MARKET RELEASE

Appendix 4E and FY25 Annual Report

WELLINGTON, 15 May 2025 — Xero Limited (ASX: XRO), in accordance with the ASX Listing Rules, attaches its Appendix 4E and FY25 Annual Report.

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 that helps customers supercharge their business by bringing together the most important small business tools, including accounting, payroll and payments — on one platform. Xero's powerful platform helps customers automate routine tasks, get timely insights, and connects them with their data, their apps, and their accountant or bookkeeper so they can focus on what really matters. Trusted by millions of small businesses and accountants and bookkeepers globally, Xero makes life better for people in small business, their advisors, and communities around the world. For further information, please visit xero.com

Appendix 4E

15 May 2025

Xero Limited

ARBN 160 661 183 (incorporated in New Zealand)

Reporting period	12 months to 31 March 2025
Previous reporting period	12 months to 31 March 2024

Results for announcement to the market

	Amount (000s)	**change**
Revenues from ordinary activities	NZ$2,102,652	up 23%
Net profit from ordinary activities	NZ$227,817	up 30%
Net profit attributable to security holders	NZ$227,817	up 30%

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$6.62 per share at 31 March 2025 (31 March 2024: NZ$2.68 per share). This increase is largely attributed to higher cash and short term deposit balances, compared to the prior year.

For additional Appendix 4E disclosure requirements, refer to Xero Limited's 2025 Annual Report which contains the 2025 consolidated financial statements and accompanying notes.

This report is based on the consolidated financial statements for the year ended 31 March 2025, 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.

your business supercharged

XERO LIMITED

Annual Report 2025

REFLECTIONS

GOVERNANCE

FINANCIALS & DISCLOSURES

Cover: Xero US customer Scott Goodfriend, founder of Ultimate Food Tours, and his tour group, including Josh, and Diandra and Bridget from Xero, in New York – ultimatefoodtours.com

Contents: Xero UK customer Rosette Ale, founder of Revival London and her designer Saabira Muhammad in London – revivalldn.com

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

ABOUT THIS REPORT

Xero's Annual Report for the Financial Year 2025 (FY25) outlines how Xero executed its strategy and provides an update on our financial performance and governance. For the first time, this year we have published a separate Sustainability Report which addresses our commitment to reporting our social and environmental impact, and enriching our organisational culture.

REPORTING SUITE

Xero's FY25 Annual Report should be read in conjunction with the other materials that comprise our FY25 annual reporting suite:

- FY25 Investor presentation at: www.xero.com/investors
- Xero's FY25 Sustainability Report at: www.xero.com/investors
- Xero's FY25 Corporate Governance Statement at: www.xero.com/investors/governance
- Xero's FY25 Databook, summarising progress on a range of financial, environmental, social and governance metrics, at: www.xero.com/sustainability

Throughout this report we have linked other websites and documents that may be useful, including the following materials:

- Governance and leadership at: www.xero.com/investors/governance, where full copies of the following can be found:
  - Modern Slavery and Human Trafficking Statement
  - Board and Committee charters
  - Key governance policies
  - Full biographies for the Board of Directors and Executive Leadership Team
- Information about our sustainability activities and performance at: www.xero.com/sustainability

Such websites and documents do not form part of this report or the FY25 annual reporting suite.

To download a copy of this report, please visit 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. All financial figures in this Annual Report are in New Zealand Dollars except where indicated otherwise.

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.

Xero Australia customers Sallina & Wayne, owners of Cheol's in Perth – cheols.com.au

"The Xero mobile app is a lifesaver, I have a newborn at the moment, and whether I'm on the go or juggling multiple tasks, I can easily check invoices and stay connected to my business finances"

Xero Australia customer Sallina Le, owner of Cheol's

9 mins

ABOUT XERO

Xero New Zealand customers Rosa & Margo, founders of Two Raw Sisters in Christchurch – tworawsisters.com

Xero is a global small business platform that provides accounting, payroll, payments and other solutions that help small businesses thrive. Our platform is designed to make life better for people in small business, their advisors and communities around the world.

Xero streamlines business administration by automating routine tasks, delivering valuable insights when needed, and bringing together data, trusted advisors and powerful apps in one intuitive platform. Our ecosystem of connected apps and connections to banks and other financial institutions can be integrated with Xero, making it easy for customers to complete other essential tasks. Xero enables customers to simplify how they run their business, freeing up time to focus on what really matters and empowering them to supercharge their business.

In the 2025 financial year (FY25), Xero generated operating revenue of $2.1 billion and ended the financial year with 4.4 million global subscribers across Australia, the UK, the US and more than 180 other countries.

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

This means offering an integrated platform that gives customers powerful insights, drives meaningful discussions with their accountant or bookkeeper, and helps them make informed decisions about their business. Our vision is supported by our FY25-27 strategy *Winning on Purpose* 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 — micro and small businesses with 1-20 employees — to complete the three most important Jobs to be Done (JTBD): accounting, payroll and payments. While our products are designed mainly for this group, we also support customers who use our products across all segments — self-employed businesses with higher revenues, and medium businesses (21-100 employees) that have more complex needs.

We're committed to supporting customers at every stage of their business journey. Some customers work directly with us, while others use Xero through their accountant or bookkeeper. For customers who use Xero directly, we engage with them through digital channels and provide comprehensive support and education to help them get the most value out of Xero.

Our 24/7 customer support and learning site, Xero Central, combines AI technology with human assistance to provide quick personalised help. On Xero Central, customers can find answers to common questions, watch tutorial videos, participate in community discussions, and contact our customer experience team.

We regularly connect with both our small business customers and our accounting and bookkeeping partners to help encourage product and digital adoption and support them to grow their business through events like Xerocon, our regional roadshows and our social impact initiative, Xero for Good.

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 AI, including bank reconciliation and cash flow forecasting, as well as our GenAI-powered smart business companion Just Ask Xero (also known as JAX). These AI tools streamline tasks, generate 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 tools that provide a trusted digital system of record that supports data ingestion, simplifies bookkeeping, helps with managing and filing annual taxes, and provides reporting and analytics.

Payroll
Payroll tools to help simplify paying employees and contractors easily and on time.

Payments
Payment tools to help small businesses make and collect payments and manage cash flow. This includes allowing small businesses to invoice their customers, and manage and pay their bills through Xero and other payment services integrated with Xero.

Adjacent Jobs to be Done
Tools that support day-to-day operations beyond accounting, such as employee management, expenses, projects and inventory.

OUR RELATIONSHIPS WITH PARTNERS

Trusted relationships with Xero's partners are an important part of how we operate. Our partners include accountants and bookkeepers, third-party app developers, and banks and financial service providers.

We are committed to supporting our accounting and bookkeeping partners, who play a vital role in the success of small business, by providing them with access to tools to help them advise with confidence and grow their own practices. Using Xero's tools, accountants and bookkeepers can help their clients supercharge their business, unlock growth and provide a sense of freedom. Together with our partners, we advocate for the millions of small businesses we support around the world.

Our strategic partnerships, such as with Avalara, Gusto, BILL, Deputy and Stripe, allow us to offer 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 discover, try and buy apps based on their specific needs. It also gives app developers access to data insights, tools, and billing payment capabilities, to help them grow their business.

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.

Xero serves customers in more than 180 countries around the world; our customers reflect many different cultures, walks of life, and personal circumstances. We consider building an open and inclusive workforce, which is representative of the customers and communities we serve, to be critical to delivering our purpose and strategy.

Our values reflect how our people work and interact with each other to drive better customer outcomes. We continue to cultivate a workplace culture where our people can grow their career, build capabilities and make an impact, feel a sense of belonging and thrive in their work, and connect to our purpose, our customers and each other.

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 sustainability-related app integrations from our Xero App Store, such as our partnership with carbon accounting software provider Sumday, and by offering educational tools and resources.

In FY25, we undertook a technical review of our climate-related targets and disclosures and set new emission reduction targets, aligned with climate science and the goals of the Paris Agreement. For more information, see page 18 of our Sustainability Report at: www.xero.com/investors.

XERO SMALL BUSINESS INSIGHTS (XSBI)

We use anonymised and aggregated customer data to generate insights into the small business economy through the XSBI program. This research, conducted according to our Responsible Data Use Commitments, improves understanding about small businesses and is widely shared with governments, researchers and advisors.

For more information on our people, our responsible use of data, and our commitment to sustainability, see our FY25 Sustainability Report at: www.xero.com/investors

FINANCIAL HIGHLIGHTS[1]

$2.1b

Operating revenue

Up 23% YoY
(20% in constant currency)

$641m

Adjusted EBITDA

Up 22% YoY

4.4m

Subscribers

Up 254,000 YoY
(414,000 excluding the impact of removing long idle subscriptions[2])

$45.08

Average revenue per user

Up 15% YoY
(11% excluding the impact of removing long idle subscriptions[2])

1. Operating revenue, Adjusted EBITDA, operating expense ratio, Rule of 40 and free cash flow are reported for the 12 months ended 31 March 2025. Subscribers, annualised monthly recurring revenue and average revenue per user are as at 31 March 2025
2. Long idle subscriptions are those that had been undeployed for more than 24 months and were not expected to be deployed within a reasonable timeframe. See subscriber numbers on page 34 and SaaS metrics on page 41 for further detail

$2.4b

Annualised monthly recurring revenue

Up 22% YoY

71.8%

Operating expense ratio

Down 1.5pp YoY

44.3%

Rule of 40[3]

Up 3.3pp YoY

$507m

Free cash flow

Up $165m YoY

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

David Thodey, AO
Chair of the Board

Sukhinder Singh Cassidy
CEO

9 mins

CHAIR AND CEO REVIEW

Dear shareholder,

Xero has delivered a strong result for FY25, demonstrating our macro-resilient growth and effective execution of our strategy. With a focus on balanced profitable growth, revenue increased 23% to $2.1 billion, and enabled us to again deliver strong EBITDA growth and a greater than Rule of 40[1] outcome (44.3% in FY25). We have achieved this while maintaining strong momentum across our strategic pillars and, importantly, have increased our product velocity to bring more value to customers through our focused 3x3 strategy. All this is underpinned by our continued investment in our product and people, and operating discipline to deliver on our aspirations.

WINNING ON PURPOSE

We're just over one year into our FY25-27 strategy. We've demonstrated strong and focused execution while delivering on Xero's promise to our customers, partners, shareholders and people. In FY25, we achieved key milestones aligned to our four strategic priorities as we strive to win on purpose.

1. Win the 3x3 — Accounting, payroll and payments in Australia, the UK and the US

We continued to focus on improving our offerings for the three most critical jobs for small businesses — accounting, payroll and payments — in our three largest markets. Below are key highlights for FY25.

Accounting

- Launched Xero Simple to support UK accountants and bookkeepers with Making Tax Digital for Income Tax, a year ahead of the UK Government's planned deadline
- Enhanced US product offering by increasing direct bank feeds from 20 to over 700 in the past two years, saving North American small businesses time, and released end of period reconciliation
- Acquired Syft to enhance our insights, reporting and analytics offering for customers globally. We've released Analytics powered by Syft in early access to select US customers as part of wider rollout plans

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

Payroll

- Launched a tool to enhance auto super capabilities for Australian customers, helping them stay compliant and allowing them to electronically send employees' superannuation contributions
- Launched a beta of Rostering, powered by Deputy — fully integrated in Xero Payroll for Australian customers — making payroll and workforce management even easier
- Introduced UK payroll enhancements: a new payroll manager, providing accountants and bookkeepers with a consolidated view of payroll data, holiday entitlement calculator improvements and a streamlined process for payroll migration
- Signed a deeper partnership with Gusto to deliver an embedded US payroll solution in FY26, making full employee payroll management possible within Xero

Payments

- Enhanced our payments offering globally by introducing Tap to Pay in the Xero Accounting mobile app, for customers in Australia, the UK and the US.[2] We also added more ways to pay, powered by Stripe, including Klarna — a buy now, pay later option — in the UK, the US, Canada and New Zealand
- Completed the migration of all Xero customers using invoicing to our new invoicing product and released dozens of updates to improve customer experience
- Added SMS invoicing for small business customers in Australia and (in May 2025) the US. The SMS invoicing beta saw Australian customers get paid up to three times faster than invoices sent via email
- Expanded UK bill payments solution, through our partnership with Crezco, to include scheduled domestic and (in April 2025) international bill payments
- Launched in full release a new embedded US bill payment solution, powered by BILL, to help US small businesses manage their finances

FY25 FINANCIAL HIGHLIGHTS

We're pleased to share Xero's strong operating results for FY25, demonstrating our macro-resilient growth and effective execution of our strategy.

We delivered operating revenue growth of 23% (20% in constant currency (CC)) to $2.1 billion and an operating expense to revenue ratio of 71.8%. This resulted in a 22% increase in adjusted EBITDA compared to FY24, to $640.6 million with EBITDA of $638.5 million. We also generated strong free cash flow of $506.7 million with a free cash flow margin of 24.1%, improving from 20.0% in the prior period. As a result, we once again delivered a greater than Rule of 40 outcome, of 44.3% in FY25.

We delivered robust AMRR growth of 22% to $2.4 billion. Adjusting for the removal of long idle subscriptions,[3] AMRR was driven by both strong ARPU and subscriber growth (up 11% and 10% respectively).

ARPU growth was driven by multiple levers including improving product mix across new and existing customers, pricing changes to reflect product value, and continued payments growth.

Excluding the impact of the removal of long idle subscriptions, 414,000 subscribers were added in FY25, up 10%. Average monthly churn on this basis was 1.03% and remains historically low, underscoring Xero's macro resilience and the customer value we provide. Total LTV, after the removal of long idle subscriptions, increased 16% (13% in CC) to $17.9 billion.

Our FY25 results reflect strong execution supported by continued investment in our product and people and operating discipline.

2. At the end of FY25, Tap to Pay for US customers was available on Android only

3. In H1 FY24, we announced our intention to complete a program to remove long idle subscriptions. This program was executed in H1 FY25 with 160,000 subscriptions removed. These subscriptions were a small percentage of Xero's overall subscribers and their removal had minimal effect on revenue. Long idle subscriptions are those that have been undeployed for more than 24 months and were not expected to be deployed within a reasonable timeframe. See subscriber numbers on page 34 and SaaS metrics on page 41 for further detail

Xero Australia partner Sally Brindle, founder of Elevate Business Solutions and her client Donald Venables from BODILE in Perth – bodile.com

2. Build a Winning GTM (Go-To-Market) Playbook

We're focused on onboarding customers to the right products at the right time, deepening our relationships with them, and optimising pricing and packaging to drive customer value, usage and growth. Below are key highlights for FY25:

- We simplified our subscription plans in Australia, New Zealand and the UK to make it easier for new customers to select the best plan for their needs and existing customers to realise more value from their subscriptions. Mid year, we updated several plans, incorporating customer feedback while encouraging further adoption of our products
- To better serve our accounting and bookkeeping partners, we launched new segmentation efforts, including the Partner Assist channel, within our GTM services, which proactively serves smaller accountants and bookkeepers with dedicated digital account management and Xero Central features
- We also evolved our partner sales motions to focus on selling the value of various Xero plans, resulting in more business edition adoption in our new customer acquisition through our accounting and bookkeeping partners
- We established a new dedicated B2B digital marketing team for our partner channel to drive more qualified lead generation and conversion across the channel
- We accelerated data-driven marketing as a key growth lever in our direct small business channel. This included bringing more discipline to our promotion strategy, optimising our plan selection page to help customers choose the right products, and being more dynamic in our investment

3. Focused Bets to Win the Future

We continue to accelerate our investment in AI and mobile in line with our strategy. Below are key highlights for FY25.

- Launched the beta of our GenAI-powered smart business companion, Just Ask Xero (JAX) in August 2024 to help customers run their business more efficiently. In March 2025, we expanded the beta to all business edition customers globally[4] and announced new capabilities. We continue to use insights from customer feedback in our GenAI development so we can deliver what is most valuable to them
- Launched a Facebook Messenger and WhatsApp GenAI agent that sources information from Xero.com and Xero Central, giving customers and prospects the answers they need to get the most from Xero, through their preferred channels
- Improved our mobile sign-on process and workflows to improve usability and drive more conversion across our app and mobile web
- Enhanced our mobile experience, adding new features to the Xero Accounting app including mobile invoice voiding, powerful short-term cash flow projections, and enhanced bank reconciliation navigation

We continue to focus on growing and serving small businesses in our Rest of World markets efficiently. We were also pleased with Planday's top and bottom-line results as the team executed a more focused strategy.

Xero UK team members in our London office

4. Unleash Xero(s) to Win

We're setting Xero up for success and empowering our people to thrive. This includes investing in the next generation of our global leadership team to support our strategy, and driving our culture and performance focus. We're also investing in enhancing the capabilities of our people. Below are key highlights for FY25.

- We welcomed two new leaders to our deeply experienced Executive Leadership Team (XLT). In April 2025, Claire Bramley (formerly Teradata and HP) joined as Chief Financial Officer (CFO), and Jeff Ryan (formerly McAfee, Zynga and GoPro) joined as Chief People Officer (CPO)
- We thank Kirsty Godfrey-Billy, former CFO, and Nicole Reid, former CPO, for their significant contribution
- We remain focused on our heritage markets, Australia and New Zealand. In October, we appointed Angad Soin as Managing Director Australia & New Zealand. Serving in a dual role, Angad retains his XLT position as Global Chief Strategy Officer
- We introduced a new performance management framework for our people to drive focus, prioritisation and connection to our purpose. This includes a robust goal-setting process, clear impact tracking, and capability frameworks. We completed our first annual performance cycle under this framework, which marks a significant milestone

As we set up our people to thrive at Xero, and deliver on our purpose to make life better for people in small business, their advisors and communities around the world, we remain focused on our customers and partners. This helps to guide us in the decisions we make to deliver meaningful impact for them.

For more detail on our progress against our strategic priorities during the year, see Strategy in Action on page 16

4. *The JAX beta is currently only available to the subscriber role user on business edition plans*

BOARD UPDATE FROM DAVID THODEY

Xero remains focused on becoming a truly global company — centred on our three largest markets — and building a global team to address the unique opportunity from cloud accounting, payroll and payments for our small business customers and partners.

Since Sukhinder joined as CEO in February 2023, she has led Xero into its next chapter of growth. Sukhinder has been instrumental in driving transformation, helping us become more focused, dynamic, measured and balanced, in line with the commitments we made at our H1 FY24 results announcement, and in order to deliver on our global aspirations.

The Board continues to support Sukhinder and the XLT to execute Xero's strategy. Our Board comprises a global team of experienced, independent and engaged directors with a mix of skills, knowledge, experience and backgrounds.

The Board is committed to attracting and retaining global talent to achieve our global strategy and aspirations. A key part of this is linking pay with performance — specifically with shareholder value creation. In line with Xero's organisational performance-based culture, the Board revised Sukhinder's remuneration in December 2024. This reflects our principled remuneration approach for all Xeros that considers location, criticality and performance in role. Further details are in the Remuneration Report on page 93.

Our governance maturity continues to grow and we remain focused on building a socially responsible and sustainable business, as outlined in this report.

LOOKING AHEAD

As we enter FY26, we'll continue to focus on executing our strategy and helping small businesses and their advisors thrive. Our goals are clear: to keep building great experiences for our customers, to allocate our resources purposefully and to live our purpose consistently.

With accelerated product velocity in FY25, we see further opportunities to streamline and reimagine our small business, accountant and bookkeeper journeys in FY26. From powerful insights from Syft, to more ways to pay and get paid, to managing more tasks through JAX, we aim to help customers realise even more value from Xero. Our three largest markets will also continue to benefit from deeper market-specific investments in the accounting, payroll and payments jobs, while all markets benefit from the new customer experiences we bring to Xero.com and our accountant and bookkeeper community.

Building on our investments in FY25, we also look forward to continuing to improve our GTM playbook. With new sales motions, better segmentation, enhanced B2B marketing, and strong product velocity, we're continuing to evolve how we grow the number of new accounting and bookkeeping partners on the platform. At the same time, we continue to deepen the value and usage both they and their end SMB clients can get from Xero. Our direct channel will continue to benefit from targeted and dynamic optimisation of both our upper and lower funnel marketing spend and the improved web and mobile experience we offer them.

And as we continue to invest in our employees and our culture, FY26 is an opportunity to help Xeros become even more effective and efficient. From empowering our employees to benefit from using AI in more ways at work to streamlining how we collaborate across timezones, we look forward to helping Xeros continue to do the best work of their lives.

OUR APPROACH TO SUSTAINABILITY REPORTING

At Xero, we understand the importance of sustainability to creating long-term value for all our stakeholders, and we're committed to building a socially responsible and sustainable business. We continue to evolve our non-financial disclosures and aim to provide comparable, consistent and transparent information. This year, we've chosen to publish a separate Sustainability Report, reflecting the importance of sustainability for our business and making it easier for our stakeholders to find relevant information.

Our FY25 Sustainability Report, which includes information on our people, our responsible use of data, and our commitment to sustainability, can be found on our website: www.xero.com/investors

We remain confident in our ability to capture the significant opportunity ahead, to win on purpose and make life better for people in small business, their advisors, and communities around the world.

ASPIRATION[5]

We continue to focus on the aspirations outlined in February 2024:

- To be 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

FY26 OUTLOOK

Total operating expenses as a percentage of revenue is expected to be around 71.5% in FY26.[9] This ratio is expected to be higher in H1 FY26 versus H2 FY26.[10]

THANK YOU

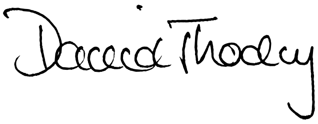
Xero performed strongly in FY25 and we're pleased with our macro-resilient growth and effective execution of strategy. We've delivered consecutive Rule of 40 outcomes, improved operating leverage, and are seeing the benefits of our investments through increased product velocity and return on customer acquisition costs.

The global opportunity ahead for Xero is significant and we are confident in our ability to pursue it.

From Xero's Board and leadership team, thank you to our shareholders, our people, customers, and partners for your ongoing support of our vision.

Xero New Zealand customer Libby Blore, owner of Big Tings in Auckland – **bigtings.co.nz**

Thank you



David Thodey, AO

Chair

Sukhinder Singh Cassidy

CEO

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 aspiration statement was made at the 29 February 2024 Investor Day. This was prior to its FY24 results announcement. For context, 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 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 Xero identifies opportunities for disciplined customer-focused growth and experience changes in our cash tax payment profile. Xero fully utilised its accumulated New Zealand tax losses in FY25

9. This includes an expected ~$45 million from the accounting treatment of option grants and sign on from new remuneration packages. The majority of this impact will not recur in FY27

10. This reflects the phasing of the non-recurring remuneration impacts (described above), Xerocon Brisbane, and timing of other planned investment spend. In addition, Xero expects to generate more revenue in H2 compared to H1 following its typical trend

7 mins

STRATEGY IN ACTION

Xero's *Winning on Purpose* strategy is defined by: creating *winning solutions* for customers, *living our purpose consistently* and *purposefully allocating capital*. Our strategy is simple and focused. We play in large and growing cloud markets, and serve sizeable core customer segments, with a large untapped TAM of ~$100 billion[1, 2] that we can further unlock.

In FY25 we've continued to focus on executing our strategy, and we're excited to share more on our achievements.

1. WIN THE 3X3

Throughout FY25 we increased product velocity by delivering solutions that directly solve our customers' critical Jobs to be Done (JTBD) in our three largest markets — Australia, the UK and the US.

We continued to focus on improving our offerings aligned to our 3x3 strategy. Below are key highlights for FY25.

Accounting

- Launched Xero Simple to support UK accountants and bookkeepers with Making Tax Digital for Income Tax, a year in advance of the UK Government's planned deadline, including new invoicing, data capture, automatic bank transaction imports and improved client access features. Xero Simple was made available to accountants and bookkeepers in April 2025, and will launch for small businesses this calendar year
- Enhanced our UK tax offering: a new partnership tax solution, a beta for integrated practice management, and functionality to digitally submit account changes and manage government gateway IDs
- Enhanced our North American product offering by:
  - Introducing the ability to reconcile to a period, allowing accountants and bookkeepers to close out a period in Xero by matching transactions back to bank statements
  - Increasing direct bank feeds from 20 to over 700 in the past two years, saving North American small businesses time by allowing them to automatically import transactions from their bank or financial institution into Xero. Xero customers save 5.5 hours a week using this feature[3]
  - Launching a beta that gives customers real-time visibility of bank feed status and helps them easily detect bank reconciliation discrepancies
  - Releasing a new W-9 tool to make 1099 preparation more seamless for US customers
  - Building on our automated sales tax calculations, powered by Avalara, we have enhanced our US Sales Tax product with state-based reporting and improved onboarding, simplifying critical tasks
- Streamlined GST transaction reports for Australian customers, including an intuitive layout and customisable filters
- Launched global client insights, a new dashboard in Xero HQ and Xero Practice Manager, giving accountants and bookkeepers visibility into their clients' metrics and financial health
- Acquired Syft Analytics and provided early access to Analytics powered by Syft for select US customers, helping them make informed decisions through data visualisation. This integration will be available in more regions soon, and we'll continue to add more functionality, including AI-powered features

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*
3. *Data based on August 2023 survey average across 180 customers*

Payroll

- Enhanced auto super capabilities for Australian customers by launching a tool that automatically alerts them of auto super refunds, helping them stay compliant. Auto super allows customers to electronically send their employees' superannuation contributions to their nominated funds. We also announced we're including automated super payments on all plans
- Announced a strategic partnership with Deputy and launched a beta of Rostering, powered by Deputy — fully integrated in Xero Payroll for Australian customers — making payroll and workforce management even easier in our largest market
- Enhanced UK payroll with a new payroll manager, giving customers a consolidated view of payroll data, holiday entitlement calculator improvements, and a streamlined payroll migration process
- Signed a deeper partnership with Gusto in FY25 to deliver an embedded payroll solution for US customers in FY26, making full employee payroll management possible within Xero

Payments

- Launched Tap to Pay, powered by Stripe, in the Xero Accounting mobile app — enabling Australian, UK and US small businesses to accept instant smartphone payments to get paid faster. At the end of FY25, Tap to Pay for US customers was available on Android only. Xero is the first major cloud accounting platform to offer Tap to Pay on Android
- Added more ways to pay in Xero, powered by Stripe, including online bank transfers and Automated Clearing House direct debit in the US; and Klarna — a buy now, pay later option — available in the UK, the US, Canada and New Zealand
- Migrated all Xero invoicing customers to our new invoicing product. We released dozens of updates, based on customer feedback, improving efficiencies and making workflows smoother
- Added SMS invoicing for small businesses in Australia using Stripe and (in May 2025) for US small businesses using any payment service connected to their Xero account, enabling the recipient to pay from their phone. Our successful beta saw Australian small businesses get paid up to three times faster than invoices sent via email
- Launched the ability for small businesses in Australia, the UK and New Zealand to get paid faster by creating a link to accept payments through connected providers
- Introduced automatic alerts for potential duplicate bills and a bill quick view, streamlining approvals on a single screen
- Expanded our UK bill payments solution, through our partnership with Crezco, to include scheduled domestic and (in April 2025) international bill payments
- Introduced embedded online bill payments, powered by BILL, for all US small business customers, reducing time spent on manual processes and increasing cash flow visibility

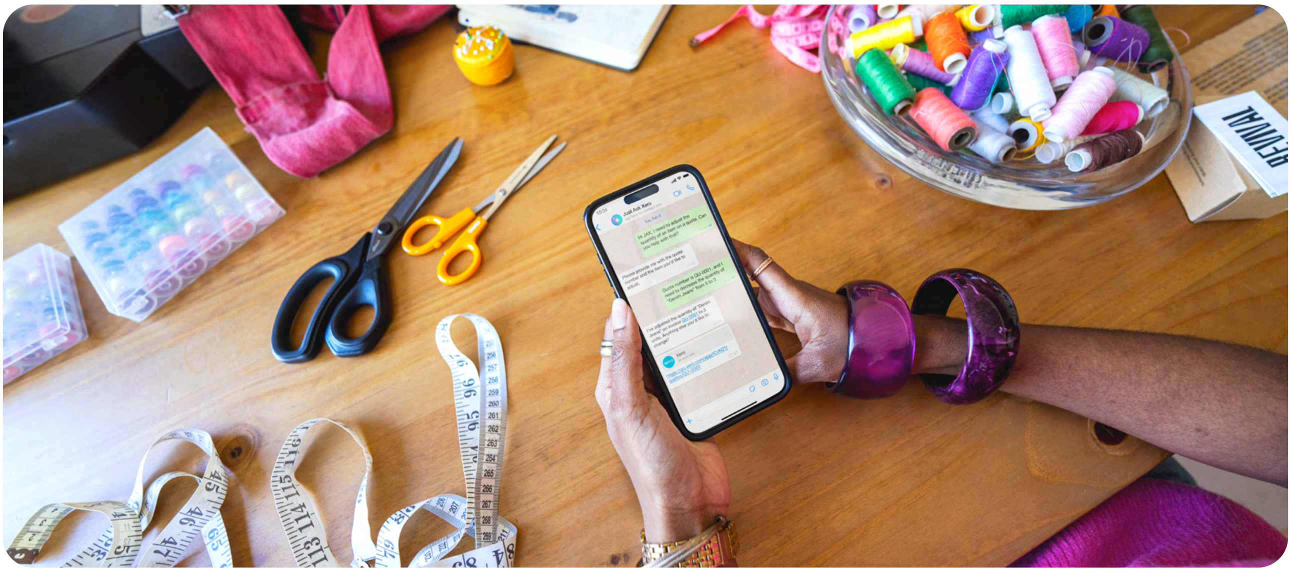
2. BUILD A WINNING GTM PLAYBOOK

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

FY25 highlights include:

- We simplified our subscription plans in Australia, New Zealand and the UK to make it easier for new customers to select the best plan for their needs, and existing customers to realise more value from their subscriptions. Specifically in these markets, we streamlined business edition plans, enhanced the Ultimate plan, and simplified our partner plans. Since launching our new plans in early FY25, we've made further updates and enhancements following feedback from customers while encouraging further adoption of our products
  - In Australia, we announced payroll will be reintroduced to all Xero business edition plans, offering more choice and flexibility to small businesses that need to pay themselves and employees. In the UK and New Zealand, we announced updates to payroll to make adding employees easier, more flexible, and at a lower cost for our customers. We've started the migration of customers to new plans and will complete the migration in H1 FY26
- In H1 FY25, we completed the (previously announced) removal of 160,000 long idle subscriptions,[4] allowing our sales teams to focus on selling the right plans and adding value to our customers at the right time
- To better serve our accounting and bookkeeping partners, we launched new segmentation efforts including the Partner Assist channel, within our GTM services which proactively serves smaller-sized accountants and bookkeepers with a dedicated digital account management team and Xero Central features

4. Long idle subscriptions are those that had been undeployed for more than 24 months and were not expected to be deployed within a reasonable timeframe. See subscriber numbers on page 34 and SaaS metrics on page 41 for further detail



Saabira Muhammad, designer at Revival London, a Xero UK customer in London – revivalldn.com

- We also evolved our partner sales motions to focus on selling the value of various Xero plans, resulting in more business edition adoption in our new customer acquisition through our accounting and bookkeeping partners
- We established a new dedicated B2B digital marketing team for our partner channel to drive more qualified lead generation and conversion across the channel
- We accelerated our data-driven marketing as a key growth lever in our direct small business channel. This included bringing more discipline to our promotion strategy, optimising our plan selection page to help customers choose the right products, and being more dynamic in our budget allocation to the highest-performing channels, tactics and regions. This supports our focus on improving customer mix in order to drive ARPU expansion, while also increasing the breadth and depth of our reach to small businesses in our target markets
- In January, we announced an evolution of Xero's brand by introducing the tagline '*Your* business supercharged' — this aligns to our purpose and enables our winning GTM offering, which is crucial to our ability to *Win the 3x3*. It reflects our commitment to providing small businesses and their advisors with the tools, insights and connections they need to thrive. Early testing shows strong campaign performance and our new brand direction is resonating strongly with customers

3. FOCUSED BETS TO WIN THE FUTURE

We continue to accelerate our investment in AI and mobile in line with our strategy. We're also harnessing our open ecosystem and APIs to execute a growth strategy in our Rest of World markets. Below are key highlights for FY25.

AI for customers

- In August, we launched the beta of our GenAI-powered smart business companion, Just Ask Xero (JAX), to help customers run their business more efficiently. In March, we expanded our JAX beta access to all Xero business edition customers[5] globally, and announced the following capabilities:
  - Seamlessly sending invoices and editing quotes within Xero and via SMS, WhatsApp and email
  - Surfacing quick answers to common questions from Xero Central, saving our customers time and increasing efficiencies for our customer experience team by allowing them to focus on more complex requests
- GenAI continued to help drive more efficient and effective customer support interactions. Customers visit Xero Central, our customer learning and support portal, on average 1.6 million times per month. This year approximately 97% of customer queries were answered using personalised content, supported by GenAI
- We've also embedded GenAI into other areas of Xero, including in a new Facebook Messenger and WhatsApp assistant that sources information from Xero.com and Xero Central. This allows customers and prospective customers to get the answers they need through their preferred channels

In FY26 we will continue to expand our AI capabilities for customers through JAX, Xero Central and other key channels.

5. The JAX beta is currently only available to the subscriber role user on business edition plans

Mobile

- We improved our mobile sign-on process and workflows to improve usability and drive more conversion across our app and mobile web
- We added new features to the Xero Accounting app, including mobile invoice voiding, powerful short-term cash flow projections, a new profit and loss drill down report to help easily find and fix issues, and enhanced bank reconciliation navigation that enables users to effortlessly manage their finances from anywhere
- We added the ability to upload multiple documents at once on the Hubdoc mobile app, giving customers time back when processing paperwork on the go
- Our investments in providing Tap to Pay capability and JAX have also further enhanced our mobile experience for customers

Rest of World and Ecosystem

- We continued to invest in our App Store and broader ecosystem to support our small business customers. This included further enhancing our APIs for ecosystem partners, improving our App Store recommendations, and increasing the number of developers in our ecosystem to support more JTBD for small businesses
- We also continue to focus on growing and serving small businesses in our Rest of World markets efficiently
- We were pleased with Planday's top and bottom line results as the team executed a more focused strategy

Xero UK team members in our London office

4. UNLEASH XERO(S) TO WIN

We're committed to helping Xero move faster for customers and supporting Xeros to do the best work of their lives. To achieve this, we're fostering a purpose and performance-driven culture, while modernising our enterprise systems to enhance our people's experience. We have also continued to evolve the next generation of our global leadership team to support our strategy, both at the executive and senior leadership level.

- In April 2025, Claire Bramley joined Xero as our new Chief Financial Officer (CFO). Claire brings a strong track record as a finance leader with extensive global technology and software experience, including most recently as CFO at Teradata, a NYSE-listed global cloud database and analytics software provider, and prior to that at HP, where she held multiple leadership roles
- In April 2025, Jeff Ryan joined as our new Chief People Officer (CPO). Jeff's appointment supports the execution of our FY25-27 strategy and helps foster our purpose and performance-driven culture. Jeff's deep global experience includes CPO at McAfee, Zynga and GoPro
- Claire and Jeff joined our deeply experienced and tenured Executive Leadership Team (XLT). We look forward to benefiting from their expertise as we continue to execute our FY25-27 strategy, *Winning on Purpose*
- We remain focused on our heritage markets, Australia and New Zealand. In October, we appointed Angad Soin as Managing Director Australia & New Zealand. Serving in a dual role, Angad retains his XLT position as Global Chief Strategy Officer
- In FY25, we introduced a new performance management framework for our people, including a robust goal-setting process that enables clear progress and impact tracking, and aims to drive focus, prioritisation and connection to our purpose and strategy
- We also invested in the development of our people, with the rollout of detailed capability frameworks across all teams to help Xeros grow. In the second half of FY25, we also invested in a new employee engagement and insight tool, powered by Qualtrics. This new capability provides us with more targeted and actionable feedback to further enhance our employee experience

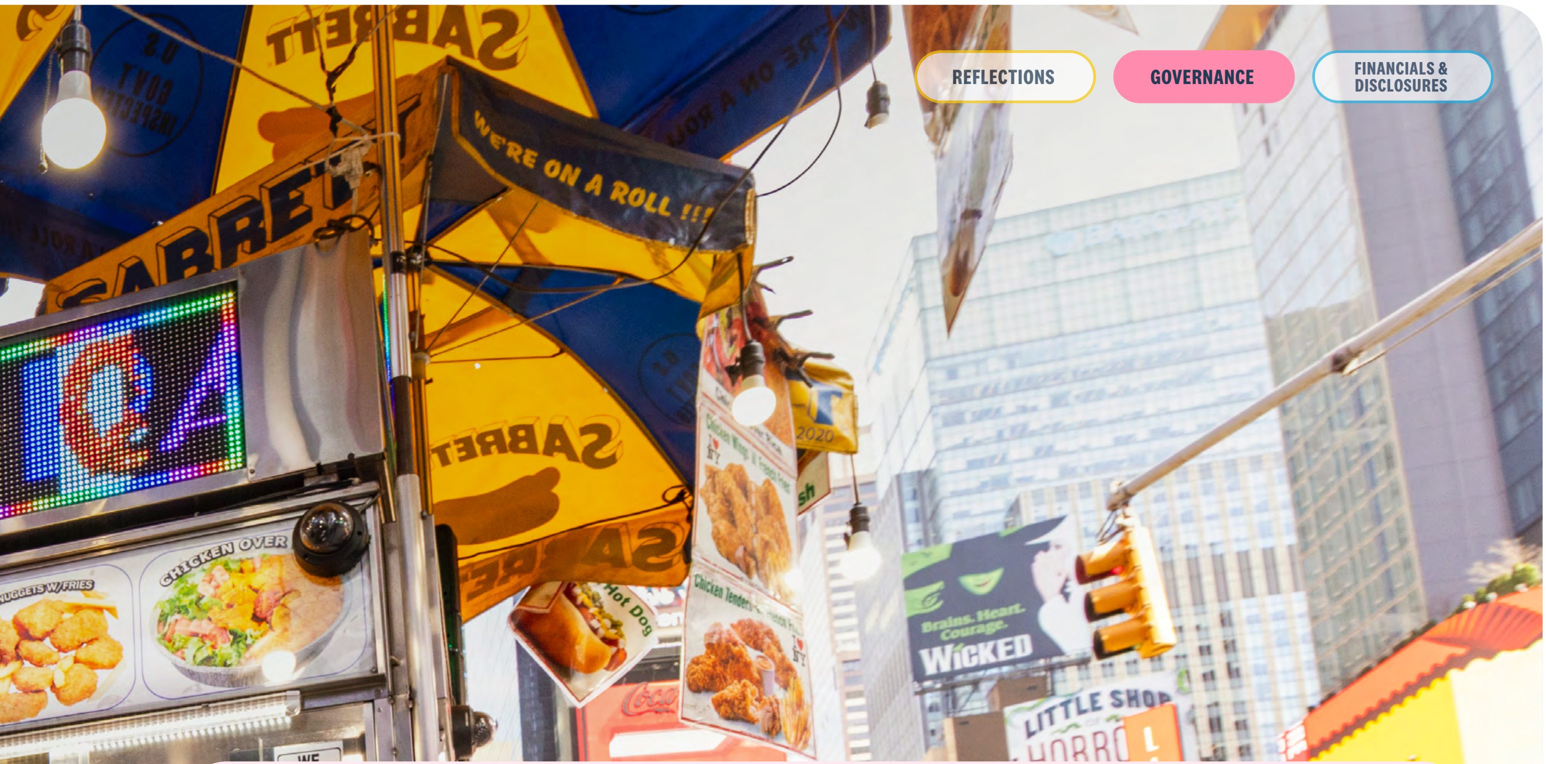
Xero US customer Scott Goodfriend, founder of Ultimate Food Tours, and his tour group, including Diandra and Bridget from Xero, in New York – ultimatefoodtours.com

2 mins

KEY RISKS

“I really like how Xero organises my finances based on the involvement I want to have”

Xero US customer Scott Goodfriend, founder of Ultimate Food Tours



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 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 XERO BOARD
Deciding the nature and extent of the risks Xero is prepared to take to meet objectives

The Board's role: Set risk appetite, and oversight of the risk management framework

CEO, LEADERSHIP TEAM AND MANAGEMENT
Establishing the risk management framework and managing risks within Board-defined risk appetite

FIRST LINE'S ROLE
Day-to-day ownership and management of risks and controls

SECOND LINE'S ROLE
Expertise, support, monitoring and challenge on risk-related matters

ASSURANCE
Independent assurance over risks

THIRD LINE'S ROLE
Independent and objective assurance and advice on the effectiveness of risk and control management

EXTERNAL ASSURANCE PROVIDERS

KEY

↑ Accountability, reporting

↓ Accountability, delegation, direction, oversight

↔ Alignment, communication, coordination, collaboration

The table below sets out key areas of potential risk facing Xero (in no specific order) and the high-level activities in place to mitigate these risks. More information on our approach to data and cybersecurity, ESG, and people-related risks can be found in our FY25 Sustainability Report.

THEME	MITIGATION STRATEGIES AND ACTIVITIES
Strategic The risk that we are not able to identify and execute on our strategic priorities, which could result in customer, operational, financial and reputational impacts.	**Strategic planning and oversight:** Our strategic planning cycle includes regular review of progress and strategic outlook, including the competitive landscape, emerging technologies and new market entrants, alongside broader economic and geopolitical events. This supports alignment with long-term goals and adaptability to evolving market conditions. Management actively monitors the policy and regulatory environment to identify and address potential risks and opportunities. Regular reviews of execution against the strategic plan are conducted through Objectives and Key Results (OKRs) and across regions. The Board receives regular reporting and provides oversight of strategic risk, including the competitive environment and customer sentiment.
Financial Performance and Access to Capital The risk that our financial performance does not meet internal targets and/or external expectations, potentially impacting cost of capital, shareholder and/or market sentiment. The risk of constraints on access to financial resources to invest for future growth.	**Financial performance and balance sheet management:** We actively manage our balance sheet, liquidity and cash flow, and closely monitor performance against forecasts and market expectations. We focus on clear market communication to drive alignment in performance expectations. The Board oversees our capital management strategy including capital raisings, investment allocation, as well as foreign exchange and liquidity risk management.
Operational The risk of disruption to our internal operations, potentially impacting our platform stability and/or being unable to provide continued delivery and innovation of our products and services to customers. Operational risks also include risks related to third party suppliers, effective M&A integration, talent and culture, and employee wellbeing.	**Platform stability and resilience:** We focus on, and invest in, technology, processes and engineering capabilities to improve robustness of the platform and strengthen stability. We undertake continuous performance monitoring and regular reporting, and periodically test disaster recovery and business continuity plans. We also test and monitor how new deployment may impact stability, and implement strategies to mitigate that risk.
	Product development: We invest in engineering, product development and delivery, prioritising initiatives that support our FY25-27 strategic goals. We take a disciplined approach to product design and execution focused on meeting customer needs and accelerating value, supported by investment in targeted customer and market research programs.
	Generative AI and machine learning: We invest in and deploy Generative AI and machine learning guided by our governance framework and ethical data practices. We actively monitor AI advancements, evolve our technology to leverage its potential, mitigate data bias in alignment with our Responsible Data Use Commitments, and promote data literacy and awareness.
	M&A Integration Framework: M&A and related business integration follows a defined framework overseen by the Executive Leadership Team, in collaboration with the corporate development team. This process is supported by an established M&A Integration Framework and a dedicated Integration Management Office.
	Talent and high-performance culture: We attract talent and retain it by fostering a workforce and environment that supports long-term value creation through a global strategy and strong employee value proposition. We offer flexible work, employee benefits, career growth, and a performance framework designed to drive a sustainable high-performance culture. Xero has strong values, with active workforce planning and succession planning for key roles.
	Employee wellbeing: We prioritise employee wellbeing, health and safety through dedicated support programs, such as Flexible Working and Respect and Responsibility policies, and by regularly surveying and reporting on employee wellbeing and engagement metrics, including leading and lagging indicators to inform adjustments.
Cyber and Security The risk that 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, financial loss, and/or reputational damage.	**Security controls and initiatives:** We invest in multi-layer security tools like multi-factor authentication and penetration testing, maintaining SOC2 and ISO 27001 compliance with regular external audits, incident response plans, and periodic cybersecurity simulations with leadership. We safeguard data, and protect against data and cybersecurity breaches through data security and awareness programs for all employees. We also educate partners and customers to empower users of the Xero platform with knowledge of actions to safeguard their data.
ESG The risk that Xero is not able to deliver on its environmental, social and governance priorities to maintain social licence to operate.	**ESG principles and initiatives:** We actively manage the design and execution of our environment, social and governance priorities, and oversee progress with our Executive Leadership Team, Audit and Risk Management Committee and Board.
Legal The risk of inadequate management of current and changing legal, regulatory and compliance obligations and risks that may impact Xero's products, brand and/or financial returns.	**Governance and controls:** We manage legal, regulatory and compliance risks through several key activities: legal team input on emerging business and regulatory changes, policies and training with processes to manage breaches and grievances, and a global government relations function for proactive policy engagement on priority topics. Oversight of these risk management activities is provided by leadership and the Board.

GOVERNANCE

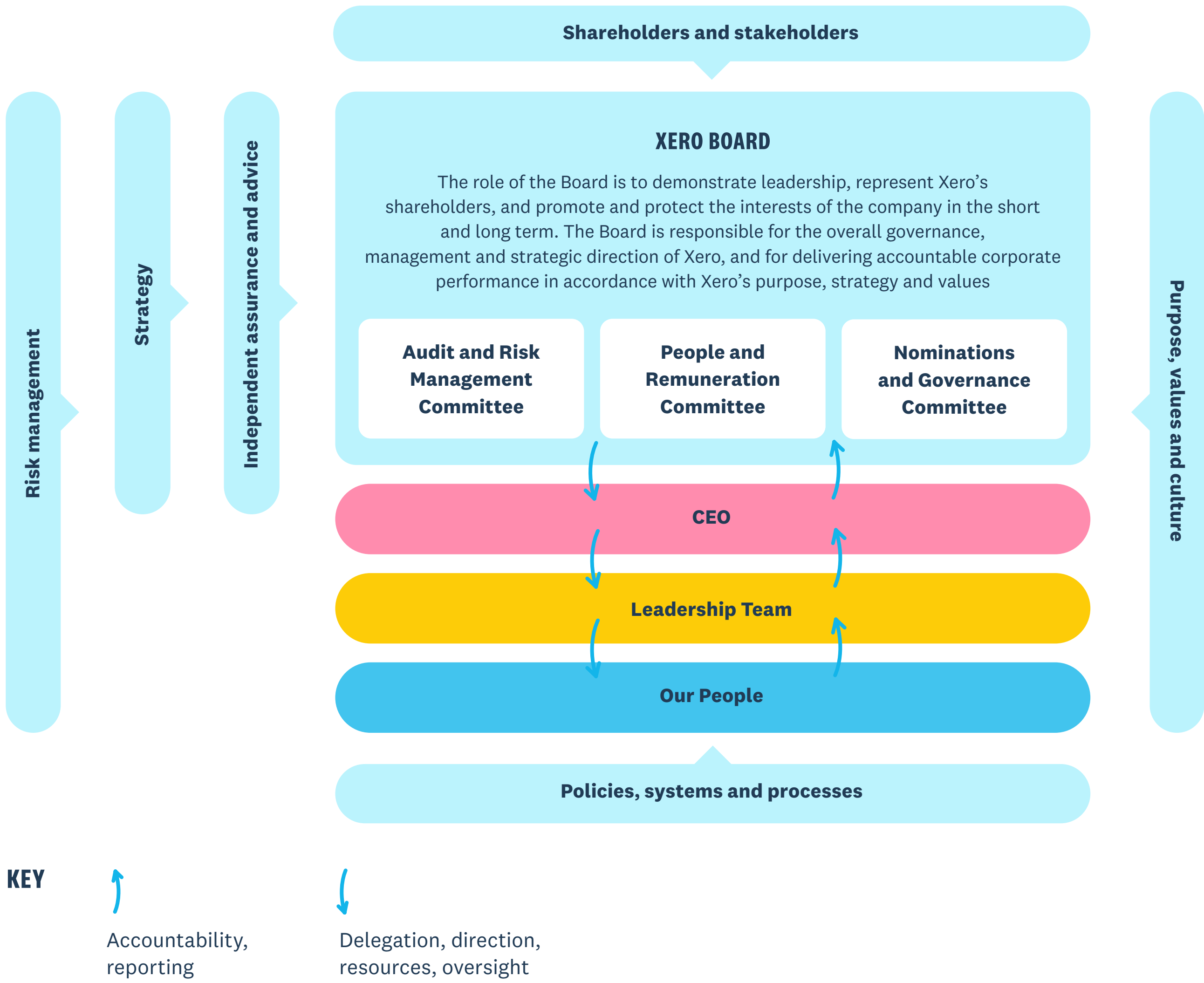
5 mins

Xero's purpose is to make life better for people in small business, their advisors, and communities around the world. Xero's corporate governance framework is designed to uphold high standards of corporate governance and 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 of Xero (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).

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 GOVERNANCE FRAMEWORK



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 who has had a career focused on innovation and technology, with more than 30 years' experience creating brand and shareholder value. He is now active in business, healthcare, public policy, innovation, tertiary education, the environment and corporate governance.

David is chair of Ramsay Health Care (a global hospital group), co-chair of the Great Barrier Reef Foundation, Chancellor at the University of Sydney and a member of the Reserve Bank of Australia Governance Board.

He 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 Global 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.

He 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.

Steven Aldrich
Non-executive director, United States

- Independent director since October 2020
- Audit and Risk Management Committee

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

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

Steven holds a Bachelor of Arts in Physics from the University of North Carolina and a Master of Business Administration from Stanford University.

Mark Cross
Non-executive director, New Zealand

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

Mark is an experienced professional director with more than 20 years of international experience in corporate finance and investment banking. He is currently the chair of Chorus, a director of Fisher & Paykel Healthcare, 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.

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' experience in engineering and product management. She is currently a director of LocoNav and Persistent Systems, 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 new 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.

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 and Jupiter Fund Management, and lead independent director at Lightspeed Commerce. She was formerly a non-executive director and trustee for the Peter Jones Foundation, a non-executive director at Sussex Place Ventures, LendInvest, 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, was a Fellow of the College of Chartered Accountants at NZICA and CAANZ until 2021, and served on the Business Taskforce on EU Redtape for the British Prime Minister in 2013. Dale was made Commander of the Most Excellent Order of the British Empire (CBE) by Her Majesty Queen Elizabeth II in 2013, for services to business.

Brian McAndrews
Non-executive director, United States

- Independent director since February 2022
- People and Remuneration Committee
- Nominations and Governance Committee

Brian is an experienced former executive and CEO, having driven growth and innovation for leading technology, SaaS and cloud-based companies, and a professional director. 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 a director on the board of The New York Times. He is a director of The Wine Group and USA Climbing and senior advisor to Spectrum Equity. He was previously a director of Chewy and Teladoc 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 Mercury.

Susan is also a board member of Craigs Investment Partners and was previously a member of the New Zealand Markets Disciplinary Tribunal. Susan is a past director of Arvida Group, 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.

KEY AREAS OF BOARD FOCUS

FY25 was the first year of Xero's execution of our FY25-27 strategy — *Winning on Purpose*. The Board and management continue to focus on driving profitable growth to deliver long-term value to Xero shareholders. We have regularly reviewed progress and detailed plans for execution of the strategy, and Xero has maintained strong momentum across our strategic pillars, continuing our track record of strong revenue growth and increasing profitability, delivering greater than Rule of 40 outcomes.

In FY25, the Board continued to focus on succession planning and the development of a more global Executive Leadership Team (XLT) to position for growth in markets outside of ANZ. On 1 April 2025, Claire Bramley commenced as Xero's new CFO and Jeff Ryan commenced as Xero's new Chief People Officer. Claire succeeded Kirsty Godfrey-Billy, who stepped down on 31 March 2025 and will depart Xero after nine years, including more than six years as CFO. Nicole Reid, our former Chief People Officer, stepped down at the end of FY25 after serving six years in that role. We are grateful for Kirsty and Nicole's contribution to our business. Both Claire and Jeff bring extensive global technology and software experience to Xero. The Board is pleased with the strength of Xero's XLT under the leadership of Sukhinder Singh Cassidy as CEO.

In December 2024, we announced that the Board had revised Sukhinder's remuneration to recognise her strong performance, ensure it is appropriately aligned to market benchmarks for globally comparable technology companies, and that it continues to focus on incentivising long-term value creation. In the US, CEOs tend to receive lower fixed pay in cash than their Australian counterparts and have higher share-based compensation. Following her remuneration review, all components of Sukhinder's compensation now sit at the market median of the benchmarked peer group. Through the combination of the option grant and the LTI plan, the CEO is heavily incentivised to outperform on both an absolute and relative TSR basis over the long term. Further details on the Board's approach and the outcome of the review of the CEO's pay can be found in our Remuneration Report.

Xero continues to be deliberate about fostering a more purpose-driven and performance-focused culture, with the Board overseeing the implementation of a new performance management framework across the business in FY25. This new approach includes detailed capability frameworks, allowing us to provide clarity on roles and what success looks like for our team, and a robust goal-setting process that enables clear progress and impact tracking, aiming to drive focus, prioritisation and connection to our purpose and strategy.

In FY25, and as part of the Board's role in ensuring that Xero has sufficient financial resources to achieve its strategy, the Board oversaw Xero's successful issuance of USD925 million 1.625% guaranteed senior unsecured convertible notes. Concurrently, Xero repurchased an aggregate amount of USD646 million in principal of the USD700 million zero coupon guaranteed senior convertible notes due 2025 (2025 Notes) for a total consideration of USD618 million. A further USD37.7 million of the 2025 Notes were repurchased in June and July 2024, for a total cash consideration of USD36 million. The purpose and benefit of these transactions for Xero and our shareholders was to refinance Xero's existing convertible note liability and access additional capital on highly attractive terms.

During the period, the Board, supported by the Audit and Risk Management Committee (ARM Committee), reviewed and approved 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. It has also overseen the further development of Xero's approach to governance over the use of AI in our products and services as well as internally. The Board and XLT participated in a security incident review to 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, 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 FY24, we provided a Climate Appendix alongside our Annual Report. For FY25, our Sustainability Report, published alongside our Annual Report and available at www.xero.com/investors, represents our efforts towards aligning progressively with International Financial Reporting Standards (IFRS) S1 and S2.

Xero UK partner Tyler Trew, founder of Highlight Accounting and his client Rebecca Shoobert, owner of Oh Happy Creative in Leigh-on-Sea – ohhappycreative.com

"Xero helps clients feel organised, confident and more in control with their finance, even the most tech-shy clients can use it with ease"

Xero UK partner Millie O'Neill, founder of Highlight Accounting

31 mins

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 they 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.

Year ended 31 March	**2025 ($000s)**	**2024 ($000s)**	**CHANGE**
Subscription revenue	1,978,184	1,630,761	21%
Other operating revenue	124,468	83,006	50%
Total operating revenue	**2,102,652**	**1,713,767**	**23%**
Cost of revenue	(230,402)	(202,505)	14%
Gross profit	**1,872,250**	**1,511,262**	**24%**
Gross margin percentage	*89.0%*	*88.2%*	*0.8pp**
Sales and marketing	(663,708)	(541,235)	23%
Product design and development	(617,801)	(526,183)	17%
General and administration	(228,098)	(185,122)	23%
Restructuring costs	-	(3,013)	NM**
Total operating expenses	**(1,509,607)**	**(1,255,553)**	**20%**
Percentage of operating revenue	*71.8%*	*73.3%*	*-1.5pp*
Operating income	**362,643**	**255,709**	**42%**
Other income and expenses	(3,900)	8,326	NM
Operating profit before asset impairments and disposals	**358,743**	**264,035**	**36%**
Asset impairments and disposals	(3,037)	(26,414)	-89%
Reversal of asset impairments	-	1,934	NM
Earnings before interest and tax	**355,706**	**239,555**	**48%**
Percentage of operating revenue	*16.9%*	*14.0%*	*2.9pp*
Net finance income	6,958	22,352	-69%
Income tax expense	(134,847)	(87,267)	55%
Net Profit	**227,817**	**174,640**	**30%**
Percentage of operating revenue	*10.8%*	*10.2%*	*0.6pp*

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

BUSINESS RESULTS

In FY25, the first year of our FY25-27 strategic period, Xero delivered operating revenue growth of 23% (20% in constant currency), seeing operating revenue surpass $2 billion. Alongside operating revenue growth, Xero achieved improved profitability, reflected in a free cash flow margin of 24.1%.[1] This strong outcome reflected Xero's operating discipline and continued investment, which drove increased product velocity while supporting growth. As a result, our operating expenses as a percentage of operating revenue decreased from 73.3% in FY24 to 71.8% in FY25, a decrease of 1.5 percentage points over the year.

Xero's strong revenue growth was driven by a balance of higher average revenue per user (ARPU) and subscriber growth. Xero added 414,000 net new subscribers in FY25 (254,000 after the removal of long idle subscriptions),[2] representing 10% year-on-year growth, and bringing total subscribers to 4.4 million. ARPU growth of 15% (11% in constant currency) reflected improving product mix, price changes to reflect product value, continued payments growth, and the removal of long idle subscriptions. Excluding the removal of long idle subscriptions, ARPU increased 11% (8% in constant currency).

Gross margin percentage increased 0.8 percentage points to 89.0% in FY25. Strong operating revenue growth, alongside cost of revenue efficiencies, delivered gross profit of $1.9 billion, an increase of $361.0 million or 24% from FY24.

The strong top-line outcomes combined with operating discipline resulted in a $106.9 million increase in operating income to $362.6 million in FY25. This positive outcome was also reflected in EBITDA,[3] which increased by $141.0 million to $638.5 million in FY25, a 28% improvement compared to the prior year. EBITDA growth benefited from a $23.4 million decrease in impairments and disposals from FY24. Excluding this, EBITDA improved 22%. FY25 impairments and disposals included insubstantial product features decommissioned, along with write-offs relating to the exit of property leases. FY24 included the write-off of Xero Go.

Net finance income decreased from $22.4 million in FY24 to $7.0 million in FY25, largely driven by an increase in interest and amortisation following the refinancing of our 2025 convertible notes. This was partially offset by higher interest income on cash and deposits.

Cash receipts from customers grew 24% from the comparative period, in line with revenue growth. Free cash flow grew 48%, increasing by $164.6 million from FY24 to $506.7 million in FY25, primarily driven by improved profitability. As a percentage of operating revenue, free cash flow increased 4.1 percentage points, from 20.0% in FY24 to 24.1% in FY25.

As a result of improved underlying profit, income tax expense rose by $47.6 million to $134.8 million in FY25. The increase in tax expense is not fully reflected in cash outflows for the year due to the utilisation of tax losses brought forward. After tax, Xero recognised a net profit of $227.8 million, compared to a net profit of $174.6 million in FY24. The favourable outcome reflected strong revenue growth and improved operating efficiencies.

1. *Details on free cash flow can be found on page 31*
2. *Long idle subscriptions are those that had been undeployed for more than 24 months and were not expected to be deployed within a reasonable timeframe. See subscriber numbers on page 34 and SaaS metrics on page 41 for further detail*
3. *Details on EBITDA can be found on page 30*

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)

EBITDA and adjusted 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.

Adjusted EBITDA is calculated by adding back certain non-cash, revaluation and other accounting adjustments and charges to EBITDA. Adjusted EBITDA (excluding share-based payments) is calculated by adding back share-based payments to adjusted EBITDA.

Year ended 31 March	2025 ($000s)	2024 ($000s)	CHANGE
Net Profit	**227,817**	**174,640**	**30%**
Add back: net finance income	(6,958)	(22,352)	-69%
Add back: depreciation and amortisation	282,760	257,863	10%
Add back: income tax expense	134,847	87,267	55%
EBITDA	**638,466**	**497,418**	**28%**
EBITDA margin	*30.4%*	*29.0%*	*1.4pp*
Add back: non-cash revaluations	2,090	6,319	-67%
Add back: non-cash impairment of Xero Go	-	28,885	NM
Add back: non-cash impairment; and costs relating to the exit of Waddle	-	(9,090)	NM
Add back: restructuring costs	-	3,013	NM
Adjusted EBITDA	**640,556**	**526,545**	**22%**
Adjusted EBITDA margin	*30.5%*	*30.7%*	*-0.2pp*
Add back: share-based payments	151,878	95,821	59%
Adjusted EBITDA (excluding share-based payments)	**792,434**	**622,366**	**27%**
Adjusted EBITDA margin (excluding share-based payments)	*37.7%*	*36.3%*	*1.4pp*

EBITDA increased $141.0 million compared to FY24, leading to an EBITDA margin improvement of 1.4 percentage points, from 29.0% in FY24 to 30.4% in FY25. This improvement was driven by operating revenue growth exceeding growth in expenses.

FY25 adjusted EBITDA grew 22%, or $114.0 million, to $640.6 million in FY25. Adjusted EBITDA margin declined slightly by 0.2 percentage points, from 30.7% in FY24 to 30.5% in FY25, reflecting Xero's continued investments to support our *Win the 3x3* strategic priority.

Share-based payments had a $151.9 million impact on adjusted EBITDA. After removing this non-cash expense, the underlying margin improved by 1.4 percentage points from FY24, driven by efficiencies in operating costs. This positive underlying performance differs from the reported adjusted EBITDA margin trend, due to an increase in share-based payments as a proportion of operating revenue. The rise in share-based payments is partly due to Xero's investment in attracting leading global technology and SaaS talent (predominantly in the US market where share-based compensation is more common) and to further strengthen the alignment between pay and performance across our teams.

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 in, businesses and strategic assets. Free cash flow also excludes any cash flows obtained from divestment of businesses and strategic assets.

Year ended 31 March	2025 ($000s)	2024 ($000s)	CHANGE
Receipts from customers	2,108,742	1,705,595	24%
Net interest received	70,265	52,289	34%
Income tax paid	(58,589)	(46,554)	26%
Other operating cash flows	(1,308,748)	(1,119,571)	17%
Total cash flows from operating activities	**811,670**	**591,759**	**37%**
Investing activities	(403,179)	(242,008)	67%
Add back: acquisitions	56,184	(887)	NM
Add back: investment in/(proceeds from) businesses and strategic assets	42,070	(6,718)	NM
Free cash flow	**506,745**	**342,146**	**48%**
Free cash flow margin	*24.1%*	*20.0%*	*4.1pp*

Free cash flow increased by $164.6 million from $342.1 million in FY24 to $506.7 million in FY25. As a result, free cash flow margin increased 4.1 percentage points from 20.0% in FY24 to 24.1% in FY25. Total cash flows from operating activities increased by 37%, or $219.9 million, to $811.7 million. The increase was driven by receipts from customers, which increased by 24%, or $403.1 million, largely consistent with operating revenue growth of 23% (20% in constant currency). This was further supported by an increase in net interest received of 34%, or $18.0 million, reflecting higher interest rates and cash balances. These inflows were partially offset by a 17%, or $188.8 million, increase in payments to suppliers and employees, reflecting a higher level of external marketing, an increase in full-time equivalent (FTE) employees, and a $12.0 million increase in income tax paid.

Cash outflows from investing activities grew by 67%, or $161.2 million. This was driven by payments relating to Xero's acquisition of Syft Analytics (Syft), of $51.9 million,[4] a $42.1 million investment in Deputy as part of a strategic partnership, and Tickstar earnout payments of $4.3 million. An increase in capitalised development costs of $45.9 million also contributed to the increase, reflecting our investment to deliver improved product velocity. Acquisitions and the Deputy investment are excluded from our calculation of free cash flow. After adjusting for items excluded from free cash flow, investing activities had a $304.9 million impact on free cash flow.

Total available liquidity (defined as cash and cash equivalents, and short-term deposits) grew from $1.5 billion at 31 March 2024, to $2.3 billion at 31 March 2025. This was due to $319.3 million net proceeds following refinancing of our convertible notes, partially offset by a $13.3 million (USD7.5 million) interest payment on the 2031 convertible notes at an interest rate of 1.625%, and free cash flow generation of $506.7 million over the 12 months to 31 March 2025.

4. Net of cash acquired

OPERATING REVENUE

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

Total operating revenue includes subscription revenue as well as revenue from other related services including revenue share agreements with financial services providers, software licences, and conference and event revenue.

Constant currency operating revenue growth (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 and hedging. Constant currency operating revenue growth is calculated by translating operating revenue for FY25 at the foreign exchange rates for FY24, excluding the impact of hedging.

Year ended 31 March	2025 ($000s)	2024 ($000s)	CHANGE	CHANGE IN CONSTANT CURRENCY
Subscription revenue	1,978,184	1,630,761	21%	19%
Other operating revenue	124,468	83,006	50%	47%
Total operating revenue	**2,102,652**	**1,713,767**	**23%**	**20%**

Total operating revenue grew 23%, or $388.9 million, to $2.1 billion in FY25. The comparatively weaker New Zealand Dollar (NZD) against all of Xero's major operating currencies had a favourable impact on reported revenue. In constant currency, operating revenue grew 20%.

Subscription revenue increased by $347.4 million, or 21%, to $2.0 billion in FY25. This was driven by subscriber growth of 6% (10% excluding the removal of long idle subscriptions), alongside ARPU improvements. The impact of divestment of WorkflowMax in H1 FY25, and acquisition of Syft in H2 FY25, had a $14.2 million negative impact and $3.2 million positive impact on FY25 revenue growth respectively. Excluding WorkflowMax and Syft, subscription revenue increased by 22%.

Other operating revenue increased 50%, or $41.5 million, compared to FY24. This was primarily due to strong financial services and ecosystem performance. Financial services growth benefited from increased payment volumes, as well as a one-off step-up in transaction margins following updates to optimise the terms of our partnership agreements.

OPERATING REVENUE BY GEOGRAPHY

Year ended 31 March	2025 ($000s)	2024 ($000s)	CHANGE	CHANGE IN CONSTANT CURRENCY
Australia	955,239	770,350	24%	22%
New Zealand	221,789	199,540	11%	11%
Australia and New Zealand (ANZ) total	**1,177,028**	**969,890**	**21%**	**20%**
United Kingdom	578,037	461,019	25%	21%
North America	138,599	112,080	24%	21%
Rest of World	208,988	170,778	22%	19%
International total	**925,624**	**743,877**	**24%**	**20%**
Total operating revenue	**2,102,652**	**1,713,767**	**23%**	**20%**

ANZ — Operating revenue increased by $207.1 million, or 21% (20% in constant currency), compared to FY24. This was largely driven by subscriber and ARPU growth of 9% and 9% respectively (both excluding the removal of long idle subscriptions). The ANZ segment contributed 56% of total group operating revenue, a 0.6 percentage point decrease from FY24.

Australia's operating revenue increased $184.9 million, or 24%, in FY25. This was driven by subscriber growth, improved product mix, financial services growth and price changes. The comparatively weaker NZD against the Australian Dollar (AUD) had a favourable impact on reported revenue, with constant currency revenue growth of 22% in FY25.

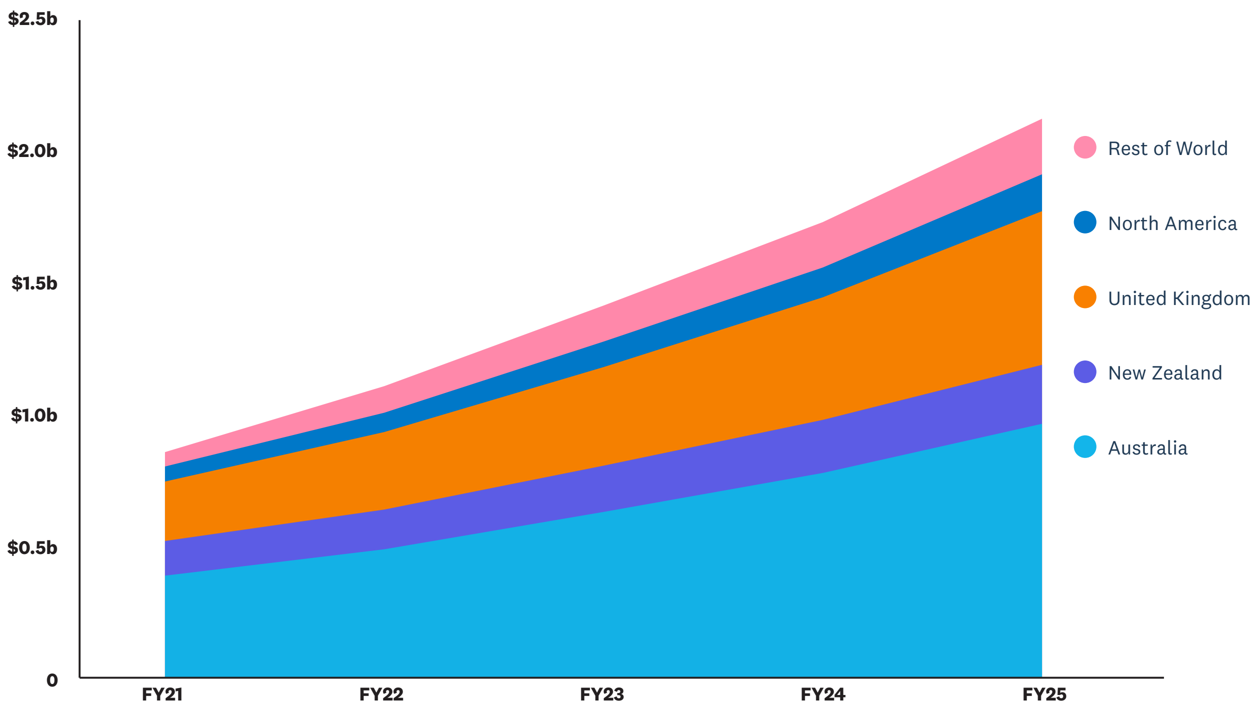
New Zealand operating revenue increased 11%, or $22.2 million, compared to FY24. This was predominantly driven by subscriber growth and price changes.

International — Operating revenue grew by $181.7 million, or 24% (20% in constant currency), compared to FY24. This was driven by subscriber growth of 12%, along with ARPU expansion of 13% (both excluding the removal of long idle subscriptions). The International segment contributed 44% of total group operating revenue, a 0.6 percentage point increase from the comparative period.

UK and North America operating revenue grew 25% (21% in constant currency) and 24% (21% in constant currency) respectively compared to FY24. Growth in both markets was driven by improvements to product mix, price changes, as well as strong financial services performance. North America operating revenue also benefited from the Xerocon event held in the US. Excluding the impact of Xerocon, North America operating revenue growth was 22%.

Operating revenue in our Rest of World markets increased by 22% from FY24 (19% in constant currency). Operating revenue growth outpaced subscriber growth due to price changes. South Africa was the largest contributor of Rest of World operating revenue growth, followed by Singapore.

Total group operating revenue by geography



SUBSCRIBER NUMBERS

Subscriber means each unique subscription to a Xero-offered product that is purchased by a user (eg, 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.

In H1 FY24, we announced our intention to complete a program to remove long idle subscriptions. Long idle subscriptions were those that had been undeployed for more than 24 months and were not expected to be deployed within a reasonable timeframe. This program was completed in H1 FY25 and impacted subscriber growth over FY25. Subscriptions removed under this program by region, along with subscriber growth for the 12 months ended 31 March 2025, are provided below. The removal of long idle subscriptions also impacted our SaaS metrics.[5]

At 31 March	2025	2024	CHANGE (AFTER REMOVAL OF LONG IDLE)	CHANGE (EXCLUDING REMOVAL OF LONG IDLE)
Australia	1,936,000	1,771,000	9%	10%
New Zealand	629,000	605,000	4%	4%
Australia and New Zealand (ANZ) total	**2,565,000**	**2,376,000**	**8%**	**9%**
United Kingdom	1,153,000	1,077,000	7%	12%
North America	400,000	422,000	-5%	11%
Rest of World	296,000	285,000	4%	11%
International total	**1,849,000**	**1,784,000**	**4%**	**12%**
Total paying subscribers	**4,414,000**	**4,160,000**	**6%**	**10%**

Subscriptions removed, as well as net new subscribers before and after long idle subscriptions removed by region, are included below.

At 31 March	NET NEW SUBSCRIBERS (AFTER REMOVAL OF LONG IDLE)	LONG IDLE SUBSCRIPTIONS REMOVED	NET NEW SUBSCRIBERS (EXCLUDING LONG IDLE REMOVALS)
Australia	165,000	19,000	184,000
New Zealand	24,000	-	24,000
Australia and New Zealand (ANZ) total	**189,000**	**19,000**	**208,000**
United Kingdom	76,000	52,000	128,000
North America	(22,000)	69,000	47,000
Rest of World	11,000	20,000	31,000
International total	**65,000**	**141,000**	**206,000**
Total	**254,000**	**160,000**	**414,000**

Xero Group — Total subscribers was 4.4 million as at 31 March 2025, with 414,000 net new subscribers added in FY25 (254,000 after the removal of long idle subscriptions), compared to 419,000 in FY24. 228,000 net new subscribers were added in H2 FY25. The acquisition of Syft had an immaterial impact on net new subscribers, as a large majority of Syft subscribers were already Xero subscribers.

5. Further detail can be found on page 41

ANZ — Total subscribers was 2.6 million as at 31 March 2025, with 208,000 net new subscribers added in FY25 (189,000 after the removal of long idle subscriptions), compared to 243,000 in FY24. 96,000 net new subscribers were added in H2 FY25.

Australia continued to contribute the majority of subscriber growth for the ANZ segment, with the addition of 184,000 net new subscribers in FY25 (165,000 after the removal of long idle subscriptions), to reach a total of 1.9 million subscribers.

New Zealand added 24,000 net new subscribers in FY25, 15,000 of which were added in H2 FY25, bringing total subscribers for the region to 629,000.

International — Total subscribers was 1.8 million as at 31 March 2025, with 206,000 net new subscribers added in FY25 (65,000 after the removal of long idle subscriptions), compared to 176,000 in FY24. 132,000 net new subscribers were added in H2 FY25.

The UK grew by 128,000 net new subscribers (76,000 after the removal of long idle subscriptions), reflecting strong execution by our UK sales team, for a total of 1.2 million subscribers.

H2 FY25 contributed 79,000 of these additions, up from 67,000 in H2 FY24.

North America added 47,000 net new subscribers during FY25 (22,000 net reduction after the removal of long idle subscriptions), to a total of 400,000 subscribers. H2 FY25 contributed 35,000 of the net new subscribers for the year, compared to 26,000 in H2 FY24. The higher net new subscribers in H2 FY25 reflected strong execution against our targeted growth segments (client advisory services and small businesses with multiple Jobs to be Done), the benefits of improved US product functionality, and seasonality in this region due to the timing of the US tax year end. Canada's contribution was minimal, reflecting a subdued market for cloud accounting adoption, which Xero has reflected in its investment and go-to-market approach in Canada.

Rest of World markets added 31,000 net new subscribers (11,000 after the removal of long idle subscriptions) during FY25, to a total of 296,000 subscribers. South Africa continued to lead the growth in these markets, evidencing our ability to deliver sustained growth in this region.

Net subscriber additions[6]

FY25
Region (% of total net additions)
- Australia (**44%**)
- New Zealand (**6%**)
- United Kingdom (**31%**)
- North America (**11%**)
- Rest of World (**8%**)

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

Regional subscribers at 31 March 2025[7]

Australia
1,936,000
2024 | 1,771,000

New Zealand
629,000
2024 | 605,000

United Kingdom
1,153,000
2024 | 1,077,000

North America
400,000
2024 | 422,000

6. Excluding removal of long idle subscriptions
7. Including the removal of long idle subscriptions. Rest of world subscribers at 31 March 2025: 296,000 (31 March 2024: 285,000)

ANNUALISED MONTHLY RECURRING REVENUE

Annualised monthly recurring revenue (AMRR) is a non-GAAP financial measure that represents monthly recurring revenue at 31 March multiplied by 12. It provides a 12-month forward view of revenue, assuming short-term 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 2025 at the foreign exchange rates at 31 March 2024. It is provided to assist in understanding and assessing year-on-year growth rates, excluding the impact of foreign currency fluctuations.

At 31 March	2025 ($000s)	2024 ($000s)	CHANGE	CHANGE IN CONSTANT CURRENCY
ANZ	1,282,309	1,082,532	18%	18%
International	1,105,454	878,836	26%	19%
Total	**2,387,763**	**1,961,368**	**22%**	**18%**

Total Group — AMRR surpassed $2 billion during FY25, growing by 22% (18% in constant currency), or $426.4 million to $2.4 billion as at 31 March 2025. This was driven by growth in subscribers and ARPU expansion of 15% (11% in constant currency). ARPU benefited from improved product mix, increases to financial services revenue, and price changes across core accounting products. ARPU also benefited from the removal of long idle subscriptions. Excluding the removal of long idle subscriptions, AMRR would have been $7.9 million higher. The divestment of WorkFlowMax also had an impact on AMRR growth. Excluding this divestment, AMRR increased by 23% (19% in constant currency).

ANZ — AMRR increased by 18% (18% in constant currency), or $199.8 million, compared to FY24, to $1.3 billion. This was mainly driven by continued subscriber growth, improvements to product mix, including platform revenue growth such as Xero payments, and price changes. Excluding the removal of long idle subscriptions, AMRR increased by 19% (18% in constant currency). Excluding the impact of the WorkFlowMax divestment, AMRR increased by 20% (19% in constant currency).

International — AMRR grew 26% (19% in constant currency), or $226.6 million, to $1.1 billion compared to FY24. AMRR improvement reflects strong platform revenue growth in each region, along with the impact of price changes and improved product mix. Excluding the impacts of removing long idle subscriptions, AMRR growth was $233.6 million, or 27%. Excluding the divestment of WorkFlowMax, AMRR grew by 27% (19% in constant currency).

GROSS PROFIT

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

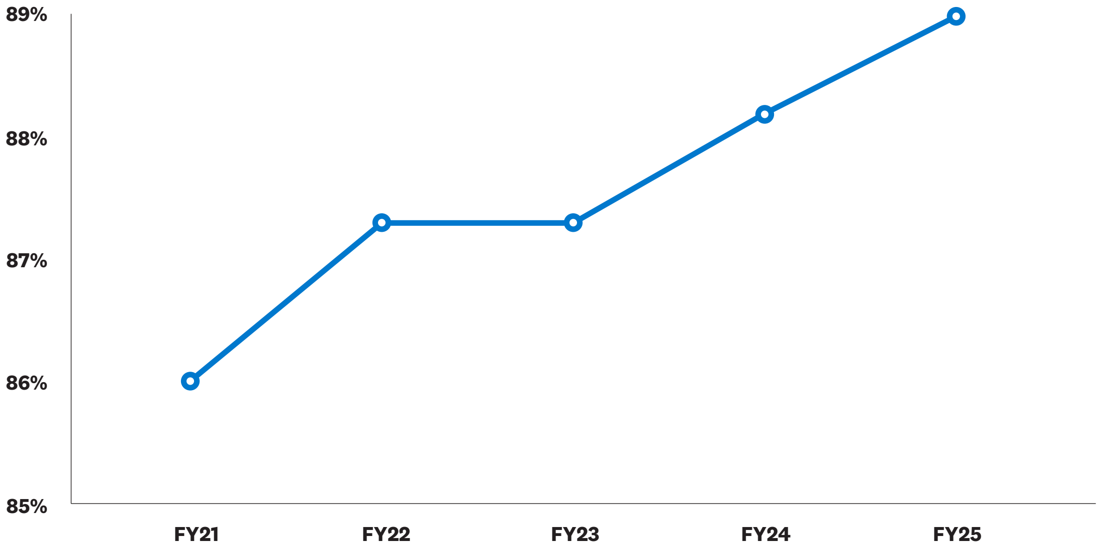
The costs include hosting costs, bank feed costs, personnel and related expenses (including salaries, benefits, bonuses, and share-based payments) directly associated with cloud infrastructure and subscriber support, contracted third-party vendor costs, related depreciation and amortisation, and allocated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

Year ended 31 March	2025 ($000s)	2024 ($000s)	CHANGE
Operating revenue	2,102,652	1,713,767	23%
Cost of revenue	(230,402)	(202,505)	14%
Gross profit	**1,872,250**	**1,511,262**	**24%**
Gross margin percentage	*89.0%*	*88.2%*	*0.8pp*

Gross profit in FY25 grew 24%, or $361.0 million, to $1.9 billion. This was driven by a combination of strong operating revenue growth and cost of revenue efficiencies, aided by AI and software enhancements within our customer support function. Gross margin percentage increased 0.8 percentage points to 89.0% in FY25, compared to 88.2% in FY24.

Cost of revenue increased 14% from FY24, to $230.4 million. As a proportion of operating revenue, cost of revenue fell 0.8 percentage points to 11.0% from 11.8% in FY24. Cost of revenue growth was 8.9 percentage points lower than operating revenue growth, reflecting the continued investment and optimisation of our platform to support more subscribers and products.

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	2025 ($000s)	2024 ($000s)	CHANGE
Sales and marketing expenses	663,708	541,235	23%
Percentage of operating revenue	*31.6%*	*31.6%*	*0.0pp*

Sales and marketing costs include:

- Costs incurred to acquire new subscribers and invest in Xero's brand to attract future subscribers
- Costs associated with upselling and cross-selling to existing customers
- Initiatives to educate existing customers to encourage retention

These costs are 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 23% to $663.7 million for FY25, in line with operating revenue growth of 23%. The increase was largely driven by external marketing as we accelerated our data-driven marketing model and invested further in the brand. Increases in employee costs also contributed to the overall increase in sales and marketing costs for FY25.

External marketing costs were impacted by higher Xerocon costs, with two Xerocons in FY25 compared to one Xerocon in FY24. As a proportion of operating revenue, sales and marketing costs remained consistent with FY24, at 31.6% in both periods. Excluding Xerocon, sales and marketing costs as a proportion of operating revenue decreased 0.4 percentage points from 31.2% in FY24 to 30.8% in FY25.

The average cost of acquiring a subscriber was $717 per gross subscriber added in the 12 months ended 31 March 2025, compared to $598 in the 12 months ended 31 March 2024. This increase reflected Xero's continued investment to support and grow our international markets, where the cost of acquiring subscribers is higher than ANZ. Excluding the impact of Xerocon, the average cost of acquiring a subscriber was $697 per gross subscriber added for the 12 months ended 31 March 2025, compared to $589 for the 12 months ended 31 March 2024.

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 create 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	2025 ($000s)	2024 ($000s)	CHANGE
Total product design and development costs (including amounts capitalised)	**713,328**	**575,080**	**24%**
Percentage of operating revenue	*33.9%*	*33.6%*	*0.3pp*
Less capitalised development costs	(299,527)	(234,971)	27%
Product design and development expense (excluding amortisation of amounts capitalised)	**413,801**	**340,109**	**22%**
Less government grants	(1,970)	(746)	164%
Add amortisation of capitalised development costs	205,970	186,820	10%
Product design and development expenses	**617,801**	**526,183**	**17%**
Percentage of operating revenue	*29.4%*	*30.7%*	*-1.3pp*

Total gross product design and development costs (including amounts capitalised) were $713.3 million for FY25, an increase of 24%, or $138.2 million, from FY24. As a percentage of operating revenue, this investment increased 0.3 percentage points from the comparative period, to 33.9%. This reflected Xero's focus on improving product velocity, hiring product domain experts, and strengthening the link between pay and performance as part of our evolving performance management framework.

FY25 capitalised development costs of $299.5 million represent a capitalisation rate of 42.0% of total product and development costs, compared to 40.9% in FY24. The increase in the capitalisation rate of 1.1 percentage point partly reflects an increase in product velocity, as we released products that were announced at Xerocons in 2025, in line with our *Win the 3x3* strategic priority.

Capitalisation rates can fluctuate depending on the phase of the development and nature of investment. The capitalisation rate fell in H2 FY25 as Xero focused on embedding product releases and enhancing platform stability, following the focus on delivering product ahead of our Xerocons.

Amortisation of previously capitalised product design and development expenditure of $206.0 million was included as a non-cash expense. After amortisation and government grants, net product design and development expenses were $617.8 million for the period, an increase of 17%, or $91.6 million. As a percentage of operating revenue, this decreased 1.3 percentage points from FY24, to 29.4%. This lower growth rate compared to total product design and development investment largely reflected the higher capitalisation rate.

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	2025 ($000s)	2024 ($000s)	CHANGE
General and administration expenses	228,098	185,122	23%
Percentage of operating revenue	*10.8%*	*10.8%*	*0.0pp*

General and administrative expenses were $228.1 million, an increase of $43.0 million, or 23%, compared to FY24. This was driven by an increase in headcount and professional services to support our continued growth. Changes to CEO remuneration, effective December 2024, were made to recognise strong performance and better align compensation with global market benchmarks. As a result, an incremental share-based payment expense of $6.9 million related to granted options was recorded in FY25.[8] Despite these increases, general and administration expenses remained consistent as a percentage of operating revenue at 10.8%.

EMPLOYEES

At 31 March	2025	2024	CHANGE
Total Group	4,610	4,322	7%

Full-time equivalent (FTE) employees increased by 288, or 7%, compared to FY24. 254 FTEs were added in H2 FY25, including the addition of 76 FTEs following the Syft acquisition. The growth in FY25 reflected the hiring of individuals in key areas of the business, in line with our strategic priorities.

NET FINANCE INCOME

Year ended 31 March	2025 ($000s)	2024 ($000s)	CHANGE
Interest income on cash and deposits	100,328	67,408	49%
Gain on repurchase of convertible note	36,105	-	NM
Finance lease interest income	55	69	-20%
Total finance income	**136,488**	**67,477**	**102%**
Amortisation of discount and debt issuance costs	(51,201)	(36,635)	40%
Lease liability interest	(7,547)	(7,876)	-4%
Derivative revaluation loss	(29,886)	-	NM
Interest on term debt	(20,380)	-	NM
Loan commitment revaluation loss	(9,494)	-	NM
Other finance expense	(11,022)	(614)	NM
Total finance expense	**(129,530)**	**(45,125)**	**187%**
Net finance income	**6,958**	**22,352**	**-69%**

Finance income increased by $69.0 million to $136.5 million in FY25. The increase was driven by a 49% increase in interest income, and a one-off $36.1 million non-cash gain on repurchase of the 2025 convertible notes. Interest income reflects higher achieved interest rates, and higher average cash and short-term deposit balances compared to FY24, generated from operating cash flows alongside net proceeds from refinancing of our 2025 convertible notes.

8. Further detail can be found in the Remuneration Report on page 112

Finance expenses increased by $84.4 million to $129.5 million in FY25, driven by the 2031 convertible note issue and a non-cash loss on the derivative revaluation. The loss on derivative revaluation resulted from the requirement to revalue the derivatives at fair value at the end of each reporting period.

Amortisation of discount and debt issuance costs rose $14.6 million due to settlement of the 2031 convertible notes in June 2024. Amortisation expense relating to the 2031 convertible notes was higher than the 2025 convertible notes, primarily due to the larger value. The 2031 convertible notes also contain a cash coupon cost at an interest rate of 1.625%, resulting in incremental expense of $20.4 million in FY25.

The derivative revaluation loss of $29.9 million is reflective of the net impact of mark-to-market revaluations of the convertible notes derivative and related low call option derivative. Revaluations result mostly from movements in the USD/AUD exchange rate and US interest rate over the period since settlement, combined with Xero Limited share price impacts.

Other finance expenses in FY25 increased by $10.4 million, primarily due to financing transaction costs relating to the buyback of the 2025 convertible notes and issuance of the 2031 convertible notes.

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 the region, and an allocation of centrally managed costs and overheads.

Year ended 31 March 2025	**ANZ ($000s)**	**INTERNATIONAL ($000s)**	**TOTAL**
Operating revenue	1,177,028	925,624	2,102,652
Cost of revenue	(129,669)	(100,733)	(230,402)
Sales and marketing	(177,545)	(486,163)	(663,708)
Segment contribution	**869,814**	**338,728**	**1,208,542**
Contribution margin percentage	*73.9%*	*36.6%*	*57.5%*

Year ended 31 March 2024			
Operating revenue	969,890	743,877	1,713,767
Cost of revenue	(110,306)	(92,199)	(202,505)
Sales and marketing	(149,789)	(391,446)	(541,235)
Segment contribution	**709,795**	**260,232**	**970,027**
Contribution margin percentage	*73.2%*	*35.0%*	*56.6%*

ANZ — Segment contribution increased $160.0 million, or 23%, to $869.8 million in FY25. This resulted in the contribution margin increasing 0.7 percentage points in FY25, to 73.9%.

Operating revenue growth of 21%, which is discussed on page 32, exceeded the increase in segment expenses of 18% or $47.1 million. This was attributable to efficiencies in our cost of revenue, coupled with a moderate increase in sales and marketing expenditure.

ANZ's higher segment contribution margin compared to the International segment reflects the cost benefits derived from higher cloud accounting penetration, and our strong brand presence in these markets.

International — Segment contribution in FY25 increased $78.5 million, or 30%, compared to FY24. This growth led to a contribution margin of 36.6% for FY25, up by 1.6 percentage points.

Operating revenue growth of 24%, which is discussed on page 32, outpaced the 21% growth in expenses. Expense growth reflects operating efficiencies in cost of revenue, along with an increased investment in sales and marketing, primarily driven by higher digital marketing spend and employee costs, along with two Xerocons held in FY25, compared to none in the prior period. Excluding the impact of Xerocon, segment expenses increased by 17%.

The contribution margin for the International segment compared to ANZ remained comparatively lower. This reflects the relatively higher cost of acquiring subscribers in these markets as Xero focuses investment to improve subscriber additions through both direct and partner channels while working to improve 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 at 31 March,[9] divided by the number of subscribers at that time, and divided by 12 to get a monthly view.

Customer acquisition costs (CAC) 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 5.7 times the cost of acquiring that subscriber.

We strive to maximise total LTV while optimising the level of CAC investment it takes to achieve a desirable LTV/CAC ratio. We 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 our segments:

Year ended 31 March 2025	ANZ	INTERNATIONAL	TOTAL
ARPU ($)	41.66	49.82	45.08
CAC months	9.4	20.7	15.9
Churn	0.82%	1.39%	1.07%
Churn (excluding removal of long idle subscriptions)	0.81%	1.31%	1.03%
LTV per subscriber ($)[10]	4,550	3,394	4,066
LTV/CAC[10]	11.6	3.3	5.7

Year ended 31 March 2024			
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

9. See definition of AMRR on page 36
10. LTV, LTV per subscriber, and LTV/CAC have been calculated using churn excluding the impact of the removal of long idle subscriptions. This reflects churn dynamics present in Xero's go-forward subscriber base

The table below outlines the impact of removing long idle subscriptions on Xero's ARPU. The increase in reported ARPU is the result of a positive mix benefit, given the low-value nature of the subscribers removed.

At 31 March	ARPU ($)	ARPU EXCLUDING SUBSCRIPTIONS REMOVED UNDER LONG IDLE PROGRAM ($)	CONTRIBUTION FROM REMOVAL OF LONG IDLE SUBSCRIPTIONS ($)
ANZ	41.66	41.38	0.28
International	49.82	46.58	3.24
Total	**45.08**	**43.65**	**1.43**

Xero Group — Xero Group ARPU increased by 15% (11% in constant currency) to $45.08. The increase in ARPU reflects improving product mix, price changes to reflect product value, continued payments growth, and the removal of long idle subscriptions. Excluding the impact of long idle subscription removals, ARPU increased by 11% (8% in constant currency).

Churn increased for the Xero Group to 1.07% for FY25, compared to 0.99% in the comparative period. While churn increased slightly in both segments, it still remains below pre-pandemic levels. Excluding the impact of long idle subscription removals, FY25 churn increased slightly to 1.03%.

Total subscriber LTV increased by $2.4 billion, or 16% (13% in constant currency) in FY25, from $15.5 billion to $17.9 billion. This was driven by growth in both ARPU and subscribers.

CAC months and LTV/CAC were both impacted by increased sales and marketing spend, with further investment in digital marketing to support subscriber growth in Xero's key markets. The impacts of the increased sales and marketing spend were partially offset by the increase in ARPU. CAC months of 15.9 months in FY25 were 5% higher than the comparative period of 15.2 months. Xero Group LTV/CAC ratio fell to 5.7 in FY25 from 6.2 in the comparative period.

ANZ — ARPU of $41.66 increased by 10% (9% in constant currency) year-on-year. This was driven by improving product mix, increased financial services revenue, and price changes. Excluding the impact of long idle subscription removals, ARPU increased by 9% (8% in constant currency).

CAC months increased to 9.4 months in FY25, from 8.1 months in FY24. This was driven by increased sales and marketing spend in FY25, outpacing the increase in ARPU.

Churn increased from 0.76% in FY24 to 0.82% in FY25. Excluding the impact of long idle subscription removals, churn for FY25 was 0.81%. Churn for the ANZ segment remains below pre-pandemic levels.

Total ANZ LTV increased by $1.1 billion, or 11% (10% in constant currency), to $11.6 billion in FY25. This was driven by ARPU and subscriber growth of 10% and 8% respectively. LTV/CAC decreased by 2.7 year-on-year to 11.6, driven by the increase in sales and marketing spend mentioned above.

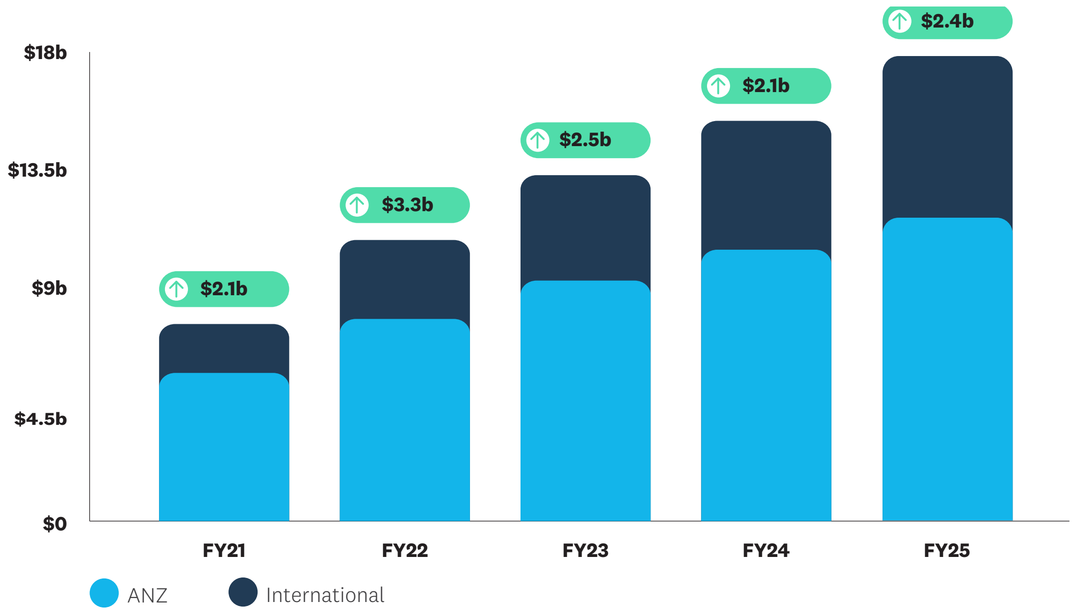
International — ARPU increased to $49.82, or 21% (14% in constant currency), year-on-year. As the majority of long idle subscriptions removed were in the International segment, there was a more pronounced impact on ARPU. Excluding the removal of long idle subscriptions, ARPU increased 13% (7% in constant currency), driven by product mix improvements, increases in financial services revenue, and price changes for our business edition and partner edition plans. Favourable GBP and USD to NZD foreign exchange rates also contributed to the increase.

CAC months decreased year-on-year by 1.7 months to 20.7 months. This decrease was a function of year-on-year ARPU and subscriber growth outpacing the increase in sales and marketing spend.

Churn increased from 1.28% in FY24 to 1.39% in FY25. Excluding the impact of long idle subscription removals, churn increased slightly to 1.31%. Similarly to ANZ, churn for the International segment remains below pre-pandemic levels.

Total International subscriber LTV increased by $1.3 billion, or 26% (18% in constant currency) in FY25, from $5.0 billion to $6.3 billion. This was primarily driven by an increase in the segment's gross margin, along with ARPU growth. LTV per subscriber increased by $592, or 21% (14% in constant currency), to $3,394 in FY25. LTV/CAC increased slightly to 3.3 in FY25, from 3.1 in FY24.

Total Lifetime Value[11]



11. LTV has been calculated using churn excluding the impact of the removal of long idle subscriptions. This reflects churn dynamics present in Xero's go-forward subscriber base

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AUDIT REPORT, FINANCIAL STATEMENTS AND NOTES

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF XERO LIMITED

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OPINION

We have audited the financial statements of Xero Limited ("the Company") and its subsidiaries (together "the Group") on pages 49 to 84, which comprise the consolidated statement of financial position of the Group as at 31 March 2025, 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 49 to 84 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2025 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, comfort letters in respect of the issuance of convertible notes and limited assurance in relation to greenhouse gas emissions. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. Ernst & Young uses the Group's platform in delivering services to some clients. We have no other relationship with, or interest in, the Group.

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	How our audit addressed the key audit matter

Capitalised Software Development Costs make up 38% 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.
	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.

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GOODWILL IMPAIRMENT TESTING

Why significant

The Group's statement of financial position includes $406 million of goodwill at 31 March 2025, which is allocated to the following four cash generating units (CGUs):

- $139 million to Planday
- $151 million to International
- $77 million to Australia and New Zealand
- $39 million to TaxCycle

The acquisition of Syft in December 2024 resulted in additional goodwill of $70 million being recognised in the year. This was allocated across the International and Australia and New Zealand CGUs.

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.

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. 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; and
  - 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 models with reference to historical performance;
- Checked whether revenue used in revenue multiple calculations aligned to actual revenue for the year;
- Assessed the appropriateness of the goodwill allocation against the existing CGUs;
- 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; and
- 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.

CONVERTIBLE NOTES AND RELATED CALL SPREADS

Why significant

During the year, the Group issued USD925 million of convertible notes maturing in 2031. The convertible notes are listed on the Singapore Exchange Securities Trading Limited (SGX-ST). In connection with the issuance, Xero entered into call spread transactions.

The Group also repurchased 98% of the USD700 million 2025 zero coupon convertible notes in June 2024. These were purchased for cash.

Decisions regarding the appropriate accounting treatment for the convertible notes and associated call spreads required judgment as did the valuation of the convertible notes and call spreads at the relevant dates. Xero engaged a third party to value the 2025 and 2031 convertible notes and the related call spreads at the transaction dates and, where relevant, at year end.

Note 17 of the financial statements describes these transactions and the related valuations and accounting.

How our audit addressed the key audit matter

In obtaining sufficient appropriate audit evidence, we:

- Involved our financial instrument accounting specialists to assess the accounting treatment adopted for the settlement of the 2025 convertible notes, the unwind of the associated call options and the issue of the 2031 convertible notes and associated call options;
- Involved our financial instrument valuation specialists to assess the appropriateness of the valuation methods adopted, the inputs used in the valuations and the resulting valuation amounts adopted by management; and
- Assessed the adequacy of the disclosures in the financial statements.

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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/assurance-standards/auditors-responsibilities/audit-report-1-1/. 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
Auckland
15 May 2025

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FINANCIAL STATEMENTS

INCOME STATEMENT

Year ended 31 March	NOTES	2025 ($000s)	2024 ($000s)
Subscription revenue		1,978,184	1,630,761
Other operating revenue		124,468	83,006
Total operating revenue	**4**	**2,102,652**	**1,713,767**
Cost of revenue	5	(230,402)	(202,505)
Gross profit		**1,872,250**	**1,511,262**
Operating expenses			
Sales and marketing		(663,708)	(541,235)
Product design and development		(617,801)	(526,183)
General and administration		(228,098)	(185,122)
Restructuring costs		–	(3,013)
Total operating expenses	**5**	**(1,509,607)**	**(1,255,553)**
Operating income		**362,643**	**255,709**
Other income	6	72	14,674
Other expenses	6	(3,972)	(6,348)
Asset impairments and disposals	10, 11	(3,037)	(26,414)
Reversal of asset impairments	11	–	1,934
Earnings before interest and tax		**355,706**	**239,555**
Finance income	7	136,488	67,477
Finance expense	7	(129,530)	(45,125)
Net profit before tax		**362,664**	**261,907**
Income tax expense	24	(134,847)	(87,267)
Net profit after tax		**227,817**	**174,640**
Basic earnings per share	8	$1.49	$1.15
Diluted earnings per share	8	$1.47	$1.14

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March	NOTES	2025 ($000s)	2024 ($000s)
Net profit		227,817	174,640
Other comprehensive income*			
Movement in cash flow hedges (net of tax)	19	(4,547)	(3,468)
Translation of foreign currency operations (net of tax)		20,454	3,601
Total other comprehensive income for the year		**15,907**	**133**
Total comprehensive income for the year		**243,724**	**174,773**

** 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 2025 ($000s)	AT 31 MARCH 2024 ($000s)
Assets			
Current assets			
Cash and cash equivalents		768,427	498,791
Short-term deposits		1,561,969	1,031,079
Trade and other receivables	9	192,721	176,486
Derivative assets	19	17,156	4,065
Income tax receivable		31,136	32,533
Other current assets		2,498	4,499
Total current assets		**2,573,907**	**1,747,453**
Non-current assets			
Property, plant and equipment	10	123,498	125,228
Intangible assets	11	1,179,417	984,156
Derivative assets	19	527,402	61,329
Deferred tax assets	24	13,761	31,714
Investments in financial assets	12	43,737	–
Other non-current assets		1,521	1,544
Total non-current assets		**1,889,336**	**1,203,971**
Total assets		**4,463,243**	**2,951,424**
Liabilities			
Current liabilities			
Trade and other payables	13	91,575	85,679
Employee entitlements		109,059	103,239
Lease liabilities	15	18,402	19,369
Derivative liabilities	19	567,940	70,535
Income tax payable		3,257	2,760
Term debt	17	1,228,572	1,107,784
Other current liabilities	14	62,416	45,860
Total current liabilities		**2,081,221**	**1,435,226**
Non-current liabilities			
Lease liabilities	15	91,703	96,967
Derivative liabilities	19	7,090	1,103
Deferred tax liabilities	24	62,903	13,112
Contingent consideration	16	10,342	–
Other non-current liabilities		14,281	12,069
Total non-current liabilities		**186,319**	**123,251**
Total liabilities		**2,267,540**	**1,558,477**
Equity			
Share capital	21	2,039,476	1,854,983
Reserves		197,178	(193,268)
Accumulated losses		(40,951)	(268,768)
Total equity		**2,195,703**	**1,392,947**
Total liabilities and shareholders' equity		**4,463,243**	**2,951,424**

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	NOTES	SHARE CAPITAL ($000s)	SHARE-BASED PAYMENT RESERVE ($000s)	ACCUMULATED LOSSES ($000s)	FOREIGN CURRENCY TRANSLATION RESERVE ($000s)	CASH FLOW HEDGE RESERVE ($000s)	CALL SPREAD OPTIONS RESERVE ($000s)	TOTAL EQUITY ($000s)
Balance at 1 April 2023		**1,710,392**	**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	21, 26	91,989	31,865	–	–	–	–	123,854
Share options exercised	21, 26	51,802	(12,188)	–	–	–	–	39,614
Issue of shares – acquisition related		800	–	–	–	–	–	800
Balance at 31 March 2024		**1,854,983**	**116,045**	**(268,768)**	**(5,171)**	**(2,886)**	**(301,256)**	**1,392,947**
Balance at 1 April 2024		**1,854,983**	**116,045**	**(268,768)**	**(5,171)**	**(2,886)**	**(301,256)**	**1,392,947**
Net profit		–	–	227,817	–	–	–	227,817
Other comprehensive income/(loss)		–	–	–	20,454	(4,547)	–	15,907
Total comprehensive income/(loss)		**–**	**–**	**227,817**	**20,454**	**(4,547)**	**–**	**243,724**
Transactions with owners:								
Share-based payments, net of tax	21, 26	132,318	80,076	–	–	–	–	212,394
Share options exercised	21, 26	34,144	(7,263)	–	–	–	–	26,881
Issue of shares – acquisition related	21, 22	18,031	–	–	–	–	–	18,031
Premium on call spread options, net of issuance costs	17	–	–	–	–	–	324,605	324,605
Partial settlement of call spread options	17	–	–	–	–	–	(22,879)	(22,879)
Balance at 31 March 2025		**2,039,476**	**188,858**	**(40,951)**	**15,283**	**(7,433)**	**470**	**2,195,703**

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS

Year ended 31 March	NOTES	2025 ($000s)	2024 ($000s)
Operating activities			
Receipts from customers		2,108,742	1,705,595
Other income		4,878	5,221
Interest received		93,418	60,777
Payments to suppliers and employees		(1,313,626)	(1,124,792)
Interest paid		(23,153)	(8,488)
Income tax paid		(58,589)	(46,554)
Net cash flows from operating activities	**25**	**811,670**	**591,759**
Investing activities			
Capitalised development costs		(272,876)	(226,985)
Purchase of property, plant and equipment		(13,135)	(6,587)
Capitalised contract acquisition costs		(17,062)	(14,958)
Business acquisitions		(56,184)	(8,663)
Business divestments		–	9,550
Investments in equity instruments		(42,070)	–
Other investing activities		(1,852)	5,635
Net cash flows from investing activities		**(403,179)**	**(242,008)**
Financing activities			
Proceeds from short-term deposits		2,602,385	2,025,864
Payments for short-term deposits		(3,106,453)	(2,140,828)
Share options exercised		26,881	39,614
Payment of lease liabilities		(18,989)	(17,910)
Convertible notes transaction costs		(10,203)	–
Proceeds from issuance of convertible notes, net of issuance costs		1,489,039	–
Payments for buyback of convertible notes		(1,067,971)	–
Call spread options, net of issuance costs		(110,696)	–
Proceeds from unwind of call spread options		19,085	–
Net cash flows from financing activities		**(176,922)**	**(93,260)**
Net increase in cash and cash equivalents		**231,569**	**256,491**
Foreign currency translation adjustment		38,067	11,676
Cash and cash equivalents at the beginning of the period		**498,791**	**230,624**
Cash and cash equivalents at the end of the period		**768,427**	**498,791**

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 2025 were authorised in accordance with a resolution of the directors for issue on 15 May 2025.

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, 6, 14, 18 and 19, in the statement of financial position and statement of changes in equity, 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

Amendments to NZ IAS 1

The New Zealand Accounting Standards Board issued amendments to NZ IAS 1: *Presentation of Financial Statements* effective for reporting periods commencing on or after 1 January 2024. The amendment requires liabilities to be classified as current if the entity does not have a substantive right to defer settlement for at least 12 months at the end of the reporting period. The Group's 2025 and 2031 convertible notes (refer to note 17) are callable by the holders at any time, therefore Xero does not have a substantive right to defer settlement. As a result the associated term debt and embedded derivative liability are classified as current. Adoption of the NZ IAS 1 amendments in the current period resulted in reclassification of the comparative term debt and embedded derivative liability from non-current to current.

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

In May 2024 the New Zealand Accounting Standards Board issued a new standard, NZ IFRS 18: *Presentation and Disclosure in Financial Statements*. The standard is effective for Xero from 1 April 2027. 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 subcategories. 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.

Year ended 31 March 2025	ANZ ($000s)	INTERNATIONAL ($000s)	TOTAL ($000s)
Operating revenue	1,177,028	925,624	2,102,652
Cost of revenue	(129,669)	(100,733)	(230,402)
Sales and marketing	(177,545)	(486,163)	(663,708)
Segment contribution	**869,814**	**338,728**	**1,208,542**
Year ended 31 March 2024			
Operating revenue	969,890	743,877	1,713,767
Cost of revenue	(110,306)	(92,199)	(202,505)
Sales and marketing	(149,789)	(391,446)	(541,235)
Segment contribution	**709,795**	**260,232**	**970,027**

Reconciliation from segment contribution to net profit before tax

Year ended 31 March	2025 ($000s)	2024 ($000s)
Segment contribution	1,208,542	970,027
Product design and development	(617,801)	(526,183)
General and administration	(228,098)	(185,122)
Restructuring costs	–	(3,013)
Non-operating income and expenses	21	6,198
Net profit before tax	**362,664**	**261,907**

Depreciation and amortisation by segment

Year ended 31 March	2025 ($000s)	2024 ($000s)
ANZ	16,602	16,107
International	27,071	26,878
Corporate (not allocated to a segment)	239,087	214,878
Total	**282,760**	**257,863**

At 31 March 2025, $721.4 million, or 55%, of the Group’s property, plant and equipment and intangible assets was domiciled in New Zealand (2024: $632.2 million, or 57%)

Share-based payments by segment

Year ended 31 March	2025 ($000s)	2024 ($000s)
ANZ	17,655	11,975
International	40,709	24,830
Corporate (not allocated to a segment)	93,514	59,016
Total	**151,878**	**95,821**

4. REVENUE

Operating revenue by geographic location

Year ended 31 March	2025 ($000s)	2024 ($000s)
Australia	955,239	770,350
United Kingdom	578,037	461,019
New Zealand	221,789	199,540
North America	138,599	112,080
Rest of World	208,988	170,778
Total operating revenue	**2,102,652**	**1,713,767**

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, on premise software, and income from conferences and events.

For the year ended 31 March 2025, 74%, or $92.6 million (2024: 68%, or $56.4 million) of other operating revenue was recognised on a usage basis over time, and 16%, or $20.0 million (2024: 19%, or $16.1 million) related to 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. Performance obligations for on premise software consist of the delivery of the software.

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	2025 ($000s)	2024 ($000s)
Employee entitlements	830,625	737,469
Employee entitlements capitalised	(233,838)	(207,373)
Share-based payments	204,026	123,129
Share-based payments capitalised	(52,148)	(27,308)
Advertising and marketing	304,686	239,704
Platform costs	105,141	98,369
Platform costs capitalised	(8,441)	(10,185)
Consultants and contractors	113,328	68,737
Consultants and contractors capitalised	(56,331)	(28,122)
Computer equipment and software	67,826	55,483
Superannuation costs	42,127	36,471
Travel-related costs	28,529	20,106
Recruitment and other personnel costs	16,138	12,151
Communication, insurance and office administration	12,159	11,762
Rental costs	9,965	9,036
Auditor’s remuneration	1,388	1,095
Restructuring costs	–	3,013
Other operating expenses	72,069	56,658
Total cost of revenue and operating expenses excl. depreciation and amortisation*	**1,457,249**	**1,200,195**

** Net of $350.8 million of costs capitalised as intangible assets (2024: $273.0 million) and grant income of $2.0 million (2024: $0.7 million)*

Depreciation and amortisation

Year ended 31 March	2025 ($000s)	2024 ($000s)
Relating to:		
Amortisation of development costs	235,118	208,711
Amortisation of other intangible assets	18,133	17,977
Depreciation of property, plant and equipment	29,509	31,175
Total depreciation and amortisation	**282,760**	**257,863**
Total cost of revenue and operating expenses	**1,740,009**	**1,458,058**
Depreciation and amortisation included in function expenses as follows:		
Product design and development	228,902	208,289
Sales and marketing	34,065	32,762
Cost of revenue	9,608	10,223
General and administration	10,185	6,589
Total depreciation and amortisation	**282,760**	**257,863**

Auditor's remuneration

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

Year ended 31 March	2025 ($000s)	2024 ($000s)
Fees for auditing and reviewing of the statutory financial statements	873	807
Fees for other assurance and agreed-upon-procedures services under legislation or contractual arrangements not required to be performed by the auditor		
Assurance-related*	507	284
Fees for other services		
Other non-audit services**	8	4
Total auditor's remuneration	**1,388**	**1,095**

** Assurance-related services relate to ISO 27001 certification, limited assurance over our carbon data and comfort letter procedures*
*** Other non-audit services relate to the provision of remuneration market data*

6. OTHER INCOME AND EXPENSE

Other income

Year ended 31 March	2025 ($000s)	2024 ($000s)
Reversal of onerous contract provision	–	4,846
Planday revenue incentive	–	657
Other income	72	9,171
Total other income	**72**	**14,674**

Other expenses

Year ended 31 March	2025 ($000s)	2024 ($000s)
Revaluation of contingent consideration	2,090	522
Other expenses	1,882	5,826
Total other expenses	**3,972**	**6,348**

7. FINANCE INCOME AND EXPENSE

Finance income

Year ended 31 March	2025 ($000s)	2024 ($000s)
Interest income on cash and deposits	100,328	67,408
Gain on repurchase of convertible note	36,105	–
Finance lease interest income	55	69
Total finance income	**136,488**	**67,477**

Finance expense

Year ended 31 March	2025 ($000s)	2024 ($000s)
Amortisation of discount and debt issuance costs	51,201	36,635
Derivative revaluation loss	29,886	–
Interest on term debt	20,380	–
Lease liability interest	7,547	7,876
Loan commitment revaluation loss	9,494	–
Unwind of contingent consideration	352	163
Other finance expense	10,670	451
Total finance expense	**129,530**	**45,125**

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 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 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	2025 (000s)*	2024 (000s)*
Net profit attributable to equity holders of the Group	**$227,817**	**$174,640**
Basic weighted average number of ordinary shares	152,726	151,418
Shares issuable in relation to equity-based compensation schemes	1,911	1,511
Diluted weighted average number of ordinary shares	**154,637**	**152,929**
Basic earnings per share	**$1.49**	**$1.15**
Diluted earnings per share	**$1.47**	**$1.14**

** Except for per share amounts*

The weighted average number of shares outstanding used in computation of diluted earnings per share does not include the effect of share options, convertible notes and call spread options, where their impact would be anti-dilutive.

9. TRADE AND OTHER RECEIVABLES

At 31 March	2025 ($000s)	2024 ($000s)
Prepayments	76,605	70,199
Accrued income	44,478	44,130
Trade receivables	23,844	25,436
Provision for doubtful debts	(1,359)	(1,282)
Interest receivable	25,904	16,347
Other receivables	23,249	21,656
Total trade and other receivables	**192,721**	**176,486**

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 2025, trade receivables of the Group of $2.6 million were past due and are considered partially impaired (2024: $1.1 million).

Other receivables at 31 March 2025 includes $22.7 million receivable in relation to shares that were sold to cover employees' withholding obligations under Xero's employee share-based compensation plans (2024: $21.2 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

Year ended 31 March 2025	RIGHT OF USE ASSET ($000s)	LEASEHOLD IMPROVEMENTS ($000s)	FURNITURE AND EQUIPMENT ($000s)	COMPUTER EQUIPMENT ($000s)	TOTAL ($000s)
Opening net book value	90,889	25,489	5,452	3,398	125,228
Additions	9,772	9,599	802	3,629	23,802
Acquisitions	692	1	18	54	765
Impairments and disposals	(709)	(163)	(3)	(49)	(924)
Reassessment of lease liabilities	1,447	–	–	–	1,447
Depreciation expense	(18,573)	(5,784)	(2,117)	(3,035)	(29,509)
Foreign exchange adjustment	1,948	644	71	26	2,689
Closing net book value	**85,466**	**29,786**	**4,223**	**4,023**	**123,498**
At 31 March 2025					
Cost	154,481	48,284	13,873	7,869	224,507
Accumulated depreciation	(69,015)	(18,498)	(9,650)	(3,846)	(101,009)
Closing net book value	**85,466**	**29,786**	**4,223**	**4,023**	**123,498**

Year ended 31 March 2024	RIGHT OF USE ASSET ($000s)	LEASEHOLD IMPROVEMENTS ($000s)	FURNITURE AND EQUIPMENT ($000s)	COMPUTER EQUIPMENT ($000s)	TOTAL ($000s)
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**

Key estimates and assumptions

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

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 and 12 years*

11. INTANGIBLE ASSETS

Year ended 31 March 2025	SOFTWARE DEVELOPMENT ($000s)	CONTRACT ACQUISITION ASSET ($000s)	OTHER INTANGIBLE ASSETS ($000s)	GOODWILL ($000s)	TOTAL ($000s)
Opening net book value	598,456	40,744	8,610	336,346	984,156
Additions*	332,355	16,889	1,514	–	350,758
Acquisitions	26,394	–	1,110	69,951	97,455
Amortisation expense	(235,118)	(15,506)	(2,627)	–	(253,251)
Disposals	(2,113)	–	–	–	(2,113)
Foreign exchange adjustment	940	1,889	(29)	(388)	2,412
Closing net book value	**720,914**	**44,016**	**8,578**	**405,909**	**1,179,417**
At 31 March 2025					
Cost	1,268,279	82,162	17,015	405,909	1,773,365
Accumulated amortisation	(547,365)	(38,146)	(8,437)	–	(593,948)
Closing net book value	**720,914**	**44,016**	**8,578**	**405,909**	**1,179,417**

**Included in software development and other intangible asset additions is $64.8 million of external costs capitalised (2024: $38.3 million)*

Year ended 31 March 2024	SOFTWARE DEVELOPMENT ($000s)	CONTRACT ACQUISITION ASSET ($000s)	OTHER INTANGIBLE ASSETS ($000s)	GOODWILL ($000s)	TOTAL ($000s)
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**

Key estimates and assumptions

Software development

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

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

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

At 31 March 2025, if software development capitalisation rates had been 10% higher/lower with all other variables held constant, the impact on operating expenses would have been $30.0 million lower/higher (2024: $23.5 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 (2024: five years). Management has 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, brands and trademark costs, along with customer contracts. Other intangible assets acquired in a business combination are initially measured at cost, which is their fair value at the date of acquisition. Internally-generated assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Income Statement when it is incurred.

Useful lives of intangible assets

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

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

Software development	3–7.5 years
Contract acquisition asset	5 years
Customer contracts	4–7.5 years
Patents, 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 2024.

Impairment considerations

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

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

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

Goodwill

Goodwill represents the excess of purchase consideration over the fair value of net assets acquired in a business combination. $70.0 million of goodwill was recognised relating to the acquisition of Syft, during the year ended 31 March 2025, reflective of the expertise and technology that Syft brings to the Group. The synergies from the acquisition are expected to help the Group to drive growth in Xero's small business platform and support better financial decision-making for customers.

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 amounts of $28.9 million was recognised in the Income Statement for the year ended 31 March 2024, 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 2025. 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 goodwill arising from the Syft acquisition in December 2024 was allocated to the ANZ and International CGUs.

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 a 12-month look back revenue multiple of comparable companies, adjusted for a control premium.

At 31 March	**2025 ($000s)**	**2024 ($000s)**
ANZ CGU	77,069	64,086
International CGU	151,410	94,412
Planday CGU	138,611	138,612
TaxCycle CGU	38,819	39,236
Total	**405,909**	**336,346**

ANZ and International CGUs

The recoverable amounts of the ANZ and International CGUs were calculated on the basis of fair value less costs of disposal in accordance with NZ IFRS 13. Fair value was determined using a 12-month look back peer company revenue multiple of 10.6 for ANZ (2024: 6.1) and 7.9 for International (2024: 6.4), including a control premium of 58.6% for ANZ (2024: 35%) and 39.4% for International (2024: 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 4.5 (2024: 5.4), including a control premium of 39.8% (2024: 39%). 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 13% (2024: 18%), or the control premium would need to decrease by 45.1% (2024: 63%), 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 performing the assessment that require judgement are included in the table below.

	2025	**2024**
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 48% (2024: 65%). 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 8 percentage points, the terminal growth rate would need to decrease by 15 percentage points, or the forecast cash flows would need to be discounted by 53% before the recoverable amount of the CGU would be less than its carrying value.

12. INVESTMENTS IN FINANCIAL ASSETS

Year ended 31 March	2025 ($000s)
Balance at 1 April	–
Acquisitions & additions	42,103
Foreign exchange adjustment	1,634
Balance at 31 March	**43,737**

In April 2024, Xero acquired preference shares in Deputy, the global people platform for hourly work, for USD25 million. Xero's investment represented a 2.5% shareholding in the company.

After initial recognition, the investment is remeasured at fair value at each reporting date, with fair value gains or losses recognised in the Income Statement. No revaluation gains or losses were recognised in the period.

Key estimates and assumptions

The fair value of the investment in financial assets is determined using a combination of level two and level three inputs, resulting in an overall classification of level three on the fair value hierarchy. Fair value of the shares as at 31 March 2025 was determined using a multiple of 11.8, along with consideration of the specific rights associated with the preference shares. The revenue multiple was determined with reference to a range of market multiples, adjusted to factor in Deputy's financial performance.

13. TRADE AND OTHER PAYABLES

At 31 March	2025 ($000s)	2024 ($000s)
Trade payables	12,201	9,863
Accrued expenses	60,289	48,531
Sales tax payable	19,085	27,285
Total trade and other payables	**91,575**	**85,679**

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.

14. OTHER CURRENT LIABILITIES

At 31 March	NOTES	2025 ($000s)	2024 ($000s)
Income in advance		49,031	41,193
Accrued interest		7,934	–
Contingent consideration	16	5,312	2,149
Other current liabilities		139	2,518
Total other current liabilities		**62,416**	**45,860**

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 change.

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.

15. LEASE LIABILITIES

Year ended 31 March	2025 ($000s)	2024 ($000s)
Balance at 1 April	116,336	123,421
Leases entered into during the period	7,893	6,396
Acquisitions	628	–
Principal repayments	(18,989)	(17,910)
Change in future lease payments	1,447	1,261
Foreign exchange adjustment	2,790	3,168
Balance at 31 March	**110,105**	**116,336**
Current	18,402	19,369
Non-current	91,703	96,967

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 2025 was $1.0 million (2024: $1.3 million). Low-value asset leases comprise the leases of IT equipment. The expense relating to low-value asset leases for the year ended 31 March 2025 was $3.7 million (2024: $4.0 million).

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

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

16. CONTINGENT CONSIDERATION

At 31 March	NOTES	2025 ($000s)
Balance at 1 April		2,149
Additions from acquisitions	22	17,145
Payments & settlements		(5,732)
Unwinding of discount	7	352
Change in fair value estimate	6	2,090
Foreign exchange adjustment		(350)
Balance at 31 March		**15,654**
Current	14	5,312
Non-current		10,342

Contingent consideration comprises the Group's probability-weighted assessment of discounted amounts payable to vendors in respect of business acquisitions. The addition of $17.1 million in contingent consideration during the year pertains to the acquisition of Syft. During the year, contingent consideration payments totalling $4.3 million and $1.5 million were made to the former shareholders of Tickstar and Syft, respectively. These payments were linked to the achievement of revenue and product development milestones.

Changes in fair value estimates for the year ended 31 March 2025 included a revaluation loss of $2.1 million related to Tickstar, which was recognised in other expenses in the income statement.

The closing balance of contingent consideration is payable to the former shareholders of Syft and is expected to be settled in cash. The current portion of contingent consideration is anticipated to become payable within the next 12 months following the achievement of specified product milestones, business integration milestones and revenue targets. The non-current portion is expected to become payable following the achievement of specified product milestones, which are anticipated to be met by December 2027.

Key estimates and assumptions

The fair value of contingent consideration is determined using valuation techniques such as probability-weighted assessments of meeting certain product development and revenue targets (level three on the fair value hierarchy). The probability of achievement is reviewed, and the fair value of the related liability is adjusted at each reporting period or as circumstances change. Contingent consideration is discounted based on the acquired entity's cost of debt.

A sensitivity analysis was undertaken in relation to the discount rate applied in calculating the value of the contingent consideration arising from the Syft acquisition. A 10% increase or decrease in the discount rate would have resulted in a corresponding decrease or increase of $0.2 million in the liability.

In addition, a sensitivity analysis was conducted on the probabilities applied to estimate the likelihood of achieving the milestones. A 10% increase in the probabilities would have resulted in a $1.0 million increase in the liability. Conversely, a 10% decrease in the probabilities applied would have resulted in a corresponding decrease of $1.3 million in the liability.

17. TERM DEBT

On 2 December 2020, Xero Investments Limited, a wholly owned subsidiary of the Company, made an offering of USD700 million of convertible notes (the “2025 notes”). The convertible notes were scheduled to mature on 2 December 2025.

In June 2024, Xero Investments Limited made a new convertible notes offering of USD925 million (the “2031 notes”). In conjunction with the settlement of the 2031 notes, Xero Investments Limited substantially repurchased the 2025 notes and unwound the existing call spread options.

Repurchase of the 2025 convertible notes

During June 2024 and July 2024, Xero Investments Limited repurchased USD683.3 million ($1,112.3 million) of the 2025 notes for a total cash consideration of USD654.4 million ($1,065.4 million).

The term debt and embedded derivative component, which were historically accounted for at amortised cost and fair value respectively, were settled at fair value. The repurchase resulted in a $36.1 million gain on the term debt and embedded derivative being recognised within finance income in the Income Statement.

The remaining USD16.7 million ($29.2 million) of the 2025 notes is expected to be cash settled. The outstanding principal amount, unamortised debt discount, unamortised issue costs and net carrying amount of the liability component of the 2025 notes is below:

At 31 March	2025 ($000s)	2024 ($000s)
Principal amount	29,216	1,173,116
Unamortised debt discount	(628)	(59,119)
Unamortised issue costs	(34)	(6,231)
Term debt	**28,554**	**1,107,784**

Unwind of the 2025 call spread transactions

In conjunction with the repurchase of the 2025 notes, the 2025 call spread options were unwound for a total price of USD11.7 million ($19.1 million). The lower strike call options were accounted for as derivative assets in the Statement of Financial Position at their estimated fair value. The derivative assets were adjusted to fair value at each reporting period. Revaluations relating to the 2025 low call spread transactions for the year ended 31 March are included in Note 19. At unwind, the value of the lower strike call options was $41.9 million.

The upper strike call options were accounted for as equity and initially recognised at their fair value less transaction costs. On unwind of the upper strike call options, a $22.9 million loss on settlement was recognised in equity.

2031 convertible notes and conversion feature derivative

In June 2024, Xero Investments Limited made an offering of USD925 million convertible notes. The convertible notes were settled on 12 June 2024 and listed on the SGX-ST on 13 June 2024.

The 2031 notes are unsubordinated, unsecured obligations of Xero, and have a final maturity date of 12 June 2031. The 2031 notes also include a one-time put option at the end of year five, allowing holders to sell the bond back to the issuer at par. The settlement of the 2031 notes will be in cash unless Xero elects to settle in shares, in which case Xero will be obliged to deliver ordinary shares to relevant noteholders. The cash settlement amount will be calculated based on the volume-weighted average price of the ordinary shares over a 90-day trading period. The initial conversion of the 2031 notes is USD109.6453 per ordinary share based on a fixed exchange rate of AUD1.00 = USD0.6649. At initial recognition, the value of the notes is allocated between the term debt component and the embedded derivative component. The fair value of the embedded derivative component at the time of settlement was $448.6 million.

The difference between the fair value of the term debt on settlement and the cash received is recognised as debt discount and is amortised as interest expense using the effective interest method over the term of the notes. The principal amount, unamortised debt discount, unamortised issue costs, and net carrying amount of the term debt component of the 2031 notes is as follows:

At 31 March	**2025 ($000s)**
Principal amount	1,618,279
Unamortised debt discount	(402,776)
Unamortised issue costs	(15,485)
Term debt	**1,200,018**

The Group recognised a one-off loan commitment revaluation loss of $9.5 million, reflecting movement in fair value of the term debt component between trade date and settlement date. At initial recognition, the fair value of the 2031 notes was determined using a market interest rate for an equivalent non-convertible bond. The notes are subsequently recognised at amortised cost.

The 2031 notes have a coupon rate of 1.625% per annum, payable semi-annually in arrears in equal instalments. This is amortised as interest expense using the effective interest method over the term of the notes. At 31 March 2025, the accrued interest balance was $7.9 million.

In accordance with amendments to NZ IAS 1: *Presentation of Financial Statements*, effective for reporting periods beginning on or after 1 January 2024, liabilities can only be classified as non-current if the entity has a substantive right to defer settlement for at least 12 months after the reporting period. Since both the 2025 and 2031 notes are callable by the holders at any time, Xero does not have the right to defer settlement. As a result, both the 2025 notes (before repurchase), and the 2031 notes, along with the associated embedded derivative liabilities, are classified as current liabilities.

2031 call spread options

In connection with the issuance of the 2031 notes, Xero purchased call spread options which are expected to reduce potential dilution to shareholders upon conversion of the notes, 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 USD134.95, converted to AUD at the prevailing exchange rate. The call spread options consist of 0.9 million lower strike call options purchased with an average strike price equal to the conversion price of the notes, and 0.9 million upper strike call options sold with an average strike price of USD134.95. Both the lower call and upper call options are exercisable into a total of approximately 8.4 million ordinary shares. The call spread options have expiry dates between 24 January 2031 and 4 June 2031. The aggregate cost of the call spread was $109.9 million, which was paid from the proceeds of the 2031 notes.

The lower strike call options are accounted for as derivative financial assets and are accounted for at their fair value. At 31 March 2025, the fair value of the lower strike call options was $526.1 million. The upper strike call options are accounted for as equity, and are recognised at their initial fair value, less transaction costs. The carrying value of the upper strike call options is $324.6 million.

Transaction costs

Transaction costs relating to the convertible notes refinancing and call spread transactions totalled $26.9 million. Costs are allocated across the different components of the transactions based on the nature of costs incurred. Where costs incurred related to multiple components, they are allocated based on the relative fair values of those components. The costs were accounted for as follows:

	2025 ($000s)	*Accounting treatment*
2031 debt component	15,966	Capitalised and amortised over term of the note
2031 conversion feature	6,328	Recognised immediately in the income statement
2031 low call options	820	Recognised immediately in the income statement
2031 high call options	820	Capitalised to equity
2025 convertible notes repurchase and call spread unwind	3,055	Recognised immediately in the income statement
Total	**26,989**	

18. FINANCIAL INSTRUMENTS, CAPITAL AND FINANCIAL RISK MANAGEMENT

Financial instruments

Financial instruments recognised in the Statement of Financial Position include cash and cash equivalents, short-term deposits, receivables and payables, contingent consideration, term debt, investments in financial assets 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 2025 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 2025 was $1,281.4 million (2024: $1,051.5 million).

There were no transfers between classes of financial instruments, and no financial instruments measured at fair value on a non-recurring basis for the period (2024: Nil).

Key estimates and assumptions

The Group's foreign exchange derivatives, conversion feature, call option derivative assets, investment in financial assets and contingent consideration liabilities are recognised at fair value. Information on fair value valuation methodologies can be found within the relevant notes within these financial statements.

Included below are financial assets and liabilities held at amortised cost:

At 31 March	**2025 ($000s)**	**2024 ($000s)**
Financial assets at amortised cost		
Cash and cash equivalents	768,427	498,791
Term deposits	1,561,969	1,031,079
Trade and other receivables	71,638	62,157
Other current assets	543	469
Other non-current assets	1,093	969
Total financial assets at amortised cost	**2,403,670**	**1,593,465**
Financial liabilities at amortised cost		
Trade and other payables	12,201	9,863
Accrued interest on term debt coupon	7,934	–
Other non-current liabilities	152	–
Term debt	1,228,572	1,107,784
Total financial liabilities at amortised cost	**1,248,859**	**1,117,647**

Included below are financial assets and liabilities measured at fair value on a recurring basis:

At 31 March 2025	LEVEL 1 ($000s)	LEVEL 2 ($000s)	LEVEL 3 ($000s)	TOTAL ($000s)
Financial assets at fair value through profit or loss				
Derivative assets (foreign currency derivatives)*	–	18,486	–	18,486
Derivative assets (call spread options)	–	526,072	–	526,072
Investment in financial assets	–	–	43,737	43,737
Total financial assets measured at fair value through profit or loss	**–**	**544,558**	**43,737**	**588,295**
Financial liabilities at fair value through profit or loss				
Derivative liabilities (foreign currency derivatives)*	–	28,889	–	28,889
Derivative liabilities (conversion feature on convertible notes)	–	546,141	–	546,141
Contingent consideration	–	–	15,654	15,654
Total financial liabilities measured at fair value through profit or loss	**–**	**575,030**	**15,654**	**590,684**

At 31 March 2024	LEVEL 1 ($000s)	LEVEL 2 ($000s)	LEVEL 3 ($000s)	TOTAL ($000s)
Financial assets at fair value through profit or loss				
Derivative assets (foreign currency derivatives)*	–	4,270	–	4,270
Derivative assets (call spread options)	–	61,124	–	61,124
Total financial assets measured at fair value through profit or loss	**–**	**65,394**	**–**	**65,394**
Financial liabilities at fair value through profit or loss				
Derivative liabilities (foreign currency derivatives)*	–	8,278	–	8,278
Derivative liabilities (conversion feature on convertible notes)	–	63,360	–	63,360
Contingent consideration	–	–	2,149	2,149
Other non-current liabilities	–	142	–	142
Total financial liabilities measured at fair value through profit or loss	**–**	**71,780**	**2,149**	**73,929**

** 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 foreign exchange contracts.

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

At 31 March 2025	AUD ($000s)	USD ($000s)	GBP ($000s)	CAD ($000s)	SGD ($000s)	ZAR ($000s)
Exposures						
Cash and cash equivalents, and short-term deposits	60,088	1,143,091	44,534	7,433	17,324	19,207
Trade and other receivables	5,316	12,338	7,871	3,565	234	166
Investments in financial assets	–	43,737	–	–	–	–
Trade and other payables	(4,087)	(1,391)	(1,273)	(177)	(423)	(1,779)
Other current liabilities	–	(7,934)	–	–	–	–
Contingent consideration	–	(15,654)	–	–	–	–
Lease liabilities	(34,671)	(7,705)	(25,546)	(1,015)	(1,161)	(739)
Term debt (including conversion feature)	–	(1,647,495)	–	–	–	–
Derivative financial instruments (foreign currency derivatives)	623,557	(190,108)	506,832	(24,485)	–	–
Total foreign currency exposure	**650,203**	**(671,121)**	**532,418**	**(14,679)**	**15,974**	**16,855**

At 31 March 2024	AUD ($000s)	USD ($000s)	GBP ($000s)	CAD ($000s)	SGD ($000s)	ZAR ($000s)
Exposures						
Cash and cash equivalents, and short-term deposits	115,728	804,034	39,675	7,903	4,570	9,543
Trade and other receivables	4,372	12,369	9,064	2,662	206	140
Trade and other payables	(4,484)	(1,320)	(395)	(172)	(24)	(86)
Lease liabilities	(38,032)	(5,659)	(25,359)	(521)	(1,688)	(26)
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)**	**3,064**	**9,571**

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	
At 31 March	2025 ($000s)	2024 ($000s)	2025 ($000s)	2024 ($000s)
Impact on:				
AUD				
Net profit before income tax (increase/(decrease))	(10,412)	1,289	8,519	(1,055)
Equity before income tax (increase/(decrease))	64,383	19,378	(52,677)	(15,855)
USD				
Net profit before income tax (increase/(decrease))	(3,623)	(4,764)	2,964	3,898
Equity before income tax (increase/(decrease))	(49,160)	(4,341)	40,222	3,552
GBP				
Net profit before income tax (increase/(decrease))	(2,225)	(1,203)	1,820	984
Equity before income tax (increase/(decrease))	51,468	20,524	(42,110)	(16,793)

This analysis 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 (June 2031) if the Group was 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 2025 had been 100 basis points higher/lower with all other variables held constant, the impact on the interest income and net loss of the Group would have been $23.3 million higher/lower, and accumulated losses $23.3 million lower/higher (2024: $15.3 million). This analysis assumes that the cash and cash equivalents and short-term deposits balance was consistent with the year end balance throughout the year.

(b) Liquidity risk

Nature of risk

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

Exposure and risk management

At 31 March 2025 the Group held cash and cash equivalents of $768.4 million and term deposits of $1,562.0 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 June 2031 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:

At 31 March 2025	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)
Non-derivative financial liabilities						
Trade and other payables	12,201	–	–	–	12,201	12,201
Lease liabilities	24,085	24,529	64,805	18,004	131,423	110,105
Accrued interest	26,297	26,297	78,891	39,446	170,931	7,934
Other non-current liabilities	–	–	152	–	152	152
Contingent consideration	5,651	11,897	–	–	17,548	15,654
Term debt	29,216	–	–	1,618,279	1,647,495	1,228,572
Contractual cash flows	**97,450**	**62,723**	**143,848**	**1,675,729**	**1,979,750**	**1,374,618**
Derivative financial liabilities						
Foreign exchange contracts	–	–	–	–	–	(28,889)
Inflows	417,419	232,950			650,369	–
Outflows	(396,795)	(222,557)			(619,352)	–
Contractual cash flows	**20,624**	**10,393**	**–**	**–**	**31,017**	**(28,889)**

At 31 March 2024	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)
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
Contingent consideration	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						
Foreign 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)**

(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	2025 ($000s)	2024 ($000s)
Cash and cash equivalents	768,427	498,791
Short-term deposits	1,561,969	1,031,079
Trade and other receivables	71,638	62,157
Derivative financial assets	544,558	65,394
Other current assets	543	469
Non-current assets	1,093	969
Total financial assets subject to credit risk	**2,948,228**	**1,658,859**

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	2025 ($000s)	2024 ($000s)
Cash and cash equivalents and short-term deposits		
AAAm	422,499	215,874
A-1+	1,554,654	998,284
A-1	347,304	306,734
A-2	99	57
A-3	4,442	8,921
B	1,398	–
Total cash and cash equivalents and short-term deposits	**2,330,396**	**1,529,870**
Derivative assets		
A-1+	12,108	4,945
A-1	532,450	60,449
Total derivative assets	**544,558**	**65,394**

In addition to the above table, $22.7 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 (2024: $21.2 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.

19. DERIVATIVES AND HEDGE ACCOUNTING

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

At 31 March	**2025 ($000s)**	**2024 ($000s)**
Current derivative assets		
Foreign exchange contracts	17,156	4,065
Non-current derivative assets		
Call spread options	526,072	61,124
Foreign exchange contracts	1,330	205
Total derivative assets	**544,558**	**65,394**
Current derivative liabilities		
Foreign exchange contracts	(21,799)	(7,175)
Conversion feature of convertible notes	(546,141)	(63,360)
Non-current derivative liabilities		
Foreign exchange contracts	(7,090)	(1,103)
Total derivative liabilities	**(575,030)**	**(71,638)**

Foreign currency hedges

The Group uses derivatives in the form of foreign exchange contracts 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.

During the year, a net hedging loss of $12.7 million (before taxation) was recognised in other comprehensive income (2024: loss of $8.0 million). During the year, a loss of $6.4 million (before taxation) was reclassified out of other comprehensive income to the Income Statement (2024: loss of $3.2 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	2025 AVERAGE FORWARD PRICE	2025 FAIR VALUE ($000s)	2025 NOTIONAL AMOUNT HEDGED (NZD) ($000s)	2024 AVERAGE FORWARD PRICE	2024 FAIR VALUE ($000s)	2024 NOTIONAL AMOUNT HEDGED (NZD) ($000s)
Derivative assets						
Buy USD – Sell NZD	0.6100	13,001	186,900	0.6248	1,497	33,610
Buy CAD – Sell NZD	0.8231	287	21,869	0.8242	609	25,784
Buy NZD – Sell AUD	0.9033	4,878	511,435	0.9018	2,164	181,865
Total		**18,166**			**4,270**	
Derivative liabilities						
Buy USD – Sell NZD	–	–	–	0.5878	(110)	6,805
Buy CAD – Sell NZD	0.8150	–	491	0.7661	(17)	326
Buy NZD – Sell AUD	0.9142	(469)	112,121	0.9170	(532)	102,511
Buy NZD – Sell GBP	0.4680	(28,022)	501,550	0.4891	(7,619)	228,985
Total		**(28,491)**			**(8,278)**	

Key estimates and assumptions

Fair value of foreign exchange derivatives are determined using spot foreign exchange rates that are quoted in an active market (level two on the fair value hierarchy).

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 2025, the Group recognised a $59.9 million revaluation loss in the Income Statement relating to conversion feature derivatives (2024: loss of $33.6 million).

In connection with the issue of the convertible notes, the Group entered into call spread options. The lower strike call options 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 2025, the Group recognised a $30.0 million revaluation gain in the Income Statement relating to the lower strike call options (2024: gain of $27.8 million).

Key estimates and assumptions

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.

20. CHANGES IN FINANCIAL ASSETS AND LIABILITIES ARISING FROM FINANCING ACTIVITIES

Year ended 31 March 2025	AT 1 APRIL 2024 ($000s)	PROCEEDS ($000s)	PAYMENTS ($000s)	AMORTISATION EXPENSE ($000s)	FOREIGN EXCHANGE MOVEMENT ($000s)	FAIR VALUE MOVEMENTS ($000s)	AT 31 MARCH 2025 ($000s)
Short-term deposits	1,031,079	(2,602,385)	3,106,453	–	26,822	–	1,561,969
Call spread option derivative assets	61,124	(41,964)	435,292	–	41,645	29,975	526,072
Term debt and conversion feature	(1,171,144)	(1,489,039)	1,067,971	(51,201)	(98,050)	(33,250)	(1,774,713)

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)

21. SHARE CAPITAL

	NOTES	2025 AUD PRICE*	2025 (000s)	2024 AUD PRICE*	2024 (000s)
Balance at 1 April		–	152,327	–	151,065
Issue of ordinary shares – restricted stock unit schemes	26	124.58	963	114.92	739
Issue of ordinary shares – exercising of employee share options	26	106.21	231	71.36	515
Issue of ordinary shares – acquisition of Syft	22	168.37	97	–	–
Issue of ordinary shares – deferred consideration for acquisition of LOCATE Inventory		–	–	93.83	8
Ordinary shares on issue at 31 March		**–**	**153,618**	**–**	**152,327**
Treasury shares		–	(31)	–	(31)
Ordinary shares on issue at 31 March excluding treasury shares		**–**	**153,587**	**–**	**152,296**

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

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

22. BUSINESS COMBINATIONS

Syft acquisition

On 16 September 2024, Xero entered into an agreement to acquire 100% of the share capital of Syft Analytics Inc, Syft Analytics Group South Africa (Pty) Ltd, and its subsidiary Syft Analytics Operations South Africa (Pty) Ltd (collectively referred to as 'Syft'). Syft is a cloud-based reporting, insights, and analytics platform. The transaction completed on 23 December 2024, for total upfront consideration of USD42.2 million, comprising USD32.0 million in cash and USD10.2 million in shares of Xero Limited.

In addition, contingent consideration of up to USD12.8 million may become payable to the former shareholders of Syft, subject to the achievement of specified product development, business integration, and revenue milestones. Of this amount, USD0.9 million was paid during the financial year. The remaining contingent consideration is payable over a period of three years following the acquisition.

Of the USD12.8 million contingent consideration, USD0.9 million is payable based on the achievement of specific revenue milestones, USD0.9 million is payable based on the achievement of specific business integration milestones, and the remaining USD11.0 million is payable based on the achievement of specific product development related milestones. All contingent consideration payments are payable in cash. On acquisition, management recognised contingent consideration based on its assessment of the probability of achievement of each of the milestones. Contingent consideration has been discounted to reflect the time value of money.

Additional employee incentives of up to USD17.3 million have been agreed, comprising USD15.0 million in RSUs and USD2.3 million in cash bonuses. These incentives are linked to the achievement of specific product and revenue milestones, as well as service period requirements, and therefore do not form part of the consideration.

Goodwill of $70.0 million has been recognised in connection with the acquisition, reflective of the expertise and technology that Syft brings to the Group. The synergies from the acquisition are expected to help the Group to drive growth in Xero's small business platform and support better financial decision-making for customers.

The assets and liabilities assumed, and the consideration transferred for the acquisition of Syft, are included in detail below.

	NOTES	23 DECEMBER 2024 ($000s)
Assets acquired and liabilities assumed at acquisition date		
Cash and cash equivalents		4,571
Trade and other receivables		212
Property, plant and equipment		107
Software development asset	11	26,394
Customer contracts	11	737
Brand	11	373
Goodwill	11	69,951
Income in advance		(2,416)
Trade and other payables		(48)
Employee entitlements		(171)
Income tax payable		(613)
Deferred tax liabilities	24	(7,412)
Net assets acquired		**91,685**
Consideration transferred		
Cash*		56,067
Shares		18,031
Contingent consideration	16	17,145
Funds payable		442
Total consideration		**91,685**

Year ended 31 March 2025	2025 ($000s)
Cash outflows relating to acquisitions (net of cash acquired)*	(50,453)

** Cash included in total consideration is valued at acquisition date. Cash included in cash outflows is translated on date of payment*

The acquired software development asset, customer contracts and brand are determined to have useful lives of 7.5 years, 4 years and 5 years respectively.

For the period from acquisition date to 31 March 2025, Syft contributed $3.2 million in operating revenue and $2.5 million in net loss. If the acquisition had occurred on 1 April 2024, management estimates that consolidated operating revenue and net profit would have been an additional $8.5 million higher and $6.8 million lower respectively for the year ended 31 March 2025. Transaction costs of $1.1 million were incurred relating to the acquisition and were expensed in the year ended 31 March 2025. Transaction costs were included in general and administration expenses.

23. 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 over which the Group has either gained or lost control during the period. The Group also has operations in other jurisdictions to a lesser extent.

	COUNTRY OF INCORPORATION	BALANCE DATE	INTEREST 2025 (%)	INTEREST 2024 (%)
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 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
Planday Sp ZO.O*	Poland	31 March	–	100
Syft Analytics Group South Africa (Pty) Ltd**	South Africa	31 March	100	–
Syft Analytics Operations South Africa (Pty) Ltd**	South Africa	31 March	100	–
Syft Analytics Inc.**	United States	31 December	100	–
Xero Software (Malaysia) Sdn. Bhd. ***	Malaysia	31 March	100	–

** Liquidated 9 July 2024*
*** Acquired 23 December 2024*
**** Incorporated 6 December 2024*

24. 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 before tax differs from the theoretical amount that would arise using the New Zealand statutory income tax rate, as follows:

Year ended 31 March	2025 ($000s)	2024 ($000s)
Accounting profit before income tax	362,664	261,907
At the New Zealand statutory income tax rate of 28%	101,546	73,334
Non-taxable/non-deductible income/expenditure	4,203	3,299
Prior period adjustment	(105)	(931)
R&D benefit	(798)	(963)
Tax rate variance of subsidiaries and revaluations of deferred tax	(2,401)	895
Current year tax losses/deferred expenditure not recognised	32,463	12,812
Recognition/utilisation of historic unrecognised tax losses	(61)	(1,179)
Income tax expense	**134,847**	**87,267**
Comprising:		
Current tax expense	72,201	26,055
Deferred tax expense	62,646	61,212
Income tax expense	**134,847**	**87,267**

Income tax expense charged to equity

Year ended 31 March	2025 ($000s)	2024 ($000s)
Current tax		
Share-based payments	6,825	3,056
Translation of foreign currency operations	3,130	5,453
Total	**9,955**	**8,509**
Deferred tax		
Share-based payments	546	(676)
Fair value movement on cash flow hedges	1,768	1,349
Total	**2,314**	**673**

Net Deferred Tax Balances

Year ended 31 March 2025	DERIVATIVES ($000s)	PROVISIONS AND EMPLOYEE BENEFITS ($000s)	TAX DEPRECIATION ($000s)	TAX LOSSES AND R&D EXPENDITURE ($000s)	TOTAL ($000s)
Balance at 1 April 2024	1,122	31,230	(67,738)	53,988	18,602
Prior period adjustment	–	72	(867)	(47)	(842)
Charged to Income Statement	1	3,798	(11,715)	(90)	(8,006)
Charged to equity	1,768	546	–	–	2,314
Tax losses and R&D credits utilised	–	–	–	(53,847)	(53,847)
Impact of change in tax rates	–	174	(126)	1	49
Recognition of deferred tax on business combination	–	–	(7,412)	–	(7,412)
Balance at 31 March 2025	**2,891**	**35,820**	**(87,858)**	**5**	**(49,142)**
Comprising:					
Deferred tax asset	–	15,200	(1,444)	5	13,761
Deferred tax liability	2,891	20,620	(86,414)	–	(62,903)

Year ended 31 March 2024	DERIVATIVES ($000s)	PROVISIONS AND EMPLOYEE BENEFITS ($000s)	TAX DEPRECIATION ($000s)	TAX LOSSES AND R&D EXPENDITURE ($000s)	TOTAL ($000s)
Balance 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
Balance 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)

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.

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 $606.0 million (2024: $451.8 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 in the same jurisdiction.

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 and Australia, the Pillar Two rules came into effect from 1 April 2024.

Under Pillar Two legislation, the Group may be liable to pay a top-up tax where the effective tax rate 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 financial information for the year ended 31 March 2025, which showed that no top-up tax exposure should arise for the Group. This is on the basis that the Safe Harbour rules can be relied upon in each jurisdiction that the Group operates in.

The Group has applied the mandatory exception to recognising and disclosing information about any deferred tax impact related to Pillar Two income taxes.

25. RECONCILIATION OF OPERATING CASH FLOWS

Year ended 31 March	2025 ($000s)	2024 ($000s)
Net profit	227,817	174,640
Adjustments:		
Depreciation	29,509	31,175
Amortisation	253,251	226,688
Share-based payments	151,878	95,821
Amortisation of discount and debt issuance costs on term debt	51,201	36,635
Deferred tax and current taxes recognised in equity	12,269	9,182
Asset impairments, net of reversals	3,037	24,480
Revaluation of contingent consideration	2,090	522
Bad debts	6,671	5,543
Derivative revaluation	29,886	5,798
Gain on repurchase of convertible note	(36,105)	–
Loan commitment revaluation loss	9,494	–
Financing transaction costs	10,203	–
Other non-cash items	5,025	(306)
Changes in working capital:		
(Increase)/decrease in trade receivables and prepayments	9,168	(51,268)
Decrease in deferred tax assets	60,360	60,499
Increase/(decrease) in trade payables and other related items	(5,125)	26,797
Decrease in provisions	(1,766)	(44,352)
Increase/(decrease) in net tax receivable	2,040	(28,875)
Increase/(decrease) in employee entitlements	(18,657)	6,815
Increase in interest payable	5,286	–
Increase in income in advance	4,138	11,965
Net cash flows from operating activities	**811,670**	**591,759**

26. 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 both market and non-market 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 (2024: 1.55 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:

Year ended 31 March	2025 WEIGHTED AVERAGE GRANT DATE FAIR VALUE (AUD)	2025 RSUs (000s)	2024 WEIGHTED AVERAGE GRANT DATE FAIR VALUE (AUD)	2024 RSUs (000s)
Opening balance	106.76	942	102.68	670
Granted	143.28	1,917	113.31	1,261
Forfeited	128.53	(91)	105.12	(246)
Converted to shares	124.58	(963)	114.92	(739)
Settled in cash	–	–	82.64	(4)
Closing balance	**134.95**	**1,805**	**106.76**	**942**

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 forfeit. 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 tenth anniversary of the grant date. There were 20 holders of options at 31 March 2025 (2024: 36). 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:

Year ended 31 March	2025 WEIGHTED AVERAGE EXERCISE PRICE (AUD)	2025 OPTIONS (000s)	2024 WEIGHTED AVERAGE EXERCISE PRICE (AUD)	2024 OPTIONS (000s)
Opening balance	91.73	822	85.80	1,428
Granted	171.11	575	118.10	18
Forfeited/expired	137.52	(22)	127.42	(109)
Exercised	106.21	(231)	71.36	(515)
Closing balance	**127.82**	**1,144**	**91.73**	**822**
Exercisable at 31 March	86.11	403	91.28	346

The weighted average share price on date of exercise for options exercised in the year ended 31 March 2025 was AUD155.33 (2024: AUD114.22). The weighted average remaining contractual term of options outstanding at 31 March 2025 is 8.2 years (2024: 5.7 years).

Options outstanding at 31 March fall within the following ranges:

GRANTED	EXERCISE PRICE (AUD)	2025 OPTIONS (000s)	2024 OPTIONS (000s)
2019-20	62.86	–	41
2020-21	79.50 – 138.28	16	112
2021-22	121.39 – 146.99	48	129
2022-23	72.39 – 88.88	487	522
2023-24	72.39 – 118.58	18	18
2024-25	171.11	575	–
Total		**1,144**	**822**

The weighted average fair value of options granted during the year, determined using the Black-Scholes valuation model, was AUD72.26 per option (2024: AUD49.53).

The significant inputs into the model were the market share price at grant date, the exercise price as shown above, expected annualised volatility of 39%, a dividend yield of 0%, an expected option life of 5.5 years, and an annual risk-free interest rate of 4% (2024: volatility of between 41.1% and 47.1%, a dividend yield of 0%, an expected option life of between 1 and 5 years, and an annual risk-free interest rate of between 3.7% and 3.9%).

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.

27. 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 expense recognised in relation to key management personnel remuneration:

Year ended 31 March	2025 ($000s)	2024 ($000s)
Directors' fees	2,428	2,340
Short-term employee benefits	3,201	2,765
Share-based payments – options	10,873	7,697
Share-based payments – restricted stock units	8,554	5,958

Related party transactions

Other than remuneration paid to key management personnel above, there have been no outstanding balances or commitments during the period ending 31 March 2025 (2024: 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. Key management and their related parties, from time to time, subscribe to services provided by the Group, on normal business terms. 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 other than those detailed above.

No amounts with any related parties have been written off or forgone during the year (2024: nil).

28. COMMITMENTS AND CONTINGENCIES

Capital commitments

There were no capital commitments contracted for but not yet incurred at 31 March 2025 (2024: nil).

Contingent liabilities

There were no contingent liabilities at 31 March 2025 (2024: nil).

29. EVENTS AFTER THE BALANCE SHEET DATE

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

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are required to prepare financial statements for each financial year that present fairly the financial position of the Group and its operations and cash flows for that period.

The directors consider these financial statements have been prepared using accounting policies suitable to the Group's circumstances, that these have been consistently applied and are supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Group and that 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 2025, 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 15 May 2025.

For and on behalf of the Board

David Thodey
Chair
Xero Limited

15 May 2025

Mark Cross
Director
Xero Limited

15 May 2025

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DISCLOSURES

All financial figures in this section of the Annual Report are in New Zealand Dollars except where indicated otherwise. References to FY25 are to the financial year ended 31 March 2025. Xero Group means Xero Limited (Xero) and its subsidiaries.

EQUITY HOLDINGS OF DIRECTORS, CEO AND CFO

The table below sets out the equity of Xero's directors, CEO and CFO, held nominally and through their associates or related parties.

AT 31 MARCH 2025	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	2,512	–	–
Brian McAndrews	2,994	–	–
Dale Murray	1,636	–	–
Susan Peterson	3,340	–	–
CEO & CFO			
Sukhinder Singh Cassidy	12,815	1,038,308	171,151
Kirsty Godfrey-Billy*	2,282	–	16,646

** Kirsty Godfrey-Billy stepped down as CFO on 31 March 2025*

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 2025.

DIRECTOR/ENTITY	RELATIONSHIP
David Thodey	
Ramsay Health Care Limited (ASX listed)	Chair
Steven Aldrich	
Semrush Holdings, Inc. (NYSE listed)	Director
Mark Cross[1]	
Chorus Limited (NZX and ASX listed)	Chair
Accident Compensation Corporation New Zealand	Board Member
Fisher & Paykel Healthcare Corporation Limited (NZX and ASX listed)	Director
Anjali Joshi[2]	
Persistent Systems Limited (NSE & BSE listed)	Director
Brian McAndrews	
The New York Times Company (NYSE listed)	Presiding Director[3]
Frontdoor, Inc. (NASDAQ listed)	Lead Director
Dale Murray[4]	
Jupiter Fund Management PLC (LSE listed)	Director
Lightspeed Commerce, Inc. (NYSE and TSX listed)	Director
Susan Peterson[5]	
Vista Group International Limited (NZX and ASX listed)	Chair
Mercury NZ Limited (NZX and ASX listed)	Director
Craigs Investment Partners	Director

[1] Mark Cross was elected as a director of Fisher & Paykel Healthcare Corporation during FY25
[2] Anjali Joshi was elected as a director of Persistent Systems Limited during FY25
[3] Brian McAndrews will step down as presiding director of The New York Times Company on 30 April 2025, but will continue as a director
[4] Dale Murray ceased as a director of Lendinvest PLC (LSE listed) during FY25
[5] Susan Peterson ceased as a director of Arvida Group Limited (NZX listed) during FY25

Share dealings of directors

Directors disclosed the following acquisitions or disposals of relevant interests in Xero shares during FY25.

REGISTERED HOLDER	DATE OF ACQUISITION	CONSIDERATION PER SHARE	NUMBER OF SHARES ACQUIRED
Anjali Joshi			
Anjali Joshi & Sanjay Kasturia as trustees for the Kasturia and Joshi Trust	12 June 2024	USD86.31	780
Anjali Joshi & Sanjay Kasturia as trustees for the Kasturia and Joshi Trust	21 June 2024	USD87.22	1,732

Insurance

Xero has continued to insure its directors and officers in accordance with the Companies Act 1993 (New Zealand) (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 its subsidiaries, for potential liabilities and costs they may incur for acts or omissions in their capacity as directors or officers of Xero or its subsidiaries, to the extent permitted by law.

REMUNERATION REPORTING

Xero's remuneration policy and practices are summarised on pages 93 to 125 of this Annual Report.

SHAREHOLDER INFORMATION

The shareholder information set out below is current as at 8 April 2025, unless otherwise specified.

Issued capital

The total number of issued shares in Xero was 153,617,652, of which 31,081 shares were held on a restricted basis in connection with Xero's share-based compensation plans, and 97,308 shares were held in voluntary escrow in connection with the acquisition of Syft Analytics.

Distribution of shareholdings

RANGE	NUMBER OF HOLDERS	%	SHARES	%
1 to 1,000	44,834	95.07	6,511,354	4.24
1,001 to 5,000	1,982	4.20	3,951,548	2.57
5,001 to 10,000	185	0.39	1,311,882	0.85
10,001 to 100,000	124	0.26	2,747,810	1.79
100,001 and over	32	0.07	139,095,058	90.55
Total	**47,157**	**100.00***	**153,617,652**	**100.00**

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

There were 558 holders of less than a marketable parcel of shares as at 8 April 2025, based on a market price of AUD $142.26 per share.

Distribution of RSUs and Options

There were 20 individuals holding a total of 1,144,388 Options and 856 individuals holding a total of 1,804,501 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	5.00	1,000	0.09
1,001 to 5,000	9	45.00	21,708	1.90
5,001 to 10,000	7	35.00	55,042	4.80
10,001 to 100,000	2	10.00	28,330	2.48
100,001 and over	1	5.00	1,038,308	90.73
Total	**20**	**100**	**1,144,388**	**100**

Distribution of RSUs

RANGE	NUMBER OF HOLDERS	%	RSUs	%
1 to 1,000	704	82.24	70,911	3.93
1,001 to 5,000	97	11.33	216,132	11.98
5,001 to 10,000	16	1.87	96,775	5.36
10,001 to 100,000	36	4.21	905,139	50.16
100,001 and over	3	0.35	515,544	28.57
Total	**856**	**100**	**1,804,501**	**100**

On-market purchases

No securities were purchased on-market during FY25 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.

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 8 April 2025 are listed below.

NAME	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
1 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	56,640,831	36.87
2 J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	34,431,039	22.41
3 CITICORP NOMINEES PTY LIMITED	23,072,232	15.02
4 MR RODNEY KENNETH DRURY & MR SCOTT MORAN	3,693,134	2.40
5 BNP PARIBAS NOMS PTY LTD	3,190,253	2.08
6 ANNA M C STUCK & INDEPENDENT PROFESSIONAL TRUSTEES (2017) LTD & ITC (AS) LIMITED	3,021,655	1.97
7 BNP PARIBAS NOMINEES PTY LTD	1,995,834	1.30
8 CITICORP NOMINEES PTY LIMITED	1,873,714	1.22
9 CUSTODIAL SERVICES LIMITED	1,638,070	1.07
10 NATIONAL NOMINEES LIMITED	1,578,180	1.03
11 SOLIUM NOMINEES (AUSTRALIA) PTY LTD	1,159,971	0.76
12 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,041,735	0.68
13 AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	835,000	0.54
14 MR NELSON NIEN SHENG WANG & MS PEI-CHUN KO	646,988	0.42
15 BNP PARIBAS NOMINEES PTY LTD	533,088	0.35
16 BNP PARIBAS NOMS (NZ) LTD	472,660	0.31
17 NETWEALTH INVESTMENTS LIMITED	414,104	0.27
18 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	400,306	0.26
19 BNP PARIBAS NOMINEES PTY LTD	320,243	0.21
20 BNP PARIBAS NOMS PTY LTD	266,978	0.17
Top 20 holders of fully paid shares (total)	**137,226,015**	**89.33***
Other shareholders (balance on register)	16,391,637	10.67
Grand total	**153,617,652**	**100.00**

**Percentages do not add up to 89.33% due to rounding in the data*

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 $657,738 during FY25. The Xero Group made no donations to political parties during FY25.

Company directors

The following persons held office as directors of Xero as at the end of FY25. No directors ceased to hold office during FY25.

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

Company subsidiaries and directors

Xero has 28 wholly owned subsidiaries, as shown in the table below. The following persons held office as directors of Xero's subsidiary companies during FY25.

JURISDICTION	SUBSIDIARY	DIRECTORS	DIRECTORS WHO CEASED TO HOLD OFFICE DURING FY25
Australia	Planday Australia Pty Ltd	Kirsty Godfrey-Billy* Toby Langley (appointed 18 Aug 2024) David Lee	
	Waddle Loans Pty. Ltd.**	Kirsty Godfrey-Billy Henrietta Thomas (appointed 15 Aug 2024)	
	Waddle SaaS Pty Ltd**	Kirsty Godfrey-Billy Henrietta Thomas (appointed 15 Aug 2024)	
	Xero Australia Pty Limited	Kirsty Godfrey-Billy* Ashley Hansen Grech Toby Langley (appointed 16 Aug 2024) Angad Soin (appointed 15 Nov 2024)	Anthony Drury (appointed 30 May 2024; resigned effective 25 Jul 2024)
Canada	Hubdoc Inc.	Kirsty Godfrey-Billy* Ashalee Mohamed (appointed 3 May 2024)	Faye Pang (resigned effective 3 May 2024)
	Xero Software (Canada) Ltd.	Kirsty Godfrey-Billy* Ashalee Mohamed (appointed 3 May 2024)	Faye Pang (resigned effective 3 May 2024)
Denmark	Planday A/S	Anders Frederiksen Kirsty Godfrey-Billy* Ashley Hansen Grech David Lee	
	Xero Denmark A/S	Martin Andersen (appointed 29 Nov 2024) Kirsty Godfrey-Billy* Ashley Hansen Grech (appointed 27 May 2024) Alexander von Schirmeister	Birgitte Phil (resigned effective 27 May 2024) Chris Blaine (appointed 27 May 2024; resigned effective 29 Nov 2024)

Germany	Planday GmbH	Kirsty Godfrey-Billy David Lee
Hong Kong	Xero (HK) Limited	Kirsty Godfrey-Billy* Koren Wines
India	Xero Software Solutions (India) Private Limited	Kirsty Godfrey-Billy* Rebecca Small (appointed 19 Dec 2024) Kumar Iyer (Indian resident non-executive director)
Malaysia	Xero Software (Malaysia) Sdn. Bhd. (incorporated 6 Dec 2024)	Kirsty Godfrey-Billy (appointed 6 Dec 2024) Rebecca Small (appointed 6 Dec 2024) Koren Wines (appointed 6 Dec 2024) Mahathir Bin Mahzan (Malaysian resident non-executive director; appointed 6 Dec 2024)
New Zealand	Xero (NZ) Holdings Limited	Kirsty Godfrey-Billy Rebecca Small
	Xero (NZ) Limited	Kirsty Godfrey-Billy* Bridget Snelling
	Xero Investments Limited	Kirsty Godfrey-Billy* Rebecca Small
	Xero Trustee Limited	Kirsty Godfrey-Billy*
Norway	Planday Norway AS	Kirsty Godfrey-Billy Clarence Willard
Singapore	Xero (Singapore) Pte. Ltd	Kirsty Godfrey-Billy* Koren Wines
South Africa	Xero South Africa Proprietary Limited	Kirsty Godfrey-Billy* Colin Timmis Alexander von Schirmeister
	Syft Analytics Group South Africa Proprietary Limited	Kirsty Godfrey-Billy* (appointed 23 Dec 2024) Diya Jolly (appointed 23 Dec 2024) Vangelis Kyriazis (appointed 23 Aug 2024)
	Syft Analytics Operations South Africa Proprietary Limited	Kirsty Godfrey-Billy* (appointed 23 Dec 2024) Diya Jolly (appointed 23 Dec 2024) Vangelis Kyriazis (appointed 23 Aug 2024)

Sweden	Tickstar AB	Anders Frederiksen Kirsty Godfrey-Billy Diya Jolly Clarence Willard (appointed 21 Aug 2024)	Tyson Lloyd (resigned effective 21 Aug 2024)
United Kingdom	Planday Limited	Kirsty Godfrey-Billy* David Lee	
	Xero (UK) Limited	Kirsty Godfrey-Billy* Alexander von Schirmeister	
United States	Xero CA Acquisitions Inc.	Kirsty Godfrey-Billy* Ashley Hansen Grech	
	Planday, Inc.	Ashley Hansen Grech David Lee	Kirsty Godfrey-Billy (resigned effective 24 Dec 2024)
	Xero, Inc.	Kirsty Godfrey-Billy* Ashley Hansen Grech	
	Syft Analytics Inc	Kirsty Godfrey-Billy* (appointed 23 Dec 2024) Diya Jolly (appointed 23 Dec 2024) Vangelis Kyriazis (appointed 18 Jan 2018)	

* *Kirsty Godfrey-Billy resigned as a director of the subsidiaries marked with an asterisk with effect from 31 March 2025*

** *Applications have been made to the Australian Securities and Investments Commission for the deregistration of these subsidiary companies that are no longer operational*

Directors of Xero's subsidiaries have not disclosed any new relevant interests, or cessations of interest, during FY25.

Kumar Iyer received total remuneration of INR1,440,000 in his role as non-executive director of Xero Software Solutions (India) Private Limited during FY25. Kumar Iyer received no other benefits from Xero or any Xero subsidiary company during FY25.

Mahathir Bin Mahzan of Mahazan Sulaiman received total remuneration of RM20,000 in his role as non-executive director of Xero (Software) Malaysia Sdn. Bhd. Mahathir Bin Mahzan received no other benefits from Xero or any Xero subsidiary company during FY25.

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 93 to 125 of this Annual Report.

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REMUNERATION REPORT

SECTIONS 1 - 6

SECTION 7 - 12

1. PEOPLE AND REMUNERATION COMMITTEE CHAIR LETTER

Dear shareholder,

I am pleased to present Xero's FY25 Remuneration Report on behalf of Xero's People and Remuneration Committee.

As a high-growth technology company that is scaling to become a global leader in cloud-based business solutions, our committee is focused on ensuring that Xero can attract, retain and develop a global workforce that has the capability to successfully deliver on our purpose.

At Xero, we actively engage with a wide range of stakeholders on a variety of issues, including remuneration. Where possible, we actively seek the views of our shareholders and proxy firms ahead of making important decisions that impact Xero's ability to attract and retain the global workforce required to successfully deliver on our FY25-27 strategy.

As a New Zealand-domiciled company, we aim to continuously improve the quality of our reporting and deliver best practice ASX governance standards. Xero remains committed to voluntarily publishing a remuneration report each year and also voluntarily making them the subject of an advisory resolution to shareholders at each Annual Meeting.

This Remuneration Report has been enhanced in response to the stakeholder engagement undertaken over the past 12 months. The most material enhancements relate to the disclosure of both Short Term Incentive (STI) and Long Term Incentive (LTI) performance targets (refer to pages 118-119), additional information around our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) compensation structures (refer to pages 112-116) and more detail on how Xero links pay with performance in seeking to attract the right level of global talent to execute our global strategy. We welcome your feedback.

Performance and pay

This past year has been another strong period of performance at Xero. Our operating revenue grew by 23% year over year (20% in constant currency) to $2.1 billion, with an operating expense to revenue ratio of 71.8%. Free cash flow increased to $506.7 million, with a free cash flow margin of 24.1%, improving from 20.0% in the prior period. As a result, Xero once again delivered a greater than Rule of 40 outcome with 44.3% in FY25.

Over the one year period to 31 March 2025, Xero's total shareholder return (TSR) of 16% ranked at the 80th percentile of the S&P/ASX 100 and the 83rd percentile of the Nasdaq Emerging Cloud Index (EMCLOUD Index). Over the three year period to 31 March 2025, Xero's TSR of 69% ranked at the 86th percentile of the S&P/ASX 100 and the 95th percentile of the EMCLOUD Index.

The remuneration outcomes across our STI and LTI plans reflect our performance against ambitious targets. Overall outcomes achieved resulted in an STI plan pay-out of 78.5% of target (or 52.4% of the maximum opportunity). Following individual performance assessments, this resulted in the CEO being awarded 98.1% and the former CFO being awarded 78.5% of their STI target opportunity.

Our LTI plan was assessed over a three year period against two measures; operating revenue compound annual growth rate (CAGR) and relative total shareholder return (rTSR). Following strong revenue growth and sustained shareholder value creation over the period, the calculated outcomes for the LTI resulted in a total plan achievement of 106.1% against target (70.8% of maximum).

Executive changes

We said farewell to Kirsty Godfrey-Billy as our CFO, and Nicole Reid as our Chief People Officer this year. Kirsty and Nicole both made significant contributions to the success of Xero, and helped lead our teams successfully through a significant period of growth and change. We thank them for their passion and commitment to Xero and wish them both well for their futures.

We were delighted to welcome Claire Bramley as our new CFO and Jeff Ryan as our new Chief People Officer on 1 April 2025. Both bring deep global tech experience to our team as we continue to scale Xero. In addition, throughout the year we have also made a number of key senior leadership team hires around the world. It is pleasing to see the calibre of talent that Xero has been able to increasingly attract, which is a credit to both the Xero brand and also the reputations of our senior executives.

CEO remuneration review

The Board announced the outcome of the CEO remuneration review to the market in December 2024. This review followed a commitment made to Sukhinder, when she was appointed as CEO in November 2022, that the Board would review her remuneration against similar US based global tech CEOs once she had proven her performance.

As part of this review, the Board sourced extensive independent global benchmarking data, and undertook consultation with a range of stakeholders, including shareholder and proxy firms on the construction of the package.

The Board applied the same principles that apply to all Xeros in respect of Sukhinder's remuneration review; namely an assessment of her individual performance, an assessment of the scope and criticality of her role, and her location.

It should be noted that while the performance of Xero was in the top quartile of the EMCLOUD Index, Sukhinder's compensation was, before her review, below the 10th percentile of the benchmarked peer group. Following her remuneration review, all components of Sukhinder's compensation now sit at the 50th percentile or market median of the benchmarked peer group. More details of Sukhinder's remuneration review can be found on pages 112-115 of this Remuneration Report.

During our engagement with shareholders and proxy firms in relation to Sukhinder's remuneration review, some considered that it would be useful that we make the following clear:

- Sukhinder is a proven global career executive with the US as her home.
- Xero is one of only a handful of truly global SaaS companies on the ASX. Attracting and retaining global SaaS leaders, a concentration of whom are US-based, in a competitive international market is essential to delivering the high performance needed to drive long-term shareholder value across our global business.
- Xero is performing in the top quartile of the EMCLOUD Index.
- In the US, CEOs tend to receive lower fixed base pay in cash than their Australian counterparts and have higher share-based compensation. Tenure based shares, such as the Long Term Equity (LTE), are considered a standard part of US packages and are viewed as being in the best interests of shareholders because they provide both cash efficient fixed base pay, while also ensuring that the CEO is strongly incentivised to deliver improved share price performance. It should be noted that Sukhinder's fixed base pay in cash was reduced in the remuneration review to align it to the 50th percentile or market median of the peer group benchmark.
- Options are also commonly utilised in the US market and provide an effective way to align the CEO's interests with shareholders' interests. Options only reward positive share price performance above a set exercise price. Sukhinder will only realise any financial value from her options grant if the Xero share price exceeds AUD 171.11 (based on the Xero share price at the time of grant); her profits from any options exercised are equal to the share price when she exercises such options, less AUD 171.11. As such, options as a form of compensation are 100% aligned to pay-for-performance.
- Through the combination of this option grant and the LTI plan, the CEO is heavily incentivised to outperform on both an absolute and relative TSR basis over the long-term. Section 7 of this report sets out a detailed explanation of the rationale for why options were awarded and how they effectively remunerate the CEO to deliver long-term shareholder value.
- ASX-typical terms that align with shareholder interests remain in Sukhinder's compensation package. These include a heavy weighting to performance pay, retaining STI deferral (50:50 cash/equity split), the Board retaining 100% discretion in respect of any STI, LTI and LTE outcomes, and the retention of the traditional good conduct, malus and clawback provisions.
- A two year hold period applies to Sukhinder's options grant (resulting in a total vesting period of up to four years). The inclusion of mandatory hold periods is encouraged by some proxy firms, but is not yet a wide-spread market practice. Sukhinder has agreed to this additional restriction to also demonstrate her commitment to delivering long-term value to shareholders. There is no current intention to make any further option grants.

Non-executive director fees

The Xero Board and Committee fee structure was reviewed and adjustments were made in line with Xero's principle of aligning director fees to each of the regional peer group benchmarks. Effective on 1 October 2024, changes were implemented for the Chair of the Board and base director fees, as well as committee chair and member fees. The total of Board and Committee fees remains within the fee pool approved by shareholders in 2023.

The future of work

We are excited about our program of work underway to systematically support our people with the tools necessary to enable them to focus on the highest-value work. Recent advances in AI will help our employees to be significantly more productive. Whether it's our employees using different AI tools to augment parts of their work, AI agents completing discrete tasks, or implementing complete workflows that automate tasks, we will leverage AI to supercharge our internal processes.

Thank you

I would like to thank all of our stakeholders, including our shareholders and proxy firms, who have willingly given their time to us throughout the year. The feedback received has informed our decisions that we believe best balance the interests of all. I would also like to thank my colleagues on the People and Remuneration Committee for their commitment and support throughout the year. It is warmly appreciated.

Finally, I would like to thank Sukhinder and all of our people for your passion and dedicated performance throughout the year. It is a privilege to work with you as we continue to deliver sustainable long-term value for our shareholders.

Yours sincerely,

S R Peterson

Susan Peterson, Chair

People and Remuneration Committee

2. FY25 REMUNERATION OUTCOMES AND NOTABLE CHANGES

In FY25, we evaluated the CEO and CFO's remuneration as well as non-executive director fees, to ensure competitiveness across our key regions. This assessment was supported by benchmarking against globally comparable companies using market data obtained through independent sources. More information regarding these peer groups is provided in the Report.

The following table summarises outcomes and notable changes for FY25.

TOPIC	DETAIL	FURTHER DETAIL

FY25 remuneration outcomes at a glance

The following table provides a snapshot of FY25 remuneration outcomes

COMPONENT	PLAN ACHIEVEMENT	% OF TARGET	% OF MAX	FURTHER DETAIL
Scorecard outcomes				
FY25 STI - 1 year performance	Voice of shareholder	65.2%	43.6%	
	Voice of customer	0%	0%	
	Voice of employee	13.3%	8.8%	
Total outcome		**78.5%**	**52.4%**	Section 8.2
FY23 LTI - 3 year performance	Operating Revenue - 3 year CAGR (target for max payout = 24.3%)	77.2%	51.5%	
	rTSR - against 27 global SaaS orgs (target for max payout = 100th percentile)	28.9%	19.3%	
Total FY23 LTI outcome		**106.1%**	**70.8%**	Section 8.3

No discretion has been applied by the Board in determining the FY25 STI and FY23 LTI outcomes. Following individual performance assessments, this resulted in the CEO being awarded 98.1% and the former CFO being awarded 78.5% of their STI target opportunity.

CEO revised pay — Further detail: Sections 7.1 & 7.2

During FY25, there were no changes to the CEO's base pay or incentive opportunity levels. However, on 18 December 2024, Xero announced that the Board had revised the CEO's remuneration to recognise her strong performance, ensure it is appropriately market aligned to globally comparable technology companies and that it continues to focus on incentivising long-term value creation.

It should be noted that while the performance of Xero was in the top quartile of the EMCLOUD Index, Sukhinder's compensation was, before her review, below the 10th percentile of the benchmarked peer group.

In summary, the revised remuneration arrangements are:

- Effective from 1 April 2025 (FY26), base salary and associated target STI each reduce from USD 735,000 to USD 540,000, noting that target STI continues to remain at 100% of base salary
- Combined FY26 LTE and LTI target opportunity increases from USD 4,000,000 to USD 14,120,000, with Restricted Stock Units (RSUs) to be granted in July 2025, noting that LTI/LTE split remains at 60:40 (at max opportunity)
- A one-off grant of 575,000 'at-the-money' options with an exercise price of AUD 171.11 and a fair value of USD 26,490,000. The options vest over three years in three equal tranches annually following the grant date and each vested tranche will be subject to a further holding restriction post vest. This brings the CEO's total equity exposure to the median of the US benchmark group

Through the combination of this option grant and the LTI plan, the CEO is heavily incentivised to outperform on both an absolute and relative TSR basis over the long-term.

TOPIC	DETAIL	FURTHER DETAIL
CFO transition	During the financial year we announced the appointment of Claire Bramley as Xero's new CFO after Kirsty Godfrey-Billy (former CFO) announced she would step down on 31 March 2025.[1] Claire's base salary of USD 520,000 and total target remuneration (TTR[2]) of USD 6,040,000 were set by reference to the US peer group. As part of her appointment, Claire received a sign-on award to compensate for equity and other compensation foregone with her previous employer and smooth out annual realisable pay during years one and two, given the back end weighting of Xero's three year LTI plans. The sign-on award is split between USD 4,250,000 in cash (paid over four years) and USD 10,070,000 in RSUs (vesting over three years), with leaver and malus/clawback conditions to apply. Across both the CEO and CFO remuneration packages summarised above, ASX typical terms that align to shareholder interests are retained. These include retaining a heavy weighting in favour of performance pay, STI deferral (50:50 cash/equity split), the Board retaining 100% discretion in respect of STI, LTI and LTE outcomes, and the retention of the traditional good conduct, malus and clawback provisions.	Section 7.3
NED Fee changes	The Xero Board and Committee fee structure was reviewed and adjustments were made to follow Xero's principle of aligning director fees to each of the regional peer groups. Effective 1 October 2024, the Chair of the Board received an increase of NZD 27,000 to 492,000, the ANZ and UK base fee increased NZD 5,000 to 195,000 and the US base fee increased by NZD 56,000 to 416,000. Committee Chair fees increased by NZD 11,500 to 51,500, and Committee Member fees increased by NZD 4,200 to 25,200. Committee fee changes are applicable to both Audit and Risk Management (ARM) Committee and the People and Remuneration (PR) Committee. No separate fee is payable to the members or Chair of the Nominations and Governance (NG) Committee.	Section 11
Uplift in disclosures	We recognise the importance of transparent disclosures and the alignment between pay and performance. In FY25, we have enhanced our disclosures in response to the stakeholder engagement undertaken over the past 12 months. Key enhancements include: • More detail on how we link pay with performance at Xero • Retrospective disclosure of both STI and LTI targets • More detailed explanation of both how options work and also incentivise the executive to grow sustainable shareholder value • More information on why the LTE plans are commonplace in US packages and why they should be seen to be a form of deferred base pay that also align the executive reward with the interests of shareholders • Being clear that the balance between performance hurdled LTI and LTE is 60%/40% of maximum in the CEO and CFO packages • Visuals to better demonstrate how the CEO and CFO packages are structured to balance fixed and performance pay, and how the various elements of pay materialise over time • The introduction and explanation of a non-market standard two-year hold period on the options granted to the CEO	

1. Kirsty Godfrey-Billy stepped down as CFO effective 31 March 2025 and continues to provide transitional support through to 30 June 2025
2. Total target remuneration (TTR) includes base salary, Short Term Incentive (STI), Long Term Equity (LTE) and Long Term Incentive (LTI)

3. DIRECTORS AND SENIOR LEADERSHIP TEAM

This report focuses on the FY25 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. Under Xero's functional organisational model, the CEO and CFO are the only members of management who have authority and responsibility in relation to decision making on the activities impacting the whole of Xero (rather than functional areas or aspects of the business). The individuals included are consistent with those determined as key management personnel for both financial reporting purposes and this report.

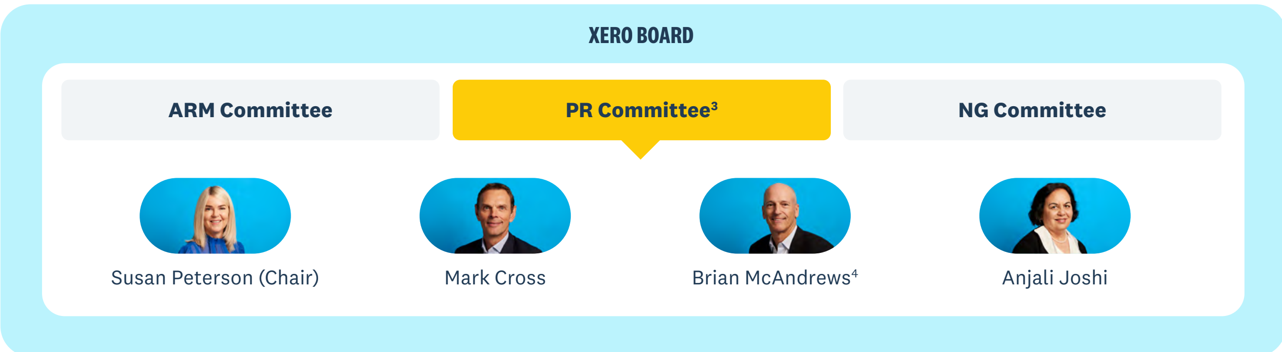
Broader details of Xero's remuneration framework and structure are also included in this report and relate to Xero's Executive Leadership Team (XLT) i.e. executives who report directly to the CEO.

	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	Full year
Brian McAndrews	United States	Independent non-executive director	Full year
Dale Murray, CBE	United Kingdom	Independent non-executive director	Full year
Susan Peterson	New Zealand	Independent non-executive director	Full year

**Kirsty Godfrey-Billy ceased as CFO on 31 March 2025 and remains employed through to 30 June 2025 upon transition.*

4. REMUNERATION GOVERNANCE FRAMEWORK

Xero's remuneration practices and governance framework is overseen by the PR Committee on behalf of the Board. PR Committee membership on 31 March 2025 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.



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

4. Effective 1 June 2024, Brian McAndrews was appointed a member of the PR Committee, in place of Steven Aldrich (who joined the ARM Committee)

THE PR COMMITTEE'S PRIMARY RESPONSIBILITIES
Aligning our remuneration frameworks, policies and practices with Xero's purpose, values, strategic objectives, risk appetite, and good governance principles and practice
Making 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
Making recommendations to the Board regarding remuneration outcomes and changes to the CEO's remuneration
Supporting the Chair of the Board to evaluate the CEO's performance and makes recommendations to the Board on CEO performance objectives
Approving and informing the Board of the appointment and remuneration of the CFO and other members of Xero's executive leadership team, including the vesting of incentives, and overseeing their performance
Monitoring the development and implementation of strategies relating to Xero's culture and employee engagement, succession planning and talent management, and health, safety and wellbeing
Overseeing shareholder and other stakeholder engagement in relation to Xero's remuneration 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

4.1 External and independent advice

To assist the Board and PR Committee in making independent and informed decisions, additional information and market data is sought from external remuneration advisors, as required. Along with seeking input from management, the PR Committee may obtain independent advice directly from external advisers to support the performance of its role and may meet in the absence of management including to consider 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 Board, PR Committee or management during FY25.

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 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, since FY24, voluntarily puts an advisory resolution to our shareholders at our Annual Meeting each year in relation to our Remuneration Report.

We have sought to disclose information that provides a good understanding around how we prioritise the work to support our culture and performance, and how we 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 voting outcome and comments following the non-binding resolution at our Annual Meeting will be considered by the Board when setting future remuneration strategy, and in the preparation of the following year's Remuneration Report.

Outside of the Annual Meeting cycle, the Board actively seeks and considers feedback from shareholders and proxy advisors on matters of remuneration and governance.

As a part of revising the CEO's remuneration arrangements, an extensive engagement process was undertaken during FY25 as part of the Board's commitment to proactively seek the views of key stakeholders (see section 7.1 for further information).

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 (see section 4.5). The Board also has discretion in relation to how variable remuneration is treated in a change of control or cessation of employment scenario (see section 4.6). The treatment of the CEO's variable remuneration has already been determined in certain cessation of employment scenarios (see section 6.5).

In addition, all 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

Prior to any equity awards vesting, the PR Committee reviews all XLT vesting events (which includes the CEO and CFO) to ensure no malus or clawback events have occurred. The PR Committee or the Board did not apply any malus and clawback adjustments with respect to grants or vesting events for the CEO and CFO during FY25. All grants and vesting events were made in accordance with the standard terms and treatment applicable to each grant.

4.5 STI & LTI adjustment principles

From FY23 onwards, the PR Committee adopted principles to guide the Board's application of discretion to STI or LTI plan outcomes. The principles are as follows:

- **Nature and timing of adjustments** – Discretion will only be applied to plan outcomes and not plan targets. If any discretion is to be exercised, it will be applied at the completion of the relevant performance or vesting period, when the Board has a full view of the applicable period
- **Materiality of adjustments** – Adjustments will only be made for events or items over the plan period that have a material impact on outcomes (e.g. where relevant M&A activity occurs). Where applicable, any deviation to the assumptions underpinning the business plan that guided the target setting process will be assessed for materiality and whether it was outside of management's control (e.g. accounting policy changes)
- **Plan integrity** – Adjustments will be assessed to ensure that their application will continue the plan's purpose, which is to incentivise and reward management in delivering sustainable value to shareholders
- **Consistency, fairness, and transparency** – The use of discretion (both positive and negative) will be applied consistently and with the view to balance both management and shareholder interests
- **Accountability** – Adjustments to the individual component of the plan will be applied selectively where it is appropriate to reflect the degree of control and influence which individuals/groups had on business outcomes

The Board has absolute discretion to change how STI or LTI performance is assessed or paid out to ensure outcomes are fair and appropriate.

The Board has not applied any discretion in respect of the STI or LTI outcomes paid in FY25.

4.6 Change of control provisions

The Board has broad discretion to determine the appropriate treatment of vested options and unvested RSUs on a 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.

4.7 Use of equity

As Xero continues to grow and our remuneration practices become more aligned with the global SaaS and wider technology industry in an effort to attract and retain world class talent in an increasingly competitive talent landscape, a greater proportion of compensation may be in the form of share-based compensation (SBC). Equity grants provide an efficient way to remunerate employees, build retention and strengthen the alignment to sustainable long-term shareholder value creation.

The Board has specific oversight on overall SBC expense, and has in place guidelines and budgets pertaining to our overall equity burn rate (which is the rate at which a company dilutes its existing shareholders' equity) as well as the level of expense in each budget period. SBC expense is included in our reported financial metrics which are monitored regularly throughout the year and captured within our STI financial targets.

We actively monitor at the Board level the ratio of SBC expense to revenue and compare against global SaaS and technology peers on a relative basis. At the reporting date, our ratio of SBC expense to revenue is materially lower than the median expenditure of these peers.

5. REMUNERATION STRATEGY

5.1 Remuneration objectives, philosophy and principles

Xero's remuneration structure and overall objectives are inherently tied to our strategy, aspirations, values and the creation of long-term sustainable value for shareholders through the following remuneration philosophy.

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[5]

To be a world-class SaaS business
To double the size of our business[6] and deliver Rule of 40 or greater performance[7,8]

REMUNERATION OBJECTIVES

- 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

REMUNERATION PHILOSOPHY

Alignment
- The leadership team's remuneration is designed to align with shareholder interests, globally comparable technology companies and drive retention through meaningful equity holdings
- LTI measures selected in support of Xero's long-term strategy and shareholder alignment

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 is applied consistently across Xero

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

GOVERNANCE

Xero's remuneration governance framework is overseen by the PR Committee on behalf of the Board. Governance and risk is considered through (but not limited to) the use of at-risk remuneration, malus and clawback rules and available Board discretion

REMUNERATION COMPONENTS

Service Based		Performance Based	
Base salary and other benefits	**LTE Long Term Equity**	**STI Short Term Incentive**	**LTI Long Term Incentive**
100% Cash	100% RSUs	50% Cash; 50% RSUs	100% RSUs
	1-3 year(s) vesting	1-2 year(s) vesting	3 years vesting
• Reviewed annually, based on skills, experience, accountabilities, performance, leadership and location • Other benefits include pension (superannuation/ KiwiSaver or local equivalent)	• Rewards delivery against longer-term strategy and sustained shareholder value creation • The equity-based nature of this grant means that it is a form of cash efficient fixed pay, while also ensuring that the XLT are incentivised to deliver improved share price performance • LTE is contingent on service in alignment with the global pay practices of technology organisations	• 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 • Calculated based on achievement against company wide and individual performance	• Rewards delivery against longer-term strategy and sustained shareholder value creation through the application of free cash flow, revenue growth and TSR measures. Being contingent on performance measures, LTI fosters alignment between shareholder, customer, and leadership team outcomes • LTI is designed to broadly align with the pay practices of ASX and global technology organisations

The value of any awards that vest will ultimately vary in line with the shareholder experience, due to the exposure to Xero's share price through the allocation of RSUs

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 aspiration statement was made at the 29 February 2024 Investor Day. This was prior to its FY24 results announcement. For context, 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 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 Xero identifies opportunities for disciplined customer-focused growth and experience changes in our cash tax payment profile. Xero fully utilised its accumulated New Zealand tax losses in FY25

Incentivising appropriate risk-taking and risk management further underpin 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 4 and 6.5 contain further information about risk-taking and risk management as it relates to Xero's STI, LTI and LTE arrangements.

5.2 Linking pay with performance

To foster alignment with the interests of shareholders, our leadership team remuneration structure is deliberately weighted to have a substantial proportion of TTR at risk, and subject to performance. For the CEO, 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.

XLT Remuneration Structure

Base	100% base salary in cash		
STI	Performance testing 50% paid in cash 50% granted in RSUs[9]	50% RSUs vests[10]	
	Performance period 1 year 70% financial and 30% non-financial	Deferred STI service period 1 year	
LTE	RSUs granted upfront[9] 33.3% vests[10]	33.3% vests[10]	33.3% vests[10]
	Service period 1 year	Service period 2 year	Service period 3 year
LTI	RSUs granted upfront[9]		Performance testing Up to 100% of RSUs vest[10]
	Performance period 3 years 37.5% Average FCF margin, 37.5% CAGR Revenue and 25.0% rTSR (against the EMCLOUD peer group)		
	Year 1	Year 2	Year 3

9. STI Cash is paid in June following completion of the STI performance year. All RSUs granted under the STI, LTE and LTI plans are allocated in July following the commencement of the relevant vesting period

10. RSUs awarded under the Deferred STI and LTE are released in May each year. Any RSUs that vest under the LTI are released in May following the end of the performance period

6. KEY REMUNERATION COMPONENTS FOR FY25

Further detail is set out below on how the remuneration structure described in section 5 applies to the CEO and CFO.

6.1 Remuneration benchmarking and review

Xero operates in a highly competitive global technology landscape for talent. As Xero has grown in scale with a global portfolio of markets, it is critical our remuneration structure and benchmarking supports us to secure the calibre of global talent we need to deliver on our strategic ambitions.

Xero's remuneration structure also reflects that it is one of only a few global technology companies of its size listed on the ASX, and that its longer term performance metrics are benchmarked against the leading global SaaS companies represented in the EMCLOUD index. In order to attract global talent and perform at or above global SaaS peer levels, we necessarily adopt an approach that differs from most ASX-listed entities. It is essential that our approach responds to the US market in particular, given the concentration of global SaaS talent being based there. To do so requires us to set pay levels that are comparable to companies of similar size and industry in the US. This approach is reflected in our remuneration principles, which include consideration of the executive's location along with their performance, scope and criticality of their role.

Benchmarking for the XLT 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. We assess the suitability of the peer groups annually to ensure they reflect, not only our industry and size, but also our geographic spread, stage of growth and maturity. Changes to the peer group are assessed each year due to the ongoing evolution of the broader technology industry, companies' relative performance as well as M&A activity which can result in delistings.

A key challenge that Xero faces in benchmarking against ASX-listed companies, is the limited number of comparably sized SaaS businesses. Consequently, the peer group is supplemented with non-SaaS companies which have meaningful digitisation supporting their core business.

Xero's market capitalisation is larger than the majority of its ANZ and UK peers, ranking at the 80th percentile and 83rd percentile for the Australian and UK peer groups (based on 12 month average to 31 March 2025). Xero is positioned at approximately the median of its US peer group (59th percentile).

The following table lists the companies that formed the US peer group used as our primary comparator for benchmarking US-based executives and non-executive director remuneration for FY25.[11]

TICKER	COMPANY NAME	TICKER	COMPANY NAME
APPF	Appfolio	PAYC	Paycom Software
APPN	Appian Corp	QLYS	Qualys
ASAN	Asana	SMAR	Smartsheet
AYX	Alteryx	SPLK	Splunk
BILL	BILL	TEAM	Atlassian Corp
DOCU	DocuSign	TWLO	Twilio
HUBS	HubSpot	VEEV	Veeva Systems
LSPD	Lightspeed Commerce	XWDAY	Workday
MDB	MongoDB	WIX	Wix.com
OKTA	Okta	ZS	Zscaler

11. For FY25, Coupa and Zendesk were removed following delistings and replaced with MongoDB and Qualys

The following table lists the companies that formed the ASX peer group used as the primary comparator for benchmarking ANZ-based executives and non-executive director remuneration for FY25.

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

The following table lists the companies that formed the UK peer group used as the primary comparator for benchmarking UK-based executives (if applicable) and non-executive director remuneration for FY25.

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

Details of the outcomes of the FY25 remuneration review for the CEO and CFO are outlined in section 6.3, and for non-executive directors in section 11.

6.2 CEO and CFO FY25 remuneration mix

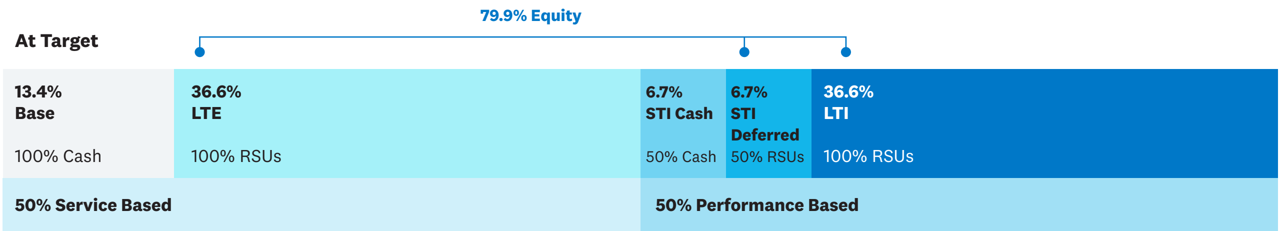
CEO and former CFO remuneration is deliberately weighted to have a substantial proportion of target total remuneration at risk and aligned to company performance. This serves to align executive remuneration with shareholder outcomes and ensure Xero can continue to attract, motivate and retain talented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

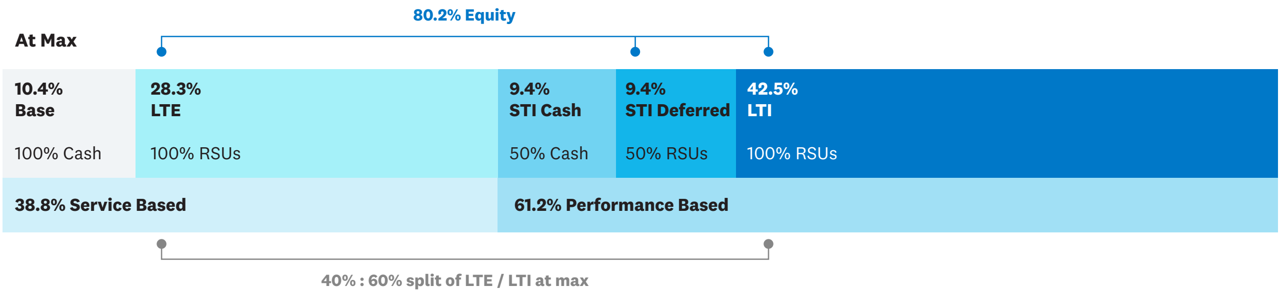
- The CEO's FY25 remuneration mix is as follows: Performance-based or linked to share price performance pay (comprising STI, LTE and LTI) forms 86.6% of TTR (89.6% of maximum total remuneration) and equity forms 79.9% of TTR (80.2% of maximum total remuneration)
- The former CFO's FY25 remuneration mix is as follows: Performance-based or linked to share price performance pay forms 54.5% of TTR (64.7% of maximum total remuneration) and equity forms 40.8% of TTR (45.6% of maximum total remuneration)

Refer to section 7 for the CEO and new CFO's FY26 remuneration mix.

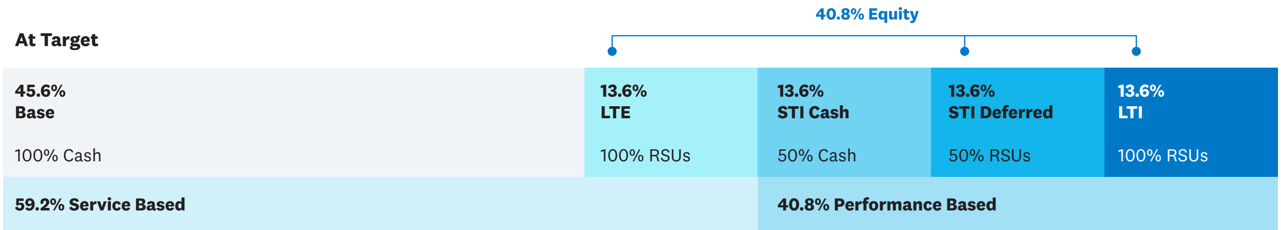
One-off awards (such as sign-on, retention or other one-off equity grants) are excluded from the remuneration mix calculations below.

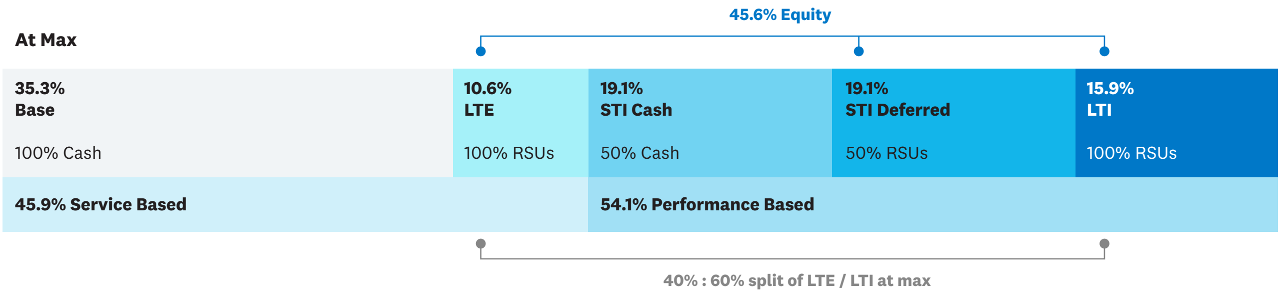
CEO





CFO





6.3 FY25 Fixed annual remuneration

Base salary is reviewed annually and set in the context of Xero's remuneration strategy, an individual's skills, experience, accountabilities, performance, leadership, behaviours and location. Each year, or upon commencement in the role, the PR Committee reviews each XLT member's base salary against relevant benchmarks. During FY25, there was no change to the CEO and CFO's base salary. For more information on the CEO and new CFO's FY26 remuneration arrangements, refer to section 7.

6.4 FY25 service and performance based remuneration components

6.4.1 FY25 Long Term Equity (LTE) — service based

LTE is granted as a fixed number of RSUs each year and vesting is contingent on service, in alignment with the global pay practices of technology companies. In the US market, CEOs (and other executive roles) typically receive lower fixed base pay than their Australian counterparts and have higher share-based compensation. Tenure-based shares are considered a normal part of a US package and are viewed as being in the best interests of shareholders because they provide both cash efficient fixed base pay, while also ensuring that the executives are strongly incentivised to deliver improved share price performance. The equity-based nature of this grant means that the value realised by the CEO and CFO will be reflective of Xero's long-term share price performance through the annual vesting of RSUs. Following shareholder feedback, this component of remuneration is presented separately from LTI to reflect the service-based nature of the award.

The following table provides an overview of the key features of the FY25 LTE structure as they apply to the CEO and the former CFO.

ELEMENT	DETAILS
Purpose	Rewards delivery against longer-term strategy and sustained long-term value creation. Provides alignment between shareholder, customer, and leadership team outcomes and time-based retention through multi-year vesting.
FY25 maximum opportunity	• CEO USD 2,000,000 • Former CFO NZD 259,200 LTE value shown represents the full grant amount awarded. For more information on the CEO and new CFO's FY26 remuneration arrangements, refer to section 7.
Grant date	RSUs are typically granted annually in or around July each year.
Pay vehicle	RSUs are granted under the Xero Limited Restricted Stock Unit and Option Plan or the Xero Limited USA Incentive Scheme (as relevant). RSUs do not carry an entitlement to dividends or voting rights prior to vesting.
Allocation methodology	The number of RSUs granted is calculated by reference to the LTE opportunity value divided by the 30-day volume weighted average price (VWAP) of Xero shares up to and including the trading day prior to the grant date.
Vesting schedule and conditions	Contingent on service (being employed 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. The vesting approach has been determined taking into account both ASX practice and US practice where time based RSUs with a quarterly vest are the norm.
Good Conduct, Malus, and Clawback	Other than as set out in section 4, 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 that vest where the payment would not be warranted based on behavioural or risk outcomes.

Refer to section 6.5 for further information on how equity is treated upon cessation of employment.

6.4.2 FY25 Short-Term Incentive (STI) — performance based

STI is an at-risk component of remuneration structured to reward achievement in the 12-month 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. Vesting outcomes have regard to whether the leadership team member has acted in accordance with Xero's values.

The following table provides an overview of the key features of the FY25 STI structure.

<table>
<tr><th>ELEMENT</th><th>DETAILS</th></tr>
<tr><td>Purpose</td><td>Drive and incentivise delivery of business objectives over a one-year period.</td></tr>
<tr><td>Opportunity
(% base salary as at 31 March 2025)</td><td>• CEO: 100% at target (180% at maximum)
• Former CFO: 60% at target (108% at maximum)
For more information on the CEO and the new CFO's FY26 remuneration arrangements, refer to section 7.</td></tr>
<tr><td>Performance period</td><td>Performance is measured from 1 April to 31 March each year.</td></tr>
<tr><td>Performance measures</td><td>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.
<table>
<tr><td colspan="2">70% Financial</td><td colspan="2">30% Non Financial</td></tr>
<tr><td colspan="2">Voice of the shareholder</td><td>Voice of the customer</td><td>Voice of the employee</td></tr>
<tr><td>35% Net new monthly recurring revenue (nnMRR)</td><td>35% Operating expense (OPEX Ratio)</td><td>15% Partner and small business NPS</td><td>15% Employee engagement</td></tr>
</table>
See further below for information on the STI measures and the rationale for why those measures were chosen.</td></tr>
<tr><td>Individual modifier (applies to the overall calculated STI outcome)</td><td>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.</td></tr>
<tr><td>Target setting</td><td>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 sufficiently stretching and 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.</td></tr>
<tr><td>Evaluation of performance</td><td>Performance against financial and non-financial objectives is determined at the end of the financial year. Financial outcomes are 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).</td></tr>
<tr><td>Pay vehicle</td><td>50% of STI awarded is paid in cash with the remaining 50% issued in a single tranche of RSUs under the terms of the Xero Limited Restricted Stock Unit and Option Plan or the Xero Limited USA Incentive Scheme (as relevant). RSUs do not carry an entitlement to dividends or voting rights prior to vesting.</td></tr>
<tr><td>Grant date</td><td>RSUs are typically granted annually in or around July, following the conclusion of the performance period.</td></tr>
<tr><td>Vesting schedule and conditions</td><td>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.</td></tr>
<tr><td>Amendments and adjustments</td><td>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 upward or downward adjustments to the overall STI outcome and the number of RSUs that vest if the outcome does not reflect true company performance or the payment would not be warranted based on behavioural or risk outcomes. Refer to section 4.4 to 4.5 for further information on the Board's malus and clawback and adjustment principles.</td></tr>
</table>

Refer to section 6.5 for further information on how equity is treated upon cessation of employment.

FY25 STI measures and weightings

The following table outlines the STI measures and weightings that applied to the CEO and CFO's FY25 STI awards and the link between remuneration, strategy and sustained long-term value creation. The measures chosen were selected based on their alignment with our strategic objectives.

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 functions and the value of Xero's investment into product development • Demonstrates Xero's ability to scale and deliver sustainable sources of revenue • Net new MRR is calculated excluding the impact of FX
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 • The operating expense ratio is calculated inclusive of share-based compensation, consistent with income statement presentation • The ratio is calculated on a constant currency basis
Voice of the customer (15% of total)		
Partner and small business NPS	15%	• Key indicator of small business customer and accountant and bookkeeper 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 engagement	15%	• Key indicator of employee sentiment and engagement • Ensures continued focus on enhancing 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)		
Impact achieved against key company goals and leadership values exhibited	Applies to the overall calculated STI outcome	• Key indicator of individual leadership performance • Ensures focus on achievement of key company goals • Drives value creation through all of Xero's key outcomes • Assesses demonstration of leadership values

In FY24, 'voice of the employee' was equally distributed between employee net promoter score (eNPS) and employee engagement. For FY25, the eNPS measure was retired to better align with ASX market practice of using employee engagement measures to measure employee sentiment. The weighting of 7.5% previously allocated to eNPS was redistributed to the employee engagement metric, resulting in total weighting of 15%. There was no change to the overall weighting of 15% allocated to the 'voice of the employee'. As the organisation continues to grow and retention of talent continues to be critical, employee engagement remains a key focus for both our Board and senior leaders at Xero.

6.4.3 FY25 Long Term Incentive (LTI) — performance based

LTI is an at-risk component of the CEO and CFO's remuneration that is structured to reward the effective execution of Xero's long-term strategy and sustained shareholder value creation. The FY25 award is subject to three performance measures each assessed over a three year performance period: operating revenue growth, average free cash flow margin (FCF) and relative total shareholder return (rTSR).

The combination of revenue growth and FCF measures reflects our focus on balancing growth and profitability. Whilst, rTSR ensures management remains focussed on our share price performance to support sustainable shareholder value over time.

The following table provides an overview of the key features of the FY25 LTI structure.

<table>
<tr><th>ELEMENT</th><th>DETAILS</th></tr>
<tr><td>Purpose</td><td>Rewards delivery against longer-term strategy and sustained value creation.</td></tr>
<tr><td>FY25 opportunity</td><td>CEO: USD 2,000,000 at target; USD 3,000,000 at maximum

Former CFO: NZD 259,200 at target; NZD 388,800 at maximum

For more information on the CEO and new CFO's FY26 remuneration arrangements, refer to section 7.</td></tr>
<tr><td>Pay vehicle</td><td>LTI is 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 value divided by the 30-day volume weighted average price (VWAP) of Xero shares up to and including the trading day prior to the grant date.</td></tr>
<tr><td>Vesting conditions and metrics</td><td>The LTI value awarded is contingent on performance targets over a three-year period (commencing 1 April 2024 and ending 31 March 2027). RSUs under the LTI vest once tested in or around May at the end of the three-year performance period.
<table>
<tr><th>METRIC</th><th>WEIGHTING</th><th>DEFINITION</th></tr>
<tr><td>Operating revenue growth</td><td>37.5%</td><td>Calculated based on the three year constant currency compound annual growth rate (CAGR) of operating revenue over the period 1 April 2024 through to 31 March 2027.</td></tr>
<tr><td>Free Cash Flow (FCF) margin</td><td>37.5%</td><td>Calculated based on the average three year FCF margin over the period 1 April 2024 through to 31 March 2027. FCF margin is calculated as FCF divided by operating revenue. FCF, for the purposes of LTI measurement, is defined as operating cash flows less investing cash flows, excluding investing cash flows used for acquisitions and strategic investments and net interest income. As a non-cash item, share-based compensation is excluded from calculation of FCF.</td></tr>
<tr><td>Relative total shareholder return (rTSR)</td><td>25%</td><td>Calculated based on the performance of Xero shares relative to the performance of shares issued (including dividends and other shareholder benefits paid) by companies in the EMCLOUD comparator group, over the period 1 April 2024 through to 31 March 2027. Further information is provided below.</td></tr>
</table></td></tr>
<tr><td>Dividends and voting</td><td>RSUs do not carry an entitlement to dividends or voting prior to vesting.</td></tr>
<tr><td>Amendments and adjustments</td><td>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 upward or downward adjustments to the overall LTI outcome and the number of RSUs that vest if the outcome does not reflect true company performance or the payment would not be warranted based on behavioural or risk outcomes. Refer to section 4.4 to 4.5 for further information on the Board's malus and clawback and adjustment principles.</td></tr>
</table>

Refer to section 6.5 for further information on how equity is treated upon cessation of employment.

FY25 LTI Peer Group

The FY25 peer group used for Xero's LTI rTSR calculation is the EMCLOUD Index as at 1 April 2024. Launched in 2013, the EMCLOUD Index is an equally weighted index designed to track the performance of public companies primarily involved in providing cloud software to their customers. Some of the eligibility criteria include a market cap of at least USD 500 million, majority of revenue from cloud-based software and services and publicly listed for at least three months.

The following table lists the companies that form this peer group.

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

6.5 Employment conditions and incentive treatment upon cessation of employment

The following tables outline the employment conditions pertaining to the CEO and former CFO for FY25.

ITEM	DETAILS
Basis of contract	Ongoing (no fixed term)
Notice period	Sukhinder Singh-Cassidy (CEO): Twelve months by either party Kirsty Godfrey-Billy (former CFO): 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 STI and LTI arrangements, and in the case of the CEO, an initial equity grant awarded upon commencement and a one-off option grant awarded in FY25.
Payment in lieu of notice period	Xero may pay notice in lieu of all or part of the notice period or require the individual to work for part or all of the notice period and pay the balance in lieu.

Treatment of STI and LTE/LTI	For the CEO, the following treatments applies:
	• If the CEO is dismissed for cause or resigns (other than for good reason or genuine retirement), the CEO's STI Cash and Equity, LTI/LTE and unvested options will be forfeited, unless the Board determines otherwise
	• If the CEO terminates her employment for good reason or her employment is terminated without cause:
	  ◦ The cash component of the STI and any unvested LTI/LTE will be pro-rated and remain on foot and be eligible to vest in the ordinary course (as if employment had not ceased)
	  ◦ The STI equity component already awarded will remain on foot and be eligible to vest in the ordinary course (as if employment had not ceased)
	• If the CEO ceases employment for any other reason, unless the board determines otherwise:
	  ◦ The cash component of the STI and any unvested LTI/LTE will be pro-rated and remain on foot and be eligible to vest in the ordinary course (as if employment had not ceased)
	  ◦ The STI equity component already awarded will remain on foot and be eligible to vest in the ordinary course (as if employment had not ceased)
	Unless the Board determines otherwise, if the CFO ceases employment, all unvested RSUs lapse and all STI awards not yet paid are forfeited.

Treatment of CEO initial equity grant and one-off option grant	For the CEO's initial equity grant and and one-off option grant (awarded Dec 2024) the following treatments apply:
	If cessation of employment occurs prior to the vest date (for a tranche) and:
	• The CEO is dismissed for cause or resigns (other than for good reason or genuine retirement), the CEO's unvested options and RSUs will be forfeited, unless the Board determines otherwise
	• The CEO terminates her employment due to a genuine retirement,
	  ◦ Initial equity grant: all unvested options and RSUs remain on foot and are eligible to vest in the ordinary course (as if employment had not ceased)
	  ◦ One-off option grant and RSUs: a pro-rata amount of all unvested options and RSUs remain on foot and are eligible to vest in the ordinary course (as if employment had not ceased)
	• If the CEO terminates her employment for good reason or her employment is terminated without cause or 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)
	If cessation of employment occurs after the Vesting Date (for a tranche) for any reason, all vested options remain on foot and the post vesting trading restriction and expiry dates remain the same.

7. KEY REMUNERATION ARRANGEMENTS FOR FY26

7.1 CEO FY26 remuneration review

The Board announced the outcome of the CEO remuneration review to the market on 18 December 2024. Sukhinder was appointed as CEO in November 2022. It was the Board's intent from the outset, that it would review her remuneration against similar performing US-based global tech CEOs once she had proven her performance.

The Board review of the CEO's package applied Xero's enterprise-wide remuneration principles by assessing Xero's overall performance, the scope and criticality of her role, and her home location.

It should be noted that while the performance of Xero was in the top quartile of the EMCLOUD Index (which is used to assess relative TSR under Xero's LTI), Sukhinder's compensation was, before her review, below the 10th percentile of the independently benchmarked peer group of companies. The benchmark group comprises US-based CEOs of globally comparable companies in the technology sector, as outlined in section 6.1.

The Board considered extensive global benchmarking data and feedback from consultation with a range of stakeholders on the construction of the package, including institutional investors and proxy advisors. During that engagement, some considered that it is important to make Xero's unique situation clear:

- Sukhinder is a proven global career executive with the US as her home
- Xero is one of only a handful of truly global SaaS companies on the ASX. Attracting and retaining global SaaS leaders, a concentration of whom are US-based, in a competitive international market is essential to delivering the high performance needed to drive long-term shareholder value
- Xero is performing in the top quartile of the EMCLOUD Index
- In the US, CEO's tend to receive lower fixed base pay in cash than their Australian counterparts and have higher share-based compensation. Tenure based shares, such as LTE, are considered a standard part of a US package and provides cash efficient and deferred base pay, while also ensuring that the CEO is strongly incentivised to deliver improved share price performance. It should be noted that Sukhinder's fixed base pay was reduced in the remuneration review to align it to the 50th percentile or market median of the peer group benchmark

ASX-typical terms that align to shareholder interests remain in Sukhinder's compensation package. These include retaining a heavy weighting in favour of performance pay, an STI deferral (50:50 cash/equity split), the Board retaining 100% discretion in respect of STI, LTI and LTE outcomes, and the retention of the traditional malus, clawback and good conduct provisions.

Following her remuneration review, all components of Sukhinder's compensation now sit at the 50th percentile or market median of the benchmarked peer group.[12]

The revised remuneration package results in at least 96% (being 86% in FY25) of the CEO's remuneration being performance-based or linked to share price performance, and aligned with long-term sustainable value creation. This is achieved through the existing framework of awarding LTI and LTE.

12. The benchmarking undertaken relating to the one-off option grant and equity exposure excluded founder CEOs

Snapshot of the CEO's FY26 Remuneration Review

ELEMENT	FY25	FY26 (EFFECTIVE 1 APRIL 2025)	NOTES
Base Salary	USD 735,000	USD 540,000	Base salary was reduced to align with P50 of the US peer group.
LTE	USD 2,000,000	USD 7,060,000	The LTE quantum was increased to align with P50 of the US peer group (per section 6.1). There were no other changes to design or terms of the LTE component, and it remains consistent with global pay practices of technology companies.
STI	USD 735,000 at target USD 1,323,000 at max (1.8x target)	USD 540,000 at target USD 972,000 at max (1.8x target)	No change in STI as a % of base salary, set at 100% of base salary. The reduction applied is commensurate with the reduction in base salary. No change to 50:50 split between cash and RSUs.
LTI	USD 2,000,000 at target USD 3,000,000 at max (1.5x target)	USD 7,060,000 at target USD 10,590,000 at max (1.5x target)	The LTI opportunity level was increased to align with P50 of the US peer group.
TTR	USD 5,470,000 at target USD 7,058,000 at max	USD 15,200,000 at target USD 19,162,000 at max	Total target remuneration (comprising the above components) was increased to align with P50 of the US peer group.
Rem Mix[13]	20.2% Cash: 79.8% Equity at target 19.8% Cash: 80.2% Equity at max	5.3% Cash: 94.7% Equity at target 5.4% Cash: 94.6% Equity at max	The remuneration mix of cash and equity is now more heavily weighted towards equity, with over 94% of the CEO's remuneration awarded in equity.

The LTI remains subject to performance conditions around compounding annual growth rate of operating revenue, free cash flow margin and rTSR. The LTE is contingent on service in alignment with market practice for the global SaaS peers Sukhinder's remuneration was benchmarked against.

7.2 CEO one-off equity option grant (as a part of CEO's revised remuneration structure)

In addition to changes to the CEO's annual remuneration package, the CEO was awarded a one-off grant of 575,000 'at-the-money' options with an exercise price of AUD 171.11, equal to a fair value of USD 26.49 million (at the time of grant). The allocation brings the CEO's total equity exposure to the median of the US peer group[14] used as our primary comparator for benchmarking US-based executives (per section 6.1), adjusted for non-founder CEOs. The Board does not anticipate any further supplementary one-off option grants of this nature will be made to the CEO.

As at 31 March 2025, the options were 'out of the money'. The CEO will receive no value if the share price does not exceed AUD 171.11. To incentivise sustainable growth in Xero's share price, the CEO must hold the resulting shares from exercising the options for the duration of the restriction period.

The award is summarised in the following table with the vesting profile graphically represented further below.

ELEMENT	DETAILS
Purpose and rationale	One-off grant for the CEO intended to reward delivery against longer-term strategy and sustained shareholder value creation and achieve median total equity exposure relative to US peer CEOs. Options provide the participant with an opportunity to purchase shares at a pre-determined price (exercise price) at a future date, as opposed to directly granting shares or RSUs. The amount an employee may receive is ultimately based on the company's performance and share price over time, including the potential scenario of receiving no benefit at all. Due to the upside and downside potential of options, they are an effective way to strengthen the alignment to shareholders' interests and foster ownership mindset and behaviour.
Pay vehicle and quantum	575,000 at-the-money options, split into three equal tranches.
Exercise price	AUD 171.11 When granting options, it is common practice in the US for the exercise price to be set at the market value of the underlying share at the time the option is granted. A detailed explanation and example of how options create value is provided further below.

13. Excludes the one-off equity option grant as noted in section 7.2 below and the initial sign-on grant awarded to the CEO upon commencement
14. The benchmarking undertaken compared non-founder CEO equity exposure as at the end of each peer's most recent financial year end filings (released as at May 2024), and included outright shares as well as all vested and unvested equity awards (including options)

Key dates

	GRANT DATE	VEST DATE	RESTRICTION PERIOD	EXERCISE PERIOD
Tranche 1	18 Dec '24	18 Dec '25	18 Dec '25 - 18 Dec '27	18 Dec '25 - 18 Dec '34
Tranche 2	18 Dec '24	18 Dec '26	18 Dec '26 - 18 Dec '28	18 Dec '26 - 18 Dec '34
Tranche 3	18 Dec '24	18 Dec '27	18 Dec '27 - 18 Dec '28	18 Dec '27 - 18 Dec '34

For each tranche, the options expire 10 years from grant date.

Vesting conditions and restriction period

Options vest in three equal tranches on the first, second and third anniversaries of the grant date.

Each vested tranche will be subject to a further holding restriction post vest such that 33% of the grant will be restricted until December 2027 and 67% until December 2028.

The restriction period requires the CEO to hold the underlying options or shares for the duration of the restriction period outlined above. If the CEO exercises any vested options during the restriction period, any shares issued cannot be sold other than to cover associated tax obligations until the restriction period ends.

The additional restriction period reinforces long-term alignment with shareholder interests by requiring the CEO to retain equity beyond vesting, promoting sustained performance and long-term decision making. It acknowledges ASX practices and feedback received during investor consultations.

The exercise price acts as a built-in hurdle to drive longer-term strategy and sustained shareholder value creation. The CEO will only realise profits from the grant if incremental shareholder value is created i.e. if Xero's share price increases above the exercise price of AUD 171.11. At such time as the options are exercised, the CEO will gain in value the difference in price between the then current share price, and the underlying cost to acquire the share of the AUD 171.11 exercise price (see hypothetical example below for more information on how options work).

Vesting is subject to malus and clawback. Refer to section 6.5 for further information on the treatment of the options in the event the CEO's employment ceases.

Value of award

The value of USD 26,490,000 was calculated using the Black-Scholes Option pricing methodology, to estimate the economic value of options. Options cannot be valued using face value methodology. The economic value quoted may not be representative of the face value that may be ultimately realised by the CEO.

Each tranche was valued individually, using the following inputs and assumptions into the model (per Black-Scholes):

- Option exercise price set at: AUD 171.11 (i.e. closing share price on 17 Dec 2024)
- Total expiry period: 10 years
- Expected term of the option: 5.5 years
- Risk-free rate: 4%
- Expected annual volatility: 39%

The Black-Scholes value of each tranche is expensed to the Income Statement separately. The value of each tranche is expensed straight-line from grant date to the vest date (e.g. tranches 1, 2 and 3 are expensed Dec 24-Dec 25, Dec 24-Dec 26 and Dec 24-Dec 27 respectively). This results in a front loaded expense profile of the total USD 26,490,000 grant value compared to its even vesting profile.

Amendments and adjustments

Other than as set out above, the Board has discretion to make changes to the terms of options and the Xero Limited USA Incentive Scheme, subject to the law and ASX Listing Rules applicable, from time to time.

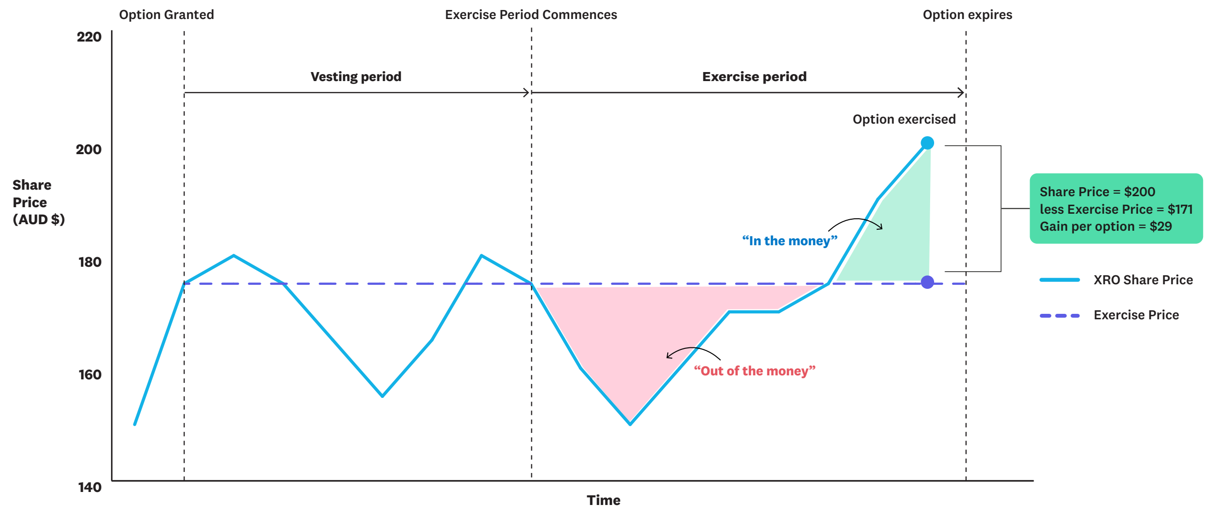
	Options granted upfront	33.3% Vests (T1 exercise period commences)	33.3% Vests (T2 exercise period commences)	33.4% Vests (T3 exercise period commences)	Options Expire
Options	T1 Vesting Period 1 year	T2 Vesting Period 2 years	T3 Vesting Period 3 years		
				T1 Trading Restriction ends 18 Dec 2027	T2 & T3 Trading Restriction ends 18 Dec 2028
	18 Dec 2025 (Year 1)	18 Dec 2026 (Year 2)	18 Dec 2027 (Year 3)	18 Dec 2028 (Year 4)	18 Dec 2034 (Year 10)

We acknowledge that awarding options is not common for ASX listed companies. The following explanation provides an understanding of how options operate and incentivise value creation for shareholders.

OPTIONS EXPLAINED – ILLUSTRATIVE EXAMPLE USING A HYPOTHETICAL SHARE PRICE

A stock option award is the right to buy a specific number of shares at a pre-set price, known as the “exercise” or “strike” price. Under an employee option plan, options are awarded over a fixed period of time called the “vesting period". When the options “vest”, meaning certain conditions have been satisfied, the employee has then earned the right to “exercise” the option and buy the shares at the set price. The employee can only elect to exercise their options during the exercise period. The exercise price is a hurdle: if the market share price is higher than the strike price, the options have value (“in the money”); if it is lower, they have no value (“out of the money”). If the prices are equal, they are “at the money” and also have no value. In Xero’s case, the CEO’s options were granted “at the money”, which is common practice in the US. The CEO will only benefit from the options if they become “in the money” during the exercise period.

Employees can either pay out of pocket to buy the shares or use a “cashless exercise", where enough shares are sold immediately to cover the exercise price and taxes. Options also have an expiry date, meaning that if the options are not redeemed or exercised by the end of the exercise period, the options expire and the employee loses their right to redeem the option.



7.3 CFO transition

During FY25 we announced CFO Kirsty Godfrey-Billy's departure and the appointment of Claire Bramley as her replacement. Kirsty stepped down as CFO effective 31 March 2025, with Claire taking over from 1 April 2025, the start of FY26.

Former CFO incentive and equity awards

In recognition of Kirsty's service and significant contribution to Xero, the Board exercised discretion in relation to incentive plans and equity awards related to the period in which she served as CFO as follows:

- FY25 STI to be assessed in the ordinary course (i.e. based on actual company and individual performance) and paid 100% as cash (i.e. no equity deferral to be applied)
- FY25 and FY24 LTI plans pro-rated based on her last day of employment (30 June 2025) and remain on foot subject to performance hurdles being met and paid per the relevant vesting schedules
- FY25 and FY24 LTE plans pro-rated based on her last day of employment and remain on foot and paid per the relevant vesting schedules

New CFO arrangements

The remuneration package for the new CFO was set in accordance with our enterprise-wide remuneration principles. In determining Claire's remuneration package, consideration was given to her extensive global technology and software experience as a CFO, the criticality of her role, and her location. All remuneration components were determined by reference to the US peer group (as outlined in section 6.1).

The CFO's arrangements are summarised in the table below:

ELEMENT	DETAILS
Base Salary	USD 520,000
LTE	USD 2,500,000
STI	USD 520,000 at target USD 936,000 at max (1.8x target)
LTI	USD 2,500,000 at target USD 3,750,000 at max (1.5x target)
Rem Mix	Cash 12.9%; Equity 87.1% at target Cash 12.8%; Equity 87.2% at max (this excludes the sign-on award as noted below)
Sign-on award	A total sign-on award of USD 14,320,000 comprising a combination of RSUs (USD 10.07 million) and deferred cash (USD 4.25 million). The sign-on award has been provided to in part compensate for remuneration foregone upon resignation from her previous employer and to smooth out realisable pay for years one and two of her employment, given the back end weighting of the company's three year LTI program. The RSUs vest as follows: Tranche 1 — 25% vests Mar 2026 Tranche 2 — 43% vests Mar 2027 Tranche 3 — 32% vests Mar 2028 The Deferred Cash will be paid as follows: Tranche 1 — 76% paid Oct 2025 Tranche 2 — 8% paid Oct 2026 Tranche 3 — 10% paid Oct 2027 Tranche 4 — 6% paid Oct 2028 Our standard practices and policies as they pertain to malus and clawback, change in control events and the Board exercising discretion apply (as described in sections 4.4 – 4.6).

8. XERO'S FY25 PERFORMANCE AND REMUNERATION OUTCOMES

8.1 Xero's five-year financial performance

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

MEASURE	FY21	FY22	FY23	FY24	FY25
Subscribers	2,741,000	3,271,000	3,741,000	4,160,000	4,414,000
Annualised monthly recurring revenue ($000s)	$963,597	$1,231,087	$1,553,803	$1,961,368	$2,387,763
Operating revenue ($000s)	$848,782	$1,096,819	$1,399,884	$1,713,767	$2,102,652
Operating revenue growth	18.2%	29.2%	27.6%	22.4%	22.7%
Free cash flow ($000s)	$56,946	$2,073	$102,340	$342,146	$506,745
FCF margin	6.7%	0.2%	7.3%	20.0%	24.1%
Rule of 40[15]	24.8%	30.3%	31.9%	41.0%	44.3%
OPEX ratio	78.2%	84.0%	83.2%[16]	73.3%	71.8%
Xero share price (AUD)[17]	126.53	102.75	89.42	133.32	154.75
Xero share price movement	58.62	-23.78	-13.33	43.9	21.43
Xero total shareholder return	86.3%	-18.8%	-13.0%	49.1%	16.1%
Average STI received as a % of maximum[18]	90%	85%	59%	54%	49.1%
Average STI received as a % of target[18]	110%	104%	77%	97%	88.3%

Xero does not currently pay dividends.

The chart below provides a comparison of Xero's total return to the ASX200 and EMCLOUD indices over five years. As demonstrated in the chart, Xero has outperformed over the period and created long-term value for shareholders.

Xero performance (vs EMCLOUD and ASX)

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

16. Includes restructuring costs. Excluding restructuring costs the FY23 OPEX ratio was 80.7%

17. Closing price for the last trading day in the financial year

18. Relates to STI received by disclosed executives for the relevant year

8.2 Xero's FY25 STI Outcomes

The annual outcomes achieved for the CEO and CFO are based on Xero's FY25 performance as set out below. Overall calculated STI outcomes may range from 0%-180%.

STI SCORECARD – COMPANY WIDE PERFORMANCE

OBJECTIVES	WEIGHTING	COMMENTARY	ACHIEVEMENT	SCORECARD RESULT				OUTCOME (% of target)	OUTCOME (% of max)
				Threshold 50%	Target 100%	Max 150%			
Voice of the shareholder (70%)	35%	**Group Net New MRR** Net new MRR is calculated as $29.5 million (excluding the impact of FX). This was below the target of $30.4m due primarily to strategic revisions to pricing and packaging actions during the year.	**83.6%**	**$24.3m**	**$30.4m**	**$36.5m**	**$29.5m**	**29.3%**	19.5%
	35%	**Group Opex Ratio** Opex ratio was 72.4%, which was better than target following disciplined investment in growth and managed efficiency.	**103.3%**	**73.5%**	**72.5%**	**70.0%**	**72.4%**	**36.1%**	24.1%
Voice of the customer (15%)	15%	**Partner & Small Business NPS** Partner NPS and Small Business NPS were below the threshold for FY25. The outcomes for each measure are calculated based on the total promoters less total detractors from the total number of survey responses received over the twelve month performance period. Our H1 scores dropped following price changes and some new product releases. We took steps to address the causes of negative customer sentiment and recovered over H2, but still fell short of the minimum threshold.	**0%**	Partner NPS: **54** Small Business NPS: **40.5**	**60** **45**	**66** **49.5**	**50** **34**	**0%**	0%
Voice of the employee (15%)	15%	**Employee Engagement** Employee Engagement was between threshold and target for FY25 at 7.5. During FY25, we introduced a number of initiatives to help drive improvements to employee engagement. This included launching our new performance and capability framework to develop and foster a high performing culture.	**75%**	**7.2**	**7.6**	**8.0**	**7.5**	**13.1%**	8.8%
Total Scorecard								**78.5%**	**52.4%**

INDIVIDUAL PERFORMANCE OUTCOMES

			INDIVIDUAL MULTIPLIER[19]			TOTAL STI OUTCOME	
DESCRIPTION		ROLE	Min 0x	Target 1x	Max 1.5x	% of target opportunity	% of max opportunity
Individual Performance	Impact achieved against key company goals and leadership values exhibited: • Key indicator of individual leadership performance • Ensures focus on achievement of key company goals • Drives value creation through all of Xero's key outcomes • Assesses demonstration of leadership values	**CEO**			**1.25x**	**98.1%**	54.5%
		CFO		**1x**		**78.5%**	43.6%

8.3 Xero's FY23 LTI Outcomes

The FY23 LTI reached the end of its three year performance period on 31 March 2025. The targets for each performance metric are set by the Board at the start of the performance period. The performance range for the operating revenue metric was set by reference to our three year strategic and financial plan, historical and forecast financial performance (including guidance) and market consensus at the time. The peer group for the rTSR metric was a bespoke group of 27 Global SaaS companies (excluding Xero).[20]

The targets and performance outcomes are summarised in the table below.

FY23 LTI OUTCOMES

			PERFORMANCE RANGE			PERFORMANCE AND VESTING OUTCOMES		
			Threshold 33.3% vesting	Target 66.7% vesting	Max 100% vesting		WEIGHTED OUTCOMES	
METRIC	DEFINITION	WEIGHTING	Straight-line vesting from threshold through to max			PERFORMANCE RESULT	% of target	% of max
Operating revenue	Three year compound annual growth rate (CAGR) of operating revenue over the period 1 April 2022 through to 31 March 2025, calculated based on constant currency assumptions	75%	22%	23.2%	24.3%	**23.22%**	**77.2%**	**51.5%**
rTSR	Calculated based on the performance of Xero shares relative to the performance of shares issued (including dividends and other shareholder benefits paid) by the other companies in the comparator group, over the period 1 April 2022 through to 31 March 2025	25%	50th percentile	75th percentile	100th percentile	**82.75 percentile**	**28.9%**	**19.3%**
Total LTI Outcome							**106.1%**	**70.8%**

19. STI is capped at 1.8x target

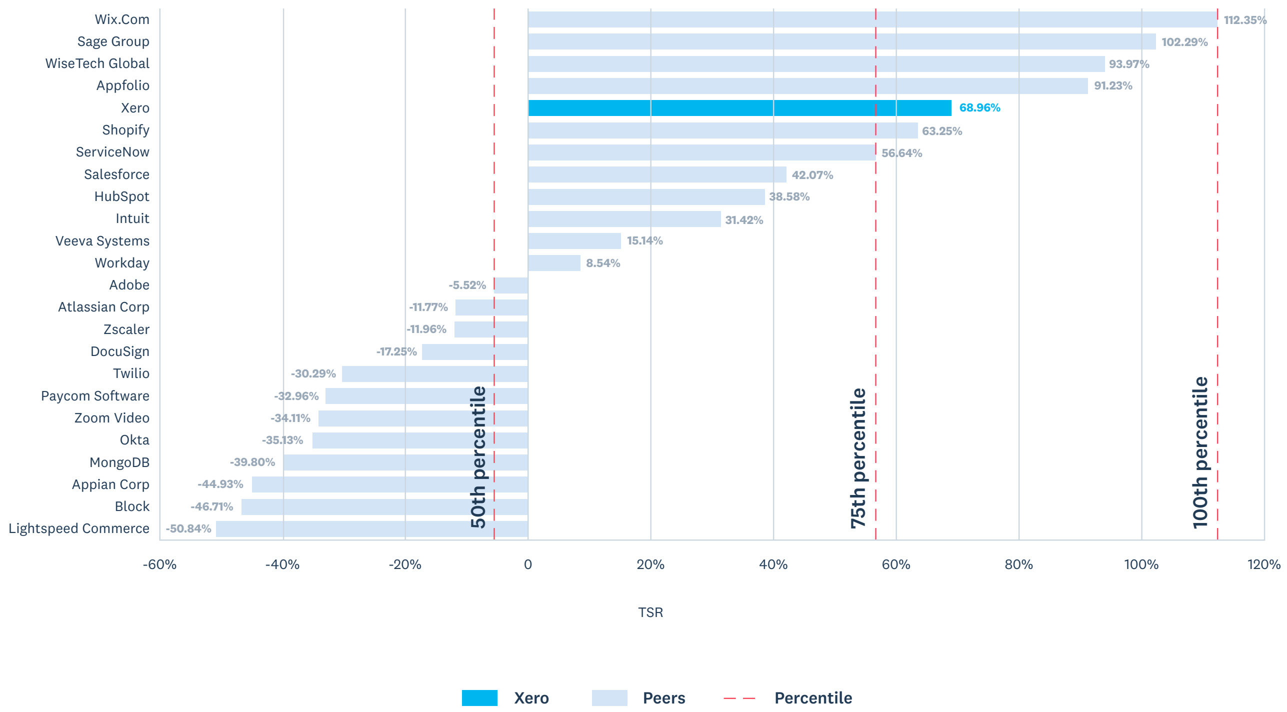
20. From FY24 onwards, the LTI peer group was set by reference to the EMCLOUD Index and is set each year at the start of the performance period (i.e. as at 1 April each year). Refer to section 6.4 for further information

Any peer group company that delists during the performance period for reasons other than insolvency are excluded from the rTSR test. During the performance period, Alteryx, Coupa Software, Smartsheet and Splunk were delisted and removed from the peer group. The FY23 LTI peer group (excluding Xero) is provided below for reference.

TICKER	COMPANY NAME	TICKER	COMPANY NAME	TICKER	COMPANY NAME	TICKER	COMPANY NAME
ADBE	Adobe	HUBS	HubSpot	CRM	Salesforce	WTC	WiseTech Global
APPF	Appfolio	INTU	Intuit	NOW	Service Now	WDAY	Workday
APPN	Appian Corp	LSPD	Lightspeed Commerce	SHOP	Shopify	ZM	Zoom Video Comms
TEAM	Atlassian Corp	OKTA	Okta	TWLO	Twilio	ZS	Zscaler
XYZ	Block	PAYC	Paycom Software	VEEV	Veeva Systems		
DOCU	DocuSign	SGE	Sage Group	WIX	Wix.com		

The following chart demonstrates Xero's performance against the above peer group over the LTI performance period 1 April 2022 through to 31 March 2025. With an absolute TSR of 68.96% over the performance period, Xero is positioned at the 83rd percentile of the peer group.

FY23 LTI Peer Group TSR Results



9. CEO AND CFO REALISED REMUNERATION

The following table provides details of the actual remuneration received by the CEO and CFO during FY25 and FY24. 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 monetary benefits other than those stated below.

Actual remuneration received by the CEO and CFO disclosed in the table below for FY25 is based on the following:

- Fixed annual remuneration earned between 1 April 2024 and 31 March 2025
- Cash STI: relates to the FY24 STI cash component that was paid in June 2024
- Option grants: For the CEO, this value relates to Tranche 2 of the CEO's Initial Equity Option Grant that vested in November 2024. For the CFO, the value of options relates to legacy LTI and retention plans that vested in May 2024
- RSU grants: Includes FY23 STI deferred RSU component and Tranche 1 of FY24 LTE that both vested in May 2024. For the CEO only, it also includes Tranche 2 of the CEO's Initial Equity Option remediation grant that vested in November 2024. For the CFO only, the value also includes RSUs relating to a legacy retention plan that vested in May 2024

FIXED REMUNERATION					VARIABLE REMUNERATION[21]			
					Accounting value of grants vested during the year, in the form of:			
NAME	FINANCIAL YEAR	BASE SALARY ($000s)	PENSION ($000s)	OTHER ($000s)[22]	CASH STI ($000s)	OPTIONS GRANTS ($000s)	RSU GRANTS ($000s)	TOTAL REMUNERATION RECEIVED ($000s)
Sukhinder Singh Cassidy	**FY25**	**1,237**	**23**	**–**	**652**	**5,111**	**2,039**	**9,062**
	FY24	1,155	24	–	154	5,111	752	7,196
Kirsty Godfrey-Billy	**FY25**	**864**	**20**	**5**	**228**	**538**	**447**	**2,102**
	FY24	848	19	9	181	493	368	1,918

Further details on FY25 STI outcomes for the CEO and former CFO are outlined in section 8.2. Further details on other remuneration elements and outcomes for the FY25 year for the CEO and former CFO are outlined in section 6.

21. Includes the value of options and RSUs granted in prior years that vested in the year

22. Relates to payout of annual leave under New Zealand requirements, which includes STI received in calculation of payments

10. CEO AND CFO EQUITY HOLDINGS

The following tables present current at-risk equity and holdings for the CEO and former CFO. Since joining Xero, the CEO has not exercised any options that have vested or disposed of any shares that were issued following the vesting of RSUs.

At-risk equity as at 31 March 2025

	OPENING BALANCE[23]	GRANTED DURING THE YEAR	VESTED	EXERCISED	LAPSED/ FORFEITED	CLOSING BALANCE[23]
Options						
CEO	463,308	575,000	154,436	–	–	1,038,308
CFO	29,761	–	14,602	29,761	–	–
RSUs						
CEO	126,238	60,820	15,907	–	–	171,151
CFO	15,017	5,820	4,191	–	–	16,646[24]

Total equity holdings as at 31 March 2025

	OPTIONS	RSUs	SHARES
CEO	1,038,308	171,151	12,815
CFO	–	16,646	2,282

11. NON-EXECUTIVE DIRECTOR (NED) REMUNERATION

The total remuneration available to non-executive directors is fixed and approved 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. For non-executive directors, the approach to benchmarking is the same as the XLT. Benchmarking is conducted across the US, Australia and the UK reflecting the locations of where our current non-executive directors are domiciled. To preserve independence and impartiality, non-executive directors do not receive any performance-related or at-risk compensation (such as options). Xero does not provide any scheme for retirement benefits, other than statutory superannuation, for non-executive directors. Directors' fees are paid in New Zealand dollars in order to avoid exchange rate fluctuations impacting the annual fee cap.

The annual total aggregate non-executive director remuneration cap is reviewed every two years. The Board and Committee fee structures are reviewed annually using the methodology outlined above having regard to the peer groups outlined in section 6.1. The last NED fee review conducted in July 2024 resulted in changes to the fee structure, effective 1 October 2024, as outlined below. As stakeholders' expectations of boards and committees continue to increase, so does the associated workload, often resulting in additional meetings and time deliberating on matters and engaging with investors.

23. For options, includes all vested/unvested options that have not been exercised. For RSUs, only includes those that remain unvested

24. The closing balance for Kirsty Godfrey-Billy is inclusive of the pro-rated portion of RSUs that will be forfeited upon ceasing employment on 30 June 2025

Below are the target annual fees payable to non-executive directors during FY25.

ROLE (AND COUNTRY OF RESIDENCE)	EFFECTIVE 1 OCT '23[25] ($000s)	EFFECTIVE 1 OCT '24[25] ($000s)	$ CHANGE ($000s)
Board Chair (Australia & New Zealand)	465	492	+27
Board Chair (United States)	500	500	–
Board Chair (United Kingdom)	650	650	–
Board Member (Australia & New Zealand)	190	195	+5
Board Member (United States)	360	416	+56
Board Member (United Kingdom)	190	195	+5
ARMC Chair	40	51.5	+11.5
ARMC Member	21	25.2	+4.2
RemCo Chair	40	51.5	+11.5
RemCo Member	21	25.2	+4.2

The total remuneration of, and the value of other benefits received by, each non-executive director for FY25 is as follows:

DIRECTOR	COUNTRY OF RESIDENCE	ROLE	COMMITTEE CHAIR	FY25 BASE FEES ($000s)	FY25 COMMITTEE FEES ($000s)	FY25 TOTAL FEES ($000s)[26]	FY24 BASE FEES ($000s)	FY24 COMMITTEE FEES ($000s)	FY24 TOTAL FEES ($000s)[26]
David Thodey, AO	Australia	Independent Chair	NG Committee	479	–	479	458	–	458
Steven Aldrich	United States	Independent NED	–	388	23	411	360	20	380
Mark Cross	New Zealand	Independent NED	ARM Committee	193	69	262	190	59	249
Anjali Joshi[27]	United States	Independent NED	–	388	23	411	268	15	283
Brian McAndrews	United States	Independent NED	–	388	23	411	360	20	380
Dale Murray, CBE	United Kingdom	Independent NED	–	193	23	216	190	20	210
Susan Peterson	New Zealand	Independent NED	PR Committee	193	46	239	190	39	229
Former NEDs									
Rod Drury[28]	New Zealand	NED	–	–	–	–	72	–	72
Lee Hatton[28]	Australia	Independent NED	–	–	–	–	72	7	79
Total[26]				**2,222**	**207**	**2,429**	**2,160**	**180**	**2,340**

25. No additional fees are paid for the Chair or members of the NG Committee. The Board Chair does not receive any additional fees for serving on committees
26. Total remuneration is presented based on accounting expense and may include amounts earned, but not yet received
27. Appointed as a non-executive director on 3 July 2023
28. Ceased as directors 17 August 2023

12. OUR TEAM'S REMUNERATION

The following table shows the number of current and former employees of Xero whose remuneration and benefits for FY25 were within the specified bands above $100,000.

The remuneration covered in the table includes monetary payments received and share-based payments vested (i.e. RSUs and options). The table below 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.

REMUNERATION INCLUDING SHARE-BASED REMUNERATION	NUMBER OF EMPLOYEES
100,000 to 109,999	194
110,000 to 119,999	220
120,000 to 129,999	222
130,000 to 139,999	232
140,000 to 149,999	234
150,000 to 159,999	276
160,000 to 169,999	245
170,000 to 179,999	211
180,000 to 189,999	191
190,000 to 199,999	137
200,000 to 209,999	147
210,000 to 219,999	140
220,000 to 229,999	134
230,000 to 239,999	115
240,000 to 249,999	106
250,000 to 259,999	92
260,000 to 269,999	84
270,000 to 279,999	80
280,000 to 289,999	71
290,000 to 299,999	68
300,000 to 309,999	47
310,000 to 319,999	56
320,000 to 329,999	36
330,000 to 339,999	24
340,000 to 349,999	26
350,000 to 359,999	25
360,000 to 369,999	21
370,000 to 379,999	20

REMUNERATION INCLUDING SHARE-BASED REMUNERATION	NUMBER OF EMPLOYEES
400,000 to 409,999	16
410,000 to 419,999	19
420,000 to 429,999	8
430,000 to 439,999	14
440,000 to 449,999	9
450,000 to 459,999	8
460,000 to 469,999	9
470,000 to 479,999	6
480,000 to 489,999	5
490,000 to 499,999	5
500,000 to 509,999	3
510,000 to 519,999	7
520,000 to 529,999	1
530,000 to 539,999	6
550,000 to 559,999	4
560,000 to 569,999	1
570,000 to 579,999	4
580,000 to 589,999	4
590,000 to 599,999	3
600,000 to 609,999	1
610,000 to 619,999	1
620,000 to 629,999	1
640,000 to 649,999	3
650,000 to 659,999	3
660,000 to 669,999	2
670,000 to 679,999	3
680,000 to 689,999	2
690,000 to 699,999	2

REMUNERATION INCLUDING SHARE-BASED REMUNERATION	NUMBER OF EMPLOYEES
700,000 to 709,999	1
710,000 to 719,999	2
720,000 to 729,999	3
730,000 to 739,999	1
740,000 to 749,999	1
750,000 to 759,999	1
760,000 to 769,999	1
770,000 to 779,999	2
780,000 to 789,999	2
790,000 to 799,999	1
800,000 to 809,999	2
810,000 to 819,999	2
820,000 to 829,999	1
830,000 to 839,999	1
840,000 to 849,999	1
850,000 to 859,999	1
860,000 to 869,999	1
870,000 to 879,999	1
890,000 to 899,999	1
900,000 to 909,999	2
1,020,000 to 1,029,999	1
1,040,000 to 1,049,999	1
1,050,000 to 1,059,999	1
1,060,000 to 1,069,999	1
1,160,000 to 1,169,999	1
1,170,000 to 1,179,999	1
1,180,000 to 1,189,999	1
1,190,000 to 1,199,999	1
1,210,000 to 1,219,999	1
1,230,000 to 1,239,999	1

REMUNERATION INCLUDING SHARE-BASED REMUNERATION	NUMBER OF EMPLOYEES
1,240,000 to 1,249,999	1
1,260,000 to 1,269,999	1
1,280,000 to 1,289,999	1
1,360,000 to 1,369,999	1
1,420,000 to 1,429,999	1
1,430,000 to 1,439,999	1
1,480,000 to 1,489,999	1
1,520,000 to 1,529,999	2
1,560,000 to 1,569,999	1
1,690,000 to 1,699,999	1
1,750,000 to 1,759,999	1
1,860,000 to 1,869,999	1
1,880,000 to 1,889,999	1
1,970,000 to 1,979,999	1
2,100,000 to 2,109,999	1
2,390,000 to 2,399,999	1
2,400,000 to 2,409,999	1
2,440,000 to 2,449,999	1
2,790,000 to 2,799,999	1
2,910,000 to 2,919,999	1
3,040,000 to 3,049,999	1
3,220,000 to 3,229,999	1
3,460,000 to 3,469,999	1
3,660,000 to 3,669,999	1
4,260,000 to 4,269,999	1
9,060,000 to 9,069,999	1
12,480,000 to 12,489,999	1

CORPORATE DIRECTORY

REGISTERED OFFICES

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LEADERSHIP TEAM

Sukhinder Singh Cassidy
Chief Executive Officer

Damien Coleman
Chief Legal Officer
& Company Secretary

Claire Bramley
Chief Financial Officer

Ashley Hansen Grech
Chief Revenue Officer

Diya Jolly
Chief Product &
Technology Officer

Jeff Ryan
Chief People Officer

Angad Soin
Managing Director, Australia
& New Zealand and Global
Chief Strategy Officer

Michael Strickman
Chief Marketing Officer

DIRECTORS

David Thodey, AO
(Chair)

Steven Aldrich

Mark Cross

Anjali Joshi

Brian McAndrews

Dale Murray, CBE

Susan Peterson

COMPANY SECRETARY

Damien Coleman

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