Appendix 4D

11 November 2021

Xero Limited

ARBN 160 661 183 (incorporated in New Zealand)

Reporting period	6 months to 30 September 2021
Previous reporting period	6 months to 30 September 2020

Results for announcement to the market

	Amount (000s)	change
Revenues from ordinary activities	NZ$505,703	up 23%
Net loss from ordinary activities	NZ$(5,922)	NM*
Net loss attributable to security holders	NZ$(5,922)	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$0.83 per share at 30 September 2021 (30 September 2020: NZ$1.02 per share).

For additional Appendix 4D disclosure requirements refer to the financial statements contained in Xero Limited's Interim Report for the 6 months ended 30 September 2021.

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

Interim Report 2022

xero

Contents

Right: *Xero team members, New Zealand*

Highlights

$505.7m
Operating revenue
▲ Up 23% YOY

$1.1b
Annualised monthly recurring revenue
▲ Up 29% YOY

87.1%
Gross margin percentage
▲ Up 1.4PP YOY

$1.2b
Total available liquidity
Cash on hand, short-term deposits and undrawn committed debt facilities

3.013m
Subscribers
▲ Up 560,000 YOY

$9.9b
Total subscriber lifetime value
▲ Up $3.8b YOY

$6.4m
Free cash flow
Down $47.9m YOY

$98.1m
EBITDA
Down $22.7m YOY

Chair and CEO Review

David Thodey AO
Chair

Steve Vamos
Chief Executive Officer

Dear Shareholder,

Small businesses around the world are increasingly using digital tools as they adapt to a changing operating environment. We see this reflected in Xero's half-year 2022 (H1 FY22) performance, where we delivered strong revenue and subscriber growth, and made progress executing our strategic priorities. While we continue to monitor the macroeconomic environment, we are confident small businesses will continue to be a driver of global economic recovery, and cloud-based software applications will be essential in helping them adapt and succeed during this critical time.

The opportunity ahead for Xero is significant, and in particular, we see substantial room for growth in our international markets. We estimate that in the markets in which Xero currently operates, the Total Addressable Market is more than 45 million small businesses[1]. People are also discovering connected apps that further streamline their business operations and make their lives easier. We will continue to invest in cloud-based tools to meet the needs of our customers around the world.

There are multiple drivers of the adoption of cloud-based software, including the digitisation of tax compliance, and innovation in access to financial services, which point to an exciting landscape ahead for Xero.

Governments are helping to lead the way. 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. The US and Canada are moving toward Open Banking. The UK is pushing to further digitise the tax system and simplify small business tasks through Making Tax Digital. 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 provide anonymised, aggregated data and generate insights about the small business economies in our largest customer markets. One of the ways we use this information is in our engagement with governments and regulators 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 FY22 with the launch of a composite Small Business Index that shares a perspective on sector and geographical trends.

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

Above: *Xero Customer, Clovalley Farms, New Zealand*

Our vision is to be the world's most insightful and trusted small business platform. To support this, we continue to prioritise investment in product development to meet our customers' needs, and scale to support continued growth.

Xero's purpose is to make life better for people in small business, their advisors and communities around the world. We remain mindful of the challenges and opportunities ahead, including as a result of the COVID-19 pandemic, and the importance of keeping people at the heart of everything we do.

Execution of strategy

We made strong progress in executing our strategy in H1 FY22. Xero's strategic priorities, set out below, guide our decision-making, product prioritisation and investment approach:

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

Following the challenges of the COVID-19 pandemic and our careful management of expenses in the early stages of Xero's FY21, with a return to more normal conditions we undertook a considered increase in investment in customer growth in H2 FY21 that has continued into H1 FY22. Product development costs and sales and marketing spend in H1 FY22 increased by 47% versus the prior year period to support our long-term growth ambitions. Total operating expenses inclusive of integration costs increased to 83% of operating revenue, consistent with our guidance range for FY22.

Targeted acquisitions are a key part of growing the small business platform and delivering on our vision. Our recently acquired businesses, Planday, Tickstar and Waddle, contributed 5 percentage points to group revenue growth of 23% during the half year.

Planday's workforce management platform continues to expand as the business prepares for market entry in Australia. Planday simplifies employee scheduling, allowing businesses to forecast and manage their labour costs.

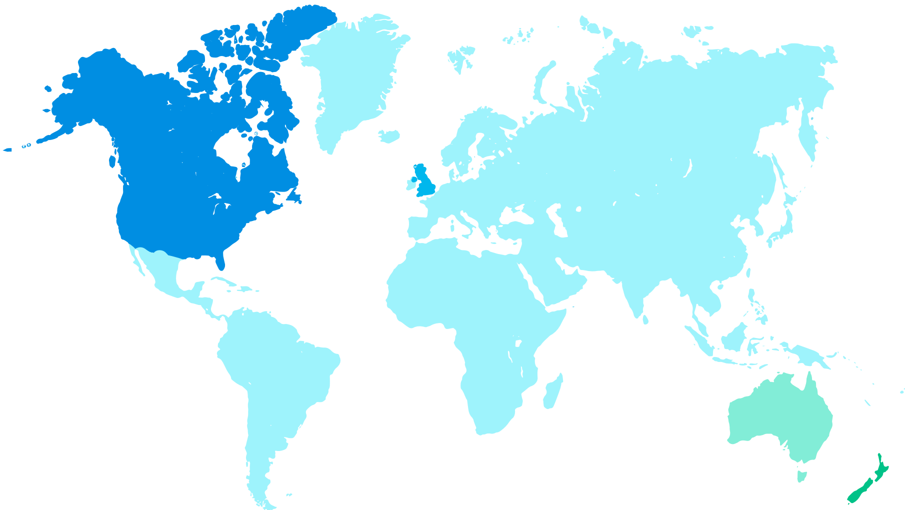
We continue the integration of Tickstar, an e-invoicing infrastructure business that allows organisations such as Xero and our customers to connect to a global e-invoicing network. We anticipate e-invoicing will be widely adopted by more governments and countries around the world, with initial traction most marked in Singapore, Australia, New Zealand and the UK.

> **"There are multiple drivers of the adoption of cloud-based software, including the digitisation of tax compliance, and innovation in access to financial services, which point to an exciting landscape ahead for Xero.**

During H1 FY22, two new lenders in the Australia-New Zealand market adopted Waddle's invoice lending platform to support their own invoice finance offerings, including Commonwealth Bank of Australia, that country's biggest lender.

Enhancing our ecommerce and inventory capability

To better support the inventory needs of small business and enhance Xero's ecommerce capability, we are acquiring LOCATE Inventory (LOCATE), a US cloud-based inventory management provider. The acquisition will embed LOCATE's inventory and ecommerce talent and capability within Xero to enhance Xero's inventory management offering, and meet small business demand for inventory and cash flow management tools.



Using LOCATE's inventory-accounting workflows, Xero's new inventory solution will help small businesses track and manage inventory in real-time, across multiple locations and channels (including a number of Xero's ecommerce partners) to better serve customers and improve their financial performance.

The acquisition supports our strategic priority to grow the small business platform and supports our growth opportunities in North America and globally as we strive to be the most insightful and trusted platform for small business. The new offering is expected to launch to US customers before being made available in other markets.

Further to the acquisition, Xero has also announced a new integration with Shopify and that we have joined the Shopify Plus Certified App Program (PCAP), a select group of Shopify partners that supports the advanced needs of Shopify's global merchants.

The integration will simplify reconciliation, help small businesses interpret sales data and use finance, cash flow and performance insights within the Xero platform, so they can manage and grow their business.

Xero App Store

In August, we introduced the next evolution of our App Marketplace, the new Xero App Store, marking a shift to a more commercial model with a referral revenue share of 15% on subscriptions for new customers signed up through the store. The Xero App Store offers an easier way for small businesses to discover and buy apps on the Xero platform, which now exceeds 1,000 apps. It also gives app developers a better way to grow their businesses, providing access to greater insights, tools, and billing and payment capabilities.

The Xero App Store includes an all-new design and layout, and augmented search capabilities powered by machine learning. New and more detailed app reviews are now front and centre to help small businesses, accountants and bookkeepers make informed decisions when choosing apps.

Market highlights

Australia revenue increased by 22% (24% in CC) to $224.9 million with 124,000 net subscriber additions in the half to reach a total of 1.24 million subscribers. Given higher levels of adoption in Australia, Xero continues to invest in promotion of additional products and services such as payroll, payments and add-ons like Xero Analytics Plus, to help drive growth.

New Zealand revenue increased by 13% to $72.0 million with 34,000 net subscriber additions to reach a total of 480,000 subscribers. In a market where cloud adoption is relatively high, Xero delivered double digit subscriber growth which points positively to the potential of other markets.

UK revenue increased by 24% (25% in CC) to $132.8 million with 65,000 net subscriber additions taking total subscribers to 785,000. While deadlines for the implementation of Making Tax Digital (MTD) for Income Tax were deferred, Xero continues to invest in readiness for upcoming phases of MTD which are expected to impact millions of UK small businesses.

North America revenue increased by 5% (14% in CC) to $30.1 million, with 23,000 net subscriber additions to reach a total of 308,000 subscribers. Xero continues to focus on developing the partner channel in North America and signed with a number of US and Canadian accounting firms to make Xero a preferred solution for their practices.

Rest of World revenue increased by 72% (85% CC) to $45.9 million, helped by the first time inclusion of Planday, and subscribers increased to 201,000 with 26,000 net subscriber additions during the half. In particular, Xero continues to see strong progress within Xero's South Africa business which is scaling a large base of subscribers. Singapore has also continued to be a strong performer within ROW.

Product updates

In the half, we made significant investments in product development and technology, delivering new tools for small businesses and their advisors to better manage and monitor their operations, discover new apps, and simplify their accounting tasks.

Bank reconciliation updates

We released our most comprehensive update to bank reconciliation, one of Xero's most used features. These include the ability to more easily manage bank rules and reconciliation, smarter matching algorithms and memorisation for repeated bank transfers.

Analytics and Analytics Plus

We enhanced the AI-powered forecasting suite Xero Analytics and launched a more advanced version, Xero Analytics Plus. Through pattern matching and predictive algorithms, these tools enable more meaningful conversations between small businesses and their advisors by analysing cash flow trends.

Xero Me updates

Our employee self-service app, Xero Me, now includes the functionality of Xero Expenses. We also enhanced the user interface that provides easier access to payslips, leave and timesheets and expense claims. Xero Me syncs with Xero Payroll to speed up pay runs and minimise time spent chasing information.

Regional tax and reporting updates

We launched personal tax in the UK. It's now easier for our UK partners to provide services using Xero Tax across corporation tax, accounts production, and personal tax for individuals and companies. This comes a year after we launched Xero Tax in the UK. The update will help partners smoothly transition to Making Tax Digital.

In South Africa we expanded our VAT eFiling beta to all customers, making Xero the first vendor to provide direct eFiling to the South African Revenue Service. In the US and Canada, we've enhanced a number of tax and reporting features.

Accounting partnerships

Our accounting and bookkeeping partners remain at the core of our efforts to drive cloud accounting adoption. They are advocates of Xero and understand how our cloud-based platform helps both small businesses and their advisors succeed.

During the half year, we signed a three-year agreement with our second Global Partner, DFK. DFK is a worldwide association of independent, full-service public accounting and consulting firms, headquartered in London. Our partnership with DFK and its 200+ firms will provide more small businesses, accountants and bookkeepers with access to the tools and insights they need to support their businesses.

In the US and Canada, we signed new agreements and expanded existing partnerships with a number of accounting firms, such as Liberty Tax, Bernard Robinson & Co. and Padgett.

Xerocon returns

After a two-year break due to the pandemic, we are excited to be re-launching Xerocon. Our first confirmed conference will be for our community in North America, and we are preparing for Xerocon to return in our other markets in 2022.

Xerocon New Orleans will be held in May 2022. It will provide a much-awaited opportunity for accountants and bookkeepers in the US and Canada to connect with their peers, colleagues and the broader community, to celebrate their accomplishments and learn more about the latest Xero tools and features.

Our people

We recognise our people are the source of the value we create for all our stakeholders. Xero is undertaking its biggest talent acquisition drive in our short history, expanding our global team of more than 4,000 employees, with new roles in engineering, design, data and more. These new roles will help us solve complex problems for our customers and prepare our platform for the next phase of growth.

To support this growth, we have redesigned our flexible work policy, including new ways of working that enable our people in our product and technology teams to either work remotely, from the office, or a combination of both. This gives our people even more flexibility and choice in terms of when, where and how they work. It also opens the door for people living in smaller cities and rural areas to enjoy a career at a fast-growing global tech company.

We also launched our global wellbeing strategy and took the first steps to deliver our related wellbeing program. Elements include encouraging wellbeing and mental health, and measuring and influencing how we operate to improve productivity while reducing burnout. We also continue to support our people through our existing employee assistance program.

Leadership

The Board and leadership team are committed to supporting Xero's investment in growth given the tremendous opportunities we see.

After 12 years of service, Craig Winkler retired from Xero's Board in August. As an early Xero director and long-term investor, Craig has been instrumental in Xero's success, and we thank him for his contribution.

This half year, Joseph Lyons moved into the role of Xero's Australia and Asia Managing Director, while we farewelled Trent Innes, who departed Xero after eight years of leadership. Joseph has deep experience across a number of industries and has held senior leadership roles in technology, financial services and health care. We thank Trent for his contribution.

We recently announced the appointment of experienced technology executive Alex von Schirmeister as our UK & EMEA Managing Director. Alex brings more than 25 years of senior leadership experience to the role, having worked in ecommerce, payments and telecommunications. Most recently he led the European operation for SumUp, a payments provider for small businesses. Alex starts at Xero in December, replacing Gary Turner, who in July announced he would step down from the Managing Director role and continue with Xero in an advisory role.

Looking ahead

We are excited about the opportunities ahead, and we are committed to making further progress on our strategic priorities to deliver the world's most insightful and trusted small business platform.

Xero's Board and leadership team greatly appreciate the trust placed in us by our people, customers, partners and shareholders.

Thanks to everyone who supports Xero.

David Thodey, Chair

Steve Vamos, Chief Executive

Our Performance

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

Some parts of this commentary include information regarding Xero's plans and strategy, and include forward-looking statements 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 commentary. All amounts are in New Zealand dollars (NZD) except where indicated. References to the period or H1 FY22 are for the six months ended 30 September 2021. References to the comparative period or H1 FY21 are for the six months ended 30 September 2020. References to H2 FY21 are for the six months ended 31 March 2021.

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

Business results

Six months ended 30 September	2021 ($000s)	2020 ($000s)	change
Subscription revenue	487,802	401,747	21%
Other operating revenue	17,901	8,090	121%
Total operating revenue	**505,703**	**409,837**	**23%**
Cost of revenue	(65,286)	(58,676)	11%
Gross profit	**440,417**	**351,161**	**25%**
Gross margin percentage	87.1%	85.7%	1.4pp*
Total operating expenses	**(421,994)**	**(288,321)**	**46%**
Percentage of operating revenue	83.4%	70.4%	13.0pp
Other income and expenses	1,398	(3,151)	-144%
Asset impairments	(2,898)	-	NM**
Operating profit	**16,923**	**59,689**	**-72%**
Percentage of operating revenue	3.3%	14.6%	-11.3pp
Net finance expense	(20,360)	(15,186)	34%
Income tax expense	(2,485)	(10,017)	-75%
Net profit/(loss)	**(5,922)**	**34,486**	**-117%**
Percentage of operating revenue	-1.2%	8.4%	-9.6pp

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

In H1 FY22, Xero continued the execution of our growth strategy. Building on the momentum from H2 FY21, Xero delivered strong operating revenue growth of 23%, demonstrating our ability to cater to the increasingly digital environment small businesses are operating in. EBITDA decreased 19%, and free cash flow decreased 88% against the comparative period, as expenditure returned to more normal levels relative to H1 FY21 which was impacted by uncertain conditions at the start of the COVID-19 pandemic. The increased expenditure supported greater investment in quality subscriber growth, the development of new products, and scaling of Xero's global business. The H1 FY22 results include the operations of Planday and Tickstar, with both acquisitions completed on 1 April 2021.

Operating revenue growth was driven by subscriber growth across all markets. Xero's subscribers grew to more than 3 million during the period with 272,000 subscribers added in H1 FY22 and 560,000 over the 12 months ended 30 September 2021. In addition, increased uptake in Xero add-ons such as payroll, projects, and expenses modules contributed to revenue growth, along with the acquisitions of Planday, Waddle, and Tickstar.

Gross margin percentage for the period was 87.1%, an increase of 1.4 percentage points compared to the comparative period, as cost of revenue increased by 11% compared to operating revenue growth of 23% over the same period, largely due to efficiency gains in Xero's customer support teams. The H1 FY22 gross margin percentage includes a first time contribution from the operations of Planday, which has a gross margin that is broadly consistent with Xero's existing operations.

Total operating expenses increased by 46% compared to H1 FY21, from $288.3 million to $422.0 million. This increase is due in part to the reduction in expenditure in the comparative period as a result of the uncertain conditions presented by COVID-19. The increase also reflects greater investment in H1 FY22 in line with our growth strategy, and as the operating environment became clearer. Overall, the growth in operating expenses resulted in a lower operating profit of $16.9 million, a $42.8 million reduction on the $59.7 million operating profit in H1 FY21.

Increased expenditure relative to revenue led to a $5.9 million net loss, compared to a net profit of $34.5 million in the comparative period.

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 expense to net profit/loss.

Six months ended 30 September	2021 ($000s)	2020 ($000s)	change
Net profit/(loss)	**(5,922)**	**34,486**	**-117%**
Add back: net finance expense	20,360	15,186	34%
Add back: depreciation and amortisation	81,157	61,076	33%
Add back: income tax expense	2,485	10,017	-75%
EBITDA	**98,080**	**120,765**	**-19%**
EBITDA margin	19.4%	29.5%	-10.1pp

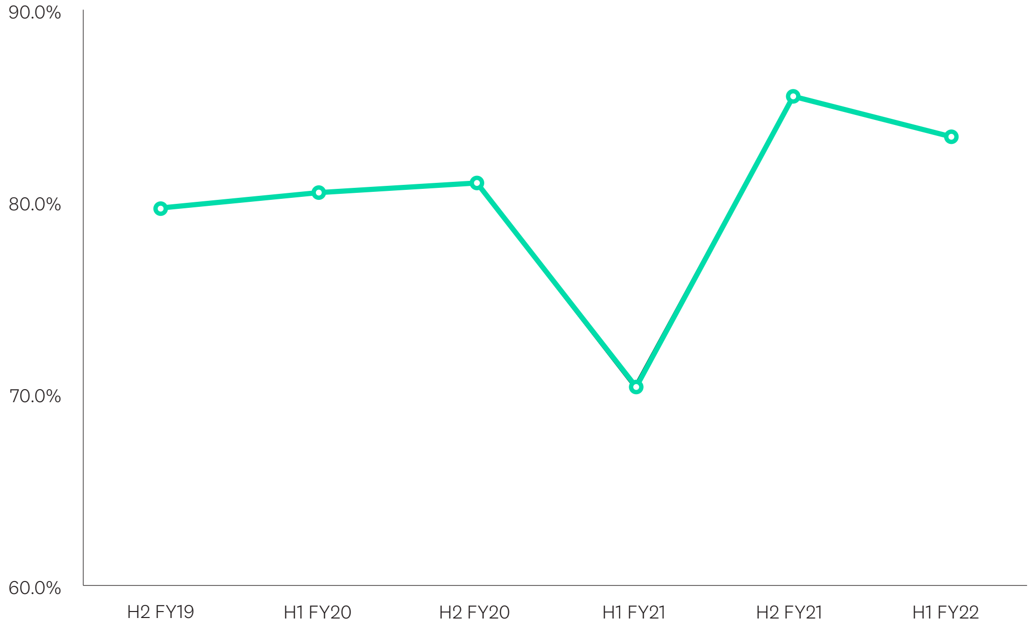
EBITDA decreased by $22.7 million, or 19%, from the comparative period, resulting in the EBITDA margin decreasing from 29.5% to 19.4% in H1 FY22. This decrease was driven by increased spend, in proportion to revenue growth, across all functions as Xero reinvested the majority of cash generated. The EBITDA margins for the three half year periods preceding H1 FY21 were 19.2%, 19.1% and 19.0%, which are comparable to H1 FY22.

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

Six months ended 30 September	2021 ($000s)	2020 ($000s)	change
EBITDA	**98,080**	**120,765**	**-19%**
Add back: non-cash share-based payments	29,285	21,438	37%
Add back: non-cash impairments	2,898	-	NM
EBITDA excluding non-cash share-based payments and impairments	**130,263**	**142,203**	**-8%**
Percentage of operating revenue	25.8%	34.7%	-8.9pp

EBITDA excluding non-cash share-based payments and impairments for H1 FY22 was $130.3 million, a decrease of $11.9 million or 8% compared to the comparative period. Operating revenue growth of 23% against 42% growth in cash-based expenses resulted in EBITDA, excluding non-cash share-based payments and impairments, decreasing as a percentage of operating revenue by 8.9 percentage points.

Operating expenses as a percentage of operating revenue



Cash flows and liquidity

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.

Six months ended 30 September	2021 ($000s)	2020 ($000s)	change
Receipts from customers	505,096	409,750	23%
Other operating cash flows	(376,660)	(282,989)	33%
Total cash flows from operating activities	**128,436**	**126,761**	**1%**
Investing activities	(257,649)	(72,493)	255%
Add back: acquisitions	135,564	-	NM
Free cash flows	**6,351**	**54,268**	**-88%**
Percentage of operating revenue	1.3%	13.2%	-11.9pp

Free cash flows for H1 FY22 decreased by $47.9 million to $6.4 million compared to $54.3 million in H1 FY21. As a percentage of total operating revenue, this was an 11.9 percentage point decrease from 13.2% in H1 FY21 to 1.3% in H1 FY22.

Receipts from customers increased by 23% or $95.3 million to $505.1 million, which is consistent with revenue growth. Cash flows from operating activities increased by $1.7 million to $128.4 million as deliberate operating cost growth contributed to other operating cash outflows growing at a faster rate than receipts from customers.

Cash outflows from investing activities increased by 255% or $185.2 million. $135.6 million of this increase related to the acquisitions of Planday and Tickstar, and payments related to Waddle following the achievement of specified product milestones. Investing cash flows excluding these acquisitions increased by $49.6 million or 68%. The increase was largely driven by higher capitalised spend on product design and development, which increased by $35.7 million or 55% compared to H1 FY21, as well as increased capitalised contract acquisition costs and purchases of property, plant and equipment.

Total available liquidity (defined as cash and cash equivalents, short-term deposits, and undrawn committed debt facilities) at 30 September 2021 was $1.2 billion. This comprised $1.0 billion 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 is in place to ensure Xero maintains access to prudent levels of operational liquidity, appropriate to the size and maturity of the business. Xero also has an additional $30 million facility to support Waddle's direct lending portfolio.

Operating revenue

Subscription revenue comprises recurring fees from subscribers to Xero's cloud-based platform and products. 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 including fintech partners, and the implementation of online accounting and other software services. Subscription revenue comprised 96% of operating revenue in H1 FY22.

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 H1 FY22 at the effective exchange rates for H1 FY21.

Six months ended 30 September	2021 ($000s)	2020 ($000s)	change	change in constant currency
Subscription revenue	487,802	401,747	21%	24%
Other operating revenue	17,901	8,090	121%	126%
Total operating revenue	**505,703**	**409,837**	**23%**	**26%**

Operating revenue surpassed $500 million for the first time in a half year period, growing 23% from H1 FY21.

Subscription revenue increased by $86.1 million, or 21% from H1 FY21, primarily driven by organic subscriber growth. Subscriber numbers at 30 September 2021 increased by 560,000, or 23%, compared to 30 September 2020. In addition, an increase in revenue from add-ons such as payroll, projects and expenses, including the introduction of Xero Sign revenue in Australia, contributed to the subscription revenue increase. The acquisition of Planday and Tickstar contributed to the overall increase in subscription revenue compared to H1 FY21. Excluding the revenue contribution from Planday and Tickstar, operating revenue growth would have been 20% (22% in constant currency) compared to H1 FY21.

The 121% increase in other operating revenue compared to 30 September 2020 was driven by a combination of organic growth in financial services revenue, as well as new financial services revenue generated from Waddle (acquired in H2 FY21).

As 86% of Xero's operating revenue is denominated in currencies other than NZD (the Group's functional currency), changes in foreign exchange rates over the six months ended 30 September 2021 have influenced reported revenue. The impact of the comparatively stronger NZD against the Australian dollar (AUD), British pound (GBP) and United States dollar (USD) had an adverse impact on operating revenue when compared to the comparative period. On a constant currency basis, operating revenue grew 26% compared to H1 FY21.

Operating revenue by geography

Six months ended 30 September	2021 ($000s)	2020 ($000s)	change	change in constant currency
Australia	224,860	183,690	22%	24%
New Zealand	71,985	63,526	13%	13%
Australia and New Zealand (ANZ) total	**296,845**	**247,216**	**20%**	**21%**
United Kingdom	132,847	107,305	24%	25%
North America	30,133	28,641	5%	14%
Rest of World	45,878	26,675	72%	85%
International total	**208,858**	**162,621**	**28%**	**33%**
Total operating revenue	**505,703**	**409,837**	**23%**	**26%**

Total Group: Operating revenue for the six months ended 30 September 2021 was 23% (26% in constant currency) higher than the comparative period, primarily driven by subscriber growth in all of Xero's markets.

ANZ: Operating revenue increased by 20% (21% in constant currency), in line with 20% growth in subscribers. With the high level of cloud adoption in the ANZ market, Xero's continued revenue growth year on year reflects the value Xero offers.

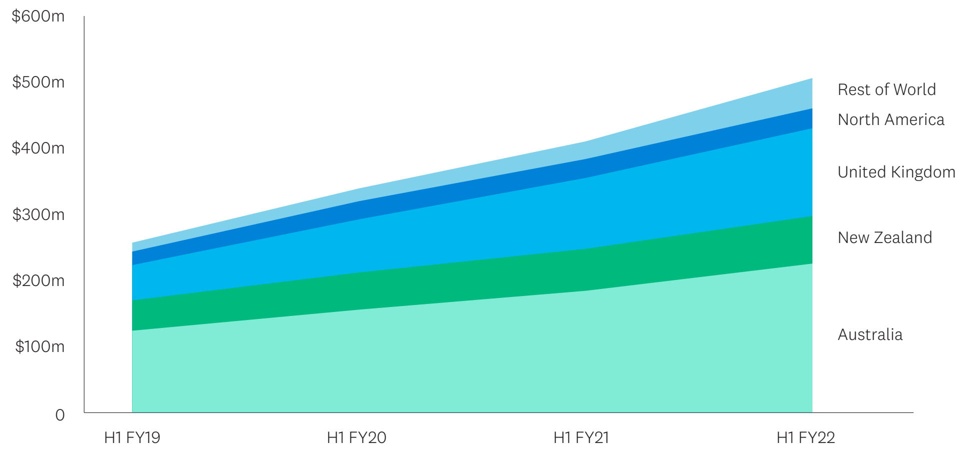
Australia's operating revenue grew by 22% compared to subscriber growth of 22%. The higher growth in constant currency (24%) compared to subscriber growth was mainly due to growth in financial services revenue, which was amplified in part by the inclusion of Waddle revenue. New Zealand operating revenue grew by 13% compared to subscriber growth of 16%. Operating revenue growth was lower than subscriber growth in New Zealand due to a shift in product mix towards a more efficient but lower ARPU partner channel.

International: Operating revenue grew by 28%, or 33% in constant currency. Operating revenue growth in the UK of 24% was above subscriber growth of 23%, due to a combination of growth in adjacencies, financial services revenue and the new revenue streams acquired including Planday's UK subscribers.

North America operating revenue grew by 5% (14% in constant currency), which is lower than subscriber growth of 23%. Growth in constant currency operating revenue was lower than subscriber growth primarily due to a continued focus on the more efficient but lower ARPU partner channel, as well as a price decrease for standalone Hubdoc subscribers in November 2020.

The Rest of World's performance of 72% growth (85% in constant currency), was largely driven by the acquisition of Planday and Tickstar. Revenue growth for the Rest of World region excluding Planday and Tickstar was 22% and subscriber growth was 43%, with Singapore and South Africa the largest contributing markets. Revenue growth is lower than subscriber growth as the focus in these markets is on growing our partner channel.

Total Group operating revenue by geography*



** Represents each region's contribution to total Group operating revenue for the respective period*

Subscriber numbers

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

At 30 September	2021	2020	change
Australia	1,239,000	1,014,000	22%
New Zealand	480,000	414,000	16%
Australia and New Zealand (ANZ) total	**1,719,000**	**1,428,000**	**20%**
United Kingdom	785,000	638,000	23%
North America	308,000	251,000	23%
Rest of World	201,000	136,000	48%
International total	**1,294,000**	**1,025,000**	**26%**
Total paying subscribers	**3,013,000**	**2,453,000**	**23%**

Total Group: 272,000 subscribers were added in H1 FY22, the most subscribers added in any first half period, bringing total subscribers to over 3 million at 30 September 2021. 560,000 subscribers were added in the 12 months to 30 September 2021, compared to 396,000 added in the 12 months ended 30 September 2020. Planday contributed 6,000 subscribers on acquisition, largely in the Rest of World region. Excluding acquired Planday subscribers, year on year subscriber growth remains at 23%.

ANZ: The segment added 291,000 subscribers in the 12 months ended 30 September 2021, or 20% growth compared to 30 September 2020, bringing total subscribers to 1,719,000. This well established segment continued to grow at pace, adding 158,000 subscribers in the six months ended 30 September 2021.

Australia continues to deliver subscriber growth with 225,000 subscribers added in the 12 months ended 30 September 2021. Of this, 124,000 subscribers were added in H1 FY22. Xero further cemented its position as a market leader in this region by continuing to add greater product functionality. The continuation of Xero's investment into its product also helped retain existing subscribers as Xero strives to add value while expanding reach. New Zealand added 34,000 subscribers in the six months ended 30 September 2021, 2,000 more than the previous six months.

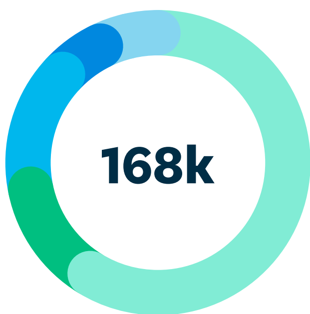
International: The segment added 269,000 subscribers in the 12 months ended 30 September 2021. The UK led this growth adding 147,000 subscribers, of which 65,000 were added in H1 FY22, bringing total UK subscribers to 785,000. The increase in subscriber additions compared to H1 FY21 reflects the impact that COVID-19 had on Xero's International markets in the comparable period.

North America added 57,000 subscribers since 30 September 2020 to reach 308,000 subscribers. Of this, 23,000 were added in H1 FY22, representing a 130% increase over the amount added in H1 FY21, reflecting the impact of COVID-19 in the comparative period. The launch of local currency billing in Canada in the comparative period, as well as specific Canadian and US product enhancements over the last 12 months have contributed to this growth, along with some large partner deals to support future growth.

Xero's Rest of World markets grew subscribers by 65,000 from 30 September 2020, representing these markets' largest subscriber addition for any 12 month period, even when acquired Planday subscribers are excluded. Total subscribers grew 48% year on year to 201,000, with 26,000 added in H1 FY22.

Net subscriber additions

H1 FY22
Region (% of total net additions)
- Australia (**46%**)
- New Zealand (**12%**)
- United Kingdom (**24%**)
- North America (**8%**)
- Rest of World (**10%**)



H1 FY21
Region (% of total net additions)
- Australia (**59%**)
- New Zealand (**13%**)
- United Kingdom (**15%**)
- North America (**6%**)
- Rest of World (**7%**)

Regional subscriber numbers at 30 September 2021*

Australia

1,239,000

2020 | 1,014,000

▲ Up 22%

New Zealand

480,000

2020 | 414,000

▲ Up 16%

United Kingdom

785,000

2020 | 638,000

▲ Up 23%

North America

308,000

2020 | 251,000

▲ Up 23%

** Rest of World subscribers at 30 September 2021 201,000 (30 September 2020 136,000)*

Annualised monthly recurring revenue

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

Constant currency AMRR (also a non-GAAP financial measure) is calculated by translating AMRR at 30 September 2021 at the foreign exchange rates at 30 September 2020 and is provided to assist in understanding and assessing year-on-year growth rates, excluding the impact of foreign currency fluctuations.

At 30 September	2021 ($000s)	2020 ($000s)	change	change in constant currency
ANZ	647,254	527,699	23%	26%
International	485,211	349,852	39%	40%
Total	**1,132,465**	**877,551**	**29%**	**32%**

Total Group: $254.9 million of AMRR was added in the 12 months ended 30 September 2021, bringing total AMRR to $1.1 billion. Growth in AMRR was primarily driven by subscriber growth in all regions, as well as $29.4 million added on the acquisition of Planday and Tickstar. In constant currency terms, total AMRR grew by 32%, compared to subscriber growth of 23%. The increase in comparison to subscriber growth was due to increased ARPU from price changes, increased usage of financial services and other adjacent products, as well as the inclusion of Planday, Waddle, and Tickstar. Other product mix changes were broadly neutral across the Group.

ANZ: AMRR increased 23% to $647.3 million, driven by 20% growth in subscriber numbers in Australia and New Zealand. The stronger NZD against the AUD at 30 September 2021 compared to 30 September 2020 had a negative impact on reported AMRR, with constant currency AMRR growth three percentage points higher at 26%.

International: AMRR growth in the International markets was 39%, driven by 26% growth in subscribers, $29.4 million AMRR from acquisitions, and an increased uptake in Xero add-ons such as payroll, projects, and expenses, as well as invoice payments through financial services providers. A price increase in the UK in H1 FY22 also contributed to AMRR growth for the half. The comparatively stronger NZD against the USD offset the slightly weaker NZD against the GBP at 30 September 2021, compared to 30 September 2020, and had an unfavourable impact on reported AMRR for the International segment. This led to constant currency growth of 40% compared to 30 September 2020.

Gross profit

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

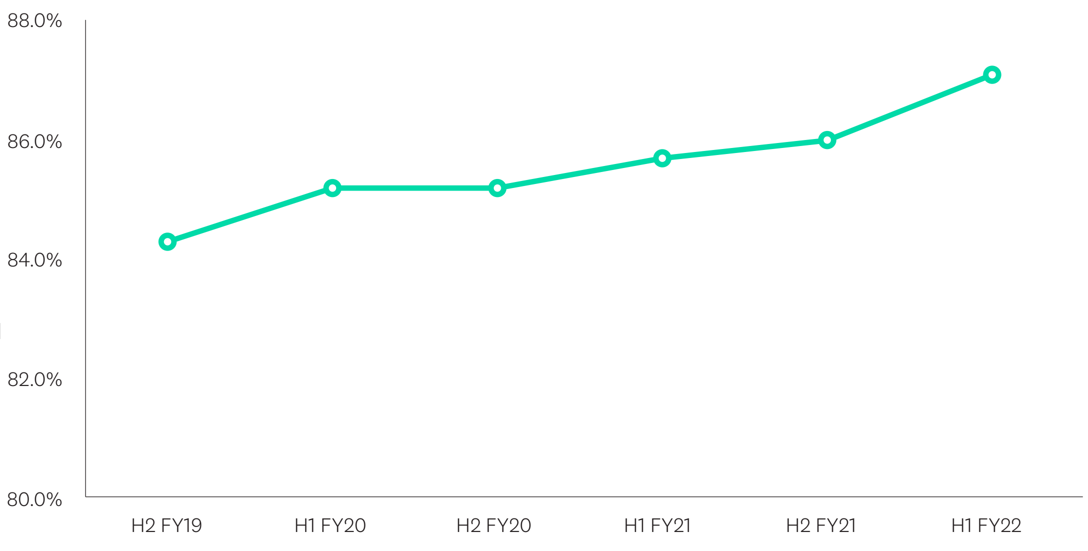
The costs include hosting costs, bank feed costs, personnel and related expenses (including salaries, benefits, bonuses, and share-based payments) directly associated with cloud infrastructure and subscriber support, contracted third-party vendor costs, related depreciation and amortisation, and allocated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

Six months ended 30 September	2021 ($000s)	2020 ($000s)	change
Operating revenue	505,703	409,837	23%
Cost of revenue	(65,286)	(58,676)	11%
Gross profit	**440,417**	**351,161**	**25%**
Gross margin percentage	87.1%	85.7%	1.4pp

Gross margin increased 1.4 percentage points to 87.1% for H1 FY22. Operating revenue growth of 23%, along with efficiencies in cost of revenue, resulted in gross profit increasing by $89.3 million, or 25%, to $440.4 million.

Cost of revenue for the period increased by $6.6 million to $65.3 million, representing an 11% increase when compared to the same period last year. The increase was predominantly in the cost to host and 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. Xero's recently acquired business Planday has a gross margin that is broadly consistent with Xero's existing operations.

Gross margin percentage



Sales and marketing

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

Six months ended 30 September	2021 ($000s)	2020 ($000s)	change
Sales and marketing expenses	189,017	130,750	45%
Percentage of operating revenue	37.4%	31.9%	5.5pp

Sales and marketing costs increased by $58.3 million, or 45%, compared to H1 FY21. 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.

The increase was mainly due to expenditure being carefully managed over H1 FY21 in response to the uncertainties presented by the COVID-19 pandemic. Following the increase in spending in the second half of FY21, Xero continued to increase sales and marketing spend in H1 FY22 to drive its growth strategy. Compared to H2 FY21, sales and marketing spend increased by $11.8 million, or 7%, as Xero saw opportunities to further invest and expand its brand awareness and exposure globally.

The average acquisition cost per gross subscriber added was $450 in H1 FY22, 4% higher than the comparative period of $432. This reflects comparably higher growth in the international markets that are currently less efficient than the more mature ANZ markets, and the impact of Planday which has a much higher ARPU.

As a percentage of operating revenue, sales and marketing expenses increased by 5.5 percentage points, from 31.9% in H1 FY21 to 37.4% in H1 FY22. Sales and marketing expenses as a percentage of revenue for H1 FY22 decreased on the immediately preceding half (H2 FY21), which had sales and marketing expenses as a percentage of revenue of 40.4%. Xero continues to maximise opportunities to expand its global awareness tailored to the operating environment for each region and its long-term ambitions.

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.

Six months ended 30 September	2021 ($000s)	2020 ($000s)	change
Total product design and development costs (including amounts capitalised)	**215,592**	**139,938**	**54%**
Percentage of operating revenue	42.6%	34.1%	8.5pp
Less capitalised development costs	(99,995)	(62,859)	59%
Product design and development expense (excluding amortisation of amounts capitalised)	**115,597**	**77,079**	**50%**
Less government grants	(2,153)	(3,149)	-32%
Add amortisation of capitalised development costs	53,389	36,724	45%
Product design and development expenses	**166,833**	**110,654**	**51%**
Percentage of operating revenue	33.0%	27.0%	6.0pp

Xero's products are constantly being enhanced in response to the changing needs of our customers. Xero invests in creating solutions that solve customer problems today, and supports future platform growth and strategy delivery. During H1 FY22, Xero invested in a range of new features. Those launched in the period include:

- New Xero App Store, an easier way for small businesses to discover and buy apps on the Xero platform.
- UK personal tax solution inside Xero Tax for accountants and bookkeepers to process corporation tax, sole trader accounts and personal tax for individuals and companies.
- Xero Analytics Plus advanced cash flow predictions with insightful business reporting.
- Enhanced reports in Xero to provide more accurate and easy-to-understand insights.
- Upgrades to the Xero Me app to provide an enhanced experience for employees receiving payslips in Xero.
- Improvements in bank reconciliation including smarter matching algorithms, new search capability, memorisation of bank transfers, and an all new designed user interface.
- Enhanced GoCardless integration, embedding the experience deeper in Xero.
- Improvements to Contacts experience with technology upgrades and a newly designed user interface.
- Localised billing experience for Singapore customers.

Total product design and development costs were $215.6 million in H1 FY22, $75.7 million or 54% higher than in the comparative period. Of this, $100.0 million was capitalised, with the balance of $166.8 million total product and design expenses included in the Income Statement. The amount capitalised represents a capitalisation rate of 46.4% of total product design and development costs for H1 FY22, which is 1.5 percentage points higher than the comparative period.

As a proportion of operating revenue, total product design and development costs for H1 FY22 (including amounts capitalised) increased by 8.5 percentage points to 42.6% compared to 34.1% for H1 FY21, highlighting the prioritisation of investment in Xero's global platform to support Xero's strategy. The amortisation of previously capitalised product design and development expenditure of $53.4 million was included as a non-cash expense in the Income Statement, giving total net expenses (after the netting of government grants) of $166.8 million for the period. As a proportion of operating revenue, product design and development expenses increased to 33% in H1 FY22 from 27% in the comparative period.

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, strategy, and corporate development employees, and the Xero Board. It also includes legal, accounting, and other professional services fees, insurance premiums, other corporate expenses, and allocated overheads.

Six months ended 30 September	2021 ($000s)	2020 ($000s)	change
General and administration expenses	66,144	46,917	41%
Percentage of operating revenue	13.1%	11.4%	1.7pp

General and administration costs were $66.1 million for the six months ended 30 September 2021, $19.2 million or 41% higher than H1 FY21. This increase was driven by growth in personnel related expenses as employee headcount increased to continue to support Xero's growth. Also included are integration costs for Planday, Waddle, and Tickstar.

General and administration costs as a proportion of operating revenue increased 1.7 percentage points from 11.4% for H1 FY21 to 13.1% for H1 FY22. However H1 FY22 general and administration costs as a proportion of operating revenue decreased by 0.4 percentage points compared to H2 FY21.

Employees

At 30 September	2021	2020	change
Total Group	4,187	3,220	30%

Full-time equivalent (FTE) employees increased by 967, or 30%, in the 12 months ended 30 September 2021, taking total FTEs to 4,187. Of these, 545 were added in H1 FY22, including 225 FTEs from the acquisitions of Planday and Tickstar. Excluding employees added from these transactions, FTEs increased by 23%, compared to a 23% increase in operating revenue (26% in constant currency). The overall growth in FTEs was the highest in product design and development, with a 39% increase, reflecting the continued investment to drive future growth.

Net finance expense

Six months ended 30 September	2021 ($000s)	2020 ($000s)	change
Interest income on deposits	1,406	3,425	-59%
Total finance income	**1,406**	**3,425**	**-59%**
Amortisation of debt discount and issuance costs	(14,341)	(9,102)	58%
Interest on convertible notes	-	(5,579)	NM
Bank standby facility costs	(1,037)	(862)	20%
Lease liability interest	(3,221)	(2,919)	10%
Unwind of contingent consideration	(2,926)	-	NM
Other finance expense	(241)	(149)	62%
Total finance expense	**(21,766)**	**(18,611)**	**17%**
Net finance expense	**(20,360)**	**(15,186)**	**34%**

Finance income in H1 FY22 was $1.4 million, a decrease of $2.0 million, or 59%, from H1 FY21. This was due to lower global interest rates.

Total finance expense in H1 FY22 increased 17%, largely due to the $2.9 million amortisation of discount on contingent consideration related to the acquisitions of Planday, Waddle, and Tickstar. The increase in amortisation of debt discount and decrease in interest on convertible notes is driven by the buyback of convertible notes that were to mature in October 2023 (2023 convertible notes) and issuance of new zero coupon notes maturing in December 2025 (2025 convertible notes), that occurred in H2 FY21. The total finance expense relating to convertible notes remains consistent with H1 FY21 despite the larger principal amount, reflecting the more favourable terms of the new notes.

Segment information

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

	ANZ ($000s)	International ($000s)	Total ($000s)
Six months ended 30 September 2021			
Operating revenue	296,845	208,858	505,703
Expenses	(97,554)	(156,749)	(254,303)
Segment contribution	**199,291**	**52,109**	**251,400**
Contribution margin percentage	67.1%	24.9%	49.7%
Six months ended 30 September 2020			
Operating revenue	247,216	162,621	409,837
Expenses	(78,202)	(111,224)	(189,426)
Segment contribution	**169,014**	**51,397**	**220,411**
Contribution margin percentage	68.4%	31.6%	53.8%

ANZ: Operating revenue for H1 FY22 grew by 20% (21% in constant currency), compared to the comparative period, further cementing Xero's market leading position in the region.

Expenses in the ANZ segment increased 25% compared to H1 FY21, as the comparative period was impacted by the deliberate reduction in expenditure as Xero assessed the impacts of COVID-19. This resulted in a 1.3 percentage point decrease in the contribution margin percentage for ANZ. However, strong revenue performance in the region drove a segment contribution of $199.3 million, an increase of $30.3 million compared to $169.0 million in H1 FY21.

International: Operating revenue for H1 FY22 increased by 28%, or 33% in constant currency, largely driven by subscriber growth of 26%.

The International segment's contribution for H1 FY22 was $52.1 million, similar to the contribution in H1 FY21 of $51.4 million. As a percentage of revenue, the contribution margin decreased from 31.6% to 24.9%. This was driven by an increase in expenses, up 41% from the comparative period, which includes additional expenditure as a result of acquisitions during the half as well as a 48% increase in sales and marketing spend. The comparative period was also impacted by reduced expenditure due to the uncertainty presented by COVID-19.

The contribution margin remains comparatively lower than that of ANZ, reflecting the emphasis on 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, understanding 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 14) at 30 September, divided by subscribers at that time (and divided by 12 to get a monthly view).

CAC months are the months of ARPU needed 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. Group LTV is calculated as the sum of the individual segment LTV, multiplied by their respective segment subscribers, divided by total Group subscribers.

LTV/CAC is the ratio between the LTV and the cost to acquire that subscriber. For example, the LTV derived from a subscriber in ANZ is currently on average 14.3 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 30 September 2021	ANZ	International	Total
ARPU ($)	31.38	31.25	31.32
CAC months	9.1	19.5	14.2
Churn	0.67%	1.20%	0.88%
LTV per subscriber ($)	4,080	2,262	3,299
LTV/CAC	14.3	3.7	7.4

At 30 September 2020	ANZ	International	Total
ARPU ($)	30.79	28.44	29.81
CAC months	9.1	22.0	14.9
Churn	0.83%	1.53%	1.11%
LTV per subscriber ($)	3,182	1,587	2,516
LTV/CAC	11.4	2.5	5.7

ANZ: ARPU increased by 2% compared to 30 September 2020. This was primarily driven by a price increase in September 2021 in Australia and New Zealand across Xero Business Edition plans. In constant currency terms, ARPU was 5% higher than 30 September 2020.

Churn decreased to 0.67% at 30 September 2021, a decrease of 0.16 percentage points from 0.83% in the comparative period. This was a continuation of a trend from prior periods to historically low churn.

Lower churn, combined with the increase in ARPU and gross margin, resulted in a 28% (32% in constant currency) increase in LTV per subscriber from 30 September 2020 from $3,182 to $4,080. Total ANZ subscriber LTV increased by $2.5 billion, or 55%, to $7.0 billion at 30 September 2021.

The increase in LTV during the period drove an increase in the LTV/CAC ratio from 11.4 to 14.3, despite comparatively higher sales and marketing costs during the 12 months ended 30 September 2021.

International: ARPU increased by 10% compared to 30 September 2020, or 12% in constant currency. A price increase on Business Edition plans in the UK market, as well as the inclusion of AMRR from Planday had a positive impact on International ARPU, contributing to the increase.

CAC months decreased from 22.0 months in H1 FY21 to 19.5 months for H1 FY22, despite increased sales and marketing costs compared to 30 September 2020. This was primarily due to improved subscriber additions year on year, in addition to higher ARPU.

LTV per subscriber increased by 43% (44% in constant currency) to $2,262 due to lower churn, increased ARPU and gross margin. Total International subscriber LTV increased by $1.3 billion, or 80%, to $2.9 billion at 30 September 2021.

Total Group: Group ARPU increased by 5% compared to 30 September 2020, driven by the price increases in AU, NZ and UK in H1 FY22 and the acquisition of Planday. In constant currency, ARPU increased by 7%.

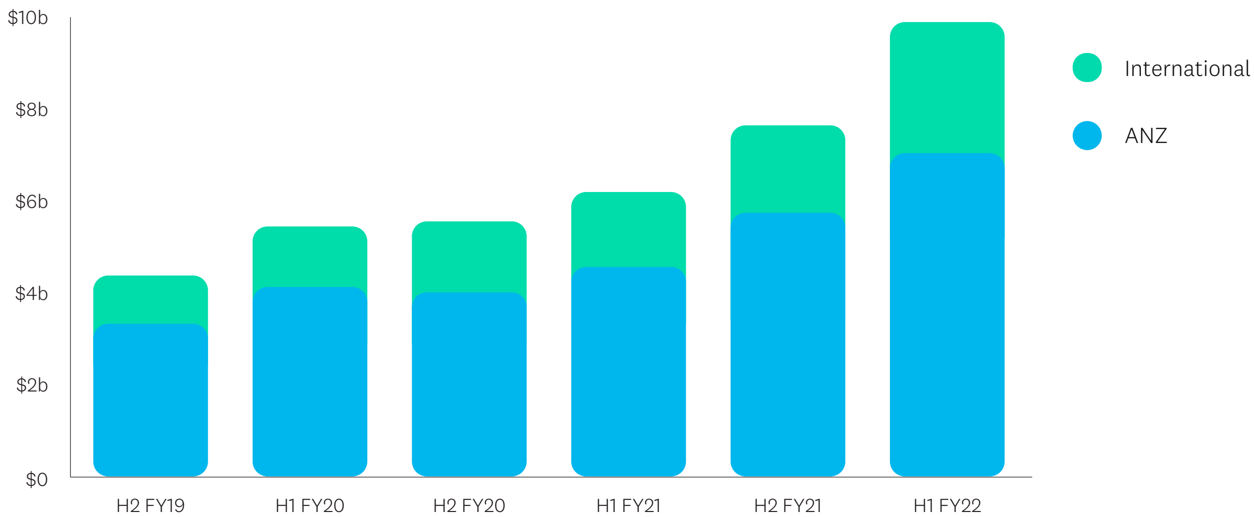
Churn for the Group reached historically low levels during the 12 months following 30 September 2020, decreasing to 0.88% from 1.11% in the comparative period. When combined with the improved gross margin and higher ARPU, LTV per subscriber increased by 31% to $3,299. In constant currency terms, LTV per subscriber increased by 34%.

CAC months decreased by 5% to 14.2 months, from 14.9 months at 30 September 2020, as the combined impact of higher ARPU and subscriber additions outweighed the increased sales and marketing expenditure.

Total subscriber LTV at 30 September 2021 increased by $3.8 billion or 61% (65% in constant currency) to $9.9 billion compared to 30 September 2020. This increase in LTV resulted in the Group LTV/CAC ratio increasing by 30% to 7.4 at 30 September 2021, from 5.7 at 30 September 2020.

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 last three years, total Group subscriber LTV would be $1.4 billion, or 15% lower at $8.5 billion.

Total lifetime value



Independent Auditor's Review Report

EY
Building a better working world

To the Shareholders of Xero Limited

Conclusion

We have reviewed the interim financial statements of Xero Limited ("the Company") and its subsidiaries (together "the Group") on pages 23 to 38, which comprise the statement of financial position as at 30 September 2021 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended on that date, and a summary of significant accounting policies and other explanatory information. Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements on pages 23 to 38 of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 September 2021, and its financial performance and its cash flows for the six-month period ended on that date, in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting.

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

Basis for Conclusion

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

Ernst & Young has provided R&D tax credit advice, other assurance services related to the Group's compliance with ISO 27001, and non-assurance services to a subsidiary 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.

Directors' Responsibilities for the Interim Financial Statements

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

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

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

A review of interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on those interim financial statements.

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

Ernst + Young

Ernst & Young
Chartered Accountants
Wellington
11 November 2021

Interim Financial Statements

Income Statement

Six months ended 30 September	Notes	2021 Unaudited ($000s)	2020 Unaudited ($000s)
Subscription revenue		487,802	401,747
Other operating revenue		17,901	8,090
Total operating revenue	**4**	**505,703**	**409,837**
Cost of revenue	5	(65,286)	(58,676)
Gross profit		**440,417**	**351,161**
Operating expenses			
Sales and marketing		(189,017)	(130,750)
Product design and development		(166,833)	(110,654)
General and administration		(66,144)	(46,917)
Total operating expenses	**5**	**(421,994)**	**(288,321)**
Other income and expenses		1,398	(3,151)
Asset impairments	7	(2,898)	–
Operating surplus		**16,923**	**59,689**
Finance income		1,406	3,425
Finance expense		(21,766)	(18,611)
Net profit/(loss) before tax		**(3,437)**	**44,503**
Income tax expense		(2,485)	(10,017)
Net profit/(loss)		**(5,922)**	**34,486**
Basic and diluted earnings/(loss) per share	6	($0.04)	$0.24

Statement of Comprehensive Income

Six months ended 30 September	Note	2021 Unaudited ($000s)	2020 Unaudited ($000s)
Net profit/(loss)		(5,922)	34,486
Other comprehensive income*			
Movement in cash flow hedges (net of tax)	10	6,859	(3,014)
Translation of foreign operations (net of tax)		(4,728)	1,625
Total other comprehensive income/(loss) for the period		**2,131**	**(1,389)**
Total comprehensive income/(loss) for the period		**(3,791)**	**33,097**

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

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

Statement of Financial Position

	Notes	At 30 September 2021 Unaudited ($000s)	At 31 March 2021 Audited ($000s)
Assets			
Current assets			
Cash and cash equivalents		470,065	657,849
Short-term deposits		537,986	452,814
Trade and other receivables		77,535	86,397
Derivative assets		4,959	861
Income tax receivable		5,049	762
Other current assets		6,386	5,622
Total current assets		**1,101,980**	**1,204,305**
Non-current assets			
Property, plant and equipment		125,615	109,358
Intangible assets	7	817,656	484,017
Derivative assets		135,407	122,813
Deferred tax assets		109,783	103,267
Other non-current assets		571	268
Total non-current assets		**1,189,032**	**819,723**
Total assets		**2,291,012**	**2,024,028**
Liabilities			
Current liabilities			
Trade and other payables		52,224	44,751
Employee entitlements		66,076	78,007
Lease liabilities		14,654	10,580
Income tax payable		1,626	1,046
Derivative liabilities		928	6,221
Other current liabilities		28,514	28,219
Total current liabilities		**164,022**	**168,824**
Non-current liabilities			
Term debt		883,003	854,078
Derivative liabilities		131,969	120,861
Lease liabilities		89,649	83,950
Contingent consideration	9	60,529	35,907
Deferred tax liabilities		12,336	6,300
Other non-current liabilities		8,624	8,162
Total non-current liabilities		**1,186,110**	**1,109,258**
Total liabilities		**1,350,132**	**1,278,082**
Equity			
Share capital		1,462,514	1,293,320
Reserves		(194,950)	(226,612)
Accumulated losses		(326,684)	(320,762)
Total equity		**940,880**	**745,946**
Total liabilities and shareholders' equity		**2,291,012**	**2,024,028**

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

Statement of Changes in Equity

Unaudited	Notes	Share capital ($000s)	Treasury shares ($000s)	Share-based payment reserve ($000s)	Accumulated losses ($000s)	Foreign currency translation reserve ($000s)	Cash flow hedge reserve ($000s)	Call spread options reserve ($000s)	Total equity ($000s)
Balance at 1 April 2021		**1,295,211**	**(1,891)**	**80,758**	**(320,762)**	**(2,495)**	**(3,619)**	**(301,256)**	**745,946**
Net loss		–	–	–	(5,922)	–	–	–	(5,922)
Other comprehensive income/(loss)		–	–	–	–	(4,728)	6,859	–	2,131
Total comprehensive loss		**–**	**–**	**–**	**(5,922)**	**(4,728)**	**6,859**	**–**	**(3,791)**
Transactions with owners:									
Share-based payments	13	2,105	86	42,089	–	–	–	–	44,280
Share options exercised	13	40,310	–	(12,558)	–	–	–	–	27,752
Issue of shares – deferred consideration for acquisition of Waddle	9	2,486	–	–	–	–	–	–	2,486
Issue of shares – acquisition of Planday	8	119,283	–	–	–	–	–	–	119,283
Issue of shares – acquisition of Tickstar	8	4,924	–	–	–	–	–	–	4,924
Balance at 30 September 2021		**1,464,319**	**(1,805)**	**110,289**	**(326,684)**	**(7,223)**	**3,240**	**(301,256)**	**940,880**
Balance at 1 April 2020		**687,341**	**(9,801)**	**49,479**	**(340,536)**	**(2,489)**	**3,111**	**35,261**	**422,366**
Net profit		–	–	–	34,486	–	–	–	34,486
Other comprehensive income/(loss)		–	–	–	–	1,625	(3,014)	–	(1,389)
Total comprehensive income		**–**	**–**	**–**	**34,486**	**1,625**	**(3,014)**	**–**	**33,097**
Transactions with owners:									
Share-based payments	13	14,135	(3,500)	22,858	–	–	–	–	33,493
Share options exercised	13	36,582	–	(10,536)	–	–	–	–	26,046
Balance at 30 September 2020		**738,058**	**(13,301)**	**61,801**	**(306,050)**	**(864)**	**97**	**35,261**	**515,002**

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

Statement of Cash Flows

Six months ended 30 September	Note	2021 Unaudited ($000s)	2020 Unaudited ($000s)
Operating activities			
Receipts from customers		505,096	409,750
Other income		1,425	3,285
Interest received		1,547	4,882
Payments to suppliers and employees		(368,819)	(270,127)
Interest paid		(4,446)	(15,040)
Income tax paid		(6,367)	(5,989)
Net cash flows from operating activities	**12**	**128,436**	**126,761**
Investing activities			
Capitalised development costs		(100,517)	(64,773)
Business acquisitions, net of cash acquired		(135,564)	–
Purchase of property, plant and equipment		(11,115)	(4,044)
Capitalised contract acquisition costs		(8,399)	(3,788)
Other investing activities		(2,054)	112
Net cash flows from investing activities		**(257,649)**	**(72,493)**
Financing activities			
Payment of lease liabilities		(6,450)	(5,946)
Payments for buyback of convertible notes		(5,455)	–
Repayment of borrowings		(788)	–
Receipt of lease incentives		–	490
Share options exercised		27,752	26,046
Payments for short-term deposits		(656,208)	(347,075)
Proceeds from short-term deposits		575,035	395,637
Net cash flows from financing activities		**(66,114)**	**69,152**
Net increase/(decrease) in cash and cash equivalents		**(195,327)**	**123,420**
Foreign currency translation adjustment		7,543	(9,431)
Cash and cash equivalents at the beginning of the period		**657,849**	**108,027**
Cash and cash equivalents at the end of the period		**470,065**	**222,016**

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

Notes to the Interim Financial Statements

1. Reporting entity and statutory base

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

The unaudited interim financial statements of the Company and its subsidiaries (together 'the Group' or 'Xero') for the six months ended 30 September 2021 were authorised in accordance with a resolution of the directors for issue on 11 November 2021.

2. Basis of accounting

(a) Basis of preparation

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

(b) Changes in accounting policies and disclosures

The unaudited interim financial statements have been prepared using the same accounting policies and methods of computation as, and should be read with, the financial statements and related notes included in the Group's annual report for the year ended 31 March 2021.

(c) Critical accounting estimates

The same significant judgements, estimates, and assumptions included in the notes to the financial statements in the Group's annual report for the year ended 31 March 2021 have been applied to these interim financial statements.

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 Xero leadership team (the chief operating decision-maker) reviews financial performance.

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

Unaudited	ANZ ($000s)	International ($000s)	Total ($000s)
Six months ended 30 September 2021			
Operating revenue	296,845	208,858	505,703
Expenses	(97,554)	(156,749)	(254,303)
Segment contribution	**199,291**	**52,109**	**251,400**
Six months ended 30 September 2020			
Operating revenue	247,216	162,621	409,837
Expenses	(78,202)	(111,224)	(189,426)
Segment contribution	**169,014**	**51,397**	**220,411**

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

Six months ended 30 September	2021 Unaudited ($000s)	2020 Unaudited ($000s)
Segment contribution	251,400	220,411
Product design and development	(166,833)	(110,654)
General and administration	(66,144)	(46,917)
Other income and expenses	1,398	(3,151)
Asset impairments	(2,898)	–
Finance income	1,406	3,425
Finance expense	(21,766)	(18,611)
Net profit/(loss) before tax	**(3,437)**	**44,503**

4. Revenue

Operating revenue by geographic location

Six months ended 30 September	2021 Unaudited ($000s)	2020 Unaudited ($000s)
Australia	224,860	183,690
United Kingdom	132,847	107,305
New Zealand	71,985	63,526
North America	30,133	28,641
Rest of World	45,878	26,675
Total operating revenue	**505,703**	**409,837**

5. Expenses

Cost of revenue and operating expenses

Six months ended 30 September	2021 Unaudited ($000s)	2020 Unaudited ($000s)
Employee entitlements	284,839	215,010
Employee entitlements capitalised	(82,882)	(56,731)
Share-based payments	37,942	28,060
Share-based payments capitalised	(8,657)	(6,622)
Advertising and marketing	62,869	27,052
Consultants and contractors	40,011	17,930
Consultants and contractors capitalised	(22,377)	(9,047)
Platform costs	33,897	29,068
Platform costs capitalised	(4,428)	(4,078)
Computer equipment and software	19,464	14,559
Superannuation costs	12,916	8,809
Recruitment and other personnel costs	5,450	1,257
Communication, insurance and office administration	4,848	3,069
Rental costs	4,067	2,904
Travel-related costs	908	86
Other operating expenses	17,256	14,595
Total cost of revenue and operating expenses excl. depreciation and amortisation*	**406,123**	**285,921**

**Net of $118.3 million of costs capitalised as intangible assets (six months ended 30 September 2020: $76.5 million).*

Depreciation and amortisation

Six months ended 30 September	2021 Unaudited ($000s)	2020 Unaudited ($000s)
Relating to:		
Amortisation of development costs	59,450	42,002
Amortisation of other intangible assets	8,098	6,839
Depreciation of property, plant and equipment	13,609	12,235
Total depreciation and amortisation	**81,157**	**61,076**
Total cost of revenue and operating expenses	**487,280**	**346,997**
Depreciation and amortisation included in function expenses as follows:		
Product design and development	59,023	41,333
Sales and marketing	15,104	13,361
Cost of revenue	4,240	4,334
General and administration	2,790	2,048
Total depreciation and amortisation	**81,157**	**61,076**

6. Earnings per share

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

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

Diluted EPS is determined by adjusting the net profit/(loss) attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding 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.

Six months ended 30 September	2021 Unaudited (000s)*	2020 Unaudited (000s)*
Net profit/(loss) after tax	($5,922)	$34,486
Add back: foreign exchange revaluation and interest on contingent consideration included in ordinary shares for basic calculation before the date of share issue, net of tax	$8	–
Net profit/(loss) attributable to equity holders of the Group, used in calculating basic and diluted EPS	**($5,914)**	**$34,486**
Weighted average number of ordinary shares for basic EPS	148,061	141,165
Effect of dilution from:		
Share options	-	1,478
Restricted stock units	-	392
Restricted shares	-	239
Weighted average number of ordinary shares adjusted for the effect of dilution	**148,061**	**143,274**
Basic and diluted earnings/(loss) per share	**($0.04)**	**$0.24**

* *Except for per share amounts*

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

7. Intangible assets

Unaudited	Software development ($000s)	Contract acquisition asset ($000s)	Other intangible assets ($000s)	Goodwill ($000s)	Total ($000s)
Six months ended 30 September 2021					
Opening net book value	318,608	31,901	7,398	126,110	484,017
Additions*	109,929	8,117	298	–	118,344
Acquisitions	54,145	–	6,988	229,051	290,184
Amortisation expense	(59,450)	(6,386)	(1,712)	–	(67,548)
Impairments	(1,157)	–	(1,741)	–	(2,898)
Foreign exchange adjustment	(2,388)	(296)	(210)	(1,549)	(4,443)
Closing net book value	**419,687**	**33,336**	**11,021**	**353,612**	**817,656**
At 30 September 2021					
Cost	635,054	68,961	17,319	353,612	1,074,946
Accumulated amortisation	(215,367)	(35,625)	(6,298)	–	(257,290)
Net book value	**419,687**	**33,336**	**11,021**	**353,612**	**817,656**
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)
Net book value	**318,608**	**31,901**	**7,398**	**126,110**	**484,017**

** Included in software development additions is $26.5 million of external costs capitalised (2020: $13.6 million)*

8. 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 in cash and EUR71.1 million in shares of Xero Limited (907,879 shares). 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 a weighted average price of Xero Limited shares calculated at the time of issue. 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. Management will continue to assess the probability of achievement throughout the remaining 18-month period and will record any revaluation adjustments accordingly.

Goodwill of $216.5 million has been recognised relating to the acquisition reflective of Planday's expertise and technology that will enable the Group to grow Xero's small business platform and help our customers simplify employee scheduling, allowing better forecasting and management of labour costs.

	1 April 2021 Unaudited ($000s)
Assets acquired and liabilities assumed	
Cash and cash equivalents	17,038
Trade and other receivables	3,150
Income tax receivable	1,605
Property, plant and equipment	9,299
Software development asset	45,918
Customer contracts	3,957
Brand	2,453
Goodwill	216,539
Trade and other payables	(2,895)
Other liabilities	(3,039)
Lease liabilities	(8,332)
Deferred tax liabilities	(7,423)
Net assets acquired	**278,270**
Purchase consideration	
Cash*	145,361
Shares	119,283
Contingent consideration	13,626
Total consideration	**278,270**

** Net cash outflows relating to the acquisition were $128.3 million after taking into account cash and cash equivalents acquired*

Planday contributed $15.0 million in operating revenue and $4.0 million to the net loss for the six months ended 30 September 2021. Transaction costs of $3.4 million were incurred relating to the acquisition and were expensed in the year ended 31 March 2021 and 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 (36,556 shares). 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 a weighted average price of Xero Limited shares calculated at the time of issue. 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. Management will continue to assess the probability of achievement throughout the remaining 33-month period and will record any revaluation adjustments accordingly.

Goodwill of $12.5 million has been recognised relating to the acquisition reflective of Tickstar's expertise and technology that will enable the Group to drive cloud accounting adoption around the world, helping customers digitise more of their workflows and get paid faster.

	1 April 2021 Unaudited ($000s)
Assets acquired and liabilities assumed	
Cash and cash equivalents	723
Other tangible assets	356
Software development asset	8,227
Other intangible assets	578
Goodwill	12,512
Payables and accrued liabilities	(559)
Deferred tax liabilities	(1,814)
Net assets acquired	**20,023**
Purchase consideration	
Cash*	5,111
Shares	4,924
Contingent consideration	9,988
Total consideration	**20,023**

** Net cash outflows relating to the acquisition were $4.4 million after taking into account cash and cash equivalents acquired*

Tickstar contributed $0.6 million in operating revenue and $0.4 million to the net loss for the six months ended 30 September 2021. Transaction costs of $0.3 million were incurred relating to the acquisition and were expensed in the year ended 31 March 2021 and were included in general and administration expenses.

9. Contingent consideration

Six months ended 30 September	Note	2021 Unaudited ($000s)
Opening balance		46,619
Additions	8	23,614
Unwinding of discount		2,926
Contingent consideration payments		(5,244)
Change in fair value estimate		454
Foreign exchange adjustment		(1,378)
Closing balance		**66,991**
Current		6,462
Non-current		60,529

Contingent consideration comprises the Group's assessment of discounted amounts payable to vendors in respect of business acquisitions. Payments of contingent consideration in the period of $5.2 million comprised payments to the previous shareholders of Waddle for the completion of a number of product development and business integration milestones.
Of the contingent consideration payments made, $2.7 million was settled in cash and $2.5 million in shares of Xero Limited (18,438 shares).

$35.5 million of the balance at 30 September 2021 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 October 2022 and June 2024.

10. Hedge accounting

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

During the period, a net hedging gain of $10.2 million (before taxation) was recognised in other comprehensive income (2020: loss of $3.7 million). During the period, a gain of $0.6 million (before taxation) was reclassified out of other comprehensive income to the Income Statement (2020: gain of $0.5 million). The remaining balance will be reclassified to the Income Statement in the 18 months following 30 September 2021.

11. Financial instruments

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

The Group's foreign exchange derivatives are recognised at fair value. Fair value is determined using forward exchange rates that are quoted in an active market (level two on the fair value hierarchy).

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

At initial recognition, the fair value of the convertible notes was determined using a market interest rate for an equivalent non-convertible bond. The notes are subsequently recognised at amortised cost. The carrying value and the fair value of the debt component of the convertible notes at 30 September 2021 were $883.0 million and $876.3 million, respectively. The fair values of the conversion feature and call option derivative asset at 30 September 2021 were $131.6 million and $134.7 million, respectively.

For the six months ended 30 September 2021, a revaluation gain of $10.3 million was recognised on the call option derivative asset, and a revaluation loss of $9.0 million was recognised on the conversion feature derivative liability. Revaluations are reflective of an increase in the Xero Limited share price over the period.

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

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

12. Reconciliation of operating cash flows

Six months ended 30 September	2021 Unaudited ($000s)	2020 Unaudited ($000s)
Net profit/(loss)	(5,922)	34,486
Adjustments:		
Depreciation	13,609	12,235
Amortisation	67,548	48,841
Share-based payments	29,285	21,438
Amortisation of debt discount and issuance costs	14,341	9,102
Deferred tax and current taxes recognised in equity	2,363	3,140
Impairment of assets	2,898	–
Bad debts	1,059	723
Other non-cash items	2,431	3,136
Changes in working capital:		
Decrease/(increase) in trade receivables and prepayments	4,649	(1,388)
Decrease in interest receivable	141	1,458
Increase/(decrease) in trade payables and other related items	(227)	(17,016)
Increase/(decrease) in employee entitlements	(1,711)	11,499
Decrease in current tax payable	(2,028)	(893)
Net cash flows from operating activities	**128,436**	**126,761**

13. 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

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

Unaudited	2021 Weighted average grant date fair value ($)	2021 RSUs (000s)	2020 Weighted average grant date fair value ($)	2020 RSUs (000s)
Six months ended 30 September				
Opening balance	90.00	351	60.16	379
Granted	145.54	590	98.63	326
Forfeited	107.40	(53)	72.34	(23)
Converted to shares	68.61	(26)	52.51	(92)
Surrendered to settle payroll withholding obligations	-	–	45.90	(19)
Closing balance	**127.59**	**862**	**83.34**	**571**

The Company withholds shares under certain circumstances to settle tax withholding obligations on vesting. Based on the market share price on 30 September 2021, future cash payments to meet tax withholding obligations on the vesting of RSUs are expected to be $0.2 million (2020: $0.9 million).

Share options scheme

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

Unaudited	2021 Weighted average exercise price ($)	2021 Options (000s)	2020 Weighted average exercise price ($)	2020 Options (000s)
Six months ended 30 September				
Opening balance	58.98	2,277	42.04	2,861
Granted	143.89	242	85.53	192
Forfeited/expired	73.77	(48)	52.02	(87)
Exercised	43.14	(643)	32.36	(804)
Closing balance	**75.18**	**1,828**	**49.10**	**2,162**
Exercisable at 30 September	51.91	439	38.61	348

Employee restricted share plan

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

Unaudited	2021 Number of shares (000s)	2020 Number of shares (000s)
Six months ended 30 September		
Opening balance	126	313
Granted	1	127
Forfeited	(13)	(7)
Settled	(1)	(132)
Closing balance – allocated to employees	**113**	**301**
Forfeited shares not yet reallocated – held by Trustee	19	3
Total	**132**	**304**
Percentage of total ordinary shares	0.1%	0.2%
Ageing of unvested shares		
Vest within one year	74	174
Vest after one year	39	127
Total unvested shares at 30 September	**113**	**301**

The number of shares awarded under the restricted share plan does not equal the number of shares created for the scheme as forfeited shares are held in the trust and reissued. The 981 restricted shares granted during the period were the reissue of shares held as treasury shares and had a weighted average grant date fair value of $146.46 (2020: 126,716 shares granted, 97,131 new shares issued, and 29,585 reissued treasury shares; weighted average grant date fair value of $99.38).

14. Group entities

During the period, changes to the entities over which the Group has control were as follows:

Unaudited	Country of incorporation	Balance date	Interest 2021 (%)	Interest 2020 (%)
Planday A/S	Denmark	31 March	100	-
Xero Denmark A/S	Denmark	31 March	100	-
Planday GmbH	Germany	31 December	100	-
Planday Norway AS	Norway	31 December	100	-
Tickstar AB	Sweden	30 June	100	-
Planday, Inc.	United States	31 December	100	-
Planday Australia Pty Ltd	Australia	31 March	100	-
Planday Limited	United Kingdom	31 December	100	-

15. Events after the balance sheet date

On 10 November 2021, Xero entered into an agreement to acquire 100% of the ordinary shares in cloud-based inventory management business New Tack, Inc (‘LOCATE Inventory’). The acquisition will bring LOCATE Inventory’s comprehensive inventory expertise to Xero, internalising its inventory capability and talent in order to scale and build out Xero’s inventory management offering. Consideration for the acquisition comprised an upfront cash payment of USD2.8 million and USD11.2 million in shares of Xero Limited, with an adjustment for working capital. The number of shares issuable will be based on a weighted average share price calculated prior to completion of the acquisition.

At the date these financial statements were authorised for issue the initial accounting for the business combinations had not been completed due to the time required to complete valuation of intangibles, along with the work required to align the accounting policies of the acquired company to that of the Xero Group. This information will be included in the Group’s annual report for the year ended 31 March 2022.

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

Directors' Declaration

The unaudited interim financial statements of Xero Limited and its subsidiaries ('the Group') for the six months ended 30 September 2021 were authorised for issue on 11 November 2021 in accordance with a resolution of the directors. In accordance with ASX Listing Rule 4.2A.2A, the directors declare that, as at that date, and in the directors' opinion:

1. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

2. the relevant interim financial statements and notes comply with accepted accounting standards in New Zealand.

For and on behalf of the Board

David Thodey
Chair
Xero Limited
11 November 2021

Mark Cross
Director
Xero Limited
11 November 2021

Corporate Directory

Registered offices

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Directors

David Thodey AO
Chair

Steven Aldrich

Mark Cross

Rod Drury

Lee Hatton

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

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

Company information

Company numbers
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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
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