Beautiful business

Market release

2022 Annual Report and Appendix 4E

WELLINGTON, 12 May 2022 - Xero Limited (ASX: XRO), in accordance with the ASX Listing Rules, attaches its 2022 Annual Report and Appendix 4E.

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

Contact

Toby Langley - Investor Relations
Mobile: +61 450 223995
toby.langley@xero.com

Kate McLaughlin - Communications
Mobile: +64 27 533 4529
kate.mclaughlin@xero.com

About Xero

Xero is a global small business platform with 3.3 million subscribers which includes a core accounting solution, payroll, workforce management, expenses and projects. Xero also provides access to financial services, and an ecosystem of more than 1,000 connected apps and more than 300 connections to banks and other financial institutions. Through Xero's open platform, small businesses can connect to a range of solutions that help them run their business and manage their finances. For three consecutive years (2020-2022), Xero was included in the Bloomberg Gender-Equality Index. In 2021, Xero was included in the Dow Jones Sustainability Index (DJSI), powered by the S&P Global Corporate Sustainability Assessment. Xero has been named as a FIFA Women's Football partner under FIFA's new commercial structure.

Appendix 4E

12 May 2022

Xero Limited

ARBN 160 661 183 (incorporated in New Zealand)

Reporting period	12 months to 31 March 2022
Previous reporting period	12 months to 31 March 2021

Results for announcement to the market

	Amount (000s)	change
Revenues from ordinary activities	NZ$1,096,819	up 29%
Net loss from ordinary activities	NZ($9,114)	NM*
Net loss attributable to security holders	NZ($9,114)	NM

**NM stands for not meaningful*

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

Net tangible assets per share was NZ$0.50 per share at 31 March 2022 (31 March 2021: NZ$1.78 per share).

For additional Appendix 4E disclosure requirements refer to Xero Limited's 2022 Annual Report which contains the 2022 consolidated financial statements and accompanying notes.

This report is based on the consolidated financial statements for the year ended 31 March 2022, which have been audited by Ernst & Young.

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

Xero Limited (XRO)
NZ Company no. 1830488
ARBN 160 661 183

Registered Address
19-23 Taranaki St
Te Aro
Wellington 6011

www.xero.com

XERO LIMITED

Annual Report 2022

Contents

About this report

Xero's Annual Report for 2022 has been prepared, for the first time, with reference to the Value Reporting Foundation's International Integrated Reporting <IR> Framework, and has been structured around five key inputs into our business, or capitals as referred to by the framework:

- People and culture
- Customers, partners and ecosystem
- Platform, technology and data
- Social and environmental
- Financial

At Xero, we understand the deep connection between our social and environmental impact, organisational culture and our long-term financial performance. While we are still early in our journey towards a holistic vision of how value is created at Xero and our adoption of the <IR> Framework, we are excited to be able to provide an insight into how we are integrating additional perspectives into our performance, beyond the traditional focus on results, by including non-financial elements.

This report covers matters material to value creation as identified through stakeholder consultation and a materiality assessment conducted in accordance with the <IR> Framework. For information about the material matters identified and our stakeholder engagement process, please refer to material matters on page 22.

Xero's Annual Report 2022 should be read in conjunction with the other reports that comprise our 2022 Annual Reporting suite. These are available at Xero's Investor Centre:

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

Leadership and Governance at www.xero.com/about/investors/governance, where full copies of Xero's Corporate Governance Statement, charters and key governance policies can be found.

Additional information about Xero's Sustainability activities and performance, including information available to download, can be found at www.xero.com/sustainability

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

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

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

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

Some parts of this report include information regarding Xero's plans and strategy, and include forward-looking statements about Xero and the environment in which it operates that involve risks and uncertainties. Actual results and the timing of certain events may differ materially from future results expressed or implied by the forward-looking statements contained in this report. All amounts are in New Zealand dollars (NZD) except where indicated.

Non-Generally Accepted Accounting Principles (non-GAAP) measures have been included as Xero believes they provide useful information for readers to assist in understanding the Xero Group's financial performance. Non-GAAP financial measures should not be viewed in isolation or considered as substitutes for measures reported in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

References to the year, period or FY22 are to the financial year ended 31 March 2022. References to the comparative period or FY21 are to the financial year ended 31 March 2021. Xero Group (Xero) means Xero Limited and its subsidiaries. References to H1 FY22, or the first half, refer to the six month period ended 30 September 2021. References to H2 FY22, or the second half, refer to the six month period ended 31 March 2022.

Highlights

Operating revenue

$1,096.8m

▲ Up 29% YoY

Subscribers

3.271m

▲ Up 530,000 YoY

Annualised monthly recurring revenue

$1,231.1m

▲ Up 28% YoY

Total subscriber lifetime value

$10.9b

▲ Up 3.3b YoY

Gross margin percentage

87.3%

▲ Up 1.3pp YoY

Free cash flow

$2.1m

▼ $54.9m YoY

Total available liquidity

$1.1b

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

EBITDA

$212.7m

▲ Up $21.4m YoY

In a challenging global hiring market, Xero increased overall FTEs by **31%**

Xero's average employee Net Promoter Score (eNPS) was **41**

44% of Xero's employees are women including **63%** of the CEO's direct reports

Xero established its first **climate strategy** and its roadmap to align with the Taskforce on Climate-related Financial Disclosures (TCFD)

Xero was included in the **Dow Jones Sustainability Index** for the first time

Xero's total global community contribution was over **$2.2 million**

About Xero

Xero was founded in 2006 to change the game for small business. Our accounting software introduced a new ‘cloud accounting’ category, which meant accountants and bookkeepers could collaborate with their small business customers in real time via a single ledger to manage their business, monitor their financials and simplify core compliance.

Since then, Xero has grown into a global small business platform that includes a core accounting solution, payroll, expenses, payments, projects and an ecosystem of more than 1,000 connected apps and more than 300 connections to banks and other financial institutions. Through our open platform, small businesses can seamlessly connect to solutions that help them to confidently run their business and manage their finances.

In FY22 Xero had total operating revenue of $1.1 billion, and ended the financial year with 3.3 million global subscribers and a team of 4,784 employees around the world.

Looking to the future, **our vision is to be the most insightful and trusted small business platform.** This is about offering our customers access to a fully integrated platform that gives them powerful insights about their business, drives more meaningful engagement with their advisors and helps them to make more informed choices about running their business. Our vision is supported by our three strategic priorities, outlined on pages 18-19.

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.** We enable our people to do the best work of their lives by aligning and embedding our purpose, values and culture within all our business activities.

Our values and accompanying ‘Xero Way behaviours’ (as shown to the right) reflect not only how our people treat each other, but also how we interact with people and organisations outside of Xero.

Our values

#Human

Xeros are authentic, inclusive and really care

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

#Challenge

Xeros dream big, lead and embrace change

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

#Team

Xeros are great team players

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

#Ownership

Xeros deliver on our commitments

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

#Beautiful

Xeros create experiences that people love

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

“Xeros” is a term used to refer to Xero employees internally

Our relationships with partners

We believe the close relationships we have with our partners, from accountants and bookkeepers to third party apps, banks and financial service providers, is what makes Xero unique.

Xero's platform allows accountants, bookkeepers and other advisors to collaborate in real time with their small business clients through a single general ledger in order to manage their finances, including invoicing, payroll, cash flow, tax compliance, and much more.

> **We are dedicated to building a sustainable business for the millions of customers we serve, their advisors, our communities, our shareholders and our employees.**

Through our ecosystem of connected apps, small businesses can discover and purchase innovative apps that support a wide range of needs, allowing them to run their business seamlessly. Our ecosystem also helps our app partners grow on the Xero platform, giving them access to greater insights and tools, such as payment capabilities, to help attract and support customers.

Our customers

An increasing number of people in small business globally are using the Xero platform to manage their finances and run their businesses. We continuously engage with our customers and partners to help drive awareness and adoption of digital technologies such as cloud accounting across the small business community. We constantly collect feedback to help design and develop additional or enhanced functionality and features to meet our customers' evolving needs.

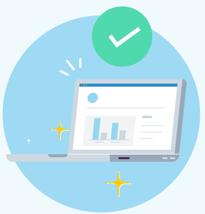
Our sustainability

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

Being inclusive is critical to succeeding as a sustainable business and we were proud that our commitment to gender diversity and inclusion was recognised during FY22 through Xero's inclusion in the 2022 Bloomberg Gender-Equality Index for the third consecutive year. Reflecting our progress in a number of areas, in FY22, Xero was included in the Dow Jones Sustainability Index (DJSI) for the first time. For more information on our approach to sustainability, see our Social and environmental section on page 55 in this report.

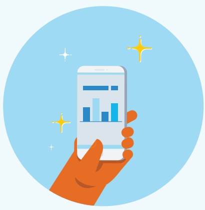
Our products

Xero's small business platform contains a range of integrated products, including:



Accounting and compliance software

Core accounting and compliance software for small businesses and their advisors, acting as a trusted system of record and making accounting, tax and other compliance simpler, smarter and more seamless.



Software for small business operations

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

Software for accountants and bookkeepers

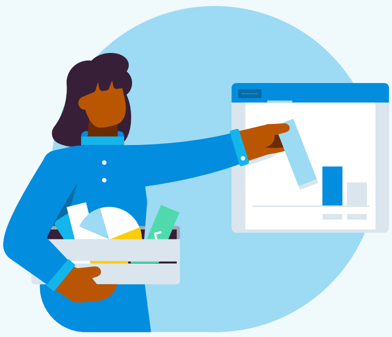
Software that helps advisors manage their workflows, serve existing small business clients and support their compliance needs while also enabling them to identify and attract new clients.

Access to financial services for small businesses

Provide small businesses access to software to manage cash flow, take and make payments, provide fair and faster access to capital, and scale their business with increased confidence.

Integrations that provide access to third-party software

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



Our external business environment

The external environment that Xero operates in is shaped by a number of global trends, including adoption of technologies, government digitisation initiatives and innovation in financial services. These trends are key business drivers for Xero, as well as our customers and partners, and help to shape our strategy.

Technology adoption

Our Xero Small Business Insights (XSBI) special report produced in December 2021 – Picking up the pace: Trends in small business technology adoption and use – tracked how the pandemic has impacted adoption of technology across Australia, New Zealand and the UK.

This report provides insights into the benefits of increasing information and communications technology (ICT) expenditure and the use of apps among small businesses. Xero is well positioned to take advantage of this accelerating adoption trend. Digitally enabled small businesses were shown to be significantly more resilient over the period since the onset of COVID-19, outperforming their peers on most performance metrics.

Government digitisation initiatives

We are continuing to see a significant shift in the way business is conducted, as government-mandated digitisation initiatives across industries and small businesses adopt cloud technologies as part of their core business toolkit. The increasing use of digital tools offers benefits to a whole range of stakeholders, including both small businesses and governments. Benefits include time saving, reduced red tape, greater transparency and increased productivity.

Some examples of government-backed digitisation initiatives within Xero's markets include the UK Government's Making Tax Digital program, the Australian Government's Digital Economy Strategy, and the Singapore Government's SMEs Go Digital program. The US and Canadian Governments have also signalled initial movements towards greater digitisation in the coming years.

We're constantly developing and enhancing the Xero platform to ensure our customers and their advisors can directly manage and comply with an increasing and fast-changing range of government requirements, using Xero.

Innovation in financial services

Innovation in financial services continues to occur at pace around the world. We believe cloud accounting providers are key enablers that can help small businesses to navigate this new landscape. Open banking is one example of innovation in financial services that empowers and encourages customers to share data held by financial institutions. Open banking provides a more seamless connection between customers' financial services providers and their Xero workflows.

These trends provide Xero with multiple opportunities for growth and are directly linked to our strategy, which is covered on page 18. They also present our business with a number of risks, which are addressed in the Key risks section on page 23.

Chair's review

David Thodey AO
Chair of the Board

Dear shareholder,

Xero has performed strongly in FY22 despite another year of uncertainty and challenge around the world. We have seen continuing uptake of Xero by small business over the past year, but there remains an even greater opportunity going forward, with the majority of small businesses yet to experience the benefits of moving to, and doing business in, the cloud.

The environment for small business broadly remains complex. A third year of disruption from the global pandemic, border closures, increased geopolitical tensions, supply chain interruptions and higher demand for talent are all contributing factors. However, it is pleasing to see how well small businesses continue to navigate through these issues.

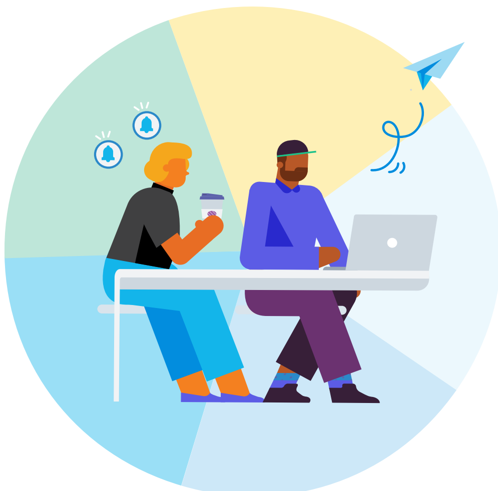
Our most recent Xero Small Business Insights (XSBI) special report released in December 2021 showed that in Australia, New Zealand and the UK, ICT expenditure has increased among small businesses when compared to pre-pandemic times. This demonstrates that small businesses are embracing technology to adapt to a changing operating environment.

We are also seeing governments globally introduce initiatives to incentivise small businesses to move to the cloud as technology drives greater economic productivity. Examples of this playing out include the Government's SMEs Go Digital program in Singapore, and Making Tax Digital, the UK Government's initiative to digitise tax. Most recently, in Australia, the Government has proposed that small businesses can claim additional tax deductions for costs that support their digital capability, including cloud-based services.

Against this backdrop, Xero has delivered another strong result. Top line momentum was supported by good progress on subscriber growth as well as churn rates remaining low, again demonstrating the value of a Xero subscription to both new and existing customers.

Creating value

Consistent with our purpose and values, in this Annual Report we are excited to further demonstrate how we create value for all stakeholders, and introduce greater openness through the inclusion of enhanced non-financial disclosures. With this year's report, we are making important steps towards aligning our reporting with the Value Reporting Foundation's Integrated Reporting <IR> Framework. This is just the beginning of our journey towards providing stakeholders with a more holistic, more transparent view of Xero's performance, which we will build on in FY23 and beyond. I encourage you to read the new areas of this report from pages 20-64 to gain a broader perspective on how Xero creates value. This increased transparency around how we manage important issues such as the way we use our customers' data, our sustainability performance, and our efforts to enhance diversity and inclusion are all important to achieving our vision.



Above: *Xero customer Goodwood*

Trust

Building and maintaining trust is at the heart of our business and underpins the many ways we create long-term value for our stakeholders.

Respecting and caring for the data our customers entrust to us is a crucial area of focus. Xero's vision is to be the most insightful and trusted small business platform, and customer data is at the heart of this. Using data responsibly is in everyone's best interest.

The growing use of Xero Small Business Insights, or XSBI, is a great example of the trust that is built upon anonymised and aggregated data generated within the Xero platform. Since its launch in 2017, XSBI is being used increasingly by governments around the world. XSBI has also been the subject of academic research, including a report about the impacts of COVID-19 on small businesses, published in FY22 by the Organisation for Economic Co-operation and Development (OECD). You can read more about XSBI on page 45.

> **Building and maintaining trust is at the heart of our business and underpins the many ways we create long-term value for our stakeholders.**

Keeping our customers' data secure is essential to building and operating a trusted platform. We take a multi-layered and risk-based approach through the use of cutting-edge security technology, a robust security risk management process, and ensuring that security considerations are embraced by everyone at Xero. You can read more about Xero's responsible data use practices on page 52 and our approach to cybersecurity risks and protecting data on page 51.

Sustainability

Aligned with our purpose and values, Xero strives to operate sustainably, through responsible management of environmental and community impact, and policies and practices that support our people to thrive. We aim to be a trusted business wherever we operate, acting ethically and authentically, while upholding high standards of governance. In recognition of the progress we have made so far in these areas, Xero was included in the Dow Jones Sustainability Index (DJSI) for the first time in FY22.

Having outlined our initial intent on the Task Force on Climate-related Financial Disclosures (TCFD) in last year's Annual Report, we were pleased to make further progress in FY22. We became a registered supporter of TCFD and also made good progress in developing a roadmap to implement the recommendations of the TCFD Framework across our business over the next two years. This year, for the first time we are reporting on the steps we have taken in implementing the TCFD framework in the "TCFD Journey 2022" report, available to download on our website. The Board recognises the TCFD recommendations as a critical component of our climate, and wider sustainability approach.

We continue to play an active role in supporting the communities in which we and our customers operate, with a total global community contribution[1] in FY22 of more than $2.2 million. Our efforts remained focused on support in two key areas: mental health and wellbeing for small business, and supporting non-profit organisations with discounted access to Xero. We also made donations to support natural disaster response and recovery, and humanitarian efforts. More information about our environmental and social practices is on pages 55-59.

[1] *Includes cash donations made to non-profit organisations, employee volunteering time, forgone revenue and partnership investments*

Diversity and inclusion

The Board is committed to ensuring Xero's people are increasingly representative of the communities in which we live and work, and enabling a work environment where everyone feels they belong and can thrive.

In FY22 we made good progress towards better understanding the ethnic and racial profiles of our employees and identifying and supporting those groups who are currently underrepresented. We also exceeded our existing targets for gender representation and approved a more ambitious gender diversity target of 45% of employees at all levels of Xero identifying as female by 2025 (increased from a target of 40% set in 2020). In line with our commitment to equal pay for equal work, we will continue to monitor and report publicly on Xero's gender pay equity performance. You can read more about diversity, inclusion and belonging at Xero in the People and culture section of this report, on page 29.

Future opportunities

The Board remains optimistic about the future market opportunity for our products and services. The demand for cloud-based accounting software remains strong, the opportunities to provide new offerings to our existing customers remains attractive, and we continue to grow in our international markets. Cloud-based accounting provides significant benefits to our partners and customers, and contributes to the overall efficiency of an economy.

Board update

Alignment with our purpose, as well as our values, strategic objectives and risk appetite are integral to our governance approach at Xero. As Chair of Xero's Board, I am proud to lead an international team of experienced and engaged directors who continue to provide support and guidance to Xero's CEO, Steve Vamos and the Xero Leadership Team (XLT).

As the business prepares for further global growth, the Board has been working closely with Steve and the XLT to help them deliver on Xero's strategic priorities. I would like to thank the directors for their dedication in FY22.

After 12 years of service, Craig Winkler retired from the Board in August 2021. As an early director and long-term investor, Craig played a vital role in Xero's success, and we thank him for his contribution.

We welcomed Brian McAndrews as an independent non-executive director in February this year. Brian is US based and brings extensive public company and technology experience, along with expertise in leading North American-based technology businesses to scale. Brian is already making an important contribution to Xero and our Board.

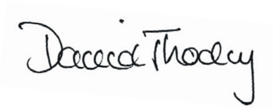
Thank you

The Board remains committed to supporting Xero's continued growth and investment in serving more customers, given the significant global opportunity and long-term prospects for Xero.

We are committed to our purpose – to make life better for people in small business, their advisors and communities around the world – in FY23 and beyond.

On behalf of the Board, I would like to sincerely thank our customers, partners and shareholders for the ongoing support they provide to Xero.

I would also like to thank the Xero team who has worked incredibly hard to deliver this strong result. Thank you for everything you do for our business.



David Thodey
Chair of the Board

CEO's review

Steve Vamos
Chief Executive Officer

Dear shareholder,

Xero has delivered another strong financial performance in our 2022 financial year (FY22), while continuing to invest for future growth, and providing a service that is important to the success of our customers, partners and their businesses.

As Xero grows globally, we continue to pursue our vision to be the most insightful and trusted small business platform. Our strong track record and investment in product innovation and customer experience means we are well positioned to support small businesses in partnership with their advisors.

The past year has again highlighted the resilience of small businesses and the strength of our relationships with customers and partners as they take advantage of the benefits of cloud accounting and digital tools.

In FY22, Xero grew operating revenue 29%, and exceeded the milestone of a billion dollars for the first time to reach $1.1 billion. We ended the financial year with 3.3 million global subscribers and 4,784 employees around the world, a 19% and 31% increase on the prior year respectively.

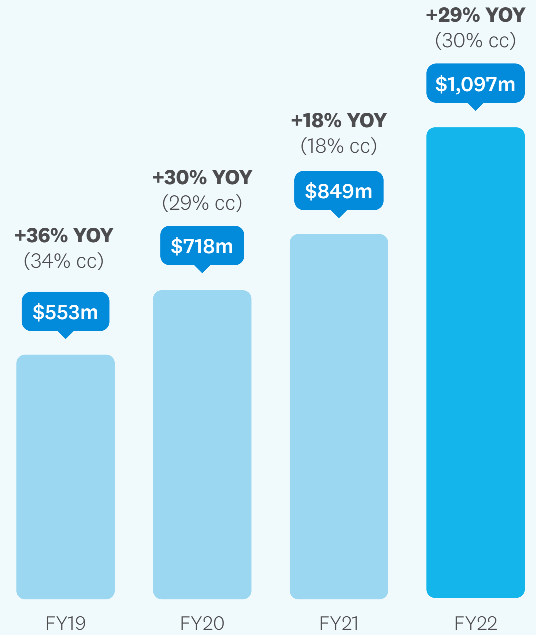
This strong result demonstrates our continued focus on executing our strategy and long-term objectives, and was delivered against a backdrop of varying operating conditions.

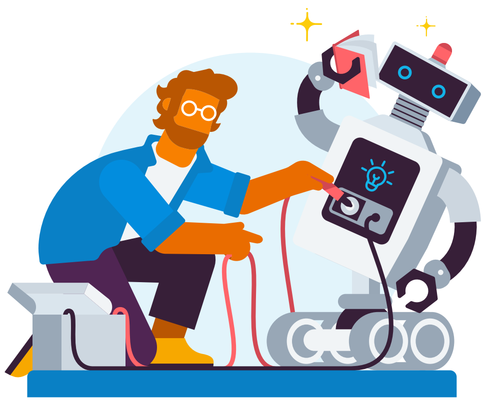
Xero's key Software as a Service (SaaS) metrics continued to improve, including higher average revenue per user (ARPU), firmer gross margin, and stable churn at below pre-COVID levels. Collectively, these contributed to a substantial increase in total subscriber lifetime value (LTV) to $10.9 billion up $3.3 billion or 43%. The result supports the confidence we have in our strategy and our ability to invest and successfully execute.

These results also demonstrate the value of Xero to small businesses and the trust they place in us to help run their business and meet their compliance needs. This trust is based on the quality and security of our innovative product offering and the nature of how we engage with our customers.

At Xero we believe strongly in openness and transparency, and in this year's report we are proud, for the first time, to include many additional non-financial disclosures to provide a more holistic view of the way we generate value for all our stakeholders. This marks an important step in maturing the way we report our performance.

Revenue growth





Strategy

We made strong progress to further execute Xero's strategy in FY22. Our three strategic priorities guide our decision making, product development and investment approach:

- Drive cloud accounting adoption
- Grow the small business platform
- Build for global scale and innovation

Our FY22 results demonstrate that our strategy is contributing to strong growth in revenue, subscribers and gross profit, enabling investment into future opportunities for millions of current and future small businesses to operate their business more effectively.

Drive cloud accounting adoption

The opportunity for Xero to introduce the benefits of cloud accounting to more small businesses around the world remains significant. We estimate that in the markets Xero currently operates in, the total addressable market (TAM) is more than 45 million small businesses for our core cloud-accounting tools[1].

We see substantial opportunity for Xero's growth in the US, Canada, and the UK, as well as further growth in our more established markets, Australia and New Zealand.
To address this opportunity, we remain focused on meeting our customers' needs by building new products and functionality, entering into partnerships, and acquiring businesses that are a strategic fit for our business.

In North America, given the size of the market and the relatively low levels of cloud adoption in small business, we continue to focus on product localisation through product development, partnerships and M&A. Our efforts are focused on where we can have the most impact supporting small businesses and their partners.

In FY22, we added more features to our suite of accounting and compliance reports in the US and Canada, such as enhanced tax reporting templates. Our commitment to meeting customers' needs in North America was further demonstrated this financial year by the acquisitions of LOCATE Inventory, a US cloud-based inventory management provider, and TaxCycle, a Canadian tax preparation software company for accountants and bookkeepers.

Embedding artificial intelligence and machine learning into Xero's product suite

Over the past two years, Xero's data team has expanded significantly and now operates from Australia, New Zealand and North America. A key area our data scientists and engineers are focused on is work to integrate different AI applications across the Xero product suite and contributing to our growing portfolio of ML products.

During FY22, we brought a new application of AI into the Xero platform to enhance one of Xero's most popular core features, bank reconciliation. The new application improved predictions for customers, helping them reduce manual data entry and save time.

We recently launched Analytics Plus, a suite of enhanced planning and forecasting tools. Also powered by AI, Xero Analytics Plus supercharges forecasts and reporting to give growing small businesses greater flexibility and foresight over their business.

Using pattern-matching and predictive algorithms, short-term cash flow in Xero Analytics Plus can detect and predict regular cash expenses and income over the next week, month or quarter, and projects future cash flow.

For more information about AI and ML, see the product, technology and data section of this report on page 47.

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

The opportunity for substantial growth in the UK remains, represented by a large market opportunity and still relatively low levels of cloud accounting adoption. We continue to invest in providing best in class, cloud-based compliance tools in the UK and we consider the Government's Making Tax Digital (MTD) initiative as a continuing contributor to growth. Demand for accounting software is likely to remain elevated due to the ongoing adoption of MTD for VAT, effective from April 2022, and the upcoming MTD for Income Tax from April 2024.

We continue to build momentum in partnering with large global accounting firms. DFK became a Xero Global Partner in July, and PKF in April 2022. This reflects our commitment to working with these types of partners globally, while supporting local engagement.

We also signed deals with US based firms Bernard Robinson & Company and Liberty Tax in Canada.

"The past year has again highlighted the resilience of small businesses and the strength of our relationships with customers and partners as they take advantage of the benefits of cloud accounting and digital tools.

Grow the small business platform

Xero has evolved to be a global small business platform that includes a core accounting solution, payroll, workforce management, expenses and projects. Xero also provides access to financial services, and an ecosystem of more than 1,000 connected apps and more than 300 connections to banks and other financial institutions. Through our open platform, small businesses can connect to a range of solutions that help them run their businesses and manage their finances.

During FY22, our platform revenue doubled to increase by 113% or 43% excluding revenues from businesses acquired in the year. Platform revenues now represent 11% of our Xero Group revenue.

Xero's financial services offering is helping small businesses to take more control of their cash flow and financial future by embedding tasks, such as making and receiving payments, in existing and new digital workflows. We also continue to use our technology, both internally developed and acquired – in the case of Waddle – to work closely with partners around the world to provide small businesses with access to capital that is based on real-time data.

Our acquisition of Planday, a leading workforce management platform with hundreds of thousands of employee users across Europe, the UK and the US, allows us to bring together our capabilities in payroll and expense management to better support employing small businesses and their employees. Work is underway to bring Planday's time, attendance and scheduling offerings to Australia in calendar year 2022.

Planday complements Xero's existing small business employee self-service app, Xero Me, which was refreshed during FY22 to include Xero expenses and sync with Xero payroll to improve the user experience for employees of our small business customers. We provide products that serve the needs of employing small businesses and their employees, exposing Xero to a large and exciting category with an estimated TAM of more than 100 million employee users.

Summary of performance by region

Australia

Revenue increased by 26% (27% in constant currency (CC)) to $483.3 million with 229,000 net subscriber additions in FY22 to reach 1.34 million subscribers. We launched the ability for customers to receive e-invoices. We also expanded our e-invoice sending capabilities to include adding multiple reference fields and adding a bank account, to speed up payments, and the ability to send and receive attachments.

New Zealand

Revenue increased by 15% to $149.4 million with 66,000 net subscriber additions in FY22 to reach 512,000 subscribers. Consistent with our Australian offering, we expanded our e-invoicing for New Zealand customers.

Rest of World

Revenue increased by 85% (90% in CC) to $100.0 million with 51,000 net subscriber additions in FY22 to reach 226,000 subscribers. In South Africa, we expanded our VAT eFiling beta to all customers, providing direct eFiling to the South African Revenue Service, helping our customers file tax returns with greater efficiency and accuracy. We also launched Singapore Dollar billing, enabling our customers and partners to consistently plan their subscription costs without the uncertainties of changing foreign exchange rates. The majority of Planday's revenues, acquired at the start of FY22, appear within the Rest of World region.

UK

Revenue increased by 30% (30% in CC) to $291.6 million with 130,000 net subscriber additions in FY22 to reach 850,000 subscribers. Subscriber net additions were subdued in Q3 but improved in Q4. To help partners transition to the next phases of Making Tax Digital, we launched an end-to-end personal tax solution for UK accountants and bookkeepers. This makes it easier for our UK partners to provide services using Xero Tax across corporate tax, accounts production, and personal tax for individuals and companies.

North America

Revenue increased by 28% (31% in CC) to $72.6 million with 54,000 net subscriber additions in FY22 to reach 339,000 subscribers. We launched a range of new report features and enhancements for US-based customers including new templates, a new report centre and customised management reports. In Canada, a new provincial tax report provides our customers with even greater tax reporting coverage that automatically calculates sales tax for specific filing periods and tracks prior period adjustments. Due to the timing of related annual licence-based income, TaxCycle contributed $7.6 million to operating revenue.

Right: *Xero customer White Wolf Construction*

Below: *Xero customer Made by the Forge*

Build for global scale and innovation

We remain focused on investing in attracting, retaining and engaging world-class talent. The labour market for tech companies globally was increasingly competitive throughout FY22. While conditions were challenging, this is consistent with our experience over a number of years. Xero's ability to continue to attract and retain talent within this hiring market is critical to building for global scale and innovation, execution of Xero's wider strategy and our long-term success.

People and culture

Growing our team continued to be a priority in FY22, as it will be going forward. We set ambitious hiring goals each year and in FY22, we delivered on our biggest ever talent acquisition drive, expanding our global team to 4,784 full time equivalent employees. Our people are highly engaged, as reflected in our 12 month rolling average of our fortnightly Employee Net Promoter Score (eNPS) for FY22 of 41. To find out more about our people and culture initiatives, see page 29.

Leadership

For Xero to realise the opportunities that exist for our business, our global leadership team needs to continuously develop and, where appropriate, grow to support our ambitions. In April 2022, we appointed Chris O'Neill as Chief Growth Officer. Based in the US, Chris was appointed to the Xero Leadership Team to lead the strategic direction and operational performance of Xero's newly-created Applications & Services division. Chris also leads the strategic development of Xero in the Americas – including US and Canada – working closely with President Americas, Tony Ward.

There were two changes to Xero's regional Managing Directors in FY22. In July, Joseph Lyons was appointed to the role of Managing Director, Australia and Asia replacing Trent Innes, who departed Xero after eight years of leadership. Joseph has experience across a number of industries and previously led Xero's global sales activities, giving him a deep understanding of our partners and customers. We thank Trent for his valuable contribution.

In December, Alex von Schirmeister joined Xero as our UK & EMEA Managing Director. Alex brings more than 25 years' senior leadership experience to the role, having worked in ecommerce, payments and telecommunications. Alex replaced Gary Turner, who stepped down as UK & EMEA Managing Director after 12 years of leadership. We thank Gary for his significant contribution to Xero, while he continues to work for us in an advisory role.

We also continued to evolve our operating model to ensure we have a clearer line of sight on the returns made from our investments in the development and delivery of products and services to our customers. This involved establishing a new operating structure comprising the following divisions: Customer, Product, Technology, Applications & Services, and Business Services functions.

Sustainability

For Xero, building a sustainable business means ensuring we act with integrity and authenticity, creating positive social and environmental impact wherever we can. Xero's Chair David Thodey provides an overview of our approach to sustainability in his Chair Review on page 9, and further detail about our social and environmental initiatives is on page 55 of this report.

Xerocon returns

The strong relationships we share with our partners in the accounting and bookkeeping communities are one of the most important elements that differentiate Xero. This is why we go above and beyond to make Xerocon an inspiring and energising experience. Xerocon provides an opportunity for our partner community to connect with their peers, celebrate their accomplishments, and learn more about Xero's latest tools, features and updates to help them better serve their clients and run their practices.

After a near three-year break due to the pandemic, we are excited to be re-launching Xerocon in the UK, North America and Australia. Xerocon London will take place in July, with Xerocon New Orleans following in August, and Xerocon Sydney in September. There is great anticipation for these events, both inside and outside of Xero.

Global partnership with FIFA Women's Football

In FY22 we continued to invest in Xero's global brand awareness through a range of targeted marketing and communications activities. In April 2022, Xero was named a FIFA Women's Football Partner under FIFA's new commercial partnership structure. The new multi-year agreement will cover the FIFA Women's World Cup 2023™, the 2024 and 2026 editions of the FIFA U-20 Women's World Cup™ and FIFA U-17 Women's World Cup™. This partnership provides an opportunity to not only accelerate our brand growth in new and existing markets, but importantly, to champion women's football and further empower women working in small business and their communities around the world. As part of the agreement, Xero will support two FIFA women's football development programs: Capacity-Building for Administrators, and Coach Education Scholarships.

Outlook

Xero will continue to focus on growing its global small business platform and maintain a preference for reinvesting cash generated, subject to investment criteria and market conditions, to drive long-term shareholder value.

Total operating expenses (including acquisition integration costs) as a percentage of operating revenue for FY23 are expected to be towards the lower end of a range of 80-85%.

Long-term aspiration

Xero's FY23 outlook, outlined above, includes an anticipated operating expense ratio for FY23. While there isn't a specific timeline, Xero's long-term aspiration is to see significant improvement in its operating expense ratio as Xero and the global cloud accounting industry continues to develop. Having said this, Xero's operating expense ratio, and its component parts, could vary from period to period as we identify growth opportunities that are consistent with our long-term objectives and adapt to market conditions.

Thank you

We are pleased with Xero's progress in FY22 and we enter FY23 committed to our vision to be the most insightful and trusted small business platform. This vision is about offering our customers access to an integrated small business platform that provides powerful and relevant insights that can enhance their business success.

I'm excited about what's ahead for Xero. There is a significant opportunity to change the game for small businesses globally by providing them with access to technology that helps them better operate and adapt to a constantly changing environment.

We will continue to pursue our global growth strategy, and invest in products, partnerships and acquisitions that help us create value for Xero's customers now and into the future.

Finally and most importantly, I extend my sincere thanks to our people, customers, partners, shareholders and everyone who supports Xero.

Steven Vamos

Steve Vamos
Chief Executive Officer

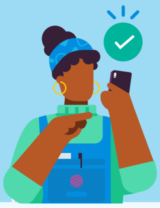
Strategy

Xero is a long-term oriented business with ambitious growth plans to scale globally. Our strategy is centred on addressing the needs of small businesses and comprises three strategic priorities which guide our decision-making as we navigate the opportunities and risks that exist for our business.

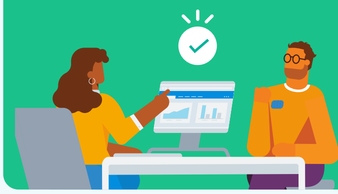
Xero's strategic priorities help us decide how we invest in our business and build towards our vision, so we can create sustainable value for our customers, employees and shareholders.

Strategic priorities

Drive cloud accounting adoption



Grow the small business platform



Build for global scale and innovation

Drive cloud accounting adoption

With levels of cloud accounting remaining low in many countries around the world, there is a significant opportunity for Xero to introduce the benefits of cloud accounting to small businesses and their advisors.

Cloud accounting represents a substantial and attractive opportunity for Xero, and global adoption rates by small businesses are still low. We estimate a cloud accounting total addressable market (TAM) of more than 45 million small businesses for our core cloud accounting tools across the markets Xero operates in[1]. The cloud accounting industry is benefiting from a number of initiatives and trends, including government digitisation, innovation within financial services, and more widespread adoption of technologies, such as ecommerce. These initiatives and trends are present in many markets around the world and are helping to drive demand for digitally enabled and cloud-based accounting and compliance solutions.

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

How we drive adoption:

- Introducing small businesses, accountants and bookkeepers to the benefits of cloud accounting through the use of marketing, educational materials, training and Xero subscription trials
- Connecting with our accounting and bookkeeping partners is an important part of our approach particularly through events such as roadshows and Xerocons, our annual conference for cloud accounting leaders, held to date in Australia, New Zealand, the UK and the US
- Helping small businesses to stay compliant by keeping on top of relevant government regulatory changes through product updates and education
- Developing more modern practice and compliance tools to help our accounting and bookkeeping partners better serve their existing clients, find and onboard new clients and run their operations
- Exploring the delivery of new products to extend our TAM to be able to support customers with less complex accounting needs
- Evaluating new geographical markets to grow our TAM

Grow the small business platform

Small businesses are increasingly seeking services beyond cloud accounting. We are responding to this with investment to extend and enrich Xero's platform, products and the wider ecosystem.

We help solve small businesses' operational and financial needs across areas beyond accounting and compliance such as expenses, inventory management, financial services and employee services.

We are investing in these areas. For example, we are further developing our inventory management and ecommerce capabilities following the acquisition of LOCATE Inventory. LOCATE helps us to address increased demand for inventory management tools and related features, such as cash flow. Xero's new offering will initially be available for US-based customers, and at a later date, for customers in other markets. We also extended our employer and employee services offering in Europe and the UK with the acquisition of Planday. Work is underway to bring Planday's time, attendance and scheduling offerings to Australia in calendar year 2022.

Through our approach to financial services, we are empowering small businesses to take control of their cash flow and financial future by embedding financial tasks, like getting paid and making payments, in existing and new accounting workflows. We also continue to work with partners around the world to deliver timely and fair options to access capital.

Xero was born in the cloud as an open platform, and became a pioneer in building open application programming interfaces (APIs) to better connect the software, tools and data that small businesses use daily. Xero's open API encourages innovation and helps develop our ecosystem. There are currently more than 1,000 apps within Xero's ecosystem that are offered by both third parties and Xero. Many of the new connections to these apps are increasingly made through the Xero App Store, where our customers can tailor solutions to their specific needs. Xero subscribers in Australia, the UK and New Zealand can easily discover and buy apps connected to the Xero platform via the Xero App Store, which also enables Xero app partners to promote and grow their own businesses. Plans are underway to enable a fully featured App Store experience for our customers and partners in the US and Canada, including subscription-billing.

Build for global scale and innovation

To become the most insightful and trusted small business platform, we must continuously improve our business systems, technologies, people capabilities, responsible practices and operating and financial structure.

We are focused on the following areas:

- Investing in our people and acquiring new talent to support our strategy. This includes attracting, retaining and inspiring diverse talent who are passionate about solving small business challenges. For further information see our People and culture section on page 29
- Improving our technology and data capabilities, in areas that include machine learning and artificial intelligence, to establish a strong foundation for future product development and innovation. Ensuring the reliability and security of our platform is fundamental to Xero. For further information see our platform, technology and data section on page 47
- Building a community-conscious, inclusive and sustainable business, for the millions of customers we serve, their advisors, our communities, shareholders and employees. For further information see our social and environmental section on page 55
- Optimising our operating and financial structure to support execution of our strategy. For example, evaluating the location and structure of functional teams, or assessing our ongoing capital management requirements. For further information see our financial section on page 61

How Xero creates value

Our purpose

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

Our vision

To be the most insightful and trusted small business platform

Inputs

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

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

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

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

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

What we do

Supported by governance (see page 65) and risk management (see page 23)

Our values

#Human
Xeros are authentic, inclusive and really care

#Challenge
Xeros dream big, lead and embrace change

#Team
Xeros are great team players

#Ownership
Xeros deliver on our commitments

#Beautiful
Xeros create experiences that people love

Products → Outcomes

Products

Accounting compliance software

Software for small business operations

Software for accountants and bookkeepers

Access to financial services for small businesses

Integrations that provide access to third party software

Our products are described on page 7

Outcomes

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

Value drivers are described on page 47

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

Value drivers are described on page 41

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

Value drivers are described on page 29

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

Value drivers are described on page 55

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

Value drivers are described on page 61

Material matters

This year, we conducted our first externally-facilitated stakeholder engagement and materiality assessment. This was to help ensure we are identifying and responding to the sustainability issues, risks and opportunities that are most material to our stakeholders and the creation of long-term value at Xero.

Our assessment was completed in accordance with materiality guidelines of the Integrated Reporting <IR> Framework. The assessment considered a range of inputs, including peer and competitor benchmarking, a review of the Sustainability Accounting Standards Board (SASB) software and IT services sector standard, and Xero internal documents. We also engaged directly through a range of activities involving internal and external stakeholders. These included surveys responded to by more than 600 employees and approximately 350 customers. Interviews were conducted with 34 additional key stakeholders including senior Xero executives, directors and investors. The initial findings were reviewed by our ESG Steering Committee, and validated by the Xero leadership team.

Through this process we identified the ESG "matters material to value creation". We also identified some additional matters that emerged as slightly less material in the overall assessment, but we felt warranted discussion in this report. How we manage each of these to enhance Xero's value, is described under each of the Inputs in this report.

The stakeholder engagement and materiality process has identified the following material matters for FY22.
The sustainability matters identified are grouped under four of the identified Inputs that are described in further detail in the How Xero creates value section of the report on pages 20 to 21[1]. A fifth grouping of matters has been formed under the category of 'Governance' which also forms a critical component of the value creation process. Those that are recognised as material to long-term value creation by the process are highlighted in bold.

People and Culture

- **Employee attraction, training, development and retention**
- **Employee health, safety and wellbeing**
- **Diversity and inclusion**

Customer, Partners & Ecosystem

- **Stability, reliability and accessibility of information**
- **Customer support, loyalty and engagement**
- Supporting Xero's ecosystem to do good

Platform, Technology and Data

- **Stability, reliability and accessibility of information**
- **Cyber security**
- **Customer privacy**
- **Technological innovation, artificial intelligence and digitisation**
- Intellectual property, including product development and delivery

Social and Environmental

- **Climate action and energy management (including alignment with the Taskforce on Climate-related Financial Disclosures)**
- **Responsible supply chain and modern slavery**
- Community support, engagement and partnerships

Governance

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

These are discussed on pages 23 and 65 of this report.

[1] *There are no material matters relating to Xero's fifth identified Input (Financial) identified here as financial materiality did not directly form part of the assessment of material sustainability issues.*

Key risks

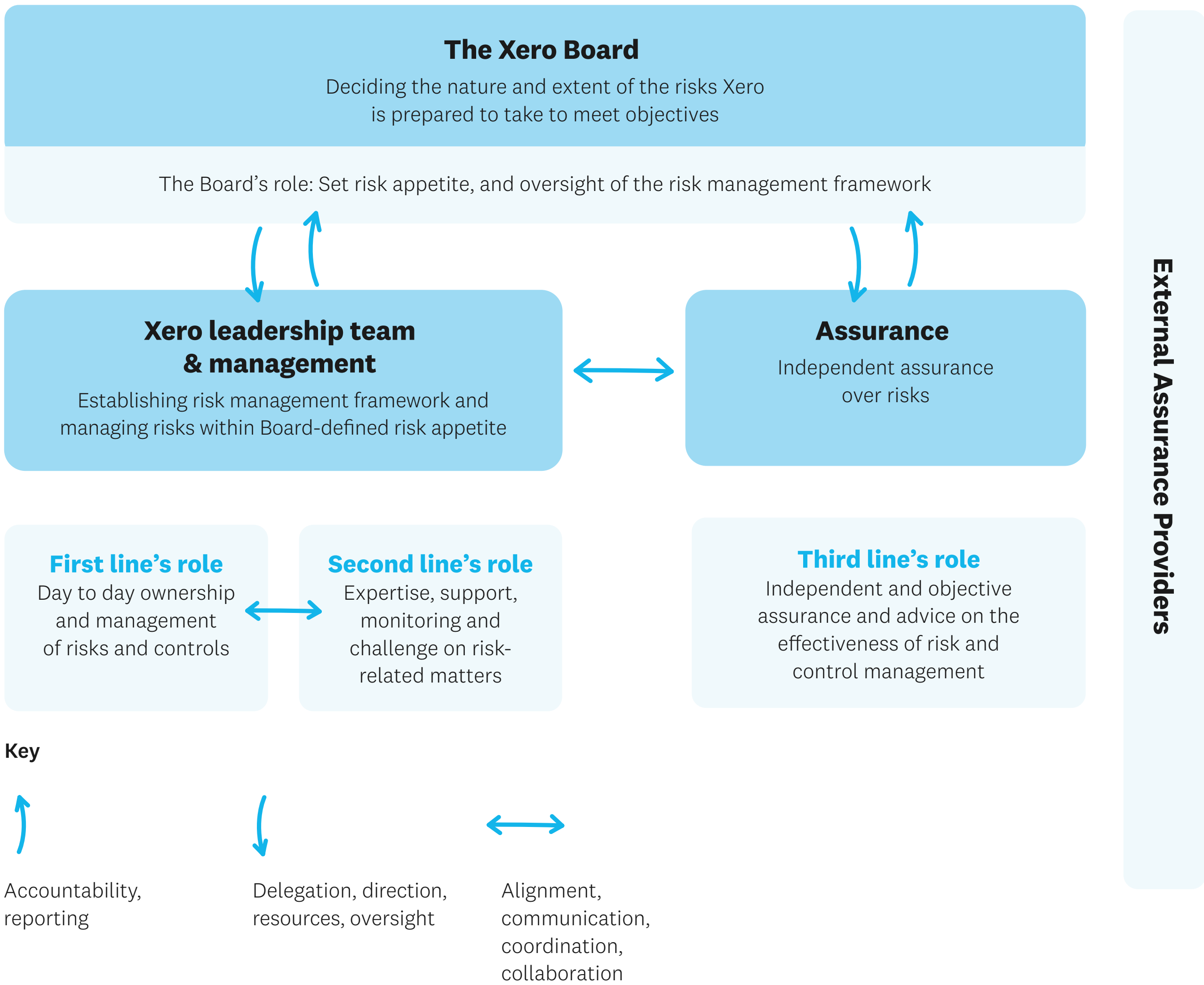
Xero is a high-growth business with operations located around the world. As a result, we address a variety of opportunities and face a range of risks which we consider from a sustainable long-term value creation perspective.

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

Risk assessment and mitigation are part of our culture at Xero, and responsibility is shared between the Board, Management and all Xeros. The Board sets the risk appetite and provides oversight of management's execution of Xero's risk management framework.

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

Xero's Risk Management Accountability Three Lines Model



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

Financial | **Platform, tech and data** | **Customer, partner and ecosystem** | **People and culture** | **Social and environmental**

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

Financial | **Platform, tech and data** | **Customer, partner and ecosystem** | **People and culture** | **Social and environmental**

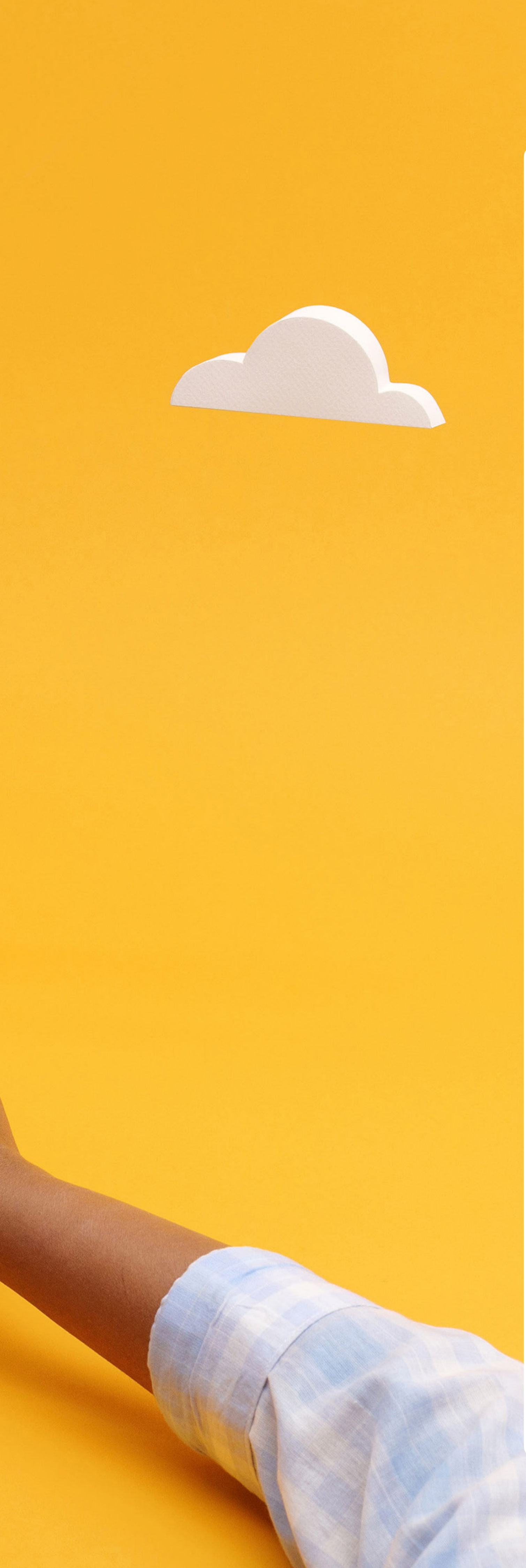
Key areas of potential risk	Mitigation strategies and activities	Inputs impacted
Data and cybersecurity breaches Security controls and processes are insufficient, leading to a breach and resulting in loss of data or system functionality, and disruption to customers' businesses, leading to customer churn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

Financial | **Platform, tech and data** | **Customer, partner and ecosystem** | **People and culture** | **Social and environmental**

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

Financial **Platform, tech and data** **Customer, partner and ecosystem** **People and culture** **Social and environmental**

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



People and culture

Material matters: Talent attraction, retention and development | Diversity and inclusion | Employee health, safety and wellbeing.

As a high-growth tech business that is knowledge based, our people are our most valuable asset. We bring together diverse, world-class talent enabled by an inclusive culture and working environment. Xero's culture allows our people to do the best work of their lives, while driving innovation, productivity and value creation. As a result, the ability to attract and retain top talent in the face of a challenging talent acquisition environment, exacerbated by closed borders, has been one of our defining challenges in FY22.

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

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

- Attract, develop and retain top talent
- Promote diversity and inclusion
- Prioritise the health, safety and wellbeing of our people

KPIs	FY22 performance
Average annual employee net promoter score (eNPS)	41
Annual voluntary employee turnover	16.1%
At least 45% representation of women among our senior leaders, our people leaders and all employees by the end of FY25	CEO direct reports 63% female[1,2] Employees 44% Senior leaders 33.9%[1] People leaders 43.7%
At least three women and at least three men as directors	Three female and five male directors
Median gender pay equity gap (like for like basis)[3]	1%
Median raw gender pay gap	11%

[1] Refer to page 32 for definitions of the terms used in gender representation reporting

[2] CEO direct reports as at 12 May 2022

[3] Refer to page 34 for an explanation of the difference between median gender pay equity gap and median raw gender pay gap

Attract, develop and retain top talent

Attraction and retention of talent

Attracting, retaining and inspiring world-class talent is critical to supporting Xero's growth, today and in the years ahead. Our talent acquisition strategy requires us to meet ambitious hiring goals each year and in FY22, we delivered on our biggest-ever talent acquisition drive, expanding our global team to 4,784 full-time equivalent (FTE) employees, representing a 31.4% increase year-on-year, or 24% excluding acquired FTEs.

As Xero continues to grow, there is a commensurate growth in demand from the business to identify, attract and retain top talent. In a highly competitive candidate market, we recognised the need to ensure our talent experience function was responding effectively to these needs. In FY22 we added additional resources to increase productivity of our hiring processes, and to provide strategic talent advice and insights. Our employer brand is vital to ensuring we attract the best talent across the globe, so we now have a dedicated role focused on leveraging a range of campaigns and platforms to promote Xero as an attractive career destination for top talent.

While recognition and reward will always be crucial to attracting and retaining talent, the experience of the past two years has heightened the perspectives of people on the importance of other factors such as a sense of purpose, a feeling of genuine inclusion, flexible and remote working, parental leave, and wellbeing.

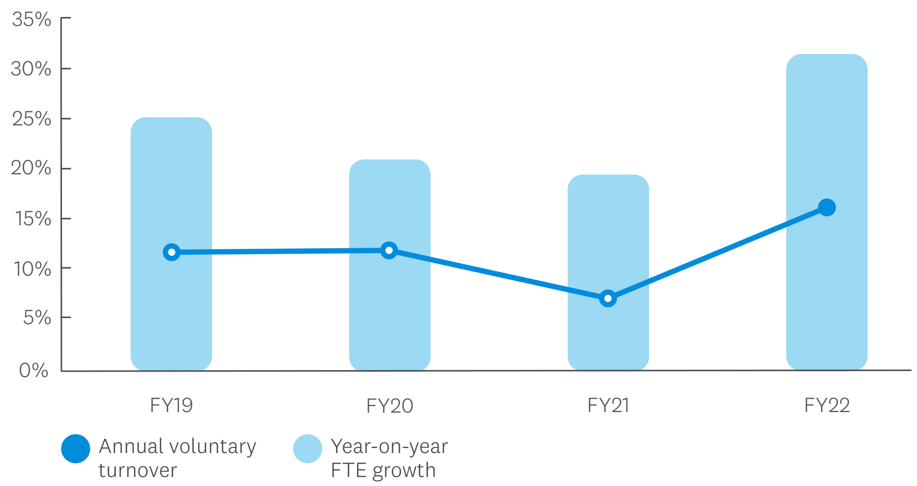
Flexibility

Flexibility is critical to attracting and retaining top talent, so in the last year we've made it possible for our product and tech people – who represent around half our total workforce – to work wherever they perform best[4]. This helps our people to better manage their work life balance and to expand the overall talent pool from which we can draw in the countries where we operate. Since we introduced this policy, 25% of new product and tech hires have been remote and flexible workers.

Culture

To attract and retain top talent, we foster an environment where people want to work as part of our team. Xero's culture and the way in which we live our values every day are something for which we are widely known, as supported by our recognition as one of the best places to work[5]. To ensure alignment with our values from day one, all new employees[6] are on-boarded with a focus on Xero's values, behaviours and our Respect and Responsibility training. This is core to Xero's culture and the way we work together every day. All Xero employees also undertake training on the Xero Code of Conduct, including ethics and anti-bribery and corruption.

Annual voluntary turnover and FTE growth



[4] *Any location where Xero has a registered entity*

[5] *UK Great Places to Work-Certified™ 2022*

[6] *Does not include employees of Planday*

Engagement

Our employee sentiment data tells us that we're making good progress when it comes to attracting and retaining top talent. The 12-month rolling average of our fortnightly Employee Net Promoter Score (eNPS) for FY22 was 41[7]. After trending down from FY19 to FY21, the increase in our voluntary annual turnover to 16.1%[7] reflected the impact of easing pandemic-related restrictions and broader trends across the tech industry hiring environment. Our strategic focus on talent acquisition and related initiatives meant that overall employees increased by 31% over the same period

Training and development

In FY22, we focused on several training and development initiatives specifically targeting:

- Early career development, through our graduate and intern programs
- Leadership capabilities
- Engineering

Early career development

Each year, we recruit new graduates across Australia and New Zealand in technical, design, and business programs. We invest in our graduates to help them build their skills, learn on the job and develop a passion for continuous development. After the program, graduates are guaranteed a permanent position in line with their career aspirations.

FY22 Best graduate development program New Zealand[8]

FY22 Top 10 Graduate employers Australia[9]

FY22 One of Australia's Top Intern Programs[10]

Leadership capabilities

Great leadership is essential to getting the best out of our people and we've prioritised developing people leaders as part of our growth and succession planning. We offer our leaders a range of opportunities to develop their skills at different points in their journey, from mentoring to more formal learning programs such as 'Managing @ Xero' and

Above: *Graduates from our 2022 cohort*

forums such as Global People Leader Forums. Helping leaders build deeper peer connections and community gives them the opportunity to develop sounding boards, mentors and peer groups with which to grow in their leadership career.

Engineering

In the rapidly changing tech environment, we recognise lifelong learning and continuous upskilling as critical to creating an environment where our people can flourish. This year, we developed and rolled out our Engineering Growth Framework, to enable our people leaders to have deeper conversations with our technical talent about career development at Xero, with better defined competencies for different roles in engineering across Xero. We also offered:

Amazon Web Services (AWS) classroom training for engineers[11]

Secure platform for engineers to innovate in AWS

XCITE internal tech conference for engineers

[7] *Does not include employees of Planday*

[8] *NZAGE – New Zealand Association of Graduate Employers 2021 - Best Graduate Development Program*

[9] *https://www.topgraduateemployers.com/, https://gradaustralia.com.au/top-employers*

[10] *https://www.topinternprograms.com.au/*

[11] *Offered in Australia, New Zealand, Canada, USA and UK in FY22*

Enhance diversity and inclusion

Diversity, inclusion and belonging in the workplace are critical to enabling our people to thrive.

> **A diverse workforce is a strength that enables us to better understand and serve customers, attract top talent, and innovate successfully.**

To successfully and sustainably execute our strategy and create value at Xero, our team needs to truly reflect the diversity of the communities in which we live and work. We strive to foster a work environment where different perspectives and contributions are valued, and where our people are encouraged to bring their whole #human selves to work.

Our approach to diversity and inclusion is outlined in our key principles. We aim to make Xero a workplace that's truly representative of the communities in which we operate, where everyone feels they belong. Through our data-driven approach, we gain insight on which groups are currently underrepresented at Xero, or may face special challenges. In FY22 we implemented a global network of Employee Resource Groups (ERGs) representing these cohorts. For more information about our ERGs and what they have achieved this year, please visit our website (xero.com/sustainability). We also created a new inclusive leadership program, which has been completed by our people leaders in North America and is being rolled out to our people leaders globally.

Gender diversity

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

In FY21, we met our existing gender diversity target of 40% women at Xero, so in FY22 we developed more ambitious targets, with the goal of achieving 45% representation of women among our senior leaders[12], our people leaders[13] and all employees by the end of FY25. We are committed to building a pipeline of female talent and are pleased that the proportion of female product and tech hires in our 2022 graduate intake is 44%, up from 28% and 35% in the 2021 and 2020 intakes respectively. In 2022, we were included in the Bloomberg Gender-Equality Index for the third consecutive year, in recognition of our commitment to supporting gender diversity in the workplace.

Measurable objectives

Xero's FY22 measurable objectives to improve the representation of women were:

Gender diversity in board composition

- Board representation of at least three women and at least three men[14]. By the end of FY25, the Board aspires to have at least 40% women and 40% men as directors, with the remaining 20% unallocated to allow flexibility for renewal and to recognise that gender is not binary

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

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

[12] Xero's senior leaders includes senior executives with global roles who report directly to the CEO and their direct reports whose roles meet a minimum role size as determined by a job evaluation methodology
[13] Xero's people leaders include all managers across the organisation
[14] Given an intended board size of seven to nine directors, this equates to maintaining not less than 30% female representation and not less than 30% male representation on the Board

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

Gender representation[15, 16, 17]

All Xero employees

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

CEO direct reports[18]

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

Board

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

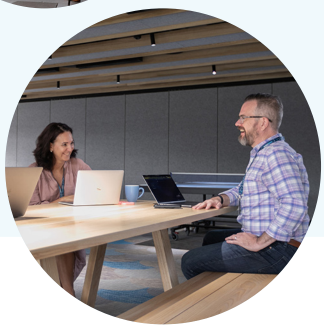
Senior leaders

- Female (**34%**)
- Male (**66%**)

People leaders

- Female (**44%**)
- Male (**56%**)
- Gender diverse (**<1%**)
- Non-binary (**<1%**)
- Prefer not to say (**<1%**)

Percentages may not add up to 100% due to rounding



Above: *Xero employees*

[15] *Gender and age data covers Xero's global workforce, excluding contingent workers and Planday employees. All data is self-reported as at 31 March 2022*

[16] *Xero has an optional gender identification question that allows employees to choose from the following options: female, male, gender diverse, non-binary, none of the options offered and prefer not to say. Where employees have selected none of the options offered or prefer not to say, their responses are included in the total. 25 employees (0.55%) were excluded from the total because they did not responded to the gender identification question*

[17] *These figures include permanent full-time, permanent part-time, fixed-term, casual employees and interns.*

[18] *CEO direct reports as at 12 May 2022*

Gender pay equity

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

We are committed to equal pay for equal work, and we have several robust practices in place to review our gender pay equity, including:

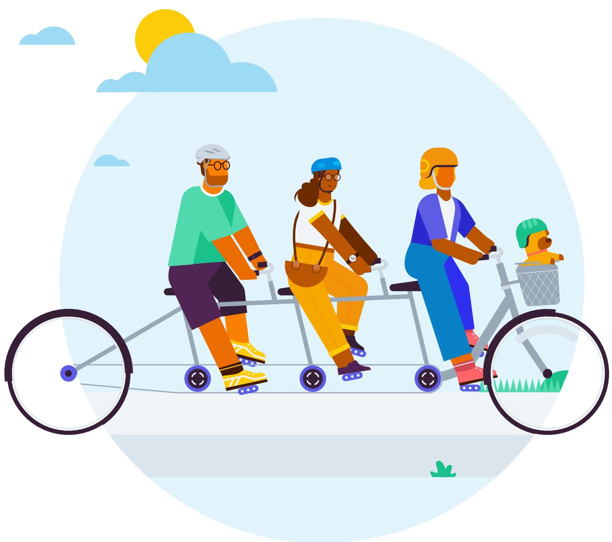
- Six monthly reviews of our people's remuneration compared to the market to regularly measure gender pay equity enabling us to take action on any identified issues. Analysis of new hires to ensure offers are equitable regardless of gender in similar roles
- Analysis of percentage increases from annual salary reviews and any interim reviews to ensure we are not inadvertently contributing to a gender pay equity gap
- Annual salary review also includes employees on parental leave to ensure their pay doesn't fall behind their peers

At the time of our last review in February 2022, our analysis showed that on a like for like basis, we are providing equitable salary outcomes when compared to overall median market remuneration[19].

This year we also chose to participate in the New Zealand-based MindTheGap initiative which advocates that everyone is "paid fairly for their work; where pay discrimination based on ethnicity, gender or ability no longer exists". As part of our wider commitment to gender diversity and ensuring that our policies, processes and practices encourage fair pay and true equality, in February 2022 we reported to the MindTheGap registry that our raw gender global pay gap[20] is 11%, compared to 17% in New Zealand and 25% in Australia in similar companies[21].

We have a number of programs in place to further address this raw gender pay gap including:

- career progression analysis
- strong women in leadership pipeline
- female technical role pipeline
- initiatives encouraging young women to consider a career in tech
- inclusive parental leave benefits



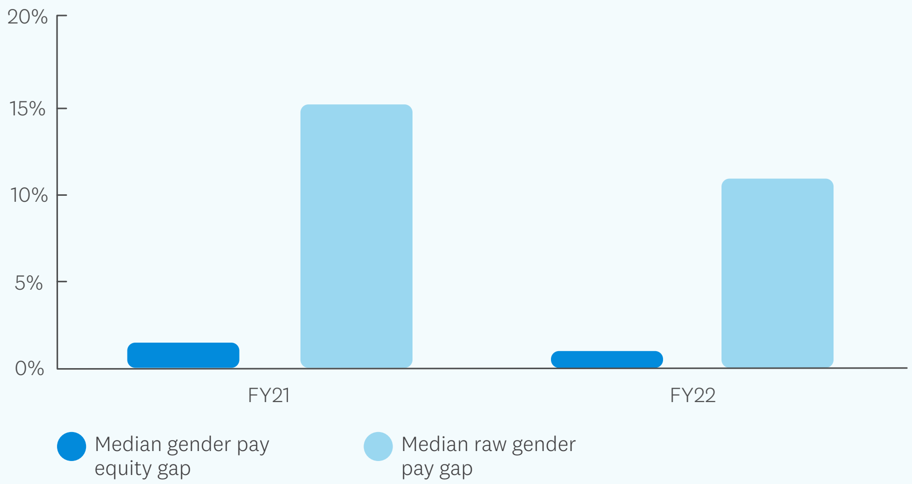
Our analysis shows that on a like for like basis, we are providing equitable salary outcomes when compared to overall median market remuneration.

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

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

[21] *Australia: WGEA November 2021 survey results for the professional, scientific and technical services; New Zealand: NZ.Stat June 2021 results for Information, Media and Telecommunications*

Gender pay equity[22]



Left: *Xero employees*

[22] *Raw median is calculated as the weighted average of regional medians to ensure the Xero Group number is not impacted by market differences*

Cultural, racial and ethnic diversity

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

We conducted our first Xero cultural diversity survey in 2020 and since then, we have collected additional data about where our people come from, what groups they identify with, and what languages they speak. Our key objective for FY22 was to increase the proportion of our people that self-disclose their ethnic and racial identity to at least 80%. At 31 March 2022, 75% of our people had provided this information. We are working towards meaningful targets to increase the representation of currently underrepresented groups at Xero and report on our performance against these targets in future periods.

> **We have started the journey towards broad-based diversity across all our functions and geographies by seeking to better understand ourselves first, and then using these insights to identify priority areas of focus.**

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

In addition, our diversity and inclusion strategy includes priorities around cultural and ethnic inclusion, as outlined in the FY22 Remuneration Report.

***Above**: Xero employees*

Measurable objectives

Xero's FY22 measurable objective in relation to workforce inclusion is as follows:

Inclusion at Xero

Xero is an inclusive work environment where different contributions and perspectives are valued, and everyone can bring their whole self to work. Establish a global baseline for Xero's race / ethnicity profile to inform the development of an action plan by the end of FY22.

Our progress against this objective is presented in the charts below:

Xero ethnic composition by geography[23]

Asia[(i)] - All

- No data (**44%**)
- Chinese (**40%**)
- White or European (**4%**)[(iv)]
- Asian (**4%**)
- Two or more races (**2%**)
- Malay (**2%**)[(iii)]
- Japanese (**2%**)
- Indian (**2%**)
- Filipino (**2%**)

Asia - People leaders

- No data (**71%**)
- White or European (**14%**)[(iv)]
- Chinese (**14%**)

Australia - All

- White or European (**40%**)[(iv)]
- No data (**40%**)
- Asian (**16%**)[(iii)]
- Other Oceanian (**2%**)[(v)]
- African and/or Middle Eastern (**2%**)[(ii)]
- People of the Americas (**1%**)
- Aboriginal and/or Torres Strait Islander people (**<1%**)

Australia - People leaders

- White or European (**47%**)[(iv)]
- No data (**37%**)
- Asian (**10%**)[(iii)]
- Other Oceanian (**2%**)[(v)]
- People of the Americas (**2%**)
- African and/or Middle Eastern (**1%**)

(i) Asia is classfied as staff located in Xero's Singapore and Hong Kong offices

(ii) African and/or Middle Eastern includes people who selected any of these descriptors: North African, Sub-Saharan African

(iii) Asian includes people who selected any of these descriptors: North-East Asian, South-East Asian, Southern and Central Asian

(iv) White or European includes people who selected any of these descriptors: Australian, North-West European, Southern and Eastern European

(v) Other Oceania includes people who selected any of these descriptors: Australian South Sea Islander, Oceanian Other

Percentages may not add up to 100% due to rounding

[23] All reporting on race data is based on voluntary global self-reporting. The race categories used by Xero for self-reporting reflect each region's government reporting standards. However, for the purpose of this report some race categories have been adapted so they are globally relevant. All countries and regions who have reached a minimum self reporting number have been displayed and any reference to 'No data' includes people who have not self-disclosed their racial and ethnic background, or who selected 'none of the options offered', or 'prefer not to say' from the country/region listed. Does not include employees of Planday or contingent workers.

Canada - All

- White or European (**35%**)
- Asian (**32%**)[i]
- No data (**27%**)
- Black or African (**5%**)
- Hispanic or Latinx (**<1%**)
- Other Oceanian (**<1%**)

Canada - People leaders

- White or European (**49%**)
- No data (**22%**)
- Asian (**22%**)[i]
- Other Oceanian (**2%**)
- Hispanic or Latinx (**2%**)
- Black or African (**2%**)

New Zealand - All

- New Zealand European (**35%**)[iii]
- No data (**24%**)
- Other European (**19%**)
- Asian (**15%**)[i]
- Māori (**3%**)[ii]
- Middle Eastern, Latin American or African (**3%**)
- Pacific Peoples (**1%**)

New Zealand - People leaders

- New Zealand European (**40%**)[iii]
- No data (**27%**)
- Other European (**20%**)
- Asian (**8%**)[i]
- Māori (**3%**)[ii]
- Middle Eastern, Latin American or African (**2%**)
- Pacific Peoples (**1%**)

[i] Asian includes people who selected any of these descriptors: Asian - Chinese / Indian / Other
[ii] Māori are the tangata whenua, the Indigenous people, of New Zealand
[iii] New Zealanders of European descent may also self-identify as Pākehā
Percentages may not add up to 100% due to rounding

United Kingdom - All

- White or European (**62%**)
- No data (**21%**)
- Asian (**11%**)[i]
- Black, African, Caribbean or Black British (**5%**)
- Two or more races (**1%**)[ii]

United Kingdom - People leaders

- White or European (**62%**)
- No data (**32%**)
- Asian (**3%**)[i]
- Black, African, Caribbean or Black British (**2%**)
- Two or more races (**1%**)[ii]

United States - All

- White (**66%**)
- No data (**10%**)
- Hispanic or Latinx (**8%**)
- Asian (**8%**)[i]
- Two or more races (**4%**)[ii]
- Black or African American (**4%**)
- Native Hawaiian or Other Pacific Islander (**<1%**)

United States - People leaders

- White (**70%**)
- Hispanic or Latinx (**10%**)
- No data (**9%**)
- Asian (**7%**)[i]
- Two or more races (**4%**)
- Black or African American (**1%**)

[i] Asian includes people who selected any of these descriptors: Asian - Bangladeshi / Chinese / Indian / Other / Pakistani
[ii] Two or more races includes people who selected any of these descriptors: Mixed - White & Asian / White & Black Caribbean / Other
Percentages may not add up to 100% due to rounding

Ensure the health, safety and wellbeing of our people

Providing a physically and psychologically safe workplace for our people is essential if they are to thrive and do the best work for our customers. Our first annual wellbeing climate survey in 2021 identified clear links between wellbeing and the performance of individuals and teams. It has also provided an evidence-based way of understanding how to create the workplace conditions that foster wellbeing at Xero and what interventions will deliver this.

Our global wellbeing program

In FY22, under the stewardship of our first Global Head of Wellbeing, appointed in FY21, we launched our global wellbeing strategy and the first steps of our global wellbeing program. This strategy is our commitment to putting wellbeing at the centre of how we operate. We are investing in how we can make changes to the way work is designed in order to improve our people's experience of work, such as introducing designated meeting-free 'focus time' for deep, concentrated work. Our data demonstrates that the same workplace factors that are good for our people's wellbeing are also good for performance, reducing the chance of burnout. We have close to 80 wellbeing champions from across Xero's locations. Our 2021 survey identified that 75% of our people surveyed were in the low risk, high wellbeing category. We aim to maintain or improve this in future years.

Family-friendly policies

We recognise the significant contribution made to employee wellbeing by flexible working arrangements. Our Flexible Work Policy, updated in FY22, is underpinned by choice for all our people. Supporting our people when they are starting or growing their family is critically important to their wellbeing, as well as promoting longer-term organisational loyalty and increasing productivity. Our support for parents is available to all permanent employees globally, regardless of their gender identity, how they become a parent, or how long they've been with Xero.

Psychological safety and mental wellbeing

Xero has long championed the benefits of mental health and wellbeing to our people, our customers and our partners. Throughout the pandemic, we have actively encouraged further conversations in these areas. Our people leaders continue to share their experiences authentically, creating an environment where talking about mental health and wellbeing is normalised. In FY22, a psychological wellbeing session was included in a Xero people leader event attended by the majority of our people leaders, along with designing and rolling out a mental wellbeing e-learning module for all our people.

Working from home

To support our employees' wellbeing while working from home, we launched our global wellbeing strategy and the first steps of our global wellbeing program. Enabling safe and healthy remote working is also a key drawcard for attracting and retaining top talent. On Glassdoor, 88% of reviewers recommend Xero as a place to work[24] and we are ranked in the top 17% of global SaaS companies for work-life balance, including supporting working from home. Our most significant health and safety risk during the COVID-19 pandemic was the increased number of employees working from home. In terms of physical safety, we conducted 877 ergonomic assessments and provided financial support for employees to set up an ergonomically appropriate home office.

[24] *Glassdoor rating as at 31/03/2022*

Customers, partners and ecosystem

Material matters: Customer support, loyalty and engagement | Stability, reliability and accessibility of our platform | Supporting Xero's ecosystem to do good.

With more than three million subscribers across more than 180 countries, we're focused on building and growing our customer relationships based on the trust we earn by providing them with the connections, support and insights that help them to manage their businesses effectively. The trusted relationships we build with customers, accounting and bookkeeping partners, ecosystem developers and other key stakeholders including regulators and governments, are a significant contributor to Xero's long-term value.

We do this through five key activities:

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

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

KPI	FY22 performance
Subscriber numbers*	3,271,000
Churn*	0.90%
LTV*	$10.9 billion
Number of apps in ecosystem	More than 1,000 connected apps and more than 300 connections to banks and other financial service partners

**For discussion on performance related to these KPIs, see Our Performance section on pages 71 to 87.*

Customer support, advocacy and engagement

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

Through education and support, we help customers feel confident about using Xero to run their business - serving them the right product features, tools, and content at the right time, in a way that's intuitive and meaningful to them, their business and the partners they are working with.

> Building strong relationships, advocacy and trust with our customers is all about ensuring they are well supported while discovering and using the features and functionality of Xero products.

Education

An important part of our approach is education - helping customers identify what they don't know and building their skills. Our customers have access to a range of content, including small business guides, online videos, blogs and articles via our customer platform, Xero Central. This content is designed to help them discover new features and apps, as well as insights from other customers. Xero Education Month, where we provide customer webinars, eLearning, videos, certifications and live events, is held around the regions throughout the year. All sessions are free and accessible online. We also provide product and tech know-how, as well as soft skills training for small business customers such as wellbeing and people management tips.

Voice of Customer

Our Voice of Customer team is dedicated to conducting research with our customers around the world to better understand our customers' biggest challenges. We use these insights to better support our customers and, in line with our purpose, make their lives better. One of the key ways we track customer advocacy is through our Net Promoter Score (NPS), which remained stable and strongly positive throughout FY22.

In Australia and New Zealand, we currently hold the top spot in Canstar Blue's Accounting Software ratings, scoring five stars out of five across most categories, including overall satisfaction.

Above: *Xero customer Clovalley Farm*

Accounting and bookkeeping partnerships

Our aspiration is to ensure more accountants and bookkeepers (our 'partners') around the world have access to Xero, to help them drive deep and meaningful conversations with their clients. They hold special relationships with their small business clients, have a direct impact on their success and are instrumental in helping to build their clients' knowledge.

> Xero's support model is designed to help our customers in every step of their business journey.

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

The Xero partner program gives our partners the tools and knowledge to improve their practices, and rewards them with a range of benefits that they can tailor to their own practice goals. Xero certification is also part of the partner program and involves completing an online course that helps our partners get the most out of Xero and drives greater success in their role as advisors. Connecting with our partners is a further important part of our approach and a key element of this is engaging with them through events like roadshows and Xerocon. After pandemic-related interruptions in recent years, we will be re-launching Xerocon in the UK, North America and Australia in FY23.

***Above:** Xero partner Starfish Accounting*

Trust in the platform: reliability and support

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

Customer support

Xero's support model is designed to help our customers in every step of their business journey. Our customer success platform, Xero Central, is the home of Xero's support and gives our customers access to education materials, community discussions and onboarding information. The platform's personalised support content also provides customers with answers and anticipates their needs through machine learning. For more complex customer queries, Xero's support team is available 24/7, across four time zones, with around half of the team having a degree-level accounting background, so customers can get the specialised support they need.

Above: *Xero customer Yvonne Randolph*

Reliability

As well as expecting us to provide a high level of support, our customers expect us to be open and honest about the performance of the Xero platform when we encounter performance issues from time to time. Our online status page provides customers access to real-time updates about action being taken to resolve any performance issues, and historical updates on system performance. For a more detailed discussion of how we're investing in modernising Xero to make it faster and more reliable, please refer to the Platform, technology and data section on page 47 of this report.

Ecosystem relationships

Our ecosystem is one of the most exciting areas of our business, allowing Xero to connect seamlessly to the broader, interconnected world of cloud-based products and services. Xero's ecosystem consists of more than 1,000 connected apps and more than 300 connections to banks and other financial institutions.

In August, we introduced the Xero App Store[1], allowing our customers to more easily discover and buy apps from our ecosystem, and enabling Xero app partners to promote and grow their businesses. With improved search capabilities and personalised recommendations powered by machine learning, the Xero App Store presents relevant apps for customers at the right time, based on their unique profile.

With the launch of the Xero App Store, we also introduced a new commercial model, with Xero earning 15% referral revenue on new subscriptions[2] to apps developed within the app ecosystem and signed up through the store. In March, we released a further Xero App Store update, the Xero App Launcher, which enables customers to seamlessly launch and sign into their favourite connected apps with a more integrated experience. While the Xero App Store is a new part of our business, we are confident about the long-term opportunity this represents.

Xero's ecosystem consists of more than 1,000 connected apps and more than 300 connections to banks and other financial institutions.

We create value by deepening our trusted relationships with third-party ecosystem and app partners and making the tools, apps and services that they provide available to our customers and partners. Our open platform allows our ecosystem to grow, increasing the value we deliver by providing tooling for developers to build on top of the API and investing in technology that supports apps to grow with Xero.

Developer partners

Our relationship with our developer partners is also very important to Xero and our customers. On an open platform like Xero, developer partners (often small businesses themselves) are able to build their own operations in our ecosystem. Developer partners are able to use secure data to extend the ecosystem's capabilities into new market areas, niche use cases, and anywhere there is a gap in our own offering. Through this open approach, we empower developers to innovate and solve problems, support them in scaling their businesses while enabling them to access and add real value to our more than three million subscribers.

[1] Full App Store features are currently available for customers in Australia, New Zealand and the UK
[2] Excludes financial services related revenue, which has individual revenue share agreements

Easier e-commerce with the Xero + Shopify integration

One of the impacts of the COVID-19 pandemic was that more small businesses were encouraged to do business online, further developing an existing exciting trend. For small businesses to manage their online presence effectively, a seamless integration between the sales interface and the accounting back end is critical. In November 2021, Xero joined the Shopify Plus Certified App Program (PCAP), a select group of partners - and we launched a new Xero + Shopify App integration. The integration simplifies reconciliation, helps small businesses interpret sales data and uses sales, cash flow and performance insights within the Xero platform, so they can manage and grow their businesses online.

Above: *Xero employees*

Government and regulator relationships

Governments are helping to encourage digitisation of small businesses in many parts of the world. The UK is pushing to further digitise the tax system and simplify small business tasks through its ongoing Making Tax Digital program. In Australia, the Government's Digital Economy Strategy is aimed at boosting digital capability and adoption among small businesses, evidenced by initiatives such as Open Banking and e-invoicing. In the US and Canada, progress is being made toward the introduction of Open Banking. Singapore is also promoting e-invoicing and offering incentives for small businesses to adopt technology through its SMEs Go Digital program.

Xero's unique position means we can generate insights about the small business economies in our largest customer markets using anonymised and aggregated data. One of the ways we use this information is in our engagement with governments to advocate for small business, and support publication of academic research. This is driven through Xero Small Business Insights, which was enhanced during the first half of the year with the launch of a composite Small Business Index. This Index provides a regular, easy to understand reading on the overall state of small businesses in Australia, New Zealand and the United Kingdom. The Index is released on the last Thursday of each month, when we also release data for sales, jobs, wages and time to be paid at national, industry and sub-national levels. This information is now being used by organisations such as the Office of National Statistics (ONS) in the UK and the Australian Treasury to understand the health of the small business sector in their countries.

Platform, technology and data

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

We strive to create beautiful products and build the most trusted and insightful platform for small business. To deliver this, we design and build systems and processes, and accumulate additional knowledge and intellectual property. The performance of our platform, strategic investment to support innovation, and diligent management of the data our customers entrust to us, are key to fulfilling our aspiration to be the platform of choice for small businesses and their advisors. Value is created by allowing customers, partners and other stakeholders to utilise the power of the platform to meet accounting and tax compliance needs, as well as by surfacing data-driven insights that enable faster and more informed decision-making.

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

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

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

KPI	FY22 performance
Investment in product design and development, including R&D	$472 m
Employee completion of security training	91%
Responsible Data Use Commitments updated and made public, and training launched	Yes
Number of notifiable privacy incidents	2

Delivering our platform

For small business customers, our core cloud-based always-on platform allows them to access real-time data to better manage their business, ensure compliance with accounting and tax requirements, collaborate and connect to other technologies such as bank feeds to financial service partners or ecosystem apps. We understand how much our customers and partners rely on being able to access the core Xero platform at any time, from any location, on any device. Our site performance and customer experience are central to everything we do.

In FY22, we invested $472m in product design and development. We are constantly evaluating Xero's product offering and enhancing the customer experience.

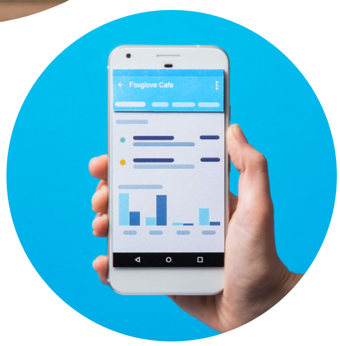
At the same time, we're investing in technology to help support our customers for the long-term and this means we're making technical changes to our platform every day, many of them behind the scenes, to make Xero faster, more functional and more flexible. We are constantly working on improving our engineering processes to increase the rigour around our platform updates and releases.

Like any software as a service (SaaS) platform, from time to time we do encounter technical and external issues in areas that can have an impact on our customers' experience. There were occasions during FY22 where we did not meet our customers' expectations. We take each of these very seriously and endeavour to minimise disruptions, communicate in a timely manner, and assist customers and partners in reacting to any disruption and continue to invest in improving the reliability of our platform. In FY22 we delivered a number of major updates, along with significant backend upgrades, as we continually evolve and improve our service.

Product innovation, and development

Alongside our platform, Xero invests in innovation, research and development to deliver products, features and experiences for our customers and partners. In FY22, we invested $472m in product design and development. We are constantly evaluating Xero's product offering and enhancing the customer experience. Innovating to meet our customers' evolving needs is key to maintaining customer loyalty. Our approach is to balance responding to today's needs with building products and features that will allow our customers to benefit in the future.

Above: *Xero customer Moovaz*



FY22 product initiatives and delivery highlights:

Xero Analytics and Xero Analytics Plus

We enhanced our AI-powered planning and forecasting suite. Through pattern-matching and predictive algorithms, small businesses are able to analyse their current and future cash flow trends.

Bank Reconciliation

We released our most comprehensive update to bank reconciliation, including a new interface, smarter matching algorithms powered by AI, memorisation for repeated bank transfers and suggestions for contacts and account codes.

Multi-Factor Authentication

Successfully rolled out mandatory Multi-Factor Authentication globally via our new Xero Verify app, built using the highest security standards to protect our customers' data.

Future of reporting

We revamped our Reporting Centre, with a range of features that help small businesses and their advisors customise their reports, so they can streamline their analysis and get answers faster.

Personal tax (UK)

We launched an end-to-end personal tax solution for UK accountants and bookkeepers, making it easier for our UK partners to provide services using Xero Tax across corporate tax, accounts production, and personal tax for individuals and companies. This will help partners smoothly transition to the next phases of Making Tax Digital (MTD).

eFiling (South Africa)

We expanded our VAT eFiling beta to all customers, providing direct eFiling to the South African Revenue Service, helping our customers file tax returns with greater efficiency and accuracy, while staying compliant.

Enhanced reporting (US)

We enhanced report templates for our US-based customers and launched a range of features including a brand new report centre and customised management reports.

Provincial tax (Canada)

New Canadian provincial tax reports provide our customers with even greater tax reporting coverage that automatically calculates sales tax for specific filing periods and tracks prior period adjustments.

E-invoicing (Australia and New Zealand)

We launched the ability for customers to receive e-invoices. We also expanded on our e-invoice sending capabilities to include adding multiple reference fields and adding a bank account to speed up payments, as well as the ability to send and receive attachments.

Local currency billing (Singapore)

We launched Singapore dollar billing, enabling our customers and partners to consistently plan their subscription costs without the uncertainties of changing foreign exchange rates.

Artificial intelligence and machine learning

Harnessing artificial intelligence (AI) forms part of Xero's value-creation strategy. By using the data flowing through the small business platform we can create new capabilities that improve the Xero experience for small businesses and their advisors, save them time and deliver insights to help them plan for the future. We're committed to using AI and Machine Learning (ML) in ways that benefit our customers and our accounting and bookkeeping partners. Our data team has grown significantly in the past two years and now includes people based in Australia, New Zealand and North America. A key area our data scientists and engineers are focused on is work to integrate different AI applications across the Xero product suite and contribute to our growing portfolio of ML products.

The launch of newly enhanced AI-driven predictions within Xero's bank reconciliation function in FY22 is an example of the contribution made by this team. The new feature reduces manual data entry and saves businesses time by using ML to predict the contact and account code for transactions that cannot be matched to invoices or bills using an organisation's bank rules, Xero's existing matching logic, or memorization. Previously, businesses had to manually enter new contacts or account codes to reconcile these transactions — a time-consuming process that risked manual error.

Above: *Xero customer Old Hall Inn*

Xero Analytics and Xero Analytics Plus

In July 2021, we launched Xero Analytics Plus, a suite of planning and forecasting tools, powered by AI and designed to help businesses and advisors plan for the future with confidence. Using pattern-matching and predictive algorithms, Xero Analytics Plus can detect and predict regular cash expenses and income over the next week, month or quarter. Businesses can see their future potential cash flow, the impact of upcoming expenses and discover opportunities to bring cash into the business by invoicing customers sooner, changing payment times or requesting a deposit. Xero Analytics Plus is available to all Business Edition customers as a paid add-on to their existing Xero subscription. We also enhanced Xero Analytics, a free tool for all Xero Business Edition subscribers. Xero Analytics combines the existing short-term cash flow tool, which visually projects cash flow over the next 30 days, and business snapshot tool, to provide up-to-date insights on their business performance.

Managing cybersecurity risks and protecting data

When it comes to managing security at Xero, we take a multi-layered and risk-based approach through the use of cutting edge security technology, a robust security risk management process and ensuring that security considerations are second nature to all of our people.

To manage security risks, we use a Security Risk Management Framework to identify, assess, evaluate and treat security risks. This includes the identification of vulnerabilities and control deficiencies in the IT environment, which is done through security testing, scanning, product assessments, monitoring and reporting.

> **When it comes to managing security at Xero, we take a multi-layered and risk-based approach through the use of cutting edge security technology, a robust security risk management process and ensuring that security considerations are second nature to all of our people**

We recognise that the cyber environment in which we operate is constantly changing and requires us to adapt to new threats. Preparedness is critical to responding to threats when they do happen, so we also conducted a cybersecurity incident response drill in November 2021 for the Board, leadership team and crisis management team. The insights gained have put Xero in a better position to manage security incidents that may arise in the future.

Our information security management system is certified to the International Standards Organization Standard 27001 (ISO/IEC 27001:2013), which is globally recognized as the premier information security management standard. All of our people undergo annual security training. In FY22, 91% of employees[1] completed our security training by the required date. We are following up with people leaders to ensure all currently-active Xero employees complete this training.

While we expect all our employees to complete security training, we may not reach every employee every year (for various reasons, including extended employee leave). We are working to improve this and are confident our multi-faceted approach to security provides adequate protection.

Our information security management system also meets the Trust Services Criteria for Security, Availability and Confidentiality as defined by the Association of International Certified Professional Accountants (AICPA) which is documented in our SOC2 report. Both ISO/IEC 27001 certification and the SOC2 report require an annual independent audit and provide assurance to customers, partners, government agencies, regulators and other stakeholders that Xero upholds rigorous security standards.

Given the constantly changing nature of Xero's systems, products and operating priorities, each year our Security Risk team reviews accepted risks to ensure that the acceptance is still appropriate and within the business's risk appetite. The Security Governance Group, composed of executives with responsibility for Security, Data, Customer, Legal, Product, Technology and Risk, meets regularly and provides management-level governance of security issues. The Board has oversight of security through quarterly updates to the Audit and Risk Management Committee (ARMC).

Data protection

Our customers and partners play a key role in our overall approach to security. We invest heavily in protecting the data on the Xero platform, 100% of which is stored with third-party providers. We work closely with our globally trusted data storage partners - AWS and Microsoft - to assess their information security practices against our standards. In FY22, we delivered solutions to help keep our customers' data safe, without creating an unduly burdensome security framework for them, including rolling out mandatory multi-factor authentication globally to customers on our core Xero platform. Recognising that data protection starts with our customers being equipped to protect their own data, we also continued our regular publication of a range of free educational resources to help our customers understand and protect themselves against the risk of cybercrime and data loss.

[1] *For FY22 this does not include Planday*

Using data responsibly

In FY22, we made public our company-wide pledge to use data responsibly. This included eight Responsible Data Use Commitments to help guide us in every decision that involves the use of data. We believe using data responsibly is in everyone's interest, including our small business customers, advisors, suppliers and our partners.
Our customers trust us to use their data with care and respect. The Commitments help us ensure that we align with their expectations of Xero.

Xero's Responsible Data Use Commitments

Our commitments guide us in what it means to use data responsibly.

Data security and privacy
We are committed to keeping data secure and protecting your privacy at all times, and supporting you with product features and information to help you do the same.

Benefits small business
We are committed to using the data we hold for the benefit of small businesses.

Customer control and consent
We are committed to giving you control over your data by providing the tools to manage your consent for each product or service that uses your data.

Open and honest
When you sign up for one of our products or services, we are committed to letting you know what the benefits are, how your data will be used, if we're providing your data to someone else, and who that is.

Fees we collect
We are committed to never charging anyone a fee to access your data without getting your consent first and explaining to you the nature of the fees charged. We may charge a fee for products or services containing anonymous data without allowing an opt out for this.

Data-driven decision bias
We are committed to doing everything we can to get rid of unfair biases in data and our algorithms that might negatively affect you.

Trusted partners
We expect our trusted partners to approach responsible data use the way we do and are committed to bringing our partners on this journey with us.

Accounting and bookkeeper enablement
We are committed to supporting our accountants and bookkeepers by providing useful data and insights to help small businesses thrive, and to use data in a responsible way.

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

In FY22, we introduced mandatory annual Responsible Data Use training for all our employees[2]. We have also implemented a self-assessment tool to allow our people to assess whether their data use meets the commitments, and given access to a group of experts to provide support or answer questions. When we have new use cases for data that significantly intersect with the Commitments, the executive-level Data Use Governance Group (DUGG) reviews these to ensure our Commitments are respected.

Supporting customers

We also want to inform small businesses and their advisors about the benefits of responsible data use. To help us share relevant content and keep it helpful and practical, we have formed a Responsible Data Use Advisory Council of subject-matter experts and thought leaders from within Xero, and externally from our community and the industry. Our Responsible Data Use Advisory Council helps us to share the most up-to-date topics, insights and best practice information in the area of small business and responsible data use.

Protecting our customers' privacy

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

Privacy and data governance framework

We have a robust privacy and data governance framework. This includes data classification and control standards that ensure that more sensitive data gets higher levels of protection. In line with the General Data Protection Regulation (GDPR), new projects that potentially involve higher-risk data processing must undergo a data protection impact assessment (DPIA) to identify the privacy impact, and set out recommendations for managing, minimising or eliminating that impact. The DPIA also forms a critical element of our approach to responsible data use and our data controls for personal data.

Anyone with access to Xero's enterprise systems is required to undertake privacy training, to understand what personal data is and what we can all do to help protect it, and is required to pass an assessment upon completion of this training as a condition of accessing our systems.

We notified the regulators of two privacy incidents during FY22. One privacy incident to the UK Information Commissioner's Office (ICO) with the matter being closed by the ICO without further investigation. The other privacy incident to the Office of the Australian Information Commissioner (OAIC) was related to an incident in March 2022. This matter remains open as it was recently reported. We are not aware of any further privacy incidents in FY22 that met the threshold for notification to a relevant authority[3]. Therefore, no other notifications were required to be made to the relevant jurisdictional authority in FY22. For more information on how we collect, store, retain, share and manage customer data, please refer to our Privacy Notice.

[2] For FY22, does not include employees of Planday

[3] Australia - Office of the Australian Information Commissioner; Canada -PIPEDA, PIPA Alberta and PIPITPA; New Zealand - Privacy Commissioner; Singapore - Personal Data Protection Commission; South Africa - Office of the Information Regulator; UK - Information Commissioner's Office; USA (California) - State of California Department of Justice; Sweden - Swedish Authority for Privacy Protection.

Social and environmental

Material matters: Climate action and energy management| Responsible supply chain and modern slavery | Community support, engagement and partnerships.

Trust is central to our vision and central to our strategic priority to build for global scale and innovation. We aim to deliver on our commitment to act with integrity and authenticity wherever we operate, in order to maintain trust with everyone connected to our business and conduct ourselves in line with our values. Stakeholder trust is critical because it allows us to be considered the partner of choice for our customers, the employer of choice for our people and future employees, and the platform of choice by app developers. One key way we build stakeholder trust is by operating in a way that cares for the environment and helps our customers, partners, suppliers and communities to thrive within a resilient and sustainable value chain. Transparent reporting is a key part of holding ourselves accountable for delivering this.

The key ways in which we deliver this are:

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

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

KPI	FY22 performance
Maintain carbon neutral certification through the purchase of Verified Carbon Standard offsets of carbon emissions	Achieved
Implement the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)	On track to implement by FY24
Total carbon emissions (Scope 1, 2 and 3)	4,949 tCO_2e -59% since FY20
Carbon emissions intensity	1.1 tCO_2e/FTE -70% since FY20
Commitment of higher risk suppliers[2] to Xero Supplier Code of Conduct	100%
Global community contributions	More than $2.2 million

[1] Including supporting and disclosing under the framework of the Task Force on Climate-Related Financial Disclosures (TCFD)
[2] As identified in 2020 supplier risk assessment

Climate action and energy management

Minimising our environmental footprint and acting with integrity and authenticity are critical to protecting and growing the value of Xero. As the global climate changes, we must identify and adapt to the physical and social risks this presents. By providing a digital product, Xero is in a great position to assist in efforts to reduce carbon emissions across our value chain.

As a cloud-based service provider, we have an opportunity to harness the opportunities presented by the transition to a low-carbon economy because a cloud-based platform is inherently less emissions-intensive than on-premises data storage. We are also responsible for reducing the environmental impact of our operations, and helping our partners and customers to do the same. We are committed to a rigorous, science-based approach to climate action and energy management. Our approach to setting targets is that we don't consider them to be merely signals: we will only commit to them once we have a clear plan for how we're going to achieve them, supported by cross-organisational buy-in to deliver them.

> **Minimising our environmental footprint and acting with integrity and authenticity are critical to protecting and growing the value of Xero.**

In FY22 we established a reporting and governance framework to support delivery of our climate strategy, reflecting our commitment to stronger climate-related governance. This was one of our first actions on our journey towards alignment with the recommendations of the *Task Force on Climate-related Financial Disclosures (TCFD)*. Our focus in FY22 has been on building a strong foundation and to develop a roadmap to implement the TCFD framework progressively across our business from FY22 to FY24. You can read more about our TCFD journey and the progress we made on implementing our roadmap in FY22 at xero.com/sustainability

Emissions management

We understand the importance of working to minimise our carbon emissions and are currently tackling this through:

- **Switching to renewable energy in office buildings wherever possible**
- **Encouraging virtual meetings instead of air travel**
- **Supporting lower-emissions travel options such as public and active transport**
- **Preferring suppliers with low or zero carbon footprint or a roadmap to deliver this**

Energy management

As a rapidly expanding business, we are striving to balance the need for additional office space to accommodate our growing employee base against the need to minimise our carbon emissions by reducing our absolute Scope 1 and 2 emissions. Some of the initiatives we have implemented to do this include:

- **Sensor and timer lighting**
- **LED lighting in all offices**
- **Increasing efficiency of cooling and heating systems**

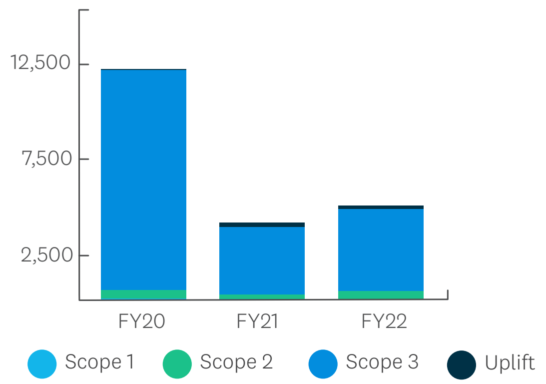
To read more about the energy-saving features designed into our office buildings in Melbourne and Wellington please visit xero.com/sustainability

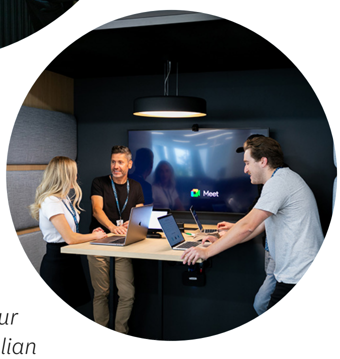
Scope 3 emissions

Our Scope 3 emissions[3] are likely to increase as the number of people working for Xero increases. This is because our Scope 3 emissions profile is inherently linked to the number of people working for Xero due to the nature of our largest emissions sources, which include flights, food and catering, electricity and staff commuting. As a result, we consider that during this high-growth period, emissions intensity (tCO_2e/FTE) is the most relevant way to report reduction in our Scope 3 emissions over time (although we will track absolute Scope 3 emissions also). We have continued to deepen our relationship with one of our largest technology suppliers, AWS, and to work together to understand our environmental impact whenever we build products and services. Xero's AWS emissions will reduce over time as AWS works towards its goal of 100% renewable energy by 2025.

We measure our Scope 1, 2 and 3 emissions according to Climate Active Carbon Neutral Standard for Organisations[4] from a baseline year of FY20 and have seen a decrease of 59% in our absolute emissions since FY20[5, 6, 7]

Carbon emissions (metric tonnes of CO_2 equivalent)





Above: *Xero employees in our new, energy-efficient Australian headquarters in Melbourne*

SOCIAL AND ENVIRONMENTAL

[3] *For details of our Scope 3 calculation methodology, refer to our Climate Active PDS for FY21 .*

[4] *Climate Active Carbon Neutral Standard for Organisations is aligned to best practice international standards, including: PAS 2060 (specification for demonstration of carbon neutrality), PAS 2050 (life cycle greenhouse gas emissions), GHG Protocol (international standard for carbon accounting), ISO 14064 series (greenhouse gas quantification for 1. organisation, 2. project level or 3. validation/ verification), ISO 14040 (life cycle assessment 1. Principles and framework, and 2. Requirements and guidelines), NGER Scheme regulations and guidance.*

[5] *Xero's reported 59% decrease in emissions relative to its FY20 base year is primarily attributable to the global COVID-19 pandemic and associated public health restrictions on travel and office attendance in FY21 and FY22*

[6] *FY22 emissions for this report have been calculated using an extrapolation of activity data from the 9 months of the financial year (1 April to 31 December). This number will be amended in the FY23 Annual Report using the full financial year activity data*

[7] *FY21 emissions have been adjusted from what is reported in Xero's FY21 Climate Active Public Disclosure Statement (PDS) as base building electricity was incorrectly categorised as scope 2 rather than scope 3 in the PDS*

Carbon neutrality

As we work towards minimising our emissions, we remain committed to carbon neutrality. Net Zero @ Xero is our commitment to offset 100% of our carbon emissions. In FY21, we maintained our carbon neutral certification for our owned and operated businesses globally[8]. Our certification was issued by the Australian Government's Climate Active program, which is one of the world's most established and respected carbon neutrality programs. Our certification recognises our commitment to offsetting 100% of our carbon emissions across Greenhouse Gas Protocol (GHG) scopes 1, 2 and 3, and the quality and integrity of the projects we have selected to offset these emissions.

Above: *Xero electric fleet vehicle*

Responsible supply chain and modern slavery

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

We are committed to working to prevent any form of slavery and human trafficking in our operations and supply chains. We understand and remain vigilant against key modern slavery risks. We are working on policies and processes to help us monitor and mitigate them, and we regularly assess the effectiveness of our actions. For more information about how we manage the risk of modern slavery and human trafficking, please see our FY22 Modern Slavery and Human Trafficking statement

Percentage of higher risk suppliers[9] who have committed to Xero Supplier Code of Conduct: 100%

Community support, engagement and partnerships

We are committed to building trust in our communities and helping them thrive. We do this by supporting communities in a range of different ways, from providing discounts on our products, to volunteering and giving. Bringing to life our #human value, our people embrace these opportunities and are often the driving force behind this work. We have a global network of social and environmental impact heroes who help us to engage our people with the communities in which they live and work, and prioritise the initiatives that make the most impact.

[8] In FY21, our boundary accounts for the GHG emissions from the offices and other business activities associated with our global operations. In FY21 Xero operated out of 21 offices across multiple regions, including Australia,New Zealand, the UK, North America, and Asia. In addition, the boundary includes emissions related to the acquisition of Waddle in FY21. In FY21 there were 30 FTE employed in this part of the business. We apply for renewal of our carbon neutral certification annually in October and will report on the outcome of our application for 2022 certification in our FY23 report.

[9] In 2020 we performed a risk assessment to identify all incumbent suppliers that posed a higher risk of modern slavery and human trafficking activities. We then worked to ensure they had signed and committed to the Supplier Code: as at 31 March 2022, 100% of those higher risk suppliers identified as part of the 2020 assessment and the majority of new suppliers identified since then have signed and committed to the Supplier code.

Volunteering and community giving

As part of our Community Connect volunteering program, every permanent Xero employee is entitled and encouraged to take a day of paid volunteering leave each year to dedicate to community causes that matter to them.

We currently focus our community giving efforts in two key areas: health and wellbeing, and supporting non-profits to manage their business with Xero. These are aligned with our purpose to make life better for people in small business, their advisors, and communities around the world. As part of our commitment to give community organisations a helping hand to keep their accounts in order, we continue to offer a 25% subscription discount to non-profit organisations globally.

We take a holistic approach to calculating our contribution to communities, combining cash donations, foregone revenue related to discounts given to non-profit organisations, volunteering contributions, and partnership investments[10]. We use this metric to understand the positive impact we are having on building the resilience of the global communities in which we operate, and to inform the development of our overall philanthropy strategy.

Community contribution FY22: more than $2.2 million

- Volunteering
- Foregone revenue related to discounts given to non-profit organisations
- Cash donations made to non-profit organisations
- Partnership investments
- Tech outreach community investments

Community support

We continue to invest in the mental health of our people and the small businesses we support. This includes extending our Xero Assistance Program (XAP) to all New Zealand small businesses. In Australia, we partner with Beyond Blue, a non-profit provider of mental health initiatives to offer free access to mental health resources to our employees and accounting and bookkeeping partners. For more information about how we support the wellbeing of our people, please refer to the People and culture section of this report.

Along with our Community Connect program, our disaster relief efforts and sponsorships of grassroots programs allowed us to give back in FY22 to the areas where we do business. This included donations for those impacted by floods in Australia and hurricanes and wildfires in the US, and continuing our support for organisations such as Worktree in the UK, Fight like Mason in the US, OneLife in South Africa, Willing Hearts in Singapore and The Good Registry in New Zealand. Our investment in these initiatives builds resilience and influences the success of our small business customers.

Inclusion

The vision of our founder, Rod Drury, was to democratise access to cloud accounting technology so small businesses could be included in the cloud computing revolution and reap productivity benefits from the automation of repetitive business management tasks. We remain committed to this vision and invest heavily in free educational resources for our customers and partners to help them take advantage of everything Xero has to offer, as well as providing guidance on navigating key regulatory changes such as the digitisation of tax or payroll services.

Sustainability

We are also investing in helping small businesses to become more sustainable, through our small business sustainability education hub. According to a Xero survey, 68% of small businesses want to operate more sustainably but don't know where to begin. To help, we have collated resources from across the globe to help our customers and partners build more sustainable businesses. The resources available to them are aimed at giving small businesses the tools they need to get started with assessing their own social and environmental performance and to help them identify how they can make a positive impact in this area.

[10] *Partnership investments are instances where we have invested financially in a partnership with a "for purpose" organisation, such as a non-profit, or a specific activity like sponsoring a campaign that creates positive social or environmental impact.*


9
5
2

Financial

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

We regularly monitor our financial performance and position through detailed financial analysis. This enables a responsive approach to spending and investment, according to the economic environment and business conditions in which we operate. It also allows us to optimise use of returns in the form of cash flows to enable agile reinvestment. We have appropriate governance oversight including through our Board and Audit and Risk Management Committee.

There are three key ways we deliver financial value:

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

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

KPI	FY22 performance
Operating revenue growth	29% (30% in constant currency)
Gross profit	$957.4 million
LTV/CAC	6.9 times
EBITDA	$212.7 million
Free cash flows	$2.1 million
Available liquidity	$1.1 billion

The financial strength of our business model is demonstrated through our Generally Accepted Accounting Principles (GAAP) as well as non-GAAP financial measures including SaaS metrics, which should be considered together and are discussed in the sections Our Performance (pages 71 - 87) and Financial Statements (pages 88 - 131).

Reinvesting cash flows into growth opportunities to drive revenue

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

Operating revenue grew 29% (30% in constant currency) in FY22, and AMRR grew by 28% (30% in constant currency). This was primarily driven by global subscriber growth of 19%.

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

- Price changes to reflect the value of enhanced features and functions of the Xero offering
- Financial services related revenue such as bill and invoice payments through financial service providers
- The increased uptake of Xero add-ons such as payroll, projects and expenses, and
- The acquisitions of Planday, Tickstar, LOCATE Inventory and TaxCycle in FY22, and Waddle in H2 FY21

See the Our Performance section on pages 71 - 87 for further information on operating revenue, ARPU and AMRR.

Generating returns available for reinvestment

To create financial value for the long-term, we align with our strategy and vision in the operational and financial decisions we make. This means that we are guided by the two strategic priorities described above, as well as an additional priority to build for global scale and innovation. Together, these priorities are used to plan and operate a disciplined approach to targeted reinvestment and cost management. This ensures available cash flows are effectively utilised, most prominently in product investment and sales and marketing expenditure. By focusing on increasing efficiency and investment of the right amounts in the right initiatives, we aim to appropriately balance short-term performance and long-term growth, and maximise returns on investment across our portfolio over the long-term.

> **Operating revenue grew 29% (30% in constant currency) in FY22, and AMRR grew by 28% (30% in constant currency). This was primarily driven by global subscriber growth of 19%.**

We take a holistic approach to allocation of capital and invest in a number of ways. These include by building new products and functionality, entering into partnerships, and acquiring businesses that are a strategic fit. In assessing available capital to be used, we consider a balance across gross profit, LTV/CAC, and free cash flow. We also consider additional cash available for investment through available liquidity (the latter discussed below).

Gross profit increased $227.5 million to $957.4 million in FY22 due to a combination of revenue growth, and continuing efficiencies in Xero's customer support teams and hosting costs for our cloud-based products.

The LTV/CAC ratio increased to 6.9 at 31 March 2022, driven by a 7% increase in ARPU, churn improvement of 0.11 percentage points, and a 1.3 percentage point increase in gross margin. This was offset by a 12% increase in CAC per gross subscriber addition. CAC per gross subscriber addition increased in FY22 as Xero pursued opportunities for investment to drive growth outside of the ANZ markets, as well as below normal levels of spend in H1 FY21 as costs were managed in response to the COVID-19 pandemic.

EBITDA, which is a further earnings-based indicator that we use to measure the efficacy of our capital allocation and financial performance, increased by 11% to $212.7 million in the period. This was a result of revenue growth, tempered by expenditure increasing to pre-pandemic levels, particularly sales and marketing, as well as supporting greater investment in product innovation and platform delivery as Xero scales its business globally.

See the Our Performance section on pages 71 - 87 for further information on these measures.

Above: *Xero customer Visual Contrast*

Maintaining a strong balance sheet and access to liquidity

Maintaining a strong balance sheet ensures value creation by providing a foundation to sustainably support investments that are aligned to our strategic priorities. Xero's balance sheet is structured to support our business model and maximise financial performance even in complex, and at times challenging, operating conditions. We do this through investment in assets that generate income, particularly over the long-term, positive cash flows that enable reinvestment (discussed above) and access to liquidity.

Our balance sheet is further strengthened by the role our people and culture play in driving innovation to create our most valuable assets – our software development, or the new products and functionality we have built, that are tools for small businesses and their advisors. For more information on investment in these areas, see the People and culture section (page 29) and Platform, technology and data section on (page 47).

As part of our holistic approach to allocation of capital, cash flows from investing activities, as per the Statement of Cash Flows in the Financial Statements (page 96), increased by 117% or $232.1 million from FY21. This increase largely related to business acquisition costs, mainly Planday and TaxCycle, as Xero extended and enriched our platform and product offerings.

Total available liquidity (defined as cash and cash equivalents, short-term deposits, and undrawn committed debt facilities) at 31 March 2022 was $1.1 billion. This comprised $936.1 million of cash and cash equivalents and short-term deposits, as well as access to a $150 million undrawn committed debt facility. The committed debt facility, which matures in August 2022, is in place to ensure Xero maintains access to prudent levels of operational liquidity, appropriate to the size and maturity of our business. Xero also has an additional Australian dollar (AUD) $30 million facility to support Waddle's direct lending portfolio, of which AUD $2.5 million was drawn as at 31 March 2022.

Xero's Treasury Policy sets out parameters for management to operate within in order to protect Xero's financial assets and manage risk within approved limits. The policy covers our key treasury risks including liquidity, treasury counterparty credit, and foreign exchange management and governs the day-to-day treasury operations. Compliance with the policy is overseen by the Audit and Risk Management Committee and the policy is reviewed annually. Responsibility for implementation of the policy is delegated to the CFO and the Treasury Governance Committee, which comprises senior management from the finance team. Management provides periodic updates to the Audit and Risk Management Committee.

“By focusing on increasing efficiency and investment of the right amounts in the right initiatives, we aim to appropriately balance short-term performance and long-term growth, and maximise returns on investment across our portfolio over the long-term.

Liquidity risk is managed by maintaining a buffer against projected cash flows, and requires strategies for upcoming debt maturities to be in place 24 months before such maturities. Treasury counterparty credit risk relates to the investment of our balance sheet liquidity. The policy requires all cash to be invested in creditworthy counterparties or funds (short-term rating A-2 or higher with S&P or equivalent), prioritising the mitigation of loss of principal rather than return on investment.

We manage Xero’s foreign currency exposures of our global business against the New Zealand dollar, hedging a portion of our net cash flows in United States dollars, Canadian dollars, Australian dollars and Great British pounds. Hedging is undertaken using approved over-the-counter derivative products such as forwards, collars and purchased options.

Approach to tax

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

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

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

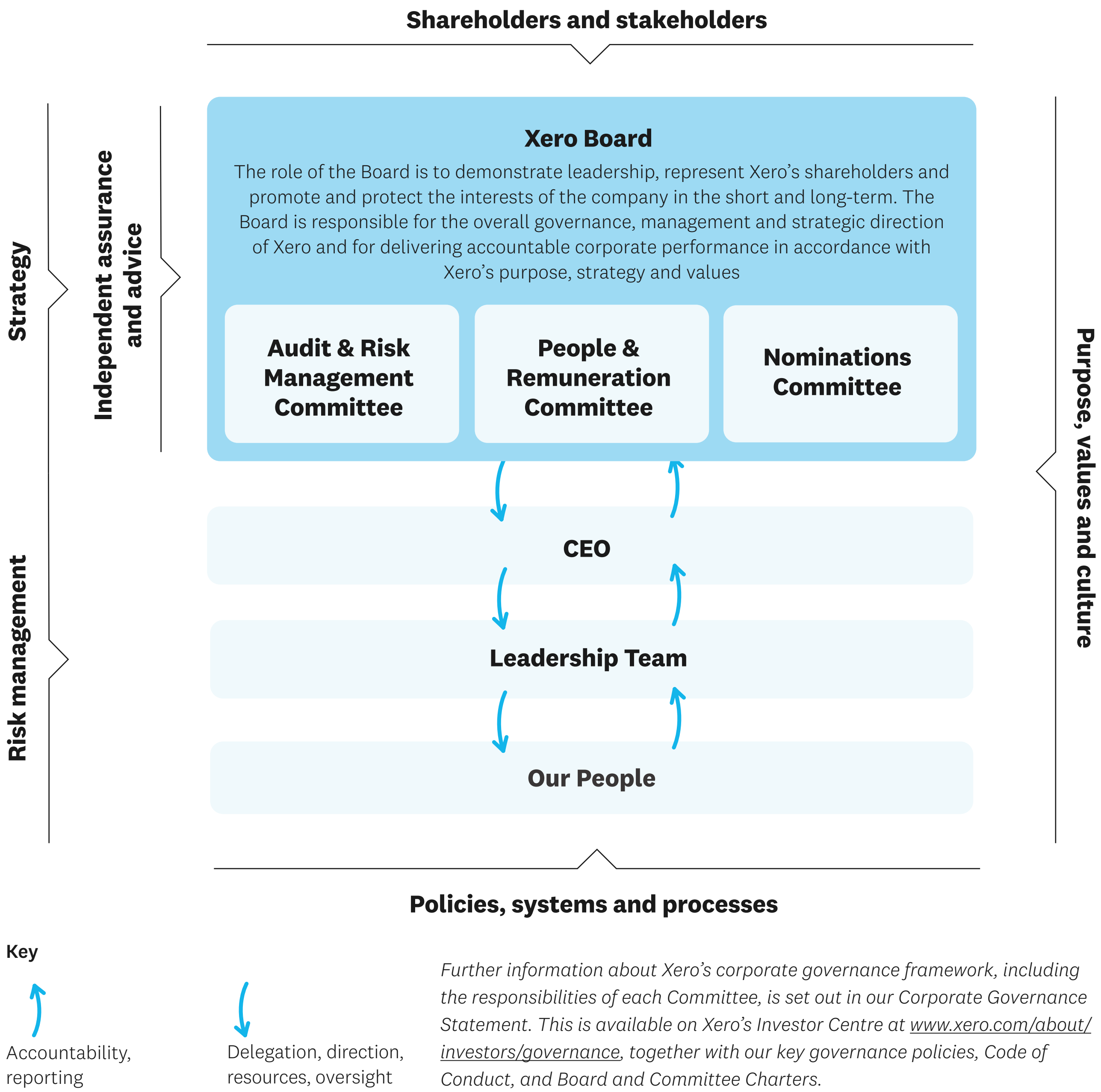
Governance

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

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

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

Xero's Governance Framework



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

Xero Board

David Thodey AO
Chair of the Board
Australia

Independent Director since June 2019 and Chair since February 2020

People and Remuneration Committee

Nominations Committee (Chair)

Lee Hatton
Non-executive Director
Australia

Independent Director since April 2014

Audit and Risk Management Committee

Steven Aldrich
Non-executive Director
United States

Independent Director since October 2020

People and Remuneration Committee

Brian McAndrews
Non-executive Director
United States

Independent Director since February 2022

Audit and Risk Management Committee

Mark Cross
Non-executive Director
New Zealand

Independent Director since April 2020

Audit and Risk Management Committee (Chair)

People and Remuneration Committee

Dale Murray CBE
Non-executive Director
United Kingdom

Independent Director since April 2018

Audit and Risk Management Committee

Nominations Committee

Rod Drury
Xero Founder / Non-executive Director
New Zealand

Director since July 2006

Nominations Committee

Susan Peterson
Non-executive Director
New Zealand

Independent Director since February 2017

People and Remuneration Committee (Chair)

Nominations Committee

Full director profiles, including information about their relevant qualifications and experience, can be found on Xero's Investor Centre.

Board diversity and skills

Gender

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

Location

- NZ **37.5%** (3 directors)
- AU **25%** (2 directors)
- UK **12.5%** (1 director)
- US **25%** (2 directors)

Race and ethnicity

- White and/or European heritage (includes one director who also identifies as Pākehā (a New Zealander of European descent)) **100%**

Tenure

- 0-3 years **50%** (4 directors)
- 3-6 years **25%** (2 directors)
- 6-9 years **12.5%** (1 director)
- 9+ years **12.5%** (1 director)

Skills matrix

The Board regularly considers the mix of skills, experience, knowledge and capabilities desired of the Board to effectively govern Xero, including in future years. The table below sets out the current directors' relevant skills and experience assessed with reference to the desired capabilities identified by the Board. Following this assessment, the Board is satisfied that it has the appropriate mix of skills and experience necessary to fulfill the Board's role.

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

Capability	Number of directors with the capability	
	High capability[1]	Medium capability[2]
Cloud, online, and financial platforms Expertise in business software and delivering solutions at scale through SaaS, Cloud and platforms	3	5
Digital product management and marketing Digital product expertise with extensive expertise across technology trends, and implications and the software and technology product value chain	4	4
Strategy and development Corporate strategy and development including M&A and strategic partnerships	8	-
Go-to-market and customer experience Deep customer insight and advocacy. Go-to-market expertise including direct sales, internet sales and new markets, and specific customer channel experience	6	2
Financial expertise Financial expertise with deep public company experience in finance, accounting, and planning and investor relations	2	5
Global markets Exposure to Xero's current and emerging global markets, and expertise in scaling global businesses with large customer bases	2	6
Listed company governance; risk Depth of expertise in listed company governance, compliance, sustainability and risk management	6	2
People and culture Remuneration, workforce planning, talent, culture, and diversity and inclusion	7	1

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

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

Key areas of Board focus

Strategy, investment and capital allocation for long-term growth

Xero is a long-term oriented business with ambitious growth plans. Xero's strategic priorities are to drive cloud accounting, grow the small business platform and build for global scale and innovation. The annual planning process connects strategy and capital allocation to enable the development of operating plans and support the budgeting process. The Board oversees management's implementation of Xero's strategic objectives and performance and monitors Xero's financial and operational performance on a regular basis.

The Board provides oversight of an acquisition strategy that aligns with Xero's strategic priorities and supports Xero's growth ambitions in these strategically important markets. In November 2021, Xero acquired LOCATE Inventory, a US-based cloud inventory management provider, to embed LOCATE's inventory and ecommerce talent and capability and enhance Xero's inventory management offering. In December 2021, Xero acquired TaxCycle, a leading Canadian tax preparation software company for accountants and bookkeepers, which provided Xero with immediate access to an established Canadian income tax solution, customer base, and local expertise and capability.

Further detail on Xero's strategy can be found on pages 18 and 19.

Risk

The Board, supported by the ARM Committee, continued to oversee the implementation of Xero's risk management framework and the effectiveness of internal controls. This included increasing the frequency of risk updates and establishing an annual Board risk workshop to link into the annual Board strategy workshop. The Board risk workshop considered macro-level headwinds and tailwinds that may present risks or opportunities to Xero meeting our long-term strategic objectives.

The Board and the ARM Committee also work with management to continually improve Xero's risk management framework as the business continues to grow in size and scope. Following an external review of our risk framework in FY21, the ARM Committee received regular updates throughout FY22 on the progress of recommended improvements and is satisfied that the current risk framework is sound.

This year, the Board participated in an annual cyber security incident response drill. The insights gained, and activities undertaken, increased Xero's preparedness to manage security incidents that may arise in the future. In addition, in line with our updated Board Charter, the Board provided oversight in relation to environment, social and governance (ESG) issues, aimed at ensuring Xero continues to address our stakeholders' expectations.

As part of the Board's regular risk oversight, updates have been made to key policies throughout the year including the Code of Conduct, the Delegated Authorities Framework, and the Continuous Disclosure Policy.

Further details on Xero's approach to risk can be found on pages 23 to 27.

Board and executive succession

In FY22, the Board continued to focus on succession planning and development in respect of its own composition, and Xero's leadership team. After 12 years of service, Craig Winkler retired from the Board in August 2021. As an early Xero director and long-term investor, Craig was instrumental in Xero's success. In February 2022, US-based director Brian McAndrews was appointed to the Board, bringing extensive public company, digital and technology experience.

The latest performance review of the Board concluded that the Board and its Committees continue to operate effectively and remain focused on supporting Xero's long-term growth and success. The Board's current composition of skills, experience, knowledge and capabilities positions Xero well to pursue our global growth strategy.

The Board, supported by the P&R Committee, oversees senior executive succession and development planning to ensure that the leadership team has the skills required to deliver on Xero's strategy, underpinned by a robust talent pipeline. This is particularly important as Xero grows its product capability and geographic footprint.

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

People and culture

As a high-growth technology business, attracting and retaining great talent is critical to our ability to deliver on our strategy. In FY22, a key focus of the Board was to ensure that the business responded to the challenge of a volatile external environment and a highly competitive talent market.

During FY22, Xero launched a number of new programs that recognise how people's expectations of work have changed over the past two years. Our flexible working policy was updated to include new permanently remote product and technology roles, which expands our potential talent pool. Since we introduced our gender-neutral parenting benefits, we have seen an increased uptake of parental leave taken by men.

Diversity, inclusion and belonging in the workplace are important elements of living our values and are critical to enabling our people to thrive. While it is early days in our journey to broad-based diversity that truly reflects the communities we live and work within, the Board has articulated ambitious diversity and inclusion aspirations for Xero, and we've now broadened our focus to include ethnic and racial diversity and inclusion.

Further detail on Xero's approach to People and culture can be found on pages 29 to 39.

Customers

Xero's customers are central to our purpose: to make life better for people in small business, their advisors and communities around the world.

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

Further detail on our Customers, partners and ecosystem can be found on pages 41 to 45.

Environmental, social and governance

We are committed to doing business responsibly, taking into account the issues that matter to a broad range of our stakeholders. This means actively managing ESG issues in a way that positions Xero as a long-term, sustainable business. In FY22, the Board and Committee Charters were updated, including to reflect Xero's approach to governance of ESG issues. The Board is responsible for overseeing Xero's strategy and performance in relation to ESG issues. The ARM Committee assists the Board with Xero's climate and sustainability strategy, governance and performance.

In FY22 the Board supported a change to our governance of climate issues to align with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and the development of a three-year roadmap to implement a climate approach that is consistent with the four core elements of the TCFD framework: governance, strategy, risk management, and reporting of metrics and targets. We aim to start reporting on our performance against our TCFD roadmap from FY23.

Further detail on Xero's approach to sustainability can be found on pages 55 to 59 and on Xero's website at www.xero.com/sustainability.

Approach to Xero's FY22 Annual Report

Consistent with our purpose and values, Xero's FY22 Annual Report further demonstrates how we create value for all stakeholders, and introduces greater openness through the inclusion of enhanced non-financial disclosures. This is the first step toward aligning our reporting with the Value Reporting Foundation Integrated Reporting <IR> Framework.

Further detail about how Xero creates value can be found on pages 20 and 21.

Our Performance

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

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

Business results

Year ended 31 March	2022 ($000s)	2021 ($000s)	change
Subscription revenue	1,049,618	828,106	27%
Other operating revenue	47,201	20,676	128%
Total operating revenue	**1,096,819**	**848,782**	**29%**
Cost of revenue	(139,388)	(118,893)	17%
Gross profit	**957,431**	**729,889**	**31%**
Gross margin percentage	87.3%	86.0%	1.3pp*
Total operating expenses	**(921,849)**	**(663,825)**	**39%**
Percentage of operating revenue	84.0%	78.2%	5.8pp
Other income and expenses	31,087	(4,377)	NM**
Asset impairments	(24,695)	-	NM
Operating profit	**41,974**	**61,687**	**-32%**
Percentage of operating revenue	3.8%	7.3%	-3.5pp
Net finance expense	(39,611)	(105,623)	-62%
Income tax credit/(expense)	(11,477)	63,710	NM
Net profit/(loss)	**(9,114)**	**19,774**	**NM**
Percentage of operating revenue	-0.8%	2.3%	-3.1pp

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

During FY22, Xero continued to execute its strategy to deliver strong operating revenue growth of 29%. In a changing and complex operating environment, Xero continues to support small businesses and their advisors with digital tools that play a critical role in running their business and managing their compliance needs.

The FY22 results include the operations of Planday and Tickstar, acquired in H1, LOCATE Inventory and TaxCycle, acquired in H2, and the first full financial year of Waddle (acquired in H2 FY21).

Xero achieved an operating revenue milestone of more than $1.0 billion in FY22. EBITDA increased by $21.4 million, or 11%, to $212.7 million. EBITDA margin decreased against FY21, reflecting expenditure increasing to pre-pandemic levels, as well as supporting greater investment in product innovation and platform delivery as Xero scales its business globally.

Free cash flows of $2.1 million decreased by $54.9 million, or 96%, from FY21 driven by increased payments to suppliers and employees, from Xero's growing workforce, particularly in product and technology, and sales and marketing spend returning to more normalised levels.

The increase in operating revenue was primarily driven by subscriber growth of 19%. Xero added 530,000 subscribers in the year bringing total subscribers to 3,271,000 at 31 March 2022. After taking more than a decade to add Xero's first million subscribers, the second million was added in two and a half years, and the third million was added in two years. This demonstrates the increasing pace of Xero's adoption, despite the complex business environment presented by COVID-19, as the business increases penetration in its more established markets and grows its international markets.

Operating revenue outpaced subscriber growth reflecting contribution from acquisitions as well as the impact of price changes during the year, increased financial services related revenue such as bill and invoice payments through financial service providers, and revenue from the increased uptake of Xero add-ons such as payroll, projects and expenses.

Gross profit for the year increased by $227.5 million, or 31%, to $957.4 million. Gross margin percentage for the year was 87.3%, an increase of 1.3 percentage points compared to the comparative period, as cost of revenue increased by 17% compared to operating revenue growth of 29%. This improvement was largely due to efficiency gains in Xero's customer support teams and hosting costs for our cloud based products. The FY22 gross margin percentage includes the operations of Planday, which has a gross margin that is broadly consistent with Xero's existing operations.

Xero continued to invest in technology modernisation and scaling its global business, developing new products, and driving subscriber growth. This was reflected in the total operating expenses for FY22 which increased by 39% compared to FY21, from $663.8 million to $921.8 million. This increase reflects greater investment in FY22 in line with Xero's growth strategy, particularly in product design and development as Xero prepares for its next phase of growth, and sales and marketing expenses.

Operating profit for FY22 decreased $19.7 million to $42.0 million, largely due to the increase in total operating expenses as a percentage of revenue offsetting the increase in gross profit margin.

The Xero Group recognised a net loss for the year of $9.1 million compared to a net profit in FY21 of $19.8 million. The net loss for the year was impacted by a fair value revaluation gain on contingent consideration of $38.9 million and a new revenue incentive with Planday management resulting in a $10.5 million expense (see note 14 of the financial statements). Net loss in FY22 was also impacted by a goodwill impairment relating to the acquisition of Waddle of $20.4 million (see note 10 of the financial statements).

Net profit for FY21 was impacted by one-off losses on term debt and transaction costs relating to the extinguishment of the 2023 convertible notes and settlement of the 2025 convertible notes of $72.8 million. FY21 net profit was also impacted by a benefit to tax expense resulting from recognition of a deferred tax asset on New Zealand tax losses and carried forward R&D expenditure of $65.0 million. The net impact of the convertible notes and the deferred tax one off in FY21 was a $7.8 million loss resulting in an overall $19.8 million net profit.

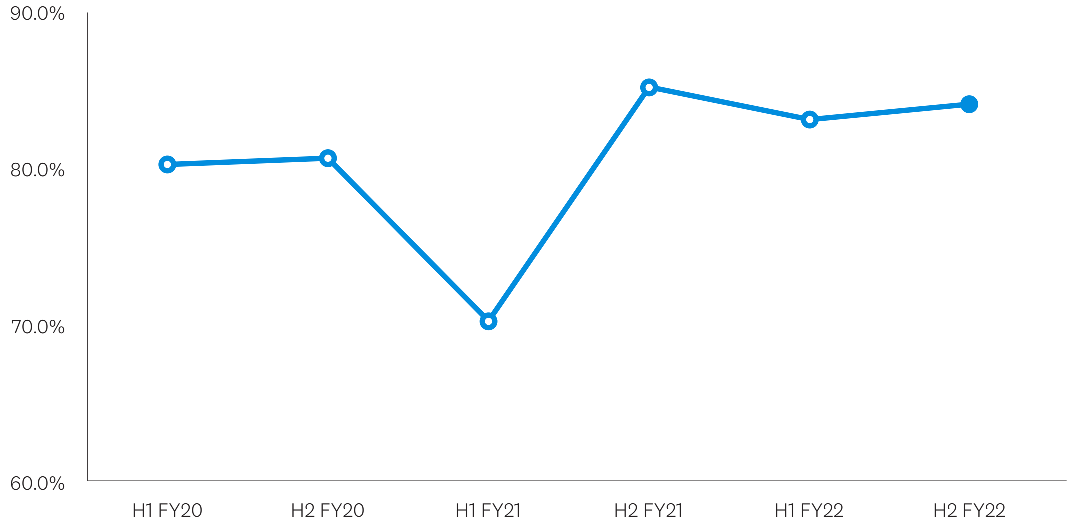
Earnings before interest, tax, depreciation, and amortisation (EBITDA)

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

Year ended 31 March	2022 ($000s)	2021 ($000s)	change
Net profit/(loss)	**(9,114)**	**19,774**	**NM**
Add back: net finance expense	39,611	105,623	-62%
Add back: depreciation and amortisation	170,687	129,541	32%
Add back: income tax (credit)/expense	11,477	(63,710)	NM
EBITDA	**212,661**	**191,228**	**11%**
EBITDA margin	19.4%	22.5%	-3.1pp

EBITDA increased by $21.4 million, or 11%, from the comparative period. The EBITDA margin decreased 3.1 percentage points from 22.5% to 19.4% driven by increased spend in proportion to revenue growth, particularly in relation to product design and development costs as Xero prioritised reinvestment into global product innovation and platform delivery to support Xero's growth strategy. Product design and development expenses increased 49% relative to the comparative period, significantly higher than operating revenue growth of 29%. EBITDA for FY22 is also impacted by the fair value revaluation gain on contingent consideration of $38.9 million, non-cash impairments of $24.7 million and the recognition of a new incentive arrangement with Planday management resulting in an expense of $10.5 million. The $24.7 million non-cash impairment largely related to a goodwill impairment for Waddle of $20.4 million.

Operating expenses as a percentage of operating revenue



EBITDA excluding the impact of non-cash share-based payments and impairments (a non-GAAP financial measure) is provided as Xero believes it provides useful information to analyse the relationship between revenue and cash-based operating expenses.

Year ended 31 March	2022 ($000s)	2021 ($000s)	change
EBITDA	**212,661**	**191,228**	**11%**
Add back: non-cash share-based payments	61,057	42,731	43%
Add back: non-cash impairments	24,695	-	NM
EBITDA excluding non-cash share-based payments and impairments	**298,413**	**233,959**	**28%**
Percentage of operating revenue	27.2%	27.6%	-0.4pp

EBITDA excluding non-cash share-based payments and impairments for FY22 was $298.4 million, an increase of $64.5 million, or 28%, relative to the comparative period. This increase would be 15% if the fair value revaluation gain on contingent consideration of $38.9 million, and recognition of the new incentive arrangement with Planday management of $10.5 million are excluded from FY22.

Operating revenue growth of 29% against 36% growth in cash-based expenses resulted in EBITDA excluding non-cash share-based payments and impairments decreasing as a percentage of operating revenue by 0.4 percentage points.

Cash flows

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

Year ended 31 March	2022 ($000s)	2021 ($000s)	change
Receipts from customers	1,089,806	845,963	29%
Other operating cash flows	(853,435)	(627,324)	36%
Total cash flows from operating activities	**236,371**	**218,639**	**8%**
Investing activities	(430,044)	(197,970)	117%
Add back: acquisitions	185,423	36,277	NM
Add back: investment into businesses and strategic assets	10,323	-	NM
Free cash flows	**2,073**	**56,946**	**-96%**
Percentage of operating revenue	0.2%	6.7%	-6.5pp

Free cash flows for FY22 decreased by $54.9 million, or 96%, to $2.1 million compared to $56.9 million in FY21. As a percentage of total operating revenue, this was a 6.5 percentage point decrease to 0.2% from 6.7% in FY21. The primary driver behind the decrease was increased payments to suppliers and employees from Xero's growing workforce, particularly in product and technology, and sales and marketing expenses increasing compared to FY21.

Receipts from customers increased by 29%, or $243.8 million, year on year to $1.1 billion, which aligns to operating revenue growth of 29%. Other operating cash flows increased by 36% driven by greater payments to suppliers and employees as expenditure increased to prioritise reinvestment. Personnel costs (excluding share-based payments and after capitalisation) increased 31%, external advertising and marketing expenses increased 56% and consultants and contractors (after capitalisation) increased by 14%, when compared to FY21.

Cash outflows from investing activities increased by 117%, or $232.1 million. $185.4 million of this increase is related to acquisition costs, including Planday ($128.3 million) and TaxCycle ($44.1 million). Investing cash flows excluding consideration payments on acquisitions increased by $82.9 million or 51%. The increase was largely driven by higher capitalised spend on product design and development, which increased by $65.5 million or 47% compared to FY21. Investments into businesses and strategic assets include company tax relating to pre-acquisition activity for TaxCycle and investments into the Waddle direct lending portfolio.

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.

Operating revenue includes subscription revenue as well as revenue from other related services including revenue share agreements with financial services providers, software licences, and the implementation of online accounting and other software services. Subscription revenue comprises 96% of operating revenue in FY22 (FY21: 98%).

Constant currency operating revenue (a non-GAAP financial measure) is provided to assist readers in understanding and assessing Xero's financial performance during the year, excluding the impact of foreign currency fluctuations. Constant currency operating revenue is calculated by translating operating revenue for FY22 at the effective foreign exchange rates for FY21.

Year ended 31 March	2022 ($000s)	2021 ($000s)	change	change in constant currency
Subscription revenue	1,049,618	828,106	27%	28%
Other operating revenue	47,201	20,676	128%	129%
Total operating revenue	**1,096,819**	**848,782**	**29%**	**30%**

Operating revenue exceeded $1.0 billion for the first time in a financial year, growing 29% from FY21 (30% in constant currency).

Subscription revenue increased by $221.5 million, or 27% from FY21. This increase was primarily driven by organic subscriber growth, with an increase in subscriber numbers at 31 March 2022 of 530,000, or 19% compared to 31 March 2021. In addition, Xero demonstrated its investment to extend and enrich its platform and product offerings through the acquisitions of Planday and Tickstar in H1, and LOCATE Inventory in H2. The revenue from these acquisitions, price changes during the year and revenue from add-ons such as payroll, projects and expenses, including the introduction of Xero Analytics Plus, contributed to the increase in subscription revenue.

The 128% increase in other operating revenue compared with FY21 was driven by a combination of solid growth in organic financial services related revenue such as bill and invoice payments through financial service providers; the first full financial year of revenue from Waddle (acquired in H2 FY21); and new licence-based revenue generated from TaxCycle (acquired in H2).

Overall, the four acquisitions that closed in FY22 accounted for 5% of revenue growth from FY21 to FY22.

Reported revenue has been adversely impacted by fluctuations in foreign exchange rates. The comparatively stronger New Zealand dollar (NZD) against both the Australian dollar (AUD) and the United States dollar (USD) has adversely impacted reported operating revenue relative to the comparative period. Reported total operating revenue was $7.1 million lower than constant currency operating revenue and constant currency operating revenue growth of 30% compared to reported growth of 29%.

Operating revenue by geography

Year ended 31 March	2022 ($000s)	2021 ($000s)	change	change in constant currency
Australia	483,288	384,150	26%	27%
New Zealand	149,392	130,384	15%	15%
Australia and New Zealand (ANZ) total	**632,680**	**514,534**	**23%**	**24%**
United Kingdom	291,614	223,564	30%	30%
North America	72,571	56,558	28%	31%
Rest of World	99,954	54,126	85%	90%
International total	**464,139**	**334,248**	**39%**	**40%**
Total operating revenue	**1,096,819**	**848,782**	**29%**	**30%**

Xero Group – Operating revenue of $1.1 billion for FY22 was 29% (30% in constant currency) higher than the comparative period. This was primarily driven by subscriber growth in all Xero's markets, and supplemented by price changes, revenues generated from the FY22 acquisitions of Planday, TaxCycle and LOCATE Inventory, as well as increased financial services related revenue and other platform offerings including add-ons such as Payroll. Xero Sign and Analytics Plus were introduced in FY22 and made a modest contribution. Revenue growth in FY22 excluding acquisitions that completed in the period was 24%.

ANZ – Operating revenue increased by 23% (24% in constant currency), outpacing subscriber growth of 19%.

Australia operating revenue grew by 26% (27% in constant currency) mainly due to subscriber growth of 21%. The higher growth in revenue compared to subscriber growth was due to price changes, growth in financial services related revenue (including the first full-year of Waddle revenue), and revenue from add-ons including Xero Sign introduced in H1.

New Zealand operating revenue grew by 15% in line with subscriber growth.

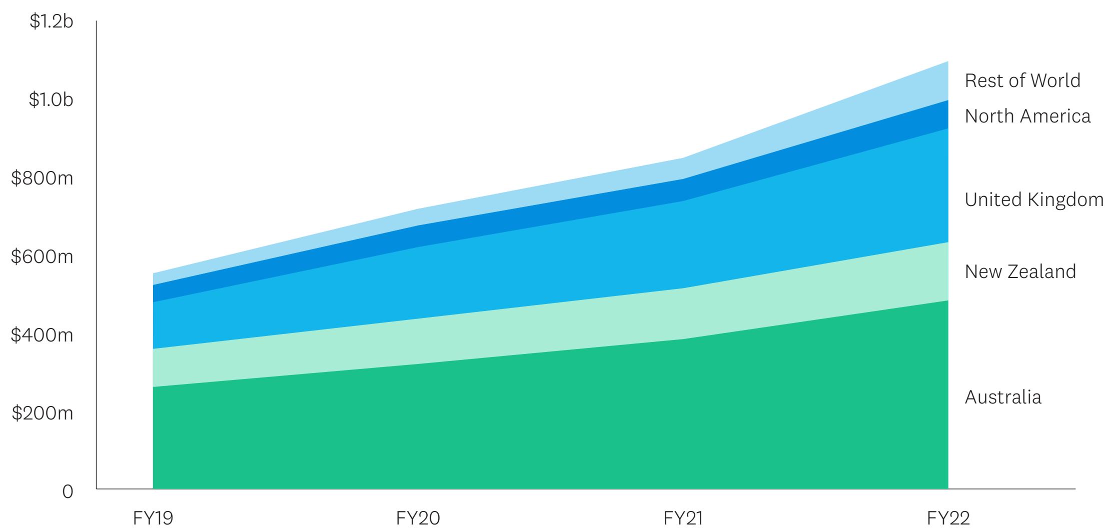
International – Operating revenue increased by 39% (40% in constant currency), outpacing subscriber growth of 20%. The International segment contributed 42% to total operating revenue, increasing from 39% in FY21.

Operating revenue growth in the UK of 30% was above subscriber growth of 18%, due largely to price changes, new platform offerings such as Planday, revenue generated through add-ons, and financial services related revenue (including the first full-year of revenue from Waddle).

North America operating revenue grew by 28% against FY21 (31% at constant currency). This growth was higher than subscriber growth of 19% largely due to the inclusion of new revenue from TaxCycle and LOCATE Inventory, that underscore Xero's commitment to North America.

The Rest of World performance of 85% growth in FY22 (90% in constant currency) was enhanced significantly by the acquisitions of Planday and Tickstar. Revenue growth excluding Planday and Tickstar was 25%, similar to subscriber growth excluding Planday of 26%. South Africa and Singapore were the largest contributing markets for subscribers.

Xero Group operating revenue by geography*



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

Subscriber numbers

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

At 31 March	2022	2021	change
Australia	1,344,000	1,115,000	21%
New Zealand	512,000	446,000	15%
Australia and New Zealand (ANZ) total	**1,856,000**	**1,561,000**	**19%**
United Kingdom	850,000	720,000	18%
North America	339,000	285,000	19%
Rest of World	226,000	175,000	29%
International total	**1,415,000**	**1,180,000**	**20%**
Total paying subscribers	**3,271,000**	**2,741,000**	**19%**

Xero Group – 530,000 net subscribers were added in FY22 compared to 456,000 in FY21, bringing total subscribers to 3,271,000. FY22 was the first time Xero added more than half a million subscribers in a financial year. Planday contributed 6,000 subscribers on acquisition, largely in the Rest of World region. No subscribers have been recognised for TaxCycle licence-based revenue, or for LOCATE Inventory.

ANZ – This more established segment continued to grow at pace, adding 295,000 subscribers in FY22, growth of 19% from FY21, bringing total subscribers to 1,856,000.

Australia continues to deliver subscriber growth with 229,000 subscribers added in FY22, a record for a financial year. Xero further cemented its position as the market leader by continuing to add greater product functionality. The continuation of Xero's investment into its product also helped retain existing subscribers, with churn at levels lower than FY21.

The Small Business Technology Investment Boost announced by the Australian Government at the end of FY22, if upheld after the upcoming election, will allow small businesses to claim a bonus 20% tax deduction for the cost of expenses that support their digital capability such as subscriptions to cloud-based services and e-invoicing until 30 June 2023. This continuation in government support for digitisation represents an opportunity for Xero, and the wider industry, to further introduce the benefits of cloud accounting to small businesses and their advisors in Australia.

New Zealand added 66,000 subscribers in the year, which is also a record for a financial year. This was supported by an increase in brand awareness in both partner and direct channels.

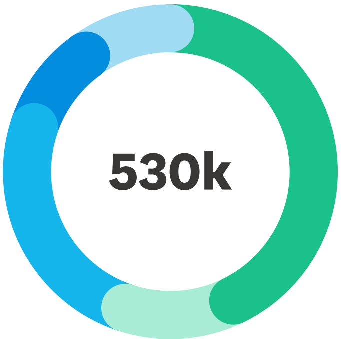
International – The segment grew 20% from FY21 adding 235,000 subscribers in the year, bringing total subscribers to 1,415,000.

The UK added 130,000 subscribers in FY22 to end the year with 850,000 subscribers, an increase of 18% since 31 March 2021. Subscriber growth was subdued, impacted by a number of factors including slower than expected uptake in Making Tax Digital (MTD).

North America subscribers increased by 54,000, or 19% from FY21 to 339,000 as at 31 March 2022. This is the highest number of subscribers added organically in any financial year for the region. Investment in US and Canadian-specific product enhancements such as a new report centre and customised management reports (US), and providing Canadian provincial tax reports, contributed to this growth. Large deals with accounting and bookkeeping partners supported growth during the year, and provide opportunities for future growth.

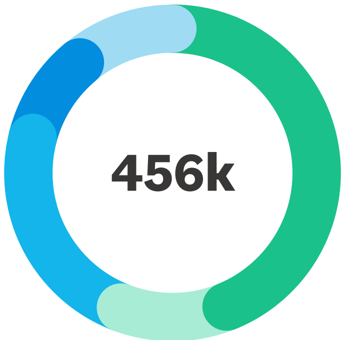
Xero's Rest of World markets grew subscribers by 51,000, or 29% from 31 March 2021 to 226,000 subscribers as at 31 March 2022. Xero's increased investment into the regions of South Africa and Singapore contributed to this result, with product enhancements delivered during FY22 including the launch of local currency billing in Singapore, and expanding VAT eFiling to all customers in South Africa. The majority of the acquired subscribers from Planday were recognised within the Rest of World market in the first half of FY22.

Net subscriber additions



FY22
Region (% of total net additions)

- Australia (**43%**)
- New Zealand (**12%**)
- United Kingdom (**25%**)
- North America (**10%**)
- Rest of World (**10%**)



FY21
Region (% of total net additions)

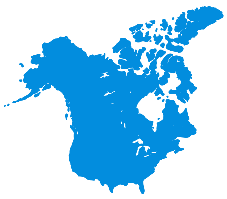
- Australia (**44%**)
- New Zealand (**12%**)
- United Kingdom (**23%**)
- North America (**10%**)
- Rest of World (**11%**)

Regional subscriber numbers at 31 March 2022*

Australia
1,344,000
2021 | 1,115,000
▲ Up 21%

New Zealand
512,000
2021 | 446,000
▲ Up 15%

United Kingdom
850,000
2021 | 720,000
▲ Up 18%



North America
339,000
2021 | 285,000
▲ Up 19%

** Rest of World subscribers at 31 March 2022: 226,000 (31 March 2021: 175,000)*

Annualised monthly recurring revenue

Annualised monthly recurring revenue (AMRR) is a non-GAAP financial measure, which represents monthly recurring revenue at 31 March multiplied by 12. It provides a 12-month forward view of revenue, assuming any promotions have ended and other factors such as subscriber numbers, transaction volumes, pricing, and foreign exchange remain unchanged during the year.

Constant currency AMRR (also a non-GAAP financial measure) is calculated by translating AMRR at 31 March 2022 at the foreign exchange rates at 31 March 2021 and is provided to assist in understanding and assessing year-on-year growth rates, excluding the impact of foreign currency fluctuations.

At 31 March	2022 ($000s)	2021 ($000s)	change	change in constant currency
ANZ	712,652	584,954	22%	23%
International	518,435	378,643	37%	41%
Total	**1,231,087**	**963,597**	**28%**	**30%**

Xero Group – AMRR grew by 28% (or 30% in constant currency) or $267.5 million in FY22 bringing total AMRR to $1.2 billion at 31 March 2022. This was driven by subscriber growth in both the ANZ and International segments, and a significant $2.06, or 7%, improvement in Average Revenue per User (ARPU). As a result AMRR growth significantly outpaced subscriber growth of 19%.

The increase in ARPU is mostly related to price changes to reflect the increasing value of the Xero offering, as well as increased use of financial services related products, and the inclusion of Planday. Planday and Tickstar contributed $29.4 million to AMRR on acquisition, largely in the International segment. No AMRR is included for TaxCycle licence-based revenue, or for LOCATE Inventory as the existing product will sunset as Xero embeds and relaunches LOCATE Inventory's inventory management capability into a new offering.

ANZ – AMRR of $712.7 million at 31 March 2022 grew 22% from the comparative period. This growth was driven by 19% growth in subscriber numbers, price changes, and increased use of financial services related add-ons. The strengthened NZD against the AUD at 31 March 2022 compared to 31 March 2021 had a negative impact on reported AMRR, with constant currency AMRR growth one percentage point higher at 23%.

International – AMRR increased 37% to $518.4 million at 31 March 2022. This increase was driven by 20% growth in subscriber numbers, AMRR acquired from Planday and Tickstar, price changes, and increased uptake of Xero add-ons such as payroll, expenses, and bill and invoice payments through financial services providers. The comparatively stronger NZD against the GBP and EUR at 31 March 2022 compared to 31 March 2021 had an unfavourable impact on reported AMRR for the International segment. On a constant currency basis, International AMRR grew by 41% compared to 31 March 2021.

Gross profit

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

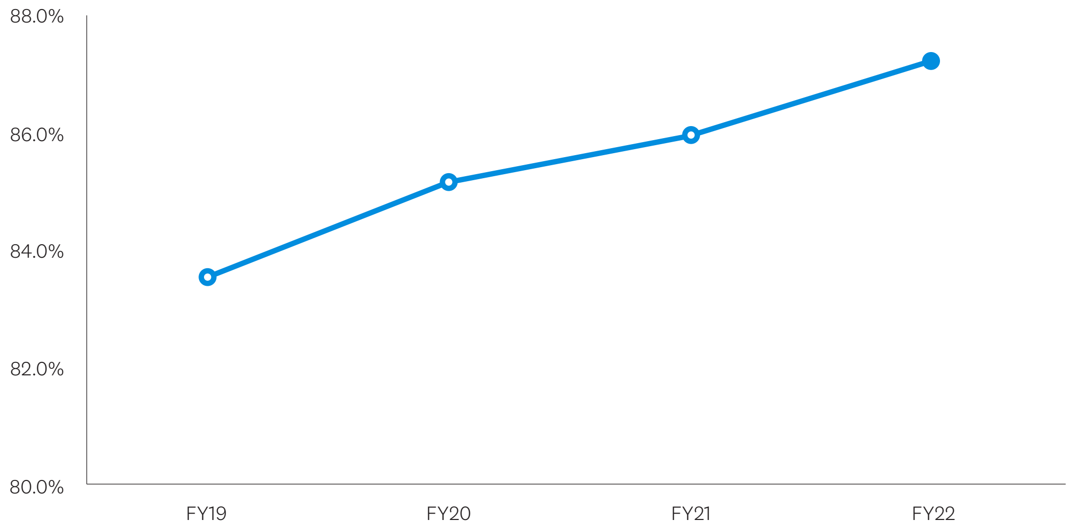
The costs include hosting costs, bank feed costs, personnel and related expenses (including salaries, benefits, bonuses, and share-based payments) directly associated with cloud infrastructure and subscriber support, contracted third-party vendor costs, related depreciation and amortisation, and allocated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

Year ended 31 March	2022 ($000s)	2021 ($000s)	change
Operating revenue	1,096,819	848,782	29%
Cost of revenue	(139,388)	(118,893)	17%
Gross profit	**957,431**	**729,889**	**31%**
Gross margin percentage	87.3%	86.0%	1.3pp

Gross margin increased 1.3 percentage points to 87.3% for FY22. Operating revenue growth of 29%, along with efficiencies in cost of revenue, resulted in gross profit increasing by $227.5 million, or 31%, to $957.4 million.

The 17% increase in cost of revenue was primarily due to an increase in cloud hosting costs to support more subscribers and products on the platform, along with business acquisitions. The improvements in gross margin percentage are the result of continuing efficiencies in Xero's customer support function along with further efficiency gains in hosting and bank feed costs.

Gross margin percentage



Sales and marketing

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

Year ended 31 March	2022 ($000s)	2021 ($000s)	change
Sales and marketing expenses	405,653	307,948	32%
Percentage of operating revenue	37.0%	36.3%	0.7pp

Sales and marketing costs increased by $97.7 million, or 32%, to $405.7 million for FY22, compared to operating revenue growth of 29%. The majority of sales and marketing costs are incurred in acquiring new subscribers and are expensed in the period. This is in contrast to the associated revenue from those subscribers, which is recognised over the life of the subscriber (currently expected to be more than nine years on average).

Sales and marketing expenses as a percentage of operating revenue increased by 0.7 percentage points to 37.0% compared to 36.3% in FY21. Sales and marketing spend increased as Xero pursued opportunities for investment to drive Xero's growth. There was a 45% increase in sales and marketing expenses in H1 FY22 compared to H1 FY21, reflecting the lower spend in H1 FY21 as costs were managed in response to the COVID-19 pandemic. There was a 22% increase in the second half of FY22 compared to H2 FY21. There was a 56% year on year increase in external advertising and marketing costs in FY22 compared to FY21, as a higher proportion of sales and marketing expenses was used for external campaigns.

The average cost of acquiring a subscriber increased to $484 per gross subscriber added in FY22 compared to $433 per gross subscriber added in FY21. The inclusion of Planday (which has a much higher ARPU than Xero) accounted for a 6% increase in the cost of acquiring each subscriber. The remaining increase reflects a higher Xero Group ARPU and a change in investment mix in favour of the International segment.

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 and teams building and enhancing the platform and related infrastructure, as well as allocated overheads.

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

Year ended 31 March	2022 ($000s)	2021 ($000s)	change
Total product design and development costs (including amounts capitalised)	**471,990**	**311,672**	**51%**
Percentage of operating revenue	43.0%	36.7%	6.3pp
Less capitalised development costs	(211,683)	(136,164)	55%
Product design and development expense (excluding amortisation of amounts capitalised)	**260,307**	**175,508**	**48%**
Less government grants	(3,350)	(5,206)	-36%
Add amortisation of capitalised development costs	115,067	79,230	45%
Product design and development expenses	**372,024**	**249,532**	**49%**
Percentage of operating revenue	33.9%	29.4%	4.5pp

Xero constantly invests in product innovation and development to deliver products, features and experiences for customers. This is alongside investment in platform delivery to make Xero's platform faster, more functional and more flexible, as well as to support future platform growth and strategy delivery. For further detail including product initiatives and delivery highlights, see the Platform, technology and data section on page 47.

Total product design and development costs were $472.0 million in FY22, $160.3 million or 51% higher than in the comparative period. Of this, $211.7 million was capitalised, with the balance of $260.3 million total product and design expenses included in the Income Statement. The amount capitalised represents a capitalisation rate of 44.8% of total product design and development costs for FY22, an increase of 1.1 percentage points compared to FY21.

The amortisation of previously capitalised product design and development expenditure of $115.1 million was included as a non-cash expense in the Income Statement, resulting in total net expenses (after the netting of government grants) of $372.0 million for the year.

As a proportion of operating revenue, total product design and development costs for FY22 (including amounts capitalised) increased by 6.3 percentage points to 43.0%. 10% of the year on year increase in total product costs is related to acquisitions that were completed in FY22. The continued growth represents Xero prioritising reinvestment in global product innovation and platform delivery to support Xero's strategy.

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	2022 ($000s)	2021 ($000s)	change
General and administration expenses	144,172	106,345	36%
Percentage of operating revenue	13.1%	12.5%	0.6pp

General and administration expenses were $144.2 million for FY22, $37.8 million, or 36% higher than FY21. The main growth area was increased personnel-related expenses, primarily attributable to growth in employee headcount in FY22. The inclusion of recently acquired companies impacted general and administrative costs as a percentage of operating revenue due to them being earlier stage businesses than the rest of Xero. Integration costs also impacted General and administrative expenses.

General and administration costs as a proportion of operating revenue increased 0.6 percentage points compared to FY21, to 13.1%.

Employees

At 31 March	2022	2021	change
Xero Group	4,784	3,642	31%

Full-time equivalent (FTE) employees increased by 1,142 or 31% in FY22, taking total FTEs to 4,784. The increase includes 266 FTEs added during FY22 from the acquisitions of Planday, Tickstar, LOCATE Inventory, and TaxCycle. Excluding employees added from these acquisitions, FTEs increased by 24%, in line with the 24% growth in operating revenue (excluding FY22 acquisitions). The majority of new FTE's were added in product design and development, which increased 35% even with the challenging talent acquisition environment. This growth in FTEs reflects continued investment to drive future growth, and demonstrates the effectiveness of Xero's talent acquisition strategies. For further information see the People and culture section on page 29.

Net finance expense

Year ended 31 March	2022 ($000s)	2021 ($000s)	change
Interest income on deposits	4,080	5,155	-21%
Total finance income	**4,080**	**5,155**	**-21%**
Amortisation of discount and debt issuance costs	(34,794)	(21,781)	60%
Lease liability interest	(6,423)	(6,053)	6%
Bank standby facility costs	(2,134)	(1,852)	15%
Loss on recognition/extinguishment of term debt	-	(67,169)	NM
Interest on convertible notes	-	(5,783)	NM
Other finance expense	(340)	(8,140)	-96%
Total finance expense	**(43,691)**	**(110,778)**	**-61%**
Net finance expense	**(39,611)**	**(105,623)**	**-62%**

Finance income in FY22 decreased by $1.1 million from FY21 due to lower global interest rates, particularly over the first half of FY22.

Total finance expense decreased from $110.8 million in FY21 to $43.7 million in FY22, predominantly due to refinancing activity in FY21, with the issuance of the USD$700 million 2025 zero coupon convertible notes and repayment of the USD$300 million 2023 convertible notes.

Amortisation of discount and debt issuance costs increased in FY22 to reflect a full year of the USD$700 million 2025 convertible notes issued in H2 FY21. This was offset by a decrease in cash interest costs on the convertible notes as the 2025 notes have a zero coupon, as opposed to 2.4% interest coupon on the 2023 notes.

The unwind of contingent consideration related to the acquisitions of Waddle, Planday and Tickstar ($5.1 million) is included within amortisation of discount and debt issuance costs, and reflects the time value of money of future consideration expected to be paid.

Segment information

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

	ANZ ($000s)	International ($000s)	Total ($000s)
Year ended 31 March 2022			
Operating revenue	632,680	464,139	1,096,819
Expenses	(201,864)	(343,177)	(545,041)
Segment contribution	**430,816**	**120,962**	**551,778**
Contribution margin percentage	68.1%	26.1%	50.3%
Year ended 31 March 2021			
Operating revenue	514,534	334,248	848,782
Expenses	(175,341)	(251,500)	(426,841)
Segment contribution	**339,193**	**82,748**	**421,941**
Contribution margin percentage	65.9%	24.8%	49.7%

ANZ – Operating revenue for FY22 grew by 24% (in constant currency) compared to FY21, showing continued expansion in Xero's more developed markets, driven by subscriber growth, price changes and higher financial services related revenue.

Expenses in the ANZ segment increased by 15% from FY21 due to an increase in sales and marketing spend. Sales and marketing expenses have increased as FY21 spend in this area was impacted by a deliberate reduction in expenditure in H1 FY21 until the impacts of the COVID-19 pandemic became clearer. Operating revenue growth exceeding expense growth resulted in a segment contribution of $430.8 million, $91.6 million, or 27% higher than FY21.

International – Operating revenue for FY22 grew by 40% (in constant currency) compared with FY21, as a result of subscriber growth, price changes, strong performances in adjacent revenue, and the addition of newly acquired revenue streams through Planday, Tickstar, LOCATE Inventory, and TaxCycle.

The International segment's contribution for FY22 was $121.0 million, an increase of $38.2 million, or 46%, compared to $82.7 million in FY21. This resulted in a contribution margin of 26.1% for FY22, up 1.3 percentage points from FY21.

The contribution margin remains comparatively lower than that of ANZ, continuing to reflect the investment in subscriber additions in the UK, North America, Asia, South Africa and the markets Planday operates in, as Xero continues to develop brand recognition and build distribution channels in these 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. Below are some of the headline metrics Xero uses to manage and drive its performance.

Average revenue per user (ARPU) is calculated as AMRR (see definition on page 79) at 31 March, divided by subscribers at that time and divided by 12 to get a monthly view.

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

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

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

LTV/CAC is the ratio between the LTV per subscriber and the cost to acquire that subscriber. For example, the LTV derived from a subscriber is currently on average 6.9 times the cost of acquiring that subscriber.

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

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

At 31 March 2022	ANZ	International	Total
ARPU ($)	32.00	30.53	31.36
CAC months	8.8	22.9	15.5
Churn	0.66%	1.23%	0.90%
LTV per subscriber ($)	4,225	2,164	3,333
LTV/CAC	14.9	3.1	6.9

At 31 March 2021	ANZ	International	Total
ARPU ($)	31.23	26.74	29.30
CAC months	8.9	22.4	14.8
Churn	0.73%	1.43%	1.01%
LTV per subscriber ($)	3,682	1,608	2,789
LTV/CAC	13.2	2.7	6.4

ANZ – ARPU increased by 2% compared to 31 March 2021. This was primarily driven by price increases across Business Edition plans in the first half of the year and some Partner Edition plans (particularly Cashbooks) in the second half of the year. In constant currency terms, ANZ ARPU was 3% higher than 31 March 2021.

CAC months decreased slightly to 8.8 months from 31 March 2021 to 31 March 2022, despite increasing to 9.1 months half way through FY22.

Churn decreased by 0.07 percentage points to 0.66% at 31 March 2022. This was a continuation of a trend from FY21 to historically low churn, and remains similar from reported churn at H1 FY22.

Lower churn, combined with the increase in ARPU and gross margin, resulted in a 15% (16% in constant currency) increase in LTV per subscriber, from $3,682 at 31 March 2021 to $4,225. Total ANZ subscriber LTV increased by $2.1 billion, or 36%, to $7.8 billion at 31 March 2022.

The increase in LTV during the year drove an increase in the LTV/CAC ratio from 13.2 to 14.9, as ANZ subscriber LTV increased 15% and costs to acquire a subscriber remained consistent during FY22.

International – ARPU increased by 14% compared to 31 March 2021, or 17% in constant currency. A price increase on Business Edition plans in the UK, North America and Rest of World markets, as well as the inclusion of AMRR from Planday and an increased uptake in Xero add-ons and financial services related products had a positive impact on International ARPU.

CAC months increased from 22.4 months in FY21 to 22.9 months for FY22, primarily driven by a 12% increase in CAC per gross subscriber addition compared to 31 March 2021.

Churn decreased 0.20 percentage points to 1.23% for FY22. Churn has normalised slightly from H1 levels of 1.20% (12 month rolling), however it remains below pre-COVID-19 levels.

LTV per subscriber increased by 35% (38% in constant currency) to $2,164 due to lower churn, and increased ARPU and gross margin. Total International subscriber LTV increased by $1.2 billion, or 61%, to $3.1 billion at 31 March 2022 from the comparative period. The inclusion of Planday had a positive impact on International LTV, being a higher ARPU product.

LTV/CAC increased from 2.7 to 3.1 in FY22 due to LTV per subscriber increasing at a much greater rate than acquisition costs per subscriber. However it has fallen from that reported in H1 FY22, due to increased sales and marketing expenses in the international segment in the second half of the year.

Xero Group – Xero Group ARPU increased by 7% compared to 31 March 2021, driven by price changes, increased revenue related to access to financial services, and the acquisition of Planday. In constant currency, ARPU increased by 9%.

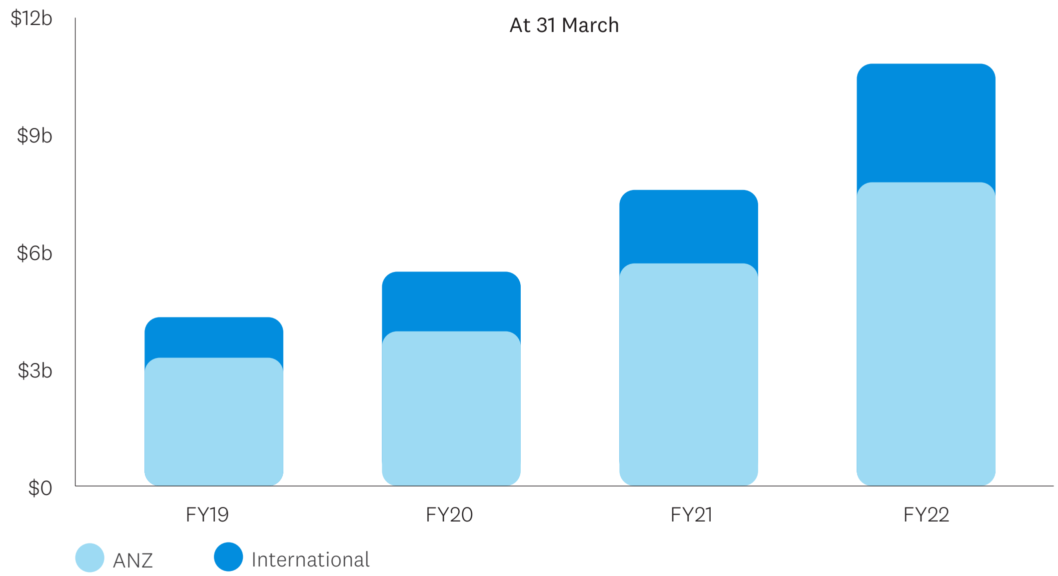
Churn for the Xero Group decreased to 0.90% in FY22 from 1.01% in the comparative period. When combined with higher ARPU and improved gross margin in FY22, LTV per subscriber increased 20% to $3,333. In constant currency terms, LTV per subscriber increased by 21%.

CAC months increased by 5% from 14.8 months to 15.5 months at 31 March 2022, as Xero invests a higher proportion of sales and marketing into the international markets. Year-on-year comparisons are impacted by sales and marketing spend being moderated in H1 FY21 in response to COVID-19. Sales and marketing investment increased in H2 FY21 and over FY22, as opportunities presented.

Total subscriber LTV at 31 March 2022 increased by $3.3 billion or 43% (45% in constant currency) to $10.9 billion compared to 31 March 2021. This increase in LTV resulted in the Xero Group LTV/CAC ratio increasing to 6.9 at 31 March 2022, from 6.4 at 31 March 2021.

Subscriber LTV is sensitive to recent churn levels and assumes these levels will remain constant over an extended future period. Using the average churn levels for the past three years (1.01%), total Xero Group subscriber LTV would be $1.2 billion, or 13% lower at $9.7 billion.

Total lifetime value



Audit Report, Financial Statements and Notes

Independent auditor's report to the Shareholders of Xero Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Xero Limited ("the company") and its subsidiaries (together "the Group") on pages 93 to 131, which comprise the consolidated statement of financial position of the Group as at 31 March 2022, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 93 to 131 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2022 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 R&D tax credit advice, remuneration survey data, other assurance services related to the Group's compliance with ISO 27001 and non-assurance services to a subsidiary acquired during the year relating to data extraction. 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

Intangible assets make up 75% of the Group's non-current assets. The most significant of these intangible assets is capitalised software development costs.

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

The Group's process for calculating the value of internally developed software involves judgment as it includes estimating time which 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 the intangible assets 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 10 of the consolidated financial statements.

How our audit addressed the key audit matter

Our work on capitalised software development costs focused on the Group's process for estimating the time and cost spent by staff on software development that can be capitalised in accordance with NZ IAS 38 *Intangible Assets*.

Our audit procedures included:

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

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

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

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

Goodwill Impairment Testing

Why significant

The Group's statement of financial position includes $420 million of goodwill at 31 March 2022 which consists of the following:

- $217 million in relation to Planday A/S
- $13 million in relation to Tickstar AB
- $17 million in relation to New Tack, Inc
- $68 million in relation to Trilogy Software Inc
- $79 million in relation to Hubdoc Inc.
- $26 million in relation to Waddle Holdings Pty Limited

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

The goodwill is allocated to five cash generating units (CGUs); Waddle, Australia and New Zealand, International, Planday and TaxCycle. There is significant judgement in assessing which CGU goodwill is allocated to.

In considering whether goodwill was impaired, the Group estimated the recoverable amount of each CGU using a revenue multiple approach to assess its fair value.

Disclosures relating to goodwill impairment, including key assumptions used in the assessment, are included in Note 10 of the consolidated financial statements.

How our audit addressed the key audit matter

We assessed the Group's models and judgments used for the impairment tests. Our audit procedures included:

- Using our valuation specialists to:

- assess whether the methodologies applied met the requirements of NZ IAS 36 *Impairment of Assets*;

- consider the appropriateness of the revenue multiples used in the impairment models in relation to observed multiples for other businesses considered comparable;

- Validating the revenue used in the impairment models for the year ended 31 March 2022;
- Considering the appropriateness of the allocation of goodwill to CGUs;
- Performing sensitivity analysis for key drivers of the impairment models, including the sensitivity of the results to changes in the revenue multiples used;
- Assessing the adequacy of the disclosures related to goodwill impairment considerations in the consolidated financial statements. This included assessing whether the assumptions which have the most significant effect on the determination of the recoverable amount of CGUs have been appropriately disclosed in the consolidated financial statements.

Information other than the financial statements and auditor's report

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

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

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

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

Directors' responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Ernst + Young

Chartered Accountants

Wellington

12 May 2022

Financial Statements

Income Statement

Year ended 31 March	Notes	2022 ($000s)	2021 ($000s)
Subscription revenue		1,049,618	828,106
Other operating revenue		47,201	20,676
Total operating revenue	**4**	**1,096,819**	**848,782**
Cost of revenue	5	(139,388)	(118,893)
Gross profit		**957,431**	**729,889**
Operating expenses			
Sales and marketing		(405,653)	(307,948)
Product design and development		(372,024)	(249,532)
General and administration		(144,172)	(106,345)
Total operating expenses	5	**(921,849)**	**(663,825)**
Other income		45,177	15,641
Other expenses		(14,090)	(20,018)
Asset impairments	10	(24,695)	–
Operating surplus		**41,974**	**61,687**
Finance income	6	4,080	5,155
Finance expense	6	(43,691)	(110,778)
Net profit/(loss) before tax		**2,363**	**(43,936)**
Income tax credit/(expense)	21	(11,477)	63,710
Net profit/(loss)		**(9,114)**	**19,774**
Basic earnings/(loss) per share	7	($0.06)	$0.14
Diluted loss per share	7	($0.06)	($2.66)

Statement of Comprehensive Income

Year ended 31 March	Note	2022 ($000s)	2021 ($000s)
Net profit/(loss)		(9,114)	19,774
Other comprehensive income*			
Movement in cash flow hedges (net of tax)	17	6,604	(6,730)
Translation of foreign operations (net of tax)		2,084	(6)
Total other comprehensive income/(loss) for the year		**8,688**	**(6,736)**
Total comprehensive income/(loss) for the year		**(426)**	**13,038**

** 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 2022 ($000s)	At 31 March 2021 ($000s)
Assets			
Current assets			
Cash and cash equivalents		404,192	657,849
Short-term deposits		531,866	452,814
Trade and other receivables	8	112,311	86,397
Derivative assets	17	6,233	861
Income tax receivable		8,551	762
Other current assets		8,601	5,622
Total current assets		**1,071,754**	**1,204,305**
Non-current assets			
Property, plant and equipment	9	158,317	109,358
Intangible assets	10	959,354	484,017
Derivative assets	17	56,269	122,813
Deferred tax assets	21	97,069	103,267
Other non-current assets		577	268
Total non-current assets		**1,271,586**	**819,723**
Total assets		**2,343,340**	**2,024,028**
Liabilities			
Current liabilities			
Trade and other payables	11	55,461	44,751
Employee entitlements		82,727	78,007
Lease liabilities	13	14,292	10,580
Income tax payable		936	1,046
Derivative liabilities	17	2,511	6,221
Other current liabilities	12	40,563	28,219
Total current liabilities		**196,490**	**168,824**
Non-current liabilities			
Term debt	15	884,839	854,078
Derivative liabilities	17	56,624	120,861
Lease liabilities	13	121,926	83,950
Contingent consideration	14	13,817	35,907
Deferred tax liabilities	21	13,377	6,300
Other non-current liabilities		22,344	8,162
Total non-current liabilities		**1,112,927**	**1,109,258**
Total liabilities		**1,309,417**	**1,278,082**
Equity			
Share capital	18	1,580,858	1,293,320
Reserves		(217,059)	(226,612)
Accumulated losses		(329,876)	(320,762)
Total equity		**1,033,923**	**745,946**
Total liabilities and shareholders' equity		**2,343,340**	**2,024,028**

The accompanying notes form an integral part of these financial statements

Statement of Changes in Equity

	Notes	Share capital ($000s)	Treasury shares ($000s)	Share-based payment reserve ($000s)	Accumulated losses ($000s)	Foreign currency translation reserve ($000s)	Cash flow hedge reserve ($000s)	Call spread options reserve ($000s)	Total equity ($000s)
Balance at 1 April 2020		**687,341**	**(9,801)**	**49,479**	**(340,536)**	**(2,489)**	**3,111**	**35,261**	**422,366**
Net profit		–	–	–	19,774	–	–	–	19,774
Other comprehensive loss		–	–	–	–	(6)	(6,730)	–	(6,736)
Total comprehensive income		**–**	**–**	**–**	**19,774**	**(6)**	**(6,730)**	**–**	**13,038**
Transactions with owners:									
Share-based payments, net of tax	24	31,756	7,910	43,979	–	–	–	–	83,645
Exercising of employee share options	24	44,578	–	(12,700)	–	–	–	–	31,878
Issue of shares – convertible note redemption		531,536	–	–	–	–	–	–	531,536
Unwind of call spread options		–	–	–	–	–	–	(400,189)	(400,189)
Premium on call spread options, net of issuance costs		–	–	–	–	–	–	63,672	63,672
Balance at 31 March 2021		**1,295,211**	**(1,891)**	**80,758**	**(320,762)**	**(2,495)**	**(3,619)**	**(301,256)**	**745,946**
Balance at 1 April 2021		**1,295,211**	**(1,891)**	**80,758**	**(320,762)**	**(2,495)**	**(3,619)**	**(301,256)**	**745,946**
Net loss		–	–	–	(9,114)	–	–	–	(9,114)
Other comprehensive income		–	–	–	–	2,084	6,604	–	8,688
Total comprehensive loss		**–**	**–**	**–**	**(9,114)**	**2,084**	**6,604**	**–**	**(426)**
Transactions with owners:									
Share-based payments, net of tax	24	62,344	5,987	16,876	–	–	–	–	85,207
Exercising of employee share options	24	52,415	–	(16,011)	–	–	–	–	36,404
Issue of shares – acquisition related	14, 19	166,792	–	–	–	–	–	–	166,792
Balance at 31 March 2022		**1,576,762**	**4,096**	**81,623**	**(329,876)**	**(411)**	**2,985**	**(301,256)**	**1,033,923**

The accompanying notes form an integral part of these financial statements

Statement of Cash Flows

Year ended 31 March	Note	2022 ($000s)	2021 ($000s)
Operating activities			
Receipts from customers		1,089,806	845,963
Other income		3,161	6,089
Interest received		2,926	6,827
Payments to suppliers and employees		(830,568)	(609,671)
Interest paid		(8,715)	(19,089)
Income tax paid		(20,239)	(11,480)
Net cash flows from operating activities	**22**	**236,371**	**218,639**
Investing activities			
Capitalised development costs		(205,348)	(139,809)
Business acquisitions, net of cash acquired		(185,423)	(36,277)
Purchase of property, plant and equipment		(19,029)	(11,093)
Capitalised contract acquisition costs		(16,344)	(10,561)
Other investing activities		(3,900)	(230)
Net cash flows from investing activities		**(430,044)**	**(197,970)**
Financing activities			
Proceeds from short-term deposits		963,878	795,540
Payments for short-term deposits		(1,044,173)	(855,428)
Proceeds from borrowings		4,279	814
Repayment of borrowings		(2,433)	-
Share options exercised		35,981	31,878
Payment of lease liabilities		(13,599)	(11,632)
Receipt of lease incentives		–	495
Payments for buyback of convertible notes		(5,455)	(415,305)
Proceeds from issuance of convertible notes, net of issuance costs		–	976,060
Call spread options		–	(80,921)
Proceeds from unwind of call spread options		–	108,633
Financing transaction costs		–	(5,670)
Net cash flows from financing activities		**(61,522)**	**544,464**
Net increase/(decrease) in cash and cash equivalents		**(255,195)**	**565,133**
Foreign currency translation adjustment		1,538	(15,311)
Cash and cash equivalents at the beginning of the period		**657,849**	**108,027**
Cash and cash equivalents at the end of the period		**404,192**	**657,849**

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 Markets Conduct 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 2022 were authorised in accordance with a resolution of the directors for issue on 12 May 2022.

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

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

Certain comparative information in Note 5 has been reclassified to conform with the current period's presentation.

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

In April 2020 the New Zealand Accounting Standards Board issued amendments to NZ IAS 1: Presentation of Financial Statements. The amendments are effective for Xero from 1 April 2023. The amendments will result in the current classification of the term debt and embedded conversion feature derivative liability components of Xero's convertible notes.

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

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

(d) Critical accounting estimates

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

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

3. Segment information

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

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

	ANZ ($000s)	International ($000s)	Total ($000s)
Year ended 31 March 2022			
Operating revenue	632,680	464,139	1,096,819
Expenses	(201,864)	(343,177)	(545,041)
Segment contribution	**430,816**	**120,962**	**551,778**
Year ended 31 March 2021			
Operating revenue	514,534	334,248	848,782
Expenses	(175,341)	(251,500)	(426,841)
Segment contribution	**339,193**	**82,748**	**421,941**

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

Year ended 31 March	2022 ($000s)	2021 ($000s)
Segment contribution	551,778	421,941
Product design and development	(372,024)	(249,532)
General and administration	(144,172)	(106,345)
Asset impairments	(24,695)	–
Other income	45,177	15,641
Other expenses	(14,090)	(20,018)
Finance income	4,080	5,155
Finance expense	(43,691)	(110,778)
Net profit/(loss) before tax	**2,363**	**(43,936)**

Depreciation and amortisation by segment

Year ended 31 March	2022 ($000s)	2021 ($000s)
ANZ	14,801	14,401
International	23,204	20,931
Corporate (not allocated to a segment)	132,682	94,209
Total	**170,687**	**129,541**

At 31 March 2022, $517.0 million, or 45%, of the Group's property, plant and equipment and intangible assets was domiciled in New Zealand (2021: $422.5 million, or 71%).

Share-based payments by segment

Year ended 31 March	2022 ($000s)	2021 ($000s)
ANZ	11,704	9,890
International	13,876	9,468
Corporate (not allocated to a segment)	35,477	23,373
Total	**61,057**	**42,731**

4. Revenue

Operating revenue by geographic location

Year ended 31 March	2022 ($000s)	2021 ($000s)
Australia	483,288	384,150
United Kingdom	291,614	223,564
New Zealand	149,392	130,384
North America	72,571	56,558
Rest of World	99,954	54,126
Total operating revenue	**1,096,819**	**848,782**

Subscription revenue

Subscription revenue comprises recurring monthly fees from subscribers to Xero's cloud-based software products. Subscribers are invoiced monthly. Unbilled revenue at balance date is recognised in the Statement of Financial Position as accrued income and included within trade and other receivables. Unearned revenue 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 is recognised as performance obligations with customers are met. Other operating revenue primarily comprises revenue from related non-subscription services such as financial services products, including invoice payment services and Waddle's invoice lending platform services.

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.

5. Expenses

Overhead allocation

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

Sales tax

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

Cost of revenue and operating expenses

Year ended 31 March	2022 ($000s)	2021 ($000s)
Employee entitlements	608,219	456,938
Employee entitlements capitalised	(171,648)	(124,440)
Share-based payments	80,355	55,857
Share-based payments capitalised	(19,298)	(13,126)
Advertising and marketing	144,646	92,586
Platform costs	72,871	60,305
Platform costs capitalised	(9,668)	(8,169)
Consultants and contractors	86,289	56,696
Consultants and contractors capitalised	(46,035)	(21,353)
Computer equipment and software	40,433	29,851
Superannuation costs	28,953	19,201
Recruitment and other personnel costs	13,848	4,914
Communication, insurance and office administration	10,706	6,402
Rental costs	9,283	6,073
Travel-related costs	2,972	454
Auditor's remuneration	778	572
Other operating expenses	37,846	30,416
Total cost of revenue and operating expenses excl. depreciation and amortisation*	**890,550**	**653,177**

** Net of $246.6 million of costs capitalised as intangible assets (2021: $167.1 million) and grant income of $3.5 million (2021: $5.7 million)*

Depreciation and amortisation

Year ended 31 March	2022 ($000s)	2021 ($000s)
Relating to:		
Amortisation of capitalised development costs	127,323	90,929
Amortisation of other intangible assets	15,510	13,683
Depreciation of property, plant and equipment	27,854	24,929
Total depreciation and amortisation	**170,687**	**129,541**
Total cost of revenue and operating expenses	**1,061,237**	**782,718**
Depreciation and amortisation included in function expenses as follows:		
Product design and development	126,579	90,002
Sales and marketing	29,363	26,668
Cost of revenue	8,642	8,664
General and administration	6,103	4,207
Total depreciation and amortisation	**170,687**	**129,541**

Auditor's remuneration

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

Year ended 31 March	2022 ($000s)	2021 ($000s)
Fees for auditing the statutory financial statements	633	384
Fees for other assurance and agreed-upon-procedures services under legislation or contractual arrangements not required to be performed by the auditor		
Assurance related*	107	153
Fees for other services		
Tax compliance**	36	29
Other non-audit services	2	6
Total auditor's remuneration	**778**	**572**

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

*** Tax compliance services relate to assistance with the preparation of R&D tax incentive claim in Australia*

6. Finance income and expense

Finance income

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

Finance expense

Year ended 31 March	2022 ($000s)	2021 ($000s)
Amortisation of discount and debt issuance costs	34,794	21,781
Lease liability interest	6,423	6,053
Bank standby facility costs	2,134	1,852
Loss on recognition/extinguishment of term debt	–	67,169
Interest on convertible notes	–	5,783
Other finance expense	340	8,140
Total finance expense	**43,691**	**110,778**

7. Earnings per share

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

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

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

Year ended 31 March	2022 (000s)*	2021 (000s)*
Net profit/(loss) attributable to equity holders of the Group, used in calculating basic EPS	($9,114)	$19,774
Add back: revaluation gain on call spread transactions	–	($418,850)
Net loss attributable to equity holders of the Group, used in calculating diluted EPS	**($9,114)**	**($399,076)**
Weighted average number of ordinary shares for basic EPS	148,396	143,522
Effect of dilution from:		
Call spread transactions	–	4,363
Share options	1,000	1,411
Restricted stock units	709	485
Restricted shares	132	133
Weighted average number of ordinary shares adjusted for the effect of dilution	**150,237**	**149,914**
Basic earnings/(loss) per share	**($0.06)**	**$0.14**
Diluted loss per share	**($0.06)**	**($2.66)**

** 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 the potentially outstanding shares in the table below. The effects of the potentially outstanding shares relating to convertible notes and options were not included in the calculation because their effect would be anti-dilutive or they were out of the money. The effects of the potentially outstanding shares in relation to the contingent consideration have not been included because their issue is contingent on the satisfaction of certain criteria that had not been met at 31 March 2022.

Year ended 31 March	2022 (000s)	2021 (000s)
Convertible notes	5,196	6,057
Call spread options	5,196	1,694
Contingent consideration	86	97
Share options	11	8
Total potentially outstanding shares	**10,489**	**7,856**

8. Trade and other receivables

At 31 March	2022 ($000s)	2021 ($000s)
Prepayments	43,700	42,930
Accrued income	35,132	24,943
Trade receivables	16,164	8,658
Provision for doubtful debts	(1,291)	(402)
Interest receivable	1,873	700
Other receivables	16,733	9,568
Total trade and other receivables	**112,311**	**86,397**

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 the monthly subscriptions to Xero's cloud-based software products. Subscriptions are charged monthly, the majority being paid by direct debit. At 31 March 2022, trade receivables of the Group of $1.0 million were past due and are considered partially impaired (2021: $0.4 million).

Other receivables at 31 March 2022 includes a $15.9 million receivable in relation to shares that were sold to cover employees' withholding obligations under Xero's employee share-based compensation plans (2021: $9.2 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 the Expected Credit Loss (ECL) model. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Group expects to receive. The shortfall is discounted at an approximation to the asset's original effective interest rate. Under the ECL model, impairment losses may be measured as either the 12-month ECL, which is the portion of lifetime ECLs that result from default events that are possible within 12 months after the reporting date, or the lifetime ECL, which is the expected credit loss resulting from all possible default events over the expected life of the financial instrument. The Group has elected to use the lifetime ECL model to calculate the impairment for trade receivables.

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.

9. Property, plant and equipment

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

** $0.2 million of right of use asset disposals relates to disposal of lease liabilities (2021: $4.0 million)*

	Right of use asset ($000s)	Leasehold improvements ($000s)	Furniture and equipment ($000s)	Computer equipment ($000s)	Total ($000s)
Year ended 31 March 2021					
Opening net book value	54,807	16,743	9,578	5,510	86,638
Additions	43,063	7,227	1,455	2,028	53,773
Disposals	(4,043)	(53)	(26)	(14)	(4,136)
Depreciation expense	(15,113)	(3,744)	(2,299)	(3,773)	(24,929)
Foreign exchange adjustment	(1,666)	4	(154)	(172)	(1,988)
Closing net book value	**77,048**	**20,177**	**8,554**	**3,579**	**109,358**
At 31 March 2021					
Cost	108,818	30,674	14,743	9,582	163,817
Accumulated depreciation	(31,770)	(10,497)	(6,189)	(6,003)	(54,459)
Closing net book value	**77,048**	**20,177**	**8,554**	**3,579**	**109,358**

Key estimates and assumptions

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

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

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

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

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

10. Intangible assets

	Software development ($000s)	Contract acquisition asset ($000s)	Other intangible assets ($000s)	Goodwill ($000s)	Total ($000s)
Year ended 31 March 2022					
Opening net book value	318,608	31,901	7,398	126,110	484,017
Additions*	228,720	17,087	842	–	246,649
Acquisitions	72,222	–	10,807	314,252	397,281
Amortisation expense	(127,323)	(12,571)	(2,939)	–	(142,833)
Impairments	(1,578)	–	(2,736)	(20,381)	(24,695)
Foreign exchange adjustment	(478)	(420)	(120)	(47)	(1,065)
Closing net book value	**490,171**	**35,997**	**13,252**	**419,934**	**959,354**
At 31 March 2022					
Cost	741,874	77,932	16,973	419,934	1,256,713
Accumulated amortisation	(251,703)	(41,935)	(3,721)	–	(297,359)
Closing net book value	**490,171**	**35,997**	**13,252**	**419,934**	**959,354**

** Included in software development additions is $55.3 million of external costs capitalised (2021: $27.5 million)*

	Software development ($000s)	Contract acquisition asset ($000s)	Other intangible assets ($000s)	Goodwill ($000s)	Total ($000s)
Year ended 31 March 2021					
Opening net book value	227,151	33,078	3,244	78,773	342,246
Additions	155,206	11,471	697	–	167,374
Acquisitions	27,340	–	5,534	47,108	79,982
Amortisation expense	(90,929)	(11,579)	(2,104)	–	(104,612)
Foreign exchange adjustment	(160)	(1,069)	27	229	(973)
Closing net book value	**318,608**	**31,901**	**7,398**	**126,110**	**484,017**
At 31 March 2021					
Cost	505,485	61,340	12,328	126,110	705,263
Accumulated amortisation	(186,877)	(29,439)	(4,930)	–	(221,246)
Closing net book value	**318,608**	**31,901**	**7,398**	**126,110**	**484,017**

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 2022, if software development capitalisation rates had been 10% higher/lower with all other variables held constant, the impact on operating expenses would have been $21.2 million lower/higher.

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 five years. Management have determined this as appropriate with reference to estimated customer lifespans and the useful lives of the software sold to which the commissions relate.

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

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

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

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

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

In accordance with NZ IAS 36: *Impairment of Assets*, the recoverable amount is the greater of fair value less costs of disposal or the 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. The following goodwill amounts were recognised on business combinations that occured in the year ended 31 March 2022:

- $216.5 million relating to the acquisition of Planday A/S ('Planday') reflective of the employee time and attendance expertise and technology that Planday brings to the Group. The synergies created from the acquisition are expected to drive growth in Xero's small business platform and helping our customers simplify employee scheduling, allowing better forecasting and management of labour costs.
- $12.5 million relating to the acquisition of Tickstar AB ('Tickstar') reflective of the e-invoicing expertise and technology that Tickstar brings to the Group. The synergies created from the acquisition are expected to help the Group to drive cloud accounting adoption around the world, helping customers digitise more of their workflows and get paid faster.
- $17.1 million relating to the acquisition of New Tack, Inc. ('LOCATE Inventory') reflective of the inventory expertise and technology that LOCATE Inventory brings to the Group. The synergies from the acquisition are expected to enhance Xero's inventory offering, helping customers to track and manage inventory and improve their financial performance.
- $68.1 million relating to the acquisition of Trilogy Software Inc ('TaxCycle') reflective of the Canadian tax expertise and technology that TaxCycle brings to the Group. The synergies created from the acquisition are expected to help enhance Xero's Canadian tax offering, helping customers to make income tax preparation more accurate and efficient.

The following goodwill amounts were recognised in the year ended 31 March 2021:

- $47.1 million relating to the acquisition of Waddle reflective of the expertise and technology that Waddle brings to the Group. The synergies created from the acquisition are expected to help grow Xero's small business platform and help our customers better manage cashflow and gain access to working capital.

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 2022. The allocation of goodwill to CGUs, testing methodology applied, and the results for the current year testing are outlined below. There were no changes to the allocation of goodwill from business combinations in previous years.

At 31 March 2022	ANZ CGU ($000s)	International CGU ($000s)	Waddle CGU ($000s)	Planday CGU ($000s)	TaxCycle CGU ($000s)	Total ($000s)
Acquisition and goodwill allocation						
Hubdoc	38,969	39,804	–	–	–	78,773
Waddle	7,389	2,936	16,174	–	–	26,499
Planday	–	–	–	216,539	–	216,539
Tickstar	6,321	6,196	–	–	–	12,517
LOCATE Inventory	8,873	8,326	–	–	–	17,199
TaxCycle	–	32,110	–	–	36,297	68,407
Total goodwill	**61,552**	**89,372**	**16,174**	**216,539**	**36,297**	**419,934**

The revenue multiples applied below are classified as level two on the fair value hierarchy and are based on 12 month look back revenue multiples of comparable companies, adjusted for a control premium of 20%.

ANZ and International CGUs
The recoverable amounts of the ANZ and International CGUs were calculated on the basis of fair value less costs of disposal in accordance with NZ IFRS 13: *Fair Value Measurement*. Fair value was determined using a revenue multiple of 15.4 (2021: 16.7). A sensitivity analysis has been performed over the key inputs to the determined revenue multiple, being the publicly traded multiples of comparable companies and the control premium. With all other variables held constant, the comparable company revenue multiple of 12.8 would need to decrease by 12.4 for ANZ, and 12.0 for International, before the recoverable amounts of the CGUs would be less than their carrying values. With all other variables held constant, no possible decreases to the control premium would result in the recoverable amount being less than the carrying value.

Waddle CGU
The recoverable amount of the Waddle CGU of $48.0 million at 31 March 2022 was calculated based on the fair value less costs of disposal in accordance with NZ IFRS 13: *Fair Value Measurement*. This valuation methodology yields a higher recoverable amount than that obtained using a value in use valuation approach and therefore is the required approach to be used in calculating impairment under NZ IAS 36: *Impairment of Assets*. Fair value was determined using a revenue multiple of 5.7. As the fair value less costs of disposal is less than the carrying value of the CGU of $68.4 million, an impairment of $20.4 million has been recognised in the current year. As a result of the impairment goodwill relating to the Waddle CGU was reduced from $36.6 million to $16.2 million. The impairment charge is recorded within asset impairments in the Income Statement for the year ended 31 March 2022. The impairment results from updated revenue forecasts, and a decrease in trading multiples. A sensitivity analysis has been performed over the key inputs to the determined revenue multiple, being the publicly traded multiples of comparable companies and the control premium. With all other variables held constant, a 10% decrease in the comparable company revenue multiple would result in an increase to the impairment loss of $4.9 million. With all other variables held constant, a 10% decrease in the control premium would result in an increase to the impairment loss of $0.8 million. For the year ended 31 March 2021, the recoverable amount of the Waddle CGU was calculated on the basis of value in use. Key assumptions applied in the value in use assessment included projected cash flows over a period of five years, with an average annual growth rate of 287%, terminal growth rate of 5%, and a post-tax discount rate of 20%.

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 revenue multiple of 12.2. A sensitivity analysis has been performed over the key inputs to the determined revenue multiple, being the publicly traded multiples of comparable companies and the control premium. With all other variables held constant, the comparable company revenue multiple of 10.2 would need to decrease by 1.7 before the recoverable amount of the CGU would be less than its carrying value. With all other variables held constant, no possible decreases to the control premium would result in the recoverable amount being less than the carrying value.

TaxCycle CGU
The recoverable amount of the TaxCycle 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 revenue multiple of 10.1. A sensitivity analysis has been performed over the key inputs to the determined revenue multiple, being the publicly traded multiples of comparable companies and the control premium. With all other variables held constant, the comparable company revenue multiple of 8.4 would need to decrease by 2.0 before the recoverable amount of the CGU would be less than its carrying value. With all other variables held constant, no possible decreases to the control premium would result in the recoverable amount being less than the carrying value.

11. Trade and other payables

At 31 March	2022 ($000s)	2021 ($000s)
Trade payables	15,297	13,386
Accrued expenses	30,359	24,011
Sales tax payable	9,805	7,354
Total trade and other payables	**55,461**	**44,751**

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.

12. Other current liabilities

At 31 March	Note	2022 ($000s)	2021 ($000s)
Income in advance		25,968	13,113
Contingent consideration	14	10,399	10,712
Term debt		–	2,604
Accrued interest		–	20
Other short-term liabilities		4,196	1,770
Total other current liabilities		**40,563**	**28,219**

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

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

13. Lease liabilities

At 31 March	2022 ($000s)	2021 ($000s)
Balance at 1 April	94,530	72,626
Leases entered into during the period	43,600	36,402
Acquisitions	8,473	–
Lease incentives received	–	495
Principal repayments	(13,599)	(11,632)
Change in future lease payments	4,897	(1,511)
Foreign exchange adjustment	(1,683)	(1,850)
Balance at 31 March	**136,218**	**94,530**
Current	14,292	10,580
Non-current	121,926	83,950

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 2022 was $2.7 million (2021: $1.0 million). Low-value asset leases comprise IT equipment and small items of office furniture. The expense relating to low-value asset leases for the year ended 31 March 2022 was $4.8 million (2021: $3.7 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 when there is a change in future lease payments arising from a change in an index or market rate, or if there is a change in the Group's estimate of the amount expected to be payable.

At lease commencement, the Group assesses whether it expects to exercise renewal options included in contracts. Where it is reasonably certain that renewal options will be exercised, the extension period is included in the lease liability calculation.

14. Contingent consideration

Year ended 31 March	Note	2022 ($000s)
Opening balance		46,619
Additions	19	23,614
Unwinding of discount		5,112
Contingent consideration payments		(11,401)
Change in fair value estimate		(38,874)
Foreign exchange adjustment		(854)
Closing balance		**24,216**
Current		10,399
Non-current		13,817

Contingent consideration comprises the Group's probability weighted assessment of discounted amounts payable to vendors in respect of business acquisitions. Payments of contingent consideration during the year comprised payments to the previous shareholders of Waddle, Tickstar, and Instafile for the completion of a number of performance, product development and business integration milestones. Of the contingent consideration payments made, $7.8 million was settled in cash and $3.5 million in shares of Xero Limited.

Changes in fair value estimates for the year ended 31 March 2022 includes revaluation gains relating to expected payments for Waddle's revenue milestone of $30.6 million and Planday's revenue milestone of $11.1 million, as well as a revaluation loss on Planday product milestones of $2.8 million. Both revenue milestone revaluations are a result of updated revenue forecasts for these businesses, while the revaluation relating to Planday's product milestone results from changes in probability of achievement of development milestones. Changes in fair value estimates are presented in other income and other expenses.

Following the update to Planday revenue forecasts a new incentive arrangement based on revenue hurdles was agreed with management. The incentive arrangement is outside of the scope of business combinations and is therefore not recognised as part of contingent consideration. The recognition of the incentive resulted in an expense of $10.5 million in the year ended 31 March 2022, that is presented in other expenses.

$12.1 million of the contingent consideration balance at 31 March 2022 is expected to be settled in cash, with the remaining expected to be settled in shares of Xero Limited. The non-current portion of contingent consideration is expected to become payable following the achievement of specified product and revenue milestones between April 2023 and June 2024.

15. Term debt

Convertible notes and conversion feature derivative

In November 2020, Xero Investments Limited, a wholly owned subsidiary of the Company, made an offering of USD700 million of convertible notes. The notes were settled and listed on the SGX-ST on 2 December 2020.

The notes have a zero coupon interest rate, are unsubordinated, unsecured obligations of Xero, and have a final maturity date of 2 December 2025. The settlement of the 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 the preceding 75-day trading period. The initial conversion of the notes is USD134.72 per ordinary share based on a fixed exchange rate of AUD1.00 = USD0.73.

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

At 31 March	2022 ($000s)	2021 ($000s)
Principal amount	1,003,721	1,002,400
Unamortised debt discount	(107,576)	(133,266)
Unamortised issuance costs	(11,306)	(15,056)
Term debt	**884,839**	**854,078**

Amortisation of debt discount and issuance costs relating to the convertible notes for the year ended 31 March 2022 was $29.7 million.

Call spread options

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

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

16. Financial instruments, capital and financial risk management

Financial instruments

Financial instruments recognised in the Statement of Financial Position include cash and cash equivalents, short-term deposits, receivables and payables, contingent consideration, term debt, and derivative financial instruments. The Group's policy is that no speculative trading in financial instruments may be undertaken.

Classification and fair values

Xero has carried out a fair value assessment of its financial assets and liabilities at 31 March 2022 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 on page 112.

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 2022 was $826.7 million.

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

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

Key estimates and assumptions

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

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

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

	Financial assets at amortised cost ($000s)	Financial instruments at fair value through profit or loss ($000s)	Financial liabilities at amortised cost ($000s)	Total carrying value ($000s)
At 31 March 2022				
Assets				
Cash and cash equivalents	404,192	–	–	404,192
Short-term deposits	531,866	–	–	531,866
Trade and other receivables	33,479	–	–	33,479
Derivative assets (foreign currency derivatives)*	–	6,594	–	6,594
Derivative assets (call spread options)	–	55,908	–	55,908
Other current assets	7,538	–	–	7,538
Other non-current assets	577	–	–	577
Total financial assets	**977,652**	**62,502**	**–**	**1,040,154**
Liabilities				
Trade and other payables	–	–	45,656	45,656
Derivative liabilities (foreign currency derivatives)*	–	2,876	–	2,876
Derivative liabilities (conversion feature on convertible notes)	–	56,259	–	56,259
Term debt	–	–	884,839	884,839
Other current liabilities	–	10,399	2,692	13,091
Other non-current liabilities	–	22,464	–	22,464
Total financial liabilities	**–**	**91,998**	**933,187**	**1,025,185**
At 31 March 2021				
Assets				
Cash and cash equivalents	657,849	–	–	657,849
Short-term deposits	452,814	–	–	452,814
Trade and other receivables	18,524	–	–	18,524
Derivative assets (foreign currency derivatives)*	–	1,551	–	1,551
Derivative assets (call spread options)	–	122,123	–	122,123
Other current assets	4,937	–	–	4,937
Other non-current assets	268	–	–	268
Total financial assets	**1,134,392**	**123,674**	**–**	**1,258,066**
Liabilities				
Trade and other payables	–	–	37,397	37,397
Derivative liabilities (foreign currency derivatives)*	–	3,956	–	3,956
Derivative liabilities (conversion feature on convertible notes)	–	123,126	–	123,126
Term debt	–	–	854,078	854,078
Other current liabilities	–	13,316	846	14,162
Other non-current liabilities	–	35,907	–	35,907
Total financial liabilities	**–**	**176,305**	**892,321**	**1,068,626**

** 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

The capital structure of the Group 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. During the year ended 31 March 2021, Xero issued USD700 million of convertible notes for the purpose of investments into strategic and complementary businesses and assets, which are in line with the Group's strategy to drive long-term shareholder value, and for general corporate purposes.

Xero has a standby debt facility with two tranches totalling NZD182 million. The first tranche of NZD150 million remains undrawn at 31 March 2022, with no current plans to draw on the facility. This NZD tranche provides Xero with additional liquidity to cover unforeseen operating cash flow requirements. Counterparties to this NZD tranche are ANZ, BNZ, HSBC, and Citibank. A second tranche of AUD30 million is in place to provide ongoing funding for the Waddle direct lending portfolio, with HSBC as the sole counterparty. This AUD tranche has AUD2.5 million drawn at 31 March 2022. The facility expires in August 2022.

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. Other than NZD, 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 cash flows for material currencies to be hedged with forward exchange contracts and vanilla options (outright purchased options and vanilla collars) except for AUD and GBP cash flows, where a portion of the next 24 months' forecast net cash flows is permitted within the policy threshold.

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

	AUD ($000s)	USD ($000s)	GBP ($000s)	CAD ($000s)	EUR ($000s)
At 31 March 2022					
Exposures					
Cash and cash equivalents, and short-term deposits	16,772	691,917	10,963	3,878	174
Trade and other receivables	5,063	1,938	2,929	1,645	159
Other current assets	6,681	–	–	–	–
Trade and other payables	(9,830)	(4,999)	(6,256)	(2,248)	(144)
Other current liabilities	(6,427)	–	–	–	–
Other non-current liabilities	(511)	–	–	(6,044)	(3,066)
Lease liabilities	(41,466)	(11,110)	(27,345)	(1,291)	–
Term debt (including conversion feature)	–	(1,003,721)	–	–	–
Derivative financial instruments (foreign currency derivatives)	134,530	(55,871)	125,264	(1,980)	(4,320)
Total foreign currency exposure	**104,812**	**(381,846)**	**105,555**	**(6,040)**	**(7,197)**
At 31 March 2021					
Exposures					
Cash and cash equivalents, and short-term deposits	8,137	757,230	13,173	2,170	145,619
Trade and other receivables	2,024	1,068	2,820	155	–
Other current assets	4,937	–	–	–	–
Trade and other payables	(9,257)	(4,217)	(5,619)	(1,409)	(1,505)
Other current liabilities	(8,078)	(2,624)	(3,460)	–	–
Other non-current liabilities	(35,907)	–	–	–	–
Lease liabilities	(4,321)	(8,850)	(30,480)	(454)	–
Term debt (including conversion feature)	–	(1,002,400)	–	–	–
Derivative financial instruments (foreign currency derivatives)	161,684	(29,146)	101,745	(9,850)	(503)
Total foreign currency exposure	**119,219**	**(288,939)**	**78,179**	**(9,388)**	**143,611**

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	
	2022 ($000s)	2021 ($000s)	2022 ($000s)	2021 ($000s)
Impact on:				
Net profit/(loss) before income tax (increase/(decrease))	7,682	14,365	(6,286)	(11,753)
Equity (before income tax) (increase/(decrease))	(2,967)	(57,624)	2,427	47,147

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

Interest rate risk

Nature of risk

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

Exposure and risk management

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

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 2022 had been 1.0% higher/lower with all other variables held constant, the impact on the interest income and net loss of the Group would have been $9.3 million higher/lower, and accumulated losses $9.3 million lower/higher (2021: $9.6 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 2022 the Group held cash and cash equivalents of $404.2 million and term deposits of $531.9 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 $150 million syndicated standby facility, which remains undrawn at 31 March 2022, provides additional liquidity to cover unforeseen operating cash flow requirements. The AUD30 million facility, of which AUD27.5 million is undrawn at 31 March 2022, provides liquidity to fund expansion of the Waddle direct lending portfolio.

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

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

	Less than 12 months ($000s)	Between 1 and 2 years ($000s)	Between 2 and 5 years ($000s)	Over 5 years ($000s)	Total contractual cash flows ($000s)	Carrying amount ($000s)
At 31 March 2022						
Non-derivative financial liabilities						
Trade and other payables	45,656	–	–	–	45,656	45,656
Lease liabilities	18,361	19,359	54,930	68,458	161,108	136,218
Other current liabilities	2,692	–	–	–	2,692	2,692
Other non-current liabilities	–	8,916	–	–	8,916	8,647
Term debt	–	–	1,003,721	–	1,003,721	884,839
Contingent consideration	3,926	7,715	1,365	–	13,006	12,108
Contractual cash flows	**70,635**	**35,990**	**1,060,016**	**68,458**	**1,235,099**	**1,090,160**
Derivative financial liabilities						
Forward exchange contracts	–	–	–	–	–	(2,877)
Inflows	102,894	35,657	–	–	138,551	–
Outflows	(101,505)	(34,754)	–	–	(136,259)	–
Contractual cash flows	**1,389**	**903**	**–**	**–**	**2,292**	**(2,877)**
At 31 March 2021						
Non-derivative financial liabilities						
Trade and other payables	37,397	–	–	–	37,397	37,397
Lease liabilities	16,338	12,830	39,746	55,776	124,690	94,530
Other current liabilities	10,621	–	–	–	10,621	10,536
Term debt	–	–	1,002,400	–	1,002,400	854,078
Contingent consideration	–	3,901	19,032	–	22,933	17,952
Contractual cash flows	**64,356**	**16,731**	**1,061,178**	**55,776**	**1,198,041**	**1,014,493**
Derivative financial liabilities						
Derivative liabilities	2,858	–	–	–	2,858	2,858
Forward exchange contracts	–	–	–	–	–	(3,956)
Inflows	231,507	39,483	7,561	–	278,551	–
Outflows	(40,028)	(8,207)	(7,561)	–	(55,796)	–
Contractual cash flows	**194,337**	**31,276**	**–**	**–**	**225,613**	**(1,098)**

(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 lose the ability to reduce dilution to shareholders upon conversion 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	2022 ($000s)	2021 ($000s)
Cash and cash equivalents	404,192	657,849
Short-term deposits	531,866	452,814
Trade and other receivables	33,479	18,524
Derivative financial assets	62,502	123,674
Other current assets	7,538	4,937
Non-current assets	577	268
Total financial assets subject to credit risk	**1,040,154**	**1,258,066**

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	2022 ($000s)	2021 ($000s)
Cash and cash equivalents and short-term deposits		
AAAm	227,485	398,147
A-1+	561,855	469,880
A-1	119,668	236,791
A-2	27,050	5,845
Total cash and cash equivalents and short-term deposits	**936,058**	**1,110,663**
Derivative assets		
A-1+	698	946
A-1	46,431	122,728
A-2	15,373	–
Total derivative assets	**62,502**	**123,674**
Total	**998,560**	**1,234,337**

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

17. Derivatives and hedge accounting

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

At 31 March	2022 ($000s)	2021 ($000s)
Current derivative assets		
Forward exchange contracts	6,233	861
Non-current derivative assets		
Call spread options	55,908	122,123
Forward exchange contracts	361	690
Total derivative assets	**62,502**	**123,674**
Current derivative liabilities		
Forward exchange contracts	(2,511)	(3,363)
Conversion feature of convertible notes	–	(2,858)
Non-current derivative liabilities		
Conversion feature of convertible notes	(56,259)	(120,268)
Forward exchange contracts	(365)	(593)
Total derivative liabilities	**(59,135)**	**(127,082)**

Foreign currency hedges

The Group uses derivatives in the form of forward exchange contracts and vanilla foreign exchange options (outright purchased options and vanilla collars) to reduce the risk that movements in foreign exchange rates will affect the Group's NZD cash flows. Whenever possible, these derivatives have been designated as a hedging instrument in a cash flow hedge of a highly probable forecast transaction under NZ IFRS 9. The Group determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currency and timing of respective cash flows. Derivatives in hedge relationships are designated as hedging instruments based on a hedge ratio of 1:1. Ineffectiveness arises if there is a change in the forecasted timing or amount of cash flows of hedged items.

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

During the year, a net hedging gain of $11.7 million (before taxation) was recognised in other comprehensive income (2021: loss of $9.0 million). During the year, a gain of $2.5 million (before taxation) was reclassified out of other comprehensive income to the Income Statement (2021: gain of $0.4 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	2022 Average forward price	2022 Fair value ($000s)	2022 Notional amount hedged (NZD) ($000s)	2021 Average forward price	2021 Fair value ($000s)	2021 Notional amount hedged (NZD) ($000s)
Derivative assets						
Buy USD – Sell NZD	0.7100	1,315	50,702	0.7256	575	14,470
Buy CAD – Sell NZD	0.8837	39	1,980	0.9097	177	4,672
Buy NZD – Sell AUD	0.9192	97	33,726	0.9139	93	21,885
Buy NZD – Sell GBP	0.4989	4,985	125,264	0.4937	283	16,203
Total		**6,436**			**1,128**	
Derivative liabilities						
Buy USD – Sell NZD	0.6644	(661)	17,309	0.6719	(752)	20,092
Buy CAD – Sell NZD	–	–	–	0.8656	(51)	4,044
Buy NZD – Sell AUD	0.9326	(1,630)	104,541	0.9265	(1,498)	144,637
Buy NZD – Sell GBP	–	–	–	0.5144	(1,655)	85,542
Total		**(2,291)**			**(3,956)**	

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 2022, the Group recognised a $65.4 million revaluation gain in the Income Statement relating to the conversion feature derivative (2021: gain of $27.1 million).

In connection with the issue of the convertible notes, the Group entered into call spread options. The lower strike call options mirror the conversion option embedded in the convertible notes, and are accounted for as derivative assets in the Statement of Financial Position at their estimated fair value. The derivative assets are adjusted to fair value each reporting period, with unrealised gains or losses reflected in the Income Statement. During the year ended 31 March 2022, the Group recognised a $67.7 million revaluation loss in the Income Statement relating to the lower strike call options (2021: loss of $24.3 million).

18. Share capital

	Notes	2022 AUD Price*	2022 (000s)	2021 AUD Price*	2021 (000s)
Balance at 1 April		–	146,964	–	141,851
Issue of ordinary shares – acquisition of Planday	19	120.87	908	–	–
Issue of ordinary shares – exercising of employee share options	24	41.27	832	31.21	952
Issue of ordinary shares – restricted stock unit schemes	24	115.19	512	68.47	314
Issue of ordinary shares – acquisition of TaxCycle	19	137.86	159	–	–
Issue of ordinary shares – acquisition of LOCATE Inventory	19	138.73	110	–	–
Issue of ordinary shares – acquisition of Tickstar	19	123.63	37	–	–
Issue of ordinary shares – deferred consideration for acquisition of Waddle	14	130.83	24	–	–
Issue of ordinary shares – deferred consideration for acquisition of Tickstar	14	111.72	1	–	–
Issue of ordinary shares – buyback of 2023 convertible notes		–	–	135.86	3,750
Issue of ordinary shares – employee restricted share plan	24	–	–	93.88	97
Ordinary shares on issue at 31 March		**–**	**149,547**	**–**	**146,964**
Treasury shares		–	(62)	–	(133)
Ordinary shares on issue at 31 March excluding treasury shares		**–**	**149,485**	**–**	**146,831**

** 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.

19. Business combinations

Planday acquisition

On 1 April 2021, Xero acquired 100% of the ordinary shares in cloud-based workforce management business Planday A/S ('Planday'), for upfront consideration of EUR86.6 million cash and EUR71.1 million in shares of Xero Limited. Up to an additional EUR27.8 million may be payable to the previous shareholders of Planday, dependent on the achievement of certain product development and revenue milestones over the period to 31 March 2023.

Of the EUR27.8 million contingent consideration, EUR5.0 million is payable based on the achievement of specific product milestones. The remaining EUR22.8 million contingent consideration is dependent on the achievement of specified revenue milestones. All contingent consideration payments are payable 50% in cash and 50% in shares of Xero Limited, unless otherwise agreed.

The number of shares issued on settlement of the contingent consideration will be based on the weighted average price of Xero Limited shares at the time of issue. On aquisition, management recognised contingent consideration based on its assessment of the probability of achievement of the product and revenue milestones. Contingent consideration has been discounted to reflect the time value of money. The probability of achievement of contingent consideration milestones is reviewed and fair value of relating liability adjusted at each reporting period or as circumstances change. Refer to note 14 for fair value adjustments recognised in the current period.

Planday contributed $31.9 million in operating revenue and $24.5 million in net loss for the year ended 31 March 2022. Transaction costs of $3.4 million were incurred relating to the acquisition and were expensed in the year ended 31 March 2021. Transaction costs were included in general and administration expenses.

Tickstar acquisition

On 1 April 2021, Xero acquired 100% of the ordinary shares in e-invoicing infrastructure business Tickstar AB ('Tickstar') for upfront consideration of SEK31.1 million in cash and SEK30.0 million in shares of Xero Limited. Up to an additional SEK90.0 million may be payable to the previous shareholders of Tickstar, dependent on the achievement of certain product development and revenue milestones over the period to 30 June 2024.

Of the SEK90.0 million contingent consideration, SEK50.0 million is payable based on the achievement of specific product milestones. The remaining SEK40.0 million contingent consideration is dependent on the achievement of specified revenue milestones. All contingent consideration payments are payable 50% in cash and 50% in shares of Xero Limited, unless otherwise agreed.

The number of shares issued on settlement of the contingent consideration will be based on the weighted average price of Xero Limited shares at the time of issue. On acquisition, management recognised contingent consideration based on its assessment of the probability of achievement of the product and revenue milestones. Contingent consideration has been discounted to reflect the time value of money. The probability of achievement of contingent consideration milestones is reviewed and fair value of relating liability adjusted at each reporting period or as circumstances change.

Tickstar contributed $1.1 million in operating revenue and $0.9 million in net loss for the year ended 31 March 2022. Transaction costs of $0.3 million were incurred relating to the acquisition and were expensed in the year ended 31 March 2021. Transaction costs were included in general and administration expenses.

LOCATE Inventory acquisition

On 12 November 2021, Xero acquired 100% of the ordinary shares in cloud-based inventory management software business New Tack, Inc. ('LOCATE Inventory'), for upfront consideration of USD1.3 million in cash and USD11.1 million in shares of Xero Limited. A further USD1.7 million was held back by Xero for indemnities made by LOCATE Inventory as part of the sale and purchase agreement. These indemnification funds are payable to the previous shareholders of LOCATE Inventory in May 2023 subject to no claims being made by Xero.

Management has recognised a liability for the full amount of indemnification funds payable based on its acquisition date assessment that no claims for indemnities will be made. Management's assessment remains unchanged at 31 March 2022. Indemnification funds payable have been discounted to reflect the time value of money.

LOCATE Inventory contributed $1.1 million in operating revenue and $0.6 million in net loss for the year ended 31 March 2022. If the acquisition had occurred on 1 April 2021, management estimates that operating revenue and net loss would have been an additional $1.5 million higher and $0.8 million higher respectively for the year ended 31 March 2022. Transaction costs of $0.8 million were incurred relating to the acquisition and were expensed in the year ended 31 March 2022. Transaction costs are included in general and administration expenses.

TaxCycle acquisition

On 30 December 2021, Xero acquired 100% of the ordinary shares in Canadian tax preparation software business Trilogy Software Inc (‘TaxCycle’), for upfront consideration of CAD40.1 million in cash and CAD20.3 million in shares of Xero Limited. A further CAD5.5 million was held back by Xero for indemnities made by TaxCycle as part of the sale and purchase agreement. These indemnification funds are payable to the previous shareholders of TaxCycle in June 2023 subject to no claims being made by Xero.

Management has recognised a liability for the full amount of indemnification funds payable based on its acquisition date assessment that no claims for indemnities will be made. Managements assessment remains unchanged at 31 March 2022. Indemnification funds payable have been discounted to reflect the time value of money.

TaxCycle contributed $7.6 million in operating revenue and $5.0 million in net profit for the year ended 31 March 2022. If the acquisition had occurred on 1 April 2021, management estimates that operating revenue and net loss would have been an additional $0.5 million higher and $7.3 million higher respectively for the year ended 31 March 2022. Transaction costs of $1.7 million were incurred relating to the acquisition and were expensed in the year ended 31 March 2022. Transaction costs are included in general and administration expenses.

The assets and liabilities assumed, and the consideration transferred for acquisitions that occurred within the year ended 31 March 2022 are included in detail below.

	Note	Planday 1 April 2021 ($000s)	Tickstar 1 April 2021 ($000s)	LOCATE Inventory 12 November 2021 ($000s)	TaxCycle 30 December 2021 ($000s)	Total ($000s)
Assets acquired and liabilities assumed at acquisition date						
Cash and cash equivalents		17,038	723	1,072	1,759	20,592
Trade and other receivables		3,150	327	402	2,920	6,799
Income tax receivable		1,605	35	–	–	1,640
Property, plant and equipment		9,299	28	–	380	9,707
Software development asset		45,918	8,227	1,779	16,298	72,222
Customer contracts		3,957	440	824	2,270	7,491
Brand		2,453	138	175	550	3,316
Goodwill		216,539	12,512	17,098	68,103	314,252
Trade and other payables		(2,895)	(473)	(821)	(300)	(4,489)
Employee entitlements		(1,364)	(71)	(132)	(394)	(1,961)
Other liabilities		(1,675)	(49)	(126)	(7,063)	(8,913)
Lease liabilities		(8,332)	–	–	(141)	(8,473)
Income tax payable		–	–	(26)	(6,730)	(6,756)
Deferred tax liabilities		(7,423)	(1,814)	–	(2,568)	(11,805)
Net assets acquired		**278,270**	**20,023**	**20,245**	**75,084**	**393,622**
Consideration transferred						
Cash		145,361	5,111	1,824	45,879	198,175
Shares		119,283	4,924	15,852	23,231	163,290
Contingent consideration	14	13,626	9,988	–	–	23,614
Funds payable		–	–	2,569	5,974	8,543
Total consideration		**278,270**	**20,023**	**20,245**	**75,084**	**393,622**
Cash outflows relating to acquisitions (net of cash acquired)		128,323	4,388	752	44,120	177,583

Waddle acquisition

On 1 October 2020, Xero acquired 100% of the ordinary shares in cloud-based invoice financing business Waddle, for consideration of AUD35.9 million cash. Up to an additional AUD49.0 million may be payable to the previous shareholders of Waddle dependent on the achievement of certain product development and revenue milestones over the period to 30 September 2023.

Of the AUD49.0 million contingent consideration, AUD14.0 million is payable based on the achievement of specific product milestones. The remaining AUD35.0 million contingent consideration is dependent on the achievement of specified revenue milestones. All contingent consideration payments are payable 50% in cash and 50% in shares of Xero Limited, unless otherwise agreed.

The number of shares issued on settlement of the contingent consideration will be based on the weighted average price of Xero Limited shares at the time of issue. On acquisition management has recognised contingent consideration based on its assessment of the probability of achievement of the product and revenue milestones. Contingent consideration has been discounted to reflect the time value of money. The probability of achievement of contingent consideration milestones are reviewed, and the fair value of the relating liability adjusted at each reporting period or as circumstances change. Refer to note 14 for fair value adjustments recognised in the current period.

Waddle contributed $2.1 million in operating revenue and $0.2 million in net loss for the year ended 31 March 2021. If the acquisition had occurred on 1 April 2020, management estimates that operating revenue and net profit would have been an additional $2.4 million higher and $0.4 million lower respectively for the year ended 31 March 2021. Transaction costs of $0.3 million were incurred relating to the acquisition and were expensed in the year ended 31 March 2021. Transaction costs were included in general and administration expenses.

The assets and liabilities assumed, and the consideration transferred for the Waddle acquisition is included in detail below.

	1 October 2020 ($000s)
Assets acquired and liabilities assumed at acquisition date	
Cash and cash equivalents	2,541
Trade and other receivables	258
Other current assets	4,487
Software development asset	27,340
Customer contracts	5,010
Brand	524
Goodwill*	47,108
Trade and other payables	(870)
Employee entitlements	(473)
Income tax payable	(271)
Deferred tax liabilities	(5,679)
Net assets acquired	**79,975**
Consideration transferred	
Cash**	38,832
Contingent consideration	41,143
Total consideration	**79,975**

**$20.4 million of goodwill related to the Waddle acquisition was impaired in the year ended 31 March 2022. Refer to note 10 for additional information*

***Net of cash acquired as part of the business combination, cash outflows relating to the acquisition were $36.3 million*

20. 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.

	Country of incorporation	Balance date	Interest 2022 (%)	Interest 2021 (%)
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 (Singapore) Pte. Ltd	Singapore	31 March	100	100
Xero Software (Canada) Ltd	Canada	31 March	100	100
Xero (HK) Limited	Hong Kong	31 March	100	100
Xero South Africa (Pty) Ltd	South Africa	31 March	100	100
Xero Trustee Limited	New Zealand	31 March	100	100
Hubdoc Inc.	Canada	31 March	100	100
Hubdoc Pty Limited	Australia	31 March	100	100
Xero Investments Limited	New Zealand	31 March	100	100
Waddle Holdings Pty Limited	Australia	31 March	100	100
Waddle Loans Pty Ltd	Australia	31 March	100	100
Waddle SaaS Pty Ltd	Australia	31 March	100	100
Waddle Servicing Pty Ltd	Australia	31 March	100	100
Waddle IP Pty Ltd	Australia	31 March	100	100
Waddle Loans Limited	New Zealand	30 June	100	100
Xero (NZ) Holdings Limited	New Zealand	31 March	100	100
Xero (AU) Holdings Pty Limited	Australia	31 March	100	100
Planday A/S	Denmark	31 March	100	–
Planday GmbH	Germany	31 December	100	–
Planday Norway AS	Norway	31 December	100	–
Planday Limited	United Kingdom	31 March	100	–
Planday, Inc.	United States	31 December	100	–
Planday Australia Pty Ltd	Australia	31 March	100	–
Planday Sp ZO.O	Poland	31 March	100	–
Xero Denmark A/S	Denmark	31 March	100	–
Tickstar AB	Sweden	31 March	100	–
Xero CA Acquisitions Inc.	United States	31 December	100	–
Trilogy Software Inc.	Canada	31 December	100	–
Hubdoc (UK) Limited*	United Kingdom	31 January	–	100

** Dissolved via voluntary strike-off 1 February 2022*

21. 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.

Income tax expense

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

Year ended 31 March	2022 ($000s)	2021 ($000s)
Accounting net profit/(loss) before income tax	2,363	(43,936)
At the New Zealand statutory income tax rate of 28%	662	(12,302)
Non-deductible expenditure	(4,035)	(2,197)
Prior period adjustment	2,261	(1,833)
Recognition/utilisation of tax losses	(2,955)	(55,060)
Tax rate variance of subsidiaries	(3,922)	2,371
Current year tax losses/deferred expenditure not recognised	19,466	5,311
Income tax expense/(credit)	**11,477**	**(63,710)**
Comprising:		
Income tax payable	10,093	9,410
Prior period adjustment	2,261	(1,833)
Deferred tax	20,741	(16,334)
Recognition/utilisation of tax losses	(22,050)	(55,060)
Effect of changes in foreign currency	432	107
Income tax expense/(credit)	**11,477**	**(63,710)**

Deferred tax

	Derivatives ($000s)	Provisions and employee benefits ($000s)	Tax depreciation ($000s)	Tax losses and R&D expenditure ($000s)	Total ($000s)
Year ended 31 March 2022					
Deferred tax assets					
At 1 April 2021	(792)	51,204	(28,002)	80,857	103,267
Prior period adjustment	–	1,247	(13)	(4,578)	(3,344)
Charged to Income Statement	–	4,790	(8,040)	17,456	14,206
Charged to equity	(369)	(16,631)	–	–	(17,000)
Impact of change in tax rates	–	(67)	8	(1)	(60)
At 31 March 2022	**(1,161)**	**40,543**	**(36,047)**	**93,734**	**97,069**
Deferred tax liabilities					
At 1 April 2021	–	266	(6,651)	85	(6,300)
Prior period adjustment	–	(20)	(404)	13	(411)
Recognition of deferred tax on business combination	–	–	(11,805)	–	(11,805)
Charged to Income Statement	–	1,883	4,070	295	6,248
Charged to equity	–	(1,456)	–	–	(1,456)
Impact of change in tax rates	–	678	(328)	(3)	347
At 31 March 2022	**–**	**1,351**	**(15,118)**	**390**	**(13,377)**
Year ended 31 March 2021					
Deferred tax assets					
At 1 April 2020	–	9,288	(2,858)	(2,679)	3,751
Prior period adjustment	–	(336)	1,296	1,861	2,821
Charged to Income Statement	–	24,677	(26,257)	73,371	71,791
Charged to equity	(792)	17,371	–	8,304	24,883
Impact of change in tax rates	–	204	(183)	–	21
At 31 March 2021	**(792)**	**51,204**	**(28,002)**	**80,857**	**103,267**
Deferred tax liabilities					
At 1 April 2020	(1,209)	14,646	(22,977)	8,426	(1,114)
Prior period adjustment	–	90	(263)	10	(163)
Recognition of deferred tax on business combination	–	–	(5,814)	–	(5,814)
Charged to Income Statement	–	(14,470)	22,403	(8,351)	(418)
Charged to equity	1,209	–	–	–	1,209
At 31 March 2021	**–**	**266**	**(6,651)**	**85**	**(6,300)**

Key estimates and assumptions

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

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

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

The estimated deferred research and development expenditure available to the Group is $85.6 million (2021: $94.6 million). The deferred research and development expenditure can be deducted from taxable income in future periods, and the ability to carry forward deferred research and development expenditure is not dependent on maintaining shareholder continuity.

Unrecognised tax losses and temporary differences
The Group has estimated unrecognised tax losses available to carry forward and other unrecognised temporary differences in overseas jurisdictions of $246.5 million (2021: $170.6 million) subject to shareholder continuity being maintained (as applicable). Deferred tax assets are recognised for carried forward tax losses to the extent of deferred tax liabilities.

22. Reconciliation of operating cash flows

Year ended 31 March	2022 ($000s)	2021 ($000s)
Net profit/(loss)	(9,114)	19,774
Adjustments:		
Depreciation	27,854	24,929
Amortisation	142,833	104,612
Share-based payments	61,057	42,731
Revaluation of contingent consideration	(38,874)	(593)
Amortisation of discount and debt issuance costs	34,794	21,781
Deferred tax and current taxes recognised in equity	(4,576)	(1,772)
Impairment of assets	24,695	–
Bad debts	2,432	1,331
Loss on revaluation of term debt	–	67,169
Recognition of historic unrecognised tax losses	–	(55,060)
Other non-cash items	(260)	11,684
Changes in working capital:		
Increase in receivables and prepayments	(16,097)	(34,053)
Decrease/(increase) in interest receivable	(1,154)	1,672
Increase/(decrease) in trade payables and other related items	11,876	(23,287)
Increase in current tax receivable/decrease in current tax payable	(7,355)	(2,570)
Increase in employee entitlements	4,295	36,785
Increase in income in advance	3,965	3,506
Net cash flows from operating activities	**236,371**	**218,639**

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

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

Year ended 31 March 2021	At 1 April 2020 ($000s)	Proceeds ($000s)	Payments ($000s)	Amortisation expense ($000s)	Foreign exchange movement ($000s)	Fair value movements ($000s)	At 31 March 2021 ($000s)
Short-term deposits	428,052	(795,540)	855,428	–	(35,126)	–	452,814
Call spread option derivative assets	117,350	(510,160)	145,341	–	(24,981)	394,573	122,123
Term debt and conversion feature	(546,460)	(976,060)	415,305	(21,781)	61,285	87,901	(979,810)
Other current liabilities	–	(814)	–	–	(12)	–	(826)

24. Share-based payments

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

Restricted stock units

RSUs are issued to certain employees and executives of the Group. On the grant 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 in the year ended 31 March 2022 was AUD100.1 million (2021: AUD30.4 million) as determined by the volume-weighted average share price. The RSUs are conditional on the employees completing a specified period of service (the vesting period) and are, for the most part, converted to shares in equal amounts over the vesting period. The weighted average vesting period for RSUs granted in the year was 1.9 years.

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

	2022 Weighted average grant date fair value (AUD)	2022 RSUs (000s)	2021 Weighted average grant date fair value (AUD)	2021 RSUs (000s)
Outstanding at 1 April	84.36	351	57.45	379
Granted	137.64	727	94.59	359
Forfeited	112.33	(114)	74.10	(45)
Converted to shares	115.19	(512)	68.47	(314)
Surrendered to settle payroll withholding obligations	69.08	(2)	45.73	(28)
Outstanding at 31 March	**128.37**	**450**	**84.36**	**351**

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 second anniversary of the final vesting date. There were 73 holders of options at 31 March 2022 (2021: 65).

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:

	2022 Weighted average exercise price (AUD)	2022 Options (000s)	2021 Weighted average exercise price (AUD)	2021 Options (000s)
Outstanding at 1 April	55.27	2,277	39.32	2,861
Granted	137.33	283	103.81	456
Forfeited/expired	88.58	(122)	49.01	(88)
Exercised	41.27	(832)	31.21	(952)
Outstanding at 31 March	**74.45**	**1,606**	**55.27**	**2,277**
Exercisable at 31 March	49.73	347	34.64	264

The weighted average share price on the date of exercise for options exercised in the year ended 31 March 2022 was AUD137.32 (2021: AUD102.27). The weighted average remaining contractual term of options outstanding at 31 March 2022 is 2.3 years (2021: 3.7 years).

Options outstanding at 31 March fall within the following ranges:

Granted	Exercise price	2022 Options (000s)	2021 Options (000s)
2016-17	NZD17.51-NZD19.50	–	75
2017-18	NZD25.75-NZD32.48	14	66
2018-19	AUD34.00-AUD48.33	603	1,134
2019-20	AUD51.82-AUD83.04	389	546
2020-21	AUD79.50-AUD138.28	331	456
2021-22	AUD121.39-AUD146.99	269	–
		1,606	**2,277**

The weighted average fair value of options granted during the year, determined using the Black-Scholes valuation model, was AUD41.11 per option (2021: AUD28.33).

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

The volatility input is measured as the standard deviation of continuously compounded share returns and is based on a statistical analysis of daily share prices over a period consistent with the options' expected life.

Employee restricted share plan

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

The shares are beneficially owned by the participants. The length of retention period before the shares vest is up to three years. If the individual is still employed by the Group at the end of each specific period, the employee is given a bonus that must be used to repay the loan, and shares are then transferred to the employee. The weighted average grant date fair value of restricted shares granted during the year was AUD146.46 (2021: AUD93.88) and was determined by the volume-weighted average price of the Company shares preceding the grant date. Shares with a grant date fair value of AUD5.6 million vested during the year (2021: AUD16.4 million). The Group has no legal or constructive obligation to repurchase or settle the shares for cash.

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

	2022 Number of shares (000s)	2021 Number of shares (000s)
Outstanding restricted shares at 1 April	126	313
Granted	1	134
Forfeited	(20)	(17)
Vested	(71)	(304)
Outstanding restricted shares at 31 March – allocated to employees	**36**	**126**
Forfeited shares not yet reallocated – held by Trustee	26	7
Total outstanding at 31 March	**62**	**133**
Percentage of total ordinary shares	0.0%	0.1%
Ageing of unvested shares		
Vest within one year	36	83
Vest after one year	–	43
Total unvested shares at 31 March	**36**	**126**

The number of shares awarded pursuant to the restricted share plan (RSP) does not equal the number of shares created for the scheme as forfeited shares are held in the trust and reissued.

25. Key management personnel and related parties

Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly, and include the directors, the Chief Executive, and the Chief Financial Officer.

The following table summarises remuneration paid to key management personnel:

Year ended 31 March	2022 ($000s)	2021 ($000s)
Directors' fees	1,820	1,415
Short-term employee benefits	2,961	2,307
Share-based payments – options	1,869	2,327
Share-based payments – restricted stock units	654	296

Related party transactions

During the year Atomic.io Limited, a related party by way of a 19% shareholding and common directorship of a Xero director, provided product development and support services to the Group of $151,000 (2021: $296,000).

Other than that related to the remuneration of key management personnel, there are no balances or commitments outstanding with related parties at 31 March 2022.

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. A number of these entities subscribe to services provided by the Group. None of these related party transactions are significant to either party, and are completed on arm's length terms. There were no related party transactions during the year other than as detailed above.

No amounts with any related parties have been written off or foregone during the year (2021: nil).

26. Commitments and contingencies

Capital commitments

There were no capital commitments contracted for but not yet incurred at 31 March 2022 (2021: $15.2 million).

Contingent liabilities

There were no contingent liabilities at 31 March 2022 (2021: nil).

27. Events after the balance sheet date

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

Directors’ Responsibilities Statement

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

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1993 (New Zealand). They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

During the year ended 31 March 2022, 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 12 May 2022.

For and on behalf of the Board

David Thodey
Chair
Xero Limited
12 May 2022

Mark Cross
Director
Xero Limited
12 May 2022

Remuneration Report

1. People and Remuneration Committee Chair letter

On behalf of the Board, I am pleased to present Xero's Remuneration Report for FY22.

As we continue to put our purpose at the centre of all decision making at Xero, we remain committed to making choices that will positively influence the lives of our people, our customers and our communities across the world.

This year, some of the biggest challenges faced by our global communities include ongoing disruption from the pandemic, increased geopolitical instability, climate change, the importance of prioritising racial and social equity, the need to provide greater transparency around fair pay, the rapidly accelerating demand for talent and greater demand for support for psychological and physical wellbeing. Our Xero team has spent considerable time working through these issues and highlights of our progress related to our culture and how we connect reward and recognition to successful execution of our strategy are discussed here. Further information is available in the People and culture section of the Annual Report.

Our aim is to create an environment at Xero that inspires and supports our people to be their true authentic selves and empowers them to engage and contribute to solving some of the most important challenges facing the world today. As we grow, we strive to continually evolve our working environment to attract and support the very best talent necessary to deliver our purpose and strategy.

Over the past two years, we have adjusted our ways of working in order to support our team to be successful in a pandemic influenced environment. We have always known that recognition and reward will be crucial to attracting and retaining talent. Our recent experience has however reinforced that providing a common sense of purpose, being genuinely inclusive, supporting flexible and remote working, prioritising ongoing development and career opportunities and looking after all aspects of wellbeing are all critically important in terms of attracting and retaining a talented team.

While operating in a challenging environment, we are pleased that the 12-month rolling average of our fortnightly employee Net Promoter Score (NPS) was 41. This demonstrates that a significant proportion of our employees continue to be strong advocates of Xero.

A critical measure of success is our ability to attract the number of new team members that we need in order to successfully deliver our strategy. Over FY22, we increased our number of full time equivalent employees by 1,142, which is a record and a 95% increase on FY21. Importantly, we increased our product and tech capability by 35%, in terms of new team members, following a comprehensive review of how we might make Xero distinctively attractive. As part of this review, we launched 'fully remote roles' for some of our product and tech teams, with 25% of our new tech hires now choosing to work remotely.

Another highlight for us has been our graduate program being awarded both the Best Graduate Development Program in New Zealand by the New Zealand Association of Graduate Employers (NZAGE) for the second year in a row, and being included in the Top Internship Program for Australia. This program forms an important part of our talent pipeline.

We have continued to develop our work to ensure the health and wellbeing of our people. As part of our global wellbeing strategy, we initiated a wellbeing climate survey providing us an evidence-based way of assessing how to create the workplace conditions that foster wellbeing and the interventions that will enable this. We are delighted to see there has been an increased uptake of parental leave taken by fathers and male primary caregivers, since we introduced our gender-neutral parenting benefits.

> **As we continue to put our purpose at the centre of all decision making at Xero, we remain committed to making choices that will positively influence the lives of our people, our customers and our communities across the world.**

We are committed to equal pay for equal work. Our reward and recognition principles reflect that we benchmark and pay local market rates. We also complete an annual analysis regarding gender pay to ensure we can track, and address, potential gaps in all of the markets that we operate in. In line with our involvement in the MindTheGap initiative and as outlined in the People and Culture section, we are providing more transparency in this area. Currently across Xero, our analysis shows that we are providing equitable salary outcomes[1].

We continue to focus on better understanding our ethnic, racial and other diversity, including how well our team reflects the communities we live and work in. We have again taken a data-driven approach to better understand the backgrounds of who currently has a seat at the Xero table - so we are better informed to understand who should have. This year we implemented a global network of Employee Resource Groups (ERGs) representing race, gender, sexual orientation and gender identification, disability, neurodiversity, and First Nations and Indigenous peoples. We also boosted our leadership capability through a range

[1] *To calculate gender pay equity we compare our employees' pay to their equivalent local market role, then use the average pay position against the market to set a compensation grade. We consolidate all roles in the same compensation grade (which require a similar level of skill and experience) to make a comparison by gender at an overall Xero level, at a geographic level and at a functional level. This excludes Planday*

of development initiatives including the introduction of an inclusive leadership course for our people leaders. This covers issues such as 'proximity bias' and how we can best work together across remote, office-based and hybrid environments.

As a People and Remuneration Committee, we are clear that we must continue to evolve our attractive employment brand as expectations change. The global demand for talent is rapidly evolving and the expectations from our team, and our future team members, around what they need for their lives to feel fulfilling is also evolving. We make our decisions with that lens in mind.

We review our remuneration practices on an annual basis and, where necessary, as the environment changes. In FY22, we moved our market data refresh and benchmarking from an annual to six-monthly process and ran three interim salary reviews to ensure our remuneration remained competitive. We changed our employee share plan (ESP) vest, for non XLT and senior leader employees, from three years to one year to improve our total annual remuneration offering. A focus on the competitiveness and relevance of our reward and recognition structures will continue in FY23.

We have made a number of enhancements to the information provided in this year's Remuneration Report. You will see we have expanded on the rationale for the Short Term Incentive (STI) measures chosen, given additional detail around the link between STI measures and strategy, and how and when the Board considers whether it needs to exercise discretion.

We have again considered whether we ought to include performance hurdles in our long-term equity (LTE) plan paid to the CEO, CFO and members of the senior leadership team. We are satisfied that the LTE plan has been effective in supporting longer-term strategy and aligning with sustained shareholder value creation. This is reflected in remuneration outcomes for the CEO and CFO in FY22. Our reward and remuneration structure for executive leadership will continue to remain an important factor in attracting and retaining leadership talent.

As part of our customary two year review, we undertook an independent benchmarking exercise on the level of directors fees. That review showed that current directors fees were below market median. We introduced committee member fees from 1 April 2021. After receiving shareholder approval at our Annual General Meeting in August 2021 to increase the overall director fee cap to $2.7 million, we increased individual director fees from 1 October 2021. These changes are outlined in section 11 of this report.

This report is not intended to fully replicate the statutory disclosure requirements of an Australian domiciled company's Remuneration Report as these requirements do not apply to Xero. We have sought to include information that provides a good understanding around how we prioritise the work to support our culture and connect our reward and recognition frameworks with the successful execution of our strategy. In doing so, the information provided goes beyond what is required for a New Zealand domiciled company.

We hope you find this Remuneration Report to be insightful and useful. We intend to continue to further evolve it as we move forward and welcome your feedback on how you believe we are progressing.

Yours sincerely

Susan Peterson
Chair
People and Remuneration Committee

2. Directors and senior leadership team

This report focuses on the remuneration of Xero's CEO and CFO, and non-executive directors in FY22 as identified in the table below. Broader details on Xero's remuneration framework and structure are also included in this report and relate specifically to Xero's leadership team who report directly to the CEO.

	Country of residence	Position	Period position was held during the year
Senior leader			
Steve Vamos	New Zealand	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
Rod Drury	New Zealand	Founder, non-executive director	Full year
Lee Hatton	Australia	Independent non-executive director	Full year
Brian McAndrews	United States	Independent non-executive director	Appointed director 2 February 2022
Dale Murray, CBE	United Kingdom	Independent non-executive director	Full year
Susan Peterson	New Zealand	Independent non-executive director	Full year
Former non-executive directors			
Craig Winkler	Australia	Non-executive director	Ceased as director 12 August 2021

3. Remuneration governance

Xero's remuneration governance framework is overseen by the People and Remuneration Committee (P&R Committee) on behalf of the Board. The P&R Committee is tasked with ensuring that Xero's remuneration framework, policies and practices are aligned with Xero's purpose, values, strategic objectives, risk appetite, and good governance principles and practice. The P&R Committee considers the interplay between remuneration structures and risk when reviewing remuneration frameworks and outcomes.

3.1 Role of the People and Remuneration Committee

The P&R Committee operates under a charter, which is available on Xero's website at www.xero.com/about/investors/governance The P&R Committee assists the Board to oversee Xero's strategies and policies relating to:

- People and culture, including Xero's code of conduct, whistleblower policy and policies and practices relating to health, safety and wellbeing
- Remuneration and reward
- Executive performance and development
- Diversity and inclusion
- Succession planning for Xero's leadership team other than the CEO (succession planning for the CEO is managed by the Nominations Committee)

The P&R Committee's overall objective is to oversee the implementation of frameworks and principles aimed at:

- attracting and retaining high-quality directors and employees and ensuring they are fairly, reasonably and transparently remunerated
- ensuring employees are motivated to perform to the best of their abilities in the interests of Xero and in alignment with Xero's desired culture
- ensuring conduct is only rewarded where it aligns with Xero's code of conduct, values and risk appetite

The P&R Committee reviews and makes recommendations to the Board regarding Xero's remuneration framework, policies and practices, remuneration budgets, employee incentive plans, material employee benefits, non-executive director remuneration and diversity objectives.

The P&R Committee's oversight of the remuneration of the CEO, and leadership team, involves close scrutiny of remuneration amounts and performance outcomes, including recommending to the Board the remuneration outcomes for the CEO and any changes to the CEO's remuneration. The P&R Committee also supports the Chair of the Board to evaluate the CEO's performance and make recommendations to the Board to set the performance objectives for the CEO. The P&R Committee approves and informs the Board of the remuneration of the CFO and other leadership team, including the vesting of incentives, and oversees their performance.

3.2 People and Remuneration Committee independence

Consistent with the ASX Corporate Governance Principles and Recommendations and the P&R Committee charter, the P&R Committee consists of four members, all of whom are independent non-executive directors, including the Chair. During FY22 Craig Winkler, who was a member of the P&R Committee, stepped down from the Board and Mark Cross was appointed to the P&R Committee in his place. The current membership comprises:

Susan Peterson (Chair)

David Thodey, AO

Mark Cross

Steven Aldrich

All directors have a standing invitation to attend P&R Committee meetings. Members of management may be invited to attend meetings of the P&R Committee where appropriate.

3.3 External and independent advice

As part of Xero's governance framework, during the year, external consultants were engaged to provide guidance on Xero's remuneration framework having regard to our current and expected growth ambitions. This included reviewing the leadership team's and non-executive directors' remuneration structures and quantums against relevant industry peer groups, reviewing Xero's incentive plan structures and researching market practice around gender pay disclosures.

As well as seeking input from management, as part of Xero's governance framework, the P&R Committee may obtain independent advice directly from external advisers to support the performance of its role on behalf of the Board.

3.4 No dealing or protection arrangements

Xero's Share Trading Policy prohibits employees and directors from entering into transactions that are intended to hedge or otherwise limit the economic risk of unvested or restricted Xero securities.

The leadership team are not permitted to deal with their restricted stock units (RSUs) or options. All dealing of shares received on vesting or exercise of RSUs and options is subject to the Share Trading Policy.

A copy of Xero's Share Trading Policy is available on Xero's website at www.xero.com/about/investors/governance

4. Remuneration strategy

4.1 Our purpose, values and remuneration principles

Xero's purpose is to make life better for people in small business, their advisors, and communities around the world. This purpose is underpinned by five values that are fundamental to everything we do, including our approach to remuneration and reward:

#Human

Xeros are authentic, inclusive and really care

Kind and assume best intent

Inclusive, approachable and show empathy

Are willing to be vulnerable, share fears, failures and learnings

#Challenge

Xeros dream big, lead and embrace change

Are curious and think big

Welcome challenging conversations and do it with respect

Lead and embrace change, seeking new and better ways

#Team

Xeros are great team players

Champion Xero's purpose and priorities

Work together to do what's best for Xero and our customers

Appreciate and celebrate each other and success

#Ownership

Xeros deliver on our commitments

Do what we say we will do

Own our mistakes and take positive action

Move fast to get the right things done

#Beautiful

Xeros create experiences that people love

Create experiences that inspire and delight

Do high-quality work

Go the extra mile

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

Our remuneration framework is purposefully designed to:

- Ensure alignment with Xero's business strategy
- Support sustainable long-term value creation for shareholders and other stakeholders
- Support appropriate risk-taking and risk management

As a global technology company, Xero is dependent on highly skilled, specialist team members to execute our strategy. Our ability to attract, retain, reward, and motivate our people is fundamental to our long-term success. In order to achieve this, our leadership team's remuneration is made up of the following components:

- Fixed remuneration competitive with the market
- Short-term incentives based on challenging individual and company-wide targets, with a deferred equity component
- An options-based long-term equity (LTE) plan that is aligned with Xero's strategy, ensuring a focus on execution and long-term value creation

A relatively high weighting to equity components within the remuneration structure, and the use of options as the equity instrument, aligns senior leadership performance with shareholder interests and rewards the effective execution of Xero's strategic plan over a multi-year period - helping us continue to attract highly skilled people.

Xero's remuneration structure reflects the following principles.

Principle	Remuneration structure
Alignment	A significant proportion of the leadership team's remuneration is contingent on Xero's share price, ensuring they receive rewards that are aligned with shareholder interests.
Fairness	Market competitive, up-front cash-based remuneration is balanced by equity remuneration with significant potential upside.
Collaboration	Performance conditions attached to STI are largely company-wide to reflect the importance of teamwork and collaboration across the business.
Simplicity	There are no complicated LTE performance measures that require extensive explanation or to which the leadership team do not have a direct line of sight. The use of options simply incentivises long-term value creation. STI performance measures are clear, easily assessed and aligned with the voices of the shareholder, customer, and employee.
Flexibility	Xero's STI performance measures, combined with long-term options, provide flexibility for Xero to respond to changing needs and circumstances, recognising that each role, market, and employee is unique, while always having regard to Xero's strategy, purpose, and long-term value creation.

Incentivising appropriate risk-taking and risk-management further underpins our remuneration principles and structure. This approach to managing risk is borne out in a number of ways:

- STI measures, weightings, and targets are reviewed by the P&R Committee and approved by the Board annually, ensuring oversight and independence from STI plan participants
- STI performance measures are calibrated to ensure they align to our values, strategy and risk appetite
- STI financial outcomes are only confirmed after audited results are finalised
- 50% of the leadership team's STI awards are deferred for 12 months and awarded in equity rather than cash, and vesting of the equity component is subject to confirmation from the P&R Committee that no award adjustment events have occurred (see section 4.3)
- A three-year vesting period applies for annual options grants under the LTE, meaning that options are at risk
- All leadership team variable remuneration (being deferred STI and LTE) is subject to malus and clawback rules to ensure no unfair benefit is obtained by the leadership team (see section 4.3)
- In certain circumstances, the Board is able to exercise discretion to adjust all elements of the leadership team's variable remuneration to ensure no unfair benefit is obtained by the leadership team (see section 4.3)

Sections 5.4 and 5.5 contain further information about Xero's STI and LTE arrangements.

4.2 Remuneration structure

To foster alignment between the interests of the leadership team and shareholders, Xero's leadership team remuneration structure is deliberately weighted to have a substantial proportion of total target remuneration at risk. A large part of this at-risk component consists of option grants, providing an effective multi-year incentive aligned with Xero's high-growth strategy.

Component	Description	Link to strategy and performance
Fixed annual remuneration	• Base salary • Retirement benefits (superannuation/KiwiSaver or local equivalent)	Reviewed annually based on individual skills, experience, accountabilities, performance, leadership, and behaviours.
Short-term incentive (STI)	• An at-risk component set as a percentage of base salary • Calculated based on achievement against a range of company-wide performance measures (financial and non-financial) and individual objectives • Paid after a one-year performance period (1 April to 31 March, aligned with Xero's financial year). STI comprises 50% cash and 50% deferred equity in the form of restricted stock units (RSUs). Each RSU entitles the executive to receive one Xero share on vesting. Deferred equity vests one year after grant, subject to continuing employment and confirmation that no award adjustment events have occurred	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.
Long-term equity (LTE)	• An at-risk component set as a percentage of base salary and granted annually to participating executives, which entitles the executive to Xero shares on vesting of the option and payment of the exercise price • Options vest in the third May following grant • New hires/promotions may be invited to participate in the annual options plan, with a pro-rata allocation to reflect their entry into the plan part way through the year • Vesting is subject to continued employment, which provides an additional time-based retention incentive. Vesting is also subject to confirmation that no award adjustment events have occurred	Rewards delivery against longer-term strategy and sustained shareholder value creation. Fosters alignment between shareholder, customer, and leadership team outcomes.

4.3 Use of discretion

The Board retains full discretion in relation to:

- Revising STI targets where changes have occurred during the year, such as changes to Xero's capital allocation
- Assessment of STI outcomes
- Payment of STI cash
- Granting and vesting of all leadership team equity, including deferral of grants and vests where deemed appropriate

All leadership team variable remuneration is also subject to malus and clawback provisions, which apply to vested and unvested equity awards and incentive payments. These provisions give Xero's Board broad discretion to adjust, lapse/forfeit, or require repayment of equity award or incentive payments to ensure no unfair benefit is obtained by a member of the leadership team. This is one of the ways that Xero embeds risk management into its remuneration framework.

Malus and clawback provisions will be relevant in a range of potential award adjustment events, for example where:

- A leadership team member has acted fraudulently, dishonestly or is in breach of their obligations to Xero
- Xero becomes aware of a material misstatement or omission in Xero's financial statements
- A leadership team member has failed to act consistently with Xero's risk appetite and risk management priorities
- In any other circumstances where the Board determines in good faith there is an unfair benefit to the leadership team member, e.g. relating to behaviour or conduct

4.4 Remuneration benchmarking and review

Leadership team remuneration is benchmarked to a specific S&P/ASX peer group considered similar to Xero in terms of size, scale, and operations. Each year, Xero engages an independent consultant to review and update the peer group and perform a comparative analysis of the leadership team's remuneration against reported roles within that identified peer group. Following that review, changes to the leadership team's remuneration structure or amounts may be proposed, to ensure they remain appropriate and market competitive. Details of the FY22 review are outlined in sections 5.3, 5.4 and 5.5.

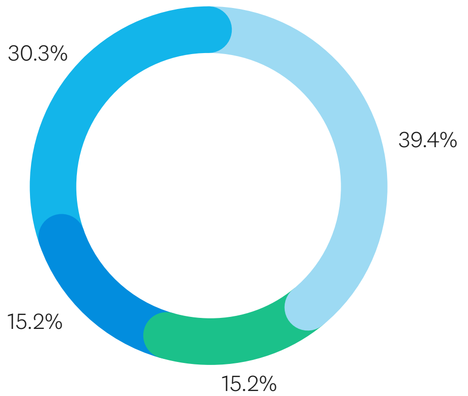
5. Key remuneration components for the CEO and CFO

This section sets out how the remuneration structure described in section 4.2 applies to the CEO and CFO.

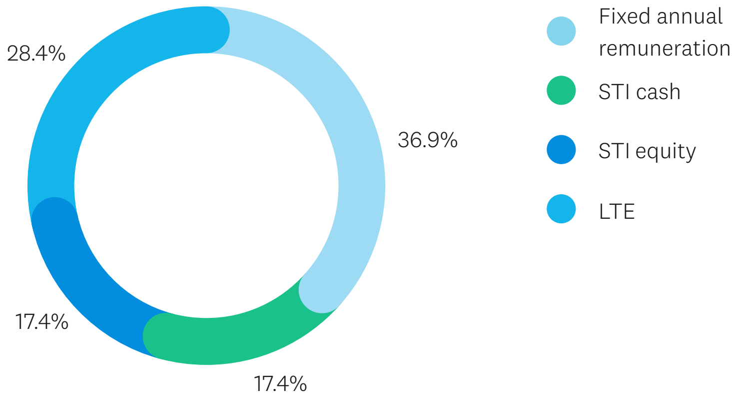
5.1 CEO remuneration mix

The CEO's remuneration mix is as follows.

Target



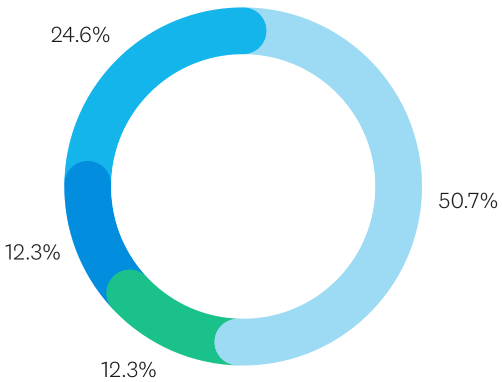
Maximum



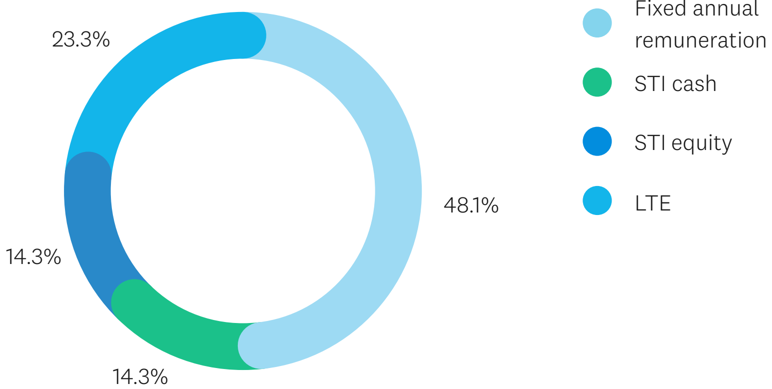
5.2 CFO remuneration mix

The CFO's remuneration mix is as follows.

Target



Maximum



5.3 Fixed annual remuneration

Fixed annual remuneration is set in the context of Xero's wider, growth-orientated remuneration strategy and considers an individual's skills, experience, accountabilities, performance, leadership, and behaviours.

The outcome of the FY22 remuneration benchmarking review highlighted that fixed remuneration for the CEO and CFO was considerably lower than the median of our peer group. As a result of the review, the following changes were made, bringing both the CEO's and CFO's fixed remuneration closer to the median of the peer group:

- The CEO's base salary increased to $1,350,000 from $1,145,000, effective 1 April 2021
- The CFO's base salary increased to $718,750 from $625,000, effective 1 July 2021

5.4 At risk – short-term incentive (STI)

STI is an at-risk component of remuneration. It is structured to reward progress towards Xero's strategic and financial objectives in the financial period which are aligned with creation of long-term value for customers, employees and shareholders. We review our STI measures and weightings each year to ensure they are reflective of, and linked to, strategic outcomes including environmental, social and governance (ESG) targets, related to customer net promoter score (NPS) and employee engagement. STI opportunities are set as a percentage of base salary, based on level of responsibility and country of residence.

STI is calculated based on achievement against a range of financial and non-financial organisational performance measures and individual objectives. Vesting outcomes are determined with regard to whether the leadership team member has acted in accordance with Xero's values. The STI performance measures have been chosen to focus the CEO and CFO on growing global revenue and creating valued customer and employee experiences, while maintaining operational discipline.

The outcome of the FY22 remuneration benchmarking review highlighted that the short-term incentive component for the CEO was considerably lower than the median of our peer group. As a result of the review, the CEO's target STI opportunity as a percentage of salary increased to 80% as of 1 April 2021, from 60% in FY21, bringing it closer to the median of the peer group. The value of his target STI opportunity increased to $1,080,000 from $687,000.

The FY22 remuneration review process resulted in no change to the CFO's target STI opportunity as a percentage of base salary, which remained at 50%. The value of her target STI opportunity increased to $359,375 from $312,500 as of 1 July 2021, as a result of the increase in base salary.

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

Element	Details
Purpose	Focus participants on delivery of business objectives over a one-year period.
Target opportunity (% base salary)	CEO 80%, CFO 50%.
Maximum opportunity (% base salary)	CEO 98%, CFO 61%.
Performance period	Performance is measured from 1 April to 31 March.
Performance measures	Performance metrics measure success in relation to our key stakeholders, reflecting the voice of employee, customer, and shareholder.
Financial objectives (60%)	Financial objectives reflect the voice of shareholder - cash flow and net new monthly recurring revenue (MRR) targets.
Non-financial objectives (40%)	Non-financial metrics are based on: • voice of customer - partner and small business net promoter score (NPS) targets • voice of employee - employee NPS and engagement targets • individual objectives aligned to company strategic priorities
Target setting	The targets set at the beginning of each financial year are reviewed by the P&R Committee and approved by the Board and are aligned to our longer-term strategic priorities. They are set thoughtfully and fairly and depending on expected performance, may increase, decrease or stay the same from the previous year.
Evaluation of performance	Performance against financial and non-financial objectives is determined at the end of the financial year. Leadership team performance, including acting in accordance with Xero's values, is reviewed by the CEO, in consultation with the P&R Committee (and in the case of the CEO, by the Board).
Pay vehicle	50% of STI awarded is paid in cash with the remaining 50% issued in RSUs.
Grant date	RSUs are typically granted annually in or around May. For FY22, RSUs are granted in May 2022.
Vesting conditions	RSUs vest one year from grant date, subject to continued service.
Forfeiture and termination	Unless the Board determines otherwise, if the leadership team member ceases employment, all unvested RSUs lapse and all STI awards not yet paid are forfeited.
Change of control	The Board has broad discretion to determine the appropriate treatment of unvested RSUs on a change of control. Amongst other things, the Board may decide to vest/lapse unvested RSUs or settle them in cash instead of shares. If the Board does not exercise its discretion, unvested RSUs will vest pro rata, based on the proportion of the vesting period that has passed at the time of the change of control and the extent to which any applicable conditions have been satisfied.
Malus and clawback provisions	Outlined in section 4.3
Dividends and voting	RSUs do not carry an entitlement to dividends or voting prior to vesting.

5.4.1 Link between remuneration, strategy and value creation

The following table outlines the STI measures and weightings that applied to the CEO's and CFO's FY22 STI awards.

Performance measure	Weighting	Rationale for why chosen
Voice of the shareholder		
Net new monthly recurring revenue	45%	• Key indicator of financial performance driving AMRR • Ensures continued focus on growth • Drives value creation through Xero's Financial key outcomes - 'Strong balance sheet, revenue growth, gross margin contribution and strong cash flows for reinvestment to support our strategy and vision and create long-term value for shareholders' • Aligns with our 'Challenge', 'Team', and 'Ownership' values
Free cash flow	15%	• Key indicator of financial performance • Ensures continued focus on disciplined allocation of capital • Rewards appropriate balance between return generation and reinvestment in growth • Drives value creation through Xero's Financial key outcomes - 'Strong balance sheet, revenue growth, gross margin contribution and strong cash flows for reinvestment to support our strategy and vision and create long-term value for shareholders' • Aligns with our 'Challenge', 'Team', and 'Ownership' values
Voice of the customer		
Partner and small business net promoter score (NPS)	10%	• Key indicator of customer and partner satisfaction • Ensures continued focus on customer retention • Drives value creation through Xero's Customers, Partners & Ecosystem key outcome - 'Greater stakeholder trust and customer advocacy through a product experience that exceeds expectations. Improved brand awareness, perception and value, including trust in the reliability and security of data' • Aligns with our 'Human', 'Challenge', 'Team', 'Ownership', and 'Beautiful' values
Voice of the employee		
Employee engagement and employee net promoter score	10%	• Key indicator of employee satisfaction • Ensures continued focus on employee engagement • Drives value creation through Xero's People & Culture key outcome - 'Attraction, development and retention of top talent is enhanced. Targeted initiatives and flexible ways of working to promote diversity, pay equity and an inclusive environment. Improved health, safety and wellbeing performance' • Aligns with our 'Human', 'Challenge,' and 'Team' values
Individual objectives		
Individual objectives	20%	• Key indicator of individual leadership team performance • Ensures continued focus on individual goals • Rewards individual performance • Drives value creation through all of Xero's key outcomes • Aligns with our 'Challenge' and 'Ownership' values

5.5 At risk – long-term equity (LTE)

LTE is an at-risk component of leadership team remuneration that is structured to reward the effective execution of Xero's strategic plan over a multi-year period.

The outcome of the FY22 remuneration benchmarking review of variable remuneration highlighted that the long-term incentive component for the CEO and CFO was comparable to the median of our peer group. As a result of the review, no changes were made. However, the increases in base salary (see section 5.3) resulted in the following outcomes:

- The CEO's target LTE as a percentage of base salary decreased to 80% as of 1 April 2021, from 94% in FY21. The value of the CEO's target LTE remained unchanged at $1,080,000
- There was no change to the CFO's target LTE as a percentage of base salary, which remained at 50%. The value of the CFO's target LTE increased to $359,375 from $312,500 as of 1 July 2021

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

Element	Details
Purpose	Rewards delivery against longer-term strategy and sustained shareholder value creation. Provides alignment between shareholder, customer, and leadership team outcomes and time-based retention through multi-year vesting.
Maximum opportunity (% base salary)	CEO 80%, CFO 50%.
Pay vehicle	Options with an exercise price based on the 30-day VWAP leading up to grant date. Options lapse two years from the date of vest. The exercise price acts as an in-built performance hurdle, incentivising the leadership team to create value that increases the Xero share price above the exercise price over the vesting period.
Grant date	Options are typically granted annually in or around July. For FY22, options were granted in July 2021.
Vesting conditions	Options typically vest in the third May following grant. For FY22, options granted in July 2021 will vest in May 2024.
Forfeiture and termination	In the event of summary dismissal, all unvested options are forfeited, and all vested but unexercised options lapse. In any other circumstances, all vested options remain on foot and must be exercised within 30 days of ceasing employment, unless the Board decides otherwise.
Exercise of vested options	The leadership team is subject to Xero's Share Trading Policy and dealing restrictions as outlined in section 3.4. Options cannot be exercised during a closed period for share trading.
Change of control	The Board has broad discretion to determine the appropriate treatment of vested and unvested options on a change of control. Amongst other things, the Board may decide to vest/lapse unvested options, settle them in cash instead of shares, or require vested options to be exercised within a specified period. If the Board does not exercise its discretion, unvested options will vest pro rata based on the proportion of the vesting period that has passed at the time of the change of control and the extent to which any applicable conditions have been satisfied.
Malus and clawback provisions	Outlined in section 4.3.
Dividends and voting	Options do not carry an entitlement to dividends or voting prior to being exercised.

5.6 Legacy CEO and CFO equity arrangements

Details of other equity grants made to the CEO and CFO before the current LTE was adopted are outlined below.

5.6.1 Legacy CEO equity arrangements

5.6.1.1 Legacy CEO RSUs

Element	Details
Purpose	Focus participant on delivery of business objectives over a one-year period and provide time-based retention through multi-year vesting.
Target opportunity (% base salary)	70%
Maximum opportunity (% base salary)	140%
Performance period	Performance was measured from 1 April 2018 to 31 March 2019.
Performance measures	The performance metrics were as follows: Revenue growth 40% MRR 40% EBITDA 20%
Pay vehicle	RSUs
Grant details	A total of 32,658 RSUs were issued in April and June 2018 to account for maximum performance. Following confirmation of achievement against targets at the end of FY19, 12,276 RSUs were forfeited, leaving 20,382 RSUs to vest.
Vesting conditions	RSUs vest in three equal tranches in May 2019, 2020, and 2021. Vesting is contingent upon continued service and subject to malus and clawback.
Outcome	The three tranches of 6,794 RSUs vested in full in May 2019, 2020 and 2021. No further RSUs remain on foot under the CFO's legacy RSU awards.

5.6.1.2 Legacy CEO options

Element	Details
Purpose	Leadership team retention plan intended to reward delivery against longer-term strategy and sustained shareholder value creation. Provides alignment between shareholder, customer, and leadership team outcomes and time-based retention through multi-year vesting.
Pay vehicle	Options with an exercise price based on the 20-day VWAP leading up to grant date. Options lapse five years from grant date.
Grant details	180,000 options were granted in August 2018.
Vesting conditions	Options vest in two equal tranches in June in each of the third and fourth years after grant. Vesting is contingent upon continued service and subject to malus and clawback.
Outcome	90,000 options vested in June 2021. 90,000 options remain eligible for vesting in June 2022.

5.6.2 Legacy CFO equity arrangements

Element	Details
Purpose	Leadership team retention plan intended to reward delivery against longer-term strategy and sustained shareholder value creation. Provides alignment between shareholder, customer, and leadership team outcomes and time-based retention through multi-year vesting.
Pay vehicle	Options with an exercise price based on the 20-day VWAP leading up to grant date. Options lapse five years from grant date.
Grant details	80,000 options were granted in June 2018, and a further 20,000 options were granted in October 2018.
Vesting conditions	2018 options vest in three equal tranches in June in each of the second, third, and fourth years after grant. Vesting is contingent upon continued service.
Outcome	The second tranche of the 2018 options of 33,334 vested in full in June 2021. 33,333 options remain eligible for vesting in June 2022.

6. Xero's performance

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

Measure	FY18	FY19	FY20	FY21	FY22
Subscribers	1,386,000	1,818,000	2,285,000	2,741,000	3,271,000
Annualised Monthly Recurring Revenue ($000s)	$484,421	$638,179	$820,557	$963,597	$1,231,087
Operating Revenue ($000s)*	$406,659	$552,819	$718,231	$848,782	$1,096,819
Free Cash Flow ($000s)*	($28,513)	$6,451	$27,105	$56,946	$2,073
STI received as % of maximum (CEO)	85%	79%	56%	90%	85%
STI received as % of maximum (CFO)	85%	79%	56%	90%	85%

** Operating Revenue and Free Cash Flow for FY18 has been restated for the adoption of NZ IFRS 9, NZ IFRS 15, and NZ IFRS 16.*

Xero's share price, total shareholder return, the S&P/ASX100 index return, and STI outcomes over the last five years are shown below:

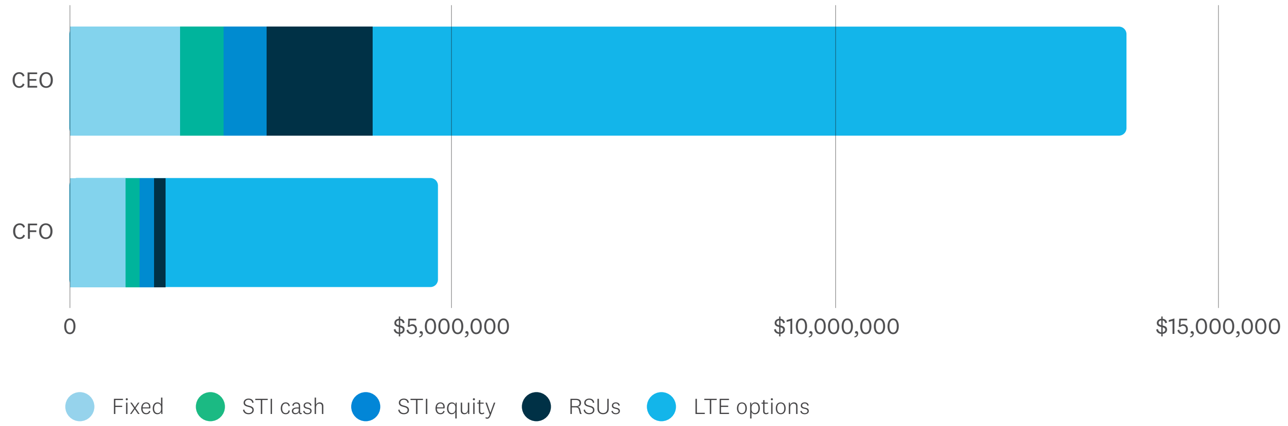
Measure	FY18	FY19	FY20	FY21	FY22
Xero Share Price (AU$)*	33.44	48.65	67.91	126.53	102.75
Xero Total Shareholder Return	84.8%	45.5%	39.6%	86.3%	-18.8%
ASX100 Total Shareholder Return	3.1%	14.2%	-12.6%	33.0%	11.3%
STI received as % of maximum (CEO)	85%	79%	56%	90%	85%
STI received as % of maximum (CFO)	85%	79%	56%	90%	85%

** Closing price for the last trading day in the financial year*

7. Remuneration outcomes overview

Headline remuneration outcomes for Xero's CEO and CFO are disclosed in the graph below on a realisable basis for FY22, including:

- Fixed annual remuneration
- Realisable cash and deferred RSU STI awarded based on FY22 performance: 50% is paid in cash and 50% deferred RSUs. Deferred RSUs are expected to be granted in May 2022 and vest in May 2023, subject to continued service and malus and clawback provisions. The number of RSUs granted is dependent on the share price at grant: 105% of target STI (85% of maximum) was awarded to both the CEO and the CFO
- Value of the CEO's one-off legacy performance-based RSUs (see section 5.6.1.1) that vested during FY22: based on FY19 performance measures, the third of three tranches of 6,794 RSUs vested during FY22
- Value of the CEO's options that vested during FY22: 90,000 options from the legacy FY19 executive block options grant (see section 5.6.1.2)
- Value of the CFO's options that vested during FY22: 33,334 options from the legacy FY19 executive block options grant (see section 5.6.2)
- The CEO's remuneration is significantly higher than in previous years, primarily resulting from the vesting of options granted in FY19 and the recognition of the difference between the exercise price at grant and the share price at vest as LTE option income



Further details on the CEO's and CFO's STI outcomes are outlined in section 8

Further details on the CEO's and CFO's other remuneration elements and outcomes for the FY22 year are outlined in section 9

8. STI outcomes in detail

The annual outcomes achieved for the CEO and CFO are based on Xero's FY22 performance as follows:

Objectives	Weighting	Outcome				
		Threshold	Target	Maximum	Outcome (% of target)	Outcome (% of max)
Company objectives						
Voice of the shareholder[1]	60%				116%	84%
Voice of the customer	10%				100%	100%
Voice of the employee	10%				100%	100%
Total company objectives					112%	87%
Individual objectives						
CEO individual targets	20%				75%	75%
CFO individual targets	20%				75%	75%
Total CEO outcome					105%	85%
Total CFO outcome					105%	85%

[1] For the voice of the shareholder component, there is the ability to out-perform up to 150% on the net new MRR measure
Further details on the measures, weightings and rationale can be found in 5.4.1

- Performance against the voice of the shareholder objective was above the targets set for both net new MRR and free cash flow measures. This outcome reflects our focus on driving sustainable revenue growth, as well as our preference for reinvesting cash generated, subject to investment criteria and market conditions, to drive long-term shareholder value.
- Performance against the voice of the customer objective met the target set for the partner net NPS measure and was above the target set for the small business NPS measure. This outcome reflects our continued focus on building strong relationships, advocacy and trust with our customers through a customer and product experience that exceeds expectations.
- Performance against the voice of the employee objective was above the targets set for both the employee engagement and employee net promoter score (NPS) measures, This outcome reflects our continued focus on our people and bringing together diverse, world class talent enabled by an inclusive culture and working environment.

9. CEO and CFO remuneration

The following table provides details of the actual remuneration received by the CEO and CFO during FY22, FY21 and FY20. This represents the 'take-home pay' of the CEO and CFO during those years, rather than the values recognised by applicable accounting standards. The CEO and CFO receive no other monetary benefits, other than those stated below.

Fixed remuneration				Variable remuneration[1]				
				Accounting value of grants vested during the year, in the form of:				
	Salary ($000s)	Superannuation/ KiwiSaver ($000s)	Other[2] ($000s)	Cash STI ($000s)	Option/ share grants ($000s)	RSU grants ($000s)	Additional value of all grants vested in the year, attributable to share price appreciation ($000s)	Total remuneration received inclusive of share price appreciation ($000s)
S Vamos FY 2022	1,350	54	31	379	2,182	549	8,500	13,045
S Vamos FY 2021	1,145	54	57	281	-	514	459	2,510
S Vamos FY 2020	1,145	54	79	270	-	246	167	1,960
K Godfrey-Billy FY 2022	695	16	9	147	707	90	2,910	4,574
K Godfrey-Billy FY 2021	588	14	9	90	839	75	2,529	4,144
K Godfrey-Billy FY 2020	550	14	2	75	184	110	940	1,875

[1] *Includes the value of options and RSUs granted in prior years that vested in the year*

[2] *Relates to payout of annual leave under New Zealand requirements, which includes STI received in calculation of payments*

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

At-risk equity as at 31 March 2022

Options	Opening balance[1]	Granted during the year	Vested	Exercised	Lapsed/ forfeited	Closing balance
CEO	210,783	25,097	90,000	90,000	-	145,880
CFO	108,908	8,351	33,334	66,666	-	50,593
RSUs						
CEO	10,090	2,740	10,090	-	-	2,740
CFO	1,056	1,062	1,056	-	-	1,062

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

Total equity holdings at 31 March 2022

	Shares	Options	RSUs
CEO	10,005	145,880	2,740
CFO	-	50,593	1,062

10. CEO and CFO employment conditions

Item	Details
Basis of contract	Ongoing (no fixed term)
Notice period	CEO – 6 months by either party CFO – 3 months by either party Shorter notice may apply by agreement
Base salary	Subject to annual review (but no adjustments to base salary are guaranteed)

11. Non-executive director remuneration

The total remuneration available to non-executive directors is fixed by shareholders.

The annual total aggregate non-executive director remuneration is capped at $2.7 million, as approved by shareholders at Xero's Annual Meeting in August 2021.

The Board sets the fees for the non-executive directors at a level that provides Xero with the ability to attract and retain directors of a high calibre. Directors have the option to receive their fees in cash or Xero shares.

The fees paid to non-executive directors are structured to reflect time commitment, responsibilities, and workloads. Fees for non-executive directors are benchmarked in three key geographies (Australia, the UK and the US). Reflecting our ASX listing, Xero benchmarks non-executive director fees against the Australian market, taking a trans-Tasman approach to New Zealand director fees. Where benchmarked non-executive director fees are higher in a director's local market, local benchmarks are used for that director. This reflects the global composition of Xero's Board.

To preserve independence and impartiality, non-executive directors have not received any performance-related or at-risk compensation (such as options) since 2016. Xero does not provide any scheme for retirement benefits, other than statutory superannuation, for non-executive directors.

Below are the annual fees payable to non-executive directors during FY22. Directors' fees are paid in New Zealand dollars in order to avoid exchange-rate fluctuations impacting the annual fee cap.

Country of residence	Chair ($000s)	Director ($000s)	Audit & Risk Management Committee Chair[1] ($000s)	Audit & Risk Management Committee member[1] ($000s)	People & Remuneration Committee Chair[1] ($000s)	People & Remuneration Committee member[1] ($000s)
With effect from 1 October 2021						
New Zealand	450	190	38	19	38	19
Australia	450	190	38	19	38	19
United States	500	360	38	19	38	19
United Kingdom	650	190	38	19	38	19
From 1 April - 30 September 2021						
New Zealand	358	145	38	19	38	19
Australia	358	145	38	19	38	19
United States	358	252	38	19	38	19
United Kingdom	373	145	38	19	38	19

[1] No additional fees are currently paid for the Chair or members of the Nominations Committee

Xero's policy is to review non-executive director fees every two years, with the latest review having commenced in the second half of 2020. The outcome of the review highlighted that, based on market practice, Committee member fees should be paid separately to the current fees payable for serving as a non-executive director on the Board. It also highlighted that Xero's fees were considerably lower than the median of the comparator group.

As a result of the review, from 1 April 2021 members of the Audit and Risk Management Committee and P&R Committee began receiving an additional $19,000 annually and Chairs of those committees began receiving updated Chair fees. No separate fee is payable to the members or Chair of the Nominations Committee. Updated Board Chair and director fees came into effect for all directors on 1 October 2021.

The total remuneration[1] of, and the value of other benefits received by, each non-executive director during FY22 is set out below:

Director	Country of residence	Role	Committee Chair	2022 Base fees ($000s)	2022 Committee fees ($000s)	2022 Total fees ($000s)
David Thodey, AO	Australia	Chair	Nominations Committee	404	-	404
Rod Drury	New Zealand	NED	-	168	-	168
Lee Hatton	Australia	Independent NED	-	168	19	187
Dale Murray CBE	United Kingdom	Independent NED	-	168	19	187
Susan Peterson	New Zealand	Independent NED	P&R Committee	168	38	206
Mark Cross	New Zealand	Independent NED	ARM Committee	168	47	215
Brian McAndrews[2]	United States	Independent NED	-	59	3	62
Steven Aldrich	United States	Independent NED	-	305	19	324
Former directors						
Craig Winkler[3]	Australia	NED	-	53	14	67
Total						**1,820[1]**

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

[2] *Appointed director 2 February 2022*

[3] *Ceased as director 12 August 2021*

The total remuneration[1] of, and the value of other benefits received by, each non-executive director during FY21 is set out below:

Director	Country of residence	Role	Committee Chair	2021 base fees ($000s)	2021 Committee Chair fees ($000s)	2021 Total fees ($000s)
David Thodey, AO	Australia	Chair	Nominations Committee	358	-	358
Rod Drury	New Zealand	NED	-	145	-	145
Lee Hatton	Australia	Independent NED	ARM Committee	145	18	163
Dale Murray CBE	United Kingdom	Independent NED	-	145	-	145
Susan Peterson	New Zealand	Independent NED	P&R Committee	145	30	175
Craig Winkler	Australia	NED	-	145	-	145
Mark Cross[2]	New Zealand	Independent NED	ARM Committee	145	13[5]	158
Steven Aldrich[3]	United States	Independent NED		126	-	126
Total				**1,354**	**61**	**1,415[1]**

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

[2] *Appointed director 1 April 2020*

[3] *Appointed director 1 October 2020*

12. Our team's remuneration

The following table shows the number of current and former employees of Xero whose remuneration and benefits for FY22 were within the specified bands above $100,000.

Remuneration including share-based remuneration	Number of employees	Remuneration including share-based remuneration	Number of employees
100,000 to 109,999	298	700,000 to 709,999	1
110,000 to 119,999	280	800,000 to 809,999	1
120,000 to 129,999	287	820,000 to 829,999	1
130,000 to 139,999	278	870,000 to 879,999	1
140,000 to 149,999	225	880,000 to 889,999	1
150,000 to 159,999	226	900,000 to 909,999	1
160,000 to 169,999	194	930,000 to 939,999	1
170,000 to 179,999	172	990,000 to 999,999	1
180,000 to 189,999	127	1,020,000 to 1,029,999	1
190,000 to 199,999	127	1,040,000 to 1,049,999	1
200,000 to 209,999	82	1,080,000 to 1,089,999	1
210,000 to 219,999	74	1,190,000 to 1,199,999	1
220,000 to 229,999	56	1,220,000 to 1,229,999	1
230,000 to 239,999	67	1,270,000 to 1,279,999	1
240,000 to 249,999	50	1,290,000 to 1,299,999	1
250,000 to 259,999	36	1,310,000 to 1,319,999	2
260,000 to 269,999	41	1,330,000 to 1,339,999	1
270,000 to 279,999	34	1,340,000 to 1,349,999	1
280,000 to 289,999	26	1,360,000 to 1,369,999	2
290,000 to 299,999	20	1,370,000 to 1,379,999	1
300,000 to 309,999	20	1,380,000 to 1,389,999	1
310,000 to 319,999	16	1,410,000 to 1,419,999	1
320,000 to 329,999	16	1,540,000 to 1,549,999	1
330,000 to 339,999	14	1,660,000 to 1,669,999	1
340,000 to 349,999	8	1,740,000 to 1,749,999	1
350,000 to 359,999	6	1,800,000 to 1,809,999	1
360,000 to 369,999	10	1,850,000 to 1,859,999	2
370,000 to 379,999	11	1,870,000 to 1,879,999	1
380,000 to 389,999	10	1,880,000 to 1,889,999	1
390,000 to 399,999	5	1,900,000 to 1,909,999	1
400,000 to 409,999	3	1,940,000 to 1,949,999	1
410,000 to 419,999	8	1,970,000 to 1,979,999	1
420,000 to 429,999	8	2,020,000 to 2,029,999	1
430,000 to 439,999	1	2,140,000 to 2,149,999	1
440,000 to 449,999	4	2,200,000 to 2,209,999	1
450,000 to 459,999	5	2,260,000 to 2,269,999	1
460,000 to 469,999	5	2,270,000 to 2,279,999	1
470,000 to 479,999	2	2,480,000 to 2,489,999	1

480,000 to 489,999	2	2,730,000 to 2,739,999	1
490,000 to 499,000	1	3,180,000 to 3,189,999	1
510,000 to 519,999	1	3,500,000 to 3,509,999	1
520,000 to 529,999	2	3,650,000 to 3,659,999	1
550,000 to 559,000	1	3,730,000 to 3,739,999	1
560,000 to 569,000	3	4,570,000 to 4,579,999	1
570,000 to 579,999	2	4,650,000 to 4,659,999	1
600,000 to 609,999	1	4,660,000 to 4,669,999	1
620,000 to 629,999	1	4,740,000 to 4,749,999	1
630,000 to 639,999	3	13,040,000 to 13,049,999	1
670,000 to 679,999	1		

The remuneration covered in the table includes monetary payments received and share-based payments vested (i.e. restricted shares, RSUs and vested options). The table above includes remuneration received by the CEO and CFO.

The value of options vested during the year has been calculated as the difference between the exercise price of those options and the share price on the day the options vest (become exercisable). Our methodology in calculating the value of equity for employees has been chosen as it provides a closer representation of the actual remuneration received during the year and is consistent with the approach made within the CEO and CFO remuneration disclosures detailed above.

Disclosures

All financial figures in this section of the Annual Report are in New Zealand dollars except where indicated otherwise. References to FY22 are to the financial year ended 31 March 2022. References to FY21 are to the financial year ended 31 March 2021. Xero Group means Xero Limited (Xero) and its subsidiaries.

At 31 March 2022	Number of ordinary shares (shares)	Number of unlisted options (Options)	Number of restricted stock units (RSUs)
Non-executive directors			
David Thodey[1]	10,000	–	–
Steven Aldrich	-	–	–
Mark Cross[2]	4,300	–	–
Rod Drury[3]	9,914,789	–	–
Lee Hatton	5,378	–	–
Brian McAndrews	2,994	–	–
Dale Murray[4]	1,636	–	–
Susan Peterson	3,340	–	–
CEO and CFO			
Steve Vamos	10,005	145,880	2,740
Kirsty Godfrey-Billy	–	50,593	1,062

[1] *Shares are held by Aspiring Co Pty Limited on behalf of the Thodey Family Trust. David Thodey is a director of Aspiring Co Pty Limited and the beneficiaries of the Thodey Family Trust are the immediate family members of David Thodey*
[2] *Shares are held by Alpha Investment Partners Limited on behalf of Alpha Investment Trust. Mark Cross is a director of Alpha Investment Partners Limited and the beneficiaries of Alpha Investment Trust are Mark Cross and the immediate members of his family*
[3] *Shares are held by Rodney Kenneth Drury, Anna Margaret Clare Stuck, and Scott Moran, as trustees of the Rodanna Ventures Trust. The beneficiaries of the Rodanna Ventures Trust are Anna Margaret Clare Stuck, Rod Drury and his immediate family members*
[4] *1,261 shares are held by Dale Murray and 375 shares are held by an immediate family member of Dale Murray*

Entries recorded in the Interests Register

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

Directors' interests

Directors disclosed the following relevant interests, or cessations of interest, during FY22.

Director/Entity	Relationship
David Thodey	
Commonwealth Scientific and Industrial Research Organisation (CSIRO)	ceased to be chair and director
Brian McAndrews	
The New York Times Company	presiding director
Frontdoor, Inc	director
Dale Murray	
Lendinvest PLC	director
Jupiter Fund Management PLC	director
Lightspeed Commerce, Inc	director
Susan Peterson	
Trustpower Limited	ceased to be director

Share dealings of directors

Directors disclosed the following acquisitions or disposals of relevant interests in Xero shares during FY22.

Registered holder	Date of acquisition/disposal	Consideration per share (AUD)	Number of shares acquired/ (disposed)
David Thodey			
Aspiring Co Pty Limited[1]	17 May 2021	$118.76	1,539
Mark Cross			
Alpha Investment Partners Limited[2]	17 May 2021	$117.00	1,800
Rod Drury			
Rodanna Ventures Trust[3]	24 August 2021	$150.00	(2,000,000)
Brian McAndrews			
Brian McAndrews	14 February 2022	$111.28	2,994
Dale Murray			
Dale Murray	20 January 2022	$115.40	134
Dale Murray	20 January 2022	$115.50	177
Simon Murray	25 January 2022	$113.45	375

[1] Shares are held by Aspiring Co Pty Limited on behalf of the Thodey Family Trust. David Thodey is a director of Aspiring Co Pty Limited and the beneficiaries of the Thodey Family Trust are the immediate family members of David Thodey

[2] Shares are held by Alpha Investment Partners Limited on behalf of Alpha Investment Trust. Mark Cross is a director of Alpha Investment Partners Limited and the beneficiaries of Alpha Investment Trust are Mark Cross and the immediate members of his family.

[3] Shares are held by Rodney Kenneth Drury, Anna Margaret Clare Stuck, and Scott Moran, as trustees of the Rodanna Ventures Trust. The beneficiaries of the Rodanna Ventures Trust are Anna Margaret Clare Stuck, Rod Drury and his immediate family members

Insurance

In accordance with the Companies Act 1993 (New Zealand), Xero has continued to insure its directors and officers (through renewal of its D&O insurance policy) against potential liability or costs incurred in any proceeding, except to the extent prohibited by law.

Deeds of indemnity

Xero has provided deeds of indemnity to all directors and officers of Xero and all directors of its subsidiaries for potential liabilities and costs they may incur for acts or omissions in their capacity as directors or officers of Xero or its subsidiaries, to the extent permitted by law.

Remuneration reporting

Xero's remuneration policy and practices are summarised on pages 133 to 155 of this Annual Report.

Shareholder information

The shareholder information set out below is current as at 31 March 2022, unless otherwise specified.

Issued capital The total number of issued shares in Xero at 31 March 2022 was 149,547,039, of which 61,810 shares were held on a restricted basis in connection with Xero's share-based compensation plans.

Distribution of shareholding

Range	Number of holders	%	Shares	%
1 to 1,000	39,572	93.61	6,392,570	4.27
1,001 to 5,000	2,271	5.37	4,681,404	3.13
5,001 to 10,000	245	0.58	1,757,214	1.18
10,001 to 100,000	154	0.36	3,790,471	2.53
100,001 and over	32	0.08	132,925,380	88.89
Total	**42,274**	**100.00**	**149,547,039**	**100.00**

There were 973 holders of less than a marketable parcel of shares as at 31 March 2022, based on a market price of AUD $102.75 per share.

Distribution RSUs and Options There were 73 individuals holding a total of 1,605,768 Options and 3,215 individuals holding a total of 449,848 RSUs. RSUs are a conditional contractual right to be issued an equivalent number of shares in Xero.

Distribution of Options

Range	Number of holders	%	Shares	%
1 to 1,000	1	1.37	1,000	0.06
1,001 to 5,000	22	30.14	61,212	3.81
5,001 to 10,000	8	10.96	60,785	3.79
10,001 to 100,000	41	56.16	1,336,891	83.26
100,001 and over	1	1.37	145,880	9.08
Total	**73**	**100.00**	**1,605,768**	**100.00**

Distribution of RSUs

Range	Number of holders	%	Shares	%
1 to 1,000	3,182	98.97	337,475	75.02
1,001 to 5,000	26	0.81	59,449	13.22
5,001 to 10,000	6	0.19	42,468	9.44
10,001 to 100,000	1	0.03	10,456	2.32
Total	**3,215**	**100.00**	**449,848**	**100.00**

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 31 March 2022 are listed below.

Name	Number of shares held	% of issued capital
1. HSBC Custody Nominees (Australia) Limited	50,178,127	33.55
2. J P Morgan Nominees Australia Pty Limited	29,956,526	20.03
3. Citicorp Nominees Pty Limited	17,359,071	11.61
4. Ms Anna Margaret Clare Stuck & Rodney Kenneth Drury & Scott Moran	9,914,789	6.63
5. National Nominees Limited	4,240,519	2.84
6. Givia Pty Limited	4,081,045	2.73
7. BNP Paribas Noms Pty Ltd <DRP>	3,101,911	2.07
8. Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,291,389	1.53
9. Custodial Services Limited <Beneficiaries Holding A/C>	1,890,128	1.26
10. BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	1,613,411	1.08
11. Mr Nelson Nien Sheng Wang & Ms Pei-Chun Ko <Wang Family A/C>	1,083,088	0.72
12. BNP Paribas Nominees Pty Ltd Six Sis Ltd <DRP A/C>	973,333	0.65
13. Australian Foundation Investment Company Limited	833,000	0.56
14. Solium Nominees (Australia) Pty Ltd <VSA A/C>	776,107	0.52
15. HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	693,035	0.46
16. HSBC Custody Nominees (Australia) Limited - A/C 2	518,634	0.35
17. BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	517,015	0.35
18. Solium Nominees (Australia) Pty Ltd <ALLOCATED A/C>	472,228	0.32
19.HSBC Custody Nominees (Australia) Limited - GSCO ECA	312,914	0.21
20.HSBC Custody Nominees (Australia) Limited - <GSCO CUSTOMERS A/C >	306,530	0.20
Top 20 holders of fully paid shares (total)	**131,112,800**	**87.67**
Other shareholders (balance on register)	18,434,239	12.33
Grand total	**149,547,039**	**100.00**

Voting rights Xero has a single class of shares on issue. Where voting at a meeting of shareholders is by voice or a show of hands, every shareholder present in person, or representative, has one vote. On a poll, every shareholder present in person, or by representative, has one vote for each fully paid share. In practice, Xero ensures that all resolutions at shareholder meetings are decided by a poll rather than a show of hands. There are no voting rights attached to RSUs or Options.

On-market buy-back There is no current on-market buy-back for Xero shares.

Voluntary escrow Voluntary escrow provisions apply to the securities set out in the following table. In addition, 36,566 fully paid ordinary shares were released from voluntary escrow on 1 April 2022.

Securities	Issue date	Restriction ends
84,080	30 December 2021	1 November 2023
688	10 February 2022	10 February 2023

Company information

Donations The Xero Group made charitable donations totalling $212,059 during FY22. The Xero Group made no donations to political parties during FY22.

Company directors The following persons held office as directors of Xero Limited during FY22.

Directors	Directors who ceased to hold office during FY22
David Thodey (Chair)	Craig Winkler (resigned effective 12 August 2021)
Steven Aldrich	
Mark Cross	
Rod Drury	
Lee Hatton	
Brian McAndrews	
Dale Murray	
Susan Peterson	

Company subsidiaries and directors Xero has 31 wholly owned subsidiaries as shown in the table below. The following persons held office as directors of Xero's subsidiary companies during FY22.

Jurisdiction	Subsidiary	Directors	Directors who ceased to hold office during FY22
Australia	Hubdoc Pty Limited	Kirsty Godfrey-Billy Rachael Powell Chaman Sidhu	Trent Innes (resigned effective 30 June 2021)
	Planday Australia Pty Limited	Anders Frederiksen Kirsty Godfrey-Billy Rachael Powell	
	Waddle Holdings Pty Limited	Simon Creighton Kirsty Godfrey-Billy Chaman Sidhu	
	Waddle IP Pty Limited	Simon Creighton Kirsty Godfrey-Billy Chaman Sidhu	
	Waddle Loans Pty Limited	Simon Creighton Kirsty Godfrey-Billy Chaman Sidhu	
	Waddle SaaS Pty Limited	Simon Creighton Kirsty Godfrey-Billy Chaman Sidhu	
	Waddle Servicing Pty Limited	Simon Creighton Kirsty Godfrey-Billy Chaman Sidhu	
	Xero (Australia) Holdings Pty Limited	Kirsty Godfrey-Billy Rachael Powell Chaman Sidhu	Trent Innes (resigned effective 30 June 2021)
	Xero Australia Pty Limited	Kirsty Godfrey-Billy Rachael Powell Chaman Sidhu	Trent Innes (resigned effective 30 June 2021)
Canada	Hubdoc Inc.	Andrew Burner Kirsty Godfrey-Billy Faye Pang	Bill Kimball (resigned effective 30 June 2021)
	Trilogy Software Inc.	Andrew Burner Kirsty Godfrey-Billy Faye Pang	
	Xero Software (Canada) Limited	Andrew Burner Kirsty Godfrey-Billy Faye Pang	Bill Kimball (resigned effective 30 June 2021)
Denmark	Planday A/S	Christian Brondum Kirsty Godfrey-Billy Chris Micklethwaite Damien Tampling Simona Turin Gary Turner	Stephen Lucas (resigned effective 31 October 2021)
	Xero Denmark A/S	Christian Brondum Kirsty Godfrey-Billy Birgitte Pihl	

Germany	Planday GmbH	Christian Brondum Kirsty Godfrey-Billy Gary Turner	
Hong Kong	Xero (HK) Limited	Kirsty Godfrey-Billy Damien Tampling	Kevin Fitzgerald (resigned effective 3 February 2022)
New Zealand	Waddle Loans Limited	Anna Curzon Kirsty Godfrey-Billy Damien Tampling	
	Xero (NZ) Holdings Limited	Anna Curzon Kirsty Godfrey-Billy Craig Hudson	
	Xero (NZ) Limited	Anna Curzon Kirsty Godfrey-Billy Craig Hudson	
	Xero Investments Limited	Anna Curzon Kirsty Godfrey-Billy Craig Hudson	
	Xero Trustee Limited	Kirsty Godfrey-Billy	
Norway	Planday Norway AS	Christian Brondum Kirsty Godfrey-Billy Gary Turner	
Poland	Planday Sp ZO.O	Christian Brondum	
Singapore	Xero (Singapore) Pte. Ltd	Kirsty Godfrey-Billy Damien Tampling	Kevin Fitzgerald (resigned effective 3 February 2022)
South Africa	Xero South Africa (Pty) Ltd	Kirsty Godfrey-Billy Colin Timmis	Gary Turner (resigned effective 30 September 2021)
Sweden	Tickstar AB	Hans Berg Anna Curzon Kirsty Godfrey-Billy Ake Oberg	
United Kingdom	Planday Limited	Christian Brondum Kirsty Godfrey-Billy Gary Turner	
	Xero (UK) Limited	Damon Anderson Kirsty Godfrey-Billy	Gary Turner (resigned effective 30 September 2021)
United States	Xero CA Acquisitions Inc.	Tony Ward	
	Planday, Inc.	Christian Brondum Kirsty Godfrey-Billy Tony Ward	
	Xero, Inc.	Andrew Burner Kirsty Godfrey-Billy Tony Ward	

There were no changes to the interests of directors of Xero's subsidiaries during FY22.

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 154 and 155 of this Annual Report.

Corporate Directory

Registered offices

New Zealand
19-23 Taranaki Street
Te Aro, Wellington 6011
New Zealand

Contact:
www.xero.com/about/contact

Australia
Level 3, 260 Burwood Road
Hawthorn, Vic 3122
Australia

Contact:
www.xero.com/about/contact

Directors

David Thodey AO
(Chair)

Steven Aldrich

Mark Cross

Rod Drury

Lee Hatton

Brian McAndrews

Dale Murray CBE

Susan Peterson

Company secretary

Damien Coleman

Leadership team

Steve Vamos
Chief Executive Officer

Anna Curzon
Chief Product Officer

Kirsty Godfrey-Billy
Chief Financial Officer

Chris O'Neill
Chief Growth Officer

Rachael Powell
Chief Customer Officer

Mark Rees
Chief Technology Officer

Nicole Reid
Chief People Officer

Chaman Sidhu
Chief Legal Officer

Damien Tampling
Chief Strategy & Corporate
Development Officer

Regional managing directors

Craig Hudson
Managing Director,
New Zealand &
Pacific Islands

Joseph Lyons
Managing Director,
Australia & Asia

Alex von Schirmeister
Managing Director,
United Kingdom & EMEA

Tony Ward
President, Americas

Other company information

Company numbers
183 0488 (New Zealand)
ARBN 160 661 183 (Australia)

Web address
www.xero.com

Auditor
Ernst & Young

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

Share registrar
Link Market Services Limited

Level 13, Tower 4,
727 Collins Street
Melbourne, Vic 3000
Australia
Telephone: +61 1300 554 474

xero