move with velocity into FY25.

Our strategy is simple and focused for a reason. We play in large and growing cloud markets, and serve sizeable core customer segments already, with a large untapped TAM of ~$100 billion[2,3] that we can further unlock. For more information, see the Strategy section on pages 16-18.

Since we announced our new strategy in February 2024, we've been actively working to its principles. I'm excited to update you on some of our key achievements aligned to our strategic priorities.

1. Win the 3x3

During FY24, we launched a number of new product features and updates, as well as entered new strategic partnerships to help customers across our three largest markets complete their three most important JTBD. We also worked to reimagine the customer journey, including embedding and extending to adjacent JTBD. Some of the most important FY24 product launches are below, with more included in the Platform, Technology and Data section on pages 32-34.

Accounting

- Launched the single client record, which provides one source of truth for client records across Xero Practice Manager and Xero HQ globally, and Xero Tax in Australia and New Zealand, helping reduce duplication and double handling of data
- Enhanced AI-powered predictions in bank reconciliation globally, reducing the need for manual data entry
- Launched automatic sales tax capabilities, powered by Avalara, a leading provider of cloud-based tax compliance automation for businesses in the US. Advanced sales tax management is now embedded within Xero, which has created a more seamless customer experience
- Deepened our Yodlee partnership, a leading data aggregation and analytics platform, and partnered with Flinks, a leader in open banking, to increase our direct bank feeds[4]. We have expanded our bank feed network in the US and Canada from 20 direct bank feeds in FY23 to more than 600 direct bank feeds in FY24

Payroll

- Introduced feature enhancements to make it easier for customers to onboard to Xero Payroll, by automating customer data migration and providing guided steps to streamline the process and reduce errors
- Simplified the set up and transition of payroll providers through automation in the UK. We improved automated rate calculations for annual salaried employees in the UK who work non-traditional working patterns, reducing the need for manual calculations and minimising risk of error

Payments

- Announced a strategic partnership with BILL, a leader in financial automation software in the US, in February. Once available, the solution will deeply integrate BILL's robust payments options, allowing customers to more efficiently pay their bills without leaving Xero

[1] Rule of 40 is defined as the sum of annual revenue growth percentage in constant currency and annual free cash flow margin percentage (free cash flow as a percentage of revenue)

[2] Total Addressable Market estimated using available government statistics, public market data, internal Xero data and commercial assumptions in relation to the relevant product(s)

[3] Based on Australia, NZ, UK, US and Canada across accounting (bookkeeping, annual tax, data ingestion, reporting and insights), payments and payroll

[4] Both Xero-built and aggregator-supplied direct bank feeds

"AS PART OF OUR FOCUSED STRATEGY, WE CONTINUE TO OPTIMISE HOW WE ALLOCATE CAPITAL TO GET THE RIGHT RESULTS FOR CUSTOMERS, XERO AND OUR STAKEHOLDERS"

- Launched a new eInvoicing feature in the UK, giving customers the ability to receive eInvoices. This made Xero the first small business cloud accounting platform in the UK to offer this capability
- Launched our new UK bill payments tool using open banking, which offers a simple and secure way to manage, approve and pay bills, without leaving Xero

We're leveraging our strategic partnerships to create a seamless customer experience and better serve our customers in our three largest markets by embedding more JTBD into the Xero platform. In April 2024, we announced a new strategic partnership in Australia with app partner Deputy, the global people platform for hourly work, to support JTBD such as time, attendance and scheduling. Once available, Deputy's workforce management capability will be deeply integrated into the Xero platform, bringing workforce management together with Xero's payroll and accounting in one place for our Australian customers.

As part of our focused strategy, we continue to optimise how we allocate capital to get the right results for customers, Xero and our stakeholders. Aligned with this, we also confirmed a decision to retire our Planday business in Australia. Planday will continue to focus on its core business in Europe, including the UK.

Xero customer, Community Education Partnerships (CEP)

2. Build a Winning GTM Playbook

We're focused on onboarding customers to the right products, deepening our relationships with them, and optimising pricing and packaging to drive customer value, usage and growth.

We have made several changes to our go-to-market (GTM) function to help us realise our ambitions and grow efficiently. Ashley Hansen Grech, previously of Square and Recharge, joined us in August 2023 as Chief Revenue Officer, responsible for our GTM functions globally. Michael Strickman, previously of Uber and Tripadvisor, joined as Chief Marketing Officer in October to drive performance marketing, brand marketing and communications globally.

Ashley and Michael have enhanced their functions by bringing in new and experienced global talent, and adjusted their teams to build a cohesive GTM model, from acquisition to retention and growth.

In Canada, we're making changes to the sales team's size and structure to match current rates of digitisation, and ensure we're investing in an efficient and measured way. There continues to be a strong longer-term market opportunity in Canada. The US and Canada now fall under a North America reporting structure.

During FY24, we also identified a small pool of between 125,000-175,000 idle lower value subscriptions, held by digitising accounting and bookkeeping practices, that we will remove in H1 FY25. This is to support an evolution of Xero's sales motions by allocating resources towards improving mix and working with accountants and bookkeepers to acquire and deploy their Xero inventory through smaller and more frequent sales motions.

In May 2024, we announced we are refreshing our subscription plans for small businesses and partners in Australia which will be available from 1 July 2024. This includes creating simplified plans with bundled tools and features, to help solve the most important accounting and people management tasks for our customers.

3. Focused Bets to Win the Future

We're focused on winning in the longer term by investing purposefully in AI and mobile, harnessing our ecosystem and APIs to power next generation customer journeys, and executing a profitable Rest of World strategy.

In FY24 we launched a new feature in our customer support and learning site, Xero Central, using Generative AI to deliver fast and accurate support answers.

At our Investor Day in February, we also announced our bigger AI strategy, with the introduction of Just Ask Xero (JAX). JAX is our new GenAI-powered smart business companion for small businesses and their advisors. It will be available in beta later this calendar year. JAX will help customers complete accounting-related tasks and provide deep insights to help them run their business better, using conversational interfaces on apps and surfaces (i.e. mobile, email and WhatsApp), where they need support.

4. Unleash Xero(s) to Win

To enable Xero to move faster for our customers, and help Xeros to do the best work of their lives, we are working to foster a purpose and performance-driven culture, while transforming core enterprise systems to improve the experience of our people.

In April 2024, Diya Jolly was promoted to Chief Product and Technology Officer, recognising her additional global technology team responsibilities, including engineering, security and data. Diya's leadership across product and technology has enhanced the cohesion between functions, improved the team's ways of working, and increased product delivery efficiency to help us better serve our customers.

As well as evolving the next generation of our global leadership team to enable our growth and support our strategy, we've also attracted a number of new senior leaders into our product and technology function who have deep global expertise, as we focus on building world-class product development capability.

In FY24 we continued to enhance our internal systems and ways of working to strengthen the way we operate, allowing us to deliver faster and with more agility for our customers. As part of this enhanced model, we established regional product leads and teams for our three largest markets. They are responsible for focusing on localising product delivery and investing in data analytics and experimentation.

We are leveraging data and analysis to understand where we can increase developer velocity in our most-used products. For the rest of our products, we're taking a more balanced approach of continuous modernisation as we develop features that add value for our customers.

To help our team across Xero execute our strategy and foster a purpose and performance-driven culture, we evolved Xero's values in FY24 based on feedback from our people, to best reflect behaviours that are core to Xero. Our updated 'We make it Xero' values keep the core intent of our values, while expressing the aspirational qualities we want to embrace.

Our aspiration[5]

Our strategy is designed to support our aspirations, which are to become a world-class SaaS business.

We believe we have the opportunity to both double the size of our business[6] and deliver Rule of 40 or greater performance[7,8] over time.

Finally, as we grow, we will also seek to be more balanced between subscriber growth and ARPU expansion.

Xero customer, Doggo

[5] *Xero's aspirational revenue and Rule of 40 performance opportunity statement is not guidance nor a prediction of future performance. No timeframe has been set. It is provided as an indication of outcomes management is currently focused on as part of its strategic ambitions. There are risks and uncertainties in connection with this aspiration, including from events beyond Xero's control*

[6] *Xero's FY23 revenue was $1,400 million, and H1 FY24 revenue (annualised on a straight line basis) is $1,599 million*

[7] *Rule of 40 is defined as the sum of annual revenue growth percentage in constant currency and annual free cash flow margin percentage (free cash flow as a percentage of revenue)*

[8] *Rule of 40 outcomes, and the component parts, may vary from period to period as we identify opportunities for disciplined customer-focused growth and experience changes in our cash tax payment profile. Xero is likely to exhaust its accumulated NZ tax losses during the FY25-27 strategic period. Xero's remaining NZ losses balance was ~$193 million at 31 March 2024*

Xero partner, Grit Accountants

Outlook

Total operating expenses as a percentage of revenue is expected to be around 73% in FY25, and compared to FY24, product design and development costs as a percentage of revenue is expected to be higher.

Our next chapter

We're really pleased with Xero's FY24 performance and strong execution. We enter FY25 with a new three-year strategy, renewed focus, and excellent momentum, and are positioned well to capture the significant opportunity ahead.

In the coming years, the rate of change we are all experiencing is likely to accelerate. Regulatory, economic, geopolitical, technological and competitive dynamics will continue to require our customers, and us, to adapt. This is the nature of the world we live in and the business environment in which we operate, and within this, small businesses continue to show incredible resilience and flexibility. Our job at Xero is clear — to provide the tools they need to keep thriving.

By staying focused on building winning solutions for our customers, purposefully allocating our resources aligned to our market opportunities, and living our purpose consistently, Xero can *win on purpose*. In doing so, we seek to become an even stronger company in service of our customers, investors, employees, and the communities in which we participate.

On behalf of Xero's leadership team and everyone at Xero, thank you for your ongoing support of our vision.

Sukhinder Singh Cassidy
CEO

STRATEGY

Strategy overview

Xero announced its refreshed FY25-27 strategy, **Winning on Purpose**, in February 2024. The strategy is simple, focused, and purpose-driven. Xero's objectives set out in the strategy are to:

- **Create winning solutions for our customers** — by delivering great customer experiences
- **Live our purpose consistently** — by making strategy choices consistent with our purpose
- **Purposefully allocate capital** — by focusing on the highest value opportunities

Vision, purpose and aspiration

Xero's purpose and vision remains unchanged.

Aspiration[1]

Our strategy is designed to support our aspirations, which are to become a world-class SaaS business.

We believe we have the opportunity to both double the size of our business[2] and deliver Rule of 40 or greater performance[3,4] over time.

Finally, as we grow, we will also seek to be more balanced between subscriber growth and ARPU expansion.

Winning On Purpose

Why we exist	**Purpose** To make life better for people in small business, their advisors and communities around the world		**Vision** To be the most trusted and insightful small business platform	
Aspiration	To be a world-class SaaS business To double the size of our business and deliver Rule of 40 or greater performance[1]			
FY25-FY27 Strategic Priorities	**Win the 3x3** Complete our JTBD and journeys in Australia, the UK and the US	**A Winning GTM Playbook** Make it easier for customers to find, use and grow with Xero	**Focused Bets to Win the Future** Invest purposefully to help Xero keep winning longer term	**Unleash Xero(s) to Win** Enable Xero to move faster and Xeros to do the best work of their lives
Values	We make it beautiful	We make it happen	We make it human	We make it together

[1] *Xero's aspirational revenue and Rule of 40 performance opportunity statement is not guidance nor a prediction of future performance. No timeframe has been set. It is provided as an indication of outcomes management is currently focused on as part of its strategic ambitions. There are risks and uncertainties in connection with this aspiration, including from events beyond Xero's control*

[2] *Xero's FY23 revenue was $1,400 million, and H1 FY24 revenue (annualised on a straight line basis) is $1,599 million*

[3] *Rule of 40 is defined as the sum of annual revenue growth percentage in constant currency and annual free cash flow margin percentage (free cash flow as a percentage of revenue)*

[4] *Rule of 40 outcomes, and the component parts, may vary from period to period as we identify opportunities for disciplined customer-focused growth and experience changes in our cash tax payment profile. Xero is likely to exhaust its accumulated NZ tax losses during the FY25-27 strategic period. Xero's remaining NZ losses balance was ~$193 million at 31 March 2024*

Xero customer, BillyNOW

Where to play[5]

Our strategy is grounded in the choices we have made about the **customers, products** and **markets** we are prioritising. Our 'where to play' choices represent the largest opportunities for Xero.

Customers

Our primary customer segments are micro and small businesses (businesses with 1 to 20 employees). These segments represent 45-55% of our Total Addressable Market (TAM), and have the deepest engagement with our platform (an average of six to eight Jobs to be Done (JTBD) in Xero).

We design our products with our primary segments in mind. However, we know small businesses of different sizes, including self-employed to 100+ employee businesses, have many common needs. As a result, we expect to attract and continue to serve small businesses outside our primary segments.

Accountants and bookkeepers are vital partners for small businesses. **We will prioritise the needs of small and mid-sized accountants and bookkeepers[6], with the objective of empowering them to serve our shared small business customers more efficiently. These primary accountant and bookkeeper segments represent 55-65% of Xero partners today, and serve an estimated 15 million small businesses globally**. This is more than double the number of small businesses served by other accountant and bookkeeper segments combined.

For more information on Xero's customer segments, see our 2024 Investor Day presentation at our Investor Centre: www.xero.com/investors/

Products

We are focused on building beautiful experiences for the three most important JTBD for small businesses:

- Accounting (including annual tax, bookkeeping, data collection and reporting and insights)
- Payroll
- Payments (including invoice payments and bill payments)

These core JTBD collectively account for ~$100 billion of the available TAM in the regions in which we operate. They are among the top JTBD, as defined by our customers, and offer greatest alignment to our existing products.

Markets

Xero has subscribers in more than 180 countries worldwide, and offers deeper go-to-market (GTM) and product offerings in seven markets.

For the FY25-27 strategic period, our main focus will be on our three largest markets: Australia, the UK and the US. These three markets collectively offer the largest scale revenue opportunities for Xero, accounting for 48 million small businesses and $22.6 billion in Serviceable Addressable Market (SAM).

Our other key markets are also critical to Xero and our long-term financial aspirations. In FY25-27 we will focus on delivering efficient growth across New Zealand, Canada, South Africa, Singapore and Rest of World markets. We will leverage third-party developers and our ecosystem to help our customers complete other JTBD beyond core accounting in these markets.

[5] For further detail on Xero's TAM and SAM, please refer to Xero's 2024 Investor Day presentation

[6] Defined as 1-10 partners per practice

Our areas of focus for FY25-27

80%			20%
Win the 3x3	**A Winning GTM Playbook**	**Focused Bets to Win the Future**	**Unleash Xero(s) to Win**
Complete three most critical jobs in three largest markets	Product, pricing and packaging to increase usage and growth	Evolve customer experience through AI and mobile	Deliver a purpose and performance-driven EVP
Reimagine the SMB journey including embedding experiences through strategic partnerships	Acquire and onboard subscribers to the right products efficiently	Realise potential of our ecosystem and APIs	Enhanced Product and Tech capabilities and operating model
Reimagine the AB journey including embedding experiences through strategic partnerships	Deepen customer relationships	Keep growing other markets efficiently	Transform core enterprise systems

How to win

Xero's FY25-27 strategy comprises four strategic priorities that underpin our ambitions:

1. **Win the 3x3:** Accounting, payroll and payments in Australia, the UK and the US:
   - Focus on building winning customer solutions for the three most critical jobs for small businesses — accounting, payroll and payments — in our three largest markets, Australia, the UK and the US
   - Reimagine the small business, accountant and bookkeeper journeys, including embedding and extending to adjacent JTBD

2. **A Winning GTM Playbook:** Make it easier for customers to find, use and grow with Xero:
   - Acquire and onboard subscribers to the right products efficiently
   - Deepen customer relationships by helping our existing customers realise more value from Xero
   - Optimise pricing and packaging to drive customer value, usage and growth

3. **Focused Bets to Win the Future:** Invest purposefully to help Xero keep winning longer term:
   - Enhance our customer experience through AI and mobile
   - Realise the potential of Xero's ecosystem and APIs
   - Keep growing and serving small businesses in secondary markets efficiently

4. **Unleash Xero(s) to Win:** Enable Xero to move faster, and help Xeros to do the best work of their lives:
   - Deliver a purpose and performance-driven employee value proposition
   - Enhance our product and technology capabilities and operating model
   - Transform our core enterprise systems to improve the experience and efficacy for Xero's people

MATERIAL MATTERS

In line with market expectations and requirements under the International Sustainability Standards Board (ISSB) framework, we completed our third annual materiality assessment in FY24 to determine the Environmental, Social and Governance (ESG) 'matters material to value creation' for Xero.

The material ESG matters identified are grouped under four of Xero's inputs, described in the 'How Xero Creates Value' section on pages 20-21. Financial inputs and Governance also form critical components of our value creation process.

Given the consistency in material matters from year to year, we completed a streamlined review this year, without a full stakeholder engagement exercise. 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 reflect global macroeconomic and geopolitical trends in the analysis.

Our ESG Steering Committee reviewed the findings, which also provided an investor and employee perspective, and Xero's Executive Leadership Team and Board of Directors validated them. We intend to undertake a full stakeholder consultation in alternate years.

We updated our methodology in anticipation of the new ISSB S1 standard for corporate materiality assessments and disclosures. This did not impact which matters emerged as material, so we will continue to strive to identify and respond to the sustainability issues, risks and opportunities most material to our stakeholders.

People and Culture

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

Social and Environmental

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

Platform, Technology and Data

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

Customers, Partners and Ecosystem

- **Customer growth, support, loyalty and engagement**

Financial

- **Annual planning, budgeting and capital allocation processes**

For further detail, see Our Performance on pages 51-65

Governance

- **Corporate governance, compliance and risk management**

For further detail, see pages 22-25 and 45-50

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

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

What we do

Supported by Governance (see pages 45-50) and Risk Management (see pages 22-25)

Our values

We make it beautiful

Create experiences that customers love

We challenge ourselves to dream big, innovate, and inspire our customers, our communities, and each other with our best work.

We make it happen

Move fast on the right things to deliver value

We value progress over perfection, we drive clarity, decisiveness and accountability, and we continuously learn and refine.

We make it human

Care personally and challenge respectfully

We exchange ideas in a way that is specific, direct and kind, while demonstrating empathy, inclusivity and prioritising wellbeing.

We make it together

Collaborate to create a positive impact

We build trust through transparency, work as a coordinated team, seek diverse perspectives, and nurture positive relationships.

Products

Software for small businesses and their accountants and bookkeepers

Accounting

Payroll

Payments

Integrations to support adjacent JTBD

Outcomes

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

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

Platform, Technology and Data

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

Social and Environmental

- Improved environmental outcomes
- Responsible procurement practices both within Xero and the wider community are built and promoted
- Supporting small businesses and their communities to improve levels of financial literacy and inclusion

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

Our products are described on page 6

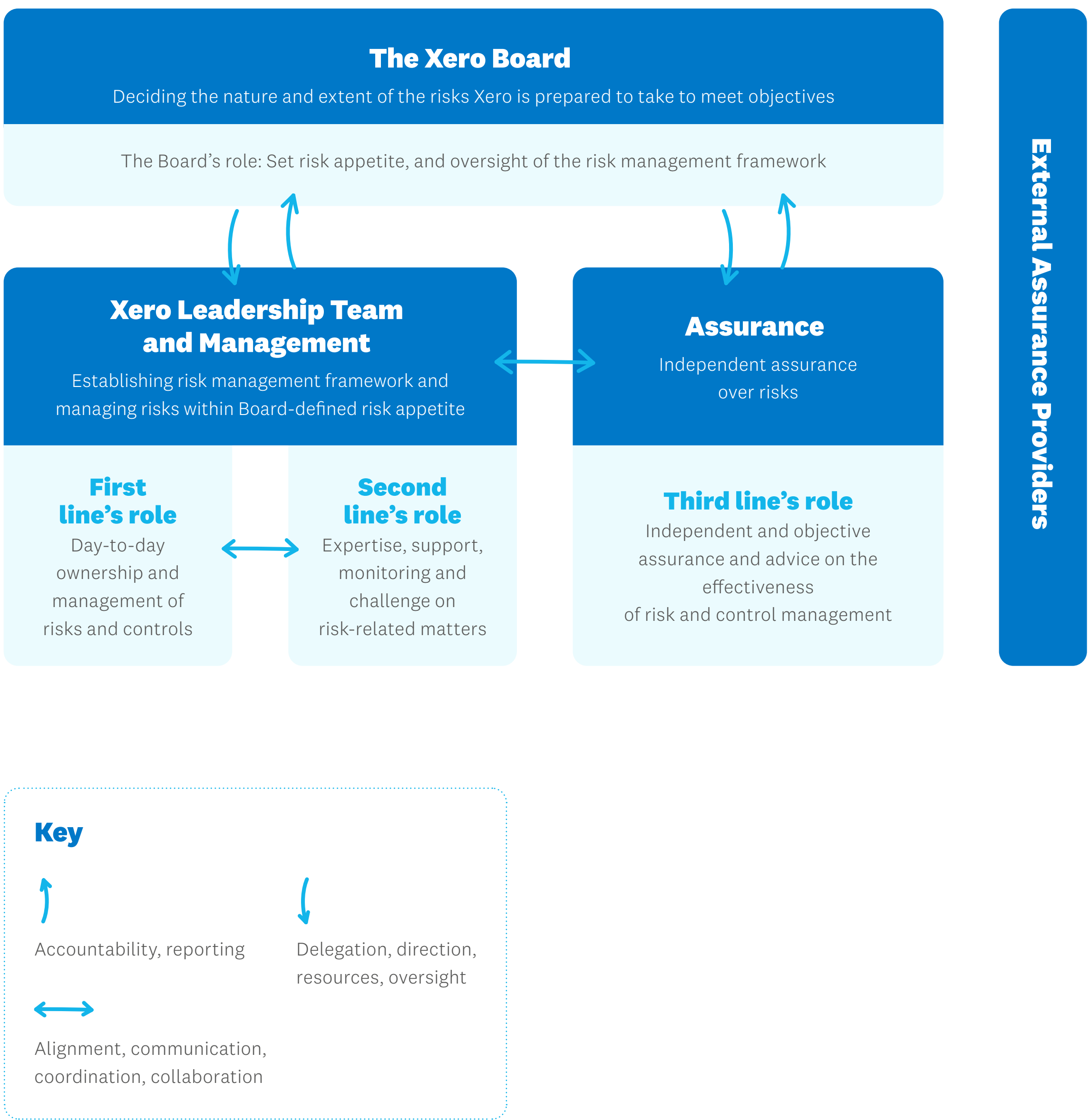
KEY RISKS

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 Xero Board sets the risk appetite and provides oversight of management's implementation of Xero's risk management framework. Responsibility for managing risks within the Board-defined risk appetite is shared between the Xero leadership team and our people.

We recognise that everyone at Xero has a role to play in this area. Key roles are outlined in the diagram below, with accountability for managing risk aligned to the globally recognised 'Three Lines Model'.

Xero's Risk Management Accountability – Three Lines Model



The table below highlights key strategic, operational, and emerging areas of potential risk facing Xero (in no specific order), the high-level mitigation activities we have in place, and the link to related inputs.

Key areas of potential risk	Mitigation strategies and activities	Related inputs
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
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 build/partner/buy opportunities • Focused bets in product innovation and development to win the future	Financial; Platform, Technology and Data; Customers, Partners and Ecosystem
Short-term performance 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, and/or negative shareholder/market sentiment impacting future access to capital	• Monitoring of actual performance and forecasts against market expectations • Focused market communication to enable alignment of expectations with actual short-term performance • Communication of the longer-term goals and aspirations via Investor Day engagement	Financial; Platform, Technology and Data; Customers, Partners and Ecosystem
M&A and related business integration Ability to successfully realise value and/or integrate new acquisitions as planned	• Board and Executive Leadership Team oversight of M&A and integration activities and performance with corporate development team • M&A Integration Framework and dedicated Integration Management Office in place and operational	Financial; Customers, Partners and Ecosystem
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	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
Adverse global economic conditions and geopolitical events The impacts on Xero and our small business customers due to adverse global economic conditions and geopolitical developments, including political discord, conflicts and shifting trade relations	• 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 • Ongoing monitoring of geopolitical threats and business continuity, and crisis plans in place to respond to any increased operational risks	
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, in line with the FY25-27 strategy • Investment in targeted customer and market research programs, including initiatives such as hackathons, which are used to inform future product development needs and priorities across Xero	
Machine learning and artificial intelligence Ability to manage risks and opportunities from the application of AI and machine learning-related product and platform features	• Focused investment and deployment of Generative AI and machine learning-powered solutions with appropriate governance, and ethical and responsible use of data • Monitoring AI developments and investing to continuously evolve our product and technology to fully leverage AI and machine learning • Framing approach using Xero's Responsible Data Use Commitments, which includes a commitment to 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	
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	• Data security and awareness programs for all Xero employees, as well as 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 and 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	
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 • Regular monitoring of, and internal reporting on, platform and database performance • Disaster recovery, business continuity, and crisis management plans in place and regularly tested	

Key areas of potential risk	Mitigation strategies and activities	Related inputs
Access to talent and 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 • New performance framework and refreshed values to drive greater employee connection, development and engagement • Continuously exploring new resourcing options to ensure we have the opportunity to access an expanded potential top-talent pool • Global talent strategy with recruitment teams across all regions • Succession planning and processes for key roles	
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	
Social and environmental (including climate) Ability to deliver on Xero's environmental, social and governance commitments to maintain social licence to operate	• Regular review and oversight of ESG initiatives and risks by the Executive Leadership Team and the Board and Audit and Risk Management Committee • Detailed climate scenario analysis to assess physical and transition risks to Xero's business • Carbon emissions reduction targets aligned to the Paris Agreement • Diversity, inclusion and belonging policy in place, supported by region-specific programs and Employee Resource Groups (ERGs) to drive inclusion and belonging • Provision of carbon accounting functionality for accountants, bookkeepers and small businesses through the Xero App Store	
Legal, regulatory and compliance Ability to manage current and changing 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 • Regulatory team input on emerging changes and potential business impacts • Policies, procedures, training and education covering key regulatory and compliance areas, supported by internal and external audits, and processes to support Code of Conduct breaches, employee grievances and Xero's whistleblowing program • Global government relations function coordinating proactive government and policy engagement strategy	

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

PEOPLE AND CULTURE

PEOPLE AND CULTURE

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

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

We monitor our people sentiment data to help us formulate evidence-based people-related decisions in support of our strategy. We measure our performance through the Key Performance Indicators (KPIs) below. These KPIs help monitor our efforts to bring together diverse world-class leadership and talent, supported by an inclusive culture and working environment. In FY24, we introduced a new diversity-focused KPI relating to the proportion of our workforce who are from Global Underrepresented Racial/Ethnic groups. All other KPIs and targets remain unchanged from FY23.

KPIs	Performance vs target	FY24 performance	FY23 performance
Average annual employee net promoter score (eNPS) *(year ended 31 March)*		9	32
Annual voluntary employee turnover *(year ended 31 March)*		12.3%	15.7%
At least 45% representation of women among senior leaders[1], people leaders and all employees by the end of FY25[2] *(as at 31 March)*		CEO and direct reports 62.5% women	CEO and direct reports 40.0%[4] women
		Senior leaders 40.0% women	Senior leaders 38.7% women
		People leaders 44.7% women	People leaders 45.0% women
		Employees 43.4% women	Employees 44.2% women
Xero maintains a gender balance on its Board with no less than 30% women and no 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 recognising that gender is not binary *(as at 31 March)*		Three women (42.9%) and four men (57.1%) directors	Three women (37.5%) and five men (62.5%) directors
Median gender pay equity gap (like for like basis)[3] *(year ended 31 March)*		-0.8%, in favour of women	-0.8%, in favour of women
Median gender pay gap *(year ended 31 March)*		9.7%	9.5%
Global Underrepresented Racial/Ethnic Representation (URRE) groups — 10% by FY27 *(as at 31 March)*		5.5%	N/A

For more information on our Underrepresented Racial/Ethnic Representation and gender diversity performance, see the Databook on our website: www.xero.com/sustainability/approach-and-performance/

[1] *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*
[2] *Refer to page 29 for further details on our gender representation reporting*
[3] *Refer to page 30 for an explanation of the difference between median gender pay equity gap and median gender pay gap*
[4] *Calculated based on population that included the former CEO – Steve Vamos*

Our values — We make it Xero

We make it beautiful

Create experiences that customers love

We challenge ourselves to dream big, innovate, and inspire our customers, our communities, and each other with our best work.

We make it happen

Move fast on the right things to deliver value

We value progress over perfection, we drive clarity, decisiveness and accountability, and we continuously learn and refine.

We make it human

Care personally and challenge respectfully

We exchange ideas in a way that is specific, direct and kind, while demonstrating empathy, inclusivity and prioritising wellbeing.

We make it together

Collaborate to create a positive impact

We build trust through transparency, work as a coordinated team, seek diverse perspectives, and nurture positive relationships.

Values refresh

Our values help us make decisions that align with our broader purpose. In FY24 we evolved Xero's values, based on feedback from our people, to best reflect behaviours that are core to Xero.

To support our team in executing our FY25-27 strategy, we have committed to deepening our purpose and performance-driven culture, aided by the inclusive, open and collaborative values that Xero is built upon. This means staying true to our purpose — to make life better for people in small business, their advisors and communities around the world — while enabling and encouraging our team to operate with a commitment to performance and delivering results in line with our strategy.

These 'We make it Xero' values keep the core intent of our pre-existing values, while expressing the aspirational qualities we want to embrace.

These refreshed values enable us to deliver a purpose and performance-driven employee value proposition and the culture we aspire to, which is reflected in employee advocacy for Xero as a place to work (measured through eNPS).

Employee Net Promoter Score and annual voluntary employee turnover

Our Employee Net Promoter Score (eNPS) has declined year-on-year following the reshaping of our organisation announced in March 2023 and completed during FY24. Despite this decline, we have seen a consistent increase in our point-in-time eNPS since July 2023, when the reshaping of our organisation was largely complete. At the end of FY24, point-in-time eNPS was 14.

Our voluntary employee turnover decreased from 15.7% in FY23 to 12.3% in FY24.

During FY24, we introduced a number of initiatives to help drive improvements to eNPS and maintain voluntary employee turnover at a reasonable level:

- Increased focus on employee engagement and eNPS approaches and initiatives, through the implementation of a monthly People Insights review with the senior leadership team (SLT) led by the Chief People Officer
- Improved connection, by reimagining our company-wide Global All Hands meetings, focusing on providing clarity around our purpose, vision and strategy
- Improved collaboration and connection through the launch of new working zones in our offices, which embrace the principles of an agile workspace
- Enabled employees to work with greater flexibility, with the introduction of a policy allowing our people to work from over 170 countries for up to 30 days

We also launched a number of longer-term initiatives to create a more connected, integrated employee experience and give our people greater agency in their own growth and the shape of their careers:

- Launched the 'role clarity' work program to redefine roles for our people and set Xero up to provide capability frameworks across functions in FY25, helping our people understand how their role drives value within the organisation
- Designed a new performance measurement framework to be rolled out in FY25. This will give our people valuable feedback so they can do the best work of their lives

Gender diversity[5, 6]

In FY24, we hired two new women leaders into the Executive Leadership Team (XLT) — Chief Revenue Officer Ashley Hansen Grech and Chief Product and Technology Officer Diya Jolly. This brings our current representation of women on the XLT to 62.5%. We also saw a lift in representation of women in senior leadership roles, increasing from 38.7% at the end of FY23 to 40.0% at the end of FY24. Representation of women employees overall is currently below our FY25 target at 43.4%. We remain committed to reaching our FY25 target and have implemented multiple initiatives to progress towards this goal. One of these is the further cultivation of a gender inclusive culture through Employee Resource Groups (ERGs). ERGs provide diverse communities with a voice in shaping our culture, programs and policies. We now have a Women of Xero ERG chapter in every region, following the launch of the UK and EMEA chapter in FY24. Collectively, the ERGs have facilitated professional development opportunities, engagement opportunities with business leaders, and awareness campaigns to support significant dates such as International Women's Day.

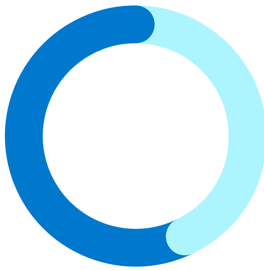
All Xero employees

Female (**43%**)
Male (**56%**)
Gender diverse (**<1%**)
Non-binary (**<1%**)
Prefer not to say (**<1%**)

CEO and direct reports

Female (**63%**)
Male (**37%**)

Board



Female (**43%**)
Male (**57%**)

Senior leaders

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

People leaders

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

[5] *Gender data covers Xero's global workforce, excluding contingent workers. All data is self-reported as at 31 March 2024*

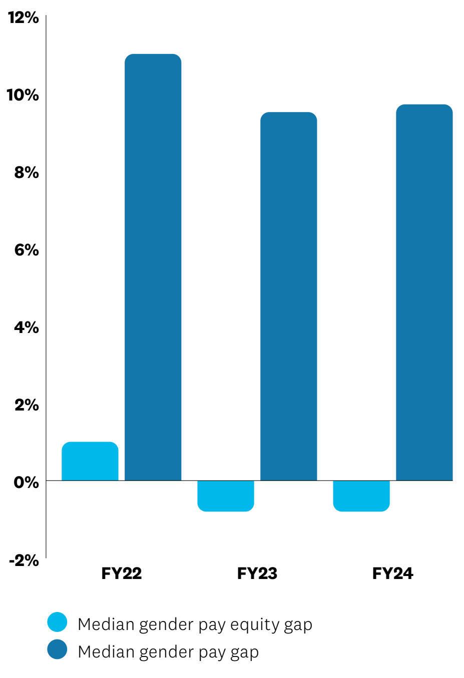
[6] *Xero has an optional gender identification question that allows employees to choose from the following options: female, male, gender diverse, non-binary, none of the options offered, and prefer not to say. Two employees (0.05%) were excluded from the total because they did not respond to the gender identification question*

Gender pay equity[7, 8, 9]

At Xero, we are committed to equal pay for equal work. We have several robust practices in place to review our gender pay equity and initiatives we are undertaking to address the gap. In FY24, we continued programs to help address gender pay equity, including inclusive leadership and unconscious bias education for our people. For more information about our practices, see our website: www.xero.com/sustainability/people

A gender pay equity gap is a measure of whether women and men are paid the same for the work they do. It considers how women's and men's pay compares to external remuneration benchmark data for the specific role they are in (taking into account both seniority and function). We have a rigorous program in place to measure and promote gender pay equity. Our median gender pay equity is less than 1% in favour of women.

A gender pay gap is a comparison of women's and men's pay in aggregate, without consideration of employees' roles. Xero's median gender pay gap is 9.7% which reflects a lower proportion of women in leadership roles than men. We have an active plan in place that focuses on hiring and developing more women in leadership roles to help improve our gender pay gap.



Global Underrepresented Racial/Ethnic Representation[10, 11]

Diversity, inclusion and belonging in the workplace are critical to helping our people thrive. In FY24, we introduced a new diversity-focused KPI to have 10% of our workforce identify within Underrepresented Racial/Ethnic groups globally by the end of FY27.

We recognise and respect the complexity of racial/ethnic identity. This representation goal was developed by looking at the regional definitions of racial/ethnic identity as defined by local census, which aligns with the options employees may choose when disclosing their identity.

A critical component of this goal is fostering a culture of inclusion for Indigenous communities. In FY24, we launched our first Reconciliation Action Plan in Australia. This plan reflects our commitment to reconciliation with First Nations peoples, and the passion and efforts of our people to foster a structured approach to reconciliation. We are looking to undertake similar efforts in all regions in which we operate.

We have identified three key areas of focus to achieve our target:

1. Internal practice and policies
2. Education and organisational capability
3. External partnerships and reputation

We have progressed a number of initiatives in FY24 across these areas. These include:

- Unconscious bias training for all talent acquisition teams
- Development of an Inclusive Hiring and Selection toolkit for people leaders
- Improvements in data and reporting so we can track equitable outcomes by identity across the talent funnel and recruitment conversion rates
- Establishment of new external partnerships to drive diversity at the top of our applicant funnel
- Expansion of our ERGs, with eight of our ERGs now focused on driving ethnic and racial diversity and inclusion

[7] Median is calculated as the weighted average of regional medians, therefore the Xero Group number is not impacted by market differences

[8] 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

[9] 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

[10] All reporting on race data is based on voluntary global self-reporting. It excludes 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. Contingent workers are not included

[11] The identified underrepresented racial/ethnic groups that are represented within this goal were identified through a workforce analysis of each region in which Xero operates, comparing the proportional representation of racial/ethnic groups in Xero employee demographics and regional census data. The groups identified represent the most significantly underrepresented groups in each of the regions in which Xero operates where we collect the racial/ethnic data of Xero employees

PLATFORM, TECHNOLOGY AND DATA

PLATFORM, TECHNOLOGY AND DATA

We invest in key areas across product and technology in order to provide a powerful small business platform to our customers. This includes:

- Ongoing product innovation and development to drive value for our customers
- Maintaining strong technology foundations that provide a reliable, innovative cloud solution
- Managing cybersecurity and privacy risks, protecting our customers' data and using data responsibly

We measure our performance through the KPIs below. These help us manage purposeful investment in our product to meet our customers' needs, monitor our platform's performance, and diligently manage our customers' data.

KPIs	Performance vs target	FY24 performance	FY23 performance
Investment in product design and development, including amounts capitalised *(year ended 31 March)*	N/A	$575 million	$597 million
Employee completion of security training *(as at 31 March)*	●	85.8%	78.5%[1]
Number of notifiable privacy incidents *(year ended 31 March)*	N/A	nil	1

In addition to the above KPIs, we work to maintain our ISO27001 (ISO/IEC 27001:2013) and Service Organization Control Type 2 (SOC2) compliance certifications. Re-certification against ISO 27001 was received in December 2023, in addition, our latest SOC 2 Type II report for the period ending 31 October 2023, which was issued in December 2023. These were attained through external audits against these international information security frameworks.

For more information about our security certifications and credentials, see our website: www.xero.com/security

Investment in product design and development to drive customer value

Xero's investment in product design and development was largely unchanged from FY23, reflecting the impact of the global reshaping of our reorganisation alongside a more focused approach to the allocation of our resources.

For further discussion refer to Our Performance on pages 51-65.

Xero's product vision aligns tightly with our company strategy —

- Win the 3x3
- Focused Bets to Win the Future
- Unleash Xero(s) to Win

Xero customer, Blakeaway

[1] *Planday employees are excluded from this calculation*

Win the 3x3

To Win the 3x3, we will focus on creating winning solutions for the three most critical Jobs to be Done for small businesses — accounting, payroll and payments — in our three largest markets — Australia, the UK and the US. To enable this innovation, we will continue investing in our foundations. This includes continuously upgrading and modernising our technology, while delivering customer value.

Product Investments in FY24

Accounting

- Developed a single client record for our accountants and bookkeepers, and practice managers. This single client record combines data from Practice Manager, Xero Tax and Xero HQ accounts in one place, providing a more seamless experience for advisors
- Enhanced AI-powered predictions in bank reconciliation to reduce the number of manual reconciliations required
- Expanded our bank feed network in the US and Canada from 20 direct bank feeds[2] in FY23 to more than 600 direct bank feeds in FY24. These include connections to banks and other financial institutions, accessed via aggregation partners such as Yodlee and Flinks. We now have more than 900 connections globally
- Embedded automatic sales tax capabilities in Xero, powered by Avalara, creating a more seamless customer experience

Payroll

- Automated customer data migration for customers onboarding to Xero payroll, simplifying onboarding and reducing risk of error
- Simplified the transition for customers in the UK from other payroll providers to Xero through the automation of data upload from their previous providers, to Xero
- Reduced the need for manual calculation and minimised the risk of error by automating rate calculations for annual salaried employees in the UK who work non-traditional working patterns
- Automated leave management for contractors and casual employees within our Australian payroll product

Payments

- Deepened our integration with our key strategic partner Stripe through enhancements to user experience by simplifying the connections between Xero and Stripe
- Announced a strategic partnership with BILL, a leading financial automation platform for small and midsize businesses in the US. To expand the capabilities in the Xero platform for our US customers, we will deeply integrate BILL's robust payment options into the Xero platform
- Launched a new eInvoicing feature in the UK, giving customers the ability to receive eInvoices. This made Xero the first small business cloud accounting platform in the UK to offer this capability
- Delivered a new bill payments tool using open banking in the UK, which offers a simple and secure way to manage, approve and pay bills without leaving Xero

[2] *Both Xero-built and aggregator-supplied direct bank feeds*

Focused Bets to Win the Future

To help Xero keep winning in the longer term, we are investing purposefully to evolve our customer experience through AI and mobile, realise potential of our ecosystem and APIs, and continue growing other markets efficiently.

In FY24, we made progress through the following initiatives:

- Enhanced our onboarding experience to help new customers get started on Xero more quickly and easily through the use of a Generative AI chatbot
- Developed a new search tool in Xero Central, powered by Generative AI, to provide customers with the answers they need faster and in conversational language

AI vision

We integrate AI into our products to help small businesses and accounting and bookkeeping partners in a number of ways. These include:

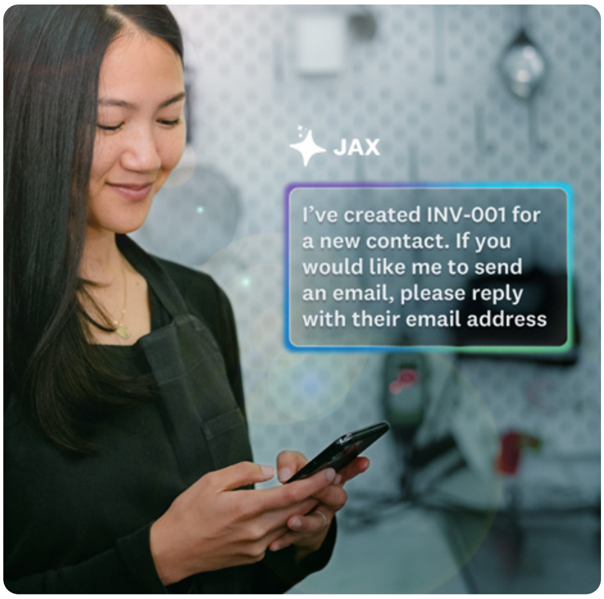
- Supporting customers by introducing conversational interfaces on the apps and surfaces (such as mobile, email and WhatsApp) they use every day
- Driving efficiency by automating and streamlining repetitive, time-consuming tasks
- Helping customers make better business decisions, by delivering the right insights at the right time

At our inaugural Investor Day in February 2024, we announced the development of Just Ask Xero (JAX) — our new Generative AI-powered smart business companion for small businesses and their advisors. JAX is designed to help customers complete accounting-related tasks and provide deep insights to help them run their business better.

When available, customers will be able to use JAX to complete tasks like generating an invoice, editing a quote or paying a bill, either within the Xero platform or outside the Xero platform or on other apps and surfaces such as mobile, WhatsApp and email. JAX will not only complete the task, but also anticipate other tasks that may follow, such as sending an email to follow up on an overdue payment. It will also provide rapid, personalised insights on demand, such as cash flow projections, to give customers the confidence they need to make better business decisions.

Unleash Xero(s) to Win

We are committed to elevating our product and technology capability and operating model to drive value at scale. We are focused on making our platform faster, more functional, reliable and flexible through our investment in platform delivery. In FY24, we attracted a number of new senior leaders into our product and technology function who have deep and wide global expertise, as we focus on building world class product development capability.



To operate at the next level of scale, we have identified a need to enhance our internal systems and ways of working. Our journey of modernisation and transformation of internal systems to drive efficiencies and enhance the way we operate will unleash Xeros to do the best work of their lives.

Employee completion of security training

At Xero, security is everyone's responsibility. All of our people are required to undertake annual security training. There was an improvement in FY24 in the proportion of people who completed their annual security training.

Our Security Champions program provides specialist education to our people. Champions are instrumental in helping drive improvements in engagement, promoting security training and awareness of cybersecurity risks. The number of our people involved in the program almost doubled in FY24, with over 150 of our people participating in the program at 31 March 2024. In recognition of the program, Xero won Most Innovative Educator in Cybersecurity at the 2023 NZ Women in Security Awards.

Number of notifiable privacy incidents

At Xero, we process a lot of personal data about our customers, their employees, vendors and other parties. Treating personal data fairly and responsibly is important to meet the expectations of those who have entrusted us with it, and to comply with legal requirements. During FY24, we did not experience any incidents that required notification to privacy regulators.

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

CUSTOMERS, PARTNERS AND ECOSYSTEM

CUSTOMERS, PARTNERS AND ECOSYSTEM

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

Our trusted relationships with small business customers, accounting and bookkeeping partners, ecosystem partners and other key stakeholders are a significant contributor to Xero's long-term value and underpin our purpose.

There are five key ways we are building these relationships:

- Driving customer growth and engagement
- Streamlining the customer experience through product initiatives
- Expanding and strengthening our ecosystem and partner relationships
- Improving customer support
- Enhancing customer and partner education

We measure our progress on building and growing these relationships through the following KPIs:

KPIs	FY24 performance	FY23 performance
Subscriber numbers* *(as at 31 March)*	4,160,000	3,741,000
ARPU* *(as at 31 March)*	$39.29	$34.61
Churn* *(as at 31 March)*	0.99%	0.90%
LTV* *(as at 31 March)*	$15.5 billion	$13.4 billion
Number of apps in ecosystem *(as at 31 March)*	Ecosystem of more than 1,100 connected apps	Ecosystem of more than 1,000 connected apps

***For more information on our financial performance, see Our Performance on pages 51-65.**

In FY24, we grew our subscriber numbers and added long-term value through ARPU growth while assessing opportunities to reduce churn. Through customer support, engagement, education and initiatives that improve the customer experience, we strive to deepen our existing customer relationships and create new ones. To provide winning solutions that add value for our customer and partners, we made targeted investments in our product across a number of areas during FY24.

For more information on our product investments, see Platform, Technology and Data on pages 32-34.

Customer growth and engagement

As we look to execute our new strategy, in FY24 we have refocused on our primary business customer segments. These will be the focus of our product delivery and go-to-market efforts over the FY25-27 strategy period.

Our primary customer segments are micro (1-5 employees) and small (6-20 employees) businesses. Our secondary customer segments are self-employed businesses with higher revenues, and medium (21-100 employees) businesses.

Our customers use Xero to run their businesses and complete critical Jobs to be Done including accounting, payroll and payments. These are the same jobs our accounting and bookkeeping partners help small businesses with in their role as trusted advisors. Accounting and bookkeeping partners use Xero to help drive meaningful, data-driven conversations with their clients. Xero's engagement and partnership with accountants and bookkeepers is essential to helping make life better for our small business customers.

Enhancing the small business customer experience

To enhance the experience for our small business customers, we invested in the development and improvement of our product offering to best meet their specific needs. We delivered multiple product initiatives in FY24, focusing on our customers' three critical JTBD — accounting, payroll and payments.

For more information on FY24 product initiatives that enhanced the customer experience, refer to Platform, Technology and Data on page 33.

XERO HACKATHON

Our company-wide Hackathon, held in October 2023, demonstrated our focus on product enhancements that customers want to see in Xero. These included:

- **Plan recommender tool (UK): a tool to help our customers find the right plan efficiently and effectively**
- **Tax statistics (Australia): a new 'tax statistics' page in Xero Tax to improve our customers' visibility into tax returns they create for clients**
- **Short-term cash flow: a new search function to help customers find missing items from their short-term cash flow projection**
- **Bank Reconciliation Detail report (US and Canada): a new report, based on the Bank Reconciliation Summary, with more information including reconciled transactions**

Engaging with our accounting and bookkeeping partners

During FY24, we focused on engaging with our accounting and bookkeeping partners through events like Xerocon Sydney and roadshows across Australia, New Zealand, Singapore, South Africa, the UK and the US.

Xerocon Sydney was held in August 2023, with several thousand attendees (around 40% of which were first-time attendees) and over 80 exhibitors. The event provided a great opportunity for our accountant, bookkeeper and app partner communities to connect with Xero, and each other. In FY25, Xerocons will take place in London and Nashville, providing an opportunity to connect with our partner community in the Northern Hemisphere.

Our roadshow events give accounting and bookkeeping partners a chance to learn about what's new in Xero and the industry. In FY24, we held roadshows in over 30 different locations globally, to share insights and engage with our accounting and bookkeeping partners. Experts discussed product updates, big picture planning and the latest industry trends.

Ecosystem and partner relationships

In addition to jobs that Xero helps our customers get done, there are also a number of adjacent JTBD that we can enable through our trusted partners and ecosystem.

Ecosystem

Our open ecosystem helps our customers connect to a broader range of interconnected cloud-based products and services. The Xero App Store offers small businesses an easier way to find, try 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[1]. At 31 March 2024, we had more than 1,100 connected apps in our ecosystem.

To help our customers and accounting and bookkeeping partners navigate our ecosystem, in FY24 we optimised our app recommendation engine to better match customers with the right apps for their needs. We improved merchandising in our Xero App Store, as well as the app launcher experience within Xero, to complement and extend the functionality of the Xero App Store across our platform.

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

Third party developer apps

Our relationship with 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. By 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

Xero App integrator, Iridium

Strategic partnerships

Embedded integrations with strategic partners such as BILL, Avalara and Stripe allow us to deepen and strengthen our capabilities within our platform. Key achievements with our strategic partners are discussed in Platform, Technology and Data on pages 32-34.

Customer support and education

Our customer support model is designed to help customers get the most out of Xero, and includes unlimited access to online support. Many of Xero's support team have a degree-level accounting background, so customers with more complex queries can get the specialised support they need.

In FY24, we launched a solution in Xero Central — our customer support and learning site — using Generative AI. When customers enter a search term or question, they now receive AI-generated answers that pull from thousands of support articles across Xero Central, as well as a list of other relevant articles. This makes it faster and easier for customers to find the information they need. Since its launch in October 2023, we have seen reductions in average customer search time and the number of search sessions requiring support from our customer experience team.

Xero Central is core to Xero's educational offering. Within Xero Central, new customers can access 'Getting Started' guides, enrol for classroom learning sessions, and attend interactive webinars. As they become more confident with Xero, they can upskill with on-demand videos, articles, guides, learning courses, or attend one of our in-person events like Xerocon or Xero roadshows. In FY24, more than 3.5 million learning activities were completed in Xero Central.

A key aspect of our education content for accounting and bookkeeping partners is Xero advisor certification and Xero payroll certification. These certifications help our partners become proficient and confident with Xero's features, to support their clients more effectively. There are now more than 115,000 Xero certified individuals. In response to partner feedback, in FY24 we moved our product update events —which are used by partners to maintain certification — from webinars to on-demand learning experiences delivered in a variety of formats.

SOCIAL AND ENVIRONMENTAL

SOCIAL AND ENVIRONMENTAL

There are four key ways we deliver on our social and environmental responsibilities:

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

We build trust through transparency, by reporting on our climate impact. We are committed to building a sustainable business for the millions of customers we serve, their advisors, our communities, our shareholders and our people. We measure our performance through the KPIs detailed in the table below.

KPIs	Performance vs target	FY24 performance	FY23 performance
Maintain carbon neutral organisation certification through the purchase of Verified Carbon Standard offsets of carbon emissions[1,2]		Planned for October 2025	Achieved
Reduce Scope 1 and 2[3] carbon emissions by 42% by 2030 from FY20 baseline *(emissions for year ended 31 March)*		793 tCO_2e -20% on FY20 base year	772 tCO_2e -22% on FY20 base year*
Reduce Scope 3[3] carbon emissions by 17% by 2030 from FY20 baseline *(emissions for year ended 31 March)*		13,602[4] tCO_2e + 16% on FY20 base year	11,979 tCO_2e +2% on FY20 base year*
Reduce carbon emissions intensity from FY20 baseline *(emissions for year ended 31 March)*		3.16 tCO_2e / FTE -24% on FY20 base year	2.51 tCO_2e / FTE -40% on FY20 base year*
Diversion of waste from landfill *(year ended 31 March)*	N/A	52.7%	59.6%*
Global community contributions *(year ended 31 March)*	N/A	More than $4.7 million	More than $3.5 million
Employee completion of modern slavery awareness training *(as at 31 March)*		92.7%	81.1%

**FY23 emissions data included in this report has been updated from the FY23 Annual Report to reflect a full 12 months of actual activity data*

[1] We apply for Climate Active carbon neutral organisation certification annually in arrears in October. In FY24, our certification for FY23 was maintained

[2] 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 FY24, GHG protocol-aligned figures will be provided for historical years in our Databook, which align with the Science Based Targets initiative (SBTi) target setting approach. These will be distinct from the Climate Active inventories

[3] Location-based methodology is used for Scope 2 and 3 emissions

[4] Refer to the Databook for a breakdown of Scope 3 emissions

Xero customer, The Seam

Carbon emissions journey

In 2019, we launched our Net Zero @ Xero program, our commitment to reduce our global carbon emissions, measuring our Scope 1, 2 and 3 emissions according to the Greenhouse Gas (GHG) Protocol for organisations. Using FY20 as our baseline year we set emissions reduction targets, our emissions boundary, and devised our reduction pathways to achieve the targets.

In line with recommended practice from the GHG Protocol, we are committed to reviewing our emissions reduction targets annually. This is done with consideration of any material changes to our business or the assumptions used to determine our FY20 baseline, carbon emissions boundaries, calculation methods and any other relevant factors that could significantly impact our emissions reduction pathway.

During our FY24 review, we identified two drivers that would necessitate a rebaselining of our emissions reduction targets:

- The impacts of the organisational reshaping we announced in March 2023
- Completion of an external relevancy assessment of our FY20 baseline year carbon emissions boundary

The combined impact of the above resulted in Xero meeting the significance thresholds that trigger a requirement under the Science-Based Targets initiative (SBTi) to rebaseline our targets. We will complete this work in FY25. We expect Scope 3 emissions to continue to evolve as access to greater relevant information is available, in addition to changes in our business. Aside from the need to rebaseline, work to reduce our emissions will continue.

FY24 relevancy assessment

In FY24, we reassessed our relevancy test for Scope 3 emissions. The relevancy test determines what categories of emissions under Scope 3 are relevant to our business and should be included in our baseline.

We determined that Xero is now required to measure and disclose additional, previously unreported, Scope 3 GHG categories and sources. This has led to the inclusion of previously unreported emissions in category 1: purchased goods and services; category 2: capital goods; and category 4: upstream transport and distribution. This expanded Scope 3 boundary brings Xero in line with the internationally recognised technical standards of the GHG Protocol and the SBTi, and aligns with the Scope 3 boundaries reported by SaaS peers.

FY24 performance in the table above is presented on the same basis as our FY20 baseline year for comparability. Calculated under our expanded boundaries, carbon emissions for FY24 were 793 tCO_2e and 35,180 tCO_2e for Scopes 1 and 2, and Scope 3 respectively.

For more information on our emissions under the expanded boundary, see the Databook on our website: www.xero.com/sustainability/approach-and-performance/

Carbon emissions[5, 6]

Our total emissions in FY24 have increased from prior year computed under our FY20 boundary assessment.

- Scope 1 emissions increased by 42%, which related to increased spend on fuel for fleet vehicles
- Scope 2 increased by 2%, relating to greater energy usage across a number of office locations where staff attendance had increased from the previous year
- Scope 3 emissions increased by 14% driven by an increase in business travel due to changes in the global distribution of our people and changes in emissions factors

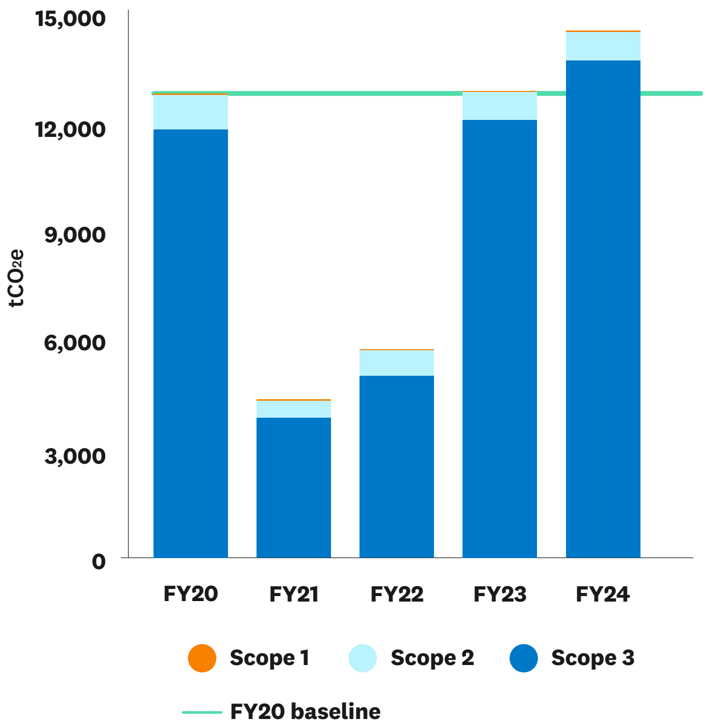
Despite a reduction of full-time equivalent employees (FTE) following the reshaping of our organisation, our emissions increased overall which has resulted in an increase in carbon emissions intensity per FTE.

We continue to work towards our emissions reductions targets and in FY24 we implemented a number of measures to minimise our carbon emissions:

- Redesigned some of our larger workspaces to reduce underutilised space and allow for more efficient use of our offices and the energy they consume
- Preferred sustainable suppliers where available
- Enhanced our carbon reporting capabilities by onboarding a new carbon accounting system, Sumday

Our Climate Active inventory is provided in our annual Climate Active public disclosure statement available on the Australian Government's Climate Active website. For more information on the composition of, and actions to reduce, our carbon emissions, see our Climate Appendix on our website: www.xero.com/sustainability and Databook: www.xero.com/sustainability/approach-and-performance/

Carbon emissions reported under FY20 boundary (metric tonnes of CO_2 equivalent)



[5] FY24 Scope 1, 2 and 3 emissions have been calculated using an extrapolation of activity data from the 10 months of the financial year (1 April to 31 January) with the exception of certain emission sources in Scope 3, Category 1: Purchased goods and services (professional services, non-capex IT, marketing and digital advertisements, events, and food and catering), which have been calculated using a full 12 months of data. We note that this approach brings with it some uncertainty and as such emissions based on projections will be amended in the FY25 Annual Report to reflect actuals

[6] The greenhouse gases included in our carbon emissions estimates comprise of CO_2, CH_4, N_2O, HFCs, PFCs, SF_6, NF_3. All emissions factors applied are expressed in tonnes of CO_2 equivalent

Waste management

We continuously look for ways to reduce overall waste, including improvements to our recycling and composting methods and, where possible, the sourcing of sustainable materials. In FY24, we focused on educating our people by championing recycling week across all of our office locations. We worked with office catering suppliers to reduce disposable utensils brought into our workplaces, and encouraged our people to use reusable utensils already available.

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

Xero customer, Oranjezicht City Farm Market

Modern slavery awareness

We ask all our people to undertake modern slavery awareness training and in FY24, there was an increase in completion of the training. Xero is committed to preventing any form of slavery and human trafficking in our operations and supply chain. In FY24, we enhanced our third-party risk assessment and management approach, focusing on mitigating modern slavery risks.

For more information about how we manage the risks of modern slavery and human trafficking, see our FY24 Modern Slavery and Human Trafficking Statement at: www.xero.com/investors/governance

Global community contributions

We take a holistic approach to calculating our contribution to communities, which includes cash donations, discounts given to non-profit organisations, and volunteering contributions. Global community contributions were more than $4.7 million for FY24.

- Cash donations made to non-profit organisations (**$130,548**)
- Discounts given to non-profit organisations (**$2,835,956**)
- Volunteering – in kind contribution (**$248,055**)
- Partnership investments (**$799,166**)
- Xero Beautiful Business Fund (**$767,109**)
- Tech outreach community investments (**$14,420**)

Xero Beautiful Business Fund

In FY24, we launched the Xero Beautiful Business Fund to support the future aspirations of small businesses, providing more than $750,000 in funding to small businesses globally. We received more than 5,500 applications from Xero customers across Australia, Canada, New Zealand, Singapore, South Africa, the United States and the United Kingdom. Through the fund, we granted 28 small businesses and non-profit organisations a share of the funding across four categories — innovating for sustainability, strengthening community connection, trailblazing with technology, and upskilling for the future.

Innovating for sustainability

Global winner: Constantia Food Club (South Africa)

The Constantia Food Club is a community buying group that sources directly from small local regenerative farmers. The Xero funding will go towards a larger clubhouse with more refrigeration, more storage and a bigger shop front, helping build an ethical, transparent and resilient food system.

Strengthening community connection

Global winner: We Care Connect (Australia)

We Care Connect brings the community together to help local children in desperate need. The Xero funding will be used for critical items that are rarely donated, including newborn carseats, toiletries for teenagers, cot mattresses, underwear, nappies, baby formula, and more.

Trailblazing with technology

Global winner: Buzz Burrows (New Zealand)

Buzz Burrows designs and manufactures unique pendant lights, using digital fabrication and emerging technologies. The Xero funding will be used to purchase a laser cutter that will improve workflow, reduce fabrication time and reduce waste. It will also allow Buzz Burrows to explore new designs and develop new market opportunities.

Upskilling for the future

Global winner: The Seam (UK)

The Seam is a community of highly skilled makers offering specialist wardrobe alteration and repair services so clothes fit well and last a lifetime. The Xero funding will go towards training more than 100 under-skilled and next-generation workers to help meet the huge increase in demand and support a more sustainable future in fashion.

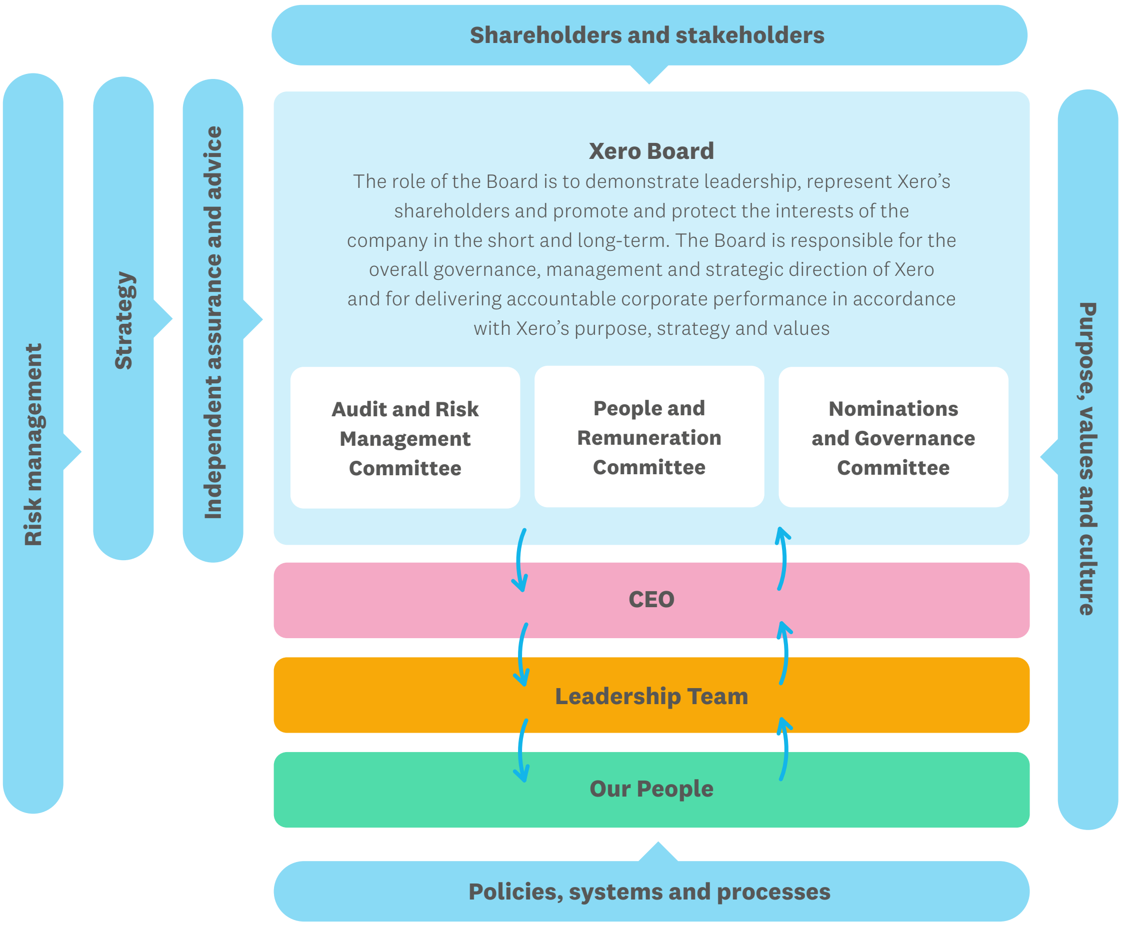
GOVERNANCE

Xero's purpose is to make life better for people in small business, their advisors and communities around the world. We are 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.

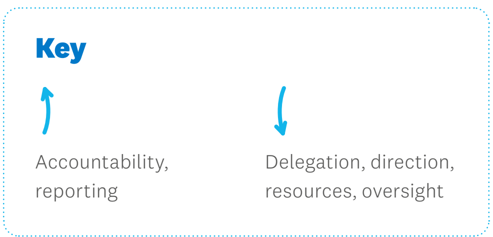
Xero's corporate governance framework is designed to deliver on Xero's purpose and strategy. It encompasses performance monitoring and risk management in a way that reflects Xero's values and the digital, global and high-growth nature of Xero's aspirations. The Board is committed to continuing to improve its practices to support Xero's governance and the delivery of Xero's purpose and strategy.

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 (PR Committee), and the Nominations and Governance Committee (NG Committee).

Xero's Governance Framework



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



Xero's Board

David Thodey, AO

Chair of the Board

Australia

Independent director since June 2019
and Chair since February 2020
Nominations and Governance Committee (Chair)
Audit and Risk Management Committee

David is a business leader focused on innovation and technology, with more than 30 years' experience creating brand and shareholder value. He is active in public policy, innovation and corporate governance.

David is chair of Ramsay Health Care (a global hospital group), co-chair of the Great Barrier Reef Foundation and the Climate Leaders Coalition, and Chancellor-designate at the University of Sydney.

David was CEO of IBM Australia and New Zealand (1999-2001) and Telstra (2009-2015), and has wide experience as a board director including as a past director of Vodafone Group, CSIRO, CSL, and Telstra.

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, an honorary Doctorate in Business from University of Sydney in 2022 and was recognised for his services to business and ethical business leadership with an Order of Australia (AO) in 2017.

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 Milford Asset Management (Chair) and Z Energy.

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 fellow of the New Zealand Institute of Directors, and a member of the Australian Institute of Company Directors.

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.

Anjali Joshi

Non-executive director

United States

Independent director since July 2023
People and Remuneration Committee

Anjali is an experienced technology and product leader and professional director with more than 30 years of experience in engineering and product management. She is currently a director of LocoNav and was previously a director of Alteryx, Lattice Semiconductor, Iteris, Mobileiron, and McClatchy. Anjali is on the advisory board of the Markkula Center for Applied Ethics at Santa Clara University and an advisor to Insight Partners in New York.

Anjali spent 13 years in senior product leadership at Google, during which time she was instrumental in building and scaling products globally across internet, mobile and video platforms. Prior to joining Google, Anjali held engineering leadership roles at Covad Communications and program management roles at AT&T Bell Labs. Anjali received her Bachelor of Technology in Electrical Engineering from the Indian Institute of Technology, a Master of Computer Engineering from the State University of New York, and a Master of Engineering Management from Stanford University. She was awarded the Distinguished Alumna Award from the Indian Institute of Technology.

Brian McAndrews
Non-executive director

United States

Independent director since February 2022
Audit and Risk Management Committee
Nominations and Governance Committee

Brian is a professional director who has extensive experience as an executive and CEO, driving growth and innovation for leading technology, SaaS 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 and Governance 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 and Mercury.

Susan is also a board member of Craig's Investment Partners and 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.

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, LendInvest, and Lightspeed Commerce, and 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.

Board diversity and skills[1]

Gender

- **Male** 57.1% (4 directors)
- **Female** 42.9% (3 directors)

Location

- **NZ** 28.6% (2 directors)
- **AU** 14.3% (1 director)
- **UK** 14.3% (1 director)
- **US** 42.9% (3 directors)

Race and ethnicity

- **White and/or European heritage** 85.7% (6 directors)
- **Asian Heritage** 14.3% (1 director)

Tenure

- **0-3 years** 42.9% (3 directors)
- **3-6 years** 42.9% (3 directors)
- **6-9 years** 14.3% (1 director)

[1] *Percentages may not add up to 100% due to rounding in the data*

Skills matrix

The Board regularly considers the desired mix of skills, experience, knowledge and capabilities to effectively govern Xero now and in the future. Following an assessment in FY24, the Board is satisfied that it continues to have the appropriate mix of skills and experience necessary to fulfil its 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[2]	Moderate capability[3]
Global markets Experience in Xero's current and emerging global markets, including scaling global businesses with large customer bases	4	3
Software as a service (SaaS) technology and data Experience in SaaS, cloud, digital platforms and data	2	5
Digital product management Experience in digital product management, technology trends and implications, and the software and technology product value chain	2	5
Sales, marketing and customer experience Experience in customer insight and advocacy, sales, marketing and business development	4	2
Strategy Experience in strategy and corporate development, including M&A and strategic partnerships	7	-
Financial acumen Qualifications or experience in corporate finance, financial accounting, and capital markets	2	4
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	1
People and culture Experience in setting remuneration frameworks, workforce planning, talent management, culture, and the promotion of diversity, inclusion and belonging	7	-
Executive leadership Experience as a senior executive in a large organisation or listed company	7	-

[2] *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*

[3] *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

In FY24, we finalised our FY25-27 strategy, which is simple, focused and purpose-driven. This strategy, and the capital allocation decisions that underpin it, aim to be closely aligned with Xero's aspirations. This reflects the Board and senior management's focus on sufficiently investing in our capabilities across areas such as Product, Technology, and Go To Market in order to capture the growth opportunity ahead, balanced with profitability outcomes and to deliver long term-value to Xero shareholders.

We announced this strategy in February 2024 at our inaugural Investor Day, a significant milestone for Xero with the Board overseeing the formulation of key messages and Xero's approach to clearly communicate its Strategy. The Investor Day gave our investors the opportunity to hear from and meet our Executive Leadership Team, and hear more about our strategy and products.

Following the reshaping of our organisation in FY23, we have been deliberate about moving toward a more purpose-driven and performance-focused culture. In FY24, the Board has worked with senior management to refresh our values, refocus on the fundamentals, and lay the foundations for a performance-based approach. Changes to Xero's Executive Leadership Team during FY24 introduced new global capabilities to help deliver our global aspirations, and the Board is pleased with the strength of the Executive Leadership Team, under the leadership of Sukhinder Singh Cassidy in her first full year as CEO.

The Board continued to focus on succession planning and development for its own composition and Xero's Executive Leadership Team. In July 2023, US-based director Anjali Joshi was appointed to the Board, with her appointment supported by shareholders at our 2023 Annual Meeting in August. Anjali is an experienced technology and product leader and professional director with more than 30 years' experience in engineering and product management. Xero's founder Rod Drury and long-standing director Lee Hatton made the decision to retire from the Board at the close of our 2023 Annual Meeting.

In FY24, the Board implemented several changes following a review of governance practices in FY23 to strengthen its oversight, strategic focus and capability. The Nominations Committee was changed to the Nominations and Governance Committee, and the committee charter was updated to reflect the expanded remit to assist the Board in relation to our corporate governance practices. The Board meeting cadence and governance calendar were reviewed to drive efficiencies and more closely align with Xero's business cycle. This included a focus on agendas to drive increased strategic focus on areas including customer and product. The Board will continue to evaluate its practices as our business and the governance landscape and stakeholder expectations continue to evolve.

During the period, the Board, supported by the ARM Committee, set the risk appetite and continued to oversee the implementation of Xero's Risk Management Framework and the effectiveness of systems, controls and processes. The ARM Committee receives regular updates on key risk areas including strategic, operational, compliance, financial and emerging risks. In January, the Board and Executive Leadership Team participated in a security incident response drill in order to test and further refine our response processes and support a high level of readiness in the event of a real issue.

In line with the global shift towards standardised climate disclosures, led by the International Sustainability Standards Board (ISSB), we continue to evolve our climate disclosures to provide comparable, consistent and transparent information about the impacts of the changing climate on our business and how we are responding to these impacts. In FY23, we provided a Statement of Progress against our roadmap under the Taskforce on Climate Related Financial Disclosures Framework. For FY24, the Annual Report Climate Appendix represents our efforts towards aligning progressively with the ISSB Standard.

For more information, see the appropriate sections of the Annual Report or visit www.xero.com

OUR PERFORMANCE

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

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

Business results

Year ended 31 March	**2024 ($000s)**	**2023 ($000s)**	**change**
Subscription revenue	1,630,761	1,326,278	23%
Other operating revenue	83,006	73,606	13%
Total operating revenue	**1,713,767**	**1,399,884**	**22%**
Cost of revenue	(202,505)	(177,943)	14%
Gross profit	**1,511,262**	**1,221,941**	**24%**
Gross margin percentage	*88.2%*	*87.3%*	*0.9pp**
Sales and marketing	(541,235)	(471,831)	15%
Product design and development	(526,183)	(490,048)	7%
General and administration	(185,122)	(168,077)	10%
Restructuring costs	(3,013)	(34,692)	-91%
Total operating expenses	**(1,255,553)**	**(1,164,648)**	**8%**
Percentage of operating revenue	*73.3%*	*83.2%*	*-9.9pp*
Operating income	**255,709**	**57,293**	**NM****
Other income and expenses	8,326	5,590	49%
Operating profit before asset impairments and disposals	**264,035**	**62,883**	**NM**
Asset impairments and disposals	(26,414)	(122,680)	-78%
Reversal of asset impairments	1,934	-	NM
Earnings before interest and tax	**239,555**	**(59,797)**	**NM**
Percentage of operating revenue	*14.0%*	*-4.3%*	*NM*
Net finance income/(expense)	22,352	(15,880)	NM
Income tax expense	(87,267)	(37,855)	131%
Net Profit/(Loss)	**174,640**	**(113,532)**	**NM**
Percentage of operating revenue	*10.2%*	*-8.1%*	*NM*

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

Xero delivered operating revenue growth of 22% while delivering improved operating efficiency. Operating expenses as a percentage of operating revenue were 73.3%, reducing 9.9 percentage points (7.6 percentage points excluding restructuring costs) from the prior year, reflecting Xero's focus on balancing growth with profitability.

Gross margin percentage increased 0.9 percentage points to 88.2% in FY24 compared with FY23. Strong operating revenue growth, alongside cost of revenue efficiencies, delivered gross profit of $1.5 billion, an increase of $289.3 million or 24% since the comparative period.

Operating income increased from $57.3 million in FY23 to $255.7 million in FY24, highlighting our commitment to balancing growth and profitability. This increase was driven by robust revenue growth and the impact of cost benefits seen from the restructuring program announced in March 2023. As a result of these initiatives, the number of Xero's full-time equivalent employees reduced from 5,080 at 31 March 2023 to 4,322 at 31 March 2024. Excluding restructuring costs, total operating expenses as a proportion of revenue decreased from 80.7% in FY23 to 73.1% in FY24. These positive outcomes were similarly reflected in EBITDA[1] which increased by $339.0 million to $497.4 million.

EBITDA growth benefited from a reduction in restructuring costs and non-cash impairments. Restructuring costs decreased from $34.7 million in FY23 to $3.0 million in FY24. Non-cash impairments decreased from $119.2 million in FY23 to $28.9 million in FY24, reflecting Planday and Waddle impairments in FY23 and the impairment of Xero Go in FY24.

Adjusted EBITDA was $526.5 million for FY24, a $224.9 million or 75% improvement compared to the prior year. Adjusted EBITDA excludes the impact of certain non-cash, revaluation and other accounting adjustments such as restructuring provisions, impairments and convertible note revaluations.

Contribution margin across both ANZ and International operating segments continued to increase and reached 73.2% (69.2% in FY23) and 35.0% (32.9% in FY23) respectively in FY24. This was a result of improved efficiency alongside continued strong revenue growth.

Xero added 419,000 subscribers in FY24, bringing total subscribers to more than four million, an 11% increase from the prior period. Operating revenue growth outpaced subscriber growth, reflecting the impact of price changes, alongside foreign exchange (FX) benefits and growth in platform products including financial services and payroll. Total subscriber lifetime value increased by $2.1 billion, or 16% (12% in constant currency) to $15.5 billion in FY24, driven by subscriber growth and a 14% (10% in constant currency) increase in ARPU.

In FY24, net finance income was $22.4 million compared to a net finance expense of $15.9 million in the comparative period. This change reflects the impact of higher global interest rates, alongside higher average cash and short-term deposit balances compared to FY23.

Cash receipts from customers increased by 22% from FY23, aligning with revenue growth. This increase was mirrored in free cash flow, which grew from $102.3 million in FY23 to $342.1 million in FY24, driven by improved profitability and operational efficiencies.

As a result of improvements to underlying profit, income tax rose by $49.4 million to $87.3 million in FY24. Tax expense does not directly track underlying profit movements due to regional profit distribution and adjustments for non-deductible items. After tax, the Group recognised a net profit of $174.6 million compared to a net loss of $113.5 million in FY23. The favourable outcome was propelled by robust revenue growth and disciplined cost management, coupled with strategic reinvestment in key priorities.

1. Details on EBITDA can be found on page 53

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	**2024 ($000s)**	**2023 ($000s)**	**change**
Net Profit/(Loss)	174,640	(113,532)	NM
Add back: net finance (income)/expense	(22,352)	15,880	NM
Add back: depreciation and amortisation	257,863	218,196	18%
Add back: income tax expense	87,267	37,855	131%
EBITDA	**497,418**	**158,399**	**NM**
EBITDA margin	*29.0%*	*11.3%*	*17.7pp*

EBITDA increased by $339.0 million compared to FY23 driving an EBITDA margin improvement of 17.7 percentage points, from 11.3% in FY23 to 29.0% in FY24. This was largely driven by operating revenue growth of $313.9 million, or 22%, exceeding growth in operating expenses excluding depreciation and amortisation of 5%. A reduction in non-cash impairment costs of $90.3 million added further to year-on-year EBITDA growth.

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

Year ended 31 March	**2024 ($000s)**	**2023 ($000s)**	**change**
EBITDA	497,418	158,399	NM
Add back: restructuring costs	3,013	34,692	-91%
Add back: non-cash impairment of Planday	-	77,927	NM
Add back: non-cash impairment of Xero Go	28,885	-	NM
Add back: non-cash impairment, gains and costs relating to the exit of Waddle	(9,090)	48,527	NM
Add back: non-cash revaluations	6,319	(17,856)	NM
Adjusted EBITDA	**526,545**	**301,689**	**75%**
Adjusted EBITDA margin	*30.7%*	*21.6%*	*9.1pp*

Adjusted EBITDA increased by 75%, or $224.9 million, from $301.7 million in FY23 to $526.5 million in FY24. This resulted in adjusted EBITDA margin increasing 9.1 percentage points from 21.6% in FY23 to 30.7% in FY24. This result includes a $9.1 million adjustment relating to benefits recognised in connection with the sale of Waddle. Adjusted EBITDA performance reflects cost of revenue and operating expenses (excluding depreciation and amortisation) growth of 7% and revenue growth of 22% compared to FY23.

Cash flows and liquidity

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

Year ended 31 March	**2024 ($000s)**	**2023 ($000s)**	**change**
Receipts from customers	1,705,595	1,394,237	22%
Net interest received	52,289	12,497	NM
Income tax paid	(46,554)	(11,296)	NM
Other operating cash flows	(1,119,571)	(1,004,989)	11%
Total cash flows from operating activities	**591,759**	**390,449**	**52%**
Investing activities	(242,008)	(304,896)	-21%
Add back: acquisitions and divestments	(887)	15,879	NM
Add back: investment and divestment of strategic assets	(6,718)	908	NM
Free cash flow	**342,146**	**102,340**	**NM**
Percentage of operating revenue	*20.0%*	*7.3%*	*12.7pp*

Free cash flow increased by $239.8 million from $102.3 million in FY23 to $342.1 million in FY24. As a percentage of total operating revenue this was a 12.7 percentage point increase from 7.3% in FY23 to 20.0% in FY24.

Receipts from customers increased by 22%, or $311.4 million, to $1.7 billion, which was consistent with operating revenue growth of 22%.

Total cash flows from operating activities increased by 52%, or $201.3 million, to $591.8 million as receipts from customers grew by 22%, outpacing payments to suppliers and employees of 12%. The lower growth in payments to employees reflected the flow through of our restructuring program, as we reduced Full Time Equivalent (FTE) employees by 15%. This was partly offset by cash outflows relating to the restructuring program in FY24 of $33.5 million. Excluding this, payments to suppliers and employees would have grown 8%. Free cash flow was also positively impacted by an increase in net interest received of $39.8 million.

Cash outflows from investing activities decreased by 21%, or $62.9 million, compared to FY23. This was largely due to a reduction in our capitalised product and development spend, particularly relating to external consultants.

Total available liquidity (defined as cash and cash equivalents, and short-term deposits) at 31 March 2024 was $1.5 billion, compared to $1.1 billion at 31 March 2023.

Operating revenue

Subscription revenue comprises recurring fees from subscribers to Xero's cloud-based platform, products and services. With 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 FY24 at the effective exchange rates for FY23.

Year ended 31 March	2024 ($000s)	2023 ($000s)	change	change in constant currency
Subscription revenue	1,630,761	1,326,278	23%	22%
Other operating revenue	83,006	73,606	13%	10%
Total operating revenue	**1,713,767**	**1,399,884**	**22%**	**21%**

Total operating revenue grew 22%, or $313.9 million, to $1.7 billion in FY24. The comparatively weaker New Zealand Dollar (NZD) against the United States dollar (USD) and the Great British Pound (GBP) had a favourable impact on reported revenue. In constant currency, operating revenue grew 21%.

Subscription revenue increased by $304.5 million, or 23%, in FY24. This was driven by subscriber growth of 11%, alongside price changes across both Business and Partner Edition plans, and expansion in platform products such as Payroll, reflecting the value of Xero's offerings.

Other operating revenue increased 13%, or $9.4 million, compared to FY23. This was impacted in part by the number of Xerocons held across FY23 and FY24, with three events held in FY23 (Australia, US and UK), compared with only one (Australia) being held in FY24, alongside our decision to exit Waddle. Excluding the impacts of Xerocon and Waddle, other operating revenue increased 33%, or $18.8 million, reflecting growth in financial services revenue, TaxCycle and ecosystem.

Operating revenue by geography

Year ended 31 March	2024 ($000s)	2023 ($000s)	change	change in constant currency
Australia	770,350	623,768	23%	24%
New Zealand	199,540	173,951	15%	15%
Australia and New Zealand (ANZ) total	**969,890**	**797,719**	**22%**	**22%**
United Kingdom	461,019	370,751	24%	20%
North America	112,080	95,909	17%	15%
Rest of World	170,778	135,505	26%	25%
International total	**743,877**	**602,165**	**24%**	**20%**
Total operating revenue	**1,713,767**	**1,399,884**	**22%**	**21%**

ANZ – Operating revenue increased by $172.2 million, or 22% (22% in constant currency) compared to FY23, outpacing subscriber growth of 11%. This was mainly due to price changes in FY24 for both Business and Partner Edition plans.

Australia's operating revenue grew $146.6 million, or 23%, driven by subscriber growth of 13% and supplemented by price changes in FY24. The comparatively stronger NZD against the Australian Dollar (AUD) had an unfavourable impact on reported revenue, with constant currency revenue growth of 24% in FY24.

New Zealand operating revenue growth was 15%, or $25.6 million, compared to FY23. This was 8% higher than subscriber growth, mainly due to price changes throughout the year.

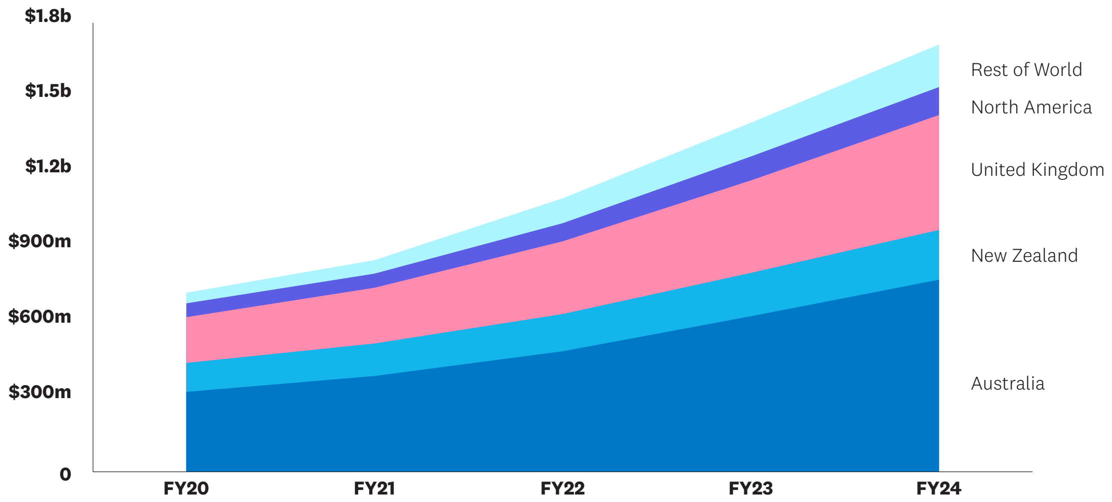
International – Operating revenue grew 24% (20% in constant currency), driven by subscriber growth of 11%, price changes in FY24, along with slight improvements in product mix. The International segment contributed 43% of total operating revenue, in line with the comparative period.

UK operating revenue grew 24% (20% in constant currency), compared to subscriber growth of 11%. This was mainly driven by price changes, along with improvements in product mix. UK operating revenue growth was impacted by one Xerocon being held in FY23; no event was held in FY24. Excluding the impact of Xerocon revenue, UK operating revenue grew 25% (21% in constant currency).

North America operating revenue increased 17% compared to FY23 (15% in constant currency). Comparisons to FY23 are impacted by no Xerocon events being held in FY24 (one in FY23), and reduction in LOCATE revenue following decommission of the standalone product and integration into Xero's core offering. Excluding these impacts, operating revenue growth for North America was 22% (19% in constant currency) due to subscriber growth of 10%, price changes, and growth in platform products.

Operating revenue in Xero's Rest of World markets increased by 26% from FY23 (25% in constant currency). Operating revenue growth outpaced subscriber growth by 14%, mainly due to Business Edition price changes in November. South Africa was the largest contributor of Rest of World operating revenue growth, followed by Singapore.

Total group operating revenue by geography



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	2024	2023	change
Australia	1,771,000	1,566,000	13%
New Zealand	605,000	567,000	7%
Australia and New Zealand (ANZ) total	**2,376,000**	**2,133,000**	**11%**
United Kingdom	1,077,000	970,000	11%
North America	422,000	384,000	10%
Rest of World	285,000	254,000	12%
International total	**1,784,000**	**1,608,000**	**11%**
Total paying subscribers	**4,160,000**	**3,741,000**	**11%**

Xero Group - 419,000 subscribers were added in FY24, bringing total subscribers to 4,160,000, surpassing the four million milestone in the second half of FY24. This equated to 11% year-on-year growth in subscribers.

ANZ - Xero continued its growth momentum in these markets that have high cloud penetration, adding 243,000 subscribers in FY24. ANZ subscribers grew by 11%, reflecting the strength and demand of our product offering.

Australia continues to deliver strong subscriber growth, adding 205,000 net subscribers in FY24, equating to year-on-year growth of 13%. New Zealand added 38,000 subscribers in FY24, a 7% increase in a region with high cloud penetration.

International - In the International segment Xero added 176,000 subscribers in FY24, bringing total subscribers to 1.8 million.

UK subscribers grew by 107,000, or 11%, following continued expansion across both partner and direct channels. FY24 was partly impacted by slower uptake of UK HMRC Making Tax Digital following delays to the program.

In North America, subscriber numbers increased by 38,000 or 10%, in FY24. Net additions for H2 FY24 were more than double H1 FY24 following subdued growth in the first half due to some seasonality associated with tax year ends.

Rest of World markets grew by 31,000 subscribers or 12%, in FY24, bringing total subscribers to 285,000. South Africa was the largest contributor of Rest of World subscriber growth, reflecting Xero's growing footprint in this market.

Net subscriber additions

FY24
Region (% of total net additions)
- Australia (**49%**)
- New Zealand (**9%**)
- United Kingdom (**26%**)
- North America (**9%**)
- Rest of World (**7%**)

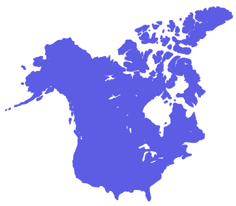
FY23
Region (% of total net additions)
- Australia (**47%**)
- New Zealand (**12%**)
- United Kingdom (**25%**)
- North America (**10%**)
- Rest of World (**6%**)

Regional subscribers at 31 March 2024*

Australia
1,771,000
2023 | 1,566,000
▲ Up 13%

New Zealand
605,000
2023 | 567,000
▲ Up 7%

United Kingdom
1,077,000
2023 | 970,000
▲ Up 11%



North America
422,000
2023 | 384,000
▲ Up 10%

**Rest of World subscribers at 31 March 2024: 285,000 (31 March 2023: 254,000)*

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 2024 at the foreign exchange rates at 31 March 2023. It is provided to assist in understanding and assessing year-on-year growth rates, excluding the impact of foreign currency fluctuations.

At 31 March	2024 ($000s)	2023 ($000s)	change	change in constant currency
ANZ	1,082,532	876,477	24%	22%
International	878,836	677,326	30%	23%
Total	**1,961,368**	**1,553,803**	**26%**	**22%**

Total Group – AMRR grew by 26% (22% in constant currency) to $2.0 billion in March 2024. This was an increase of $407.6 million over the comparative period, driven by subscriber growth and a 14% (10% in constant currency) increase in average revenue per user (ARPU). Price changes across core accounting products in all major markets through the year was the main driver of the ARPU increase, as the value of Xero's offering was further realised.

ANZ – AMRR grew 24% (22% in constant currency), or $206.1 million, compared to FY23, to $1.1 billion. Across ANZ, subscriber growth and price changes contributed to an overall increase to AMRR.

International – AMRR increased 30% (23% in constant currency), or $201.5 million, to $878.8 million at 31 March 2024. The majority of this increase was attributed to the UK, where continued subscriber growth, price changes, and a slight improvement in product mix were the main contributors.

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.

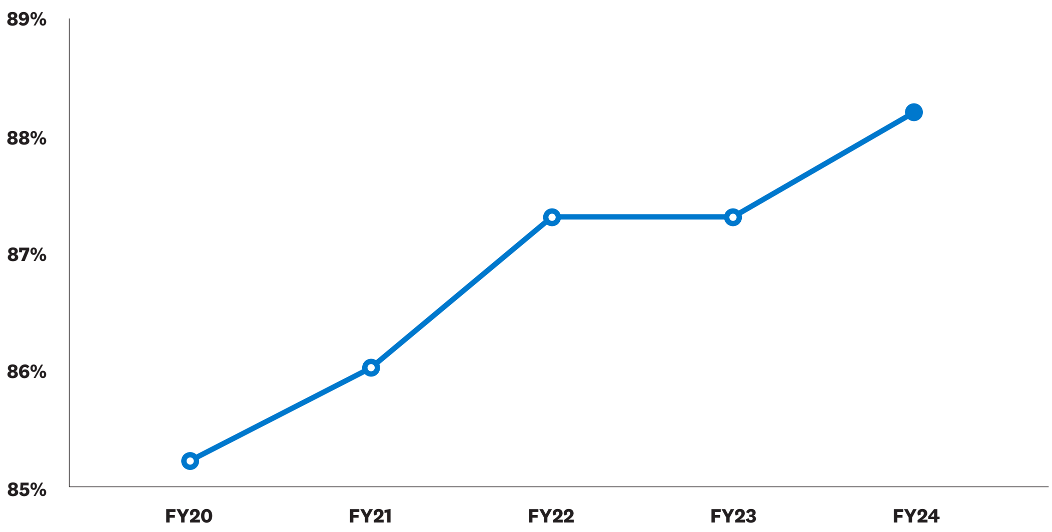
The costs include hosting costs, bank feed costs, personnel and related expenses (including salaries, benefits, bonuses, and share-based payments) directly associated with cloud infrastructure and subscriber support, contracted third-party vendor costs, related depreciation and amortisation, and allocated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

Year ended 31 March	2024 ($000s)	2023 ($000s)	change
Operating revenue	1,713,767	1,399,884	22%
Cost of revenue	(202,505)	(177,943)	14%
Gross profit	**1,511,262**	**1,221,941**	**24%**
Gross margin percentage	*88.2%*	*87.3%*	*0.9pp*

Gross margin percentage increased 0.9 percentage points to 88.2% in FY24 compared with FY23. Strong operating revenue growth of 22%, alongside cost of revenue efficiencies, delivered gross profit of $1.5 billion, an increase of $289.3 million or 24% since the comparative period.

Cost of revenue increased 14% year-on-year, to $202.5 million. This year-on-year increase was a combination of continued spend to support more subscribers and products. As a proportion of operating revenue, the cost of revenue fell to 11.8% from 12.7% during the comparative period. Growth in cost of revenue was 8 percentage points less than growth in operating revenue, this improvement was achieved through the use of advanced technology and hosting optimisations.

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	**2024 ($000s)**	**2023 ($000s)**	**change**
Sales and marketing expenses	541,235	471,831	15%
Percentage of operating revenue	*31.6%*	*33.7%*	*-2.1pp*

Sales and marketing costs include:
- Costs incurred to acquire new subscribers and invest in our brand for future subscribers
- Costs associated with upselling and cross-selling to existing customers
- Initiatives to educate existing customers to encourage retention

These costs were expensed in the period. This is in contrast to the associated revenue from those subscribers, which is recognised over the lifetime of the subscriber.

Sales and marketing costs increased by 15% to $541.2 million for FY24, compared to operating revenue growth of 22% during the period. This increase was primarily driven by 42% growth in external marketing costs, largely attributed to increased investment in brand, including Xero's FIFA partnership, and digital performance spending, particularly across Australia, UK and the US. This was partly offset by a 6% decline in employee-related spend following our restructure. As a proportion of revenue, sales and marketing costs were 31.6%, representing a decrease of 2.1 percentage points from FY23. Year-on-year sales and marketing growth was positively impacted by fewer Xerocons in FY24 compared to FY23. Excluding Xerocon spend, sales and marketing costs increased 18% year-on-year. As a percentage of operating revenue, sales and marketing costs would have been 1.3 percentage points lower at 31.2% for FY24, compared to 32.5% for FY23.

The average cost of acquiring a subscriber has increased to $598 per gross subscriber added, compared to $551 in FY23. This reflects an upward adjustment in prices driven by inflationary pressures, alongside a sustained emphasis on expanding our international markets, which are comparatively less efficient than those in ANZ.

Product design and development

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

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

Year ended 31 March	**2024 ($000s)**	**2023 ($000s)**	**change**
Total product design and development costs (including amounts capitalised)	**575,080**	**597,181**	**-4%**
Percentage of operating revenue	*33.6%*	*42.7%*	*-9.1pp*
Less capitalised development costs	(234,971)	(259,767)	-10%
Product design and development expense (excluding amortisation of amounts capitalised)	**340,109**	**337,414**	**1%**
Less government grants	(746)	(2,130)	-65%
Add amortisation of capitalised development costs	186,820	154,764	21%
Product design and development expenses	**526,183**	**490,048**	**7%**
Percentage of operating revenue	*30.7%*	*35.0%*	*-4.3pp*

Xero is committed to investing in product innovation and development to deliver new products, features and experiences to customers, while also investing in the foundations of our platform through upgrades and modernisation. Our investment has allowed us to deliver significant enhancements to our product in FY24. For more information refer to the Platform, Technology and Data section of this report (see pages 32-34).

Total product design and development costs were $575.1 million for FY24, $22.1 million or 4% lower than in FY23. Product design and development expenses as a percentage of revenue has improved from 35.0% in FY23 to 30.7% in FY24. The reduction largely reflects the reshaping of our product and technology organisation as part of our restructure. There was an increase in product spend in the second half of FY24 as we focused on continued investment in areas of strategic importance.

The amount capitalised of $235.0 million represents a capitalisation rate of 40.9% of total product design and development costs, compared to 43.5% in FY23. The lower rate of capitalisation is contributed to by a reduction in the use of external contractors and consultants in FY24 compared to FY23. External contractors and consultants are used to deliver specific projects and are typically capitalised at higher rates.

Product design and development expenses for FY24 were impacted by an increase in amortisation of previously capitalised product design and development expenditure of 21%, or $32.1 million, compared to FY23. After amortisation and government grants, total net expenses were $526.2 million for the year.

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	**2024 ($000s)**	**2023 ($000s)**	**change**
General and administration expenses	185,122	168,077	10%
Percentage of operating revenue	*10.8%*	*12.0%*	*-1.2pp*

General and administration expenses were $185.1 million, an increase of $17.0 million, or 10%, compared to FY23. A large driver of this increase was personnel costs due to changes in Xero's Executive Leadership Team. There was also an increase in professional fees, driven by the sale of Waddle in October 2023.

General and administration expenses as a proportion of operating revenue decreased by 1.2 percentage points to 10.8% in FY24. This reflects realisation of some efficiencies in our cost base as a result of the restructuring program as well as economies of scale achieved.

Employees

At 31 March	**2024**	**2023**	**change**
Total Group	4,322	5,080	-15%

FTE employees decreased by 758, or 15%, in FY24, compared to FY23. This was largely a result of our restructuring program, announced in March 2023 as we streamlined and simplified our operations. During H2 FY24, FTE numbers increased by 80 as part of Xero's commitment to hire individuals in strategically important areas of the business.

Net finance income/(expense)

Year ended 31 March	**2024 ($000s)**	**2023 ($000s)**	**change**
Interest income on cash and deposits	67,408	29,101	132%
Finance lease interest income	69	18	NM
Total finance income	**67,477**	**29,119**	**132%**
Amortisation of discount and debt issuance costs	(36,635)	(34,640)	6%
Lease liability interest	(7,876)	(8,155)	-3%
Unwind of contingent consideration	(163)	(992)	-84%
Other finance expense	(451)	(1,212)	-63%
Total finance expense	**(45,125)**	**(44,999)**	**0%**
Net finance income/(expense)	**22,352**	**(15,880)**	**NM**

Finance income increased significantly by $38.4 million to $67.5 million in FY24. This was due to higher global interest rates, combined with increased average cash and short-term deposit balances compared to FY23.

Total finance expense of $45.1 million remained relatively flat compared to $45.0 million in FY23. Amortisation of discount and debt issuance costs related to our convertible notes, which are non-cash, increased by $2.0 million following increases to our term debt balance as it nears maturity.

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.

Year ended 31 March 2024	**ANZ ($000s)**	**International ($000s)**	**Total ($000s)**
Operating revenue	969,890	743,877	1,713,767
Expenses	(260,095)	(483,645)	(743,740)
Segment contribution	**709,795**	**260,232**	**970,027**
Contribution margin percentage	*73.2%*	*35.0%*	*56.6%*
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%*

ANZ - Segment contribution increased $157.8 million, or 29%, to $709.8 million in FY24. This resulted in the contribution margin increasing 4.0 percentage points from 69.2% in FY23 to 73.2% in FY24.

Operating revenue for FY24 grew by $172.2 million, or 22% (22% in constant currency), compared to FY23, driven by price changes and subscriber growth. This growth in operating revenue outpaced segment expense growth, which increased by 6% since FY23, mainly from sustained sales and marketing spend across periods, as well as lower growth in cost of revenue. The lower growth in these expenses compared to the International segment reflects the efficiency of having higher cloud accounting penetration in ANZ.

International - Segment contribution improved to $260.2 million in FY24, an increase of $62.1 million, or 31%, compared to $198.1 million in FY23. This resulted in a contribution margin of 35.0% for FY24, a 2.1 percentage point improvement from the comparative period.

Operating revenue for FY24 grew by $141.7 million, or 24% (20% in constant currency), compared to FY23. This was a result of continued subscriber growth and price changes.

Expenses in the International segment grew by 20%, or $79.6 million, from FY23. This was due to an increase in cost of revenue and growth in sales and marketing spend. The sales and marketing increase was from investment in brand recognition, particularly in the UK, partnering with organisations such as FIFA Women's Football to drive future growth in the International segment.

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

Key SaaS metrics

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

Average revenue per user (ARPU) is calculated as AMRR (see definition on page 58) 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 conference revenue (such as Xerocon), divided by gross new subscribers added during the same period, divided by ARPU.

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

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

LTV/CAC is the ratio between the LTV per subscriber and the cost to acquire that subscriber. For example, the LTV derived from a subscriber is currently on average 6.2 times the cost of acquiring that subscriber.

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

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

Year ended 31 March 2024	**ANZ**	**International**	**Total**
ARPU ($)	37.97	41.05	39.29
CAC months	8.1	22.4	15.2
Churn	0.76%	1.28%	0.99%
LTV per subscriber ($)	4,431	2,802	3,732
LTV/CAC	14.3	3.1	6.2

Year ended 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

Xero Group – Xero Group ARPU increased by 14% (10% in constant currency) year-on-year. The main drivers were price changes and the growth of our other product offerings such as financial services across both our segments.

CAC months of 15.2 months were slightly lower than the 15.9 months in the comparative period, driven by improvements in both segments.

Churn increased for the Xero Group to 0.99% for FY24 compared to 0.90% in the comparative period. While churn increased in both segments it still remains below pre-pandemic years.

Total Subscriber LTV increased $2.1 billion, or 16% (12% in constant currency) in FY24, from $13.4 billion to $15.5 billion, driven by growth in ARPU and subscribers. Xero Group LTV/CAC ratio fell slightly to 6.2 from 6.5 in the comparative period, primarily driven by the slight increase in churn and increased sales and marketing spend in the International segment to further increase Xero's brand awareness and product offerings globally.

ANZ - ARPU increased to $37.97 or 11% (9% in constant currency) year-on-year. This was primarily driven by price changes in Australia and New Zealand for our Business Edition products in September 2023, and Partner Edition products in March 2024.

CAC months decreased from 9.1 to 8.1 year-on-year. This was driven by the increase in ARPU outpacing the additional growth in sales and marketing spend over the last 12 months, reflecting the efficiency benefits of high cloud accounting penetration in these markets.

Churn increased by 8 basis points in FY24 to 0.76%. Although this is slightly higher than the previous two years, it remains below pre-pandemic levels.

Total ANZ LTV increased by $1.2 billion, or 13% (11% in constant currency) to $10.5 billion in FY24. This was driven by ARPU growth and subscriber growth of 11%. LTV/CAC increased 0.3 year-on-year to 14.3 but remained flat on a constant currency basis.

International - ARPU increased to $41.05 or 17% (11% in constant currency) driven primarily by price changes across every market for our Business Edition and Partner Edition products throughout the financial year. Favourable movements in spot FX rates for GBP and USD relative to NZD contributed to the additional 6 percentage points in ARPU growth compared to constant currency growth. In addition, growth in other product offerings and improved product mix also contributed to the increase in ARPU.

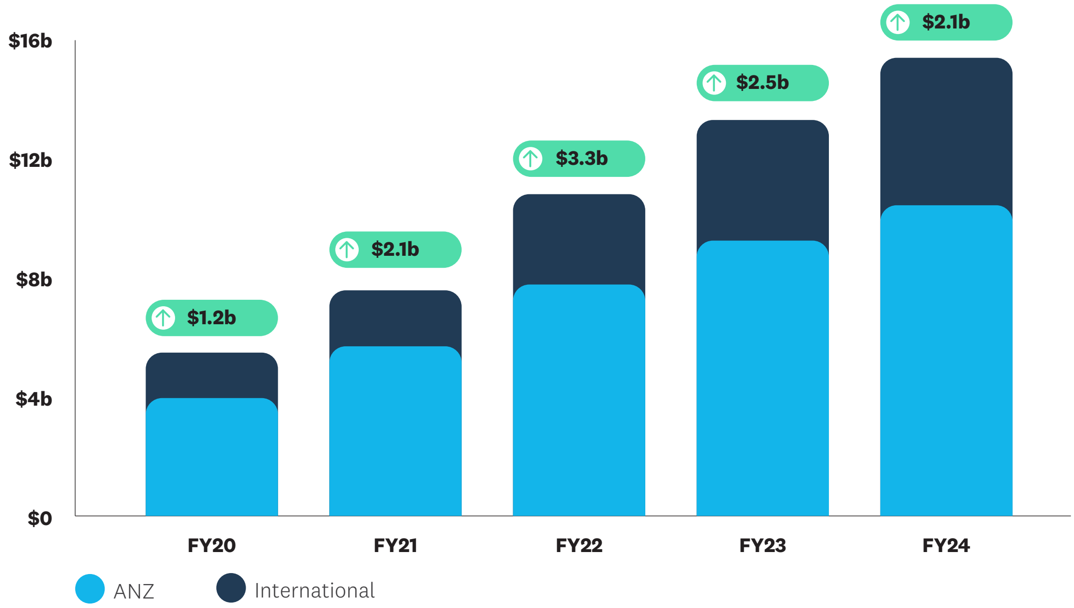
CAC months decreased year-on-year by 0.9 months, driven by ARPU growth and higher subscriber additions over the last 12 months compared to the comparative period.

Churn increased by 7 basis points in FY24 to 1.28% from 1.21% in FY23. Similar to ANZ, churn for International remains below pre-pandemic levels.

Total International subscriber LTV increased by $0.9 billion, or 22% (16% in constant currency) in FY24, from $4.1 billion to $5.0 billion. This was primarily driven by ARPU growth and an 11% increase in subscribers. LTV per subscriber increased by $260, or 10% (4% in constant currency) to $2,802 in FY24, compared to $2,542 in FY23 as a result of higher ARPU partially offset by higher churn.

LTV/CAC of 3.1 in FY24 was flat year-on-year, as our CAC investment into our International market was offset by ARPU expansion.

Total lifetime value at 31 March



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 71 to 100, which comprise the consolidated statement of financial position of the Group as at 31 March 2024, 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 material accounting policy information.

In our opinion, the consolidated financial statements on pages 71 to 100 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2024 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, market remuneration data and pre-assurance climate related reporting. 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 50% of the Group's non-current assets.

The Group capitalises costs incurred in the development of its software. These costs are then amortised over the estimated useful life of the software.

Internally developed software includes staff, contractor and vendor costs. The Group's process for calculating the value of staff costs capitalised involves judgment as it includes estimating time staff spend developing software and determining the value 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 they may be impaired. This assessment requires judgment including consideration of both internal and external sources of information.

Disclosures relating to the 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;
- For capitalised costs relating to contractors and vendors, tested amounts capitalised to third party documentation on a sample basis; and
- For capitalised costs relating to staff time:
  - Recalculated costs capitalised based on the percentage of staff time spent on capital projects and gross remuneration.
  - Assessed the procedures used to determine the percentage of staff time spent on capital projects and, for a sample of development teams, the resulting percentages.
  - For a sample of employees, tested gross remuneration used in capitalisation calculations based on underlying employee records.
  - We also compared costs capitalised in the year to those capitalised in the previous year, adjusted for movements in headcount, salary rates and the percentage of staff time spent on capital projects.

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 $336 million of goodwill at 31 March 2024, which is allocated to the following four cash generating units (CGUs) as follows:

- $139 million to Planday
- $94 million to International
- $64 million to Australia and New Zealand
- $39 million to 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.

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 fair value. Both of these approaches require significant judgment in assessing the appropriate valuation inputs.

Disclosures relating to goodwill impairment, including key assumptions used in the assessments, 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 methodologies applied met the requirements of NZ IAS 36 Impairment of Assets;
  - for CGUs where a multiples approach was utilised 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 method was utilised, consider the appropriateness of the discount rate and terminal growth rate applied;
- Considered free cash flows incorporated in discounted cash flow methods 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 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
23 May 2024

FINANCIAL STATEMENTS

Income Statement

Year ended 31 March	Notes	2024 ($000s)	2023 ($000s)
Subscription revenue		1,630,761	1,326,278
Other operating revenue		83,006	73,606
Total operating revenue	**4**	**1,713,767**	**1,399,884**
Cost of revenue	5	(202,505)	(177,943)
Gross profit		**1,511,262**	**1,221,941**
Operating expenses			
Sales and marketing		(541,235)	(471,831)
Product design and development		(526,183)	(490,048)
General and administration		(185,122)	(168,077)
Restructuring costs		(3,013)	(34,692)
Total operating expenses	**5**	**(1,255,553)**	**(1,164,648)**
Operating income		**255,709**	**57,293**
Other income	6	14,674	18,130
Other expenses	6	(6,348)	(12,540)
Asset impairments and disposals	10, 11	(26,414)	(122,680)
Reversal of asset impairments	11	1,934	–
Earnings before interest and tax		**239,555**	**(59,797)**
Finance income	7	67,477	29,119
Finance expense	7	(45,125)	(44,999)
Net profit/(loss) before tax		**261,907**	**(75,677)**
Income tax expense	22	(87,267)	(37,855)
Net profit/(loss) after tax		**174,640**	**(113,532)**
Basic earnings/(loss) per share	8	$1.15	($0.76)
Diluted earnings/(loss) per share	8	$1.14	($0.76)

Statement of Comprehensive Income

Year ended 31 March	Note	2024 ($000s)	2023 ($000s)
Net profit/(loss)		174,640	(113,532)
Other comprehensive income*			
Movement in cash flow hedges (net of tax)	18	(3,468)	(2,403)
Translation of foreign currency operations (net of tax)		3,601	(8,361)
Total other comprehensive income/(loss) for the year		**133**	**(10,764)**
Total comprehensive income/(loss) for the year		**174,773**	**(124,296)**

** 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 2024 ($000s)	At 31 March 2023 ($000s)
Assets			
Current assets			
Cash and cash equivalents		498,791	230,624
Short-term deposits		1,031,079	886,563
Trade and other receivables	9	176,486	128,998
Derivative assets	18	4,065	5,570
Income tax receivable		32,533	4,406
Other current assets		4,499	7,450
Total current assets		**1,747,453**	**1,263,611**
Non-current assets			
Property, plant and equipment	10	125,228	138,094
Intangible assets	11	984,156	963,032
Derivative assets	18	61,329	31,853
Deferred tax assets	22	31,714	92,000
Other non-current assets		1,544	1,565
Total non-current assets		**1,203,971**	**1,226,544**
Total assets		**2,951,424**	**2,490,155**
Liabilities			
Current liabilities			
Trade and other payables	12	85,679	52,204
Employee entitlements		103,239	95,708
Provisions	14	1,867	42,925
Lease liabilities	15	19,369	17,258
Derivative liabilities	18	7,175	5,544
Income tax payable		2,760	3,607
Other current liabilities	13	43,993	37,819
Total current liabilities		**264,082**	**255,065**
Non-current liabilities			
Term debt	16	1,107,784	1,019,794
Lease liabilities	15	96,967	106,163
Derivative liabilities	18	64,463	28,147
Deferred tax liabilities	22	13,112	12,859
Contingent consideration		–	1,152
Other non-current liabilities		12,069	13,069
Total non-current liabilities		**1,294,395**	**1,181,184**
Total liabilities		**1,558,477**	**1,436,249**
Equity			
Share capital	20	1,854,983	1,710,392
Reserves		(193,268)	(213,078)
Accumulated losses		(268,768)	(443,408)
Total equity		**1,392,947**	**1,053,906**
Total liabilities and shareholders' equity		**2,951,424**	**2,490,155**

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 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)	20, 24	80,589	3,129	28,852	–	–	–	–	112,570
Share options exercised	20, 24	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**
Net profit		–	–	–	174,640	–	–	–	174,640
Other comprehensive income/(loss)		–	–	–	–	3,601	(3,468)	–	133
Total comprehensive income/(loss)		**–**	**–**	**–**	**174,640**	**3,601**	**(3,468)**	**–**	**174,773**
Transactions with owners:									
Share-based payments (net of tax)	20, 24	91,989	–	31,865	–	–	–	–	123,854
Share options exercised	20, 24	51,802	–	(12,188)	–	–	–	–	39,614
Issue of shares – acquisition related	20	800	–	–	–	–	–	–	800
Balance at 31 March 2024		**1,847,758**	**7,225**	**116,045**	**(268,768)**	**(5,171)**	**(2,886)**	**(301,256)**	**1,392,947**

The accompanying notes form an integral part of these financial statements

Statement of Cash Flows

Year ended 31 March	Note	2024 ($000s)	2023 ($000s)
Operating activities			
Receipts from customers		1,705,595	1,394,237
Other income		5,221	1,422
Interest received		60,777	21,768
Payments to suppliers and employees		(1,124,792)	(1,006,411)
Interest paid		(8,488)	(9,271)
Income tax paid		(46,554)	(11,296)
Net cash flows from operating activities	**23**	**591,759**	**390,449**
Investing activities			
Capitalised development costs		(226,985)	(262,496)
Purchase of property, plant and equipment		(6,587)	(6,752)
Capitalised contract acquisition costs		(14,958)	(16,587)
Business acquisitions		(8,663)	(15,879)
Business divestments		9,550	–
Other investing activities		5,635	(3,182)
Net cash flows from investing activities		**(242,008)**	**(304,896)**
Financing activities			
Proceeds from short-term deposits		2,025,864	1,427,144
Payments for short-term deposits		(2,140,828)	(1,742,659)
Proceeds from borrowings		–	2,146
Repayment of borrowings		–	(4,888)
Share options exercised		39,614	31,709
Payment of lease liabilities		(17,910)	(16,547)
Net cash flows from financing activities		**(93,260)**	**(303,095)**
Net increase/(decrease) in cash and cash equivalents		**256,491**	**(217,542)**
Foreign currency translation adjustment		11,676	43,974
Cash and cash equivalents at the beginning of the period		**230,624**	**404,192**
Cash and cash equivalents at the end of the period		**498,791**	**230,624**

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 2024 were authorised in accordance with a resolution of the directors for issue on 23 May 2024.

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

Certain comparative information in notes 3, 7 and 23 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 adopted during the year

The Group has adopted the amendments introduced to NZ IAS 12: *Income Taxes*, as a result of the Organisation for Economic Co-operation and Development's (OECD) international tax reform (known as Pillar Two), effective 10 August 2023 for periods beginning on or after 1 January 2023.

Those amendments include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation

The Group has applied the mandatory exception to recognising and disclosing information about any deferred tax impact related to Pillar Two income taxes. Further information about the impact of the amendments is set out in Note 22.

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

In April 2020 the New Zealand Accounting Standards Board (NZASB) 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.

In April 2024 the International Accounting Standards Board issued a new standard, IFRS 18: *Presentation and Disclosure in Financial Statements*. The standard is yet to be released by the NZASB. The objective of the standard is to set out the overall requirements for presentation and disclosures in the financial statements. The new standard introduces new requirements on presentation within the statement of profit or loss by introducing new sub categories. It also requires disclosure of management-defined performance measures and includes new requirements for aggregation and disaggregation of financial information on the face of the primary statements and in the supporting notes. The Group is currently assessing the impact the amendments will have on current practice.

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.

(e) 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 2024			
Operating revenue	969,890	743,877	1,713,767
Expenses	(260,095)	(483,645)	(743,740)
Segment contribution	**709,795**	**260,232**	**970,027**
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**

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

Year ended 31 March	2024 ($000s)	2023 ($000s)
Segment contribution	970,027	750,110
Product design and development	(526,183)	(490,048)
General and administration	(185,122)	(168,077)
Restructuring costs	(3,013)	(34,692)
Non-operating income and expenses	6,198	(132,970)
Net profit/(loss) before tax	**261,907**	**(75,677)**

Depreciation and amortisation by segment

Year ended 31 March	2024 ($000s)	2023 ($000s)
ANZ	16,107	14,445
International	26,878	27,072
Corporate (not allocated to a segment)	214,878	176,679
Total depreciation and amortisation	**257,863**	**218,196**

At 31 March 2024, $632.2 million, or 57%, of the Group's property, plant and equipment and intangible assets was domiciled in New Zealand (2023: $618.8 million, or 56%).

Share-based payments by segment

Year ended 31 March	2024 ($000s)	2023 ($000s)
ANZ	11,975	12,525
International	24,830	17,815
Corporate (not allocated to a segment)	59,016	50,522
Total share-based payments	**95,821**	**80,862**

4. Revenue

Operating revenue by geographic location

Year ended 31 March	2024 ($000s)	2023 ($000s)
Australia	770,350	623,768
United Kingdom	461,019	370,751
New Zealand	199,540	173,951
North America	112,080	95,909
Rest of World	170,778	135,505
Total operating revenue	**1,713,767**	**1,399,884**

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 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, including invoice payment services, along with income from conferences and events.

For the year ended 31 March 2024, 68%, or $56.4 million (2023: 58%, or $42.5 million) of other operating revenue was recognised on a usage basis over time, and 5%, or $4.2 million, (2023: 13%, or $9.9 million) related to conference revenue recognised at a point in time.

Performance obligations under financial services 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 and event revenue consist of the delivery of the conference or event.

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 employed 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	2024 ($000s)	2023 ($000s)
Employee entitlements	737,469	766,166
Employee entitlements capitalised	(207,373)	(221,241)
Share-based payments	123,129	106,920
Share-based payments capitalised	(27,308)	(26,058)
Advertising and marketing	239,704	167,012
Platform costs	98,369	91,639
Platform costs capitalised	(10,185)	(9,980)
Consultants and contractors	68,737	75,524
Consultants and contractors capitalised	(28,122)	(44,915)
Computer equipment and software	55,483	50,463
Superannuation costs	36,471	38,651
Travel-related costs	20,106	16,208
Recruitment and other personnel costs	12,151	12,218
Communication, insurance and office administration	11,762	12,200
Rental costs	9,036	9,395
Auditor's remuneration	1,095	818
Restructuring costs	3,013	34,692
Other operating expenses	56,658	44,683
Total cost of revenue and operating expenses excl. depreciation and amortisation*	**1,200,195**	**1,124,395**

** Net of $273.0 million of costs capitalised as intangible assets (2023: $302.2 million) and grant income of $0.7 million (2023: $2.2 million)*

Depreciation and amortisation

Year ended 31 March	2024 ($000s)	2023 ($000s)
Relating to:		
Amortisation of development costs	208,711	170,816
Amortisation of other intangible assets	17,977	17,281
Depreciation of property, plant and equipment	31,175	30,099
Total depreciation and amortisation	**257,863**	**218,196**
Total cost of revenue and operating expenses	**1,458,058**	**1,342,591**
Depreciation and amortisation included in function expenses as follows:		
Product design and development	208,289	171,316
Sales and marketing	32,762	31,676
Cost of revenue	10,223	9,841
General and administration	6,589	5,363
Total depreciation and amortisation	**257,863**	**218,196**

Auditor's remuneration

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

Year ended 31 March	2024 ($000s)	2023 ($000s)
Fees for auditing the statutory financial statements	807	682
Fees for other assurance and agreed-upon-procedures services under legislation or contractual arrangements not required to be performed by the auditor		
Assurance-related*	284	131
Fees for other services		
Other non-audit services**	4	5
Total auditor's remuneration	**1,095**	**818**

** Assurance-related services relate to ISO 27001 certification and work performed over the compilation of our carbon inventory*

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

6. Other income and expenses

Other income

Year ended 31 March	2024 ($000s)	2023 ($000s)
Reversal of onerous contract provision	4,846	–
Planday revenue incentive	657	4,836
Revaluation of contingent consideration	–	8,921
Derivative revaluation gain	–	4,129
Other income	9,171	244
Total other income	**14,674**	**18,130**

Other expenses

Year ended 31 March	2024 ($000s)	2023 ($000s)
Derivative revaluation loss	5,798	–
Revaluation of contingent consideration	522	–
Onerous contract provision	–	5,575
Other expenses	28	6,965
Total other expenses	**6,348**	**12,540**

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	2024 ($000s)	2023 ($000s)
Amortisation of discount and debt issuance costs	36,635	34,640
Lease liability interest	7,876	8,155
Unwind of contingent consideration	163	992
Other finance expense	451	1,212
Total finance expense	**45,125**	**44,999**

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 profit/(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.

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

Year ended 31 March	2024 (000s)*	2023 (000s)*
Net profit/(loss) attributable to equity holders of the Group	**$174,640**	**($113,532)**
Basic weighted average number of ordinary shares	151,418	150,037
Shares issuable in relation to equity-based compensation schemes	1,511	–
Diluted weighted average number of ordinary shares	**152,929**	**150,037**
Basic earnings per share	**$1.15**	**($0.76)**
Diluted earnings per share	**$1.14**	**($0.76)**

** Except for per share amounts*

9. Trade and other receivables

At 31 March	2024 ($000s)	2023 ($000s)
Prepayments	70,199	44,485
Accrued income	44,130	41,965
Trade receivables	25,436	13,919
Provision for doubtful debts	(1,282)	(954)
Interest receivable	16,347	9,311
Other receivables	21,656	20,272
Total trade and other receivables	**176,486**	**128,998**

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 2024, trade receivables of the Group of $1.1 million were past due and are considered partially impaired (2023: $0.9 million).

Other receivables at 31 March 2024 includes $21.2 million receivable in relation to shares that were sold to cover employees' withholding obligations under Xero's employee share-based compensation plans (2023: $19.4 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. 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 2024					
Opening net book value	100,622	25,663	7,121	4,688	138,094
Additions	7,231	3,882	539	2,530	14,182
Impairments and disposals	(44)	–	(1)	(220)	(265)
Reassessment of lease liabilities	1,261	–	–	–	1,261
Depreciation expense	(20,385)	(4,686)	(2,367)	(3,737)	(31,175)
Foreign exchange adjustment	2,204	630	160	137	3,131
Closing net book value	**90,889**	**25,489**	**5,452**	**3,398**	**125,228**
At 31 March 2024					
Cost	156,342	41,377	14,683	9,487	221,889
Accumulated depreciation	(65,453)	(15,888)	(9,231)	(6,089)	(96,661)
Closing net book value	**90,889**	**25,489**	**5,452**	**3,398**	**125,228**

	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*

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 2023.

11. Intangible assets

	Software development ($000s)	Contract acquisition asset ($000s)	Other intangible assets ($000s)	Goodwill ($000s)	Total ($000s)
Year ended 31 March 2024					
Opening net book value	582,626	39,390	10,002	331,014	963,032
Additions*	256,837	14,833	1,291	–	272,961
Amortisation expense	(208,711)	(15,160)	(2,817)	–	(226,688)
Impairments	(28,885)	–	–	–	(28,885)
Reversal of impairment loss	1,934	–	–	–	1,934
Disposals**	(7,175)	–	–	–	(7,175)
Foreign exchange adjustment	1,830	1,681	134	5,332	8,977
Closing net book value	**598,456**	**40,744**	**8,610**	**336,346**	**984,156**
At 31 March 2024					
Cost	1,033,404	76,247	14,775	336,346	1,460,772
Accumulated amortisation	(434,948)	(35,503)	(6,165)	–	(476,616)
Closing net book value	**598,456**	**40,744**	**8,610**	**336,346**	**984,156**

** Included in software development additions is $38.3 million of external costs capitalised (2023: $54.9 million)*

*** Included within software development disposals is $6.8 million of Waddle related intangibles which were sold to the Commonwealth Bank of Australia (CBA) on October 3rd 2023 for $9.5 million. A gain of $2.3 million related to the sale of Waddle assets and liabilities is included in asset impairments and disposals in the Income Statement*

	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**

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 or sale
- 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 2024, if software development capitalisation rates had been 10% higher/lower with all other variables held constant, the impact on operating expenses would have been $23.5 million lower/higher (2023: $26.0 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 (2023: 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, other than noted above, 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 2023.

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 its 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 asset impairment testing

In March 2024 it was announced that Xero Go, our sole trader app for UK customers, was to be retired on 12 September 2024. The decision to retire the product was considered an impairment indicator and an impairment test was carried out. An impairment loss equivalent to the assets carrying amount of $28.9 million has been recognised in the Income Statement as a result. The recoverable amount of Xero Go was based on its value in use, using a discount rate of 11%. The resulting recoverable amount was nominal based on expected cash inflows over the period to retirement.

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 2024. No impairment was identified. The allocation of goodwill to CGUs and methodology applied for the current year testing are outlined below. The allocation of goodwill to CGUs remains unchanged from prior periods.

The revenue multiples applied in the testing of ANZ, International and Planday below are classified as level two on the fair value hierarchy and are based on 12-month look back revenue multiples of comparable companies, adjusted for a control premium.

At 31 March	2024 ($000s)	2023 ($000s)
ANZ CGU	64,086	63,212
International CGU	94,412	91,886
Planday CGU	138,612	138,612
TaxCycle CGU	39,236	37,304
Total goodwill	**336,346**	**331,014**

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 Measurement*. Fair value was determined using a 12-month look back peer company revenue multiple of 6.1 for ANZ (2023: 5.9) and 6.4 for International (2023: 7.7), including a control premium of 35% for ANZ (2023: 40%) and 38% for International (2023: 38%). 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 was calculated on the basis of fair value less costs of disposal in accordance with NZ IFRS 13: *Fair Value Measurement*. Fair value was determined using a 12-month look back peer company revenue multiple of 5.4 (2023: 5.2), including a control premium of 39% (2023: 32%). 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, the revenue multiple would need to decrease by 18% before the recoverable amount of the CGU would be less than its carrying value.

TaxCycle CGU

The recoverable amount of the TaxCycle CGU was determined based on a value in use calculation using a discounted cash flow model. The major inputs and assumptions used in the model are included below.

	2024	2023
Cash flow forecast period	5 years	5 years
Terminal growth rate	4%	4%
Discount rate (post-tax)	12%	12%
Discount rate (pre-tax)	16%	16%

The compound annual cash flow growth rate over the 5 year forecast period is 65% (2023: 70%). 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 was 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 used in 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 3 percentage points, the terminal growth rate would need to decrease by 3 percentage points, or the forecast cashflows would need to be discounted by 24% before the recoverable amount of the CGU would be less than its carrying value.

12. Trade and other payables

At 31 March	2024 ($000s)	2023 ($000s)
Trade payables	9,863	17,819
Accrued expenses	48,531	27,629
Sales tax payable	27,285	6,756
Total trade and other payables	**85,679**	**52,204**

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	2024 ($000s)	2023 ($000s)
Income in advance	41,193	27,961
Contingent consideration	2,149	271
Other current liabilities	651	9,587
Total other current liabilities	**43,993**	**37,819**

The Group recognises other current liabilities, excluding contingent consideration, initially at fair value, and subsequently at amortised cost using the effective interest method. Contingent consideration is 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 2024	Restructuring provision ($000s)	Onerous contract ($000s)	Other provisions ($000s)	Total ($000s)
Opening balance	31,765	5,555	14,876	52,196
Provisions made during the year	7,498	–	322	7,820
Provisions utilised during the year	(33,822)	(1,088)	–	(34,910)
Provisions reversed during the year	(4,485)	(4,607)	(8,007)	(17,099)
Unwinding of discount	–	132	135	267
Foreign exchange adjustment	–	8	713	721
Closing balance	**956**	**–**	**8,039**	**8,995**
Current	956	–	911	1,867
Non-current	–	–	7,128	7,128

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

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

Other provisions are mainly comprised of the Group's make good provisions reflecting the present value of estimated costs to return leased properties to original condition.

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

15. Lease liabilities

At 31 March	2024 ($000s)	2023 ($000s)
Balance at 1 April	123,421	136,218
Leases entered into during the period	6,396	8,361
Principal repayments	(17,910)	(16,547)
Change in future lease payments	1,261	(8,046)
Foreign exchange adjustment	3,168	3,435
Balance at 31 March	**116,336**	**123,421**
Current	19,369	17,258
Non-current	96,967	106,163

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 2024 was $1.3 million (2023: $3.2 million). Leases of low-value assets relate to IT equipment. The expense for low-value assets for the year ended 31 March 2024 was $4.0 million (2023: $5.2 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. 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 Singapore Exchange Securities Trading Limited (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 initial conversion of the notes is USD134.72 per ordinary share based on a fixed exchange rate of AUD1.00 = USD0.73.

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	2024 ($000s)	2023 ($000s)
Principal amount	1,173,116	1,117,711
Unamortised debt discount	(59,119)	(88,605)
Unamortised issuance costs	(6,213)	(9,312)
Term debt	**1,107,784**	**1,019,794**

Amortisation of discount and debt issuance costs for the year ended 31 March 2024 were $36.6 million (2023: $34.6 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.

17. 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 2024 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 2024 was $1,051.5 million (2023: $919.1 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 is 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 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 2024				
Assets				
Cash and cash equivalents	498,791	–	–	498,791
Term deposits	1,031,079	–	–	1,031,079
Trade and other receivables	62,157	–	–	62,157
Derivative assets (foreign currency derivatives)*	–	4,270	–	4,270
Derivative assets (call spread options)	–	61,124	–	61,124
Other current assets	469	–	–	469
Other non-current assets	969	–	–	969
Total financial assets	**1,593,465**	**65,394**	**–**	**1,658,859**
Liabilities				
Trade and other payables	–	–	9,863	9,863
Derivative liabilities (foreign currency derivatives)*	–	8,278	–	8,278
Derivative liabilities (conversion feature on convertible notes)	–	63,360	–	63,360
Term debt	–	–	1,107,784	1,107,784
Other current liabilities	–	2,149	–	2,149
Other non-current liabilities	–	142	–	142
Total financial liabilities	**–**	**73,929**	**1,117,647**	**1,191,576**
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**

** 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.

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 four foreign currencies, being Australian dollars (AUD), United States dollars (USD), Great British pounds (GBP), and Canadian dollars (CAD), with exposures to other currencies to a lesser degree. The material exposures are USD and CAD 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 2024					
Exposures					
Cash and cash equivalents, and short-term deposits	115,728	804,034	39,675	7,903	1,280
Trade and other receivables	4,372	12,369	9,064	2,662	53
Trade and other payables	(4,484)	(1,320)	(395)	(172)	130
Lease liabilities	(38,032)	(5,659)	(25,359)	(521)	(92)
Term debt (including conversion feature)	–	(1,173,116)	–	–	–
Derivative financial instruments (foreign currency derivatives)	284,376	(40,415)	228,985	(26,110)	–
Total foreign currency exposure	**361,960**	**(404,107)**	**251,970**	**(16,238)**	**1,371**
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, 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	
	2024 ($000s)	2023 ($000s)	2024 ($000s)	2023 ($000s)
Impact on:				
Net profit/loss before income tax (increase/(decrease))	(3,524)	(5,849)	2,883	4,786
Equity (before income tax) (increase/(decrease))	17,414	(1,601)	(14,247)	1,311

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 2024 had been 100 basis points higher/lower with all other variables held constant, the impact on the interest income and net profit/(loss) of the Group would have been $15.3 million higher/lower, and accumulated losses $15.3 million lower/higher (2023: $10.0 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 2024 the Group held cash and cash equivalents of $498.8 million and term deposits of $1,031.1 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 2024						
Non-derivative financial liabilities						
Trade and other payables	9,863	–	–	–	9,863	9,863
Lease liabilities	26,271	21,103	60,348	35,258	142,980	116,336
Other non-current liabilities	–	–	142	–	142	142
Term debt	–	1,173,116	–	–	1,173,116	1,107,784
Other current liabilities	1,079	–	–	–	1,079	1,075
Contractual cash flows	**37,213**	**1,194,219**	**60,490**	**35,258**	**1,327,180**	**1,235,200**
Derivative financial liabilities						
Forward exchange contracts	–	–	–	–	–	(8,278)
Inflows	257,955	87,777	–	–	345,732	–
Outflows	(249,502)	(86,317)	–	–	(335,819)	–
Contractual cash flows	**8,453**	**1,460**	**–**	**–**	**9,913**	**(8,278)**
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)**

(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	2024 ($000s)	2023 ($000s)
Cash and cash equivalents	498,791	230,624
Short-term deposits	1,031,079	886,563
Trade and other receivables	62,157	42,548
Derivative financial assets	65,394	37,423
Other current assets	469	7,104
Non-current assets	969	812
Total financial assets subject to credit risk	**1,658,859**	**1,205,074**

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	2024 ($000s)	2023 ($000s)
Cash and cash equivalents and short-term deposits		
AAAm	215,874	95,794
A-1+	998,284	785,408
A-1	306,734	231,757
A-2	57	4,228
A-3	8,921	–
Total cash and cash equivalents and short-term deposits	**1,529,870**	**1,117,187**
Derivative assets		
A-1+	4,945	4,945
A-1	60,449	32,478
Total derivative assets	**65,394**	**37,423**
Total exposure to credit risk	**1,595,264**	**1,154,610**

$21.2 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 (2023: $19.4 million with counterparties with an A-1 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.

18. 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	2024 ($000s)	2023 ($000s)
Current derivative assets		
Foreign exchange contracts	4,065	5,555
Foreign exchange options	–	15
Non-current derivative assets		
Call spread options	61,124	31,156
Foreign exchange contracts	205	697
Total derivative assets	**65,394**	**37,423**
Current derivative liabilities		
Foreign exchange contracts	(7,175)	(5,544)
Non-current derivative liabilities		
Conversion feature of convertible notes	(63,360)	(27,742)
Foreign exchange contracts	(1,103)	(405)
Total derivative liabilities	**(71,638)**	**(33,691)**

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 during which 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 loss of $8.0 million (before taxation) was recognised in other comprehensive income (2023: gain of $3.6 million). During the year, a loss of $3.2 million (before taxation) was reclassified out of other comprehensive income to the Income Statement (2023: gain of $7.0 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	2024 Average forward price	2024 Fair value ($000s)	2024 Notional amount hedged (NZD) ($000s)	2023 Average forward price	2023 Fair value ($000s)	2023 Notional amount hedged (NZD) ($000s)
Derivative assets						
Buy USD – Sell NZD	0.6248	1,497	33,610	0.6537	1,904	42,836
Buy CAD – Sell NZD	0.8242	609	25,784	0.8550	42	2,339
Buy NZD – Sell AUD	0.9018	2,164	181,865	0.8988	3,958	131,284
Buy NZD – Sell GBP	–	–	–	0.4987	337	42,106
Total		**4,270**			**6,241**	
Derivative liabilities						
Buy USD – Sell NZD	0.5878	(110)	6,805	0.5825	(1,994)	30,041
Buy CAD – Sell NZD	0.7661	(17)	326	0.7921	(1,351)	22,725
Buy NZD – Sell AUD	0.9170	(532)	102,511	0.9377	(23)	5,332
Buy NZD – Sell GBP	0.4891	(7,619)	228,985	0.5136	(2,062)	126,557
Total		**(8,278)**			**(5,430)**	

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 2024, the Group recognised a $33.6 million revaluation loss in the Income Statement relating to the conversion feature derivative (2023: gain of $37.9 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 2024, the Group recognised a $27.8 million revaluation gain in the Income Statement relating to the lower strike call options (2023: loss of $33.8 million).

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

Year ended 31 March 2024	At 1 April 2023 ($000s)	Proceeds ($000s)	Payments ($000s)	Amortisation expense ($000s)	Foreign exchange movement ($000s)	Fair value movements ($000s)	At 31 March 2024 ($000s)
Short-term deposits	886,563	(2,025,864)	2,140,828	–	29,552	–	1,031,079
Call spread option derivative assets	31,156	–	–	–	2,166	27,802	61,124
Term debt and conversion feature	(1,047,536)	–	–	(36,635)	(53,374)	(33,599)	(1,171,144)

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)	–	–

20. Share capital

	Note	2024 AUD Price*	2024 (000s)	2023 AUD Price*	2023 (000s)
Balance at 1 April		–	151,065	–	149,547
Issue of ordinary shares – restricted stock unit schemes	24	114.92	739	86.98	841
Issue of ordinary shares – exercising of employee share options	24	71.36	515	42.39	677
Issue of ordinary shares – deferred consideration for acquisition of LOCATE Inventory		93.83	8	–	–
Ordinary shares on issue at 31 March		**–**	**152,327**	**–**	**151,065**
Treasury shares		–	(31)	–	(31)
Ordinary shares on issue at 31 March excluding treasury shares		**–**	**152,296**	**–**	**151,034**

**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.

21. Group entities

Consolidation subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group 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 subsidiaries that the Group have either gained or lost control of during the period. The Group also has operations in other jurisdictions to a lesser extent.

	Country of incorporation	Balance date	Interest 2024 (%)	Interest 2023 (%)
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
Xero South Africa (Pty) Ltd	South Africa	31 March	100	100
Xero (Singapore) Pte. Limited	Singapore	31 March	100	100
Planday A/S	Denmark	31 March	100	100
Xero AU Holdings Pty Limited**	Australia	31 March	–	100
Waddle Holdings Pty Ltd**	Australia	31 March	–	100
Waddle Servicing Pty Ltd**	Australia	31 March	–	100
Waddle IP Pty Ltd**	Australia	31 March	–	100
Waddle Loans Limited*	New Zealand	31 March	–	100

**Voluntarily deregistered in October 2023*

***Included in sale to CBA on 3 October 2023*

22. 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 entities operate.

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	2024 ($000s)	2023 ($000s)
Accounting profit/(loss) before income tax	261,907	(75,677)
At the New Zealand statutory income tax rate of 28%	73,334	(21,190)
Non-deductible expenditure	3,299	25,267
Prior period adjustment	(931)	6,166
R&D benefit	(963)	(279)
Tax rate variance of subsidiaries and revaluations of deferred tax	895	6,492
Current year tax losses/deferred expenditure not recognised	12,812	21,399
Recognition/utilisation of historical unrecognised tax losses	(1,179)	–
Income tax expense	**87,267**	**37,855**
Comprising:		
Current tax expense	26,055	35,456
Deferred tax expense	61,212	2,399
Income tax expense	**87,267**	**37,855**

Income tax expense charged to equity and other comprehensive income

Year ended 31 March	2024 ($000s)	2023 ($000s)
Current tax		
Share-based payments	3,056	8,049
Translation of foreign currency operations	5,453	8,964
Total	**8,509**	**17,013**
Deferred tax		
Share-based payments	(676)	(3,086)
Fair value movement on cash flow hedges	1,349	934
Total	**673**	**(2,152)**

In anticipation of utilising all New Zealand tax losses, Xero Limited made New Zealand tax payments of $30m during the year. These payments are recognised within tax receivable on the balance sheet as of 31 March 2024.

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 2024					
Net deferred tax balances					
At 1 April 2023	(227)	40,125	(64,387)	103,630	79,141
Prior period adjustment	–	(44)	4,554	(4,615)	(105)
Charged to Income Statement	–	(8,585)	(7,510)	3	(16,092)
Charged to equity	1,349	(676)	–	–	673
Tax losses and R&D credits utilised	–	–	–	(45,030)	(45,030)
Impact of change in tax rates	–	410	(395)	–	15
At 31 March 2024	**1,122**	**31,230**	**(67,738)**	**53,988**	**18,602**
Comprising:					
Deferred tax asset	1,122	29,663	(53,059)	53,988	31,714
Deferred tax liability	–	1,567	(14,679)	–	(13,112)
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)

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 $23.8 million and $2.4 million respectively within the next 12 months. Deferred tax assets and liabilities have been offset where the balances are due to/receivable from the same counterparties.

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 $451.8 million (2023: $368.4 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 for those overseas jurisdictions.

OECD Pillar Two Model Rules

The Group is within the scope of the Organisation for Economic Co-operation and Development (OECD) Pillar Two Model Rules. Pillar Two legislation has been enacted in New Zealand, and will come into effect for the Group from 1 April 2025. For some entities within the Group, such as subsidiaries in the United Kingdom, the Pillar Two rules will come into effect from 1 April 2024. Since the Pillar Two legislation was not effective at the reporting date, the Group has no related current tax exposure.

Under Pillar Two legislation, the Group may be liable to pay a top-up tax where the effective tax rate (ETR) per jurisdiction is below the 15% minimum rate. The Group has performed an assessment of the potential exposure to Pillar Two income taxes, based on the most recent information available regarding the financial performance of entities in the Group. Based on this assessment the Group does not expect a material exposure from the Pillar 2 Model rules, as the Group's operations would have satisfied the transitional safe harbour rules for all jurisdictions for the period ended 31 March 2024 and therefore no top up tax exposure would have arisen had the rules applied for that period.

23. Reconciliation of operating cash flows

Year ended 31 March	2024 ($000s)	2023 ($000s)
Net profit/(loss)	174,640	(113,532)
Adjustments:		
Depreciation	31,175	30,099
Amortisation	226,688	188,097
Share-based payments	95,821	80,862
Amortisation of discount and debt issuance costs on term debt and contingent consideration	36,635	35,632
Deferred tax and current taxes recognised in equity	9,182	14,861
Asset impairments and disposals/Reversal of asset impairments	24,480	122,680
Revaluation of contingent consideration	522	(8,921)
Bad debts	5,543	4,358
Other non-cash items	5,492	(15,940)
Changes in working capital:		
Increase in receivables and prepayments	(51,268)	(4,509)
Decrease in deferred tax assets	60,499	4,106
Increase/(decrease) in trade payables and other related items	26,797	(3,954)
Increase/(decrease) in provisions	(44,352)	44,049
(Increase)/decrease in net tax receivable	(28,875)	7,356
Increase in employee entitlements	6,815	4,040
Increase in income in advance	11,965	1,165
Net cash flows from operating activities	**591,759**	**390,449**

24. Share-based payments

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

Restricted stock units

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 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. A portion of the RSUs granted to a select number of executives are also conditional on performance conditions. These performance conditions are based on operating revenue growth, free cash flow margin and total shareholder return relative to a predetermined peer group over a specified period. The weighted average vesting period for RSUs granted in the year was 1.55 years (2023: 1.35 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:

	2024 Weighted average grant date fair value (AUD)	2024 RSUs (000s)	2023 Weighted average grant date fair value (AUD)	2023 RSUs (000s)
Opening balance	102.68	670	128.37	450
Granted	113.31	1,261	81.96	1,197
Forfeited	105.12	(246)	102.47	(136)
Converted to shares	114.92	(739)	86.98	(841)
Settled in cash	82.64	(4)	–	–
Closing balance	**106.76**	**942**	**102.68**	**670**

RSUs with service and non-market performance conditions attached are recognised at fair value over the vesting period, with an adjustment for the number of awards that are expected to vest. The likelihood of meeting market performance conditions is reflected in the grant date fair value of RSUs granted and this fair value is not subsequently adjusted.

Share options scheme

Options are granted to selected employees and executives. Options 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 36 holders of options at 31 March 2024 (2023: 58). 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:

	2024 Weighted average exercise price (AUD)	2024 Options (000s)	2023 Weighted average exercise price (AUD)	2023 Options (000s)
Opening balance	85.80	1,428	74.45	1,606
Granted	118.10	18	78.93	639
Forfeited/expired	127.42	(109)	123.79	(140)
Exercised	71.36	(515)	42.39	(677)
Closing balance	**91.73**	**822**	**85.80**	**1,428**
Exercisable at 31 March	91.28	346	61.92	381

The weighted average share price on date of exercise for options exercised in the year ended 31 March 2024 was AUD114.22 (2023: AUD86.49). The weighted average remaining contractual term of options outstanding at 31 March 2024 is 5.7 years (2023: 4.5 years).

Options outstanding at 31 March fall within the following ranges:

Granted	Exercise price (AUD)	2024 Options (000s)	2023 Options (000s)
2018-19	34.00 – 48.33	–	98
2019-20	51.82 – 83.04	41	241
2020-21	79.50 – 138.28	112	250
2021-22	121.39 – 146.99	129	205
2022-23	71.09 – 88.88	522	634
2023-24	72.39 – 118.58	18	–
		822	**1,428**

The weighted average fair value of options granted during the year, determined using the Black-Scholes valuation model, was AUD49.53 per option (2023: AUD29.89).

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 41.1% and 47.1%, a dividend yield of 0%, an expected option life of between one and five years, and an annual risk-free interest rate of between 3.7% and 3.9%. (2023: 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%).

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.

25. Key management personnel and related parties

Key management personnel

Key management personnel 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 the expense recognised in relation to key management personnel remuneration.

Year ended 31 March	2024 ($000s)	2023 ($000s)
Directors' fees	2,340	2,291
Short-term employee benefits	2,765	3,398
Share-based payments – options	7,697	4,008
Share-based payments – restricted stock units	5,958	1,439

**Key management personnel for 2023 included the former Chief Executive Officer Steve Vamos, for the period he held the CEO position, as well as Sukhinder Singh Cassidy for the period she held the CEO position, and for the period from the date she commenced employment until she commenced the CEO position.*

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 2024 (2023: nil).

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 (2023: nil).

26. Commitments and contingencies

Capital commitments

There were no capital commitments contracted for but not yet incurred at 31 March 2024 (2023: $0.9 million for furniture and office fit out contracted for Manchester office but not yet incurred at 31 March 2023).

Contingent liabilities

There were no contingent liabilities at 31 March 2024 (2023: nil).

27. Events after the balance sheet date

On 29 April 2024 Xero invested USD$25 million to take a minority position in Deputy, a workforce management software. This investment was made in connection with a broader global strategic partnership.

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 2024, 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 23 May 2024.

For and on behalf of the Board

David Thodey
Chair
Xero Limited
23 May 2024

Mark Cross
Director
Xero Limited
23 May 2024

DISCLOSURES

All financial figures in this section of the Annual Report are in New Zealand dollars except where indicated otherwise. References to FY24 are to the financial year ended 31 March 2024. References to FY23 are to the financial year ended 31 March 2023. Xero Group means Xero Limited (Xero) and its subsidiaries.

Equity holdings of directors, CEO & 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 2024	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	1,400	–	–
Mark Cross	4,300	–	–
Anjali Joshi	–	–	–
Brian McAndrews	2,994	–	–
Dale Murray	1,636	–	–
Susan Peterson	3,340	–	–
CEO & CFO			
Sukhinder Singh Cassidy	3,720	463,308	126,238
Kirsty Godfrey-Billy	2,977	29,761	15,017

Entries recorded in the interests register

Xero maintains an interests register in accordance with the Companies Act 1993 (New Zealand).

Directors' interests

Directors have disclosed the following relevant interests which remain current as at 31 March 2024.

Director/Entity	Relationship
David Thodey[1]	
Ramsay Health Care Limited (ASX listed)	chair
Steven Aldrich[2]	
Semrush Holdings, Inc. (NYSE listed)	director
Mark Cross	
Chorus Limited (NZX and ASX listed)	chair
Accident Compensation Corporation New Zealand	board member
Anjali Joshi	
Nil	
Brian McAndrews	
The New York Times Company (NYSE listed)	presiding director
Frontdoor, Inc. (NASDAQ listed)	lead director
Dale Murray	
Lendinvest PLC (LON listed)	director
Jupiter Fund Management PLC (LON listed)	director
Lightspeed Commerce, Inc. (NYSE and TSE listed)	director
Susan Peterson	
Vista Group International Limited (NZX and ASX listed)	chair
Arvida Group Limited (NZX listed)	director
Mercury NZ Limited (NZX listed)	director
Craigs Investment Partners	director

Share dealings of directors

Directors disclosed the following acquisitions or disposals of relevant interests in Xero shares during FY24.

Registered holder	Date of acquisition	Consideration per share (AUD)	Number of shares acquired
Steven Aldrich			
Aldrich Family Trust[3]	16 November 2023	$101.80	1,400

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.

[1] *David Thodey was elected chair of Ramsay Health Care Limited during FY24*
[2] *Steven Aldrich ceased as a director of Avantax, Inc during FY24*
[3] *Shares are held by Steven Aldrich and Allison Aldrich as trustees for The Aldrich Family Trust*

Remuneration reporting

Xero's remuneration policy and practices are summarised on pages 109 to 129 of this Annual Report.

Shareholder information

The shareholder information set out below is current as at 12 April 2024, unless otherwise specified.

Issued capital

The total number of issued shares in Xero was 152,326,912, 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	43,919	94.60	6,637,781	4.36
1,001 to 5,000	2,137	4.60	4,340,731	2.85
5,001 to 10,000	211	0.46	1,491,879	0.98
10,001 to 100,000	129	0.28	3,082,716	2.02
100,001 and over	29	0.06	136,773,805	89.79
Total	**46,425**	**100**	**152,326,912**	**100**

There were 862 holders of less than a marketable parcel of shares as at 12 April 2024, based on a market price of AUD $121.96 per share.

Distribution of RSUs and Options

There were 36 individuals holding a total of 821,661 Options and 138 individuals holding a total of 941,513 RSUs. RSUs are a conditional contractual right to be issued an equivalent number of shares in Xero.

Distribution of Options

Range	Number of holders	%	Options	%
1 to 1,000	-	-	-	-
1,001 to 5,000	11	30.55	32,445	3.95
5,001 to 10,000	14	38.89	103,305	12.57
10,001 to 100,000	10	27.78	222,603	27.09
100,001 and over	1	2.78	463,308	56.39
Total	**36**	**100**	**821,661**	**100**

Distribution of RSUs

Range	Number of holders	%	RSUs	%
1 to 1,000	49	35.51	26,620	2.83
1,001 to 5,000	57	41.30	130,482	13.86
5,001 to 10,000	16	11.60	111,647	11.85
10,001 to 100,000	14	10.14	375,188	39.85
100,001 and over	2	1.45	297,576	31.61
Total	**138**	**100**	**941,513**	**100**

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 FY24.

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 12 April 2024 are listed below.

Name	Number of shares held	% of issued capital
1 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	53,672,735	35.24
2 J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	32,035,678	21.03
3 CITICORP NOMINEES PTY LIMITED	22,592,648	14.83
4 MS ANNA MARGARET CLARE STUCK & RODNEY KENNETH DRURY & SCOTT MORAN	8,714,789	5.72
5 NATIONAL NOMINEES LIMITED	2,824,948	1.85
6 BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING A/C>	2,678,178	1.76
7 BNP PARIBAS NOMS PTY LTD	2,543,254	1.67
8 CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	2,492,453	1.64
9 CUSTODIAL SERVICES LIMITED <BENEFICIARIES HOLDING A/C>	1,878,445	1.23
10 SOLIUM NOMINEES (AUSTRALIA) PTY LTD <VSA A/C>	1,114,429	0.73
11 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	1,007,930	0.66
12 AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	835,000	0.55
13 MR NELSON NIEN SHENG WANG & MS PEI-CHUN KO <WANG FAMILY A/C>	716,988	0.47
14 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	680,841	0.45
15 BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	454,632	0.30
16 BNPP NOMS PTY LTD HUB24 CUSTODIAL SERV LTD	404,159	0.27
17 NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	362,519	0.24
18 BNP PARIBAS NOMS (NZ) LTD	274,078	0.18
19 BNP PARIBAS NOMS PTY LTD <GLOBAL MARKETS>	236,318	0.16
20 UBS NOMINEES PTY LTD	188,909	0.12
Top 20 holders of fully paid shares (total)	**135,708,931**	**89.10**
Other shareholders (balance on register)	16,617,981	10.90
Grand total	**152,326,912**	**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.

Company information

Donations

The Xero Group made charitable donations totalling $130,548 during FY24. The Xero Group made no donations to political parties during FY24.

Company directors

The following persons held office as directors of Xero as at the end of FY24.

Directors
David Thodey (Chair)
Steven Aldrich
Mark Cross
Anjali Joshi
Brian McAndrews
Dale Murray
Susan Peterson

Directors who ceased to hold office during FY24
Rod Drury (resigned effective 17 August 2023)
Lee Hatton (resigned effective 17 August 2023)

Company subsidiaries and directors

Xero has 25 wholly owned subsidiaries as shown in the table below. The following persons held office as directors of Xero's subsidiary companies during FY24.

Jurisdiction	Subsidiary	Directors	Directors who ceased to hold office during FY24
Australia	Planday Australia Pty Ltd	Kirsty Godfrey-Billy David Lee (appointed 1 December 2023)	Anders Frederiksen (resigned effective 30 September 2023) Joseph Lyons (appointed 30 September 2023; resigned effective 29 November 2023) Rachel Powell (resigned effective 30 September 2023)
	Waddle Loans Pty. Ltd.	Kirsty Godfrey-Billy	Simon Creighton (resigned effective 2 October 2023) Leigh O'Neill (appointed 21 April 2023; resigned effective 19 March 2024)
	Waddle SaaS Pty Ltd	Kirsty Godfrey-Billy	Simon Creighton (resigned effective 2 October 2023) Leigh O'Neill (appointed 21 April 2023; resigned effective 19 March 2024)
	Xero Australia Pty Limited	Kirsty Godfrey-Billy Ashley Grech (appointed 30 September 2023)	Joseph Lyons (resigned effective 29 November 2023) Rachael Powell (resigned effective 30 September 2023)
Canada	Hubdoc Inc.	Kirsty Godfrey-Billy Faye Pang	
	Xero Software (Canada) Ltd.	Kirsty Godfrey-Billy Faye Pang	

Jurisdiction	Subsidiary	Directors	Directors who ceased to hold office during FY24
Denmark	Planday A/S	Anders Frederiksen (appointed 29 September 2023) Kirsty Godfrey-Billy Ashley Grech (appointed 29 September 2023) David Lee (appointed 25 August 2023)	Chris O'Neill (resigned effective 30 September 2023) Chris Micklethwaite (resigned effective 25 August 2023)
	Xero Denmark A/S	Kirsty Godfrey-Billy Birgitte Pihl Alexander von Schirmeister	
Germany	Planday GmbH	Kirsty Godfrey-Billy David Lee (appointed 13 September 2023)	Chris O'Neill (resigned effective 13 September 2023)
Hong Kong	Xero (HK) Limited	Kirsty Godfrey-Billy Koren Wines	
India	Xero Software Solutions (India) Private Limited	Kirsty Godfrey-Billy Kumar Iyer (non-executive Indian resident director)	Colin Brown (resigned effective 1 September 2023) Michael Watt (appointed 30 September 2023; resigned effective 29 February 2024)
New Zealand	Xero (NZ) Holdings Limited	Kirsty Godfrey-Billy Rebecca Small (appointed 30 September 2023)	Chris O'Neill (resigned effective 30 September 2023)
	Xero (NZ) Limited	Kirsty Godfrey-Billy Bridget Snelling (appointed 12 July 2023)	
	Xero Investments Limited	Kirsty Godfrey-Billy Rebecca Small (appointed 27 November 2023)	Matthew Durney (appointed 3 April 2023; resigned effective 27 November 2023)
	Xero Trustee Limited	Kirsty Godfrey-Billy	
Norway	Planday Norway AS	Kirsty Godfrey-Billy Clarence Willard	
Poland	Planday Sp ZO.O	N/A - in liquidation	
Singapore	Xero (Singapore) Pte. Ltd	Kirsty Godfrey-Billy Koren Wines	

Jurisdiction	Subsidiary	Directors	Directors who ceased to hold office during FY24
South Africa	Xero South Africa Proprietary Limited	Kirsty Godfrey-Billy Colin Timmis Alexander von Schirmeister (appointed 1 May 2023)	
Sweden	Tickstar AB	Anders Frederiksen (appointed 1 September 2023) Kirsty Godfrey-Billy Diya Jolly (appointed 30 September 2023) Tyson Lloyd (appointed 1 September 2023)	Hans Berg (resigned effective 12 August 2023) Anna Curzon (resigned effective 25 August 2023) Ake Oberg (resigned effective 12 August 2023)
United Kingdom	Planday Limited	Kirsty Godfrey-Billy David Lee (appointed 30 September 2023)	Chris O'Neill (resigned effective 30 September 2023)
	Xero (UK) Limited	Kirsty Godfrey-Billy Alexander von Schirmeister	
United States	Xero CA Acquisitions Inc.	Kirsty Godfrey-Billy (appointed 30 September 2023) Ashley Grech (appointed 30 September 2023)	Chris O'Neill (resigned effective 30 September 2023)
	Planday, Inc.	Kirsty Godfrey-Billy Ashley Grech (appointed 30 September 2023) David Lee (appointed 30 September 2023)	Chris O'Neill (resigned effective 30 September 2023)
	Xero, Inc.	Kirsty Godfrey-Billy Ashley Grech (appointed 30 September 2023)	Chris O'Neill (resigned effective 30 September 2023)

Directors of Xero's subsidiaries have not disclosed any new relevant interests, or cessations of interest, during FY24.

Kumar Iyer received total remuneration of INR 1,440,000 in his role as non-executive director of Xero Software Solutions (India) Private Limited during FY24. Kumar Iyer received no other benefits from Xero or any Xero subsidiary company during FY24.

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 pages 128 and 129 of this Annual Report.

REMUNERATION REPORT

Sections 1 – 7

Sections 8 – 13

1. People and Remuneration Committee Chair Letter

Dear shareholder,

Xero has delivered a strong operating result in FY24, in a year marked by significant change as we seek to become an even higher performing global SaaS company. In line with this aspiration, we have significantly enhanced our leadership team, continued to evolve our remuneration approach to attract and retain the capability that we need, and continued to enhance our Remuneration Report disclosures to demonstrate our commitment to long-term value creation.

Key financial highlights

Our strong operating results for FY24 have positioned us well for the future. In FY24, operating revenue grew by 22% compared to FY23 (21% in constant currency (CC)), reaching $1.7 billion. Notably, adjusted EBITDA increased by 75% to $526.5 million, underlining our commitment to balancing growth and profitability. Free cash flow increased to $342.1 million, with a free cash flow margin of 20.0% compared to 7.3% in the prior period. We delivered a Rule of 40 outcome[1,2] of 41.0%. This focus was also reflected in our net profit, which increased to $174.6 million compared to a net loss of $113.5 million in FY23.

This strong performance is testament to Xero's momentum and our ability to execute towards our future aspirations. Importantly, it reflects the value that our customers place in Xero and our ability to rapidly adapt to their changing needs.

During FY24, our CEO Sukhinder Singh Cassidy, together with the Board, evolved our Executive Leadership Team (XLT), Senior Leadership Team (SLT) and our organisational structure. Several new leaders within the XLT and SLT with proven capabilities were appointed to lead our global portfolio of businesses, complementing our existing, tenured and deeply experienced leadership team.

Enabling our refreshed strategy

Our focus in FY24 has been on laying the foundations for our FY25-27 strategy which is **Winning on Purpose**. To **Unleash Xero(s) To Win**, one of the four key pillars of our strategy, we are investing in the areas of people and performance to enable our people to thrive and increase their impact, while maintaining our purpose-led culture.

This includes significant investments in developing global leadership capability programs, and evolving our performance management and development framework to foster a more performance-focused culture. These initiatives create a more connected employee experience, empowering our people to grow and shape their careers.

Strengthening the link between performance and pay is also a critical enabler of this work. Three remuneration principles apply to all role levels at Xero and guide remuneration decisions and outcomes, namely performance, scope and criticality of role, and location. In FY24, remuneration outcomes for the CEO, CFO, and non-executive directors (NEDs) also reflect carefully selected market benchmarking.

Xero continues to focus on fostering greater diversity, inclusion and belonging (DIB) in our workplace. We deeply believe DIB is critical to attracting and retaining top talent, helping our people thrive, and better serving our customers and the communities in which we participate. In FY24, we introduced a target for Xero to have 10% of our workforce identify within Underrepresented Racial/Ethnic groups globally by the end of FY27.

Remuneration outcomes

The FY24 remuneration review resulted in the CEO's and CFO's base salary increasing 5% and 8%, respectively. Non-executive director remuneration was also reviewed in FY24, resulting in no change to the base fees for non-executive directors, but an increase to fees for some specific roles and committee membership.

Overall calculated STI outcomes resulted in plan achievement of 87.8%. This reflects a strong financial result, while also acknowledging mixed outcomes against customer measures as well as employee targets. Following individual performance assessments, this resulted in the CEO being awarded 105.4% and the CFO being awarded 87.8% of their STI target opportunity.

Evolving our reporting and advisory resolution

This year we have extended disclosures to include actual peer groups for Xero's relative total shareholder return (rTSR) measure for the Long-Term Incentive plan, and for remuneration benchmarking for the CEO and XLT, and also for the fees paid to non-executive directors.

As we seek to become an even higher performing global SaaS company, peer group selection is essential in benchmarking both our talent and our performance. The remuneration peer groups reflect technology companies that are listed in the US or on the ASX, with similar size and reach globally. The US peer group is our primary comparator, being reflective of market practice for the calibre of talent Xero needs to deliver on our strategic ambition (for further details, see page 116). The peer group for Xero's rTSR is the Nasdaq Emerging Cloud Index (EMCLOUD), which reflects the universe of cloud competitors that we believe to be most relevant to Xero's global performance as a cloud software company (see page 122).

The Board has also decided to voluntarily put an advisory resolution to shareholders at Xero's 2024 Annual Meeting in respect of the Remuneration Report. More information will follow in Xero's Notice of Meeting.

I would like to thank Sukhinder for her contribution and impact in what has been her first full fiscal year as CEO. She has delivered a simple and focused strategy, and laid the foundations for a high-performance culture. I would also like to thank my colleagues on the People and Remuneration Committee for their commitment and support throughout the year. The investments that we are making in people and culture position us well for a successful path ahead.

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 performance, 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.

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

2 Rule of 40 outcomes, and the component parts, may vary from period to period as we identify opportunities for disciplined customer-focused growth and experience changes in our cash tax payment profile. Xero is likely to exhaust its accumulated NZ tax losses during the FY25-27 strategic period. Xero's remaining NZ losses balance was ~$193 million at 31 March 2024

2. FY24 Remuneration highlights

In FY24, we evaluated the CEO's and CFO's remuneration as well as non-executive director fees, to ensure competitiveness. This assessment was supported by benchmarking against comparable companies in both the US and ASX markets. More information regarding these peer groups is provided in the report.

Changes to base salary: The CEO's base salary was increased by 5% effective 1 February 2024 (her first salary review since starting in November 2022), and the CFO's base salary was increased by 8% effective 1 July 2023.

Non-executive director fee changes: Effective 1 October 2023, the Chair received an increase of 3.3% to $465,000 and ARM Committee and PR Committee Chair fees increased 5.3% to $40,000, while ARM Committee and PR Committee Member fees increased 10.5% to $21,000. No changes were made to base fees.

Short-Term Incentive (STI): FY24 overall calculated STI outcomes resulted in plan achievement of 87.8%. This reflects a pleasing operating result in FY24, highlighted by strong revenue growth balanced with significantly improved profitability, while also acknowledging mixed outcomes against customer measures and employee targets following the reshaping of our organisational structure as announced in FY23. Following individual performance assessments, this resulted in the CEO being awarded 105.4% and the CFO being awarded 87.8% of their STI target opportunity.

Long-Term Incentive (LTI) and Long-Term Equity (LTE): Equity granted under the LTI and LTE plan is yet to be realised. LTI and LTE grants under the FY23 plan will vest on or around 31 May 2025. From FY24, the LTE component changed from vesting after three years to vesting in equal thirds, annually over three years. We have determined this vesting approach taking into account both ASX practice and US practice where time-based RSUs with a quarterly vest are the norm. The first of three tranches under the FY24 plan will vest on or around 31 May 2024 (remaining two tranches vesting 2025 and 2026), while the LTI component will vest once tested on or around 31 May 2026.

CEO initial equity grant: Additional equity was granted to the CEO on 24 August 2023 due to a miscalculation of her initial equity grant which was not in line with the contractual obligations. To address the resulting shortfall in options, the CEO was granted additional options and RSUs, the terms of which align with the original grant. The first of three equal tranches of the initial equity grant vested in November 2023. The remaining two tranches will vest in November of 2024 and 2025.

3. Directors and senior leadership team

This report focuses on the FY24 remuneration of individuals determined as key management personnel of Xero, being the CEO and CFO, as well as non-executive directors as identified in the table below. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity. The individuals included are consistent with those determined as key management personnel for both financial reporting and ASX reporting purposes. Broader details of Xero's remuneration framework and structure are also included in this report and relate to Xero's Executive Leadership Team (i.e. 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	Full year
Kirsty Godfrey-Billy	New Zealand	CFO	Full year
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
Anjali Joshi	United States	Independent non-executive director	Appointed 3 July 2023
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
Former non-executive directors			
Rod Drury	New Zealand	Founder, non-executive director	Ceased 17 August 2023
Lee Hatton	Australia	Independent non-executive director	Ceased 17 August 2023

4. Remuneration governance framework

Xero's remuneration governance framework is overseen by the PR Committee on behalf of the Board. PR Committee membership is outlined below. All directors have a standing invitation to attend PR Committee meetings. Members of management may be invited to attend meetings of the PR Committee where appropriate.

Xero Board

ARM Committee | **PR Committee** | **NG Committee**


Susan Peterson (Chair)


Mark Cross


Steven Aldrich


Anjali Joshi*

All members are independent non-executive directors, including the Chair

The PR Committee's role is to assist the Board of Xero to oversee the strategies and policies relating to Xero's people and culture, remuneration and benefits, executive development and performance, Executive Leadership Team succession planning, and diversity, inclusion and belonging.

The PR Committee's primary responsibilities				
Enables management to deliver on our strategy by aligning our remuneration frameworks, policies and practices with Xero's purpose, values, strategic objectives, risk appetite, and good governance principles and practice	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. Provides oversight of leadership team appointments	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	Makes recommendations to the Board regarding remuneration outcomes and changes to the CEO's remuneration. Supports the Chair of the Board to evaluate the CEO's performance and makes recommendations to the Board on CEO performance objectives	Supports the Board in representing Xero's shareholders, and facilitates shareholder and other stakeholder engagement in relation to Xero's people policies and practices

The PR Committee's charter setting out the breadth of its responsibilities is available on Xero's website: www.xero.com/investors/governance

**Anjali Joshi was appointed as a director and as a member of the PR Committee on 3 July 2023. David Thodey was a member of the PR Committee until 17 August 2023*

4.1 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 the evolution of Xero's remuneration framework having regard to our growth ambitions. This included reviewing Xero's Executive 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. Along with seeking input from management, the PR Committee may obtain independent advice directly from external advisers to support the performance of its role on behalf of the Board, and from time to time, may meet in the absence of management as part of considering matters on which they have advised.

Although Xero is incorporated in New Zealand, we confirm that no "remuneration recommendations" (as defined in the Australian Corporations Act 2001 (Cth)) were provided to the PR Committee, Board, or management.

4.2 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 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: www.xero.com/investors/governance

4.3 Remuneration Report adoption

Xero is incorporated in New Zealand and subject to New Zealand law. Under Australian law, listed companies incorporated in Australia must prepare a Remuneration Report and put an advisory resolution to shareholders at the Annual General Meeting that the Remuneration Report be adopted. This law does not apply to Xero, but as a matter of good governance Xero voluntarily publishes a Remuneration Report each year and, as noted below, this year will voluntarily put an advisory resolution to our shareholders at our Annual Meeting in relation to our Remuneration Report. We have sought to include information that provides a good understanding around how we prioritise the work to support our culture and performance, and connect our reward and recognition frameworks with the successful execution of our strategy. However, this Remuneration 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.

The Board oversees Xero's governance arrangements and considers feedback from shareholders and other stakeholders. To further facilitate engagement on shareholder views on pay, the Board has decided to put the Remuneration Report to shareholders as a non-binding resolution which will be treated as advisory only. The voting outcome and comments will be considered by the Board when setting future remuneration strategy, and in the following year's Remuneration Report.

4.4 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 are 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

The Board did not apply any discretion with respect to grants for the CEO and CFO during FY24. All grants were made in accordance with the standard terms and treatment applicable to each grant.

5. Remuneration strategy

5.1 Remuneration objectives, philosophy and principles

The Committee's overall objective is 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. This is done through the application of the three principles of performance, scope and criticality of role, and location that apply to all role levels at Xero
- 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 that conduct is only rewarded where it aligns with Xero's code of conduct, values and risk appetite

Xero's remuneration structure reflects the following philosophy.

Philosophy	Remuneration structure
Alignment	The structure of the leadership team's remuneration is designed to align with shareholder interests. Equity forms 79.6% and 40.4% of target total remuneration for the CEO and CFO, respectively In addition, the LTI plan includes performance measures that further align the leadership team's remuneration with shareholder outcomes. Three performance measures (operating revenue growth, FCF margin — new in FY24 —and rTSR) have been selected in support of Xero's long-term strategy
Fairness	Domicile-based market competitive, up-front cash-based remuneration is balanced with equity remuneration providing significant potential upside. The application of our **three pay principles of performance, scope and criticality of role, and location** help determine pay quantum and structure
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 reflect common practice in the broader technology industry in the primary markets in which we operate
Flexibility	Xero's STI and LTI performance measures provide flexibility for Xero to respond to different 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 exercised in a number of ways including (but not limited to) PR 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, LTI and LTE 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 LTI and LTE awards, providing an effective multi-year incentive aligned with Xero's long-term strategy.

Remuneration Components

Cash | **Equity**

FR
Fixed Remuneration

Reviewed annually based on skills, experience, accountabilities, performance, leadership, behaviours and location

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

LTI & LTE
Long-Term Incentive & Equity*

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 Paid after completion of a one-year performance period (1 April to 31 March), aligned with Xero's financial year	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 in May of the year following grant, subject to continuing employment and confirmation that no award adjustment events have occurred	LTI is contingent on performance measures LTI metrics and composition are reviewed each year (for future year grants)	LTE is contingent on service in alignment with the global pay practices of technology organisations

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 reflected through an individual modifier

LTI & LTE:

An at-risk component typically expressed 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

LTI RSUs vest over a three-year performance period on the third May following grant

LTE RSUs vest in three equal tranches, annually over three years, reflecting US peer group practices

New hires/promotions may be invited to participate in the LTI and LTE plans

Note: *We have previously granted options to acquire ordinary shares in Xero (on a 1:1 basis) under past long-term incentive plans that are no longer active, and on occasion for one-off purposes such as retention or initial equity grants for new hires*

5.3 Remuneration benchmarking and review

We operate in a highly competitive global technology landscape for talent. With a focus on delivering winning customer solutions in our three largest markets, Australia, the UK and the US, it is critical that our remuneration structure and benchmarking supports us to secure the calibre of talent we need to deliver on our strategic ambitions.

Xero's remuneration structure reflects that it is one of only a few global technology companies of its size listed on the ASX. In order to secure global talent, we adopt an approach that differs from most ASX listed entities. We have regard to ASX peers, but these are not our primary comparators, and do not represent an effective benchmark for internationally located executives. It is essential that our approach responds to the US market in particular, as half of Xero's leadership team and a number of non-executive directors and other senior roles are based there. To do so requires us to set pay and performance that is comparable to companies of similar size and industry in the US. This reflects our remuneration principles, which include consideration of location along with performance, scope and criticality of role.

Benchmarking for the leadership team is conducted across two peer groups, namely the US and Australia. Both the peer groups were selected from SaaS and broader technology companies, listed in the US or on the ASX, with similar size and reach globally.

Details of the outcomes of the FY24 review for the CEO and CFO are outlined in sections 6.2, 6.3 and 6.4, and for non-executive directors in section 12.

The following table lists the companies that form the US peer group used as our primary comparator for benchmarking US-based executives and non-executive director remuneration.

Ticker	Company name	Ticker	Company name
APPF US	Appfolio	PAYC US	Paycom Software
APPN US	Appian Corp	SMAR US	Smartsheet
ASAN US	Asana	SPLK US	Splunk
AYX USX	Alteryx	TEAM US	Atlassian Corp
BILL US	BILL	TWLO US	Twilio
COUP US*	Coupa Software	VEEV US	Veeva Systems
DOCU USX	DocuSign	XWDAY US	Workday
HUBS US	HubSpot	WIX US	Wix.com
LSPD US	Lightspeed Commerce	ZEN US*	Zendesk
OKTA US	Okta	ZS US	Zscaler

**As at the date of publication, Coupa Software and Zendesk had transitioned from public to private ownership and they have been replaced for FY25 purposes*

The following table lists the companies that form the ASX peer group used as the primary comparator for benchmarking ANZ-based executives and non-executive director remuneration.

Ticker	Company name	Ticker	Company name
ALL	Aristocrat Leisure	IRE	IRESS
ALU	Altium	PME	Pro Medicus
ASX	ASX	PXA	PEXA Group
CAR	Carsales.com	REA	REA Group
COH	Cochlear	SEK	SEEK
CPU	Computershare	SHL	Sonic Healthcare
DHG	Domain Australia	TLS	Telstra Group
DMP	Domino's Pizza Enterprises	TNE	Technology One
DTL	Data#3	TPG	TPG Telecom
HSN	Hansen Technologies	WTC	WiseTech Global

An additional UK peer group is also used as a supplementary comparator for non-executive director fee benchmarking.

Ticker	Company name	Ticker	Company name
AAF LN	Airtel Africa	INF LN	Informa
AUTO LN	Auto Trader Group	KWS LN	Keywords Studios
AVV LN	AVEVA Group	PSON LN	Pearson
BT/A LN	BT Group	RMV LN	Rightmove
CCC LN	Computacenter	RSW LN	Renishaw
DARK LN	Darktrace	SCT LN	Softcat
DATA LN	GlobalData	SGE LN	Sage Group
ENT LN	Entain	SXS LN	Spectris
FLTR LN	Flutter Entertainment	VOD LN	Vodafone Group
HLMA LN	Halma	WPP LN	WPP
IGG LN	IG Group		

We assess the suitability of the peer groups periodically to ensure they reflect not only our industry and size but also our geographic spread, as well as stage of growth and maturity.

6. Key remuneration components for the CEO and CFO

Further detail is set out below on how the remuneration structure described in section 5.2 applies to the CEO and CFO.

6.1 CEO and CFO remuneration mix

CEO and CFO (and all leadership team) remuneration is deliberately weighted to have a substantial proportion of target total remuneration at risk. This serves to align executive remuneration with shareholder outcomes and ensure Xero can continue to attract, motivate and retain talented executives in the global talent landscape.

- The CEO's remuneration mix is as follows: Variable pay forms 86.3% of target total remuneration (89.4% of maximum total remuneration) and equity forms 79.6% of target total remuneration (80.1% of maximum total remuneration)
- The CFO's remuneration mix is as follows: Variable pay forms 53.8% of target total remuneration (64.0% of maximum total remuneration) and equity forms 40.4% of target total remuneration (45.1% of maximum total remuneration)

CEO*

Target

- Fixed annual remuneration (**13.7%**)
- STI cash (**6.7%**)
- STI equity (**6.7%**)
- LTI: three-year performance-based RSU plan (**36.5%**)
- LTE: three-year service-based RSU plan (**36.5%**)

Maximum

- Fixed annual remuneration (**10.6%**)
- STI cash (**9.4%**)
- STI equity (**9.4%**)
- LTI: three-year performance-based RSU plan (**42.4%**)
- LTE: three-year service-based RSU plan (**28.3%**)

CFO*

Target

- Fixed annual remuneration (**46.2%**)
- STI cash (**13.5%**)
- STI equity (**13.5%**)
- LTI: three-year performance-based RSU plan (**13.5%**)
- LTE: three-year service-based RSU plan (**13.5%**)

Maximum

- Fixed annual remuneration (**36.0%**)
- STI cash (**18.9%**)
- STI equity (**18.9%**)
- LTI: three-year performance-based RSU plan (**15.7%**)
- LTE: three-year service-based RSU plan (**10.5%**)

**Percentages might not add up to 100% due to rounding in the data*

6.2 Fixed annual remuneration

Fixed annual remuneration is set in the context of Xero's remuneration strategy and considering an individual's skills, experience, accountabilities, performance, leadership, behaviours and location. The FY24 remuneration benchmarking review resulted in the following changes to the CEO's and CFO's base salaries to ensure appropriate and competitive remuneration positioning:

- The CEO received her first base salary review in February 2024 in accordance with the terms of her employment, 15 months after joining Xero. The review was conducted with regard to benchmarking information, increases across the wider Xero employee population, and the CEO's performance. The CEO's base salary increased by 5% to US$735,000 (NZ$1,204,918) from US$700,000 (NZ$1,147,541), effective 1 February 2024
- The CFO's base salary increased by 8% to NZ$864,000 from NZ$800,000, effective 1 July 2023

6.3 At risk – Short-Term Incentive (STI)

STI is an at-risk component of remuneration structured to reward achievement 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 reflect the voices of shareholders, customers and employees. The STI performance measures have been chosen to focus on growing global revenue and creating customer value and engaged teams, while delivering disciplined operational and financial outcomes. In line with this, in FY24 operating expenses as a percentage of operating revenue (OPEX ratio) was introduced as a measure. Vesting outcomes have regard to whether the leadership team member has acted in accordance with Xero's values.

- The CEO's target STI is 100% of base salary. This percentage remains unchanged from FY23. Due to changes in base salary as part of the remuneration review, the CEO's target STI increased to US$735,000 (NZ$1,204,918) from US$700,000 (NZ$1,147,541)
- The CFO's target STI is 60% of base salary. This percentage remains unchanged from FY23. Due to changes in base salary as part of the remuneration review, the CFO's target STI increased to NZ$518,400 from NZ$480,000

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 as at 31 March 2024)	CEO 100%, CFO 60%
Maximum opportunity (% base salary as at 31 March 2024)	CEO 180%, CFO 108%
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. Each measure has a threshold, target and maximum
Financial objectives (70%)	Financial objectives reflect the voice of shareholders — net new monthly recurring revenue (MRR) and operating expense ratio (OPEX ratio) targets
Non-financial objectives (30%)	Non-financial objectives are based on: • voice of the customer — partner and small business NPS targets • voice of the employee — employee NPS and engagement targets
Individual modifier (applies to the overall calculated STI outcome)	Individual modifier is based on personal impact tied to the delivery of OKRs and other agreed deliverables crucial to the success of the company, the demonstration and embodiment of Xero values, and the display of leadership attributes
Target setting	Measures, weightings, and targets set at the beginning of each financial year are reviewed by the PR 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 the expected performance, may increase, decrease or stay the same from the previous year

Element	Details
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 the audited results are finalised. Leadership team performance (individual modifier), including acting in accordance with Xero's values, is reviewed by the CEO in consultation with the PR 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 July For FY24, RSUs will be granted in July 2024
Vesting conditions	RSUs vest in May in the year following the grant date, subject to continued service and confirmation from the PR 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 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 4.2. Shares cannot be sold during a closed period for share trading other than in exceptional circumstances with prior approval
Change of control	The Board has broad discretion to determine the appropriate treatment of unvested RSUs on change of control. Among 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
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 and CFO's FY24 STI awards. The measures chosen were selected based on their alignment with our goals.

Performance measure	Weighting	Rationale for choice of measure
Voice of the shareholder (70% of total)		
Group Net New monthly recurring revenue (MRR)	35%	• Key leading indicator of Xero's financial performance that represents Xero's ability to acquire new customers and penetrate the existing customer base, directly driving subscription or other recurring revenue growth • Indicates the effectiveness of Xero's sales and marketing function and the value of Xero's investment into product development • Demonstrates Xero's ability to scale and deliver sustainable sources of revenue
Operating Expense Ratio (OPEX ratio)	35%	• Key financial indicator that captures the efficiency of Xero's operational spending • Demonstrates how effectively resources are being managed across the business and acts as a measure of profitability
Voice of the customer (15% of total)		
Partner and Small Business NPS	15%	• Key indicator of customer and partner satisfaction • Ensures continued focus on customer retention • Drives value creation through greater stakeholder trust and customer advocacy • Drives value creation through delivery of a product experience that exceeds expectations, increased brand awareness, perception and value, including trust in the reliability and security of data
Voice of the employee (15% of total)		
Employee NPS and Engagement	15%	• Key indicators of employee satisfaction • Ensures continued focus on employee engagement • Drives value creation through enhanced attraction, development and retention of top talent. Targeted initiatives and flexible ways of working to promote diversity, pay equity and an inclusive environment. Improved health, safety and wellbeing performance
Individual modifier (applies to the overall calculated STI outcome)		
Goals tied to one or more of the company wide OKRs	Applies to the overall calculated STI outcome	• Key indicator of individual leadership performance • Ensures focus on achievement of goals tied to company-wide OKRs • Drives value creation through all of Xero's key outcomes

6.4 Long-Term Incentive (LTI) and Long-Term Equity (LTE)

LTI and LTE are at-risk components of leadership remuneration that are structured to reward the effective execution of Xero's strategy and sustained shareholder value creation.

The LTI and LTE plan was first introduced in FY23 and involved a shift from options to RSUs and the introduction of a performance contingent component (LTI). The Board reviewed the plan in FY24 to ensure it continues to support Xero's long-term strategy and sustained value creation. This review resulted in the introduction of free cash flow (FCF) margin and re-weighting of measures under the LTI component. The combination of revenue growth and FCF measures reflects our focus on balancing growth and profitability. The LTE component now vests in equal thirds, annually over a three-year period. We have determined this vesting approach taking into account both ASX practice and US practice where time-based RSUs with a quarterly vest are the norm.

- The CEO's target LTI and LTE is US$4,000,000 (NZ$6,557,377). This remains unchanged from FY23
- The CFO's target LTI and LTE is 60% of base salary. This percentage remains unchanged from FY23. Due to changes in base salary as part of the remuneration review, the CFO's target LTI and LTE increased to NZ$518,400 from NZ$480,000

The following table provides an overview of the key features of the LTI and LTE structure.

Element	Details
Purpose	Rewards delivery against longer-term strategy and sustained value creation. Provides alignment between shareholder, customer, and leadership team outcomes and time-based retention through multi-year vesting
Target opportunity (% base salary as at 1 July 2023)	CEO 571.4%, CFO 60%
Maximum opportunity (% base salary as at 1 July 2023)	CEO 714.3%, CFO 75%
Pay vehicle	LTI and LTE 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 LTI and LTE 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 FY24, RSUs were granted in August 2023 for the CEO and CFO
Vesting conditions	LTI and LTE split at maximum is 60% and 40%, respectively LTI — value is contingent on performance targets over a three-year period (commencing 1 April 2023 and ending 31 March 2026). RSUs under the LTI component vest once tested in or around May at the end of the three-year performance period LTE — value is contingent on service (being employed and not having resigned on the vest date). RSUs under the LTE component vest in equal thirds in May each year following the year in which they are granted Performance contingent component measures and weightings: • Operating revenue growth - 37.5% • Free cash flow (FCF) margin - 37.5% • Relative total shareholder return (rTSR) - 25% LTI granted for FY24 will vest, once tested, on or around 31 May 2026 LTE granted for FY24 will vest in three equal tranches on or around 31 May 2024, 2025 and 2026
Cessation of employment	In the event of termination, all unvested RSUs are forfeited unless the Board determines otherwise 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, 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 4.2. Shares cannot be sold during a closed period for share trading other than in exceptional circumstances with prior approval
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

Element	Details
Malus/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
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

The FY24 peer group used for Xero's rTSR is the EMCLOUD (Nasdaq Emerging Cloud Index) as at 1 April 2023. Launched in 2013, the EMCLOUD Index is designed to track the performance of public companies primarily involved in providing cloud software to their customers. The following table lists the companies that form this peer group (excluding four delisted companies that have been excluded*).

Ticker	Company name	Ticker	Company name	Ticker	Company name
ADBE	Adobe	FROG	Jfrog	SHOP	Shopify
AI	C3.ai	FRSH	Freshworks	SMAR	Smartsheet
AMPL	Amplitude	FSLY	Fastly	SNOW	Snowflake.
APPF	Appfolio	GTLB	GitLab	SPT	Sprout Social
ASAN	Asana	HUBS	HubSpot	SQ	Block
AVDX	Avidxchange Holdings	MDB	MongoDB	SQSP	Squarespace
BIGC	Bigcommerce Holdings	MNDY	Monday.Com	TEAM	Atlassian Corp
BILL	BILL Holdings	NCNO	nCino	TENB	Tenable Holdings
BL	Blackline	NET	Cloudflare	TOST	Toast
BOX	Box	NOW	ServiceNow	TWLO	Twilio
BRZE	Braze	OKTA	Okta	TWOU	2U
CFLT	Confluent	OLO	Olo	VEEV	Veeva Systems
CRM	Salesforce	PATH	UiPath	VMEO	Vimeo
CRWD	CrowdStrike Holdings	PAYC	Paycom Software	WDAY	Workday
CWAN	Clearwater Analytics Holdings	PCOR	Procore Technologies	WIX	Wix.Com
DBX	Dropbox	PCTY	Paylocity Holding Corp	WK	Workiva
DDOG	Datadog	PD	PagerDuty	YEXT	Yext
DH	Definitive Healthcare Corp	PYPL	PayPal Holdings	ZI	Zoominfo Technologies
DOCN	DigitalOcean Holdings	QLYS	Qualys	ZM	Zoom Video Communications
DOCU	DocuSign	QTWO	Q2 Holdings	ZS	Zscaler
ESTC	Everbridge	RNG	RingCentral	ZUO	Zuora
FIVN	Five9	S	SentinelOne		

**The four delisted companies that have been excluded are MNTV - Momentive Global, NEWR - New Relic, SUMO - Sumo Logic, and XM - Qualtrics International*

6.4.1 CEO initial equity grant

On 30 January 2023, options were issued to the CEO in accordance with her contract of employment entered into on 10 November 2022 (CEO Initial Equity Grant). Details of the CEO Initial Equity Grant are set out in the summary of material terms of the CEO's employment agreement annexed to Xero's ASX announcement regarding the CEO's appointment on 10 November 2022 (Material Terms of Employment) and in the FY23 Remuneration Report.

As noted in the 2023 Remuneration Report, a miscalculation was made in relation to the CEO's options issued in January 2023. This miscalculation resulted in 445,697 options being issued with an exercise price of AU$75.24. This was to the CEO's disadvantage as fewer options were issued and those that were issued had a higher exercise price than if the grant were made in accordance with the calculation methodology specified in the CEO's employment agreement. The number of options that should have been issued was 463,308. The exercise price should have been AU$72.39.

Accordingly, on 24 August 2023 the following additional equity was granted to the CEO:

- 17,611 options to address the shortfall in the number of options
- 17,573 RSUs to address the difference in exercise price

The terms of the options align with the original grant as follows:

- vest in three equal tranches in November 2023, November 2024 and November 2025
- lapse 10 years from the date of the original grant
- treatment on cessation of employment as set out in the Material Terms of Employment

The RSUs will also vest in line with the vesting schedule of the original grant (as outlined in section 6.4.1 of Xero's FY23 Remuneration Report (and set out 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	The remediation grant was created to address a discrepancy in valuation methodology. There was a difference between what was stated in the contract and what was used in practice Options lapse in January 2033, ten years from grant date of original options. This expiry term is intended to apply for options granted from January 2023 onwards. Previous grants had an expiry of five years from grant. This change was made to align option expiry with typical US market practice
Grant details	Equity granted under the CEO Initial Equity Grant consisted of the following: • Original options – 445,697 options granted in January 2023 • Additional options – 17,611 options granted in August 2023 • RSUs – 17,573 RSUs granted in August 2023
Vesting conditions	Options and RSUs 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	The first tranche of equity vested in November 2023 This consisted of the following: • Original options – 148,566 • Additional options – 5,870 • RSUs – 5,858 The two remaining tranches of equity will vest equally in November 2024 and November 2025
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 and RSUs 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, all unvested options and RSUs 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

7. Xero's performance

Xero's financial performance over the last five years is shown below, along with STI outcomes.

Measure	FY20	FY21	FY22	FY23	FY24
Subscribers	2,285,000	2,741,000	3,271,000	3,741,000	4,160,000
Annualised Monthly Recurring Revenue ($000s)	$820,557	$963,597	$1,231,087	$1,553,803	$1,961,368
Operating Revenue ($000s)	$718,231	$848,782	$1,096,819	$1,399,884	$1,713,767
Operating Revenue Growth	29.9%	18.2%	29.2%	27.6%	22.4%
Free Cash Flow ($000s)	$27,105	$56,946	$2,073	$102,340	$342,146
FCF Margin	3.8%	6.7%	0.2%	7.3%	20.0%
OPEX Ratio	80.8%	78.2%	84.0%	83.2%*	73.3%
Xero Share Price (AU$)**	67.91	126.53	102.75	89.42	133.32
Xero Share Price Movement (AU$)	19.26	58.62	-23.78	-13.33	43.90
Xero Total Shareholder Return (1 year to 31 March)	39.6%	86.3%	-18.8%	-13.0%	49.1%
Average STI received as a % of maximum	56%	90%	85%	59%	54%

**Includes restructuring costs. Excluding restructuring costs the FY23 OPEX ratio was 80.7%*
***Closing price for the last trading day in the financial year*
Xero does not currently pay dividends

8. CEO and CFO realised remuneration

The following table provides details of the actual remuneration received by the CEO and CFO during FY24 and FY23. Total remuneration, excluding Options and RSU grants, represents the 'take home pay' of the CEO and CFO during those years. The value of Options and RSU grants represents the accounting values of those awards that vested during the year, recognised in accordance with applicable accounting standards. The CEO and CFO received no other monetary benefits, other than those stated below.

Actual remuneration received by the CEO and CFO disclosed in the table below for FY24 is based on the following:

- Fixed annual remuneration earned between 1 April 2023 and 31 March 2024
- Realised cash and deferred RSU STI based on FY23 and FY22 performance, respectively. Cash was received in May 2023. Deferred RSUs were granted in May 2022 and vested in May 2023. The number of RSUs granted is dependent on the share price at grant: 105 percent of target STI (85 percent of maximum) was awarded to the CFO based on FY22 performance (the CEO commenced employment during FY23)
- The first vest of the CEO's Initial Equity Option Grant, and the associated options and RSUs, issued under the remediation grant

Fixed remuneration				Variable remuneration*			
				Accounting value of grants vested during the year, in the form of:			
	Salary ($000s)	Pension ($000s)	Other ($000s)**	Cash STI ($000s)	Options grants ($000s)	RSU grants ($000s)	Total remuneration received ($000s)
Sukhinder Singh Cassidy FY24	1,155	24	-	154	5,111	752	7,196
Sukhinder Singh Cassidy FY23	388	11	-	-	-	-	399
Kirsty Godfrey-Billy FY24	848	19	9	181	493	368	1,918
Kirsty Godfrey-Billy FY23	780	18	10	188	707	147	1,850

**Includes the value of options and RSUs granted in prior years that vested in the year*
***Relates to payout of annual leave under New Zealand requirements, which includes STI received in calculation of payments*

Further details on STI outcomes for the CEO and CFO are outlined in section 9. Further details on other remuneration elements and outcomes for the FY24 year for the CEO and CFO are outlined in section 10.

9. STI outcomes in detail

The annual outcomes achieved for the CEO and CFO are based on Xero's FY24 performance as set out below. Overall calculated STI outcomes may range from 0%–180%.

Objectives	Weighting	Commentary	Outcome (% of target)	Outcome (% of max)
Voice of the shareholder	70%	Net new MRR was $28.7m. This was below target OPEX ratio was 73.3%. This was better than target	97%	65%
Voice of the customer	15%	Partner NPS was above target for FY24 Small business NPS was below target for FY24	101%	68%
Voice of the employee	15%	Employee NPS was below target for FY24* Employee Engagement was below target for FY24 at 7.5**	31%	21%
Individual modifier	Applies to the overall calculated STI outcome	The individual modifier (0%–120%) is based on delivery of OKRs and other agreed deliverables crucial to the success of the company, agreed between the CEO and the Board for the CEO, and the CEO and the CFO for the latter	100%-120%	83%-100%
Total outcome (CEO)			105.4%	58.6%
Total outcome (CFO)			87.8%	48.8%

**Employee NPS was impacted by our restructuring program to better balance growth and profitability and to strengthen Xero for the future, as announced in March 2023*

***Engagement has been trending upwards since the completion of the reshaping of our organisational structure and the way we work across functions. We are continuing to focus on initiatives that reaffirm our purpose, develop and protect our culture and cultivate our talent*

10. CEO and CFO equity holdings

The following tables present current at-risk equity and holdings for the CEO and CFO.

At-risk equity as at 31 March 2024

	Opening balance*	Granted during the year	Vested	Exercised	Lapsed/ forfeited	Closing balance*
Options						
CEO	445,697	17,611**	154,436	-	-	463,308
CFO	29,761	-	15,159	-	-	29,761
RSUs						
CEO	46,752	85,344***	5,858	-	-	126,238
CFO	12,127	6,660	3,770	-	-	15,017

**For options, includes all vested/unvested options that have not been exercised. For RSUs, only includes what has not vested*

***Includes remediation options issued due to the miscalculation that impacted the number of options granted to the CEO under her Initial Equity Grant*

****Includes remediation RSUs granted due to the miscalculation that impacted the number of RSUs granted to the CEO under the FY23 LTI and LTE Plan and her Initial Equity Grant*

Total equity holdings as at 31 March 2024

	Options	RSUs
CEO	463,308	126,238
CFO	29,761	15,017

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
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)
Incentive opportunities	Eligible to participate in short-term incentive arrangements and long-term incentive arrangements
Payment in lieu of notice period	Xero may pay the CFO 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

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 $3.3 million, as approved by shareholders at Xero's Annual Meeting in August 2023.

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 from the markets in which Xero operates. 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 FY24. 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)	ARM Committee Chair* ($000s)	ARM Committee member ($000s)	PR Committee Chair* ($000s)	PR Committee member ($000s)
New Zealand	465	190	40	21	40	21
Australia	465	190	40	21	40	21
United States	500	360	40	21	40	21
United Kingdom	785	190	40	21	40	21

**No additional fees are currently paid for the Chair or members of the NG Committee. The Board Chair does not receive any additional fees for serving on committees*

Fees are reviewed at least every two years, with the last review in 2023 resulting in a change to the non-executive directors' fee cap. The review also resulted in changes to fees for specific roles and committee membership from 1 October 2023 to bring these in line with the median of peer groups. Base fees for non-executive directors did not change.

The total remuneration of, and the value of other benefits received by, each non-executive director during FY24 was:

Director	Country of residence	Role	Committee Chair	FY24 Base fees ($000s)	FY24 Committee fees ($000s)	FY24 Total fees ($000s)
David Thodey, AO	Australia	Independent Chair	NG Committee	458	-	458
Steven Aldrich	United States	Independent NED	-	360	20	380
Mark Cross	New Zealand	Independent NED	ARM Committee	190	59	249
Anjali Joshi**	United States	Independent NED	-	268	15	283
Brian McAndrews	United States	Independent NED	-	360	20	380
Dale Murray, CBE	United Kingdom	Independent NED	-	190	20	210
Susan Peterson	New Zealand	Independent NED	PR Committee	190	39	229
Former directors* **						
Rod Drury	New Zealand	NED	-	72	-	72
Lee Hatton	Australia	Independent NED	-	72	7	79
Total				**2,160**	**180**	**2,340***

**Total remuneration is presented based on accounting expense and may include amounts earned, but not yet received*
***Appointed as a director 3 July 2023*
****Ceased as directors 17 August 2023*

The total remuneration 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	Independent Chair	NG 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	PR 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***

**Total remuneration is presented based on accounting expense and may include amounts earned, but not yet received*

13. Our team's remuneration

The following table shows the number of current and former employees of Xero whose remuneration and benefits for FY24 were within the specified bands above $100,000.

Remuneration including share-based remuneration	Number of employees
100,000 to 109,999	215
110,000 to 119,999	210
120,000 to 129,999	259
130,000 to 139,999	261
140,000 to 149,999	266
150,000 to 159,999	254
160,000 to 169,999	255
170,000 to 179,999	220
180,000 to 189,999	185
190,000 to 199,999	156
200,000 to 209,999	145
210,000 to 219,999	118
220,000 to 229,999	111
230,000 to 239,999	99
240,000 to 249,999	79
250,000 to 259,999	81
260,000 to 269,999	65
270,000 to 279,999	63
280,000 to 289,999	55
290,000 to 299,999	42
300,000 to 309,999	32
310,000 to 319,999	27
320,000 to 329,999	23
330,000 to 339,999	34

Remuneration including share-based remuneration	Number of employees
340,000 to 349,999	21
350,000 to 359,999	19
360,000 to 369,999	23
370,000 to 379,999	13
380,000 to 389,999	20
390,000 to 399,999	13
400,000 to 409,999	6
410,000 to 419,999	9
420,000 to 429,999	12
430,000 to 439,999	6
440,000 to 449,999	5
450,000 to 459,999	10
460,000 to 469,999	9
470,000 to 479,999	10
480,000 to 489,999	8
490,000 to 499,999	3
500,000 to 509,999	3
510,000 to 519,999	5
520,000 to 529,999	4
530,000 to 539,999	1
540,000 to 549,999	2
550,000 to 559,999	4
560,000 to 569,999	2
570,000 to 579,999	3

Remuneration including share-based remuneration	Number of employees
590,000 to 599,999	2
600,000 to 609,999	1
610,000 to 619,999	2
620,000 to 629,999	3
630,000 to 639,999	2
640,000 to 649,999	3
650,000 to 659,999	2
660,000 to 669,999	3
670,000 to 679,999	3
680,000 to 689,999	4
690,000 to 699,999	1
700,000 to 709,999	3
710,000 to 719,999	2
720,000 to 729,999	2
730,000 to 739,999	1
770,000 to 779,999	1
790,000 to 799,999	1
810,000 to 819,999	1
840,000 to 849,999	2
850,000 to 859,999	3
870,000 to 879,999	1
900,000 to 909,999	4
920,000 to 929,999	1
950,000 to 959,999	1

Remuneration including share-based remuneration	Number of employees
990,000 to 999,999	1
1,000,000 to 1,009,999	1
1,010,000 to 1,019,999	1
1,030,000 to 1,039,999	2
1,060,000 to 1,069,999	2
1,120,000 to 1,129,999	1
1,130,000 to 1,139,999	1
1,270,000 to 1,279,999	1
1,280,000 to 1,289,999	1
1,310,000 to 1,319,999	2
1,320,000 to 1,329,999	1
1,410,000 to 1,419,999	1
1,420,000 to 1,429,999	1
1,430,000 to 1,439,999	1
1,550,000 to 1,559,999	1
1,650,000 to 1,659,999	1
1,910,000 to 1,919,999	1
2,630,000 to 2,639,999	1
2,850,000 to 2,859,999	1
3,220,000 to 3,229,999	1
5,590,000 to 5,599,999	1
5,610,000 to 5,619,999	1
7,190,000 to 7,199,999	1

The remuneration covered in the table includes monetary payments received and share-based payments vested (i.e. RSUs and options). The table above includes remuneration received by the CEO and CFO. The value of options and RSUs vested during the year has been calculated using the accounting fair value of the equity instruments and is consistent with the approach taken within the CEO and CFO remuneration disclosures detailed above.

CORPORATE DIRECTORY

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Directors

David Thodey, AO
(Chair)

Steven Aldrich

Mark Cross

Anjali Joshi

Brian McAndrews

Dale Murray, CBE

Susan Peterson

Company secretary

Damien Coleman

Leadership team

Sukhinder Singh Cassidy
Chief Executive Officer

Damien Coleman
Chief Legal Officer

Kirsty Godfrey-Billy
Chief Financial Officer

Ashley Hansen Grech
Chief Revenue Officer

Diya Jolly
Chief Product &
Technology Officer

Nicole Reid
Chief People Officer

Angad Soin
Chief Business Operations
& Strategy Officer

Michael Strickman
Chief Marketing Officer

Other company information

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